

# The Treasury

## Annual Letters of Expectations 2022/23 Information Release

September 2022

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# Hon Dr David Clark

MP for Dunedin

Minister of Commerce and Consumer Affairs  
Minister for the Digital Economy and Communications  
Minister for State Owned Enterprises  
Minister of Statistics  
Minister Responsible for the Earthquake Commission



20.12.2021

Pip Dunphy  
Chair  
Transpower New Zealand Limited  
[23]

Dear Pip

## **2022/23 OWNER EXPECTATIONS FOR TRANSPOWER NEW ZEALAND LIMITED**

I am writing to outline the matters that we expect your board to address in the current business planning round to shape your work programme.

### **Government priorities and the response to COVID-19**

The Government has three goals for its term: to keep New Zealanders safe from COVID-19, to accelerate the recovery and rebuild; and to tackle foundational challenges.

The response to COVID-19 remains of central importance in the coming year. Investing in critical infrastructure and public services will be important to our economic recovery, along with a focus on renewable energy, waste reduction, sustainability and pursuing carbon neutrality.

Crown-owned companies and entities through their operations play an important role in supporting the response to COVID-19 and the social and economic recovery. Responsible management of assets and finances, including careful control of debt, capex and investments are part of the contribution Transpower makes to the Government's goals.

We wish you every success with your endeavours in the coming year and thank you for your contribution to laying the foundations for a more sustainable and equitable future.

This letter contains the following information:

- Ministers' specific expectations for Transpower;
- general governance expectations (**Annex 1**);
- timeline for the 2022/23 business planning process and governance information (**Annex 2**).

## Entity-specific expectations

### *Implementing the recommendations of reviews into the power outage of 9 August 2021*

We appreciate Transpower's work to-date in undertaking internal reviews, and engaging with external reviews, on various aspects of the power outage of 9 August 2021. It is crucial that the findings of these reviews are fully considered, and that the recommendations are implemented as readily as possible, to mitigate the risk of a future power outage. We expect Transpower to bolster its internal processes and operations, and ask that you regularly engage with the Treasury on this work. We also encourage you to report on progress made with implementing the reviews' recommendations in your quarterly reports to shareholding Ministers, and earlier if you believe it is required or in line with the 'no surprises' policy.

### *Sector leadership, engagement and investment*

Transpower plays a critical role in the wider energy and infrastructure sectors functioning and developing to meet future challenges and opportunities. We encourage Transpower to continue to play an active system-leadership role, in line with your core strategy documents '*Whakamana i Te Mauro Hiko – Empowering our Energy Future*' and '*A Roadmap for Electrification*'.

We acknowledge that implementation of several of the recommendations arising from the reviews into the 9 August 2021 power outage will not be possible without wider industry involvement. We encourage Transpower to continue to leverage its system-leadership role to facilitate broad industry involvement and buy-in as the recommendations are implemented, and further processes are developed as necessary.

### *Investments in transmission assets*

Transpower has indicated that greater levels of investment are required under Regulatory Control Periods 4 and 5. We expect that Transpower will work with industry and regulators to ensure that these investment proposals are well considered. We also ask that you engage with the Treasury as this work develops.

We continue to expect Transpower to invest ahead of transmission demand in order to ensure that there is capacity for competitive investment by generators in distant load renewables, including intermittent renewables. Transpower's work in this area, and in facilitating the decarbonisation of industrial heat and transport, will help support the Government's targets to achieve 100 per cent renewable energy by 2030, and reach net zero emissions by 2050.

## General governance expectations

We regard strong board governance as critical to the performance and success of the Crown's companies and entities. The [Owner's Expectations](#) sets out Ministers' expectations on matters for board oversight such as information-sharing and engagement with the Treasury, board evaluations, thresholds for consultation or approvals for significant investments, commercial valuations, capital structure and dividends, and timeframes for reporting and business planning documents.

Further general expectations you are asked to consider are set out in **Annex 1**.

## Further information

Your Treasury relationship managers will be in contact shortly after you receive this letter to discuss Ministers' expectations in more detail. If you have any questions, please contact Daniel Madley ([35]). Alternatively, you can contact Maureena van der Lem, Manager, Commercial Performance ([35]).

Yours sincerely

A handwritten signature in blue ink, appearing to be 'David Clark', written in a cursive style.

Hon Dr David Clark  
**Minister for State Owned Enterprises**  
*on behalf of shareholding Ministers*

cc Alison Andrew, Chief Executive, Transpower, [23]

## Annex 1

### **General Governance Expectations**

#### *Enduring letter of expectations*

Ministers expect all boards to be cognisant of the Government's 2019 [Enduring letter of expectations](#) to all statutory Crown entities, which asks that boards and their agencies

- Support a unified value-based government for all New Zealanders;
- Support future-focussed Māori Crown relations; and
- Contribute to improving wellbeing.

#### *Work force Policy Statement and Public Service Pay Gap Action Plan*

The [Government Workforce Policy Statement](#) (Workforce Policy) sets out the Government's expectations about public sector agencies management of employment relations, including of statutory entities and Crown entity companies. This policy also emphasises the importance of pay restraint in the COVID-19 environment and the fiscal context of the Government.

Consistent with the Government's support for diversity, gender balance and wider ethnicity on boards, boards are encouraged to support diversity and inclusion in the workplace and in leadership teams. On 15 November 2021, the Government launched The [Public Service Pay Gap Action Plan](#) (Action Plan), which aims to help close pay gaps and create fairer workplaces for all employees.

You and your board are encouraged to consider the relevance of the Workforce Policy and the *Public Service Pay Gap Action Plan* for Transpower.

#### *Wellbeing approach and Carbon Neutral Government Programme*

The Government's wellbeing approach is based on the [Treasury's Living Standards Framework](#), which considers a broad range of impacts over 12 domains for our individual and collective wellbeing, our institutions and governance, and the wealth of Aotearoa New Zealand, now and into the future. Boards should consider and reflect the broader impact of their decisions and initiatives in planning and performance reporting.

In pursuit of our carbon reduction ambitions, the Carbon Neutral Government Programme (CNGP) has been set up to accelerate the reduction of emissions within the public sector. We encourage Transpower to support the Government by joining with businesses and communities already leading the way to reducing their emissions.

#### *Board evaluations and strengthening the director pipeline*

Board evaluations help boards to improve performance and should take place annually (subject to the exceptions in the [Owner's Expectations](#)) and ideally be conducted by an independent evaluator.

Along with skills matrices, evaluations contribute to the Treasury's advice to Ministers on board composition and so should be shared with the Treasury.

In addition, we have a general expectation that you will engage a 'Future Director' as an observer of the board, where possible, to grow the pipeline of new and diverse director talent.

### *Senior Executive Remuneration*

Within the overall context of public sector pay restraint, Ministers expect that boards will ensure that senior management remuneration is appropriately linked to performance and set at a level sufficient to attract and retain the necessary skills within the executive to enable Crown companies and entities to operate successfully.

Boards of SOEs, and Schedule 4A and Crown entity companies have separately received Ministers' April 2021 expectation that disclosure in annual reports meets the NZX Corporate Governance Code, most notably recommendation 5.3. If disclosure to this standard is not possible, the annual report is expected to explain why this is the case.

## Annex 2

### **Timetable for the Business Planning Process for 2022/23**

Table 1: Summary timetable for the Business Planning Process

<b>Due by</b>	<b>Key Action</b>
January / February	The Treasury to discuss the Letter of Expectations with the Chair
28 February	Board sends Strategic Issues letter to Ministers
25 February	Board provides Post Investment Reviews to the Treasury ( <i>if required</i> )
29 April	Board submits draft Statement of Corporate Intent (SCI) and business plan
27 May	Board provides advice on: ( <i>if required</i> ) <ul style="list-style-type: none"><li>• whether special fees are sought for 2022/23;</li><li>• the professional development spends in 2021/22 and the proposed professional development budget for 2022/23; and</li><li>• whether an evaluation of its performance in the past 12 months has taken place, what process was used and the outcomes of the evaluation.</li></ul>
30 June	Board delivers final SCI to shareholding Ministers
As soon as practicable after delivery of the final SCI to Ministers	Company to publish SCI on its website

All entities are expected to provide shareholding Ministers with a **Strategic Issues letter** by **28 February 2022** in response to the Letter of Expectations. Should your company wish to engage with shareholding Ministers to seek clarification around their expectations, we would ask that you advise the Treasury as early as possible of such intentions.

Entities are expected to provide shareholding Ministers with a draft SCI and Business Plan, consistent with the expectations as detailed in this letter, by no later than **29 April 2022**.

The final SCI should be delivered to shareholding Ministers on or before **30 June 2022**.

Shareholding Ministers should be alerted as soon as possible if any of these deadlines cannot be met.

Further information is available in the [Owner's Expectations](#).