

30 September 2026

John Harbord
Chair, Electricity Authority
Electricity Authority
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Dear John,

Advice from the 16 of September 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.

The SRC enjoyed meeting with the Authority Board, the chance to meet new Board members and the discussion of challenges and opportunities facing the electricity system. We note the stronger focus on security of supply in the updated Government Policy Statement (GPS) and the potential for the SRC to support the sector in this area.

In parallel, focus must remain on generation build and, in particular, firm generation / demand response to manage the growth in system peak, which appears to be increasing at a higher rate than energy growth.

The September Meeting

The SRC held its annual strategy and risk session at the September meeting. This session, focused on the 2030s, involved an assessment of the current state and macro trends shaping energy systems globally and in New Zealand. In essence, it highlighted the potential for two very different worlds, depending on the choices we make today:

1. one world where current challenges and debates persist, prices continue to rise, electrification is slowed and the economy stutters.
2. an alternative world where we have addressed current challenges, captured the benefits of distributed energy resources (DER), prices flatten and remain competitive, electrification accelerates and the economy flourishes.

This discussion informs the advice provided in this letter, the SRC's focus for the coming year, and a clear view that the SRC can help guide New Zealand towards the second scenario.

The SRC also received briefings on and discussed:

- security of supply from the Authority and System Operator
- the Annual Security of Supply Assessment (SOSA) from the System Operator and, from the Authority, reviews of the Security Standards and Security Standards and Assumptions Document (SSAD)
- the Authority's strategic priorities

- the government's proposal to strengthen the dry year regulatory framework from the Ministry of Business, Innovation and Employment (MBIE).

The SRC acknowledges and thanks all the presenters and discussants for the September meeting, in particular those who joined for the strategy and risk session: Wendy McGuinness (McGuinness Institute), Tim Nelson (Nelson Advisory), Vincent Smart (Energy Efficiency and Conservation Authority), and David Reeve (Sapere).

Advice

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

1. **Scrutinise policy drivers** behind the recent divergence between peak and energy demand growth. Continuation of this trend without suitable mitigation could result in unnecessary network investment and lock in unnecessary price rises.
2. **Critically assess short, medium and long term firming** options in a gas-constrained, post-Rankine world. In other words, from the mid-2030s. Significant additional flexible, firm, and fuelled generation, alongside battery energy storage systems (BESS) and load response, are required to meet current demand, let alone meet projected growth.
3. **Strategically assess *how and who*** can bridge the 'tenor gap' to de-risk generation investment, particularly for firm, flexible and fuelled generation. Stable long-term price signals are needed to rebuild confidence and support electrification; the current state is optimised for 'just in time', driving volatility.
4. **Accelerate and embolden** moves to bring about the system-wide coordination of distributed energy resources (DER) required to capture the tremendous upside on offer and avoid the tremendous downside risk from network expansion that does not capture the benefits of DER coordination and increases stability risk.
5. **Lock in and redouble initiatives** to close gaps and 'virtually integrate' the five key energy regulators. The current model is unfit for the challenges ahead. Regulators need common objectives on strategic issues, integrated planning and prioritisation.
6. **Ensure the Authority's review** of the Security Standards and SSAD are sufficiently ambitious, accounts for the changing system, and MBIE's winter reliability proposals. More broadly, fresh consideration of similarly aged rules impacting security and reliability, such as the value of lost load and grid reliability standards..

1. The Security of Supply Outlook

The September briefing covered the current market situation, forecast supply / demand balance, the impacts of the El Niño climate cycle, fuel availability (hydro, gas, coal), generation plant availability, the 'generation pipeline', the Rankine unit outage, the Manapouri islanding event, and the growth in peak demand. In discussion with presenters, the SRC:

- Noted that late July and early August saw eight of the ten highest demand peaks of the year. Planned and unplanned thermal plant outages contributed to extremely tight capacity margins. The price signals for constrained-on generation need to be sufficient to ensure long-term capacity investment continues.

- Contrasted the growing requirement for firm, flexible and fuelled generation, BESS, and load response with the notable lack of such plant in the 'generation pipeline' and the declining reliability of the remaining thermal fleet (due to fuel availability, ageing and less diverse plant).
- Expressed concern at the divergence in peak and energy demand growth this decade – peak has increased by approximately 10% (800MW) while energy demand has been broadly flat¹. Scrutiny of the policy and market drivers behind this divergence is required to arrest this trend and optimise the timing for network investment.
- Discussed the visibility challenges at a distribution level, acknowledging that the current lack of visibility of usage patterns on low voltage networks will become an acute problem as electrification and distributed energy resources continue to grow. The SRC is aware of concerns with distributors' ability to access meter data on reasonable terms (price and non-price) from metering services providers.

The SRC commends the System Operator and sector for avoiding involuntary load shedding during the recent cold snap. However, this was a very close call. The experience should serve as a warning, be a call to action and reinforce the urgency of developing firm, flexible and fuelled generation, BESS, and load management.

SRC recommendation 1 relates to this discussion.

2. Risk and Strategy Session: beyond the 2030s

The SRC's Risk and Security Strategy session focused on the 2030s and beyond. It was focused on understanding challenges and opportunities, and on identifying how choices (action or inaction) taken today can direct us down the alternative paths identified in the introduction to this letter.

In discussion with presenters, the SRC:

- Noted the profound change and exponential increase in risk of malign acts. AI is a force multiplier for malign actors while geopolitical instability and a changing world order alter the motives of, and introduce new, malign actors.
- Discussed the profound impact of choices made today on the future performance and reliability of the electricity system. Which of the alternative worlds, presented in the introduction to this letter, New Zealand finds itself in by the mid-2030s is largely down to choices we make in the very near future.
- Agreed that, while New Zealand's power system differs from Australia's, it faces many similar challenges, notably growing weather dependency. Outcomes of the Nelson review are to help markets bridge the 'tenor gap', reduce risk and enable investment in medium- to long-term storage, firm and flexible generation, BESS, and load management alongside intermittent build.
- Agreed that, like Australia, DER (specifically EVs, rooftop solar, and batteries) will be a (or the) primary source of intra-day flexible demand and generation. If well-coordinated, this can support a lower cost system with falling per kWh prices; alternatively, if not well coordinated, it will drive up costs and per kWh prices.

¹ EMI data shows load factor in the year to August is the lowest since records began in 2005.

- Agreed that New Zealand currently lacks the tools, market participation settings, and incentives to coordinate EV and DER utilisation. This puts us on a trajectory* for multi-GW growth in peak demand that is unnecessary and will lead to a less secure, higher-cost electricity system, i.e. not the trajectory we want to be on.
- Considered the biggest obstacle is not the lack of ideas or solutions, but the lack of strategy, leadership and coordination. In short: industry looks to government / regulators and vice versa; each has their narrative, deflects responsibility and spins wheels. Meanwhile, energy users suffer and politicisation exacerbates uncertainty.
- Discussed how the 15-year absence of an energy strategy is both a key contributor to current challenges and increasing politicisation, and a strategic risk in itself. As the SRC sees it, such a strategy is necessary to bring cohesion, provide confidence and prepare New Zealand for the change – and inevitable challenges – ahead.

In this context, the SRC challenges the Authority to be bolder and take a stronger leadership role in facilitating the development of that energy strategy.

The SRC was encouraged by the quality and candour of the presentations but is seriously concerned that New Zealand's institutions are not yet organised to act at the pace presenters described. There is also concern about an over-emphasis on matters that distract from the crucial issues driving system performance, security and reliability.

The SRC also discussed changes in the cost of key components of electricity bills, laid out transparently in the secretariat's briefing. This analysis highlighted the drivers of recent (and expected) price increases and the likely consequences of failing to act in the areas discussed above. It is important that policy makers and regulators acknowledge their role in (a) precipitating these historical price increases and (b) contributing to, or avoiding, future price increases.

SRC recommendations 2, 3, 4 and 5 relate to this discussion.

3. Annual Security of Supply Assessment and the Security Standards review

The System Operator presented its annual SOSA and the Authority presented its review of the Security Standards and the Security Standards and Assumptions Document (SSAD). In discussion with presenters, the SRC:

- Noted the improved position shown by the 2026 SOSA position relative to 2025, reflecting a better supply / demand balance after recent and forecast generation commissioning.
- Queried whether HVDC upgrades and emerging wind drought risk are adequately reflected in the current analysis, noting increasing reliance on wind for capacity and energy.
- Noted the Security Standards and SSAD are unchanged since 2012 and considers the current review should revisit core assumptions and be forward looking – taking account of fundamental shifts in system dynamics (supply and demand side).
- Discussed the validity of prevailing assessments of economic efficiency and security of supply as electrification progresses – reliance on electricity will grow with the electrification of transportation and (more) industry. Put another way, as we reduce our fuel diversity, do our security levels change?

- Discussed, in that context, the appropriateness of unserved energy (the 22 hours of unserved energy) and current network reliability standards, specifically the grid reliability standards (GRS) and value of lost load (VOLL) which are also important but possibly outdated, noting the Authority has indicated a review of the latter.
- Observed that the reviews should consider interplay between Security Standards and the SSAD and MBIE's Winter Energy Reliability Obligation proposal and associated reporting.

SRC recommendation 6 relates to this discussion.

4. Electricity Authority strategic priorities

The Authority presented its strategic framework, developed and finalised recently. The strategic priorities, in our view appropriately, elevate security and reliability, reflecting similar elevation in the GPS. The emphasis on the clear, focused messages within the framework was welcomed.

While we appreciated this briefing the SRC did question why the Authority did not consult it during the development process. By comparison, the System Operator, in developing its strategic priorities, spent several hours briefing and engaging with the SRC and other stakeholders. The GPS and the Authority both envisage greater focus on security and reliability, and we encourage the Authority to take advantage of the independent advice available from the SRC.

5. Dry-year regulatory framework

MBIE presented on its proposal to strengthen the dry-year regulatory framework, arising from the Frontier report and the Government's energy policy package. The proposals are aimed at mitigating dry-year risk. In discussion with presenters, the SRC:

- Queried interdependencies between the proposed Winter Energy Reliability Obligation (WERO), the SOSA and SSAD review and the proposed new annual security of supply assessment by the Authority. The SRC also questioned the robustness of the SOSA/SSAD if they are moving from an information-only role to underpinning a significant regulatory obligation on market participants.
- Sought clarification on the role proposed for the SRC.
- Raised concerns about the potential cost of a discretionary fuel supply or 'must run' obligation under the WERO, and the risk of distorting market signals.

The SRC supports the underlying objective of mitigating dry-year risk, though it was not convinced the new obligation is the most efficient way to achieve this objective. The SRC encourages MBIE to robustly test the costs and benefits, including potential distortionary effects, before reaching policy decisions.

6. Other matters and Q4 SRC agenda

The SRC was pleased that Authority staff were able to observe and participate in the September SRC discussions. We hope this involvement adds colour to the drier articulation of issues and advice in this letter, the accompanying briefings and meeting minutes.

The SRC is pleased the government has completed its modernisation of the tree regulations. While the changes are welcome, the SRC considers that more should be done on tree regulations and hopes to see continued work in this space. As the Authority is aware, network damage from poorly managed trees is the largest cause of supply loss and imposes very large costs on electricity consumers.

The agenda for the SRC's Q4 (November 2026) meeting is still being finalised. At this stage it includes:

- reviewing the System Operator's annual self-assessment
- a progress check with the System Operator and Authority on joint grid stability work under the Future Security and Resilience programme
- a briefing on automatic under-frequency load shedding (AUFLS) changes
- an update on the independent review of the System Operator.

The Q4 meeting is also likely to involve a deep dive into intra-day, week to week and seasonal capacity, energy, and grid stability risk in light of changing demand patterns, DER penetration and generation resources.

Yours sincerely,



Hon Heather Roy

Independent Chair of the SRC

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