MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

TE TAI ŌHANGA
THE TREASURY

AIDE MEMOIRE

Multi-minister energy sector strategy meeting

Date:	15 August 2025	**Priority:**	High
Security classification:	COMMERCIAL SENSITIVE	**Tracking number:**	BRIEFING-REQ-0019293

Information for Ministers
Hon Nicola Willis **Minister of Finance**
Hon Simon Watts **Minister for Energy**
Hon Shane Jones **Minister for Resources**

Contact for telephone discussion (if required)

Name	Position	Telephone	1st contact
Justine Cannon (MBIE)	General Manager, Energy Markets	Privacy of natural persons	✓
Sharon Corbett (MBIE)	Policy Director, Energy Markets	Privacy of natural persons	
John Marney (Treasury)	Manager, Regions, Enterprise and Economic Development	Privacy of natural persons	

The following departments/agencies have been consulted

Minister's office to complete:

- ☐ Approved
- ☐ Noted
- ☐ Seen
- ☐ See Minister's Notes
- ☐ Declined
- ☐ Needs change
- ☐ Overtaken by Events
- ☐ Withdrawn

Comments

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Purpose

The purpose of this Aide Memoire is to provide information, supporting material and talking points for the upcoming multi-minister energy sector strategy meeting.

Justine Cannon
General Manager, Energy Markets
Building, Resources and Markets, MBIE

15 / 8 / 2025

John Marney
Manager, Regions, Enterprise and Economic Development
The Treasury

15 / 8 / 2025

Purpose and logistics of the multi-minister energy strategy meeting

1. The multi-minister energy sector strategy meeting has been convened to provide an opportunity for Ministers to establish a common understanding of the complex and pressing problems facing the energy sector.

2. This common understanding is important given the complexity of the issues, and will support decision-making by Cabinet in September on proposals to address the problems.

3. Meeting details:

   Date and time: Monday 18 August, 8:30pm to 9:15pm
   Location: Ministerial meeting room (level 2)

4. At the time of writing, the list of Ministerial attendees, in addition to yourselves, is as follows:

   - Rt Hon Christopher Luxon
   - Hon Chris Bishop (Virtual)
   - Hon Simeon Brown (Virtual)
   - Hon Brooke van Velden
   - U-S Simon Court
   - Mitchell Palmer (on behalf of Hon David Seymour)

Supporting material prepared for the strategy meeting

5. A3s presenting the current situation and underlying problems in the gas and electricity sectors have been prepared to support Ministers' discussion on the drivers of these issues (Annex One). The A3s have been forwarded by the office of the Minister for Energy to all attendees.

6. This pack of supporting material also contains:

   a. a set of key messages which could be used as introductory remarks by the Minister for Energy for the meeting (Annex Two).

   b. back pocket information that may be useful to support a wide-ranging discussion (Annex Three).

   c. tile-by-tile notes to support more in-depth discussion of the content of the A3s, if required (Annex Four).

7. Free and frank opinions

Update on recent developments

8. Since the delivery of the Frontier Economics report, there have been several developments that will be important to consider as decisions are taken.

Electricity market developments

9. On 4 August 2025, Genesis, Meridian, Mercury and Contact signed agreements to refurbish the 3rd Rankine at Huntly that would have otherwise retired in February 2026. Commercial Information

10. Commercial Information

11.

12.

MBIE has investigated LNG importation

13. MBIE has undertaken a rapid programme of work to inform potential LNG procurement. We now have a good understanding of the technical/engineering issues around importing LNG (including New Zealand specific considerations), the typical procurement and contractual processes used internationally, and have developed a potential model for Government involvement. It is unlikely that the private sector would undertake this project on its own.

14. Before taking decisions on any potential government involvement in LNG, it will be important to consider the broader case for intervention. Import of LNG will not fully address problems caused by the decline of gas supply, particularly because the price point is much higher than many industrials will find economic. Historically, industrials have been able to secure gas at an average price of Confidential advice to Government or less (though new contracts are settling at around Confidential advice to Government, Confidential advice to Government

15. A potential case for government intervention may be focussed on dry year cover. Government involvement could de-risk the project by procuring the import facility, Commercial Information). An open-access arrangement would allow the market to decide what other uses LNG could address (potentially residential, commercial, some industrial users, and electricity generation in addition to dry-year).

Proposed process and indicative timelines

Upcoming decisions

16. In September, the Ministers for Energy and Resources will ask Cabinet to consider the following papers arising from the Review of Electricity Market Performance:

    a. **Paper 1: Government response to review of electricity market performance: enhancing New Zealand's energy security:** which will include recommendations relating to electricity dry-year risk, the gas shortage, and LNG. Free and frank opinions

Free and frank opinions, this paper will be clear about the time horizons of different options and in particular:

i. That the recommendations in the paper relate to actions that could address the underlying problems in the medium term.

ii. That these medium-term interventions won't address short-term risks (as might emerge in Winter 2026), given long lead-times.

iii. But that actions for the short-term have been, and are being, undertaken as advised to Cabinet in April [ECO-25-MIN-0055]. Key developments that will help address Winter 2026 since April include a significant coal stockpile at Huntly and the agreement to maintain the 3rd Rankine.

b. **Paper 2: Further Government response to the review of Electricity Market Performance**: which will cover all remaining recommendations including considering how the regulator and electricity distribution parts of the sector are organised.

17. The Minister for Resources intends to take a paper to Cabinet in September on co-investment in the oil and gas sector ($200m set aside at Budget 2025).

18. Note that the above decisions/actions are in addition to work already underway in relation to the gas shortage such as work by EECA and the GIC to assist gas users.

A staged approach for key decisions on energy security

19. We propose a staged approach for key Cabinet decisions to address the dry-year and gas shortage problems:

Stage One decision in September:

- Consider response to the Frontier Report, including agreement to progress work on potential options to de-risk/support investment in thermal fuel and generation, noting that further consideration is needed on the extent to which government intervention may be required and, if required, the nature of that intervention.
- Agreement to publicly release the report and engage with the sector and experts on direction of Government intentions.

Stage Two decision in December:

- Final decisions on whether and how the government intends to intervene and initiate implementation steps (noting it is anticipated that this would also include decisions on LNG imports).

20. This approach balances timeliness with analysis to support major, strategic decisions. It is important Government makes a timely announcement of its response to the Frontier report to reduce speculation and industry uncertainty. There is also a need to undertake essential analysis and sector engagement to support final decisions which could have significant and long-lasting implications. Proposed key activities and target timelines are summarised in Table One.

Table One: Proposed key activities and target timelines

<table>
<tr><th>Month</th><th colspan="2">Activities</th></tr>
<tr><td>Mid September</td><td colspan="2">Government decision and announcements
Government considers whether to progress work on de-risking/ensuring adequate investment in thermal fuel and generation that the market will not provide
Government response to Frontier report announced
Frontier report and Peer Reviews published</td></tr>
<tr><td>September
October
November</td><td>Policy workstream
Progress further analysis and development of options, if Cabinet agrees to progress further work
Ensure analysis is informed by expert advice and key perspectives:
engage market experts to advise on potential market implications and unintended consequences of different forms of intervention, and to support modelling and analysis
convene an industry reference group to ensure key perspectives are understood and considered
work closely with industry regulators to ensure regulatory and competition issues are addressed
Develop the December Cabinet paper and associated Regulatory Impact Statement</td><td>Commercial workstream
Establish a commercial team in parallel to undertake preparatory work should Government agree to progress with interventions
Commercial team activities would include:
analysis and market engagement on fuel (including LNG) and capacity options
design mechanism(s) to deliver firm fuels and capacity (eg PPAs, other underwrite/support schemes)
develop a procurement strategy to deliver open, competitive and transparent procurement that deliver lowest cost solutions</td></tr>
<tr><td>December</td><td colspan="2">Government decisions and announcements
Decide on whether to progress, and the nature of, government intervention
Decide whether to proceed with LNG and/or other options to address the energy shortage</td></tr>
<tr><td>December onwards</td><td colspan="2">Implementation
Process depends on December decisions</td></tr>
</table>

Next steps

21. Table two below sets out the proposed process leading to Cabinet ECO Committee on 10 September. The Cabinet ECO Committee is also meeting on 17 September should the need arise to go to a later meeting.

Table Two: Timeline for ECO papers

Activity	Target Date
Multi-minister energy sector strategy meeting	Monday 18 August, 8:30 to 9:15pm
Feedback on draft Cabinet Papers from key Ministers	By Monday 25 August
Ministerial Consultation plus (limited) Departmental consultation in parallel	Tuesday 26 August to Tuesday 2 September
Papers lodged for ECO 10 September	Thursday 4 September
ECO	Wednesday 10 September
Cabinet	Monday 15 September

22. We will work with your offices to prepare announcement materials and communication plans, including to account for the need to comply with requirements for market sensitive announcements.

23. The Final Frontier Report and Peer Review Reports will be published at the appropriate time and following Ministers' approval.

Annexes

Annex One: Gas and Electricity A3s for the multi-minister energy sector strategy meeting

Annex Two: Suggested talking points for Minister for Energy opening remarks

Annex Three: Back pocket talking points

Annex Four: Talking points to accompany each slide in the A3s

Annex One: Gas and Electricity A3s for the multi-minister energy sector strategy meeting

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A: Context and overview of gas market problems

Context: energy security problems are a handbrake on the economy

- Energy costs have significant economic implications, particularly for energy-dependent sectors.
  - ➢ Industrials (e.g. WPI, Oji and Ballance) have closed/curtailed production citing tight energy supplies and high prices
- In 2024 Government initiated an Electricity Review in response to cost of living concerns and the significant stress our electricity and gas markets are experiencing
- There are two underlying, and related, problems:
  - ➢ A sudden and unexpected gas shortage
  - ➢ Electricity generation to cover 'wind-droughts' (several weeks) and 'dry-year' periods (weeks to months)

Context: Actions are being taken to improve the situation in the short-term (1-2 years)

- Improving regulatory certainty is resulting in investment
  - Fast-Track Approvals Act
  - Ceasing Lake Onslow & 100% renewable target
- Pressure on industry has resulted in actions that improve the electricity supply situation for 2025 and 2026
  - Winter stockpile of coal at Huntly
  - Gentailers have agreed to maintain the 3rd Huntly Rankine
  - Fast-track applications to increase operating storage in hydro lakes
- EECA support for business switching (information, demo projects)
- Brought together Gas Security Response Group to explore LNG imports and coordinate gas/electricity sectors.

In September Cabinet will be asked to consider actions that could address the underlying problems in the medium term.
Note these won't address short-term risks, given long lead-times.

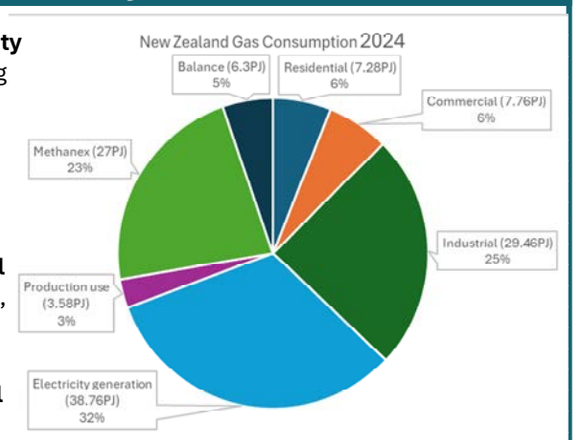
Purpose of today's discussion

- Discussion on New Zealand's energy security problems, ahead of Cabinet ECO Committee consideration of options for actions to address underlying problems causing energy shortages
- The Ministers for Energy and Resources will bring three papers to the Cabinet ECO Committee in September:

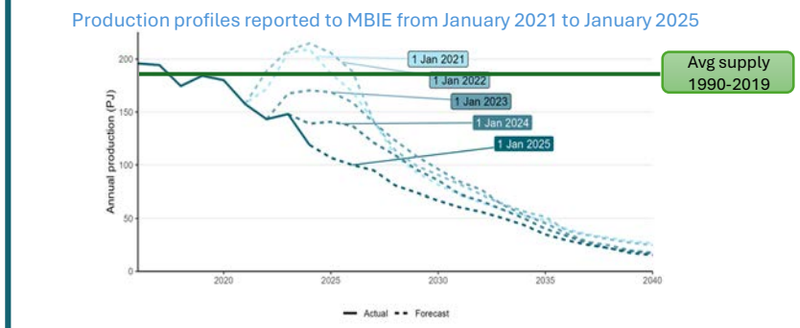
$200m Gas Co-investment	Energy security of supply	Other Review recommendations
Minister for Resources paper on gas tagged contingency	addressing issues discussed in these A3s	including energy regulator, electricity distribution businesses

1. Cheap abundant natural gas has underpinned much of our economy

- Significant **electricity generation** – firming and peaking
- 300 **industrial** sites eg dairy, wood processing, meat processing
- 16,000 **commercial** sites eg restaurants, panel beaters, hospitals, prisons
- 290,000 **residential** users

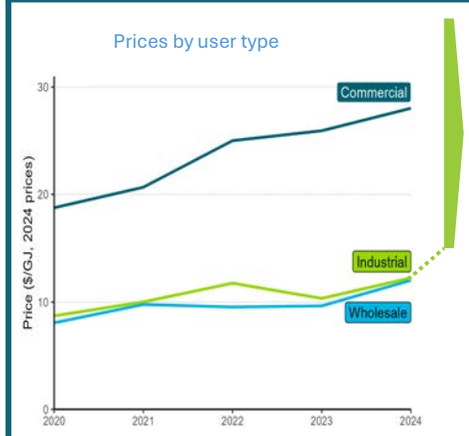


2. We are experiencing a sudden and serious decline in gas supply, despite investment



- 2025 production is 48% of what was anticipated in 2022. This is despite $2 billion gas field investment since 2019
- Government has agreed to invest up to $200m in exploration but results are uncertain

3. Businesses are now struggling to get gas contracts and face significant price increases



Industrial pricing intel
- Price offerings in 2024/25 spiked as high as [redacted]
- Now settling ~[redacted] (at least 50-100% higher than historic prices)

On 7 August Ballance announced plans to shutdown for four months due to inability to secure gas at affordable price

4. Only some firms can and will switch away from gas…

Limited visibility on extent to which firms will switch (electrify, biofuels, etc):
- [redacted]
- EECA surveys suggest few large users will switch in short term
- [redacted]

Barriers include capital costs, limited internal resources, and that switching may not improve productivity (investing to stand-still)

Some have no viable alternative:
- There are [redacted] industrials who are unlikely to transition [redacted] due to technical feasibility or prohibitive costs [redacted]

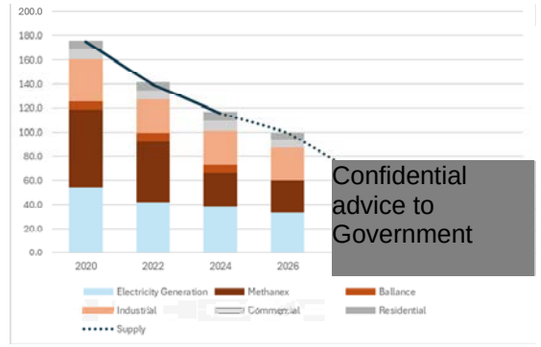
5. …with resulting supply chain and other risks

Methanex provides flexibility in demand (up and down) for energy system. [redacted]	Increased reliance on imports [redacted]	Reduced wood processing capacity has implications for forestry and construction
Uncertain supply for electricity will push up spot and forward prices, feeding inflation	Parts of the gas distribution network will become uneconomic, cutting off small users	May be challenges for users to switch at necessary pace (supply and install)

- Interventions can address issues to some extent
- Limits driven by: price of alternatives, feasible rate of change

6. We expect increasing electricity prices and firm closures under status quo

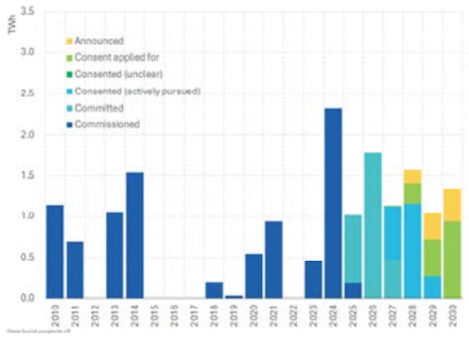
Past and potential future natural gas use and supply 2020-2040 (PJ)



- We anticipate industrial use will reduce first due to price (higher price paid by electricity and some industrials)
- By 2030, electricity use of gas will need to reduce due to limited supply
- By 2040 supply likely to be <20PJ ie could be used entirely for electricity

B: Overview of electricity market problems

1. Development of renewables is booming



Source: Concept Consulting Base scenario of new generation developments, *Various analyses of current electricity and gas market dynamics, 4 May 2025*

- More generation commissioned in 2024 than any year since 2007
- A significant pipeline of new renewables ahead to meet demand from an electrifying economy
- Pipeline includes grid-scale batteries which help address short-term (< 1 day) drops in renewable generation

2. But we also need significant energy stores and generation for dry years and low wind

The more intermittent renewables, the greater our exposure to periods of 'wind-droughts' (several weeks) and 'dry-years' (weeks to months)

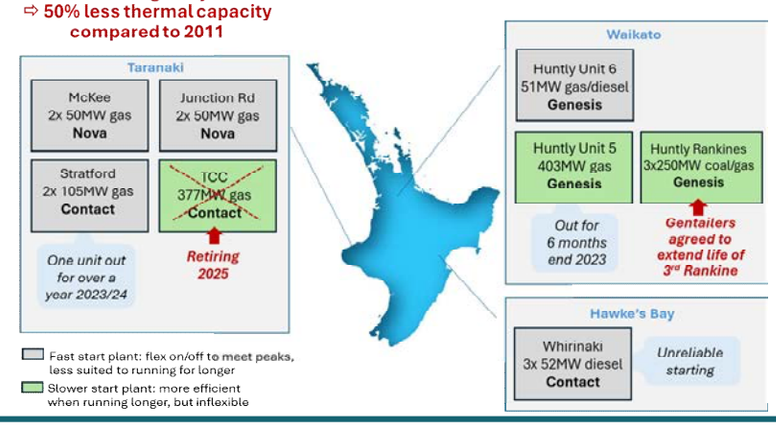
in some winters we see 'wind droughts' – long periods of very little wind (eg 2-4 weeks)

'dry years' can happen every 3-5 years, but are impossible to predict

Thermal generation is the only economic and viable technology at this time to fill such gaps

3. Our thermal generation is ageing, retiring and prone to outage

TCC retiring this year
⇨ 50% less thermal capacity compared to 2011

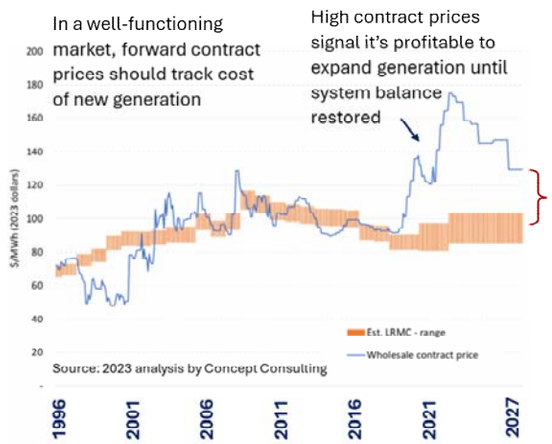


4. Gas scarcity means less dry year and low wind cover

- Our generation mix has been built around the availability of cheap, flexible gas
- In 2024, Methanex cut back production to free up gas for electricity generation. Even then:
  - ➢ gas shortages meant generation plant sat idle
  - ➢ urgent coal imports were needed
- Coal's ability to make up for scarce gas is constrained by the capacity of the Huntly Rankines

Declining gas supplies are constraining gas-fuelled generation and driving up prices

5. These security of supply problems are causing high prices



Prices have been well above cost of new entry since 2018. Note since 2023 (date of graph) prices have increased again, responding to declining gas supply.

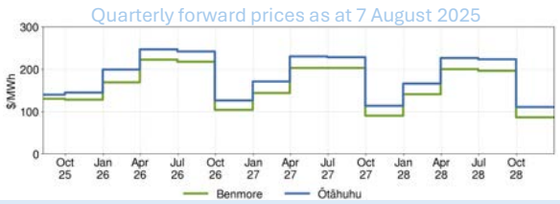
6. They are also contributing to competition issues

- Scarcity of thermal generation and fuel means there aren't enough forward contracts for 'firm' energy supply to go around
  - ➢ this increases market power of the gentailers who own most of the firm generation
  - ➢ this disadvantages independent generators and retailers, and major users. Access to these contracts at affordable prices is the main complaint of independent parties
- Until firming shortages are resolved we can't eliminate competition concerns

Competition concerns are a symptom of the scarcity of non-weather dependent generation

7. Some gentailers maintain these issues will be resolved as the pipeline is built and other deals are done

- But despite the new renewables pipeline, forward prices aren't coming down. Refurbishing the 3rd Rankine is important, but does not even maintain the amount of thermal 'kit' we had going into Winter 2025 .



This indicates the market still expects a shortfall. While the renewable pipeline helps security of supply, it will not deliver generation that can be relied on in a dry year.

8. Frontier concludes the market will not deliver sufficient thermal fuel/generation investment

Frontier identifies the follow problems:

Gas supply risk
declining gas production is causing a significant fuel availability risk

Investor desertion
unwilling to invest in thermal assets and fuels due to
(1) the risk of future government policies
(2) ESG considerations

Revenue risk
it's risky (and getting riskier) to invest in plant that may not make money until a dry year

Free-rider market failure
uncertainties mean it is economically rational to wait for another generator to invest to improve dry year situation

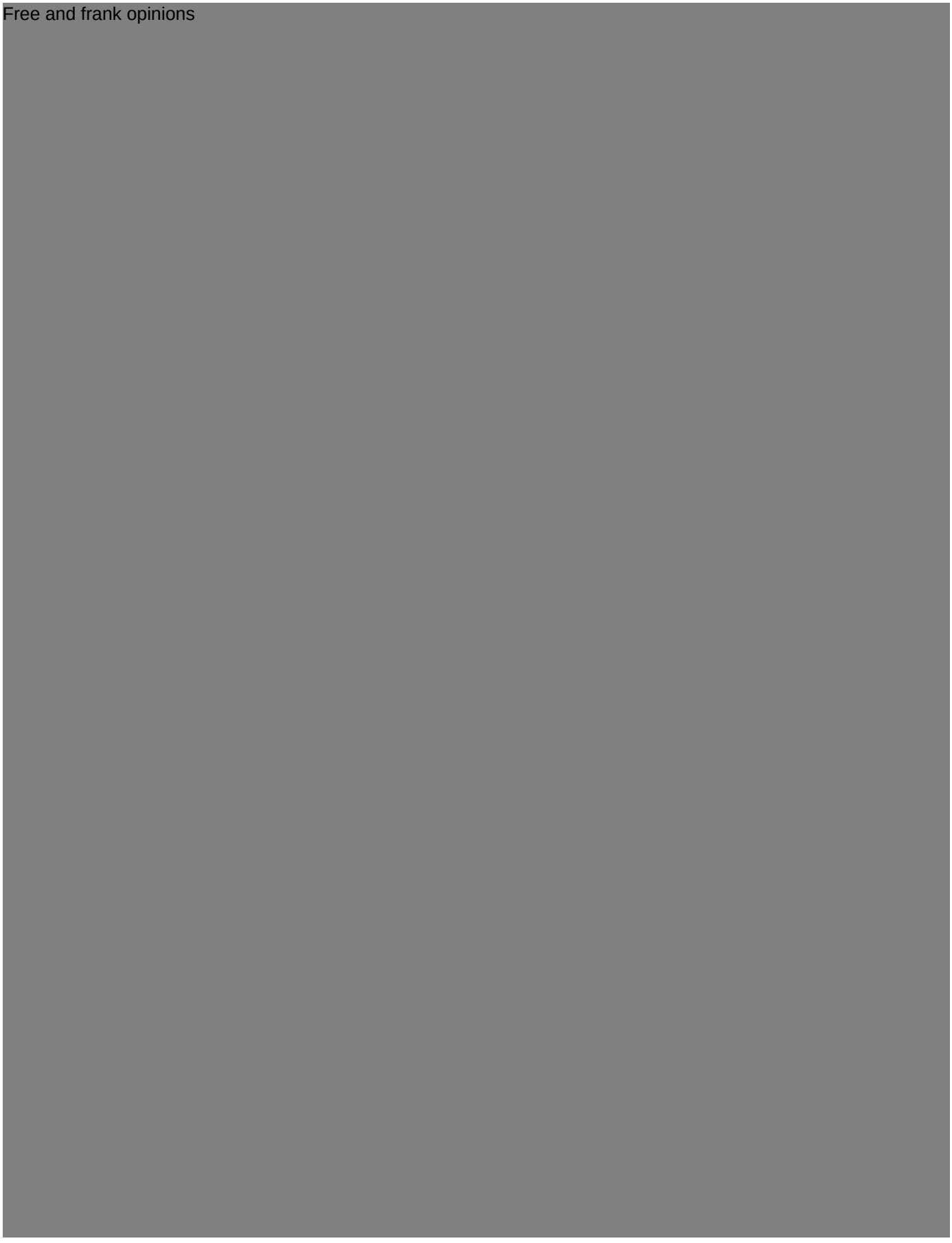
9. Any intervention needs to be carefully targeted

- Since the delivery of the report, there have been several developments that will be important to consider as we take decisions
- Key criteria for any intervention:
  - ➢ Effectiveness in improving dry-year backup supply (and therefore lowering prices by addressing the scarcity problem)
  - ➢ Does not imperil existing market signals where they are working well – particularly the delivery of new renewable generation

These are the bottom-lines before any intervention:
(1) will the intervention work and
(2) could the intervention do more harm than good

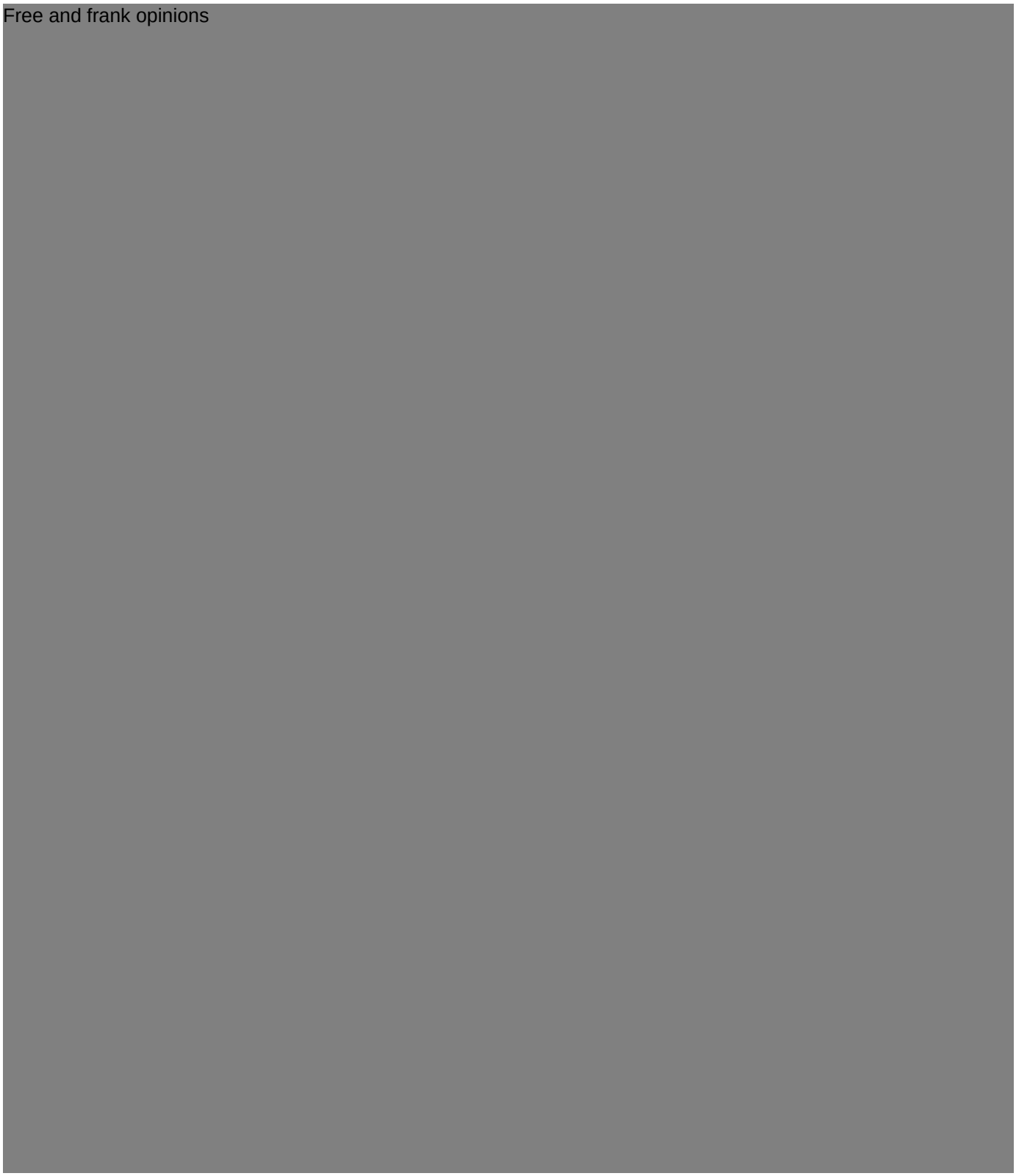
Annex Two: Suggested talking points for Minister for Energy opening remarks

Free and frank opinions



Annex Three: Back pocket talking points

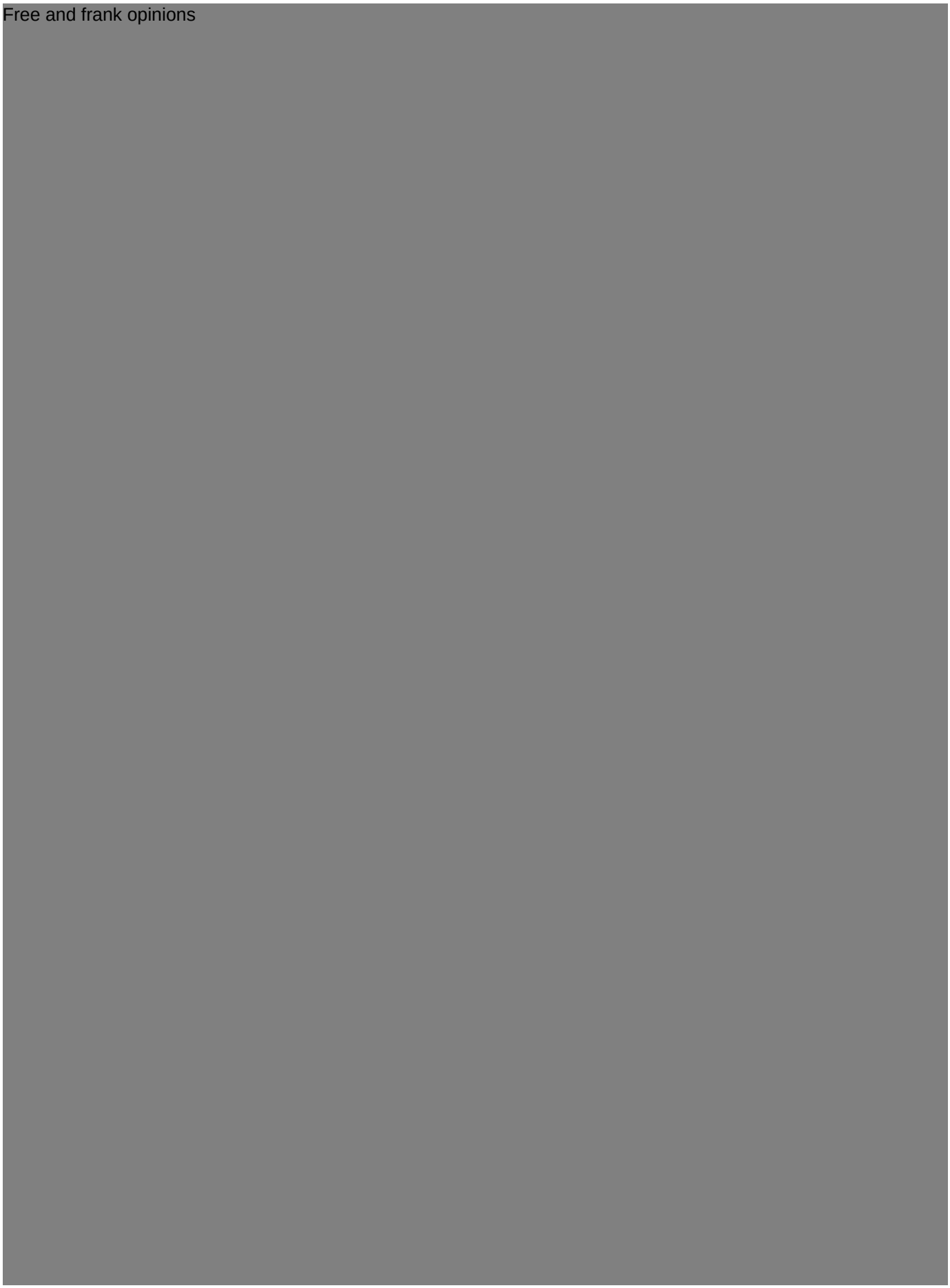
Free and frank opinions



Back-pocket on options (if asked)

Free and frank opinions

Free and frank opinions

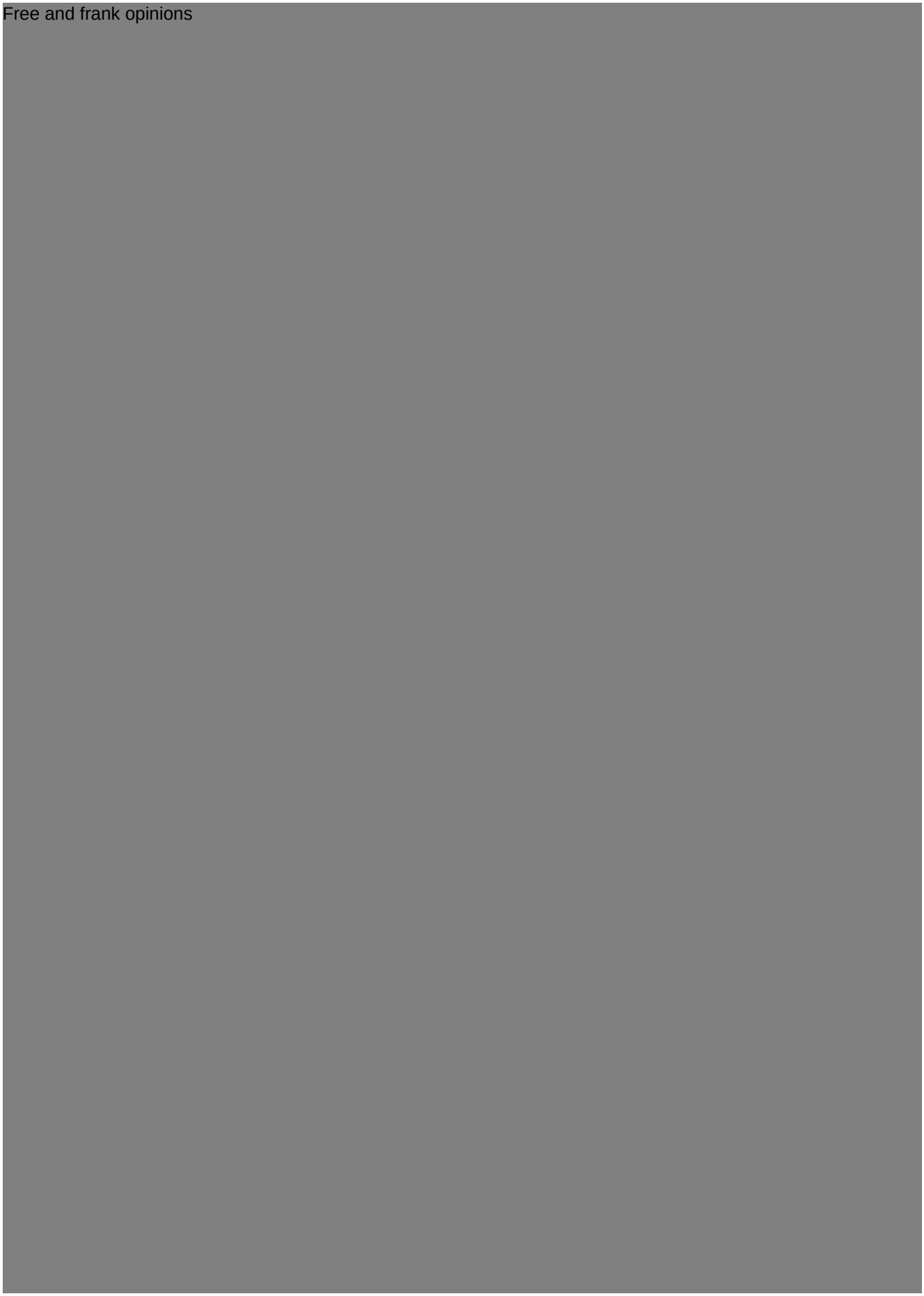


Free and frank opinions

Annex Four: Talking points to accompany each slide in the A3s

Free and frank opinions

Free and frank opinions



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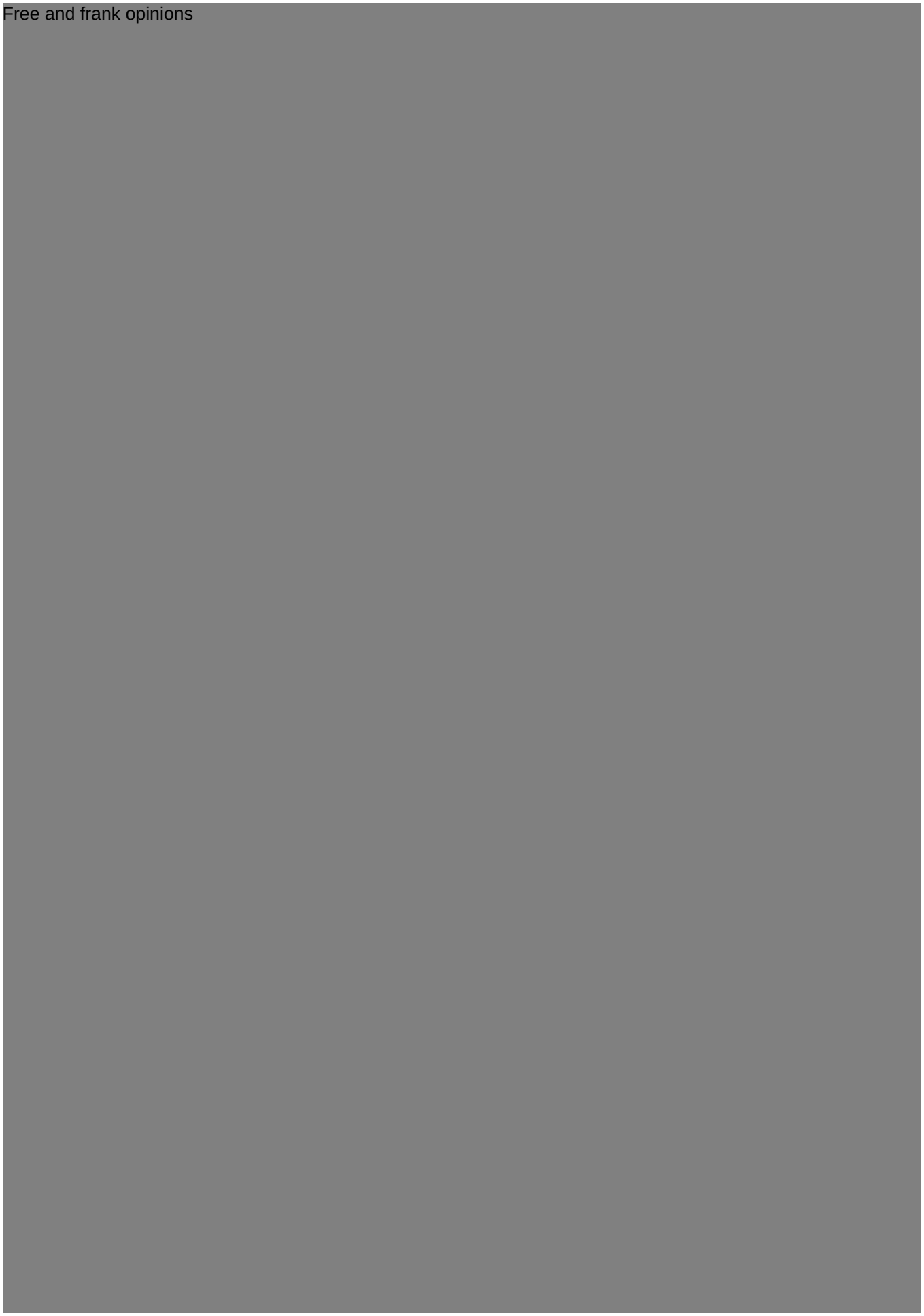

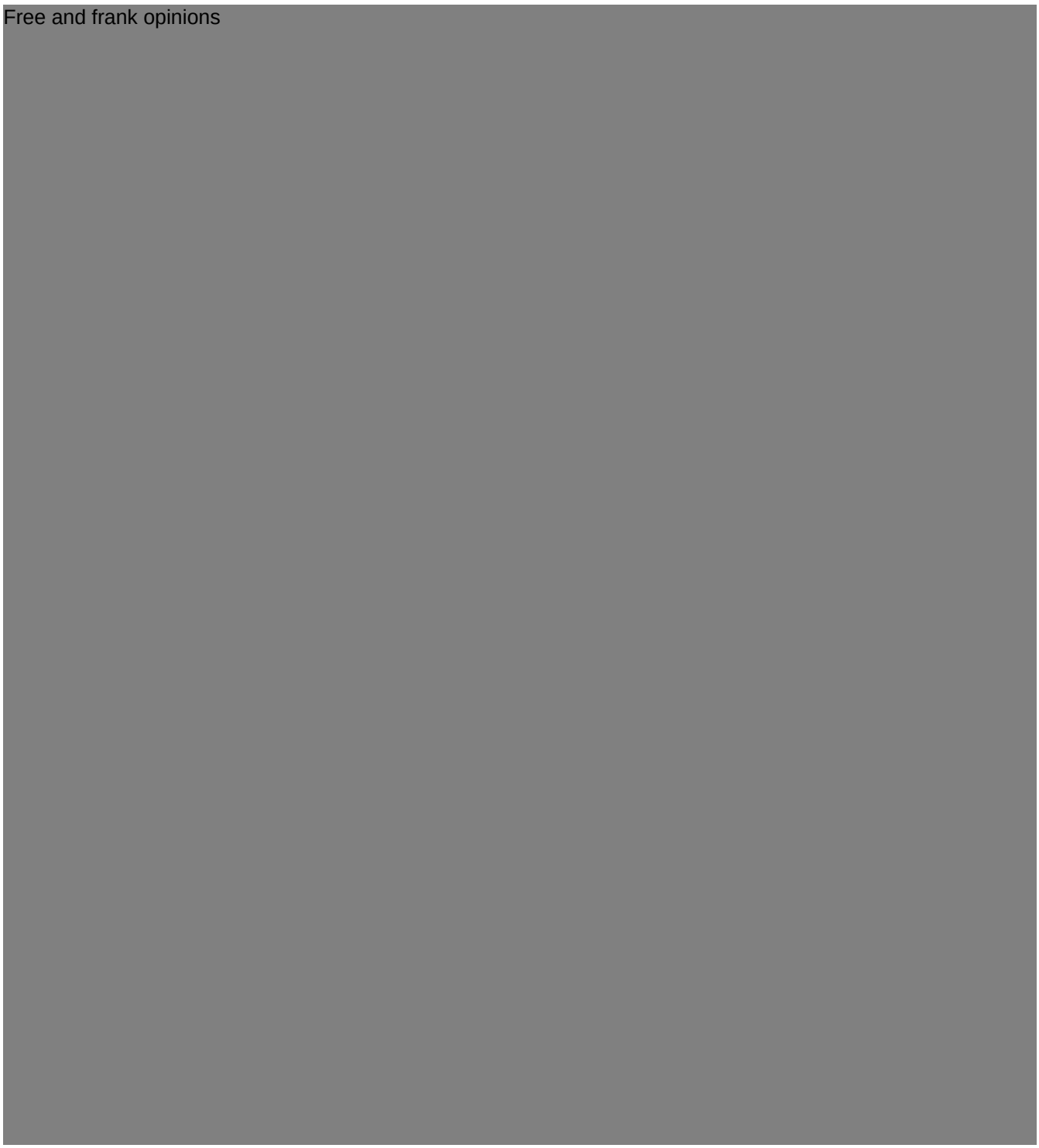
Free and frank opinions