TRANSPOWER

Meeting Minutes

Meeting name:	**ERS Workshop 1**
Date, time & location:	26 May 2026, 9am-1pm, Transpower offices and Microsoft Teams

Attending

Name	Role
Peter Algie	Group member, Ritchies Transport
Alan Eyes	Group member, NZ Steel
Michael Jefferson	Group member, EnelX
Craig Parker	Group member, Mercury Energy
Darren Gilchrist	Group member, Oji Fibre Solutions (9am-11am, 12pm-1pm)
Marcus Sin	Group member, Counties Energy
Vincent Smart	Group member, EECA (9am-12pm)
John Hancock	Independent Chair
Rebecca Osborne	Transpower, Head of Market Services, (9am – 9:30am)
Murray Henderson	Transpower, Principal Market Advisor
Bridget Legg	Transpower, Contracts & Reporting Specialist
Michael Richardson	Transpower, Flexibility Services Manager
Brenden Kristensen	Transpower, IST Project Manager
Andrew Marriott	Electricity Authority (observer)
Bridget Moon	Secretariat (independent)

Apologies

Name	Role
James Carberry	Group member, Simply Energy

Introduction and context

Rebecca Osborne welcomed everyone to the first workshop of the Emergency Reserve Scheme (ERS) Co-design Group, and discussed the System Operator's tight timeframe to implement the scheme, targeting operational readiness by May 2027.

The Chair facilitated introductions and explained the group's intended programme of four workshops, respectively focussed on context, key design aspects, consideration of a strawman design, and final feedback. The Chair explained that the group has an advisory role, that the SO is not beholden to its advice, and there would be a further opportunity for input via consultation on the Procurement Plan and Policy Statement later in 2026.

Andrew Marriott presented background to the ERS and outlined the Electricity Authority's (EA) policy decisions regarding eligibility, procurement, activation, pricing and settlement, performance management, and information and publication. Murray Henderson followed with an overview of Transpower's intended implementation approach. Michael Richardson outlined how the System Operator (SO) would use Transpower's FlexPoint tool to operationalise the scheme.

The group engaged in substantive discussion throughout the presentations, clarifying their understanding of the scheme, considering key design aspects, and identifying issues to resolve.

Key considerations outlined for the ERS design

Key points that were clarified or emphasised by the Chair, System Operator and Electricity Authority throughout the presentations included that:

- There are two objectives for the scheme: promoting system security and reliability and minimising the likelihood of uneconomic load shedding; and building capability to provide demand flexibility more broadly.
- The scheme is an insurance product expected to be used rarely — the "penultimate" resort ahead of involuntary load shedding, after all other SO tools have been exhausted.
- The Code is deliberately high-level, with detailed design decisions to be reflected in the Procurement Plan and Policy Statement (which have the same legal standing as the Code) and any contracts awarded.
- The timeframe is tight: a proposed design is required by end of July, consultation on the Procurement Plan and Policy Statement is targeted to start in August/September, development needs to be complete by year-end, and procurement undertaken in early 2027 ready for operation by May 2027.
- The scheme may evolve over time, with simple arrangements in year 1 that are built on as understanding develops. Both the EA and SO are committed to learning and improving the scheme over time.
- The group's aim should be to contribute to a design that prospective providers can comply with, that will attract participation, and is conducive to the implementation timeframe.

Key issues discussed

The group discussed who the intended participants are and what would make participation viable. Specifically:

- The "additionality" requirement — whether resources that are, or should reasonably be, providing other wholesale market services could participate. The group discussed the EA's intention of a one-way transition into the ERS from other markets. It questioned whether the 12-month stand-down period was appropriate and if locking load into a single product was efficient. It was noted that load will gravitate toward the highest-value product, and that ERS participants may want to return to the IR market outside of winter.
- Whether ripple control could participate. The EA indicated it expected these resources would be excluded, as they are low cost and already part of the SO's existing emergency management processes. The group suggested ownership and use of hot water load and ripple control is complex, and noted that participation by some components and by non-hot-water ripple loads may be appropriate. The question of whether ripple control should be in or out of scope for the scheme was not resolved.
- Whether a short contracting horizon provides sufficient certainty for providers to invest in responsive capability, noting that availability payments help but a short term introduces commercial risk. It has previously been suggested that providers would require a three-year contract to ensure cost recovery, and this tension was not fully resolved.
- Whether sophisticated, spot-exposed load is the right target audience, given existing price incentives and other commitments. It was suggested the scheme may be better focused on latent or new DR, though the ERS may also suit load that cannot respond quickly enough to real-time price signals.

The group discussed tensions in the ERS concept. Specifically, the group discussed:

- The tension between load paid under the ERS for reducing consumption, and equivalent load that reduces consumption of its own accord but receives no payment despite being similarly valuable for system security. This tension was not resolved.
- The conceptualisation of the ERS as a tightly ring-fenced capacity payment, which was acknowledged as sitting uncomfortably with New Zealand's energy-only market design, but which is deliberately narrow and intended to address practical barriers to demand response such as set-up costs.

The group discussed incentives that participants would have and the potential for inefficient behaviour or outcomes. Specifically:

- That the ERS may create an incentive for resources to migrate away from other markets, with potential flow-on effects including:
    - flexible load holding out from market-based responses in favour of ERS payments, leading to a less flexible system overall
    - cannibalisation of the IR market — since the ERS is not co-optimised with other market services, this could perversely increase the likelihood of AUFLS being triggered following a contingent event, and constrain HVDC flows.

  The additionality principle is intended to prevent cannibalisation by ensuring ERS providers represent new flexible capacity, but was acknowledged as an imperfect safeguard.
- The inconsistency between the VoLL of ~$35,000/MWh (which participants would be incentivised to price toward) and the scarcity price of $21,000/MWh.
- The potential for gaming around baseline load, including providers who are off for legitimate reasons ahead of a contracted period, or who build load to attract ERS payments.
- Whether the SO faces a natural incentive to over-procure. Reporting obligations, EA oversight, and social licence were noted as disciplines, though the cost-below-VoLL expectation is not a strict Code requirement.

The group discussed Transpower's intended implementation approach. Specifically:

- The EA stated it does not expect the scheme to include significant volumes given the low frequency of historic load shedding. The SO noted it is not obliged to procure at all, and acknowledged that determining how much to procure would not be straightforward. It indicated it may procure some capacity in 2027 in the interests of learning and market development regardless.
- The SO suggested it intends to procure resources ahead of May 2027 and hold them over the winter period, rather than operating on a short rolling window — which should be considered an ideal future state. A panel arrangement was similarly noted as a future option, not a year 1 aim.
- The group questioned how the SO would compare providers and ensure costs remain below VoLL, given the two-part payment structure and uncertainty around activation frequency. The EA noted the SO would not be strictly held to the VoLL ceiling given this uncertainty.
- The SO discussed its intention to add activated load back into the dispatch schedule so that RTPs continue to reflect scarcity. However, ramp rate effects would not be captured, and real-time prices may diverge from scarcity if conditions improve — a dynamic that exists today but is not well understood.
- The group questioned whether providers could be triggered at any time and for any duration, and what this means for different participant types.

In addition to further consideration of the various matters discussed, the SO noted key topics for the second workshop would include:

- Forecasting the need for ERS
- Provider technical requirements
- Commercial arrangements
- Pre-activation and activation triggers and timelines
- Verification and performance assessment including load baselining and approach

The SO would bring hypothesis for each topic for discussion with the group.

Actions

ID	Description	Owner	Due by
1	SO team to prepare hypotheses and proposed numbers for Workshop 2	SO team	29 May
2	Share the slide pack with participants	SO team	28 May
3	Participants to email any additional topics ahead of Workshop 2	Group members	28 May

Parking Lot/Issues for later resolution

ID	Description
1	**Ripple control and the contestability of controllable load.** The multiple and evolving ownership arrangements around ripple-controlled load, and whether the priority given to

	different uses is appropriate, may extend beyond the ERS design, though the group may wish to consider whether ripple control should be definitively in or out of explicitly excluded from the scheme.
2	**Contract length and investment certainty.** The tension between a short contracting horizon to manage costs on behalf of purchasers and the multi-year certainty that prospective providers may want to justify investment in demand response capability was not resolved.
3	**The ERS as a capacity payment.** The concept of the ERS representing a first step toward broader capacity payments, and the implications of that for flexibility resources outside the ERS, may be beyond the scope of the group.
4	**Co-optimisation of ERS with energy and reserve markets.** The ERS is not co-optimised with other market services, meaning there is potential for flow-on impacts if ERS participation cannibalises other markets. The additionality principle is an imperfect solution to this problem, and may become less effective as the ERS matures and demand response resource grows.