



27 February 2026

Submissions
Transpower
22 Boulcott Street
Wellington 6011

Via email: system.operator@transpower.co.nz

Subject: System Operator Strategy Consultation

Thank you for the opportunity to comment on the draft SO Strategy. The sector is undergoing considerable change, and we strongly support the SO seeking industry feedback areas of focus and upcoming issues.

We agree in general with the direction of much of the strategy. Our substantive feedback is included in the body of this letter. We have structured our feedback to align with sections of the strategy document

Sections 4.3 / 6.5 (Energy prices and affordability issues)

Contact is very mindful of the cost of electricity, both to households and businesses. Our business is most successful when New Zealand's economy is flourishing, which requires affordable and abundant renewable electricity.

While we are very focused on electricity costs, and are actively contributing to solutions to reduce costs over the medium term, we think that any discussion of electricity cost in NZ should acknowledge the following:

- New Zealand has some of the lowest cost electricity in the OECD (as shown by IEA data)
- The existing and committed generation currently in construction will deliver New Zealand over 97% renewable in 2028.

We also strongly encourage any discussion about electricity pricing to focus on prices felt by the majority of consumers, rather than on wholesale prices. Long term electricity pricing (e.g. 10-year contract term) is in the range \$110 – 130/MWh (2026)¹. Wholesale prices are less important to most consumers: their primary use is in allowing the sector to efficiently allocate resources in the short-term (and to highlight the need for capacity investments for system security).

We agree with the SO Strategy that electrification (if done well) will result in lower costs for all consumers. These cost reductions result from:

- Greater utilisation of the grid (e.g. more summer weighted load, so that the fixed costs of the grid are spread over a greater volume of electricity)

¹ These prices are from the Gentailers' recent market results announcements and other disclosures.

- Modest transmission expansion enabling material cost savings via lower cost generation that adds material diversity to the power system;
- Reduced intra-day demand swing, and flexible resources (e.g. grid scale batteries) displacing thermal generation.

Section 4.4 (Investment in firm flexible supply)

Contact agrees that investment in firm flexible supply options is needed. Contact has made a number of investments in this space, including:

- Demand side response contracts with industrial parties (e.g. New Zealand Steel, NZAS)
- Demand side initiatives with retail customers (ICP-level hot water load control and time of use tariffs that elicited material consumer response)
- Grid Scale Batteries (100 MW soon to be commissioned at Glenbrook, with another 200 MW to follow).

For Contact (and other participants) to continue to provide these sorts of flexibility products we need to see the right market signals and regulatory settings, including:

- Appropriate scarcity prices
- New reserve products that match changing market needs (as per section 5.2 of the original Strategy)
- Regulatory settings which recognise that these 'capacity' services have underlying costs that need to be covered, and that the services cannot simply be co-opted via 'free reserve' (free governor action) etc
- Appropriate transmission costs for connecting and providing essential grid services (e.g. from grid scale batteries).

Contact also agrees that there is an increased risk of spill of spring and summer energy. Worse, this spill may impose higher costs on NZ Inc. if the higher value plant is curtailed and lower value plant allowed to operate. Mechanisms to ensure efficient system dispatch and curtailment (considering reserves, energy, inertia, etc) need to be developed.

In parallel, Contact is working hard to find ways to use this over-supply of spring electricity that are beneficial to all electricity customers. An example of this is Fonterra's electrification of its Whareroa plant. We are proud to partner with Fonterra to help them reduce emissions. Fonterra's electrification also shares the fixed costs of the grid (e.g. transmission core grid costs) more widely and is therefore beneficial to all electricity system users. The more often we take this approach, the lower the delivered costs of electricity will be for all.

Section 5.2 (Generation becoming more weather dependant)

Contact strongly agrees with the sentiment of this section. This is the corollary of Section 4.4 above noting the need for more firm flexible capacity.

We think it is worth defining this problem with greater specificity. We see the key issues as:

- We are seeing significant uptake of 'lower value' must run generation, such as solar and wind that is highly correlated (e.g. an overabundance of investment in LNI wind). This highly correlated generation exacerbates the actual generation swings that result from weather².
- Highly correlated generation such as LNI wind also increases the extrema of generation forecast errors because a forecast error is multiplied across a large volume of generation, rather than being diluted through spatial diversity.
- Diversity of renewable resources is important in both the short and long term. In the short term, we will likely need new reserves products to allow for generation variability. In the long term, enabling generation diversity will help reduce the need for seasonal and dry period firming (thus reducing electricity costs).

An underlying cause of wind generation concentration in the LNI is the lack of transmission capacity (historical under-investment). As noted in the footnote, any grid expansion should recognise the generation it enables, and the secondary costs it avoids or imposes (e.g. exacerbating generation variability).

Section 7.2 (Decentralisation and DER)

We support decentralisation and DER where it improves the efficiency of the market. We see some great opportunities for this to happen (e.g. electric vehicle uptake and optimised off-peak charging). However, we believe that it must compete on its own merits, rather than being a subsidy, as some parties advocate (e.g. to improve uptake of rooftop solar). Such interventions are potentially problematic³ and costly.

We support assessment of how we can deliver least-cost electricity in New Zealand, including potential DSO models. This should acknowledge any long-term economic costs to New Zealand, and of the risk of wealth transfers between consumer groups.

As an independent party, the SO would be well placed to consider the issues ahead, and to commission the necessary work to find the best way forward for New Zealand.

Yours sincerely

David Rohan
Snr Commercial Development Manager
Renewable Growth

² It is for this reason that we consider Transpower to be looking in the wrong region for its 'anticipatory investment'. The Tararua region it is focusing on will only encourage highly correlated generation, when the system would benefit from generation which has a similar cost but much greater diversity (ie wind in other regions. Enabling wind in Northland or Southland would have a significant diversity benefit). We encourage the SO to talk to Transpower about this aspect of their anticipatory investment proposal.

³ Rooftop solar is generally uneconomic (for NZ Inc) but appears viable for some consumers because of wealth transfers enabled by avoiding network charges (i.e. inefficient pricing).