

15 April 2024

Hon Simeon Brown  
Minister for Energy  
Parliament Buildings  
Wellington 6160

Dear Minister,

### **ANNUAL LETTER OF EXPECTATIONS FOR 2024/25**

Thank for your letter of 2 April 2024 providing your expectations for the Electricity Authority Te Mana Hiko (the Authority) for the 2024/25 financial year and beyond.

As the regulator for the electricity part of the energy system, we are focused on supporting a competitive and efficient wholesale market that enables an electrified New Zealand – producing reliable power at the lowest possible cost for the long-term benefit of consumers (large and small) now and into the future. An increasingly renewable future requires investment and innovation to flourish; consumers to have more control over their power; and communities to be increasingly resilient in the face of significant weather events and natural disasters. The Authority is clear on its role, and the role it plays with others in the energy system, as we deliver on specific sector-related priorities and the future.

#### *Sector-related priorities*

##### **1. Keeping the lights on**

The Authority is prioritising market settings that enable security of supply and on making sure risks are identified and managed quickly. We have put in place coordination measures and better management of supply risks for winter 2024. We are also working on a longer term plan that encourages investment, innovation and good regulation and moves New Zealand beyond the current 'winter-to-winter supply management' approach.

For winter 2024, adjustments have been made to promote security of supply, including permanently implementing the winter 2023 initiatives. We are also closely monitoring participant behaviour (including generation outage planning), and are promoting tools that will support alternative generation and storage investment. In the next 60 days, we will be making recommendations on addressing peak coordination issues and potential alternative solutions that will also address affordability. This will include improving incentives for investing in flexible resources to firm the power system in the event of unexpected generation and demand variability.

Information is critical and the Authority is working with Transpower and the Gas Industry Company to ensure market information, such as gas contract positions and energy risk, is

reported accurately and credibly, so there is an accurate picture of the immediate risks that need to be managed.

For 2025 and beyond, we are working on a strategic pathway to support security of supply through the transition to electrification and will bring this work to you for discussion in the coming months.

## **2. Security and resilience through improvements to the wholesale electricity market**

A wholesale market remains the best way to ensure New Zealand's electricity is clean, reliable and available at the lowest possible cost, but there are changes required to ensure the wholesale market design is fit-for-purpose for the future. The Authority is implementing the advice of its Market Development Advisory Group (delivered in December 2023) to improve:

- **Accuracy and frequency of short-term intermittent generation forecasts** ahead of winter 2025.
- **Disclosure of hedge information** to improve risk management and investment decisions, which is expected to be in place before the end of 2024.
- **Monitoring demand-side flexibility**, rewarding activity to promote transparent measures and understand set data trends.
- **Distribution pricing** to reflect network needs.
- **Ancillary service products** to cover a sudden supply reduction from intermittent sources.
- **Visibility of demand-side flexibility for the system operator** and removing any regulatory barriers to demand-side flexibility offering ancillary services.

## **3. Promoting competition across the system to ensure affordable electricity**

We have a number of work programmes underway to promote competition and efficiency, and to increase affordability for consumers, including:

- **Reviewing risk management options** to test the availability and pricing of over-the-counter contracts and ensure risk management options are accessible and priced efficiently to improve retail competition.
- **Improving consumer mobility** (initially through consumer plan comparisons and switching) to drive competition and affordability.
- **Updating regulatory settings for the distribution sector** to ensure consumers are supported in how they want to access and use electricity.
- **Taking advantage of controllable distributed energy resources** to help reduce the overall consumer costs, reducing the need for thermal peaking, and offsetting or deferring the need for new lines investment and generation.
- **Developing regulatory 'sandboxes'** to look at how technology, innovation and competition can be used to promote electrification, security of supply and affordability in the future.

## **4. Electrifying the economy and enabling EV infrastructure**

The Authority's work programmes for 2024/25 align with and will enable the key priorities of Electrify NZ. Critical to delivering against these priorities are:

- **Data for better performance**: ensuring fair and equitable access to data for participants and collecting and sharing data that can be used by participants and consumers.
- **Enhancing flexibility**: ensuring access to demand response technology is on a level playing field and markets match buyers and sellers of this flexibility.

We are also improving the regulatory settings for distribution networks. We plan to consult on network connection processes in late 2024 to ensure consistent and efficient connection pricing to meet the growing demand from access seekers, enable the rollout of widespread EV infrastructure and support the electrification of the economy.

## **5. Value for money**

As a Crown entity, we are critically aware of the need to demonstrate value for money, with the responsible management of our assets, finances, capital expenditure and investments. The Authority is focused on working smarter and more efficiently. We are strengthening our commercial management, and reducing our consultancy and contractor costs. We are lowering staff turnover and improving our technical capabilities, as well as introducing smarter systems and processes that reduce the cost of compliance on industry participants. We will continue to report on this and our progress implementing the Strategic Baseline Review recommendations.

### *Preparation of accountability documents*

The Authority will provide its draft *Statement of intent 2024-28* and *Statement of performance expectations 2024/25* for your consideration by 1 May 2024. We will work with your officials to address your comments and provide final versions by 30 June 2024 for tabling in the House of Representatives.

### *General governance and reporting expectations*

As requested, we will deliver quarterly reports on the Authority's progress from 1 July 2024, one month after each respective quarter. We will also work with your officials to review our existing output agreement and consider whether it is still fit for purpose.

### *Board self-evaluation*

The Authority's Board is committed to self-evaluating its performance annually as a whole, as well as that of individual members. We will continue to provide you and MBIE with the evaluation results.

### *Concluding remarks*

The Authority recognises it is part of the wider energy system and we continue to work closely with the Commerce Commission, Ministry for Business Innovation and Employment, Energy Efficiency and Conservation Authority, and Gas Industry Company (including through the Council of Energy Regulators), and other relevant agencies.

We will engage proactively with you and your office around emerging issues and look forward to maintaining a close and constructive relationship.

Yours sincerely,



Anna Kominik  
Chair, Electricity Authority Te Mana Hiko