

- 2.46. This means making tough decisions, driving greater value from the funds we receive and being proactive about ensuring market rules enable, rather than hinder, better outcomes for consumers.
- 2.47. Our programme of work moves us beyond winter-to-winter management to a roadmap looking out years and decades. This is how we prepare for a future where more participants interact with the market, and security of supply is as much about demand response as it is about transmission towers and power lines.
- 2.48. The Authority is making increasingly difficult trade-offs about where to focus resource. Being proactive and ready for change is essential for regulating through uncertainty and change. As the regulator, we must have capacity to respond to immediate and pressing issues that impact consumers in the short term.
- 2.49. As the economy electrifies and electricity use increases, it is imperative that we keep pace with the speed of change to keep the lights on.

Proposed appropriations 2025/26

- 2.50. The Crown funds the Authority through appropriations of public money. The Crown recovers the cost of this funding, up to the level of actual expenditure incurred, through a levy on electricity industry participants.
- 2.51. Levies are charged to industry participants in accordance with the Electricity Industry (Levy of Industry Participants) Regulations 2010. These regulations are made on the recommendation of the Minister for Energy and are administered by MBIE.
- 2.52. Each year we prepare an appropriations request for the Minister for Energy, outlining the costs of performing our functions and exercising our powers under the Electricity Industry Act.
- 2.53. The appropriations request covers the three appropriations available to the Authority. The *Electricity Industry Governance and Market Operations* appropriation is our main operating appropriation. Most of this appropriation is used to fund third-party service providers who operate the electricity system and markets, with the remainder used to fund the Authority's operations. Our Market Operation Service Providers must be procured externally and are inflation adjusted, creating further pressure on our funding. We are seeking an increase to this appropriation.
- 2.54. We also have two appropriations that are contingent in nature:
 - (a) *Managing the Security of New Zealand's Electricity Supply* appropriation
 - (b) *The Electricity Litigation Fund* appropriation.

We do not incur expenditure against these appropriations as part of our normal operations, but they ensure we can respond quickly and effectively if specific events or situations arise. We propose to maintain these two appropriations at their current funding levels.

- 2.55. The proposed appropriations for 2025/26 are detailed in the following chapters. A financial summary is outlined in Appendix C.

3. Appropriation 1: Electricity Industry Governance and Market Operations

About this appropriation

- 3.1. The *Electricity Industry Governance and Market Operations* appropriation is our main operational appropriation.
- 3.2. This appropriation is intended to achieve the promotion of competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers; and to achieve protection of domestic and small business consumers' interests in relation to the supply of electricity to those consumers.
- 3.3. This appropriation is limited to formulating, monitoring and enforcing compliance with the regulations and Code governing the electricity industry and other outputs in accordance with the statutory functions under the Electricity Industry Act 2010; and delivery of core electricity system and market operation functions, carried out under service provider contracts.

Our functions under this appropriation

- 3.4. This appropriation funds our operations, and the operation of the electricity system and market, enabling us to exercise our five main operating functions under the Act:
 - (a) **Promote market development:** we are responsible for maintaining a responsive and robust regulatory environment that keeps up with innovation and new technologies to enable electrification and deliver better outcomes for consumers. Key tools include market facilitation measures and amendments to the Code.
 - (b) **Monitor, inform and educate:** we monitor market behaviour and make data, information and tools available to help improve participation and understanding of the electricity markets by consumers and industry participants.
 - (c) **Operate the electricity system and markets:** we are responsible for the day-to-day operation of the electricity system and markets through contracted service providers.
 - (d) **Enforce compliance:** we monitor, investigate and enforce compliance with the Act, its Regulations and the Code by industry participants to create a fair and competitive market. We have an industry training programme to educate participants, share lessons learnt and help identify and resolve any systematic issues.
 - (e) **Protect the interests of small consumers:** we are responsible for protecting the interests of domestic and small business consumers in relation to industry participants supplying their electricity. This includes monitoring how electricity retailers and other industry participants deal with small consumers, including medically dependent and vulnerable consumers.

Third-party service providers

- 3.5. The appropriation for the Authority covers two clearly defined areas – operations of the Authority and third-party contracts for a range of services that enable the functioning of the electricity system and markets.

- 3.6. Currently, the cost of third-party contracts amounts to about \$75 million and accounts for about 70% of the Authority's appropriation.¹⁵
- 3.7. The Authority has contracts with six third-party providers:
- (a) **The system operator** (a service performed by Transpower) coordinates electricity supply and demand in real time in a manner that avoids fluctuations in frequency and disruption of supply.
 - (b) **NZX** operates the wholesale information and trading system that supports the 24/7 buying and selling of spot market electricity. NZX also performs a reconciliation manager role for calculating and allocating unaccounted for electricity as well as a clearing manager role (settling monthly, all trades on the spot and financial transmission rights markets).
 - (c) **Jade** acts as registry manager overseeing the electricity registry, a national database of every point of connection on local and embedded networks where a consumer or embedded generator is connected.
 - (d) **Energy Market Services** provides services for Financial Transmission Rights.
 - (e) **Vivienne Court (Vivcourt) Trading** provides commercial market making services.
 - (f) **Consumer NZ** provides the Powerswitch service.¹⁶

Service provider contracts are inflation-adjusted

- 3.8. Between each funding year, without any other changes to our baseline funding, the proportion of funding available to Authority operations decreases due to increases in third-party service provider costs.
- 3.9. The increases are due to third-party contracts being inflation adjusted. Third parties are paid more as inflation increases, and this comes out of funding for the Authority's core operations if we do not receive ongoing funding increases to ease the impact of inflation. This has a significant impact given third-party costs make up approximately 70% of the overall appropriation. Other than for the system operator, service provider contracts are procured on a commercial basis from commercial entities and the inflation mechanism had historically been an expectation of those providers, thus built directly into existing contracts.
- 3.10. Based on current information¹⁷, we expect about \$0.8 million will be required in 2025/26 (compared to 2024/25) to fund inflation uplifts across our third-party service providers. This is based on the mechanisms in those underlying contracts and excludes the increased costs of the system operator and comparison and switching service currently being procured/renewed.

¹⁵ See our [Statement of performance expectations 2024/25](#)

¹⁶ The service for comparison and switching of electricity plans is currently being procured through a competitive tender process, and we will have a new contract in place by 1 July 2025.

¹⁷ StatsNZ CPI for all groups increased by 3.33% in the quarter to June 2024.

Appendix C Summary of appropriations

	Final appropriation 2023/24 (\$m)	Budgeted appropriation 2024/25 (\$m)	Proposed appropriation 2025/26 + outyears (\$m)
Operational appropriation			
System operator contract expenses	47.1	49.6	55.2
Other service provider contract expenses*	23.4	25.4	26.2
Authority operating expenses	30.9	37.6	38.8
Total Electricity Industry Governance and Market Operations appropriation	101.4**	112.5***	120.2
Contingent appropriations			
Managing the Security of New Zealand's Electricity Supply (1 July 2022 to 30 June 2027)	6.0 over five years	6.0 over five years	6.0 over five years
Electricity Litigation Fund	1.5	1.5	1.5
Notes			
* Includes commercial market making as a third-party service provider contract. This was introduced in 2022/23.			
** We received an increase of \$4.6 million in 2023/24 to fund key workstreams and major regulatory reform from the Government's Emissions Reduction Plan, work arising from the review of the events of 9 August 2021, the Electricity Industry Amendment Act 2022, work required to improve wholesale market competition, and Authority support functions (includes prior year increase).			
*** We received an increase of \$10.9 million for 2024/25 to pay for increased service provider costs to operate the electricity system and markets and enable the Authority to keep pace with the rate of change required to support an orderly low-emissions transition and better serve all consumers.			
**** We are seeking an increase of \$7.8 million for 2025/26 to keep pace with inflation. While we will continue to prioritise and make trade-offs within our work programme, this uplift will enable us to fund the activities which deliver significant value to consumers and allows the Authority to maintain its current service level.			

Appendix D Summary of system operator proposal

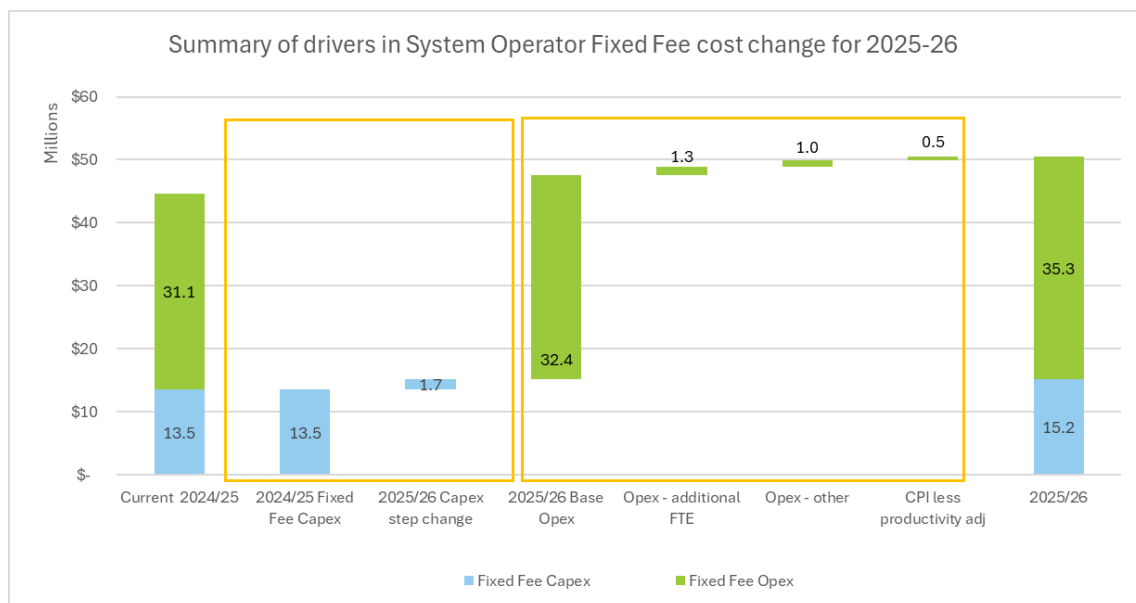
The system operator is a market operation service contracted by the Authority from Transpower. Section 8 of the Electricity Industry Act 2010 mandates Transpower as the system operator.

The system operator is responsible for co-ordinating electricity supply and demand in real time, in a manner that avoids fluctuations in frequency and disruption of supply. The system operator role also plays a role in facilitating the electricity market, including coordination of outages and operational security of supply.



The contract for the system operator service, known as the System Operator Service Provider Agreement is an evergreen contract with discrete funding periods which are periodically negotiated between the Authority and Transpower. Transpower’s proposal for the funding period July 2025 – June 2028 has been negotiated with the Authority over recent months. Transpower has advised that an increase of \$5.8m p.a. is the minimum level at which it will be able to meet its obligations as set out under the Code during a period in which the market and system is undergoing significant change.

The chart below²¹ shows a summary of the changes in the system operator costs for the 2025-26 year. Note that Transpower’s proposal is cost based (actual costs) with a base-step-trend adjustment applied and then averaged over the contract period. An opex risk margin of \$1.4m p.a. is included in Transpower’s proposal to address the risk associated with changing costs and scope of work required under the fixed fee contract while meeting code obligations. The costs within the contract are adjusted annually by CPI less a productivity reduction of 0.5%.



²¹ Excludes costs outside the fixed fee funding mechanism

Drivers of changes in cost for the system operator service

Capital expenditure

- a) Capex costs for 2025-26 consist of three elements: recovery of historical capex (\$4.6m recovery for projects commissioned in the preceding period); in-flight capex (\$5.2m recovery for projects in-flight but commissioning in the period), and new capex (\$5.4m recovery for projects started and commissioned in the period).
- b) Capex costs are proposed to increase by \$1.7m per annum to ensure investments are made to support the energy transition. These investments target improvements to stakeholder interactions and information sharing as well as adapting tools for a more complex operating environment with larger volume of participants. The increase also allows for replacement of legacy technology associated with critical control room applications and for inflationary adjustments to costs which have increased from the previous funding period.

A total increase of 15 FTE is proposed for the system operator service are incrementally added across the three-year funding period. The cost is smoothed, with the fee recoverable over the funding period²². Rationale for this uplift includes:

- a) Operations Planning (2 FTE) to support increased outage numbers forecast in Transpower's Grid Owner RCP4 submission. There is also an increase subject matter expert (SME) involvement in project work.
- b) Real time operations (1 FTE) to support the forecast increase in new generation connecting to the power system. This will support commissioning, testing and onboarding, mitigating the risk of new participants not understanding their operational obligations and how to interact with real-time control rooms during steady state dispatch as well as during grid emergencies.
- c) Power systems (2 FTE) to support modelling of increased connections, diversity in generation technologies and ongoing analysis of power system risks.
- d) Market services (3 FTE) to expand capacity to engage with the evolving industry and invest in evolving information provision to the market and control rooms. Also to ensure the market system and ancillary services tools and processes keep pace with an evolving industry landscape. In addition, a new capability will be developed to better support a growing number of participants and participation types through a function that leads information provision, engagement, record keeping, reporting and contracts administration.
- e) Operations Process and Technology Improvement (3 FTE) to bolster operational system support and scale project delivery.
- f) Information Systems and Technology (4 FTE) to support new platforms and tools that have been delivered, and to support increased project delivery needs.

Other operational cost increases of \$0.97m relate to IST operational costs to cover changes in the costs of ICT licensing fees, third party support and maintenance and outsourced services and increase in expenditure to undertake investigations prior to deliver of the increase capital project volume.

Some system operator costs are outside of the fixed fee funding mechanism which has recently been negotiated with Transpower. These relate to recovery of major capital projects such as the implementation of real time pricing. The costs for these elements are forecast to reduce by \$0.18m in 2025-26.

²² Note cost of 2.1 FTE relates to capital project work and will be recovered through capex fee and do not drive an increase on opex cost.