

The Treasury

Annual Letters of Expectation 2023/24 Information Release

November 2023

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[23] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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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 DEC 2022

Dr Keith Turner
Chair
Transpower New Zealand Limited
[23]

Dear Dr Keith

2023/24 OWNER EXPECTATIONS FOR TRANSPOWER NEW ZEALAND LIMITED

I am writing to outline the matters that shareholding Ministers expect your Board and company to address in the 2023/24 business planning round and work programme.

Government priorities

The Government has three overarching objectives for its term: to keep New Zealanders safe from COVID-19, to accelerate our economic recovery, and to lay the foundations for a better future. The first objective has been achieved through the Government's support of businesses to retain jobs and support to Crown companies and entities to protect and maintain important services.

With the removal of the COVID-19 Protection Framework, we are looking to the Crown's companies and entities to increase their contribution to the Government's other overarching objectives.

We acknowledge that the impacts of the COVID-19 pandemic have exacerbated the downward long-term performance trend of the Crown's companies and that the post-COVID-19 operating environment and the economic outlook are challenging and uncertain. However, this environment makes your focus on delivering value even more important.

We encourage you to be bold and demanding in your expectations of your company to ensure that it is fit for purpose, and that investments will create future impact and long-term value. Companies will need to adapt and innovate, and we look forward to hearing your ideas to improve performance.

To support you to set challenging expectations of your company, we have asked the Treasury to engage more closely on your company's commercial performance going forward.

This letter contains:

- shareholding Ministers' specific expectations for Transpower New Zealand Limited (Transpower)
- enduring and general governance expectations (**Annex 1**), and
- a timeline for the 2023/24 business planning process and governance information (**Annex 2**).

Company-specific expectations

Sector leadership and engagement

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 long-term strategy documents 'Whakamana i Te Mauro Hiko – Empowering our Energy Future' and 'A Roadmap for Electrification'.

Transpower's System Operator role has always been a critical function of national importance. This role is becoming especially evident during winter months when supply shortages can quickly develop and, in working with industry, need to be immediately resolved. We acknowledge the work Transpower has undertaken with industry following the power outage of 9 August 2021, and ask you to build on these learnings, with a focus on continuous improvement of systems and processes.

Investments in transmission assets

Transpower has indicated that greater levels of investment are required under Regulatory Control Periods 4 and 5 to capture the opportunities of increased electrification and decarbonisation. We expect that Transpower will work with industry and regulators to ensure that these investment proposals are well considered. We also ask that you continue to engage with the Treasury as this work develops, especially if new shareholder equity, or a change in Transpower's dividend policy, is being considered to assist in funding these investments.

We continue to expect Transpower will invest ahead of transmission demand 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.

Emissions reduction and climate change

We acknowledge Transpower's ongoing efforts to reduce carbon emissions, both in your internal operations and in your financing arrangements. In particular, we commend Transpower successfully launching the Green Finance Programme in FY22, with the first certification internationally of a transmission grid under newly published criteria. We ask Transpower to continue demonstrating your commitment to supporting decarbonisation as part of any new investment projects, and in your ongoing operations. We encourage Transpower to keep us informed of initiatives that align with the Government's goals to transition to a low-emissions economy.

Enduring and 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 Manual](#) sets out our 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.

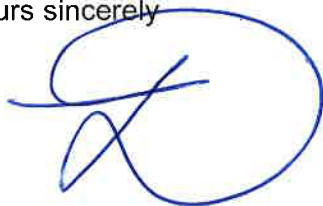
Further enduring and general governance expectations are set out in **Annex 1**.

Further information

Your relationship managers at the Treasury will be in contact shortly after you receive this letter to discuss our expectations in more detail. If you have any questions, please contact Daniel Madley, Senior Analyst, Commercial and Institutional Performance (on [39]). Alternatively, you can contact Ann Webster, Manager, Commercial and Institutional Performance (on [39]).

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.

Yours sincerely



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

cc Alison Andrew, CEO, Transpower New Zealand Ltd, [23]

Annex 1

You should consider and provide information in your Strategic Issues Letter about how these expectations are given effect in your company.

Enduring expectations

Boards should be cognisant of the Government's 2019 [Enduring Letter of Expectations](#) to 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.

State-owned enterprises (SOEs) are also expected to support the Government to reduce emissions.

Support a unified, value-based government for all New Zealanders

The [Government Workforce Policy Statement](#) (GWPS) sets out the Government's expectations about public sector agencies' management of employment relations, including of statutory entities and Crown entity companies, and emphasises the importance of continuing pay restraint.

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 and to work to close gender and ethnic pay gaps. The [Pay Gap Action Plan](#) (Kia Toipoto) forms part of the GWPS and aims to help close pay gaps and create fairer workplaces for all employees.

We expect you to consider the relevance of the GWPS and Kia Toipoto for your company.

Support future-focussed Māori Crown relations

The Crown is committed to being a better Treaty partner. The Crown's companies are expected to embody the Government's good faith and collaborative approach to Māori Crown relationships.

Resources are available to support the Crown's companies to work in partnership with Māori. Te Arawhiti has a range of [tools and resources](#), including to support the Crown's companies to effectively engage with Māori on a range of issues and build true and practical partnerships. The Treasury's resource, [He Ara Waiora](#), may also be useful in understanding Māori perspectives on wellbeing, and how to interweave and embed Te Ao Māori perspectives in advice with integrity.

You should also be aware of and have regard to the Crown's 2014 expectations of non-Core Crown entities when disposing of land. These expectations include early engagement with iwi during any proposed land disposal or sale process, having regard to customary iwi interests in land, and advising Ministers of any issues that may arise.

Wellbeing approach

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.

Various reporting frameworks have been developed (such as Integrated Reporting) and Crown companies are encouraged to consider adopting a framework that is appropriate to their needs.

Emissions reduction and climate change

The Government has published New Zealand's first Emissions Reduction Plan, and customers, industry and other stakeholders expect Transpower to join New Zealand's international commitment to net zero emissions.

The Government has decided to officially 'encourage' State-owned enterprises to participate in Tranche Three of the [Carbon Neutral Government Programme](#) (CNGP). While participation is voluntary by SOEs, and partial participation is possible, the Programme lead, the Ministry for the Environment (MfE), will report regularly to Ministers which SOEs have opted to participate and which have not, as well as the emissions reduction progress of those participating. Shareholding Ministers encourage SOEs to participate, as the programme aims to show leadership in measuring and reducing government emissions to become carbon neutral by 2025.

Under the CNGP, participating SOEs would report annually from 1 December 2023 on their verified emissions over the previous financial year, set a gross emission reduction target aligned to a 1.5 degree pathway, and offset remaining emissions from 2025 to become carbon neutral. Offsetting policy is currently being developed.

You may alternatively, or in addition to CNGP participation, choose to report on climate risks based on climate standards being developed by the XRB (Climate-related Disclosures may be found here: <https://www.xrb.govt.nz/standards/climate-related-disclosures/>). How the CRD regime and the CNGP relate to each other can be found here: [Climate reporting requirements | Ministry for the Environment](#).

Through the CNGP, SOEs will have access to a range of support and resources on how to meet the Programme milestones. SOEs will be asked from time to time to respond to information requests and be offered training and engagement opportunities to build their capability.

MfE must report to Ministers on the CNGP, including on participation by SOEs. MfE officials will be in touch with your nominated contacts on the CNGP during the course of the year to provide support and resources, and to seek information for reporting to CNGP Ministers.

To allow MfE to prepare its report to Ministers, please advise in your Strategic Issues Letter what are your considerations regarding climate disclosures, are you planning to participate in the CNGP, and who is your key contact.

General governance expectations

Board evaluations

Board evaluations help boards to improve performance and should take place annually (subject to the exceptions in the [Owner's Expectations Manual](#)) and ideally be conducted by an independent evaluator. Along with skills matrices, evaluations contribute to the Treasury's advice on board composition and so should be shared with the Treasury.

Director pipeline

To grow the pipeline of new and diverse director talent, if you have not already done so, where possible, you should engage a 'Future Director' as an observer of the board. Consideration for a Future Director may be given to a senior executive or Chief Executive from other government agencies/Crown entities noting the mutual benefits for governance and leadership from seeing both sides.

Senior executive remuneration

Within the overall context of public sector pay restraint, companies are expected to ensure that senior executive 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 to operate successfully.

Boards of SOEs, and schedule 4A and Crown entity companies have separately received the 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.

Cyber security

The use and dependence on cyberspace mean that securing networks, systems, programmes, and data is of vital and increasing importance. Resources are available to support the Crown's companies to improve their cybersecurity. While intended primarily for the use of government departments and agencies, and their service providers, the [New Zealand Information Security Manual](#) (NZISM) details processes and controls essential for the protection of all New Zealand Government information and systems.

Annex 2

Timetable for the 2023/24 business planning process

Due by	Key action
January / February	The Treasury to discuss shareholding Ministers' Letter of Expectations with the chair
28 February 2023	Board sends its Strategic Issues Letter to shareholding Ministers
28 April 2023	Board submits its draft Statement of Corporate Intent (SCI) and Business Plan
31 May 2023	Board provides advice on: <ul style="list-style-type: none">• whether special fees are sought for 2023/24;• the professional development spend in 2022/23 and the proposed professional development budget for 2023/24; and• whether an evaluation of its performance in the past 12 months has taken place, what process was used and the outcomes of the evaluation.
1 July 2023	Board delivers its final SCI to shareholding Ministers
As soon as practicable after delivery of the final SCI to shareholding Ministers	Company to publish SCI on its website

Ministers and the Treasury should be alerted as soon as possible if any of these deadlines cannot be met or if clarification around their expectations is sought.

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