

5 June 2026

Erik Westergaard
Acting Chair
Electricity Authority
PO Box 10041
Wellington 6143

Dear Erik,

Advice from 20 May 2026 SRC Meeting

The Security and Reliability Council (SRC) provides the Electricity Authority Te Mana Hiko (Authority) with independent advice on the performance of the electricity system, the system operator and reliability of supply issues.

Thank you for the Authority's response to the SRC's March 2025 advice. The SRC is encouraged by your assurances that the future security and resilience programme is comprehensive and addresses challenges and opportunities of the energy transition, including increasing intermittency, a changing generation mix, declining system inertia, the adoption of new technologies, and evolving demand side behaviour. We comment further on these challenges and opportunities in this letter.

The SRC notes the Authority's comments on gas decline, energy policy and tree regulations. Each has significant – even profound – implications for the security, reliability and performance of the electricity system. The SRC encourages collaboration across the agencies and regulators to ensure these issues do not fall between the gaps of regulation and perceived organisational boundaries.

1. The May SRC meeting

The SRC met at a time when electricity supply conditions have eased, where futures prices have fallen and are coming into line with the long run cost of generation. In contrast, we see supply crises for gas and imported liquid fuels risking energy security and with knock-on effects to electricity supply.

The focus of the May SRC meeting was on maintaining grid stability amidst rapid scaling of inverter-based resources for generation and distributed energy resources.

In addition, the SRC received:

- a joint security of supply briefing from the Authority and System Operator
- a briefing on electricity system exposure to fuel shortages from Transpower.

The SRC acknowledges and thanks all the presenters to its May meeting.

Advice

This letter summarises the SRC's May meeting and its recommendations to the Authority. These are to:

1. **not relax efforts** to enable and incentivise generation build. Continued investment is required to meet demand growth and encourage further growth through lower prices.
2. **continue** to mature understanding and forecast capabilities for system demand and supply. This is a core capability for the Authority and System Operator.
3. **consider**, with the SO, the impact of daily gas delivery limitations on security of supply (both capacity and energy) in its modelling and monitoring processes.
4. **continue to prioritise** and keep a very close eye on regulatory enablers and System Operator readiness for accelerating system-wide deployment of IBR.
5. **explore opportunities**, with the System Operator, for increased use of sensing and AI to understand, forecast and predict system stability as investment in IBR and DER grows and perfect information provision becomes more challenging.
6. **act early** and ensure readiness for the potential for at-scale transition from gas to electricity (and alternatives) resulting from the Government's gas transition scheme.

2. Security of supply outlook

The May briefing covered the current market situation, forecast supply / demand balance and security of supply outlook for 2026, historical and futures prices, the expected El Nino climate cycle, fuel availability (hydro, gas, coal), generation plant availability, the 'generation pipeline', the BESS roadmap and planned regulatory and reporting changes.

In discussion with presenters, the SRC:

- welcomed the positive autumn energy situation, with above mean hydro storage, large coal stockpiles, adequate gas stores and expectations of significant generation coming online during winter 2026; noting the likelihood of a 'very strong' El Nino cycle from late winter with potential lower inflows.
- noted a more relaxed stance on generation capacity adequacy and encouraged caution noting favourable hydrology reduces the likelihood that slow-start thermal will be available to the market, thus reducing capacity margin for cold, still periods.
- noted the decline in forward prices, after a protracted period (impacted by Tiwai uncertainty and gas shocks) of prices well above long run marginal cost (LRMC). Recent investment needs to continue for prices to remain at these levels to restore consumer confidence.
- discussed enhancements to System Operator analysis and forecasting and pressed for ongoing focus in this area, specifically on temporal profiles for intermittent generation where smart forecasting is increasingly critical.
- Noted initiatives by the Authority to improve visibility of embedded generation and DER.

Falling futures prices are a welcome sign of an improving supply-demand balance. The extended period of tight supply and high energy prices will have slowed electrification.

There is now potential for falling forward prices to coincide with gas conversion assistance and insecure and costly liquid fuels, spurring long-anticipated electricity demand growth.

Recommendations 1-3 above relate to the security of supply discussion.

3. Navigating NZ's energy transition: maintaining grid stability

The System Operator, Authority and Bespoke Energy presented to the SRC on the implications, challenges and opportunities presented by an increase in inverter-based resources (IBR) on the system.

In discussion with presenters, the SRC:

- noted the growing role of IBR in the generation mix and utilisation of DER including 'beyond the meter' and the increasing complexity, uncertainty and risk this presents for managing grid stability – in particular frequency stability, converter-driven stability and resonance stability.
- heard that new problems require new tools to complement those already in use. That, in addition to analytical tools and monitoring systems, technical guidelines and technical expertise are required, but that expertise is in very short supply.
- acknowledged work by the System Operator and the Authority, while noting apprehension and uncertainty from both organisations that these efforts would satisfactorily address grid stability risks.
- agreed that New Zealand should learn from Australia's experience that, to minimise costly remediation and system risk, governance and capability (tools, processes, resources) must scale at the same pace as asset deployment on the power system.
- cautioned to not lose sight of the impact of small-scale roof-top solar inverters in very large numbers, and the impact they may ultimately have on the transmission network and system operation. Moreover, noted that the System Operator could take a leadership role in supporting electricity distribution businesses with appropriate voltage protection settings in small-scale inverters such that they do not contribute to excessive reactive power flows on the transmission network, if such reactive power flows are deemed detrimental.
- welcomed the frankness shown by all presenters, their wish to avoid conveying false confidence or any sense of complacency, and assurance that work to ensure future grid stability is a top priority for the Authority and System Operator.

This was an informative and positive but concerning discussion. Alongside significant opportunities, IBR and DER bring complexity, challenges and risks - that we do not currently have the tools and capability to manage confidently across all aspects of grid stability.

The SRC is encouraged that the Authority and System Operator understand this, viewing work to ensure future grid stability as a top priority and are assigning resources and focus accordingly. The SRC agreed to follow up with the System Operator and the Authority regularly regarding grid stability.

Recommendations 4 and 5 above relate to the maintaining grid stability discussion.

The SRC found the tutorial provided to it by Transpower and Authority staff very helpful and can recommend this to the Authority Board and leadership team.

4. Impact of liquid fuel supply disruption

Transpower's representative on the NEMA lifelines council and the System Operator presented to the SRC on the impacts of disruptions to global fuel supply chains on the electricity system.

The SRC heard that, in contrast to many jurisdictions and domestic liquid fuels markets, the electricity system had not yet been materially impacted by global fuel disruptions but has been affected, specifically through:

- a significant increase in price for the approximately 750,000 litres of diesel required to support the electricity system per week
- price pressures on coal as LNG shortages drive demand for coal.

In discussion with presenters, the SRC:

- Noted potential for the situation to worsen and for a protracted period of restricted supply and tight prices.
- Noted proactive approach being taken to understand sector wide fuel requirements.
- Discussed the potential for fuel insecurity and cost to combine with gas conversion assistance to spur electrification.
- Continued generation investment is essential both to restore confidence in the competitiveness of electricity and meet new demand.

Recommendation 6 above relates to the fuel supply disruption discussion.

5. The SRC's next meeting

The SRC's Q3 (September 2026) agenda is still being finalised. This is the SRC's annual risk and strategy session, the focus of which is expected to:

- be looking to demand and supply projections beyond 2030 and assessing their implications
- security, reliability and system performance in a high growth, high IBR, electrified economy.

The SRC also asked to meet with the council of energy regulators and to be briefed on MBIE's regulated dry year solutions and the new System Operator security of supply assessment.

Members are looking forward to meeting with the Authority Board in September.

Yours sincerely,



Hon Heather Roy
Chair of the SRC

cc: SRC members, Sarah Gillies, Natalie Bartos, Hayden Glass (Authority)