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To: [Operations Consult](#)
Cc: [Brett Woods](#)
Subject: Five-Minute settlement
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Attachments: [image001.png](#)

Kia ora

We appreciate the opportunity to provide feedback on the Authority's five-minute pricing discussion paper.

In parallel, we are responding to the consultations on wholesale market arrangements for BESS, and common quality and wholesale market arrangements for BESS and BESS-hybrid stations. In our view, there are two fundamental points for BESS and flexible assets that stem from the physical nature of the assets and the underlying market design: a gate closure period of one hour is comparable in duration to the storage on offer from BESS, while the market is dispatched in 5-minute intervals but settled over 30-minute trading periods. The latter creates a structural mismatch, where dispatch decisions reflect real-time operating conditions, but settlement and constrained payment outcomes do not consistently reflect what the asset was instructed to do in each 5-minute interval.

International precedent is that markets are seeking to better align shorter periods of dispatch and settlement with the physical reality of variable demand and supply. For example, the Australian National Electricity Market (NEM) moved to 5-minute settlement in 2021. In addition, The EU has moved from a 60-minute settlement to 15 minutes, and the UK have acknowledged that 30-minute settlement combined with 5-minute dispatch mutes pricing signals. We therefore think it would be prudent to take a stance that is based on the expected market state of the future, and plan for it. The lead time for changes to market design is significant; however, the trajectory of the market is clear in that we are heading for a highly renewable state as energy use electrifies and intermittent renewables are developed. We think it would be prudent for the Authority to prepare for this future in a timely fashion.

Constrained payments exist largely to address the disconnect between 5-minute dispatch and 30-minute settlement. However, as currently designed, they are an imperfect workaround. Net 30-minute constrained payment calculations can under-compensate BESS because they do not necessarily reflect dispatch instructions at the 5-minute level, which can produce outcomes that do not align with the intent of the market design. Prior to New Zealand progressing to 5-minute settlement, Contact considers that changes to constrained payment calculations will be necessary to better align outcomes with the intent of the market design and actual 5-minute dispatch.

Please do not hesitate to get in touch if you have further questions for us.

Kind regards

Helen

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