



## COVERSHEET

<b>Minister</b>	Hon Simon Watts Hon Shane Jones	<b>Portfolio</b>	Energy Resources
<b>Title of Cabinet paper</b>	Securing New Zealand's gas and electricity supplies	<b>Date to be published</b>	15 December 2025

### List of documents that have been proactively released

<b>Date</b>	<b>Title</b>	<b>Author</b>
9 April 2025	Securing New Zealand's gas and electricity supplies	Offices of Ministers for Energy and Resources
17 April 2025	Securing New Zealand's gas and electricity supplies ECO-25-MIN-0055 Minute	Cabinet Office

### Information redacted

**YES / NO** (please select)

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Some information has been withheld for the reasons of:

- Confidential advice to Government
- Free and frank opinions
- Constitutional conventions

## In-Confidence

Office of the Minister for Energy

Cabinet Economic Policy Committee

# Securing New Zealand's gas and electricity supplies

## Proposal

- 1 This paper seeks Cabinet's agreement on a package of actions to improve the security and affordability of New Zealand's gas and electricity supplies, ease kiwis' cost of living, and remove a significant barrier to economic growth.

## Relation to government priorities

- 2 A secure and affordable supply of energy is critical to economic stability and the Government's Going for Growth agenda.

## Executive summary

- 3 New Zealand has an energy shortage which is putting the affordability and security of gas and electricity at serious risk. In 2024, gas shortages and low hydro inflows left the electricity system short of energy, leading to high prices and significant job losses.
- 4 The two underlying problems are a shortage of gas and firm electricity generation capacity. These problems have been exacerbated by the rapid growth in intermittent generation, the previous Government's policies (including a push to transition to 100% renewable electricity), and the ban on offshore oil and gas exploration. Hydro storage is currently below average and Transpower has advised of further factors that could extend the decline in hydro storage, including NIWA's forecast for average rainfall over the next three months and limited expected snow melt ahead of Spring.
- 5 The Minister for Resources and I have received the draft report on the independent review of electricity market performance. The report finds a market failure is preventing investment in the very assets that will shore up security of supply and makes a series of recommendations. The report is currently being reviewed by two internationally renowned peer-review teams before the report is finalised in June. The Minister for Resources and I will return to Cabinet in June on actions arising from the review.
- 6 But we cannot sit on our hands in the meantime. I propose advancing these actions now to improve certainty ahead of this winter:

Measure	Timing and impact
Confidential advice to Government [REDACTED]	Confidential advice to Government [REDACTED]
<b>Action 2: Maintaining pressure on gentailers</b> Pressure on gentailers to contract for thermal fuel supply as early as possible to	Gentailers are in ongoing discussions with Methanex to free up gas for electricity generation if needed. Note there is already sufficient coal available for Huntly to operate at

## IN CONFIDENCE

improve certainty.	maximum this Winter. Meanwhile the gentailers are negotiating agreements for Huntly to be available for up to ten years (expected end April).
<b>Action 3: Demand response and distributed energy package</b> Measures to enable more kiwis to improve their energy efficiency and flexibility and install distributed energy like rooftop solar.	Information campaign with actionable measures for kiwis to start in April 2025. Other measures include progressing a consumer data right for electricity (Cabinet decisions in Q2 2025), improving the EA's switching and comparison service (Q3 2025), and enabling smart-EV charging (implementation in Q2 2026) amongst others.

- 7 I also seek Cabinet decision on four further no-regrets actions that can be progressed alongside the finalisation of the review of electricity market performance:

Measure	Timing and impact
<b>Action 4: Supporting Transpower to expedite the connection queue</b> Actions to minimise connection times	Actions underway by Transpower to increase resourcing, introduce process flexibility and other improvements. I will report-back to Cabinet in June on any further actions Government can take to expedite the queue.
<b>Action 5: Electricity legislation updates</b> Removing regulatory barriers to security of supply	Confidential advice to Government . Changes support security of supply and tariff innovation.
<b>Action 6: Crown investment in LNG or other dry-year firming options</b> Advancing Crown investment in importing LNG to provide seasonal firming for electricity generation	Investment, procurement and funding models for Crown investment in LNG. Report-back in May 2025 to dovetail with industry investigations into smaller-scale LNG import options.
<b>Action 7: Leveraging all-of-government procurement</b> Pursuing options for leveraging the government's energy contracts	Report-back in June 2025 on progress towards a PPA vehicle and other procurement options to support new energy supply and meet Government's energy needs.

- 8 The Minister for Resources is progressing work in parallel to address the shortage of domestic gas supply.

## Background

*New Zealand has an energy shortage, which is putting the affordability and security of gas and electricity at serious risk*

- 9 2024 saw extreme stress in our gas market. Last year's gas shortage coincided with dry hydro conditions and low wind generation. This impacted electricity prices, economic activity, and export receipts. It has harmed the economy and contributed to job losses.
- 10 The electricity system should enter winter 2025 in a stronger position than the last two years because of new geothermal plants and sufficient planned coal deliveries to run Huntly through winter if needed. For the remainder of 2025 over 1,300kt of coal will be available from the existing stockpile and planned deliveries, with a further 380kt of delivery options available, if needed. To put that in perspective, two Rankine units

could run continuously for 30 weeks on 1300kt of coal. In 2024, a year in which the Rankines were heavily utilised, the Rankines used approximately 800kt of coal.

- 11 However, ensuring continued security of supply for winter 2025 will still depend on the market contracting for additional gas supply, effective management of hydro storage levels, and the weather.
- 12 Gas prices have risen steeply in recent years. In 2024, commercial prices rose by 58 percent, wholesale by 48 percent, industrial by 44 percent, and residential by 17 percent. Similarly, the cost of electricity contracts has almost doubled over the last five years, averaging under \$100/MWh before 2021 and between \$150/MWh and \$200/MWh since March 2022.

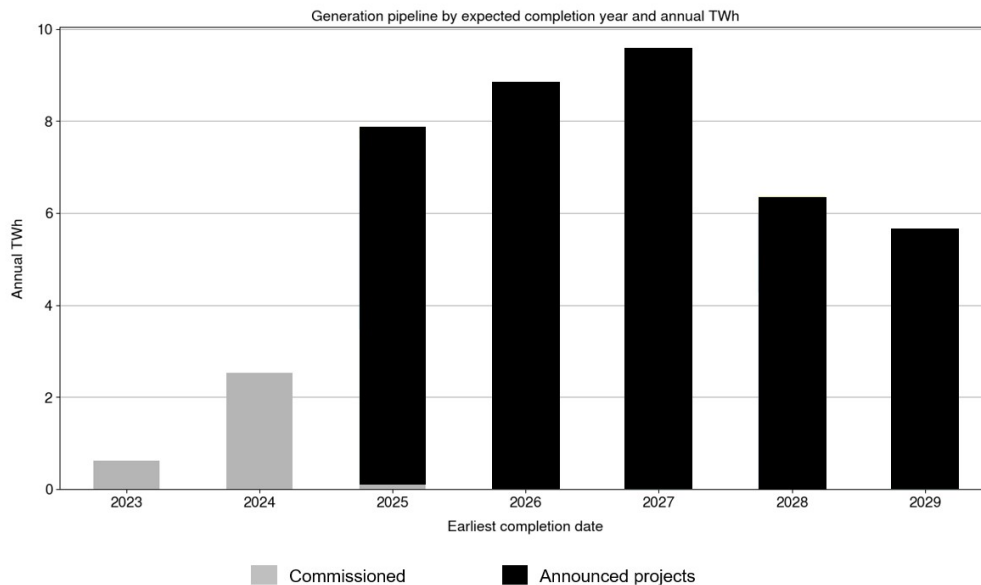
### *How have we got here?*

- 13 The two underlying problems are a shortage of gas and firm electricity generation capacity. This has been exacerbated by:
  - 13.1. a rapid growth in intermittent generation;
  - 13.2. the policies of the previous Government including the ban on new gas exploration, 100% renewable electricity target and Lake Onslow;
  - 13.3. disappointing drilling results from our existing gas fields.

### *We urgently need to take further action*

- 14 This Government has already taken significant steps to improve energy security. These are set out in Annex 1 and include issuing a Government Policy Statement sending a strong signal to the electricity sector that they should contract to cover security risks, establishing the Gas Security Response Group, and commissioning an independent review of electricity market performance.
- 15 There is a strong pipeline of new generation investment. Figure 1 shows the pipeline of announced future generation projects. It is normal and expected that some announced projects will not ultimately reach final investment decision, however, the pipeline of new generation expected to come to market is still significantly larger than it has been for many years. For perspective, more generation was commissioned last year (2024) than any year since 2007.

Figure 1: Generation pipeline



- 16 Nonetheless, there is insufficient firm energy and capacity to supply our energy needs in dry years. Most projects in the forward pipeline are grid scale solar projects. We still face high electricity spot prices, with a risk of a dry winter and uncertain thermal supply<sup>1</sup>. This will impact industrial users exposed to spot prices and consumers who may face higher electricity bills in the future due to high forward hedge prices.

## Actions for Winter 2025

- 17 The underlying problems with our energy system – a fuel shortage and firm electricity generation capacity – cannot be solved by Winter 2025. The draft report on the independent review of electricity market performance finds that a market failure is preventing investment in the very assets that will shore up security of supply. The Minister for Resources and I will return to Cabinet in June seeking agreement to actions arising from the review.
- 18 In the meantime, I am committed to leaving no stone unturned to keeping downward pressures on energy prices and supporting the economy through 2025. I propose the following three actions to improve certainty for Winter 2025.

Confidential advice to Government

<sup>1</sup> A deal between Methanex and the gentailers for gas is still pending.

Confidential advice to Government



Confidential advice to Government

**Action 2: Pressure on gentailers to contract to improve certainty**

- 34 Industry should ensure our existing generation kit has the fuel it needs. Confidence that fuel is available could bring down prices (but only if industry avoids 'over-contracting' as this will increase costs and potentially prices for customers).
- 35 The sector has responded to strong signals from Ministers, particularly from the Government Policy Statement, that they should contract to cover security risks. As described above, Huntly has planned deliveries of sufficient coal to operate at its practical maximum this winter if needed.
- 36 Industry can also maximise sources of flexible demand. In February 2025, Meridian and the New Zealand Aluminium Smelter signed a new demand-response agreement for the smelter to provide 50MW of demand response for winter 2025. While this is an important short-term tool for security of supply, Free and frank opinions it requires a decrease in industrial production from large firms.
- 37 The main opportunity to contract for more fuel is for gas-fired generation. The electricity system has more gas generating capacity than gas available to burn.
- 38 I will keep the pressure on gentailers to contract as early as possible to cover security of supply risks. Meridian and Contact Energy are currently in discussions with Methanex to secure a contractual option to purchase gas otherwise used for methanol production, if needed. Such a deal was made last year at very high cost to the generators.
- 39 My expectation is that agreements are entered into as early as possible to provide the market with the certainty it needs. Confidential advice to Government

### Action 3: Consumer demand response and distributed energy package

- 40 There are many low-cost changes households can make to save money and avoid using energy at peak times. This can include making investment choices that improve energy efficiency, installing distributed generation such as solar, and using time-of-use pricing. As well as saving kiwis money, these measures can support security of supply, particularly where they reduce electricity demand peaks.

#### *Practical information campaign and enabling consumer demand response*

- 41 To help unlock this potential I propose to advance a practical information campaign. Accessing trusted, actionable information is a key non-price barrier for many consumers that limits their participation in demand response or improving their energy efficiency.
- 42 I have asked officials to develop a campaign ready to start in April, funded from within baselines, with practical advice for how households can improve their energy efficiency and shift their energy use away from peaks. Such actions can make a material difference. For example, being on the best power plan can save a household \$400 per year.
- 43 We also have a wide range of work underway supporting consumers to adopt more intelligent systems and ensuring the market fairly rewards consumers for shifting demand away from peaks or putting power back into the grid. These measures will make a significant difference by giving consumers greater control over their energy use, though the benefits will materialise over a longer timeframe. This includes progressing a consumer data right for electricity (Cabinet decisions in Q2 2025), improving the EA's switching and comparison service (Q3 2025), and enabling smart-EV charging (implementation in Q2 2026).

#### *Removing barriers to distributed energy resources such as rooftop solar*

- 44 New Zealand's solar and battery uptake is significantly behind Australia and other countries. Solar systems paired with a battery enable:
- 44.1. *Savings for system owners:* With a battery, consumers can store electricity during the day and use it to avoid high prices at peak times.
- 44.2. *Wider savings to all consumers longer-term:* If a significant number of consumers use solar and battery systems, lower demand from consumers overall means lower wholesale electricity prices during peak times and lower network charges.
- 44.3. *Security of supply:* significant solar and battery penetration will reduce short electricity demand peaks, meaning less stress on available generation.
- 45 The main barrier for homeowners is the cost of purchasing systems, particularly adding a battery to a solar system (which unlocks the above benefits). Solar generation costs are coming down rapidly, but batteries still add between \$8,000-\$20,000 per system. We have a range of work underway supporting consumers to adopt these systems through improved market settings and reducing red tape. This includes:
- 45.1. *Ensuring the market fairly rewards consumers:* The Energy Competition Taskforce is consulting on three proposals to ensure electricity retailers and lines



companies fairly reward consumers for using solar and battery systems, including through feed-in-tariffs, and is expected to make decisions in Q2 2025.

45.2. *Reducing red tape*: In October 2024 Cabinet agreed to update more than 400 references to international standards in the Electricity and Gas Safety Regulations. References to out-of-date standards were adding additional compliance costs. These changes are expected to come into effect by Q3 2025.

45.3. Cabinet recently agreed to increase the range that low voltage electricity networks can fluctuate, enabling more solar to be injected into the network without the need for infrastructure upgrades. I intend to announce this decision shortly.

46 Confidential advice to Government

47 Confidential advice to Government

48 Confidential advice to Government

## Taking decisions on urgent next steps for 2026 and beyond

49 We need to act decisively to turn the tide so that we do not enter 2026 and beyond with the same risk. The review of electricity market performance is currently developing recommendations to ensure sufficient investment in firm energy and generating capacity. The review is also looking at institutional arrangements and whether the current split of responsibilities (e.g., between the EA and Transpower as Electricity System Operator) is providing sufficient accountability for electricity security and affordability.

50 The Minister for Resources and I will return to Cabinet in June seeking agreement to actions arising from the review. In the meantime, I seek Cabinet decision on four further no-regrets actions.

## Action 4: Supporting Transpower to expedite the connection queue

51 Transpower's generation connections pipeline currently sits at 87 projects (these 87 projects are at various stages of delivery). Wait times for generation projects to get connected to the grid are problematic, especially if developers have already passed other hurdles, such as gaining resource consent and obtaining financing.

52 Transpower has advised that the professional engineering expertise needed is specialised and in world-wide demand. Transpower is advancing multiple ways to expedite the queue including:

52.1. Taking on additional resource where they can, including outsourcing.

- 52.2. Increasing flexibility to the process. For example, through breaking the investigation stage into multiple stage-gates so some customers can advance faster including by advancing work themselves.
- 52.3. Exploring prioritisation based on impact on security supply (acknowledging this will create winners and losers and likely favour incumbents in the market).
- 53 I will continue to work with Transpower to identify any barriers to their efficient queue management and whether there are any further actions the Government can take to speed up connection times (including further efficiencies such as self-certification). I also propose to direct the independent review of electricity market performance to advise on further actions to expedite the connection queue based on international best practice.

### **Action 5: Changing electricity legislation to promote security of supply**

- 54 Constitutional conventions [REDACTED] I also propose one change to the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 (the LFC Regulations).

#### *Authorising information sharing with the system operator*

- 55 The Act allows the EA to share information with other government agencies or regulators, overseas regulators, and the gas industry body, but not the system operator, Transpower who is responsible for the real-time coordination of the electricity system. Confidential advice to Government [REDACTED]

#### *Bringing the definition of generation in line with a modern electricity system*

- 56 The Act tightly defines generation to capture only electricity generation fed into the national grid or a network. This does not clearly cover the injection of electricity into the grid via a battery or other means that do not involve generation. These forms of supply have become significantly more common since the Act was passed and will be increasingly important to securing the electricity system in the future.
- 57 I propose that the upcoming Energy and Electricity Security Bill include a minor amendment to the Act, expanding the definition of generation to align with a modern electricity system.
- 58 More generally, I will look for opportunities to remove barriers to grid-scale batteries which can play a crucial role in supporting security of supply. For example, ensuring the government's programme of resource management reform enables new modes of energy supply.

#### *Reducing regulatory barriers to innovative electricity retail tariffs*

- 59 The LFC Regulations place restrictions on retail tariffs set by electricity distributors and retailers. The LFC Regulations are being phased out over a five-year period commencing 1 April 2022, and they are revoked on 1 April 2027.
- 60 A key reason for revoking the LFC Regulations is their adverse impact on tariff innovation. This is a barrier to the development of time-of-use and other more cost-reflective tariffs that can improve security of supply and reduce costs.

- 61 In the meantime, the regulations continue to present a barrier to tariff innovation. For every tariff offered by a retailer, the LFC Regulations require that a 'parallel' LFC tariff option is also offered. Some distributors are looking to introduce two-way tariffs or time-of-use tariffs that compensate households for injecting electricity into the network or shifting their consumption patterns to reduce network costs.
- 62 I propose an amendment to the LFC Regulations to enable the Minister for Energy to exempt an electricity distributor or retailer from applying any provisions of the LFC Regulations that they consider will restrict the design or implementation of an innovative retail tariff. The Minister must also be satisfied that any consumer on or eligible for a low fixed charge tariff will not be adversely affected by the exemption.
- 63 Section 113(4) of the Electricity Industry Act 2010 requires the Minister for Energy to consult the Minister of Consumer Affairs, and to obtain and consider advice from the Electricity Authority on the impact of the proposal.
- 64 Later today I will also be announcing the results of successful negotiations with larger electricity retailers and lines companies. They have agreed to continue funding the Power Credit Scheme to support those affected by the phase out until 2032, until more innovative tariffs become available.

**Action 6: Crown investment in LNG or other dry-year firming option**

- 65 There is insufficient new firm generation in the pipeline to accompany our growing intermittent generation. Furthermore, several thermal power plants – a major source of firm energy – have been decommissioned in recent years, and the remaining aging thermal fleet is increasingly fuel-constrained.
- 66 Confidential advice to Government  
However, even with actions to remove regulatory barriers, the market is lacking clear options and clear commercial incentives for investment in firm generation fuel and plant.
- 67 As noted above, the independent review into electricity market performance – due to be completed in June – is examining options to ensure the electricity market delivers firm energy supply. This includes Crown investment in firm fuel supply (e.g. LNG imports) and firm generation capacity to overcome market failures.
- 68 I seek Cabinet's agreement to develop a procurement framework for Crown investment in LNG import infrastructure. Officials will develop investment and procurement and funding models and investigate the costs of different import-design options and report-back in May 2025. The work would dovetail with industry's investigation into smaller-scale LNG options expected end of April, including ascertaining what the industry can itself deliver without the need for direct Crown investment, and the final report of the independent review of electricity market performance due in June.

**Action 7: Options for leveraging all-of-government procurement**

- 69 The Government's electricity consumption is around 3-5% of the market (approx. 1700Gwh), and gas is around 1.8PJ (this is highly distributed geographically across over a large number of agencies). There is an opportunity to leverage the Government's role as a customer to support smaller energy projects, and working as a broader collective effort, to support the market.

- 70 The project would take a broad look at all options, including:
- 70.1. Long-term Purchase Agreements and similar options: Partnerships with suppliers (and potentially other consumers) to support the development of new energy projects;
  - 70.2. Options for gas supply for critical services and other government services, including but not limited to regulatory changes, alternative (renewable) fuel options, and electrification.
- 71 I seek Cabinet's agreement to develop a Government Energy Purchase vehicle, to underwrite generation and fuel supply projects. I have directed officials to pursue these options with current government contract users, and potential market partners.

### Cost-of-living implications

- 72 Overall, the proposals in this paper aim to improve energy security of supply which, if successful, should lower gas and electricity prices.

### Financial Implications

- 73 Action 6 (Investment in LNG) may have financial implications depending on how it is ultimately delivered.
- 74 Resourcing for Action 7 is being sought through Budget 2025. There may be financial implications as a result of this work (changes to energy contract costs). If contract costs increase, it is likely that most, if not all, costs will be met by agencies.

### Legislative Implications

Confidential advice to Government



Confidential advice to Government



Confidential advice to Government



### Impact Analysis

- 78 The Ministry for Regulation has determined that:

Confidential advice to Government



- 78.2. Action 5 (Electricity legislation updates) is exempt from the requirement to provide a Regulatory Impact Statement on the grounds that it has no or only minor economic, social, or environmental impacts.

79 Regulatory impact analysis is not yet required for the remaining Proposals.

### **Climate Implications of Policy Assessment (CIPA)**

80 Energy sector emissions are covered by the Emissions Trading Scheme (ETS) which sets an overall cap on emissions. Turning to individual proposals within this paper:

80.1. Confidential advice to Government

80.2. For Action 5 (electricity legislation updates) officials are confirming with the Ministry for the Environment whether a CIPA is required.

81 Other proposals in this paper do not require a CIPA at this stage.

### **Population Implications**

82 There are no population implications arising from this paper.

### **Human Rights**

83 There are no human rights implications arising from this paper.

### **Use of External Resources**

84 No external resources have contributed to this paper.

### **Consultation**

85 The Department of Prime Minister and Cabinet has been informed.

86 Constitutional conventions

87 The Minister for Energy has consulted the Minister of Commerce and Consumer Affairs and the Electricity Authority on the proposal to extend the grounds for exempting an electricity distributor or retailer from the LFC Regulations. The Electricity Authority supports the proposal and considers it will likely enable more retail innovation and increase competition, thereby improving choice and price outcomes for consumers.

### **Communications**

88 If accepted by Cabinet, I plan to announce these actions in several tranches:

Free and frank opinions

Free and frank opinions



Free and frank opinions

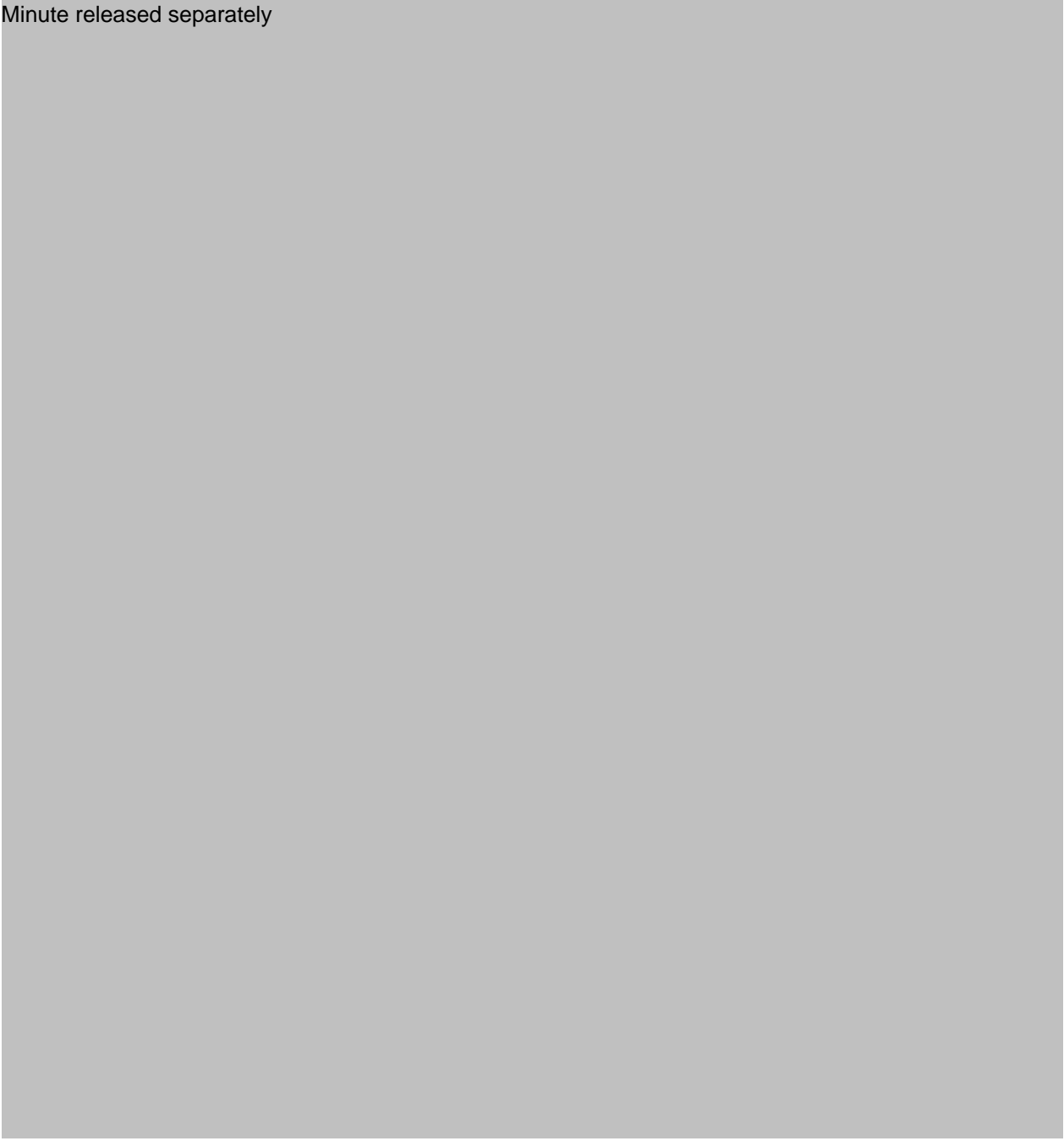


### **Proactive Release**


89 I intend to delay proactive release until Budget 2025 announcements.

### **Recommendations**

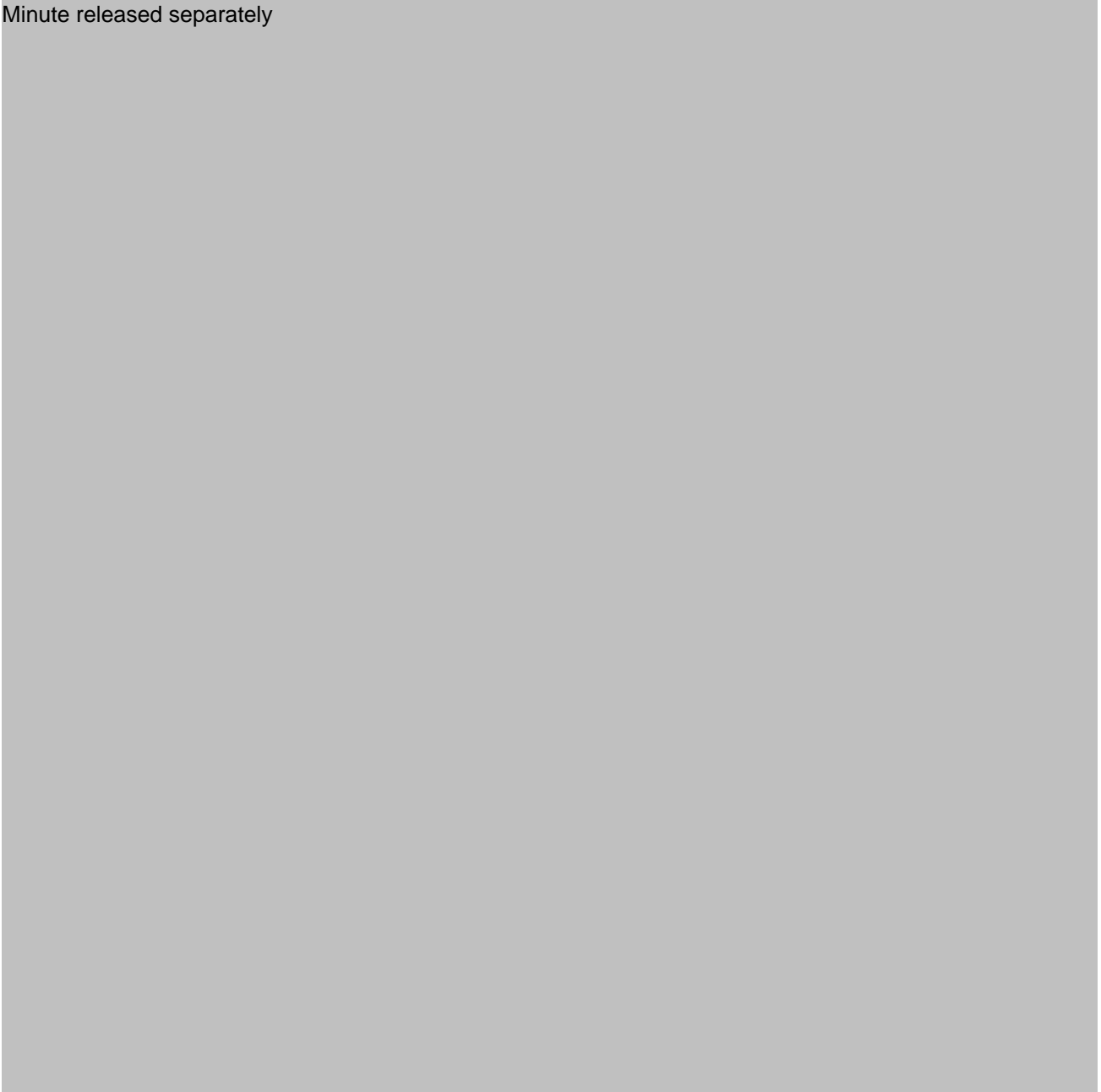
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Hon Simon Watts

Minister for Energy

**Annexes**

Annex One: Energy Security of Supply work that is underway

Annex Two: Illustrative example of the Electricity Risk Curves



**Annex One: Energy Security of Supply work that is underway**

<b>Removing barriers to upstream fuels</b>
<p><b>Reform of the Crown Minerals Act</b> Advancing work to remove the offshore oil and gas ban by mid-2025, increasing flexibility for financial securities and adjusting decommissioning trailing liability settings.</p>
<p><b>Gas Security Response Group</b> Bringing all parties around gas to the table, leading to studies on potential LNG imports and work on a long-term agreement to support firm generation at Huntly power station.</p>
<p><b>Carbon Capture and Storage (CCS)</b> Creating an enabling regulatory regime for CCS to reduce emissions and improve the commercial viability of gas production.</p>
<p><b>Woody Bioenergy Taskforce</b> Enabling the market to develop domestic bioenergy supplies to replace imported coal.</p>
<b>Cutting red tape for new energy infrastructure</b>
<p><b>Fast-track Consenting Process</b> Enabling critical renewable energy projects – including 22 listed in the legislation – to be consented and developed faster.</p>
<p><b>Energy and Electricity Security Bill</b> Removing barriers to infrastructure for seasonal energy cover, enabling Electricity Distribution Businesses (EDBs) to invest in more generation, supporting investments in biogases.</p>
<p><b>Electrify NZ National Direction</b> Developing National Policy Statements for Renewable Electricity Generation and Electricity Networks, to provide a more enabling consenting environment for electricity infrastructure.</p>
<b>Improving the performance of our energy markets</b>
<p><b>Independent Review of Electricity Market Performance</b> Independent review advising on the structure, design and rules of the electricity market, to ensure it delivers secure and affordable power supply.</p>
<p><b>Energy Competition Taskforce</b> Improving price signals, increasing the liquidity of contracting to support new supply and improving incentives for consumer-owned energy generation.</p>
<p><b>Enhancing System Information</b> Electricity Authority and Transpower improving the operation of the system, for example improving wind weather forecasts and enhancing stress testing of electricity retailers.</p>
<p><b>Electricity Government Policy Statement (GPS)</b> The GPS, issued in late 2024, sends a strong signal to the sector that they should contract to cover security risks.</p>

## Annex Two: Illustrative example of Electricity Risk Curves

The Electricity Risk Curves (ERCs) are modelled by Transpower and are used to show how actual hydro storage and projected hydro storage is tracking relative to a calculated risk of energy shortage (Percentage ERCs) based off a standard set of assumptions.

