

30 March 2021

Hon Dr David Clark
Minister of Commerce and Consumer Affairs
Parliament Building
WELLINGTON

Dear Minister

RE: ANNUAL LETTER OF EXPECTATIONS FOR 2021/22

1. Thank you for your letter dated 11 March 2021 that sets out your expectations for:
 - 1.1 the role of the Commission in contributing to the Government's priorities; and
 - 1.2 the Commission's strategic and operational accountability and performance.
2. This letter responds to your request for advice on how we propose to respond to these expectations. Consistent with our approach in recent years, we have focussed on drawing your attention to a few key matters rather than responding to each individual expectation that is listed.

Commission's role in contributing to Government priorities

3. The Commission understands the overarching objectives of your Government and our role in relation to your Government's economic plan. As noted in your letter, the Government's objective to accelerate New Zealand's economic recovery is particularly relevant to our work. Everything we do is focussed on making New Zealanders better off but some aspects of our work will have particular significance to the aspects of the economic plan that are highlighted in your letter.
4. Alongside investment in infrastructure to support the transition to a low carbon economy, we will continue to help ensure New Zealand's markets are competitive, consumers are well informed and protected, and sectors with little or no competition are appropriately regulated. Among other things, our work helps to ensure businesses have incentives to innovate and make efficient use of resources, including in sectors that will be critical to enabling decarbonisation of the economy such as energy and telecommunications.

5. We also recognise that we have a particular role to play in relation to the policies in your economic plan that are associated with renewable energy and waste reduction. Consistent with your expectations, we will contribute to policy discussions led by the Ministry of Business, Innovation and Employment (MBIE) by providing expert assistance and practical guidance on the workability and resource constraints of proposed legislative amendments or regulatory changes related to our areas of expertise.
6. In addition, alongside the support your Government will be providing small businesses, we will continue to support businesses to grow and thrive by enabling businesses, large and small to:
 - 6.1 properly understand and abide by the laws we enforce;
 - 6.2 have a voice in our regulatory decision-making processes; and
 - 6.3 benefit from our work in their role as consumers.
7. We will also continue to focus on identifying areas where consumers are vulnerable given the changing economic environment and using our educative, compliance and enforcement functions to prevent and address harm.

Particular expectations relating to Ministerial portfolios

8. In relation to the Ministerial portfolios outlined in your letter, our intentions are consistent with your expectations. For example, we understand the importance of delivering high quality market studies on time and within budget. The phased increase in Crown funding announced at Budget 2020 has enabled us to strengthen our impact in this area and more generally across many of the priorities you have identified.
9. Within our competition and consumer work, we are in the process of identifying our priorities for education and engagement during the upcoming financial year, and we have noted the examples you have suggested in relation to specific sectors and issues (for example, waste management and COVID-19 related issues). Consistent with your expectations, we will consider where evidence suggests there may be significant potential benefits from such engagement and we will keep you informed of our priorities through our regular meetings with you.
10. In relation to our economic regulation work, and consistent with your predecessor's expectations for 2019/20, we have recently completed consultation with industry levy payers about the medium-term outcomes for economic regulation of telecommunications markets and energy networks.

11. In the telecommunications sector, our role has expanded significantly under the amended Telecommunications Act 2001, including through the introduction of a new regulatory regime for fibre broadband and more regulatory oversight of retail service quality. To ensure we keep pace with your expectations in this sector, we recognise we may need to strengthen our impact in key areas, such as engagement with industry and consumers on the key retail service quality issues that need to be addressed, and improving the types and quality of information that consumers have when they make their technology, provider and plan choices. This year we will also be reviewing the disputes resolution scheme to ensure that it is delivering on its purpose and we will be providing you with a report on any recommendations for improving the scheme.
12. In the energy sector, network businesses face challenging decisions about managing and investing in expensive and long-lived assets for the benefit of their consumers – a challenge which gets harder in times of uncertainty. The uncertainty about the future demands on electricity and gas networks will affect the different sectors in different ways. We will need to consider this as part of two significant upcoming regulatory processes: resetting price-quality paths for gas pipeline businesses, which we must conclude by May 2022; and reviewing the rules, processes and requirements underpinning our regulation of electricity and gas networks (input methodologies review), which we must conclude by December 2023.
13. For electricity networks, the input methodologies review will provide an opportunity for us to ensure that our regulatory rules support the increased electrification of the economy, including by ensuring that our rules appropriately incentivise innovation, the adoption of new technologies, demand response management, and allow for the successful integration of electric vehicles. For gas pipelines, a central issue for both the input methodologies review and the price-quality path reset will be how we ensure that our regulatory rules appropriately support a decline in gas use. One likely consequence of declining gas use is that the gas networks' costs will need to be recovered from a smaller customer base, which is likely to increase the prices consumers pay to remain connected to gas networks.

Enduring Letter of Expectations and good governance expectations

14. We are also confident that our intentions are consistent with Ministerial expectations in relation to our role as a Board, including those conveyed through the enduring Letter of Expectations. We are also aware of and intend to follow MBIE's Monitoring arrangements for MBIE-monitored Crown entities published in October 2020.

Effective board

15. Following on from our Board workshop in February last year, we are holding a workshop in April this year to continue self-review and explore areas for continuous improvement in our governance and leadership. We would be happy to keep you updated about our progress during our regular meetings. We are also happy to provide input into succession planning.

Effective monitoring of Commission performance by the Board

16. We are committed to a continued focus on our role as governor of the Commission and primary monitor of the Commission's performance. In addition, as we are now entering the final year of the period covered by Our Vision and Strategy 2017 – 2022, we recognise the need to review this document and ensure our strategy is fit for the future.
17. I trust that this response provides you with the information that you are seeking in relation to your Letter of Expectations. I am happy to discuss this with you further or to provide more information on any of the areas outlined.

Yours sincerely



Anna Rawlings
Chair