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Electricity Authority
Wellington

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By email: appropriations@ea.govt.nz

26/27 Electricity Authority Levy Funded Appropriations

Transpower welcomes the opportunity to submit on the Electricity Authority's (the Authority's) consultation on its levy-funded appropriations for the financial year 2026/27. This submission is from Transpower in our roles as grid owner and System Operator.

The energy sector is changing rapidly, and the Authority plays a crucial role in ensuring that Aotearoa's electricity market drives positive outcomes for consumers. It is critically important that the Authority has the right capability and sufficient capacity to meet that challenge. We acknowledge the Authority's commitment to continuous improvements and operational efficiency. However, we consider that the Authority's and its service providers' workloads are increasing more rapidly than the Authority can absorb through its internal efficiencies. We encourage the Authority to reconsider its appropriation to ensure it does not need to deprioritise or defer critical work that will benefit consumers in the long-term.

Our responses to the Authority's questions follow in the Appendix.

Yours sincerely

Joel Cook

Head of Strategy and Regulation

Appendix A: Transpower response to consultation questions

Submitter	Transpower
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Question	Transpower response
Q1. Do you agree with the proposed approach to the Authority's Electricity Industry Governance and Market Operations appropriation?	<p>No.</p> <p>We agree with the Authority that New Zealand's electricity sector is undergoing a major transition, with demand projected to increase materially through to 2050 and the generation mix shifting toward intermittent renewables and flexible resources. The Authority and industry participants, including Transpower, are working hard to manage the challenges and opportunities this presents. Recent international events, for example in Chile and Spain, have shown that inadequate preparation for rapid system change can create significant risks. New Zealand is better positioned in some areas, but there are also lessons that we need to apply now.</p> <p>We acknowledge the Authority's regulatory reforms, including its common quality work under Part 8. However, several important programmes have taken longer than expected, and some activities now need acceleration and tighter coordination. Market design changes <u>must</u> progress in lockstep with power quality work, and Electricity Industry Participation Code (Code) changes to better enable battery energy storage systems (BESS) and extensive DER to operate efficiently.</p> <p>The Authority's 2026/27 "plan on a page" rightly highlights future security and resilience via Part 8. However, market design work should be explicitly included and closely coordinated with Part 8 to avoid fragmentation and workaround solutions that increase complexity and risk. Progressing the market design work at a pace that enables the best outcomes for consumers requires both urgency and pragmatism. There will be a need to identify and implement 'good enough for now' solutions (such as rules and standards). Doing so can help to create the time and capacity needed to also develop other more enduring longer-term solutions such as market-based solutions. Time is critical, and several challenges must be tackled simultaneously, including frequency, inertia, system strength, and stability.</p>

	<p>We appreciate that funding settings can reflect timing adjustments between years, and we will continue to work constructively with the Authority to ensure any phasing assumptions remain aligned with actual delivery requirements. At the same time, early indications from our planning work suggest we have in recent years seen significant upward pressure on System Operator resources as the power system becomes more dynamic, generation and transmission build accelerates, the mix of resources on the system shifts, and new technologies and business models challenge our tools and processes. All signs are that this trend will continue to accelerate in the coming years.</p> <p>Full funding of the Authority's functions and those of organisations reliant on the Authority's appropriation, is essential to maintain progress and expertise for existing and upcoming challenges from greater electrification and renewable energies.</p> <p>The consultation proposes absorbing up to \$3.2 million of expected Authority operating cost increases (enforcement capacity and inflation) via operational efficiencies, including AI- and digital-driven efficiencies, while only modestly increasing levy funding by \$0.3 million to meet contractual inflation adjustments for service providers. While we acknowledge the emphasis on seeking operational efficiencies those benefits will take time to generate, potentially impacting priority work including that of service providers.</p>
Q2. Do you have any feedback on the Authority's work programme for 2026/27?	<p>We are concerned with the Authority's proposed cost absorption and trade-offs</p> <p>While we support continuous improvement, under-resourcing statutory functions risks slowing or deferring work that is critical to an orderly transition. In our experience, trade-offs that defer essential market/Code work or reduce visibility/controllability of distributed resources will ultimately raise whole-of-system costs and risk, including for consumers. We therefore recommend fully funding the Authority's priority functions and those organisations that support delivery of the mandate, rather than relying on internal absorption that could compromise delivery.</p> <p>Specific concerns include:</p> <ul style="list-style-type: none"> • Slowing the future security and resilience (FSR) programme and related standards reviews. • Delayed market design and Code changes needed to accommodate new technologies.

- Limited prioritisation when indicators show the need to adapt, e.g., increased within-trading period variability and need to apply real-time discretion in our System Operator control rooms.

The Authority's proposed plan to absorb the costs associated with the Government's announcements following the Frontier review through reprioritisation means other critical work risks being delayed. Further, the Government's announcements also include additional responsibilities for the System Operator that will need to be funded. A cost estimate for this work, for both the Authority and the System Operator, is not currently available, but we consider the Authority should make some provision for it.

We also note that the Grid Reliability Standards (GRS) that inform the case for grid investments are now approaching an urgent need for review. The current GRS framework is almost 20 years old, and the core grid list is out of date. A comprehensive review is increasingly urgent to ensure reliability and resilience standards reflect today's risks, widespread DER, inverter-based resources, and evolving consumer expectations. Embedding the start of a GRS review within the 2026/27 programme would help define clear reliability and resilience service levels for both the Core grid (deterministic N-1) and connection assets (economic reliability investments), modernise the Core grid list, and clarify how Schedule 12.2 of the Code interfaces with resilience investments (including whether a value of network resilience is required).

Longer-term multi-year focus required

Transpower has recently published an initial engagement document on the [System Operator Strategy](#) and is seeking feedback from stakeholders. This consultation sets out emerging themes and areas where the System Operator anticipates doing more—such as monitoring and forecasting for variable resources, interoperability of data, operationalising new security products, and commissioning new connections at pace. While that engagement is at an early stage, it is already identifying significant factors that are increasing the volume and complexity of the workload on both the System Operator and the Authority and will inform our 10-year strategic approach. We expect to share insights with the Authority as this work progresses so that multi-year appropriations and work programmes can be coordinated.

We also acknowledge the Authority's proposal to absorb part of its own operating cost increases to deliver value for levy payers. In our view, ongoing transparency on workload drivers (including any changes arising from the System Operator Strategy engagement and the Authority's enhanced monitoring and enforcement

	<p>powers) will help ensure funding settings keep pace with prudent, efficient delivery across both organisations.</p> <p>Further work could improve the Code change process efficiency and source transparency</p> <p>We support the stated aim of “More efficient and effective Code-making powers.” We recommend extending this to the Code-making process itself by clearly attributing the source of proposals (EA-initiated through policy or compliance findings vs participant-initiated). Participants implement the Code and have insights on where it is no longer fit-for-purpose; transparent source attribution and bundling discipline (for omnibus packages) will improve process efficiency and responsiveness. Knowing that a participant has proposed and amendment, including who that participant is, provides a useful indication of the perspective, level of expertise and incentives of the proposer.</p> <p>We encourage the Authority to explore new ways of efficiently processing Code changes, including leveraging industry expertise as it has in the form of technical working groups for standardised products.</p>
Q3. Do you agree with the proposed approach to the Authority’s Managing the Security of New Zealand’s Electricity Supply appropriation?	<p>Yes.</p> <p>The Authority describes its role in this appropriation being “<i>limited to addressing requests from the System Operator to use funds. Approval of any request is subject to an agreed process and criteria. This process requires the System Operator to provide evidence of an actual or emerging security event, and to describe the actions it intends to take using the funds and how it will monitor their use. Agreeing this in advance helps the Authority to assess the effectiveness of the actions and funding during and after the event.</i>”</p> <p>The System Operator supports the ability for it to incur up to \$300,000 of costs in this area without prior approval from the Authority if the actual or emerging security event means it is not reasonably practicable to seek that approval.</p>
Q4. Do you agree with the proposed approach to the Authority’s Electricity Litigation Fund appropriation?	<p>Yes.</p>