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Submission on the EA's Proposed levy-funded appropriations 2026/27

Introduction

1. This is Vector Limited's (Vector) submission on the Electricity Authority's (the Authority) consultation paper *Electricity Authority 2026/27 levy-funded appropriations consultation*, published on 18 November 2025.
2. Vector owns and operates the electricity distribution network within the wider Auckland region. Our network comprises more than 19,000 km of electricity lines and over 22,500 distribution transformers, delivering power to more than 624,000 homes and businesses. Vector also owns and operates the gas distribution network in the Auckland region.
3. Our Symphony strategy is to orchestrate the use of distributed and consumer energy resources (DERs and CERs) – including manageable EV charging, hot water and other flexible loads – to reduce the need for traditional network reinforcement and to keep electricity as affordable as possible for consumers over the long term.
4. We are highly conscious that consumers are facing sustained increases in both network and generation investment requirements, and that every dollar of levy funding ultimately appears on customers' bills. At the same time, the sector is undergoing an unprecedented transition, and the Authority needs sufficient capability to support competition, reliability, innovation and efficient electrification.
5. Against that backdrop, we note that in 2025/26, approximately 62% of the \$119.7 million *Electricity Industry Governance and Market Operations* (GMO) appropriation will fund the Authority's third-party service providers. The remaining 38% will cover the Authority's work programme and operating costs. We acknowledge the Authority's proposal to absorb approximately \$3.2 million of expected additional internal costs in 2026/27, including inflation and new monitoring and enforcement functions, and to seek only a modest net increase of \$0.3 million in the GMO appropriation, largely to meet contractual inflation adjustments for service providers. We see this as a positive signal that the Authority is actively seeking operational efficiencies and is mindful of its impact on consumer bills.
6. However, appropriation levels and levy settings must always be assessed alongside the scope and prioritisation of the Authority's work programme. The Authority's 2026/27 programme contains several streams that are highly material to Vector's business and customers – in particular:
 - enabling flexibility services and standardised flexibility products
 - supporting improved low-voltage visibility and the use of DERs and CERs to manage peak demand and defer network investment

creating a new energy future

- strengthening wholesale market competition and implementing non-discrimination and level-playing-field measures
 - advancing digitalisation, data sharing and consumer information tools in ways that support whole-of-system outcomes and do not create new barriers for distributors or innovators.
7. We support the Authority focusing its constrained resources on these priority areas, which align closely with Vector's strategy and with the long-term benefit of consumers. We encourage the Authority to continue to de-prioritise speculative or lower-value initiatives where problem definition and consumer benefits are less clear, and to sequence new work so as not to dilute delivery on the core reforms already underway.
 8. Given service provider contracts account for such a high proportion of the GMO appropriation, we encourage continued scrutiny of service provider efficiency and performance. There must be clear expectations for continuous improvement, transparent reporting on value for money, and careful consideration of the cost and risk implications of upcoming procurements and contract renewals. Maintaining strong incentives on service providers is essential if levy payers are to see enduring benefits from the significant share of funding that flows to these parties.
 9. We support the Authority's proposal to maintain the *Managing the Security of New Zealand's Electricity Supply* and *Electricity Litigation Fund* appropriations at their current levels through 2026/27. Both appropriations play an important contingent role in supporting security-of-supply and a credible enforcement regime. We would welcome ongoing transparency around any use of these appropriations and the lessons drawn for future policy and Code development.
 10. We would support significant scaling back of workstreams where the problem definitions are less clear, for example the Authority's work on connection pricing, and multiple-trading relationships, among others.

Authority's monitoring function needs to be significantly enhanced

11. We noted in our corresponding submissions one and two years ago that monitoring, reporting and compliance all require concerted focus. As we have said in several previous submissions¹, there is much the Authority can pick up from regulators of parallel industries in New Zealand, and of electricity markets globally.
12. Just as we and other participants intend to leverage fully the capability offered by new technology, the Authority also needs to develop in this area. No doubt, market participants are improving the efficiency of their market offering strategies through new technology, and the Authority will need to invest heavily to stay one step ahead.
13. We continue to support the recommendations of MDAG in this area – if the wholesale market is to play the key role anticipated for it through the transition, maintaining reliability at least cost, then public confidence in its ability to play that role needs to increase significantly. We noted two years ago that trust and confidence was particularly low, and unfortunately it fell further following winter 2024. In the past year, we doubt there has been any upward movement.
14. While we welcome the Authority's proposal to increase its monitoring capacity and capability, and note its proposal to absorb some of the cost increases these functions, we would fully support more ongoing investment in this area.

¹ See, for example, our submission on the Authority's appropriation in November 2022. Available online at: <https://blob-static.vector.co.nz/blob/vector/media/vector-2022/vector-submission-ea-2023-24-levy-funded-appropriations.pdf>

Key aspects of the work programme need to be accelerated

15. We are concerned that the integration and enablement of distributed energy resources has slipped down the priority order over the past two years. As we noted a year ago, we think the Authority needs to do more in this space, faster.
16. We have noted for some time the risks that “herding” of DER on distribution networks could create, and the sea change that such “diversity destruction” presents for distributors in planning and operating their networks. New settings are required to keep distribution networks safe and secure in these evolving circumstances.
17. Better coordination and more efficient use of DER is an incredible opportunity for Aotearoa New Zealand. However, despite this, critical issues relating to safe and secure distribution system operation – especially protocols between participants, and the abilities of distributors to avoid network emergencies, and manage them if they do occur – are being deprioritised.
18. The Authority’s decision to delay indefinitely efforts to bring non-retailer aggregators into the Code, and ensure that they operate in ways that do not risk compromising public, consumer, device or network safety, remains perplexing. At this point in time, there are no protections in place. There has been no explanation why this has been removed from the work programme, when consultation in the 2024 calendar year had been signalled repeatedly. This is not good practice.
19. This de-prioritisation is in stark contrast to Ofgem’s current proposal to introduce licensing for DER operators, given the emerging risks in this area². We urge the Authority to re-liven its activity, and follow Ofgem’s lead.
20. We are concerned that EDBs’ collective efforts to draw the Authority’s attention to these issues may somehow be misinterpreted as attempts to block progress, innovation or consumer choice. This could not be further from the truth. Making full use of the distributed flexibility available will be an essential requirement for the future system. Consumers’ trust and willingness to have third parties, like retailers and other aggregators, managing their devices will be hard-earned, and easily lost. Nothing will lose that trust – and social license for the sector – more rapidly than unnecessary outages or safety issues resulting from uncoordinated operation of DER. Retailers are increasingly signalling to us their understanding of the need to “respect the network” in how they operate DER, and we are asking for non-retailer aggregators to do the same.
21. Put another way, it is essential we do not attempt to build the “house” of market participation by aggregated resources before the “foundations” of safety and stability settings, and effective operational coordination, are in place.

Increased coordination between regulators is imperative

22. Finally, we reiterate a common theme from many of our previous submissions, that we expect to see evidence of much greater levels of coordination between New Zealand’s three energy regulators, and with the other two members of the Council of Energy Regulators.
23. As we understand it, New Zealand’s regulatory arrangements, and the split of responsibilities between the parties, are globally unique, and are basically a quirk of the way the various arrangements have evolved over time. This makes the need for coordination all the more imperative – both on the specific workstreams that cut across multiple jurisdictions and statutory objectives, and in how the sector is engaged. There

² See <https://www.ofgem.gov.uk/sites/default/files/2025-12/Smart-Secure-Electricity-Systems-Implementing-the-load-control-licensing-regime-consultation.pdf>

needs to be more transparency of how this is occurring, and an opportunity to feed back on how well (or not) this is occurring.

24. Our detailed responses to the consultation questions are set out in the following section. In summary, Vector:
- a) is broadly supportive of the Authority's proposed approach to the GMO appropriation, subject to continued focus on value for money and prioritisation of high-impact workstreams
 - b) strongly supports work on DER/CER integration, flexibility services, digitalisation and wholesale competition as areas where the Authority's efforts can deliver the greatest long-term benefits for consumers. Workstreams with more speculative benefits should be scaled back
 - c) supports the proposed treatment of the security-of-supply and litigation appropriations, while encouraging transparency and coordination with other regulators and policy agencies.
25. No part of this submission is confidential. We are happy for it to be published in full. If you have any questions about this submission or would like to discuss any of the points we have raised, please contact me in the first instance.

Yours sincerely



Dr James Tipping
GM Market Strategy / Regulation

Responses to consultation questions

Q1: Do you agree with the proposed approach to the Authority's Electricity Industry Governance and Market Operations appropriation for 2026/27?

26. Vector is broadly supportive of the Authority's proposed approach to the *Electricity Industry Governance and Market Operations* (GMO) appropriation for 2026/27, noting the small net increase from \$119.7 million in 2025/26 to \$120.0 million in 2026/27 and the proposal to absorb around \$3.2 million of additional internal cost pressures.
27. From Vector's perspective, the key test for any uplift in levy-funded appropriations is whether it delivers clear, long-term benefits for consumers relative to the impact on bills, and whether it supports an orderly, efficient transition to a more decentralised, digital and low-emissions energy system. The Authority's proposal to absorb inflationary pressures and new monitoring and enforcement responsibilities, while seeking a modest net increase primarily to meet contractual inflation adjustments for service providers, is consistent with that test in principle.
28. We agree that the Authority requires sufficient capability to implement and enforce level-playing-field reforms, strengthen monitoring and compliance, and support the development of flexibility services, security products and digital tools. Under-resourcing these areas would risk slower progress on reforms that are central to improving wholesale competition, integrating DERs and CERs, and ensuring security of supply at least cost. As noted in our cover letter, we would also support the Authority explicitly investing more in its ongoing monitoring systems and processes.
29. At the same time, a large share of the GMO appropriation is now committed to third-party service providers, and inflation-indexation of those contracts will continue to place structural pressure on the overall levy. As the consultation paper notes, around 62% of the appropriation in 2025/26 funds service provider contracts, with the System Operator alone accounting for approximately 46%. We therefore support the Authority's commitment to robust commercial management of these contracts and expect future procurement and renewal processes to place strong weight on efficiency, innovation and demonstrable value for money.
30. We would welcome additional transparency, either in this or future appropriations consultations, on:
- a) the sources of the \$3.2 million in internal cost savings and efficiencies, including how AI- and digital-driven efficiencies are being realised in practice;
 - b) the balance of expenditure across major work programme themes (for example, competition and market monitoring, DER/CER and flexibility, consumer protection, digitalisation and data); and
 - c) the performance measures and outcome indicators the Authority will use to demonstrate that the additional monitoring and enforcement capability and other initiatives funded through the GMO appropriation are delivering benefits commensurate with their cost.
31. Provided that the proposed GMO appropriation is accompanied by continued discipline on work-programme scope and problem definition, rigorous prioritisation of high-impact projects, and transparent reporting on value for money, Vector is comfortable with the Authority's proposed approach for 2026/27. Except to promote greater capability in monitoring, we would not support further material increases in the GMO appropriation in future years without a clear, evidence-based case that additional funding is required to deliver well-defined consumer benefits that cannot be achieved through reprioritisation or efficiency gains.

Q2: Do you have any feedback on the Authority's work programme for 2026/27?

32. Overall, Vector considers the Authority's proposed 2026/27 work programme to contain the right broad themes, and we support the continued focus on affordability, competition, flexibility, digitalisation and security of supply. Many of the proposed initiatives are closely aligned with Vector's strategy to orchestrate DERs and CERs on our distribution network to reduce peak demand, defer network investment and improve long-term outcomes for consumers.
33. In particular, we strongly support the priority given to:
- a) implementing and enforcing level-playing-field Code changes, non-discrimination obligations on the gentailers, updated market-making arrangements and the 'super-peak' hedge product, as these go directly to the heart of wholesale competition, risk management and consumer confidence
 - b) developing standardised flexibility products making it easier for batteries and other flexible resources to participate in the market, provided they are supported by robust load management protocols
 - c) advancing digitalisation, consumer data-sharing and improved consumer switching and comparison tools, so long as these are designed in ways that do not inadvertently create new barriers or costs for distributors, retailers or innovators.
34. From Vector's perspective as an EDB, the key to maximising the value of this work programme is to ensure that:
- a) data and digital initiatives support, rather than constrain, low-voltage visibility and DER orchestration on distribution networks – including through workable commercial access to smart meter consumption and power-quality data, and clear, enforceable standards for data sharing
 - b) flexibility products and services are designed to be scalable and to recognise the operational realities and reliability obligations faced by distributors, including alignment with Commerce Commission reliability standards and pricing methodologies
 - c) network connection-related work acknowledges the practical constraints on EDBs in managing connection queues, hosting capacity and export limits, and supports approaches such as flexible export arrangements that can maximise access for consumers while protecting the long-term interests of all users of the network.
35. We encourage the Authority to maintain a clear distinction between initiatives that deliver direct, near-term benefits to consumers and those that are more exploratory or speculative. In our view, the highest-priority areas for 2026/27 are:
- a) embedding and enforcing the level-playing-field reforms and associated monitoring and analytics;
 - b) progressing flexibility services and standardised products, with explicit consideration of the role of distribution-level DER/CER orchestration and of the EDB/retailer interface, and incorporation of non-retailer DER managers in the Code (as well as ensuring they enter binding operating protocols with their host EDBs);
 - c) digitalisation initiatives that unlock the value of existing data assets (for example, smart meters) and support efficient DER integration and pricing reform; and
 - d) targeted work on security-of-supply standards, ancillary services and forecasting that recognises the contribution of distributed resources alongside grid-scale investments.
36. Of particular note, the Authority's decision to delay indefinitely efforts to bring non-retailer aggregators into the Code, and ensure that they operate in ways that do not risk compromising public, consumer, device or network safety, remains perplexing. At this point in time, there are no protections in place. There has been no explanation why this has been removed from the

work programme, when consultation in the 2024 calendar year had been signalled repeatedly. This is not good practice.

37. This de-prioritisation is in stark contrast to Ofgem's current proposal to introduce licensing for DER operators, given the emerging risks in this area. We urge the Authority to re-liven its activity, and follow Ofgem's lead.
38. We also see value in the Authority continuing to strengthen its engagement and coordination with the Commerce Commission, MBIE and other agencies on matters such as data, digitalisation, investment efficiency, security-of-supply and enabling DER/CER participation. Misaligned regulatory settings can slow investment and innovation and increase costs for consumers.
39. Vector would welcome ongoing opportunities to engage with the Authority as the 2026/27 work programme is refined and implemented, including through workshops and technical working groups on topics such as flexibility services, retailer- and non-retailer operating protocols, DER/CER data visibility, and the practical implementation of new Code obligations on both distributors and retailers.

Q3: Do you agree with the proposed approach to the Authority's Managing the Security of New Zealand's Electricity Supply appropriation?

40. Vector agrees with the Authority's proposal to maintain the *Managing the Security of New Zealand's Electricity Supply* appropriation at its current level through to 30 June 2027, with no changes for 2026/27.
41. We recognise that this is a contingent, multi-year appropriation that is only called on in the event of emerging or actual security-of-supply situations, and that levies are collected only to the level of actual expenditure incurred. In that context, we consider the current funding envelope of \$6 million over five years to be a reasonable provision to support the System Operator's additional monitoring and management responsibilities and any official conservation campaigns that may be required.
42. Recent winters have highlighted the importance of a well-functioning security-of-supply framework, with clear roles for the System Operator, the Authority and market participants. While this appropriation is relatively small in the context of overall electricity system costs, it plays a useful role in enabling timely, coordinated responses when risks emerge.
43. Our main expectations in relation to this appropriation are that:
 - a) clear criteria and processes continue to govern when the System Operator may seek funding, and how proposals are assessed by the Authority;
 - b) any use of the appropriation is accompanied by transparent reporting to industry on the circumstances, actions taken, costs incurred and lessons learned; and
 - c) security-of-supply responses funded under this appropriation make appropriate use of demand-side flexibility and distributed resources, alongside traditional generation-side measures, where this is efficient and practicable.
44. On this basis, we support the Authority's proposed approach to the Managing the Security of New Zealand's Electricity Supply appropriation for 2026/27.

Q4: Do you agree with the proposed approach to the Authority's Electricity Litigation Fund appropriation?

45. Vector agrees with the Authority's proposal to maintain the *Electricity Litigation Fund* appropriation at its current level of \$1.5 million for 2026/27.
46. A credible compliance and enforcement regime is essential for the efficient functioning of the electricity market and for maintaining trust and confidence in regulatory outcomes. The Litigation Fund plays an important supporting role by ensuring that the Authority can participate effectively and without delay in judicial review and appeal proceedings, and can pursue enforcement action where this is warranted. These are critical components of the overall regulatory framework.
47. We note that this appropriation is contingent and will only be drawn on when specific events arise. In that context, we consider the proposed level to be appropriate. We would not support a material increase in this appropriation without clear evidence that current funding levels are constraining the Authority's ability to fulfil its statutory functions.
48. From Vector's perspective, litigation should remain a critical last resort within a broader compliance framework that emphasises:
 - a) clear, practical Code requirements and guidance;
 - b) proactive monitoring and early engagement with participants; and
 - c) proportionate responses to non-compliance, with an emphasis on addressing root causes and promoting behavioural change.
49. We would welcome continued transparency around the use of the Litigation Fund, including high-level reporting on the types of cases supported, outcomes achieved and any implications for future policy or Code development. This would help levy payers to better understand how this appropriation contributes to the long-term benefit of consumers.