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| Minister | Hon Simon Watts Hon Shane Jones | Portfolio | Energy Resources |
| Title of Cabinet paper | Government response to review of electricity market performance - enhancing New Zealand's energy security | Date to be published | 15 December 2025 |

List of documents that have been proactively released

| Date | Title | Author |
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| 22 September 2025 | Government response to review of electricity market performance - enhancing New Zealand's energy security | Offices of Ministers for Energy and Resources |
| 6 October 2025 | Government response to review of electricity market performance - enhancing New Zealand's energy security CBC-25-MIN-0054 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
- Commercial information
- Legal professional privilege
- International relations

Office of the Minister for Energy

Office of the Minister for Resources

Cabinet Business Committee

Government response to review of electricity market performance: enhancing New Zealand's energy security

Proposal

- 1 This paper seeks agreement to a package of measures responding to the independent Frontier Economics review of electricity market performance. It combines targeted interventions to strengthen New Zealand's energy security with regulatory reforms to modernise the market and complementary actions to support households.
- 2 The paper recommends commencing Phase One procurement process for a liquefied natural gas (LNG) import facility, expressing public support for strategic investments by the Crown's Mixed Ownership Model companies, enhancing the System Operator's assessments of future reliability risks, and strengthening the Electricity Authority (EA) to monitor and enforce regulation to ensure the market delivers sufficient investment to address emerging risks.

Relation to government priorities

- 3 This paper directly supports the Government's *Going for Growth* plan by enhancing energy security, reducing upward pressure on electricity and gas prices, and restoring investor confidence. It contributes to cost-of-living relief for households and competitiveness for businesses.

Executive summary

- 4 New Zealand faces two interconnected energy security risks. First, declining domestic gas supply is creating immediate fuel shortages, leaving existing thermal plants unable to run at full capacity when required. Second, the electricity market is not delivering new investment in long-duration firming generation to back up renewables. Together, these failures are driving up energy prices and creating material risks for households, businesses, and the wider economy.
- 5 Frontier Economics concluded that while the energy-only market is successfully driving investment in renewable generation, it is failing to secure fuel and long-duration firming capacity. Frontier recommended a centralised Crown entity to manage this role, alongside wider structural reforms.
- 6 The Government accepts Frontier's conclusion but does not support disruptive ownership reforms or a centralised Crown entity. Both peer reviewers cautioned such an approach would increase political interference and reduce efficiency. Instead, the Government will pursue a balanced package of measures that secures fuel, incentivises firming capacity, and strengthens regulation while maintaining strong momentum for renewable investment.

7 We therefore propose two complementary workstreams:

Workstream 1: Investing in energy security:

- 7..1 The Crown removing the perceived capital constraints on the Mixed Ownership Model companies and making clear Government's expectation that they will bring forward opportunities for new generation and firming;
- 7..2 Commencing procurement for an LNG import facility to provide reliable dry-year fuel supply;
- 7..3 Leveraging All-of-Government procurement to support new energy investment; and
- 7..4 Fast-tracking energy projects under the Electrify New Zealand programme.

Workstream 2: Building better markets:

- 7..5 Reducing 'sovereign' policy risk for investors;
- 7..6 Strengthening the Electricity Authority to make it a more effective regulator;
- 7..7 Improving market transparency and information;
- 7..8 Regulating to ensure the market delivers sufficient investment to address emerging risks; and
- 7..9 Supporting electricity distribution businesses (EDBs) to become more efficient.

8 Together, these measures will secure reliable and affordable electricity, give investors the certainty to commit new capital, and deliver direct benefits to New Zealand households, businesses, and the wider economy.

Background

Energy insecurity is driving up costs for businesses, households, and the wider economy

- 9 Energy underpins New Zealand's economy, but this foundation is now at risk from rising costs and insecurity. Wholesale electricity prices have more than doubled since 2017, peaking at \$893/MWh in August 2024. The price of electricity contracts remains elevated, averaging above \$150/MWh since 2022. Natural gas prices, which both set the marginal price of electricity and are a critical input for industry, have also significantly increased since 2018.
- 10 These sustained cost increases have had damaging effects on the economy and households. By 2025, higher energy prices are estimated to have reduced New Zealand's Gross Domestic Product by \$5.2b (1.25%), lowered real wages by 1.4%, cut household spending by 1.65%, and worsened the trade balance by \$275m.
- 11 The consequences for firms and households are severe. Three hundred industrial sites, 16,000 commercial sites, and 290,000 households use gas. Energy-intensive industries such as metals and paper manufacturing have been hit hardest (both gas and electricity users). Several major firms, including Oji and Ballance agri-nutrients, have already closed or announced plans to curtail production if they can't secure gas

contracts. Households are also under pressure, with energy costs now their second-highest concern after groceries, according to a recent Consumer NZ survey.

Government response: restoring confidence and reviewing the system

- 12 In response to energy market pressures, the Government has moved to restore confidence to the energy market and improve its functioning. This has included:
 - **Boosting supply and investment** by removing the target of 100% renewable electricity by 2030 and cancelling the Lake Onslow pumped hydro scheme, which was deterring investment, repealing the offshore oil and gas exploration ban, committing \$200m in Budget 2025 for co-investment in gas fields, reducing consenting barriers through the Fast-track Act and wider RMA reforms, including for new thermal generation, progressing enabling legislation for an LNG import facility, and supporting greater uptake of rooftop solar.
 - **Strengthening market competition** by establishing the Energy Competition Task Force, progressing hedge market and “level playing field” reforms to increase competition, improving disclosure of thermal and gas market information, and enhancing scarcity pricing in the wholesale market to support investment in last-resort generation.
- 13 In parallel, the Government commissioned Frontier Economics to review electricity market performance [ECO-24-MIN-0245 refers]. The review was commissioned to assess systemic drivers of rising prices and inform future Government decisions.
- 14 Note that actions arising from the Review are medium-term interventions with long lead-times, which won’t address short-term risks (as might emerge in Winter 2026). We are already taking steps to address short-term risks, as advised to Cabinet in April [ECO-25-MIN-0055 refers].

Market drives renewables, but does not support reliability

A failure in a key part of the market

- 15 Frontier’s review found that while New Zealand’s electricity market design (“energy-only market”¹) is successfully incentivising new renewable generation, it is failing to deliver investment in firm fuel and long-duration dispatchable plant. In a renewable-heavy system, this investment is essential to ensure supply when hydro, wind, and solar output fall short. Intermittent resources, supported by hydro storage and demand flexibility, can smooth short-term variability, but they cannot guarantee supply during extended dry years or wind droughts. Without secure firming and long-duration energy cover, the system remains exposed to sustained high prices and economic destruction.
- 16 The most immediate constraint is fuel. In 2024, some gas peakers could not operate at full capacity despite high wholesale prices, simply because natural gas was unavailable. With domestic gas production now forecast to fall almost 50 per cent

¹ An “energy-only market” is the term for a wholesale electricity market where generators are paid only for the electricity they produce and sell, with no separate payments for maintaining capacity. Prices rise during scarcity to signal the need for investment in generation, including firming plant.

below projections made just three years ago, shortages will only deepen. This scarcity is already priced into ASX forward contracts, with an estimated \$50/MWh risk premium — a premium that will remain unless a credible strategy secures investment that addresses the dry-year risk.

- 17 Even if fuel were secure, the current market design is not investing in sufficient dry-year back up cover. In theory, sustained high prices should create investment incentives. In practice, however, Frontier found that high upfront costs, uncertain returns, and market dynamics that discourage first movers all deter investment. Most critically, policy and fuel risks undermine the business case for large-scale, long-lived assets. Frontier pointed to the offshore exploration ban, the 100 per cent renewable target, and Lake Onslow as examples that eroded investor confidence². Large, capital-intensive projects with lifespans measured in decades can be stranded “at the stroke of a pen,” leaving the private sector unwilling to commit capital³.
- 18 Other factors reinforce this reluctance. As more renewables are built, thermal assets are used less in normal years, reducing returns. Unpredictable dry-year events make revenue streams highly uncertain, and evidence of “soft price caps” in bidding suggests firms expect Government intervention if spot prices rise too high⁴. These dynamics depress the very price signals that should fund new investment. In this environment, the economically rational response is to wait, creating both a free-rider problem and a coordination failure.
- 19 As a result, firms have little incentive to make the long-term investments needed to secure reliable fuel or develop new firming plant. Initiatives such as the Huntly-backed security contracts between gentailers will help maintain existing capacity, but they do not expand security margins. The continued elevation of forward prices shows that the market itself does not expect current arrangements to resolve the problem.
- 20 MBIE’s latest forecasts project that total demand will grow by around 50 per cent by 2050, driven by the electrification of transport, industry, and process heat. This means the system must not only replace retiring thermal units and secure fuel for existing plant but also build substantial new renewable and dispatchable capacity to meet future needs. Without early action, these pressures will exacerbate dry-year risks and further increase wholesale prices.
- 21 Frontier concluded that this combination of fuel risk, policy uncertainty, and market dynamics amounts to a structural failure that the market alone is unable to solve. Their central recommendation was that the Crown should take responsibility for securing fuel and long-duration firming capacity, and then on-sell this to the market. They argued this is the only credible way to overcome the barriers to private investment and ensure New Zealand retains the capacity needed to manage dry-year shortages.

The Government’s response to Frontier’s recommendations

- 22 The Government accepts Frontier’s conclusion that the electricity market alone will not deliver the long-duration dispatchable capacity New Zealand requires.

² Frontier report

³ Frontier report

⁴ Sapere (2025) Wholesale and retail electricity - prices and competition: Contribution to independent expert panel report for level playing field consultation

Intervention is needed. However, we do not consider disruptive ownership or structural reforms are necessary to achieve this.

- 23 Frontier’s central recommendation was the creation of a new Crown entity to manage thermal firming. Both peer reviewers were sceptical, warning such a model could invite political interference and reduce efficiency. The Government agrees with Frontier’s diagnosis of the problem but not this solution. Instead, we will distribute these responsibilities across existing agencies, ensuring the essential functions are covered in a way that is politically durable and lower risk:
- **the System Operator** will provide more sophisticated assessments of projected security-of-supply gaps, particularly for dispatchable and firm generation, to give clearer visibility of future reliability risks;
 - **the Crown** will prepare to procure or underwrite LNG infrastructure, if required, to address medium-term fuel scarcity; and
 - **the EA** will introduce and enforce a regulatory framework to create durable incentives for new investment in long-duration dispatchable capacity and provide confidence that the current problem won’t reemerge.
- 24 This division of roles achieves the core outcome Frontier sought—ensuring reliable fuel and firming supply—but does so in a way that minimises political risk, strengthens existing institutions, and provides a more stable basis for investment.
- 25 Frontier also proposed a wider set of structural reforms. After careful consideration, the Government does not intend to progress these:
- **Removing electricity from the Emissions Trading Scheme (ETS):** Frontier argued inclusion raises prices without environmental benefit. Both peer reviewers disagreed, noting the ETS incentivises fuel switching and renewable investment. The Government will not be progressing this proposal and remains committed to the ETS as our main tool for reducing emissions.
 - **Divesting the Crown’s shareholdings in Genesis, Meridian, and Mercury:** Frontier suggested ownership may constrain investment. The evidence to support this conclusion is mixed. The Government rejects this recommendation and confirms asset sales are not being considered.
 - **Amalgamating the EA and the Gas Industry Company into a new “Energy Authority”:** Frontier argued this would support coordination. The Government considers such a restructure would disrupt investment and create uncertainty at a critical time. Instead, we will strengthen the EA’s functions and rule-making powers within the existing structure.
 - **Amalgamating EDBs:** Frontier recommended amalgamating the 29 EDBs into five super distributors. The Government does not support forced amalgamation. Instead we will encourage greater alignment across electricity distribution businesses, to improve efficiency and innovation across our networks, while retaining local and private decision-making.
- 26 These are summarised here for completeness; a full list is provided in Appendix 1.
- 27 Taken together, these decisions reflect a balanced response: accepting Frontier’s diagnosis of the problem but rejecting disruptive reforms in favour of targeted, durable measures. The Government will advance a two-part programme—investing in

energy security and building better markets—to address immediate fuel risks, strengthen regulation, and ensure households benefit from the energy transition.

We propose two workstreams to enhance energy security and affordability

- 28 To address the issues identified by the Frontier report, we propose government actions across two areas, *Investing in Energy Security* and *Building Better Markets*.

Workstream 1: Investing in energy security

- 29 The first workstream will focus on directly addressing New Zealand’s fuel shortage and ensuring sufficient long-duration dispatchable capacity will remain operational until the mid-2030s. This workstream will ensure that New Zealand secures the physical ability to meet a dry-year shortfall, including by providing confidence that existing firming plant has the fuel to operate when needed.
- 30 We propose to commence the below four actions:
- 30..1 The Crown removing the perceived capital constraints on the Mixed Ownership Model companies and making clear Government’s expectation that they will bring forward opportunities for new generation and firming;
 - 30..2 Commencing procurement for an LNG import facility to provide reliable dry-year fuel supply;
 - 30..3 Leveraging All-of-Government procurement to support new energy investment; and
 - 30..4 Fast-tracking energy projects under the Electrify New Zealand programme.

The Crown removing the perceived capital constraints on the Mixed Ownership Model companies

- 31 The Crown’s Mixed Ownership Model companies play a key role in investing in and providing generation, including thermal firming capacity.
- 32 We want these companies to feel confident to identify and progress opportunities for strategic and commercially rational investments that address dry-year risk and support energy security and affordability. We do not want these companies to pass over or not seek out such opportunities due to worries about lack of Government support or broader capital constraints.
- 33 As majority shareholder the Crown will be engaging with the Mixed Ownership Model companies and making clear that the Government’s expectation is that they will bring forward opportunities for new generation and firming capacity. The Government will meet with the Chairs of the three Mixed Ownership Model companies to convey this message prior to the release of the Government response. This will then be followed by a strong public statement making clear that the Government is committed to working with its Mixed Ownership Model companies to support strategic and commercially rational investments that support our energy security.
- 34 We consider that this should result in the Mixed Ownership Model Companies approaching the Crown with viable investment propositions in the near-term. [REDACTED]

Confidential advice to Government

- 35 We are particularly mindful of the potential impact of any announcements on financial markets. Accordingly, we will work closely with shareholding Ministers and relevant officials, including seeking appropriate legal advice around any announcements and taking relevant Cabinet Office guidelines into account.

Commence first phase of procurement for an LNG import terminal

- 36 Importing liquefied natural gas (LNG) could provide a reliable backstop for dry-year risk as domestic gas supply declines. Options range from Conventional-scale facilities with 3-4 year lead times to smaller-scale solutions which could be delivered quicker but may have higher gas costs and greater storage needs (outlined in Box 1 below). Market investigations to date have not resulted in a commercial proposal, suggesting some form of Government involvement (beyond regulatory enablement) may be required. Confidential advice to Government

- 37 We propose a two-phase procurement process for an LNG import terminal, giving Cabinet full information on potential investment.

- 38 **Phase one** will involve the release of a Registration of Interest, which will allow us to test market interest and capability. We will also open this process to submissions on accelerated delivery options, as LNG firms have approached the Government with some novel, smaller-scale proposals that we consider merit investigation. If successful, an accelerated delivery proposal could see LNG delivered as early as winter 2027.

- 39 To ensure market engagement, the Registration of Interest will need to be open for six weeks, followed by review and formation of advice by officials. In parallel, MBIE officials will prepare for Phase Two. This will be announced in early October 2025.

- 40 There will be a decision point at the end of Phase One, and

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- 41 Confidential advice to Government

- [REDACTED]

[REDACTED]

[REDACTED]

42

Confidential advice to Government
[REDACTED]

Confidential advice to Government
[REDACTED]

⁵ Confidential advice to Government
[REDACTED]

Confidential advice to Government

43 Confidential advice to Government

Leveraging all-of-government procurement for new energy investment

- 44 In April, Cabinet directed MBIE to pursue options for leveraging government's energy use to support new energy supply and meet Government's energy needs [ECO-25-MIN-0055 refers] The Government is well placed to commit to long-term contracts that can provide the certainty investors need to commit capital.
- 45 There are already examples of partnerships between agencies and energy suppliers. Leveraging that knowledge and sector expertise, MBIE has developed a Request for Information to test market interest in partnering for new energy projects. The Request for Information is broad, and could enable projects across all technologies, fuels, and scales. The Request for Information will be released as part of announcements on this package. Dependent on what is received through the RFI process and following advice from officials on the best options to pursue suiting government needs and arrangements, we expect to move to Request for Proposals in the first quarter 2026.
- 46 The impact on supply will depend on the nature of proposals/information received. Government energy consumption is around 3% of the electricity market (1200 GWh per annum roughly equivalent to a medium sized windfarm) and just under 2% of the gas market (around 1.8PJ per annum). This could support a handful of projects, including biogas developments and by contributing to commercial arrangements for larger electricity generation developments.

Supercharging the Electrify New Zealand programme

- 47 The Government will accelerate the roll-out of renewable generation by prioritising fast-track projects through the Resource Management framework. Officials will report back on options to streamline consenting processes give greater certainty to unlock investment more quickly, ensuring that viable projects already in the approvals queue can proceed without delay. This will bring forward new wind, solar, and other energy generation needed to meet the Government's objective of doubling renewable energy by 2050, while reducing costs and strengthening long-term energy security.

Workstream 2: Building better markets

48 The second workstream will strengthen the electricity market and related regulatory settings to reduce barriers to investment, improve transparency, and enhance long-term efficiency. It responds to both the Frontier review's findings and broader concerns raised by industry.

49 We propose a package of measures across five areas:

- 49..1 Reducing 'sovereign' policy risk for investors;
- 49..2 Strengthening the EA to make it a more effective regulator;
- 49..3 Improving market transparency and information;
- 49..4 Regulating to ensure the market delivers sufficient investment to address emerging risks; and
- 49..5 Supporting EDBs to become more efficient.

Market confidence: Reducing 'sovereign' policy risk for investors

50 The Government recognises that policy uncertainty has been a barrier to investment in dry-year cover. One avenue for Government to reduce sovereign policy risk for investors is to enter commercial arrangements for specific investments. Should the Government proceed with the LNG import facility procurement, this would be one such example.

51 We will direct officials to develop options for additional measures to reduce market concerns about changes in policy. This could include consideration of indemnities against significant policy changes. Advice will include the financial and precedent risks that may be involved.

Market regulation: Strengthening the Electricity Authority

52 The EA will be given modernised functions and faster rule-making powers, enabling it to deploy more sophisticated monitoring of market conduct, enforce compliance, and respond quickly to emerging risks. Its role will be enhanced to ensure more timely decisions on security, competition, pricing and consumer participation, complementing Transpower's responsibilities for assessing supply gaps and leveraging their expertise with operational data, to improve the EA's market monitoring.

53 Current penalties for Electricity Industry Participation Code 2010 breaches are too weak—\$2 million is modest compared to potential commercial gains. We'll propose stronger deterrents, including aligning penalties with the Commerce Act: up to \$500,000 for individuals, and for businesses, the greater of \$10 million, three times the gain, or 10% of turnover. We'll also propose making it a criminal offence to knowingly mislead or deceive the regulator.

Market confidence: Improving transparency and efficiency

54 A key element of building better markets is strengthening transparency in both the electricity and gas sectors. This will support efficient investment, enhance competition, and give participants the confidence to manage risk effectively. The package includes:

- improved disclosure of thermal fuel information;
- targeted reforms to increase hedge market transparency; and
- measures to enhance hedge market liquidity.

55 In the gas market, reporting of reserves and production will be accelerated, supported by a public dashboard and regular supply–demand studies to provide clearer visibility for investors and policymakers.

Market regulation: Regulate to ensure the shortage of firm capacity can’t reemerge

56 Frontier found that the market will not deliver sufficient firming on its own to back up a highly renewable system. Durable incentives are therefore needed to incentivise investment in long-duration dispatchable capacity. While Workstream 1 will secure dry-year cover through to the mid-2030s by providing fuel for existing plant, we also need confidence the problem will not re-emerge.

57 Transpower currently publishes annual security-of-supply assessments looking out 10 years. To improve visibility of future reliability risks, we will update its methodology (unchanged since 2012), to incorporate more accurate information on thermal fuel availability, and improve monitoring of the generation pipeline. This will give a clearer picture of any emerging gaps.

58 In parallel, the Government will develop, in consultation with industry, a regulatory framework to create lasting incentives for investment in dispatchable capacity. The framework will aim to (1) lower contract prices by removing the dry-year risk premium, and (2) support faster renewable build by increasing access to firm contracts for independent generators.

59 Confidential advice to Government

60 The Electricity Authority would oversee and enforce these requirements, with its stronger monitoring and enforcement toolkit as described above.

System efficiency: supporting electricity distribution businesses

61 Frontier recommends amalgamating the 29 EDBs into five super EDBs, to realise scale efficiencies. However, forced amalgamation could face strong opposition and slow innovation, and would be a complex undertaking given different EDB ownership models. Instead, we will undertake measures to realise efficiencies across EDBs. These include incentivising or mandating collaborative models for EDBs’ investments

and operations, enhancing governance for Trust-owned EDBs, and strengthening regulatory tools—preserving local decision-making while boosting standardisation.

- 62 Cabinet previously agreed to remove the threshold at which EDBs were required to operate separate companies, and comply with “arms-length” obligations, if they owned or controlled generation assets in their own service areas [ECO-24-MIN-0239]. In response to Frontier’s advice, we will retain but increase the threshold for electricity distributors owning generation assets on their own networks from 50MW to 250MW, to enable greater EDB investment in generation while safeguarding consumers from potential exercise of market power.
- 63 Together, Workstream 2 measures represent a suite of reforms designed to improve the functioning of the electricity market. They will lower barriers to investment, provide participants with better tools to manage scarcity risk, and reinforce confidence in the current market framework. Importantly, these actions are not dependent on wider structural reform and can deliver early, tangible improvements.

Timing and process for next steps

- 64 Public announcements on the Government’s response to the independent review of electricity market performance will be made on 30 September 2025.
- 65 Officials will undertake Phase One LNG procurement and progress the detailed design of the other measures discussed in this paper over the coming months.
- 66 Confidential advice to Government

Cost-of-living implications

- 67 The proposals in this paper are intended to lower electricity prices by improving the security of the electricity system during dry years. The exact impact on prices for different electricity and gas consumers is uncertain and will be the subject of further work.

Financial Implications

- 68 Subject to Cabinet approval, detailed design of a preferred option to address the energy shortage will be partly funded by the Budget 2025 initiative related to implementation of recommendations arising from the electricity market review.
- 69 A full procurement process for an LNG import terminal is estimated to cost Confidential advice to Government This is being met from reprioritisation within the energy portfolio.
- 70 There may be financial implications arising from subsequent work to bolster the Electricity Authority and enhance EDB efficiency, which will be discussed when we seek Cabinet decisions on the detailed design or delivery of that work.

Legislative Implications

- 71 To give effect to the revised thresholds for EDB investment in generation, [REDACTED]
Confidential advice to Government [REDACTED]
- 72 There are no other direct legislative implications arising from this paper. However, the import of LNG will likely require legislative change. This is already in development, based on the Government's previous decision to enable LNG import. The modernisation of the Electricity Authority is likely to require amending primary and secondary legislation. We will come back to Cabinet with a proposed 'Stronger EA' package.

Trade implications

- 73 Legal professional privilege and International relations [REDACTED]

Impact Analysis

Regulatory Impact Statement (RIS)

- 74 Cabinet's impact analysis requirements apply to these proposals, but there is no accompanying Regulatory Impact Statement and the Ministry for Regulation has not exempted the proposals from the impact analysis requirements. Therefore, it does not meet Cabinet's requirements for regulatory proposals.
- 75 As this paper seeks interim policy decisions, the Ministry for Regulation has waived the requirement to produce supplementary analysis on the basis that MBIE will prepare a final Regulatory Impact Statement to support Cabinet's final policy decisions.

Climate Implications of Policy Assessment (CIPA)

- 76 A CIPA is not required at this stage. A CIPA will be submitted when we report back to Cabinet in December 2025 with final proposals.

Population Implications

- 77 There are no population implications arising from this paper.

Human Rights

- 78 There are no human rights implications arising from this paper.

Use of external resources

- 79 Cabinet agreed the review would be delivered by suitably qualified, independent experts with experience in electricity markets in comparable countries, but also with access to experts in New Zealand's electricity market [ECO-24-MIN-0245 refers]. Following an open competitive tender process, MBIE appointed a lead Reviewer, two peer review teams, and a New Zealand expert. The cost for the review was met from MBIE baselines. In total, approximately \$800,000 (excl GST) was spent on these external resources to deliver the Review. The cost for the CGE modelling was met from MBIE baselines. In total, approximately **Commercial Information** was spent on consultants to deliver their report.

Consultation

- 80 The Treasury, Ministry for Regulation, Ministry of Justice, and Infrastructure Commission have been consulted. The Department of Prime Minister and Cabinet (Policy Advisory Group) has been informed.

Communications

- 81 We expect a high amount of media attention when announcements are made given the public interest in energy security and energy prices. The market is highly interested in seeing the contents of Frontier's review into electricity market performance, and the Government's response to it.
- 82 Officials have created various communications collateral to support any announcement, recognising the different audiences (e.g. electricity sector, media, consumers).
- 83 Timing of announcements will take into account that many energy sector companies are listed entities.

Proactive release

- 84 We propose to proactively release this paper, with appropriate redactions, at the same time the Government announces its response to the review.

Recommendations


The Minister for Energy and Minister for Resources recommend that the Committee:

Review of electricity market performance

- 1 **Note** Frontier Economics' report concludes that while the energy-only market is driving renewable investment, it is not delivering sufficient investment in long-duration firming generation and fuel, creating security risks.
- 2 **Note** that the Government accepts this conclusion but does not believe the ownership reforms and a centralised Crown entity for firming, as recommended by Frontier are the optimal intervention;
- 3 **Agree** not to progress the following Frontier recommendations:

- 3.1 Removing electricity from the Emissions Trading Scheme;
- 3.2 Selling down Crown shareholdings in gentailers;
- 3.3 Establishing a new “Energy Authority” by merging Electricity Authority and the Gas Industry Company Limited.
- 3.4 Amalgamating the EDBs into five ‘super’ EDBs.

Workstream 1: Investing in energy security

- 4 **Note** that Ministers will continue to engage with gentailers to ensure adequate fuel stockpiles and prudent hydro storage practices are maintained to provide near-term assurance of supply and help moderate wholesale price pressures in 2026.
- 5 **Agree** to remove the perceived capital constraints on the Mixed Ownership Model companies and make clear that the Government’s expectation is that they will bring forward opportunities for new generation and firming capacity;
- 6 **Delegate** authority to the Ministers for Energy, Resources, State owned Enterprises and Minister of Finance to develop relevant communications, ensuring that any announcements or communications are in a manner that best enables any impacted listed company to respond in an orderly fashion (reflecting the guidance in Cabinet Circular CO (23) 5 *Guidelines for Dealing in Financial Products on Markets (Inside Information and Market Manipulation)*);
- 7 **Agree** to commence Phase One of a procurement process for a Liquefied Natural Gas (LNG) import facility to provide reliable dry-year fuel supply, with MBIE to issue a Registration of Interest to test market interest, capability, and potential proposals for rapid delivery options;
- 8 **Note** that Cabinet is not being asked to make a decision on LNG infrastructure or commit funding to LNG infrastructure at this stage, and decisions will follow once market information, and analysis of options are provided to support Phase Two decisions (in December 2025);
- 9 **Delegate** authority to the Minister for Energy to release the procurement documentation for Phase One of the LNG procurement exercise;
- 10 Confidential advice to Government

- 11 **Note** that the Government will shortly be releasing a Request for Information to better understand how government energy use could be leveraged to support new energy investment;
- 12 **Note** that consenting barriers will be addressed by fast-tracking renewables under the Electrify NZ programme, and that officials will report back on further options to streamline processes to provide greater certainty and enable faster deployment of renewable generation;


- 13 **Note** that recent Fast-track and Resource Management Act reforms have also reduced consenting barriers for new thermal generation, which may provide additional flexibility to support system security and dry-year risk management.

Workstream 2: Building better markets

- 14 **Agree** to develop options to reduce market concerns about changes in policy, such as contracting and indemnities, recognising policy risk as a barrier to firming investment.

- 15 **Agree** in principle to establish a regulatory framework to ensure the market has durable incentives to deliver long-duration dispatchable capacity, including:

15.1 requiring the System Operator to undertake more sophisticated assessments of the security-of-supply gap, to provide clear visibility of future risks.

15.2 Consideration of further mandatory regulatory mechanisms such as 
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- 16 **Agree** to strengthen the Electricity Authority by giving it modernised functions, faster rule-making powers and stronger levers to ensure compliance, and an enhanced role in ensuring timely decisions on security, competition, pricing, and consumer participation.

- 17 **Note** that a key objective of strengthening the Electricity Authority's functions and tools is to improve long-term market confidence and deliver affordable energy where forward prices are aligned with long-run marginal cost and below the Organisation for Economic Co-operation and Development (OECD) average.

- 18 **Agree** to progress targeted reforms to improve transparency and efficiency, including:

18.1 Improved disclosure of thermal fuel and gas market information, supported by a public dashboard and regular supply–demand studies; and

18.2 Targeted reforms to improve hedge market transparency and liquidity.

- 19 **delegate** authority to the Minister for Energy and the Minister for Resources to jointly make policy decisions to bring forward the date for annual reporting described in the Crown Minerals (Petroleum) Regulations 2007;

- 20 **Agree** to progress measures to significantly improve the productivity, efficiency, and consistency of Electricity Distribution Businesses, including stronger regulatory tools and incentives to drive collaboration, standardisation, and better outcomes for consumers.

- 21 **Agree** to rescind Cabinet's previous decision to remove the threshold and related restrictions in Part 6A of the Electricity Industry Participation Code on electricity distribution businesses [or EDBs] owning generation connected to their own network and instead increase the current threshold (50MW) to a higher (250 MW) threshold.

- 22 **Invite** the Ministers for Energy and Resources to issue further drafting instructions to the Parliamentary Counsel Office Confidential advice to Government

- 23 **Authorise** the Ministers for Energy and Resources to approve any matters that arise during drafting and that may be required to align with the above decisions.

Next steps and implementation

- 24 Confidential advice to Government

- 25 **Note** that legislative change may be required to implement elements of these reforms

- 26 Confidential advice to Government

Communications

- 27 **Note** the high public and market interest in the outcomes of this work including the potential impact of any announcements on financial markets;

- 28 **Agree** to release the Review reports alongside the Government response;

- 29 **Note** that the Minister for Energy, the Minister for Resources and the Prime Minister's Office will coordinate arrangements for announcing the Government response and releasing the Review reports.

Hon Simon Watts

Minister for Energy

Hon Shane Jones

Minister for Resources

Appendices

Appendix 1: Frontier's recommendations and the Government's response

Appendix 2: Procurement of liquified natural gas (LNG) overview

Appendix 1: Frontier's recommendations and the Government's response

| Frontier recommendation | Government position | Government response |
|---|---|---|
| Main recommendations | | |
| Crown to take responsibility for securing fuel and firming capacity and give priority access to independent retailer, generators and large direct customers | Agree with diagnosis, but not with creation of a centralised Crown entity (peer reviewers also rejected this) | Establish decentralised responsibilities: Transpower to assess supply gaps, the Government to procure LNG import terminal if required, and the Electricity Authority (EA) to regulate to ensure firming shortage does not remerge |
| Remove electricity from the Emissions Trading Scheme (ETS) | Reject | ETS remains central to climate strategy; it incentivises fuel-switching and renewables investment |
| Sell down Crown shareholdings in Genesis, Meridian, and Mercury | Reject | Government not considering asset sales at this time. Instead making it clear that the Government is committed to working with MOM companies to support investments that support our energy security. |
| Merge the Electricity Authority and Gas Industry Company into a new "Energy Authority" | Reject | Would disrupt investment and create regulatory uncertainty; instead, Government will strengthen the EA's powers and functions |
| Amalgamate the 29 Electricity Distribution Businesses (EDBs) into five super distributors | Agree with diagnosis, but not with the forced amalgamation of EDBs. | We do not support forced amalgamation of EDBs. Instead, Government will implement measures to promote greater alignment and innovation across EDBs |
| More sophisticated approach to market monitoring and competition analysis | Agree | This will be progressed as part of the work to strengthen the EA to make it a more effective regulator |

| Minor and technical recommendations | | |
|--|--|--|
| <i>Improving consumer information</i> | | |
| Improve consumer data access to make comparison and switching easier | Agree | A consumer data right for the electricity sector is being progressed |
| Achieve electricity bill consistency | Agree | EA will consult on standardised bill information before the end of 2025 |
| <i>Electricity distribution</i> | | |
| Move to Individualised Price Paths for all Electricity Distribution Businesses | Agree with diagnosis that further oversight could improve efficiency, but there may be less costly options | Would be considered in a targeted review of Part 4 of the Commerce Act, if and when the Minister of Commerce and Consumer Affairs decides to launch it |
| Allowing benchmarking of Electricity Distribution Businesses | Agree | |
| Enable the Electricity Authority to set scope of Input Methodologies (IMs) for Electricity Distribution Businesses | Reject | No evidence this would improve outcomes; investors typically view the regime as predictable and transparent |
| Include a financeability test in the regulatory framework | Reject | Considered and rejected by the Commerce Commission in 2023 |
| <i>Electricity transmission</i> | | |
| Improving the mechanism that addresses “First Mover Disadvantage” in the Transmission Pricing Methodology (TPM) | Agree in principle | Transpower has commissioned an independent survey of the TPM implementation; EA to report back to Minister for Energy in 2026 |
| Introducing a new streamlined Investment Test for Transpower investments between \$8 to \$30 million | Reject | No evidence this would provide benefits; Commerce Commission can already consider this |
| Requiring Transpower produce an annual Electricity Opportunities Statement (including not | Agree | Could potentially reduce search costs for investors; MBIE to progress with Transpower, EA, and New |

| | | |
|--|--------------------|---|
| pursuing Renewable Energy Zones) | | Zealand Trade and Enterprise |
| Retain System Operator role within Transpower | Agree | Transpower will remain the System Operator |
| <i>Security of supply settings</i> | | |
| Update the North Island Winter Capacity Margin | Agree | EA has commenced an independent review of the Security of Supply Standards. More broadly this relates to the recommendation to undertake more sophisticated assessments of the security-of-supply gap |
| <i>Code amendments, data gathering and monitoring by the Electricity Authority</i> | | |
| Formal Code change process for the Electricity Authority | Agree in principle | This will be progressed as part of the work to strengthen the EA to make it a more effective regulator |
| Hedge data analysis and annual reporting | Agree | More public and consistent analysis of hedging patterns could provide valuable transparency and help identify gradual trends |
| Market surveillance data catalogue | Agree in principle | MBIE is working on amendments to enable more information sharing. Further opportunities will be explored |
| <i>Gas market transparency</i> | | |
| Require the production of an annual gas supply and demand study | Agree | Reporting of reserves and production will be accelerated, supported by a public dashboard and regular supply–demand studies |
| Publish additional information through a single ‘gas market dashboard’ | Agree | |

Appendix 2: Procurement of liquefied natural gas (LNG) overview

The case for LNG

Domestic natural gas supply constraints are now at a point where we do not have sufficient gas to fuel electricity generation in a dry year – current thermal generation will not have sufficient fuel to run at capacity. The alternatives (in terms of current technology) are diesel and coal. Diesel is significantly more expensive than LNG. Coal is significantly less flexible than LNG (it cannot fuel fast-start generation or support industrial gas users).

Import of liquefied natural gas (LNG) offers a fuel supply for existing generation plant and could also be used by some other gas users. The Government has already committed to enabling the import of LNG.

We are proposing that Cabinet agree to commence procurement of an LNG import facility, however, this is not a final commitment to the project.

What is involved in LNG importation?

An LNG import facility will be difficult to build in New Zealand as no single location has the ideal combination of sea conditions, sea-depth, and proximity to the main gas pipeline. These can be addressed, but have implications for cost and time to delivery. LNG import facilities are a complex piece of infrastructure. For a conventional scale operation, it involves:

- A semi-permanently moored ship (up to 400m) acting as a floating storage unit (FSU), either in a port or offshore, that holds the LNG while it is being ‘re-gasified’.
- A second ship – LNG Carrier – that delivers up to 4PJ of gas to the FSU in a ship-to-ship transfer (LNG is transferred through pipes at -160°).
- Regasification plant (either onboard the FSU, or stand-alone) that warms the LNG to a gaseous state for injection to the gas transmission system.
- A high-pressure pipe connecting the re-gasification unit to the main gas transmission system.
- Lead times on cargo delivery, and dry year requirements also mean that a successful project will need to include underground gas storage.

Mooring large ships together and managing super-cold fluids requires precise engineering that needs to be calibrated for the location’s sea-conditions. As noted above, New Zealand has specific features that an import facility needs to be designed for. This affects cost and timeline for delivery of an import facility. Conventional scale would likely require 3-4 years to deliver, i.e. available from 2029. In addition, New Zealand’s system requirements will mean that throughput will need to be calibrated for our pipelines and demand volumes (likely requiring lower throughput for some vessels). Smaller scale options are likely to have a shorter delivery time with a lower cost. However, they may entail “take or pay” LNG supply arrangements, and may require greater storage capacity to support a dry-year response.

Work to date on LNG importation

As part of the Gas Security Working Group, a consortium of energy sector partners commissioned an investigation of LNG import for New Zealand. Confidential advice to Government

[Redacted]

Confidential advice to Government

[Redacted]

These components are important to show that New Zealand is putting forward a credible proposal that can attract capable and experienced LNG facility developers.

Details of the LNG proposal

As noted above, we are proposing a government-backed LNG import scheme that will ensure New Zealand's dry year fuel needs are met. Subject to further work and decisions at the end of Phase One of the procurement process:

Confidential advice to Government

[Redacted]

Confidential advice to Government

- The import scheme should be open-access, allowing others to access gas from LNG, e.g. for industrial use. We propose that all users make a fair contribution to infrastructure costs, and that this would offset any levy charges. Open-access will mean New Zealand gets greatest possible benefit from the infrastructure investment.
- Confidential advice to Government

Procurement approach for LNG import facility

The international LNG sector has established practices for procurement of LNG import facilities. Below is the recommended timeline, which will ensure New Zealand is seen as a credible environment to develop a project and minimise engineering and cost risks.

| Phase/Stage | Actions | Estimated time |
|---|---|----------------|
| Phase One: Market Engagement | Project Information Memorandum issued. Registration of Interest issued / responses received and assessed Rapid delivery proposals submitted/assessed | 3 months |
| Cabinet decision | Information to Cabinet on firming options, and LNG proposals, decision on whether to proceed to Phase Two | 1 month |
| <i>Either:</i> Phase Two: Rapid Delivery track | Top 2-3 bids complete Front End Engineering Design Progressed to commercial negotiations and signing | 4-5 months |
| <i>Or</i> Phase Two: Request for Proposal | Request for Proposal issued, including commercial terms Mid-point assessment: initial proposals received and reviewed Developers complete Front End Engineering Design Final proposals received, assessment of fit-for-NZ requirements | 6 months |
| Negotiations | Top 2-3 bids progressed to commercial negotiations Agree and sign final contract | 4-5 months |

A confirmed project will set the parameters required for ancillary services. Build of the facility can progress in parallel with procurement for supply arrangements and (any) underground storage.