

Proposed levy-funded appropriations 2025/26 Consultation paper

15 November 2024

The Electricity Authority invites your feedback on our funding for 2025/26

We're funded by the Government through a levy appropriation on industry participants. It's on-charged through your electricity bill – [about 0.4% of a typical household bill](#).

Each year we invite feedback on our funding and it is used to inform our request to the Government.



82%

increase in electricity demand by 2050

(Baseline 2023_MBE)



~70%

of the Authority's operating funding pays for market operation service providers

Funding options

We want your feedback on three options for our operating funding.

Option 1 No change	Option 2 System operator uplift +\$5.7m	Option 3 System operator and inflation uplift +\$7.8m <div style="text-align: right; border: 1px solid black; border-radius: 50%; padding: 5px; width: fit-content; margin: 0 auto;"> OUR PREFERRED OPTION </div>
<p>COST TO YOU</p> <p>\$1.92 ↓ per average household per month (down \$0.02 from 2024/25)</p> <p>\$11.42 ↑ per average commercial entity per month (up \$0.05 from 2024/25)</p> <p>IMPACT ON AUTHORITY</p> <p>We absorb the increased costs of contracted service providers that operate the electricity markets (\$5.7m for the system operator and \$0.8m for other service providers).</p> <p>We have to reduce our work programme and the service levels provided by the system operator, inhibiting Government priorities.</p> <p>IMPACT ON YOU</p> <p>We deliver regulatory work slower – inhibiting benefits for you.</p>	<p>COST TO YOU</p> <p>\$2.02 ↑ per average household per month (up \$0.09 from 2024/25)</p> <p>\$11.95 ↑ per average commercial entity per month (up \$0.57 from 2024/25)</p> <p>IMPACT ON AUTHORITY</p> <p>This pays for the increased cost of the contracted system operator (\$5.7m) and we absorb the inflationary increases for other service providers (\$0.8m).</p> <p>System operator service levels and obligations are maintained. We focus core work across our functions – this boosts choice and competition and aligns with Government priorities.</p> <p>IMPACT ON YOU</p> <p>We prioritise work – enabling new products and services and better outcomes for you.</p>	<p>COST TO YOU</p> <p>\$2.06 ↑ per average household per month (up \$0.12 from 2024/25)</p> <p>\$12.14 ↑ per average commercial entity per month (up \$0.77 from 2024/25)</p> <p>IMPACT ON AUTHORITY</p> <p>This pays for the increased costs of contracted service providers (\$5.7m for the system operator and \$0.8m for other service providers) and for the inflation increase to our operating funding (\$1.3m).</p> <p>System operator service levels and obligations are maintained. We expand our work across all our functions and this aligns with Government priorities.</p> <p>IMPACT ON YOU</p> <p>We deliver more work faster – leading to better products and services for you.</p>

Have your say by 13 December 2024

- Do you support option 1, 2 or 3?
- Which of the Authority's activities are top priority for you?

www.ea.govt.nz/funding2025



Contents

Consultation summary	2
1. Have your say	4
2. Introduction	6
3. Appropriation 1: Electricity Industry Governance and Market Operations	13
4. Appropriation 2: Managing the Security of New Zealand's Electricity Supply	20
5. Appropriation 3: Electricity Litigation Fund	22
6. Consultation questions	23
Appendix A Our draft regulatory strategy and 2025/26 indicative work programme	24
Appendix B Funding options	31
Appendix C Summary of appropriations	32
Appendix D Summary of system operator proposal	33

1. Have your say

Purpose and timing of this consultation

- 1.1. The purpose of this consultation paper is to provide information for interested parties to provide feedback on the Electricity Authority's proposed levy-funded appropriations for the 2025/26 financial year (1 July 2025 - 30 June 2026).
- 1.2. It is a requirement of section 129 of the Electricity Industry Act 2010 (Act) for the Authority to consult on our proposed appropriations each year before we submit our request for funding to the Minister for Energy.
- 1.3. We're seeking feedback on this consultation paper from 15 November 2024 to 13 December 2024 to inform our advice to the Minister for Energy.

How to make a submission

- 1.4. We are inviting feedback on seven consultation questions via our secure [information provision portal](#) by 5pm, 13 December 2024.
- 1.5. If you cannot send your submission electronically, please contact appropriations@ea.govt.nz to discuss alternative arrangements.
- 1.6. We will acknowledge receipt of all submissions. Please contact us if you do not receive electronic acknowledgement of your submission within two business days.

Submissions will be published

- 1.7. We intend to publish all submissions on our website. If you think we should not publish any part of your submission, please:
 - (a) indicate which part should not be published
 - (b) explain why you consider we should not publish that part
 - (c) provide a version of your submission the Authority can publish (if we agree not to publish your full submission).
- 1.8. If you indicate part of your submission should not be published, the Authority will discuss this with you before deciding whether to publish that part or not.
- 1.9. Please note all submissions received by the Authority, including any parts the Authority does not publish, can be requested under the Official Information Act 1982. This means we would be required to release material not published unless good reason existed under the Official Information Act 1982 to withhold it. The Authority would normally consult with you before releasing any material that you said should not be published.

What will happen next

- 1.10. We will publish submissions on our website once the consultation has closed.
- 1.11. We will carefully consider all submissions as we put together our funding request for the Minister for Energy. Submissions will also inform our 2025/26 work programme.
- 1.12. We will publish our funding request to the Minister for Energy after our appropriations are approved in Budget 2025.

- 1.13. Our appropriations and work programme for 2025/26 will be published in our *Statement of performance expectations 2025/26* by August 2025.

Where to find supporting information

- 1.14. Our [Statement of intent 2024-2028](#) sets out our strategic objectives and medium-term actions to deliver our vision and desired outcomes.
- 1.15. Our [Statement of performance expectations 2024/25](#) focuses on what we intend to deliver in the 2024/25 financial year, including our forecast financial statements, performance targets and how performance will be assessed against our strategic objectives.
- 1.16. Our [2024/25 levy consultation](#) and the feedback we received helps to describe the operating context behind our funding request for the previous financial year.

2. Introduction

- 2.1. This consultation paper sets out and seeks feedback on the Electricity Authority's three appropriations for 2025/26:
 - (a) *Electricity Industry Governance and Market Operations* appropriation
 - (b) *Managing the Security of New Zealand's Electricity Supply* appropriation
 - (c) *Electricity Litigation Fund* appropriation.
- 2.2. This paper includes our draft regulatory strategy and indicative work programme for 2025/26.
- 2.3. Your feedback will inform the Authority's advice to the Minister for Energy on the appropriate level of funding and levies for our work for 2025/26.

The Authority regulates the electricity system and markets

- 2.4. The Electricity Authority is a kaitiaki of electricity. We are responsible for the governance and regulation of New Zealand's electricity industry.
- 2.5. Our vision is for consumers to have choices in accessing the energy they need, now and in the future, to ensure they and New Zealand prosper.
- 2.6. We regulate the electricity industry, set the market rules, and conduct operational activities to ensure the electricity system and markets run effectively.
- 2.7. Our statutory objectives are to:
 - (a) promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers
 - (b) protect the interests of domestic consumers and small business consumers in relation to the supply of electricity to those consumers.
- 2.8. We are responsible for maintaining a responsive and robust regulatory environment that keeps up with innovation and new technologies. Our work is focused on making sure the electricity system is as efficient as possible, while maintaining energy security, system adaptability and affordability for consumers.




OUR STRATEGIC FRAMEWORK

Our vision

Consumers have choices in accessing the energy they need now, and in the future, to ensure they and New Zealand prosper.






Outcomes

A secure and resilient, accessible and efficient electricity system that improves long-term outcomes for consumers and protects the interests of small consumers.

-  Secure and resilient
-  Accessible
-  Efficient





Regulatory functions

As New Zealand's electricity regulator, under the Electricity Industry Act 2010, our functions are to:

-  Promote market development
-  Monitor, inform and educate
-  Operate the electricity system and markets
-  Enforce compliance
-  Protect consumers

Statutory objectives

Our work delivers value to consumers through:

-  Competition
-  Reliability
-  Efficiency
-  Protection of small consumers

Our regulatory principles guide our decision making

- 2.9. We have six regulatory principles that guide our decision making:
- We deliver better outcomes through clear and proportionate actions
 - We are delivering benefits to consumers in the short and long term
 - Our decision making is transparent, evidence-based and understood
 - We continuously improve our performance and impact
 - Our actions proactively enable change
 - Our actions are informed by market signals, risks and opportunities.
- 2.10. These regulatory principles help us to navigate our complex regulatory environment and promote decision making that improves long-term outcomes for consumers.
- 2.11. You can find a detailed version of our draft regulatory strategy in Appendix A.

New Zealand's electricity system is rapidly transforming

- 2.12. New Zealand's electricity sector is undergoing substantial change at an increasing pace and scale. The electricity market is shifting to more renewable intermittent generation (eg, wind and solar), with technological advancements, distributed energy resources (eg, rooftop solar panels and battery storage), mass participation, and two-way power flows (in a system designed for one-way power flows).
- 2.13. Demand for electricity in New Zealand is projected to increase by up to 82 percent by 2050 (2023 base year).³ Meeting this demand will be a challenge for the sector as demand has been relatively flat over the last 15 years.⁴
- 2.14. New Zealand needs significant new investment to secure existing demand and demand in the future. While that is the role of industry, the Authority plays a crucial role in ensuring regulatory settings are responsive and robust, and foster investment, innovation and competition.
- 2.15. We have a significant programme of work underway to support industry, to unlock the potential of innovation and new technologies, so consumers can reap the benefits at the least cost, while receiving a reliable electricity supply.

Significant investment needed to meet growing demand

- 2.16. We share the Government's desire, as outlined in the Government Policy Statement⁵, for consumers to have access to an electricity system that is efficient and competitive. We want an energy system that fosters economic growth, attracts investment to meet increased demand and serves the interests of all electricity consumers.

³ <https://www.mbie.govt.nz/assets/electricity-demand-and-generation-scenarios-report-2024.pdf#page=3>

⁴ <https://www.mbie.govt.nz/assets/electricity-demand-and-generation-scenarios-report-2024.pdf#page=32>

⁵ [Government Policy Statement on Electricity - October 2024.pdf](#)

- 2.17. The Market Development Advisory Group⁶ estimates that \$27-\$37 billion of new investment will be needed by 2050 in new generation, demand-side flexibility and batteries to meet increased demand.⁷
- 2.18. The group estimates that the rate of renewable generation development, like wind and solar, needs to be almost 2.5 times the average rate achieved in the 30 years to 2020.⁸
- 2.19. A pipeline of generation investment projects is being actively pursued to meet future demand. Our Generation Investment Surveys show an uplift of 5.5TWh in new electricity generation projects between 2022 and 2023.⁹ The priority is that this investment comes to market as quickly as practicable.
- 2.20. We are improving the visibility of generation investment, as well as connections of large-scale load, battery energy storage systems and distribution network projects, to help understand investment confidence, constraints to investment and monitor competitive outcomes and long-term security of supply.
- 2.21. We have created a Generation Investment Dashboard¹⁰ to measure key investment data and produced a list of 145 investment projects¹¹ which have been publicly announced, with information on each project's status.
- 2.22. The electricity system must become highly adaptive to accommodate intermittent renewable generation, as their outputs naturally fluctuate. Increased coordination and information sharing will allow industry participants to better react to supply variations. It is estimated that the share of supply from intermittent generation will increase from around 6% of total generation today to 47% by 2050.¹²
- 2.23. Electricity networks are built for peak demand – which is projected to increase by 37% by 2050. For networks to meet this demand, it is estimated that an investment of \$47 billion in distribution and \$18 billion in strengthening transmission is needed by 2040.¹³
- 2.24. As the regulator, we need to ensure the Electricity Industry Participation Code 2010 (Code) is responsive and provide regulatory certainty to attract and support the increased level of investment that will be needed – in generation, transmission and distribution.
- 2.25. Our market operation service providers will see a significant increase in the volume and complexity of their activities as new generation and network investment connects to the system and new participants enter the market.

⁶ An independent advisory group to the Electricity Authority from 2017-24 on the development of the Electricity Industry Participation Code 2010 and market facilitation measures.

⁷ https://www.ea.govt.nz/documents/4335/Appendix_A2_-_Final_recommendations_report.pdf#page=12

⁸ [Price discovery in a renewables-based electricity system: Final Recommendations PAPER 2023 \(ea.govt.nz\)](#)

⁹ <https://www.ea.govt.nz/news/eye-on-electricity/new-zealand-progressing-at-pace-towards-a-highly-renewable-electric-future/>

¹⁰ [Generation Investment Dashboard](#)

¹¹ <https://www.emi.ea.govt.nz/Wholesale/Datasets/Generation/GenerationFleet/Proposed>

¹² <https://www.ea.govt.nz/documents/1005/01-100-Renewable-Electricity-Supply-MDAG-Issues-Discussion-Paper-1341719-v2.4.pdf>

¹³ <https://web-assets.bcg.com/b3/79/19665b7f40c8ba52d5b372cf7e6c/the-future-is-electric-full-report-october-2022.pdf>

Unlocking the opportunities of innovation

- 2.26. We see benefits for consumers in a more decentralised or distributed electricity system, which can improve regional resilience and, through increased participation, contribute to affordability as well.
- 2.27. The adoption of more new technologies and distributed energy resources, like solar and batteries, will improve industry competition and efficiency and enable consumers to have more choice and control over their electricity.
- 2.28. These new technologies will help meet increasing demand, provide more flexibility in the system to manage intermittent generation, and enhance competition, which will put downward pressure on prices.
- 2.29. Consumers will ultimately be able to better manage their electricity use, making smart electricity use choices, which will help balance supply and demand and stabilise the electricity system.
- 2.30. If new demand can be better managed locally, then fewer network upgrades and less new generation may be needed to meet periods of peak electricity demand.
- 2.31. The Market Development Advisory Group estimates that consumers who are willing and able to flex their demand could save 30% of the average wholesale energy cost by 2035 and over 45% by 2050. For example, by smart charging electric vehicles during off-peak times and using rooftop solar and batteries to store excess energy to use during peak times.
- 2.32. Enabling the participation of distributed energy resources in the electricity market is a priority for the Authority. We are [reviewing Part 6 of the Code](#) on the 'Connection of distributed generation' to improve the application and connection process for solar. We want to make the connection process more efficient so that it is faster, easier, more equitable and consistent across all distributors. We are also [reviewing key technical issues in Part 8 of the Code](#) on 'Common quality' to enable the uptake of new and evolving technologies and to address the challenges these technologies create in the power system.
- 2.33. Our [distribution pricing reform work programme](#) focuses on enabling better use of the distribution network, rewarding consumers for using their own energy storage, and shifting electricity use from the network at peak times.
- 2.34. We enable industry trials to boost innovation in the sector, by granting temporary exemptions to the Code. For example, we approved two Code exemptions in July 2023 and one Code amendment in March 2024 to enable a significant [multiple trading trial](#) led by Kāinga Ora and Ara Ake for a community energy sharing project.
- 2.35. Our [Power Innovation Pathway](#) provides innovators with easy, efficient access to regulatory information and support to help bring new ideas to market faster that benefit consumers. The Pathway is focused on accelerating innovation to increase regional resilience, competition and opportunities for consumers to manage their own electricity use and costs.

Boosting competition to put downward pressure on prices

- 2.36. The Authority is committed to a competitive retail electricity market where all consumers have more choice and access to affordable electricity. We agree with

the Government Policy Statement that effective competition is essential for our electricity system to deliver reliable electricity at lowest possible cost to consumers.

- 2.37. We are looking deeply into the availability and pricing of risk management options for retailers, through our risk management review, to address any barriers to entry or expansion in the retail electricity market.
- 2.38. The Authority and Commerce Commission have jointly established the Energy Competition Task Force (Task Force) to investigate ways to improve the performance of the electricity market.
- 2.39. The Task Force was established in response to the fuel shortage and spike in wholesale prices in August 2024, in addition to the immediate steps we, and others, took to manage security of supply and bring prices down.
- 2.40. But, there is a lot more work we can do as a regulator to increase competition in the market.

Our funding in a tight fiscal environment

- 2.41. We signalled resource constraints through our 2024/25 funding request and in the 2022/23 baseline review commissioned by the Ministry of Business, Innovation and Employment (MBIE). We are actively prioritising key workstreams to ensure we deliver our work programme (including against Ministerial expectations) noting that trade-offs may have to be made.
- 2.42. Unforeseen events, such as the Northland transmission tower collapse and the setting up of the Energy Competition Task Force, are an additional pressure on the delivery of our work programme. The cost of standing up the Task Force and review into the Northland transmission tower were not built into the Authority's appropriation budget for the 2024/25 financial year and had to be absorbed.
- 2.43. Most of our levy appropriation is used to fund the third-party service providers who we contract to operate the electricity system and markets. Part 3 of the Code states that the Authority must use external providers for Market Operation Services¹⁴. These contracts have annual inflation-linked cost increases, which creates a downward pressure on our work programme related to our other regulatory functions.
- 2.44. Inflation isn't just affecting our operations. We are acutely aware of the struggles that New Zealanders are currently facing due to the economic environment. However, our work drives for better outcomes for consumers – to ensure the system is affordable, efficient and secure and resilient.

Keeping up with the industry transformation

- 2.45. At the Authority, we've made significant changes to how we work to keep up with the transformation underway across the electricity sector.

¹⁴ Registry manager, reconciliation manager, clearing manager, financial transmission rights manager, wholesale information system manager

- 2.46. This means making tough decisions, driving greater value from the funds we receive and being proactive about ensuring market rules enable, rather than hinder, better outcomes for consumers.
- 2.47. Our programme of work moves us beyond winter-to-winter management to a roadmap looking out years and decades. This is how we prepare for a future where more participants interact with the market, and security of supply is as much about demand response as it is about transmission towers and power lines.
- 2.48. The Authority is making increasingly difficult trade-offs about where to focus resource. Being proactive and ready for change is essential for regulating through uncertainty and change. As the regulator, we must have capacity to respond to immediate and pressing issues that impact consumers in the short term.
- 2.49. As the economy electrifies and electricity use increases, it is imperative that we keep pace with the speed of change to keep the lights on.

Proposed appropriations 2025/26

- 2.50. The Crown funds the Authority through appropriations of public money. The Crown recovers the cost of this funding, up to the level of actual expenditure incurred, through a levy on electricity industry participants.
- 2.51. Levies are charged to industry participants in accordance with the Electricity Industry (Levy of Industry Participants) Regulations 2010. These regulations are made on the recommendation of the Minister for Energy and are administered by MBIE.
- 2.52. Each year we prepare an appropriations request for the Minister for Energy, outlining the costs of performing our functions and exercising our powers under the Electricity Industry Act.
- 2.53. The appropriations request covers the three appropriations available to the Authority. The *Electricity Industry Governance and Market Operations* appropriation is our main operating appropriation. Most of this appropriation is used to fund third-party service providers who operate the electricity system and markets, with the remainder used to fund the Authority's operations. Our Market Operation Service Providers must be procured externally and are inflation adjusted, creating further pressure on our funding. We are seeking an increase to this appropriation.
- 2.54. We also have two appropriations that are contingent in nature:
 - (a) *Managing the Security of New Zealand's Electricity Supply* appropriation
 - (b) *The Electricity Litigation Fund* appropriation.

We do not incur expenditure against these appropriations as part of our normal operations, but they ensure we can respond quickly and effectively if specific events or situations arise. We propose to maintain these two appropriations at their current funding levels.

- 2.55. The proposed appropriations for 2025/26 are detailed in the following chapters. A financial summary is outlined in Appendix C.

3. Appropriation 1: Electricity Industry Governance and Market Operations

About this appropriation

- 3.1. The *Electricity Industry Governance and Market Operations* appropriation is our main operational appropriation.
- 3.2. This appropriation is intended to achieve the promotion of competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers; and to achieve protection of domestic and small business consumers' interests in relation to the supply of electricity to those consumers.
- 3.3. This appropriation is limited to formulating, monitoring and enforcing compliance with the regulations and Code governing the electricity industry and other outputs in accordance with the statutory functions under the Electricity Industry Act 2010; and delivery of core electricity system and market operation functions, carried out under service provider contracts.

Our functions under this appropriation

- 3.4. This appropriation funds our operations, and the operation of the electricity system and market, enabling us to exercise our five main operating functions under the Act:
 - (a) **Promote market development:** we are responsible for maintaining a responsive and robust regulatory environment that keeps up with innovation and new technologies to enable electrification and deliver better outcomes for consumers. Key tools include market facilitation measures and amendments to the Code.
 - (b) **Monitor, inform and educate:** we monitor market behaviour and make data, information and tools available to help improve participation and understanding of the electricity markets by consumers and industry participants.
 - (c) **Operate the electricity system and markets:** we are responsible for the day-to-day operation of the electricity system and markets through contracted service providers.
 - (d) **Enforce compliance:** we monitor, investigate and enforce compliance with the Act, its Regulations and the Code by industry participants to create a fair and competitive market. We have an industry training programme to educate participants, share lessons learnt and help identify and resolve any systematic issues.
 - (e) **Protect the interests of small consumers:** we are responsible for protecting the interests of domestic and small business consumers in relation to industry participants supplying their electricity. This includes monitoring how electricity retailers and other industry participants deal with small consumers, including medically dependent and vulnerable consumers.

Third-party service providers

- 3.5. The appropriation for the Authority covers two clearly defined areas – operations of the Authority and third-party contracts for a range of services that enable the functioning of the electricity system and markets.

- 3.6. Currently, the cost of third-party contracts amounts to about \$75 million and accounts for about 70% of the Authority's appropriation.¹⁵
- 3.7. The Authority has contracts with six third-party providers:
- (a) **The system operator** (a service performed by Transpower) coordinates electricity supply and demand in real time in a manner that avoids fluctuations in frequency and disruption of supply.
 - (b) **NZX** operates the wholesale information and trading system that supports the 24/7 buying and selling of spot market electricity. NZX also performs a reconciliation manager role for calculating and allocating unaccounted for electricity as well as a clearing manager role (settling monthly, all trades on the spot and financial transmission rights markets).
 - (c) **Jade** acts as registry manager overseeing the electricity registry, a national database of every point of connection on local and embedded networks where a consumer or embedded generator is connected.
 - (d) **Energy Market Services** provides services for Financial Transmission Rights.
 - (e) **Vivienne Court (Vivcourt) Trading** provides commercial market making services.
 - (f) **Consumer NZ** provides the Powerswitch service.¹⁶

Service provider contracts are inflation-adjusted

- 3.8. Between each funding year, without any other changes to our baseline funding, the proportion of funding available to Authority operations decreases due to increases in third-party service provider costs.
- 3.9. The increases are due to third-party contracts being inflation adjusted. Third parties are paid more as inflation increases, and this comes out of funding for the Authority's core operations if we do not receive ongoing funding increases to ease the impact of inflation. This has a significant impact given third-party costs make up approximately 70% of the overall appropriation. Other than for the system operator, service provider contracts are procured on a commercial basis from commercial entities and the inflation mechanism had historically been an expectation of those providers, thus built directly into existing contracts.
- 3.10. Based on current information¹⁷, we expect about \$0.8 million will be required in 2025/26 (compared to 2024/25) to fund inflation uplifts across our third-party service providers. This is based on the mechanisms in those underlying contracts and excludes the increased costs of the system operator and comparison and switching service currently being procured/renewed.

¹⁵ See our [Statement of performance expectations 2024/25](#)

¹⁶ The service for comparison and switching of electricity plans is currently being procured through a competitive tender process, and we will have a new contract in place by 1 July 2025.

¹⁷ StatsNZ CPI for all groups increased by 3.33% in the quarter to June 2024.

- 3.11. The additional costs included in this consultation include the inflation adjustment for third-party contracts for 2025/26 and known contractual increases based on ongoing discussions and procurement processes.
- 3.12. The electricity system is becoming more complex, which is also resulting in third parties needing to do more and requiring more funding to do so. For procurement of new contracts, we are focussed on employing competitive market processes to deliver value for money across the life of the contract, so inflation mechanisms may not necessarily be included.

The system operator service cost may increase significantly

- 3.13. By law, the system operator service must be performed by Transpower, meaning it cannot be competitively sourced (section 8 of the Act states the system operator is Transpower).
- 3.14. While we are required to contract with Transpower for the system operator service and cannot use competition to seek an efficient price, we have conducted extensive reviews of the Transpower proposal and negotiated over an extended period to achieve a cost-effective service on behalf of consumers.
- 3.15. This process included robust negotiations supported by independent reviews by industry experts in the areas of finance, market system assurance, ICT investment and business processes. These reviews have provided us with assurance of the value for money and service quality we can expect from the service in the upcoming contract period.
- 3.16. The Authority and Transpower have agreed an increase of \$5.8 million on the fixed fee component that Transpower receives for the system operator service, at a total of \$50.5 million. This includes a step change to operating expenditure, and a reduced risk margin relative to initial negotiations. We expect the total contract value (excluding technical advisory services) to be \$54.9 million, \$5.7 million higher than in 2024/25.
- 3.17. In the current system operator service provider agreement with Transpower, clause 9 states that reasonable endeavours should be used by the Authority to obtain sufficient appropriation to cover an increase.
- 3.18. Should the system operator funding uplift not be covered through an increase to the appropriation, the system operator service provider agreement requires the Authority and Transpower to negotiate a reduced level of system operator services or scope of investment that matches the approved funding.
- 3.19. It is unlikely that any such reductions would relate to activities likely to impact real time system operation in the near term. Such reductions would likely result in reduced system operator capacity and capability to support participant-led activities such as new connections, commissioning, higher numbers of network outages requested by the grid owner, integration of new technologies and higher participant numbers into markets for energy and ancillary services. Other activities likely to be affected include initiatives to improve transparency, industry engagement on strategic change, international travel and knowledge sharing with other jurisdictions. In addition, constraining the ICT service investment will impact on service levels associated with ICT tools and systems delivered from 2024 onwards including remediations to tools in response to evolving cyber security risks and ongoing

investment in best practice ICT tools. The Authority and Transpower have had initial discussions regarding the potential for alternative funding options such as a user-pays approach for some activities. However, it is likely the earliest any alternative funding mechanism could take effect is late in the funding period.

Proposed appropriation funding

- 3.20. The Authority is conscious of the current fiscal environment and the pressure on households and businesses. As such, we have carefully considered the impact of no increase in baseline funding to our work programme.
- 3.21. Over the past 12 months the Authority has refreshed its strategic direction and for 2024/25 received an uplift in baseline funding, which helped to relieve the pressures of service provider cost uplifts in that year.
- 3.22. The baseline funding increase also enabled an accelerated work programme which has responded to industry feedback. A number of the deliverables from this work will create an enduring uplift in the Authority's operating cost base:
- (a) Consumer Care Obligations (estimated at \$600-700k)
 - (b) Intermittent Generation Forecasting service (estimated at \$300k)
 - (c) Power Innovation Pathway (estimated at \$250-\$750k, volume dependent)
 - (d) Open Data / Retail Data (estimated at \$200-250k)
- 3.23. Two service provider contracts are being procured and negotiated, with new contract periods to commence from 1 July 2025:
- (a) **System operator** (expected to cost \$54.9m in 2025/26, an increase of \$5.7m on the previous year): the system operator service is facing significant increases in the volume and complexity of its activities. These are largely driven by new connections and market entrants, and the expected increase in outages required to support the investment programmes of electricity distribution businesses and the Transpower Grid Owner, following final revenue path decisions by the Commerce Commission in November 2024.
 - (b) **Comparison and switching service** (expected to cost approximately \$2 million per year, an increase of \$550k on the previous contract): we have consulted on this service's scope and the procurement process reflects industry feedback and the capability of potential service providers through the initial competitive ROI. Any uplift in cost will likely be driven by an enhanced service offering and the potential for the service to be 100%-funded by the Authority levy¹⁸.
- 3.24. Capital expenditure, other than that funded by the system operator, is funded out of our cash reserves and while service providers have indicated the need for significant increases in capital expenditure in 2025/26, the Authority expects to be

¹⁸ There was strong support for the Authority to fully fund a comparison and switching website, driven by the view that it promotes market competition and ensures a neutral, trustworthy source of information for consumers. Many submitters were sceptical of retailers' interests interfering if a more commercially focused approach was taken. More information can be found in our [decision paper](#), published in July 2024.

able to fund this work through current cash reserves. However, it is likely there will be service provider cost pressures in future years as assets are commissioned and appropriation funding is needed to fund their depreciation.

3.25. Under this appropriation and in order to absorb the increased costs outlined above, the Authority would need to:

- (a) Reduce resourcing and expenditure in the day-to-day activity of regulatory functions such as proactive monitoring and compliance, contract management and Code amendments
- (b) Significantly reduce the number and breadth of market development programmes which develop policy and update the Code
- (c) Drive efficiencies in its operations through enhanced project management, financial management, and contract management of service providers
- (d) Reduce the service levels of the system operator service for activities not directly related to real time management of the power system and near-term security of supply. This could compromise future security of supply delivery.

3.26. With no funding increase, the Authority will have limited ability to continue key work streams, including improving security of supply monitoring and reporting, work on data requirements for the consumer data right and other priorities to improve competition and flexibility. There would be a significantly reduced number and breadth of market development programmes which develop policy and update the Code. The Authority will also be limited in the amount of non-planned work that it can take on, such as the section 18 Northland review or ongoing Task Force related measures, without either additional funding or a further reduction in core operational activities.

3.27. We believe that this will put efforts to align with the Statement of Government Policy¹⁹ at risk and inhibit the work already underway, which will continue to impact on market responsiveness and reforms to manage new innovation and new technologies.

Our preferred option

3.28. While we will continue to prioritise and make trade-offs within our work programme, to ensure that we can continue to fund the activities which deliver significant value to consumers, we are proposing options for an increase in our operating appropriation:

- (a) One option is an increase limited to the value of the increase in the system operator contract of \$5.7 million. This will enable Transpower to maintain current obligations and deliver the system operator service on behalf of the Authority, through improvements to stakeholder interactions and information sharing, to ensure the market system and tools and processes keep pace with an evolving industry landscape and to better support a

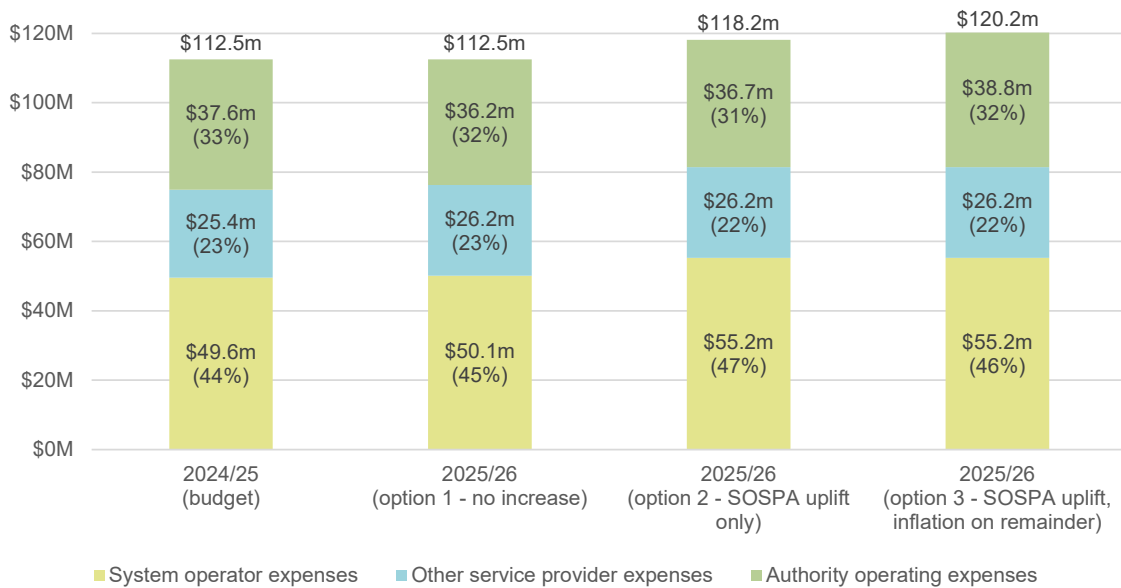
¹⁹ On 11 October 2024, the Minister for Energy issued a Statement of Government Policy to the to the Electricity Authority under section 17 of the Electricity Industry Act 2010.

growing number of participants, along with inflationary adjustments. The system operator’s proposal is described further in Appendix D.

- (b) Our preferred option is an increase of \$7.8 million that includes \$5.7 million for the increased cost of the system operator contract, and \$2.1 million for inflation increases. This \$2.1m includes \$0.8 million for the inflation increase of other service provider contracts and an inflation increase of \$1.3 million on our operating appropriation. This option allows the Authority to maintain our current service level whilst ensuring timely delivery on our work plan. The work plan has been developed using feedback from the industry and is closely aligned with Government policy expectations. A detailed view of the work plan is in Appendix A.

- 3.29. Note, a simple inflation uplift across the entire operating appropriation would not be sufficient for the Authority to maintain its current service level, as the increase in the cost of the system operator service significantly exceeds inflation.
- 3.30. These options are shown in Figure 1 below and described in further detail in Appendix B.
- 3.31. Inflation adjustment will also help smooth the need for larger, irregular increases to this appropriation in future. This would reduce the need for comparatively large ad hoc increases when cost pressures reach critical points, impacting our ability to deliver against our regulatory functions.

Figure 1: Breakdown of the *Electricity Industry Governance and Market Operations* appropriation for 2024/25 and proposed options for 2025/26



*graph figures rounded to one decimal place.

Q1. Do you support the Authority’s proposal for a permanent baseline increase to its *Electricity Industry Governance and Market Operations* appropriation of \$7.8 million for 2025/26, bringing the total appropriation to \$120.2 million?

What the proposed funding is expected to deliver

- 3.32. Funding to cover the system operator service provider agreement increase, and inflationary pressures will mean we can ramp up market development work in the long-term interests of consumers. The proposed funding will allow us to continue delivery on:
- (a) updates to the wholesale electricity market
 - (b) updating regulatory settings to ensure sufficient support for investment in distributed generation and to promote technological advances and innovation across the market
 - (c) efficient distribution connection and cost-reflective pricing
 - (d) initiatives that strengthen transmission and distribution networks
 - (e) updates to settings that provide reliable investment through efficient and accurate price signals
 - (f) distribution pricing guidance and key distribution sector reform relating to distributed energy resources
 - (g) projects and enhancements that protect consumers and promote competition, choice and increasing consumer needs.
 - (h) further promotion of demand-side flexibility.
- 3.33. Our work will also support:
- (a) Government priorities and the Government Policy Statement issued 11 October 2024
 - (b) Industry's strong pipeline of proposed generation investment
 - (c) A growing consumer appetite for choice and competition in the market.
- 3.34. Our indicative work programme for 2025/26 is shown by regulatory function in Appendix A.

Q2. Which of the Authority's activities are top priority for you, and which other activities do you think should be traded off against these priority activities?

4. Appropriation 2: Managing the Security of New Zealand's Electricity Supply

About this appropriation

- 4.1. This appropriation aims to achieve enhanced security of supply in the electricity system during periods of emerging or actual security situations.
- 4.2. Using the appropriation is limited to management by the system operator (a service performed by Transpower) of actual or emerging emergency events relating to the security of New Zealand's electricity supply.
- 4.3. *Managing the Security of New Zealand's Electricity Supply* is a multi-year appropriation for the period 2022/23 to 2026/27. Expenses under this appropriation can only be incurred by the system operator. The Authority itself cannot incur expenses under this appropriation.

Our functions under this appropriation

- 4.4. The system operator is responsible for ongoing security monitoring and emergency management.²⁰ The system operator's security management functions include preparing the emergency management policy, which is incorporated into the Code by reference following our review and approval. The policy sets out steps the system operator will take, and encourage industry participants to undertake, during an extended emergency.
- 4.5. Our primary role in respect of security of electricity supply is to ensure the Code promotes an efficient level of supply reliability. This includes specifying the functions of the system operator, how the system operator's functions are to be performed, and to set requirements for transparency and performance.
- 4.6. We also monitor system operator performance. This work is covered under the *promoting market development* and *operating the electricity system and markets* functions respectively of the *Electricity Industry Governance and Market Operations* appropriation.
- 4.7. Our role in this appropriation is limited to addressing requests from the system operator to use these funds. Our approval of any request is subject to an agreed process and criteria. The process requires the system operator to provide evidence there is an actual or emerging security event, and to describe the actions it intends to take using the funds and how it will monitor the use of these funds. Agreeing this information in advance helps enable the Authority to assess the effectiveness of the actions and the funding during and after the event.
- 4.8. The system operator can request funding from this appropriation to:
 - (a) increase monitoring and management responsibilities in the event of an emerging or actual security situation

²⁰ Section 8(2) of the Electricity Industry Act states that as well as acting as system operator for the electricity industry, the system operator must (a) provide information, and short-to medium-term forecasting on all aspects of security of supply; and (b) manage supply emergencies. Information about the system operator's security management role is available at <https://www.transpower.co.nz/system-operator>

- (b) plan and run an official conservation campaign.
- 4.9. The system operator would seek our approval for funding from this appropriation on a case-by-case basis if it considered increased monitoring or security management actions to be justified. However, as per the output agreement the system operator can, acting on a 'good faith' basis, incur up to \$0.300 million of costs in this area without prior approval from us if it is not reasonably practicable to seek that approval.

Proposed appropriation funding

- 4.10. This appropriation is contingent in nature and will not be drawn on in the normal course of managing the electricity system. As is the case with our other appropriations, levies are only collected up to the level of actual expenditure incurred.
- 4.11. In the Government's Budget 2022, a new security management appropriation for the period 1 July 2022 to 30 June 2027 was approved. \$0.55 million has been incurred against this appropriation to date.
- 4.12. We propose to maintain the *Managing the Security of New Zealand's Electricity Supply* appropriation at the current level of funding of \$6.0 million over five years.

Q3. Do you support the Authority's proposal for maintaining the contingent appropriation for *Managing the Security of New Zealand's Electricity Supply* at its current level of \$6.0 million over five years?

5. Appropriation 3: Electricity Litigation Fund

About this appropriation

- 5.1. This appropriation aims to ensure the Authority can participate in litigation effectively and without delay. It is limited to meeting the cost of litigation activity undertaken by the Authority, arising from us carrying out our functions under the Electricity Industry Act 2010.

Our functions under this appropriation

- 5.2. Our functions under this appropriation include defending judicial review and appeal cases taken against us and taking enforcement action against participants under our compliance function.

Proposed appropriation funding

- 5.3. This appropriation is contingent in nature, and we will only use it if certain events or situations arise. As in previous years, it is difficult to estimate the likely level and timing of litigation.
- 5.4. We propose to maintain the *Electricity Litigation Fund* appropriation at its current level of funding of \$1.500 million in 2025/26.

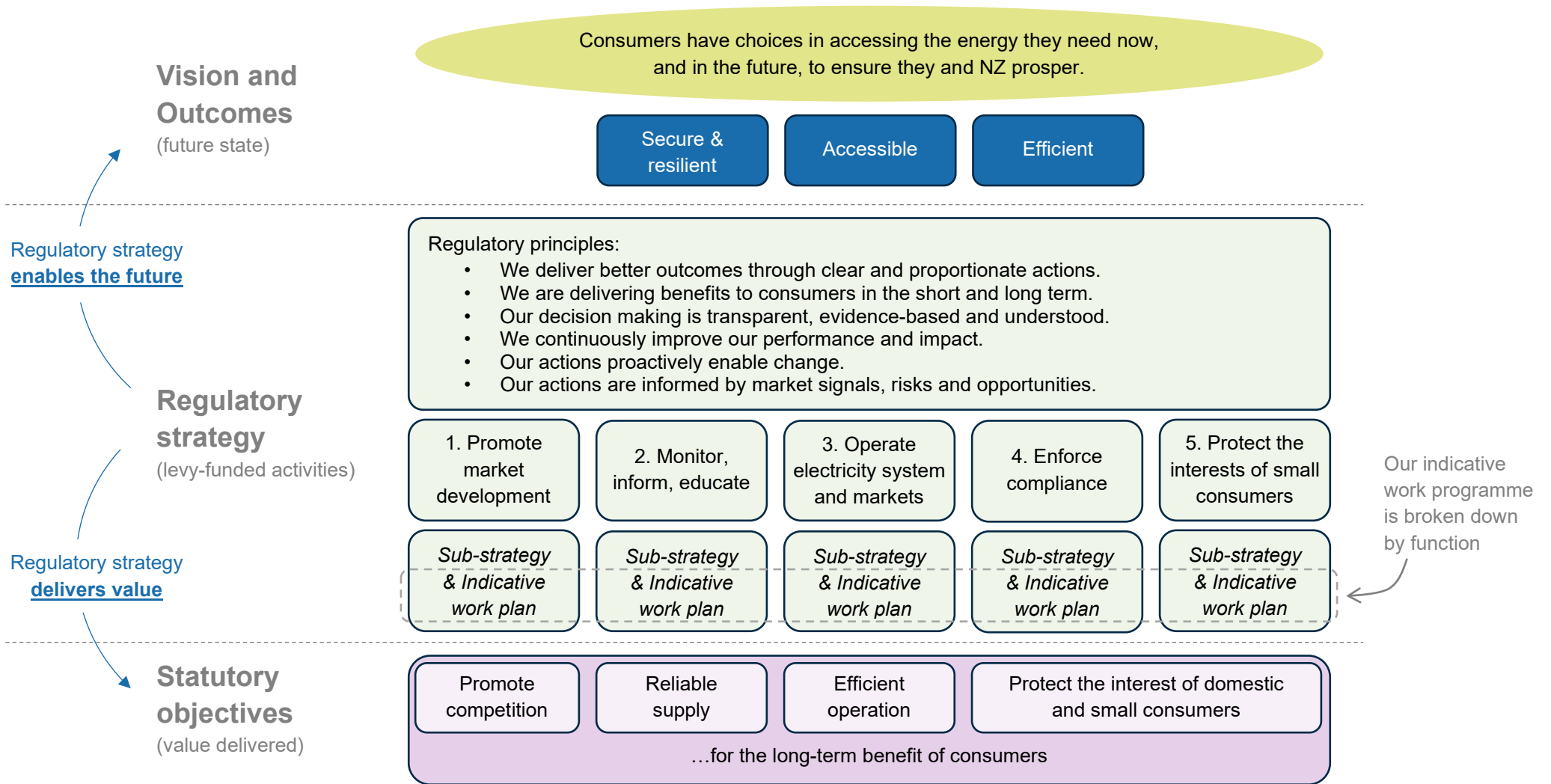
Q4. Do you support the Authority's proposal for maintaining the contingent appropriation for the *Electricity Litigation Fund* for 2025/26 and outyears at \$1.5 million?

6. Consultation questions

Submitter	
------------------	--

Questions	Comments
Q1. Do you support the Authority's proposal for a permanent baseline increase to its <i>Electricity Industry Governance and Market Operations</i> appropriation of \$7.8 million for 2025/26, bringing the total appropriation to \$120.2 million?	
Q2. Which of the Authority's activities are top priority for you, and which other activities do you think should be traded off against these priority activities?	
Q3. Do you support the Authority's proposal for maintaining the contingent appropriation for <i>Managing the Security of New Zealand's Electricity Supply</i> at its current level of \$6.0 million over five years?	
Q4. Do you support the Authority's proposal for maintaining the contingent appropriation for the <i>Electricity Litigation Fund</i> for 2025/26 and outyears at \$1.5 million?	
Q5. Do you have any other comments on the Authority's proposed funding for 2025/26?	
Q6. Do you have any comments on the Authority's indicative work programme for 2025/26?	
Q7. Do you have any comments on the Authority's draft regulatory strategy?	

Appendix A Our draft regulatory strategy and 2025/26 indicative work programme



Draft regulatory sub-strategy and indicative work plan – Promote market development

Principles	Indicative workplan 2025/26		
	Option 1 (no increase in appropriation)	Option 2 (\$5.7m increase in appropriation to support system operator)	Option 3 (\$7.8m increase in appropriation to support system operator plus inflation in other activities)
<p>1. We deliver better outcomes through clear and proportionate actions. We make regulatory changes to improve existing and develop new markets to meet the needs of the electricity system for New Zealanders - now and in the future. We also use non-regulatory tools like guidance and public communications where appropriate.</p> <p>2. We are delivering benefits to consumers in the short and long term. Our work will deliver a secure and resilient, affordable, and efficient electricity system over a range of time frames, while recognising the wider impact of policies on all consumers.</p> <p>3. Our decision making is transparent, evidence-based and understood. Code change decisions follow a clear evidence-based process which includes an assessment of costs and benefits. Our decision papers are comprehensive and written in plain English.</p> <p>4. We continuously improve our performance and impact. Our work uses insights from market monitoring and investigations to further inform our evidence-based market development.</p> <p>5. Our actions proactively enable change. Our work is future-focused and will evolve the market to what is needed for a highly renewable future.</p> <p>6. Our actions are informed by market signals, risks and opportunities. Our situational awareness informs the scope and speed of our work. This mitigates risks and maximises opportunities.</p>	<p>With no funding uplift, the Authority plans to prioritise activities in the following areas:</p> <p>Competition</p> <ul style="list-style-type: none"> Implement targeted recommendations of the Energy Competition Task Force (ECTF), under resource constraints. Progressively implement the Market Development Advisory Group (MDAG) recommendations <p>Security of supply</p> <ul style="list-style-type: none"> Progressively review the System Security Assumptions Document (SSAD) Start a review of the value of lost load (VoLL) <p>Changing Electricity System</p> <ul style="list-style-type: none"> Begin consideration of policy development towards full reform of distribution connection pricing Progress targeted proposals to address non-price barriers to connecting at the distribution level <p>Digitalisation</p> <ul style="list-style-type: none"> Scope improvements to access to information held by Metering Equipment Providers Identify improvements to multiple trading and enhanced switching arrangements. <p>Funding constraints would limit:</p> <ul style="list-style-type: none"> The scope and speed of delivery Proactive updates to the Code to address potential issues Proactive stakeholder engagement Our ability to respond to issues raised by sector. 	<p>Under this option, the Authority will prioritise activities in the following areas:</p> <p>Competition</p> <ul style="list-style-type: none"> Progressively implement the recommendations of the ECTF Progressively implement the MDAG recommendations Review and enhance the stress test <p>Security of supply</p> <ul style="list-style-type: none"> Accelerate the review of the SSAD Assess enhanced market participation tools for battery energy storage systems Scope options for a new 5-minute variability ancillary service Complete a review of VoLL <p>Changing Electricity System</p> <ul style="list-style-type: none"> Begin consideration of policy development towards full reform of distribution connection pricing Progress targeted proposals to address non-price barriers to connecting at the distribution level Produce an issues paper on distributed generation price signals Progress Code amendments related to strengthening common quality requirements. Support the 2024/25 pilot of the Power Innovation Pathway to support strong demand for the service. <p>Digitalisation</p> <ul style="list-style-type: none"> Progress improvements to accessing information held by Metering Equipment Providers Identify improvements to multiple trading and enhanced switching arrangements. 	<p>With additional funding through an inflation adjustment, the Authority will prioritise activities in the following areas:</p> <p>Competition</p> <ul style="list-style-type: none"> Accelerate the implementation of the ECTF recommendations Accelerate the implementation of the MDAG recommendations Review of Financial Transmission Rights funding model <p>Security of supply</p> <ul style="list-style-type: none"> Accelerate the review of the SSAD Assess and develop enhanced market participation tools for battery energy storage systems Develop options for a new 5-minute variability ancillary service <p>Changing Electricity System</p> <ul style="list-style-type: none"> Release consultation paper to progress towards full reform of distribution connection pricing Implement proposals to address non-price barriers to connecting at the distribution level Produce an issues paper on distributed generation price signals Scale up the 2024/25 pilot of the Power Innovation Pathway to support strong demand for the service. Complete Code amendments related to strengthening common quality requirements <p>Digitalisation</p> <ul style="list-style-type: none"> Progress improvements to accessing information held by Metering Equipment Providers Complete improvements to multiple trading and enhanced switching arrangements.

Draft regulatory sub-strategy and indicative work plan – Monitor, inform and educate

Principles	Indicative workplan 2025/26		
	Option 1 (no increase in appropriation)	Option 2 (\$5.7m increase in appropriation to support system operator)	Option 3 (\$7.8m increase in appropriation to support system operator plus inflation in other activities)
<p>1. We deliver better outcomes through clear and proportionate actions. We gather the information we need, and we are clear on the purpose of our monitoring and educational activity for both the Authority and our stakeholders.</p> <p>2. We are delivering benefits to consumers in the short and long term. Insights contribute to policy initiatives to ensure that our regulation is evidence based. We carry out monitoring to understand the current state of the market, and modelling to understand the regulatory requirements of the future market.</p> <p>3. Our decision making is transparent, evidence-based and understood. Code change decisions follow a clear evidence-based process, that is explained in simple terms to affected participants. Changes are also evaluated based on evidence.</p> <p>4. We continuously improve our performance and impact. We review how we are operating to ensure we are getting the most from our resources. We try new things and keep what works.</p> <p>5. Our actions proactively enable change. We model future scenarios to anticipate market needs and provide evidence to ensure changes are based on empirical evidence.</p> <p>6. Our actions are informed by market signals, risks and opportunities. We monitor the market and use resources to investigate behaviour based on this. We will determine if compliance action is warranted and consider potential Code changes.</p>	<p>With no funding uplift, the Authority plans to prioritise activities in the following areas:</p> <ul style="list-style-type: none"> Limited research of future scenarios and analysis based on the results to create insights about the regulatory requirements of a future system Test spot market efficiency against a modelled benchmark Use of data visualisation of retail data and insights to inform policy and industry Architecture and security review of data platform Limited-scope education campaign to increase consumer understanding of the system as a whole by publishing information and insights for a range of audiences Reactive monitoring compliance work and investigations. <p>Funding restraint would reduce level of proactive work we can undertake.</p>	<p>Under this option, the Authority will prioritise activities in the following areas:</p> <ul style="list-style-type: none"> Develop future scenarios and analysis based on the results to create insights about the regulatory requirements of a future system Undertake a study of the spot market to test its efficiency against a modelled benchmark Better use of data visualisation of retail data and insights to inform policy and industry Architecture and security review of data platform Education campaign to increase consumer understanding of the system as a whole by publishing information and insights for a range of audiences Support the EAAG and Task Force with insights and data Still a level of reactive monitoring compliance work and investigations due to funding constraints Piloting a new security of supply monitoring and information workstream 	<p>With additional funding through an inflation adjustment, the Authority will prioritise activities in the following areas:</p> <ul style="list-style-type: none"> Further enhance generation investment pipeline disclosures and visualisations and use this to create insights Enhance market intelligence by expanding the collection and analysis of data Greater scope for an architecture and security review of data platform Further investment in our education campaign to increase consumer understanding of the system as a whole Broadening the range of audiences that we publish information and insights for A greater level of support for the EAAG and Task Force, providing them with insights and data to ensure that decisions are based on evidence Accelerating our new security of supply monitoring function Increase our proactive monitoring, compliance interventions, and education campaigns

Draft regulatory sub-strategy and indicative work plan – Operate electricity system and markets

Principles	Indicative workplan 2025/26		
	Option 1 (no increase in appropriation)	Option 2 (\$5.7m increase in appropriation to support system operator)	Option 3 (\$7.8m increase in appropriation to support system operator plus inflation in other activities)
<p>1. We deliver better outcomes through clear and proportionate actions. Our investment in robust service provider procurement and management is proportionate to the value which the service can deliver to consumers.</p> <p>2. We are delivering benefits to consumers in the short and long term. Our actions drive for efficient service delivery today while fostering the long-term sustainability of efficient and competitive service provision in the New Zealand market.</p> <p>3. Our decision making is transparent, evidence-based and understood. Our procurement, contract management, and market operation decisions are made transparent wherever possible. Our market operation activities provide evidence for decisions to evolve market settings.</p> <p>4. We continuously improve our performance and impact. All market operation services have clear outcomes, service levels, and report on lessons learned and improvement.</p> <p>5. Our actions proactively enable change. Our service providers proactively inform development of market settings and support innovation through new information and services.</p> <p>6. Our actions are informed by market signals, risks and opportunities. We ensure that market operation service providers actively manage risk and deliver in line with the Authority's strategic direction and risk appetite.</p>	<p>With no funding uplift, the Authority plans to prioritise activities in the following areas:</p> <ul style="list-style-type: none"> Procure new contracts for the Clearing Manager, Reconciliation Manager, Wholesale Information Trading System (WITS) Manager, Registry Manager Embed new service provider contracts for system operator, consumer price comparison and switching, and intermittent generation forecasting Work to align service providers with the Authority refreshed strategic direction and risk appetite, including informing market development. <p>Funding restraint would:</p> <ul style="list-style-type: none"> Reduce system operator service levels in activities least likely to impact real time system operation in the near term (participant-led activities such as new connections, commissioning, higher numbers of grid owner outages, integration of new technologies and higher participant numbers into markets for energy and ancillary services). Reduce system operator ICT investment, lowering service levels and remediation in response to evolving cyber security risks. Reduce the level of proactive contract management of all service providers Lower the investment in ensuring competitive and robust procurement and negotiation for service provider contract renewals. 	<p>Under this option, the Authority will prioritise activities in the following areas:</p> <ul style="list-style-type: none"> Procure new contracts for the Clearing Manager, Reconciliation Manager, WITS Manager, Registry Manager Embed new service provider contracts for system operator, consumer price comparison and switching, and intermittent generation forecasting Support MOSP operations to deliver minor enhancements and changes driven by policy changes Enhance service provider monitoring and performance reporting Work to align service providers with the Authority refreshed strategic direction and risk appetite, including informing market development. 	<p>With additional funding through an inflation adjustment, the Authority will prioritise activities in the following areas:</p> <ul style="list-style-type: none"> Explore modernisation of the Clearing Manager, Reconciliation Manager, WITS Manager, Registry Manager to enhance efficiency and better support future market needs. Procure new contracts for these services. Actively monitor, support, and improve new service provider contracts for system operator, consumer price comparison and switching, and intermittent generation forecasting. Support MOSP operations to deliver enhancements and changes driven by policy changes Work closely with MOSPs to identify and scope opportunities to improve market settings and update the Code Enhance service provider monitoring and performance management Work to align service providers with the Authority refreshed strategic direction and risk appetite, including informing market development.

Draft regulatory sub-strategy and indicative work plan – Enforce compliance

Principles	Indicative workplan 2025/26		
	Option 1 (no increase in appropriation)	Option 2 (\$5.7m increase in appropriation to support system operator)	Option 3 (\$7.8m increase in appropriation to support system operator plus inflation in other activities)
<p>1. We deliver better outcomes through clear and proportionate actions. We select the right intervention for the job, based on the circumstances of the case.</p> <p>2. We are delivering benefits to consumers in the short and long term. We work with industry participants and industry bodies to improve their awareness of obligations and support their understanding of the electricity market and how it benefits consumers.</p> <p>3. Our decision making is transparent, evidence-based and understood. We are clear about our approach to compliance and how we make our decisions. We explain our decisions and actions.</p> <p>4. We continuously improve our performance and impact. We will ensure the basics are done well and explore ways of promoting good practice and recognising excellence.</p> <p>5. Our actions proactively enable change. Our compliance function improves industry compliance and thereby consumer outcomes, including by sharing lessons learned to support participant education.</p> <p>6. Our actions are informed by market signals, risks and opportunities. We draw together and use insights and information sources legally available to us.</p>	<p>With no funding uplift, the Authority plans to prioritise activities in the following areas:</p> <ul style="list-style-type: none"> Review the compliance monitoring framework to ensure it remains current Improve timeframes for compliance activities including cases, investigations, exemptions, audits and UFEs Ready compliance functions to monitor, enforce and educate on the Consumer Care Obligations <p>Funding restraint would cause the following work programme impacts:</p> <ul style="list-style-type: none"> Timeframes would be pushed out for compliance activities A review of the audit regime to be delayed Limited education and training to participants and consumers Reduced speed to effectively embed the Consumer Care Obligations A reduced level of proactive compliance and market monitoring 	<p>Under this option, the Authority will prioritise activities in the following areas:</p> <ul style="list-style-type: none"> Further improve timeframes for compliance activities including cases, investigations, exemptions, audits and UFEs Embedded compliance functions for the Consumer Care Obligations Limited-scope review of audit regime Proactive monitoring and compliance interventions Greater compliance education delivery. 	<p>With additional funding through an inflation adjustment, the Authority will prioritise activities in the following areas:</p> <ul style="list-style-type: none"> Greater focus and timely resolution on cases, investigations, exemptions, audits and UFEs Faster and better embedded compliance functions for the Consumer Care Obligations Full review of audit regime, consider improvements and create implementation schedule More proactive monitoring and compliance education Intelligence led proactive compliance interventions Greater and more diverse compliance education delivery.

Draft regulatory sub-strategy and indicative work plan – Protect the interests of domestic and small business consumers

Principles	Indicative workplan 2025/26		
	Option 1 (no increase in appropriation)	Option 2 (\$5.7m increase in appropriation to support system operator)	Option 3 (\$7.8m increase in appropriation to support system operator plus inflation in other activities)
<p>1. We deliver better outcomes through clear and proportionate actions. We will deliver protections and supports to consumers with policies and regulations to ensure the electricity system meets the needs of New Zealanders.</p> <p>2. We are delivering benefits to consumers in the short and long term. Our work will deliver benefits to consumers by mandating the consumer care guidelines and broader workstreams for consumer protection, and care to ensure the electricity market meets the needs of small consumers, now and in the future.</p> <p>3. Our decision making is transparent, evidence-based and understood. We develop our protections through strong engagement with consumers, their advocates, and industry participants. We ensure decisions follow a clear evidence-based process that reaches affected parties. Our decision papers are comprehensive, include an assessment of costs and benefits relevant to small consumers and are written in plain English.</p> <p>4. We continuously improve our performance and impact. We engage with - and review the needs and expectations of - small consumers to ensure we're delivering the greatest benefit to them from our activities and interventions.</p> <p>5. Our actions proactively enable change. We are charting the course to enable greater protections for small consumers.</p> <p>6. Our actions are informed by market signals, risks and opportunities. We consult broadly to draw together insights, opportunities and potential areas of harm from how the electricity system is meeting the needs of small consumers.</p>	<p>With no funding uplift, the Authority plans to prioritise activities in the following areas:</p> <ul style="list-style-type: none"> Limited engagement across the industry to facilitate innovative and novel solutions that improve small consumer outcomes Limited review of current approach to disconnections, reconnections, and prepay Develop and implement Code changes that will enhance the service and switching environment <p>Funding restraint would cause the following to be curtailed:</p> <ul style="list-style-type: none"> The scope and speed of delivery Understanding more about the specific needs of small consumers, including small and medium businesses Scope for proactive stakeholder engagement with groups representing the interests of small consumers. 	<p>Under this option, the Authority will prioritise activities in the following areas:</p> <ul style="list-style-type: none"> Review and make improvements to current approaches to disconnections, reconnections, and prepay Investigate wider support options for small consumers, such as a mandatory 'best plan' comparison, industry-community partnerships to support hard to reach populations, and more flexible payment plans Explore regulatory changes and remove barriers that may support small consumers to participate in Flexibility markets and sell excess energy back to the grid (in addition to the Energy Competition Task Force) Promote participation in public consultations on future electricity policies, making the process accessible and simpler for consumers. 	<p>With additional funding through an inflation adjustment, the Authority will prioritise activities in the following areas:</p> <ul style="list-style-type: none"> Improve oversight mechanisms to monitor compliance with new Consumer Care Obligations Review and enhance the current approach to disconnections, reconnections, and prepay. Investigate and implement wider support options for small consumers, such as a mandatory 'best plan' comparison, industry-community partnerships to support hard to reach populations, and more flexible payment plans. Explore regulatory changes and remove barriers that may support small consumers to participate in demand response flexibility markets and sell excess energy back to the grid (in addition to the Energy Competition Task Force) Promote participation in public consultations on future electricity policies, making the process accessible and simpler for consumers.

Indicative work plan – supporting functions

The Authority also plans to undertake several activities in support of our regulatory functions and strategic priorities, with the aim of improving our organisational efficiency. As with the remainder of our indicative work plan (split by regulatory function), the level of activity/effort differs under each funding option.

With no funding increase, the Authority will focus on meeting statutory deadlines and obligations. There will be trade-offs against service levels, continuous improvement programmes that deliver value to levy payers and a reduced scope of cost-benefit projects, such as the implementation of activity-based costing.

With a funding increase, we can focus on:

- a) An enhanced, staged implementation of an activity-based costing project to support evaluating the Authority's activities. This would improve visibility of project costs and enable a more precise levy allocation for consumers and participants.
- b) Strengthening the independent assessment of our delivery against the outcomes in our Statement of intent and our performance in delivering against our regulatory functions. A robust, transparent external review of our operations is important to build trust and confidence.
- c) Continuous improvement programmes that bring value for money to levy payers. Including knowledge management practices and accessibility upgrades to internal and external IT systems. Driving internal efficiencies to allow the implementation of previously identified improvements to internal systems at pace.
- d) Implementing a learning and development framework to improve organisational maturity and continuity.

Q6. Do you have any comments on the Authority's indicative work programme for 2025/26?

Q7. Do you have any comments on the Authority's draft regulatory strategy?

Appendix B Funding options

Option	Option 1: No increase in appropriation	Option 2: \$5.7 million increase in appropriation	Option 3: \$7.8 million increase in appropriation
Description of change in funding level	No increase	System operator service provider agreement uplift	System operator service provider agreement plus inflation
Proposed approach to cost increases	Endeavour to absorb all cost increases through increased productivity and reductions to the system operator service level.	Endeavour to absorb cost increases above inflation through increased productivity.	Meet external cost increases through negotiation with service providers and additional funding.
Proposed approach to operating service levels coming under pressure	<p>Reduced resourcing across market development activities, by scaling down or curtailing:</p> <ul style="list-style-type: none"> • Updates to the wholesale electricity market • Updates to regulatory settings to ensure sufficient support for investment in distributed generation and to promote technological advances and innovation across the market • Efficient distribution connection and cost-reflective pricing • Programmes that strengthen transmission and distribution networks • Updates to settings that encourage investment through efficient and accurate price signals • Distribution pricing guidance and key distribution sector reform relating to DER • Enhancements that protect consumers and promote competition, choice and increasing consumer needs. • Further promotion of demand-side flexibility. <p>This includes support to key focus areas of Electrify NZ and the Government Policy Statement.</p> <p>System and market operation risk is maintained in the near-term despite reduced system operator service levels, prioritising the inflationary increase in costs for service providers. Market development measures, monitoring and compliance activities will shift to be more reactive.</p>	<p>Bold and decisive market development measures will be prioritised. We will flex resourcing by scaling down or curtailing activities in the same manner as option 1, to a lesser extent and in order of priority.</p> <p>Reduced proactivity may be seen in other service providers, participant monitoring and compliance.</p> <p>System and market operational risk is maintained in the near-term, however an increase in technical debt is likely to increase risk and cost in the medium- and long- term.</p>	<p>Service levels will be maintained across the organisation including proactive monitoring and compliance and quicker timeframes to resolution.</p> <p>Market development activities will increase, and implementation timeframes will reduce as we focus full resource on high impact, high priority areas.</p> <p>System operator service levels will be maintained.</p>

Appendix C Summary of appropriations

	Final appropriation 2023/24 (\$m)	Budgeted appropriation 2024/25 (\$m)	Proposed appropriation 2025/26 + outyears (\$m)
Operational appropriation			
System operator contract expenses	47.1	49.6	55.2
Other service provider contract expenses*	23.4	25.4	26.2
Authority operating expenses	30.9	37.6	38.8
Total Electricity Industry Governance and Market Operations appropriation	101.4**	112.5***	120.2
Contingent appropriations			
Managing the Security of New Zealand's Electricity Supply (1 July 2022 to 30 June 2027)	6.0 over five years	6.0 over five years	6.0 over five years
Electricity Litigation Fund	1.5	1.5	1.5
Notes			
* Includes commercial market making as a third-party service provider contract. This was introduced in 2022/23.			
** We received an increase of \$4.6 million in 2023/24 to fund key workstreams and major regulatory reform from the Government's Emissions Reduction Plan, work arising from the review of the events of 9 August 2021, the Electricity Industry Amendment Act 2022, work required to improve wholesale market competition, and Authority support functions (includes prior year increase).			
*** We received an increase of \$10.9 million for 2024/25 to pay for increased service provider costs to operate the electricity system and markets and enable the Authority to keep pace with the rate of change required to support an orderly low-emissions transition and better serve all consumers.			
**** We are seeking an increase of \$7.8 million for 2025/26 to keep pace with inflation. While we will continue to prioritise and make trade-offs within our work programme, this uplift will enable us to fund the activities which deliver significant value to consumers and allows the Authority to maintain its current service level.			

Appendix D Summary of system operator proposal

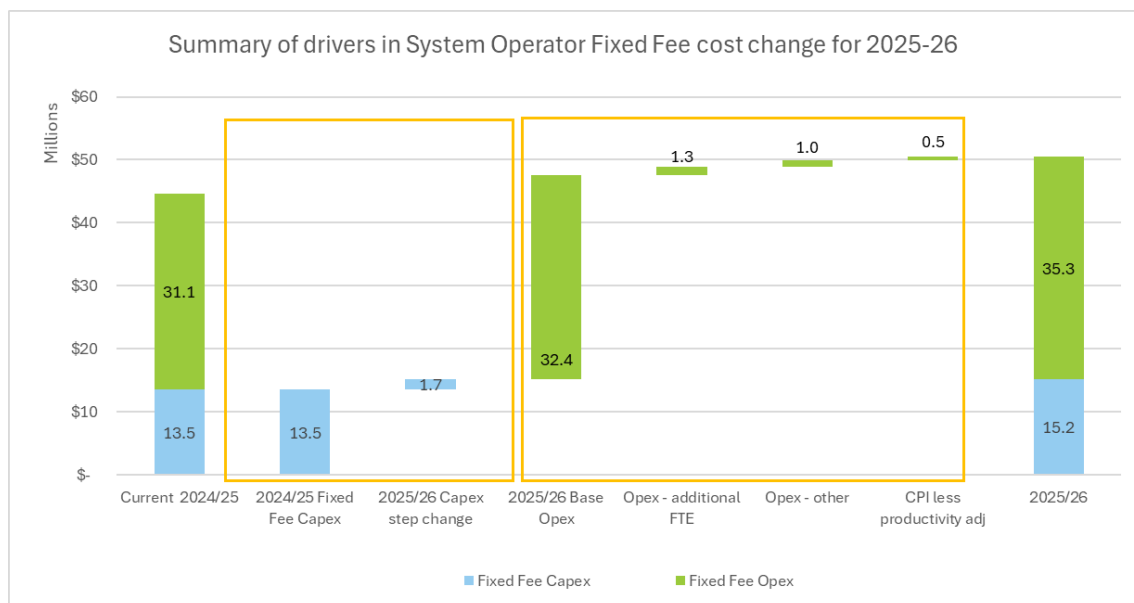
The system operator is a market operation service contracted by the Authority from Transpower. Section 8 of the Electricity Industry Act 2010 mandates Transpower as the system operator.

The system operator is responsible for co-ordinating electricity supply and demand in real time, in a manner that avoids fluctuations in frequency and disruption of supply. The system operator role also plays a role in facilitating the electricity market, including coordination of outages and operational security of supply.



The contract for the system operator service, known as the System Operator Service Provider Agreement is an evergreen contract with discrete funding periods which are periodically negotiated between the Authority and Transpower. Transpower’s proposal for the funding period July 2025 – June 2028 has been negotiated with the Authority over recent months. Transpower has advised that an increase of \$5.8m p.a. is the minimum level at which it will be able to meet its obligations as set out under the Code during a period in which the market and system is undergoing significant change.

The chart below²¹ shows a summary of the changes in the system operator costs for the 2025-26 year. Note that Transpower’s proposal is cost based (actual costs) with a base-step-trend adjustment applied and then averaged over the contract period. An opex risk margin of \$1.4m p.a. is included in Transpower’s proposal to address the risk associated with changing costs and scope of work required under the fixed fee contract while meeting code obligations. The costs within the contract are adjusted annually by CPI less a productivity reduction of 0.5%.



²¹ Excludes costs outside the fixed fee funding mechanism

Drivers of changes in cost for the system operator service

Capital expenditure

- a) Capex costs for 2025-26 consist of three elements: recovery of historical capex (\$4.6m recovery for projects commissioned in the preceding period); in-flight capex (\$5.2m recovery for projects in-flight but commissioning in the period), and new capex (\$5.4m recovery for projects started and commissioned in the period).
- b) Capex costs are proposed to increase by \$1.7m per annum to ensure investments are made to support the energy transition. These investments target improvements to stakeholder interactions and information sharing as well as adapting tools for a more complex operating environment with larger volume of participants. The increase also allows for replacement of legacy technology associated with critical control room applications and for inflationary adjustments to costs which have increased from the previous funding period.

A total increase of 15 FTE is proposed for the system operator service are incrementally added across the three-year funding period. The cost is smoothed, with the fee recoverable over the funding period²². Rationale for this uplift includes:

- a) Operations Planning (2 FTE) to support increased outage numbers forecast in Transpower's Grid Owner RCP4 submission. There is also an increase subject matter expert (SME) involvement in project work.
- b) Real time operations (1 FTE) to support the forecast increase in new generation connecting to the power system. This will support commissioning, testing and onboarding, mitigating the risk of new participants not understanding their operational obligations and how to interact with real-time control rooms during steady state dispatch as well as during grid emergencies.
- c) Power systems (2 FTE) to support modelling of increased connections, diversity in generation technologies and ongoing analysis of power system risks.
- d) Market services (3 FTE) to expand capacity to engage with the evolving industry and invest in evolving information provision to the market and control rooms. Also to ensure the market system and ancillary services tools and processes keep pace with an evolving industry landscape. In addition, a new capability will be developed to better support a growing number of participants and participation types through a function that leads information provision, engagement, record keeping, reporting and contracts administration.
- e) Operations Process and Technology Improvement (3 FTE) to bolster operational system support and scale project delivery.
- f) Information Systems and Technology (4 FTE) to support new platforms and tools that have been delivered, and to support increased project delivery needs.

Other operational cost increases of \$0.97m relate to IST operational costs to cover changes in the costs of ICT licensing fees, third party support and maintenance and outsourced services and increase in expenditure to undertake investigations prior to deliver of the increase capital project volume.

Some system operator costs are outside of the fixed fee funding mechanism which has recently been negotiated with Transpower. These relate to recovery of major capital projects such as the implementation of real time pricing. The costs for these elements are forecast to reduce by \$0.18m in 2025-26.

²² Note cost of 2.1 FTE relates to capital project work and will be recovered through capex fee and do not drive an increase on opex cost.