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System Operator Strategy Consultation
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ERGANZ SUBMISSION ON THE SYSTEM OPERATOR STRATEGY: PHASE 2 CONSULTATION PAPER, DRAFT STRATEGIC PRIORITIES

The Electricity Retailers' and Generators' Association of New Zealand (ERGANZ) welcomes the opportunity to comment on Transpower's Phase 2 consultation paper, 'System Operator Strategy: Draft Strategic Priorities', dated June 2026.

ERGANZ is the industry association representing companies that generate and sell electricity to Kiwi households and businesses. Collectively, our members supply almost 90 percent of New Zealand's electricity. We work for a competitive, fair, and sustainable electricity market that benefits consumers.

Executive summary

As an overarching principle, ERGANZ strongly supports New Zealand electrifying at pace. Electrification underpins the country's economic growth, improves our emissions profile, and delivers energy that is cheaper than fossil fuels and more resilient than imported alternatives.

The System Operator Strategy sits as one of the key documents underpinning this transition. It is both a critical enabler of electrification and, if its settings are wrong, a potential constraint on the pace at which electrification proceeds.

ERGANZ supports the System Operator ('SO') developing a forward looking, ten year Strategy, and we welcome the two round consultation approach. The five priorities are broadly the right areas of focus, and much of the framing is consistent with the enabling, market-based direction ERGANZ set out in our February 2026 submission. We particularly welcome the paper's commitment to market based products with intervention as a last resort, and its explicit distinction between the issues the SO can address directly and those that sit with others.

Our support is qualified in five respects, which form the substance of this submission.

Affordability and funding discipline must be more than a stated value. This Strategy underpins the SO's funding request for July 2028 to June 2031, and the obligations the SO recommends fall on our members and, ultimately, on consumers. We support investment where it enables the transition, but the Strategy should commit to transparent cost benefit analysis, clear prioritisation, and published cost estimates before initiatives proceed, not after.

The SO should enable and implement, not accumulate obligations or control. The paper repeatedly signals potential expansion of the SO role, including a lead coordinator role, accountability for security of supply, and new duties requiring centralised coordination. We support a proactive and engaged SO, but scope expansion must be tested against the responsibility allocation the paper itself sets out, and against the risk of the SO crowding out market and participant led solutions.

The dry year and winter energy reliability workstream (P2.4) requires particular care. The SO is proposing to build implementation capability for a Winter Energy Reliability Obligation that is still the subject of live MBIE consultation and is not yet settled policy. The Strategy should not pre commit the SO, or lock in cost, ahead of that policy being finalised, and should preserve the market based, least cost framing the rest of the paper endorses.

Enabling electrification means actively challenging conservative operational limits. We welcome the shift to probabilistic forecasting and safer operation closer to system limits. The Strategy should go further and commit to a systematic review of legacy operational conventions that constrain use of existing grid capacity, with measurable connection and commissioning improvements reported publicly.

Data, AI, and automation are urgent operational imperatives, and impartiality must keep pace. We strongly support the Control Room of the Future and the data and AI initiatives. As the SO takes on a stronger information, coordination, and possibly obligation setting role, its impartiality safeguards matter more, not less, given the integrated Grid Owner and System Operator model.

Submission points

The Strategy is the foundation of a funding request, and affordability must be demonstrated

The paper is clear that this Strategy will provide the foundation for the SO's proposal to the Electricity Authority for funding to cover the System Operator service from July 2028 to June 2031. Therefore, every initiative signalled as a Future Investment Priority is, in effect, a signal of future cost recovery. Those costs are borne by participants and passed through to consumers, alongside the separate and often larger cost of any obligations the SO recommends be placed on participants to manage system stability.

ERGANZ supports investment that genuinely enables the transition. We do not support investment justified by system complexity alone. The paper's ‘how we deliver’ section rightly identifies affordability and value for money as a core enabler, and acknowledges the need to manage cost risk trade-offs associated with any market change or obligations on participants. We ask the SO to give that commitment effect in the final Strategy by:

- committing to publish, for each material initiative, an indicative cost estimate and a cost benefit assessment before the initiative is confirmed in the funding request, rather than presenting initiatives as settled and seeking funding for them;
- distinguishing clearly between the cost of the SO service itself and the whole of system cost of obligations the SO recommends, so that the two are not conflated and each is scrutinised on its merits; and
- prioritising ruthlessly within the existing funding envelope to 2028, and being explicit about what will not be done, rather than signalling a broad expansion of scope across all five priorities.

A clear cost discipline is not in tension with enabling electrification. It is what gives participants and consumers confidence that the SO's growing role is delivering value commensurate with its growing cost.

The SO should enable and implement

A recurring theme across the five priorities is a stronger, more central SO role. The paper contemplates the SO leading on operational guardrails and emergency management for load, taking a clearer lead coordinator role in event response, developing an Electricity Security Opportunities Statement, and notes that the SO role could expand to perform new duties requiring centralised coordination and planning of resources. Separately, stakeholders are recorded as seeking clearer accountability for delivering security of supply.

ERGANZ supports a proactive and engaged SO. We agree the SO is well placed to provide operational insight, foundational data, coordination during events, and expertise the sector can draw on. We are cautious on three points.

First, the responsibility diagram in the paper draws the right distinction. It correctly places market design and code changes, ancillary and flexibility products, and DER performance obligations with the Electricity Authority, and broader policy and security of supply coordination across sectors with Government, MBIE, and the Gas Industry Company.

The SO's role is to operate the system and market in real time, provide insight and risk information, implement market design set by others, and enable and coordinate without owning every solution. The final Strategy should reaffirm that boundary explicitly for each priority, and resist the drift, visible in some of the initiative language, towards the SO becoming the default owner of unresolved system problems.

Second, accountability for security of supply should not be relocated to the SO by default. Security of supply outcomes are principally a function of market settings, investment signals, and fuel availability, which are matters for the Authority, Government, and participants responding to price signals. The SO's role is to assess, forecast, and inform, and to procure the ancillary services the Authority's framework provides for. Conflating the SO's information role with accountability for delivery would misallocate responsibility and risk, and would not itself deliver a single additional megawatt of firm capacity.

Third, the paper highlights the stakeholder caution that whole of system visibility should not be conflated with direct control. ERGANZ endorses this caution. The SO needs the visibility required to operate the system securely, and no more. Direct SO control of distribution connected or consumer assets would be a significant and unnecessary expansion of the SO's remit, would duplicate roles better performed by distributors, retailers, and aggregators, and would risk dampening the competitive, market led development of flexibility that consumers will ultimately pay for.

The dry year and winter energy reliability workstream (P2.4)

Initiative P2.4 proposes that the SO build capability to implement a two layer Winter Energy Reliability Obligation, and develop an Electricity Security Opportunities Statement, in support of MBIE's dry year policy. ERGANZ members have a direct and material interest in this workstream.

Firstly, any obligation is not finalised. MBIE launched its consultation on a winter energy reliability obligation on 9 June 2026, and the paper itself notes that the SO's work here is subject to the finalisation of that consultation. It would be premature for the SO to commit implementation capability, or to signal associated cost recovery, ahead of the policy being settled. We ask that P2.4 be reframed to make clear that any SO implementation work is contingent on the final policy, is scoped only once the obligation design is known, and does not pre judge the outcome of the MBIE process.

The framing should remain market based and least cost. The rest of the paper commits to market based products, scarcity pricing that can emerge consistently, and intervention as a last resort. An obligation that requires participants to secure fuel and winter energy cover cuts across that framing if it is poorly designed. If the SO is to have an implementation role, its contribution should be to ensure the obligation is implemented in the most market compatible, least cost way, and to surface honestly the cost and the incidence of the obligation, including any free rider or cross subsidy effects where obligations fall on some participants but not on all load that benefits.

The SO's information products should inform, not direct, investment. We support the concept of an Electricity Security Opportunities Statement that helps industry and investors understand where gaps may emerge and how different asset combinations could address them. That product should be genuinely informational and technology neutral. It should not become a de facto central plan, or a mechanism by which the SO signals a preference for particular investments, which is properly a matter for the market to resolve in response to price signals.

Enabling electrification

ERGANZ welcomes several elements of Priority 1 and Priority 2 that align directly with the enabling approach we set out in February. The shift to probabilistic forecasting under Initiative P1.2, using P10, P50, and P90 scenarios, is a good basis for running the system harder with quantified rather than assumed risk margins.

We ask the Strategy to go further and make an explicit commitment to review the legacy operational conventions that constrain use of existing grid capacity. With the pace and scale of new generation and demand growth exceeding the pace of grid investment, extracting more from existing assets is

one of the highest value, lowest cost contributions the SO can make. Conservative rules of thumb, static ratings, and long standing operational practices were designed for a different system and, where they no longer reflect actual conditions, they impose real costs by holding back capacity that already exists. We encourage the SO to work with the Grid Owner to replace these with dynamic, evidence based limits, and to treat this as a near term priority within the existing funding envelope rather than a future aspiration.

On connection and commissioning, Initiatives P2.5 and P3.2 are welcome. There is substantial capital ready to invest in New Zealand generation, and the time taken for connection, system studies, and commissioning remains a material barrier. We ask the SO to commit in the Strategy to specific, measurable improvements in connection and commissioning timelines, to adopt the AI accelerated system study techniques being deployed by operators such as PJM in North America, and to report publicly on progress against those targets. A commitment to speed, with published metrics, would give investors confidence that the pipeline of new, often lower cost, supply will translate into capacity at the pace electrification requires.

Data, AI, and automation

ERGANZ strongly supports Priority 3 and Priority 4, and in particular the Control Room of the Future, the move to advanced decision support, and the data and interoperability initiatives. As we said in February, the move from a linear, one way power system to a complex, two way system cannot be managed safely with manual tools and rules of thumb at the scale and pace electrification demands.

We welcome the paper's acknowledgement that AI is no longer a future enhancement but core capability for today's operations, and we encourage the SO to attach clear timelines and investment commitments to the Control Room of the Future so that the initiative has teeth.

On data, we support the development of common data standards and a standard operational dataset. Two points of principle should guide this work. Data sharing obligations should be proportionate to genuine operational need, mindful of the cost of provision, and reciprocal, so that participants that provide data also benefit from improved system information. And the AI governance work under Initiative P4.2 should proceed in partnership with the Authority and industry, and should not result in the SO unilaterally setting governance rules that bind participants' own use of AI in trading and operations.

Finally, the integrated Grid Owner and System Operator model delivers real efficiencies for a small system, and ERGANZ does not question that model. However, as this Strategy contemplates the SO taking a stronger role in information provision, coordination, and potentially in shaping obligations that affect the competitive positions of participants and the commercial interests of the Grid Owner, the SO's impartiality safeguards become more important, not less. We welcome the record of regular external audits with no material findings. We ask that the final Strategy commit to maintaining and, where the SO's role expands, strengthening these impartiality and transparency arrangements, and to being explicit where an initiative touches both the SO and Grid Owner functions.

Consultation questions

Questions	Comments
1. To what extent do you agree with each strategic priority?	ERGANZ broadly agrees with all five priorities as areas of focus. We agree most strongly with Priority 1 (operating a secure, highly variable power system) and Priority 2 (efficient market operations and information provision), which go to the SO's core role and are correctly oriented towards market based outcomes with intervention as a last resort. Our agreement is qualified by the concerns set out in our submission points above.
2. Are there any proposed strategic priorities you consider more important than the others, and why?	Priorities 1 and 2 are the most important because they are the SO's enduring core functions and have the most direct bearing on whether the system can be run efficiently and closer to its limits, which is central to enabling electrification at least cost. Within Priority 3, the Control Room of the Future and the shift to AI enabled decision support are the highest value enablers, because manual tools and legacy conventions will not scale to the emerging system.
3. Do you agree with how the five priorities have been defined? Are any missing, and are there overlaps, tensions, or trade-offs to address?	The definitions are reasonable. The most important trade off, which the paper acknowledges but should address more directly, is between running the system harder to enable electrification and managing security conservatively. The default should favour enabling the transition. A second tension is between the SO's information and coordination role and the accountability that some stakeholders would place on it for security of supply. The Strategy should communicate clearly the responsibility allocation set out in the paper's own diagram. The clearest omission is an explicit treatment of cost. Given the Strategy underpins a funding request, a commitment to cost benefit analysis, prioritisation, and published cost estimates should accompany the five priorities.
4. For each priority, do you agree with the proposed outcomes? Are they sufficiently clear and measurable?	The outcomes are largely qualitative. To be measurable, there should be metrics, for example connection and commissioning turnaround times (Priorities 2 and 3), the proportion of operational limits reviewed and updated against dynamic, evidence based ratings (Priority 1), and restoration and situational awareness response times (Priority 5). We support the outcome under Priority 2 that market evolution results in less need for SO dispatch intervention, and the outcome under Priority 1 that the SO safely operates closer to

	system security limits. These are the outcomes most directly linked to consumer cost and should be reported against publicly.
5. Are there additional or different actions needed to achieve the intended outcomes?	Yes. We recommend the Strategy add: • an explicit initiative, within the existing funding envelope, to review legacy operational conventions; • published, time bound targets for connection and commissioning process improvement, including adoption of AI accelerated system studies; • a commitment to publish indicative costs and cost benefit assessments for material initiatives; and • a clear statement that P2.4 implementation work is contingent on, and scoped only after, the MBIE winter energy reliability obligation is finalised.
6. Are there priorities or initiatives where the SO role needs to be expanded, reduced, or clarified?	The initiative language in several places drifts towards the SO owning problems that the paper's own responsibility diagram allocates elsewhere. We ask the SO to reaffirm, for each priority, the boundary between what it delivers directly and what it enables or informs.
7. What are the key barriers or enablers to delivering this strategy?	ERGANZ supports transparent collaboration with the industry and the Authority, and a demonstrated discipline to keeping costs down that maintains participant and consumer confidence.

Conclusion

ERGANZ thanks Transpower for considering our submission.

If there are any outstanding questions or a need for further follow-up, please let me know.

Yours sincerely,

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