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Tēnā koutou,

## Waikato and Upper North Island Stage 2 (WUNI2): Major Capex Proposal Short-list Consultation

We welcome the opportunity to respond to Transpower's consultation on the short-listed options for the Waikato and Upper North Island Stage 2 (**WUNI2**) Major Capex Proposal (**MCP**).

As Powerco's customers will be allocated less than 5% of the benefit-based investments for the MCP, our feedback is specifically focused on Section 3.3 regarding Non-Transmission Solutions (**NTS**). While we support the use of NTS, we believe the framework should explicitly incentivise coordinated procurement of flexibility with the embedded Electricity Distribution Business (**EDB**) to minimise costs to consumers.

### Q7: Do you support the proposed NTS approach?

Powerco is currently collaborating with Transpower to optimise the use of NTS for its major capital project in the Western Bay of Plenty (**WBOP**).

The largest of Powerco's growth forecasts is in the Western Bay of Plenty, an area Transpower is also planning major investments to support regional growth. Together we are coordinating the procurement of flexibility as a non-network solution to defer augmentation investment.<sup>1</sup> Where Powerco contracts flexibility on networks that are hierarchically below the augmentation projects that Transpower is planning on deferring, Transpower can reduce the amount of flexibility that it procures because the network peaks are coincident, as illustrated in Figure 1.

This is not only a good example of how flexibility can be used to increase network utilisation to defer planned capital investment but also of how coordination across the sector ensures that customers do not pay twice for the same resource and so growth can be accommodated without a direct impact on network charges.

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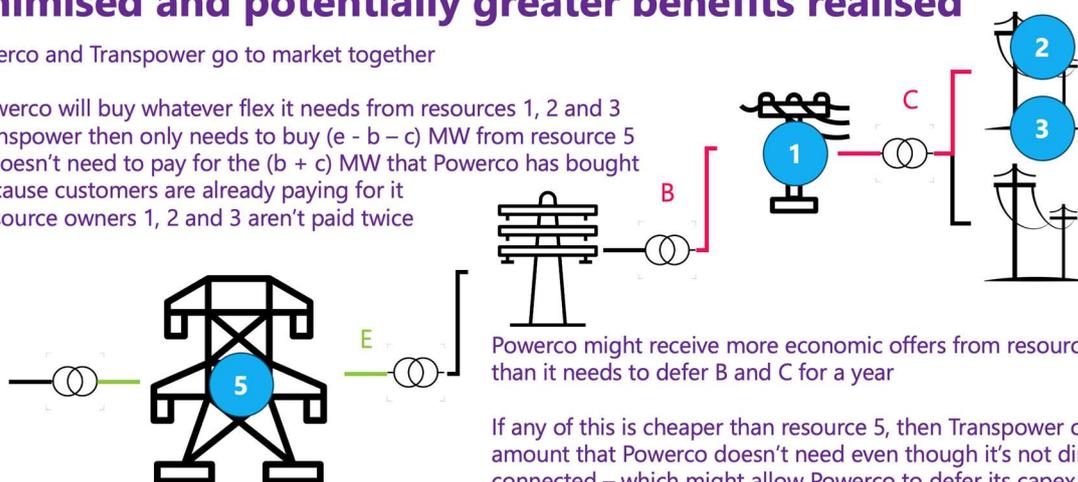
<sup>1</sup> <https://www.powerco.co.nz/news/media/plan-to-power-western-bay-of-plenty-into-the-future-released>

Figure 1 Coordinating procurement to minimise costs of flexibility

## By coordinating procurement, the costs of flexibility can be minimised and potentially greater benefits realised

If Powerco and Transpower go to market together

- Powerco will buy whatever flex it needs from resources 1, 2 and 3
- Transpower then only needs to buy  $(e - b - c)$  MW from resource 5
- It doesn't need to pay for the  $(b + c)$  MW that Powerco has bought because customers are already paying for it
- Resource owners 1, 2 and 3 aren't paid twice



If projects 1, 2 and 3 aren't enough for Powerco to defer B or C it would be efficient for Transpower to contribute up to the \$/MW cost of project 5 towards Powerco's "last resort" investment



Powerco might receive more economic offers from resources 1, 2 and 3 than it needs to defer B and C for a year

If any of this is cheaper than resource 5, then Transpower can pay for the amount that Powerco doesn't need even though it's not directly grid connected – which might allow Powerco to defer its capex for another year

It's possible that there might be enough combined flexibility offered to defer projects B or E for more than a year – in this case it might be efficient for Transpower to pay for enough flexibility from all 5 resources to top the total up 2e MW or for Powerco pay for enough from 1-3 to top the total up to 2b MW

### Coordinating flexibility procurement maximises benefits for consumers

Transpower's proposal for NTS in WUNI2 is about deferring planned investment for at least one year. Flexibility lower down a network hierarchy can defer multiple planned investments. Based on our experience with flex tenders in the WBOP, we have found that coordinating procurement (and operation) of flex resources ensures that end-consumers do not pay twice for the same resource and minimises long-term network costs. Where an EDB and Transpower go to market together, the EDB can procure flex to defer its own planned investments, meaning Transpower only needs to procure the remaining volume required for grid investment deferral.

There are opportunities for Transpower to optimise the procurement of flexibility for its own purposes by "topping up" the amount paid to flexibility providers on the local EDB's network. This approach aligns with the Commission's view in the WBOP decision: *We agree that appropriately designed NTS can be used to manage project delivery risk and may also assist Transpower and Powerco in managing the project coordination issues*<sup>2</sup>.

### Incentives must be sufficient to establish new flexibility resources

Like the WBOP MCP, Transpower's WUNI2 consultation proposes funding economic NTS for up to 12 months of deferred transmission capital expenditure. Our experience working with Transpower in the Western Bay of Plenty is that payments for 12 months are adequate to incentivise parties with flexibility resources that already exist to provide flexibility services for network investment deferral. Twelve months is not enough however, to persuade

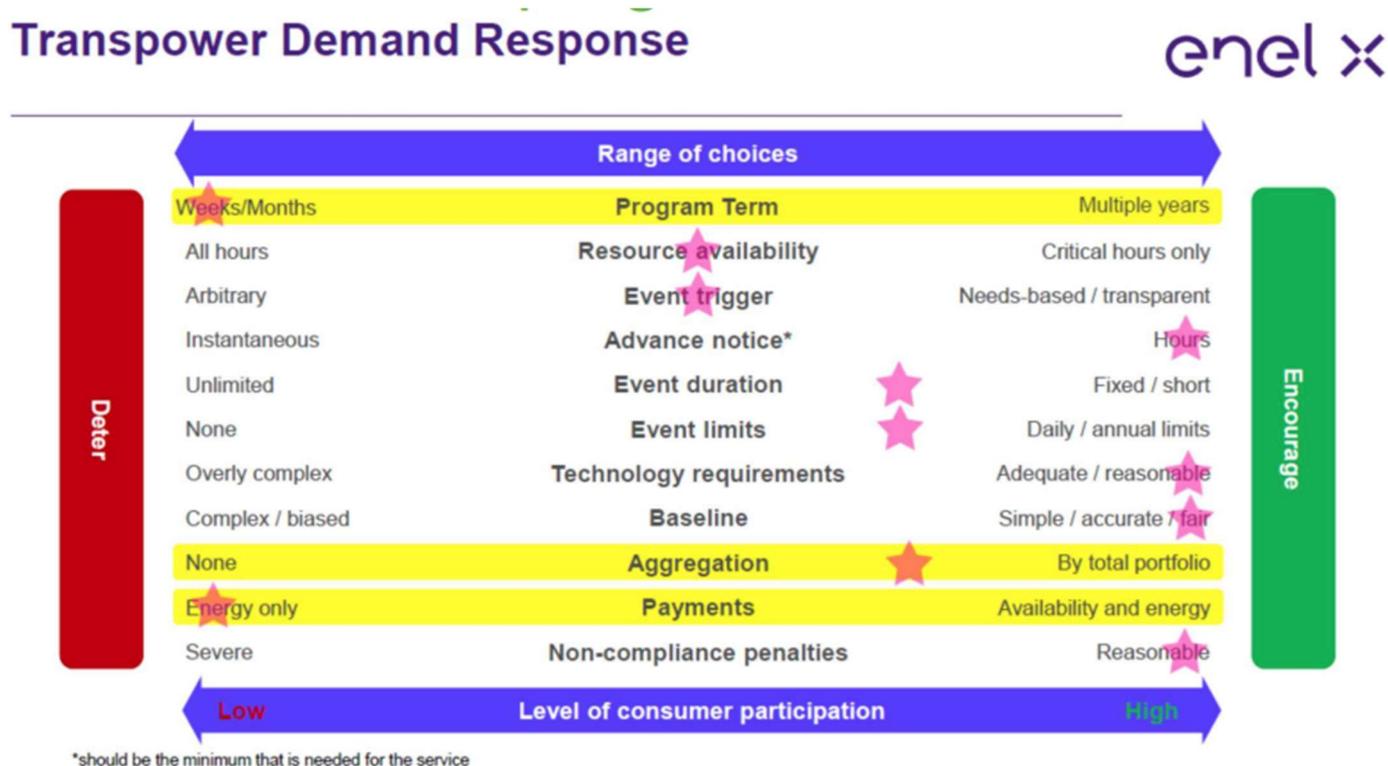
<sup>2</sup> Transpower's Western Bay of Plenty major capex project proposal - Final decision and reasons paper, Commerce Commission, 11 June 2025. 4.29

investors to establish new flexibility resources in locations where they are required to defer investment - whether arming demand so that it can be dispatched to respond to curtailment instructions or commissioning of new generation or storage assets in particular batteries.

To ensure security of supply and successful deferral, it will be necessary to offer longer term contracts (maybe three to five years) and availability or establishment payments so that investors are confident that they will recover the capital that they invest in establishing this new flexibility resource.

IPAG's review of Transpower's RCP2 Demand Response Programme included evidence from Enel X who were, at the time, the largest flexibility trader in the world and operated in New Zealand (refer Figure 2). Enel X's business is to build portfolios of flexibility resources in response to calls from flexibility buyers. Despite their clear capability, Enel X chose not to participate in the Transpower DR programme. Their reasons are instructive.

**Figure 2 IPAG review of Transpower's RCP2 demand response programme**



The key concerns that IPAG had with the design of Transpower's DR programme based on Enel X's assessment are that:

- the duration is too short, leading to a lack of surety for flexibility traders and flexibility owners. This means that flexibility traders are not encouraged to develop flexibility portfolios and flexibility owners are not encouraged to invest in flexibility resources
- a lack of an availability payment which does not encourage flexibility traders to develop flexibility portfolios and flexibility owners to invest in flexibility resources. This means that while Transpower's DR programme does a good job at tapping into existing flexibility resources it does not encourage investment in new flexibility resources.<sup>3</sup>

<sup>3</sup> [https://www.ea.govt.nz/documents/528/IPAG\\_review\\_of\\_Transpower\\_DR\\_programme\\_-\\_slide\\_pack.pdf](https://www.ea.govt.nz/documents/528/IPAG_review_of_Transpower_DR_programme_-_slide_pack.pdf) slides 65 and 66

Enel X's concern was not about additional payments, it was the form of those payments. Powerco's early trials of flexibility tenders included availability payments and a 3+2 year term. We recommend EDBs and Transpower build on this in the design of future flexibility contracts.

### Collaboration requires appropriate incentives

We are of the view collaboration works best when parties see the tangible value and benefits in participating and are incentivised to do so.

At present, transmission costs are a pass-through. There is no obligation on Transpower to co-optimize the procurement of flexibility as a non-transmission solution with the embedded EDB. The opportunities to reduce costs to consumers by doing so are real and present, as we have demonstrated in the Western Bay of Plenty.

Ideally, the EDB would procure what it needed to defer any planned distribution below the MCP in collaboration with Transpower and recover this through distribution charges as "Avoided Cost of Distribution". As the Commission notes in its decision on NTS funding for the WBOP MCP, <sup>4</sup> *fund will facilitate the development of alternatives to transmission investment<sup>5</sup> that may be used in the WBOP MCP and can be utilised in future MCP proposals.*

By coordinating with the relevant EDB, Transpower could "top up" payments to help the EDB procure enough capacity to defer transmission, meeting the Capex IM requirement for the *least cost solution meets the investment need, whether this is by transmission investment only, or deferred transmission investment in conjunction with an NTS*<sup>5</sup>.

We look forward to continuing to collaborate closely with Transpower on this and future projects. If you have any questions regarding this submission, please contact me at [emma.wilson@powerco.co.nz](mailto:emma.wilson@powerco.co.nz)

Nāku noa, nā,



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**POWERCO**

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<sup>4</sup> *Transpower's Western Bay of Plenty major capex project proposal - Final decision and reasons paper*, Commerce Commission, 11 June 2025. 4.29. X 13

<sup>5</sup> *Ibid.* 4.42