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Nova Energy Limited
PO Box 3141, Wellington 6140

Electricity Authority

By email: OperationsConsult@ea.govt.nz

Submission on 5 Minute Settlements in the NZEM

Nova has reviewed the paper considering whether or not it was likely consumers would benefit from changing from the current 30 minute settlement period to 5 minutes.

Nova agrees with the Authority that the costs of implementation will be material and will not be exceeded by benefits from increased market efficiency.

Costs

The costs of moving to 5-minute settlement would be material and significant. The Authority's indicative estimate of NZD \$100m appears low for a reform of this scale, particularly given the consultation paper identifies changes would be required across metering, retailer and metering equipment provider data systems, reconciliation and clearing systems, system operator scheduling, data transfer protocols, and participant IT systems and processes. Those changes would need to be implemented and tested across more than 40 market participants and service providers, with associated programme governance, assurance, parallel running, operational change and transition risk. As a cross-check, the Australian implementation was a multi-year, whole-of-industry programme and publicly available estimates referred to in the paper suggest costs of at least AUD \$500m. Applying current exchange rates and allowing for inflation between 2021 and 2026 indicates an equivalent figure materially above NZD \$100m, and potentially in the order of NZD \$750m before considering New Zealand-specific implementation factors. While this is not a bottom-up estimate, it illustrates the risk that the Authority's cost assumption materially understates the likely full end-to-end cost to industry and, ultimately, consumers. Such a project should not be undertaken without a high degree of confidence, supported by detailed analysis, that the benefits arising from the change would exceed the costs over time.

Benefits

The potential benefits of 5-minute settlement identified in the paper depend primarily on whether the change would materially improve price signals, reduce inefficient short-duration price volatility, and support more efficient investment in fast-response flexibility, including BESS. Nova agrees with the Authority that the evidence does not establish that those benefits are likely to be material in the NZEM under current market conditions.

The New Zealand market differs materially from the Australian NEM. The paper notes that the NZEM does not exhibit the same degree of intra-trading period volatility that provided a key rationale for 5-minute settlement in Australia, and that New Zealand's flexible hydro-dominated generation fleet is well suited to managing short-term variability. Existing gate closure and trading conduct settings also provide greater bid and offer stability within trading periods, reducing the risk of the strategic bidding behaviour that 5-minute settlement was designed to address in the NEM.

Nor is it clear that 5-minute settlement would deliver consumer benefits through greater BESS participation. The Australian experience referred to in the paper is mixed: BESS revenues have increased, but it remains unclear whether that has translated into lower wholesale prices or demonstrable benefits for consumers. The paper also identifies targeted reforms already underway in New Zealand, including standardised flexibility products, bi-directional BESS offer arrangements and potential changes to Multiple Frequency Keeping settings. Nova considers these targeted reforms are a more proportionate way to support flexibility and BESS participation than a costly whole-of-market settlement reform. In summary, Nova considers it highly unlikely that moving to 5-minute settlement would deliver benefits sufficient to offset the costs and implementation risks. Such a project would also divert industry and Authority resources from more targeted reforms that are likely to deliver greater benefits to consumers at lower cost. Given the fundamental nature of the change, it would also be likely to crowd out or defer other market, systems and product developments across the sector, as participants prioritised mandatory settlement-system changes over discretionary or innovation-focused work programmes.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'C Teichert', with a long horizontal stroke extending to the right.

Charles Teichert
Nova Energy