



## BRIEFING

### Review of electricity market performance – draft report and next steps

<b>Date:</b>	15 May 2025	<b>Priority:</b>	High
<b>Security classification:</b>	Sensitive	<b>Tracking number:</b>	BRIEFING-REQ-0013791

Action sought		
	Action sought	Deadline
Hon Shane Jones <b>Minister for Resources</b>	<b>Agree</b> to the next steps timeline, including a target date of 25 June 2025 for reporting back to Cabinet ECO Committee on the review  <b>Agree</b> to refer aspects of the draft report to relevant regulators for discussion with MBIE officials to inform our advice  <b>Agree</b> to discuss this briefing with officials	19 May 2025
Hon Simon Watts <b>Minister for Energy</b>	<b>Agree</b> to the next steps timeline, including a target date of 25 June 2025 for reporting back to Cabinet ECO Committee on the review  <b>Agree</b> to refer aspects of the draft report to relevant regulators for discussion with MBIE officials to inform our advice  <b>Agree</b> to discuss this briefing with officials	19 May 2025

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Justine Cannon	General Manager, Energy Markets	Privacy of natural persons	
Sharon Corbett	Policy Director, Energy Markets	Privacy of natural persons	✓
Stephen Tat	Principal Policy Advisor	Privacy of natural persons	

The following departments/agencies have been consulted
Treasury

Minister's office to complete:

☐ Approved

☐ Declined

☐ Noted

☐ Needs change

☐ Seen

☐ Overtaken by Events

☐ See Minister's Notes

☐ Withdrawn

Comments



# BRIEFING

## Review of electricity market performance – draft report and next steps

Date:	15 May 2025	Priority:	High
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### Purpose

To seek your:

- Initial direction on key policy issues and related recommendations in the draft Frontier Economics (Frontier) report on the Review of Electricity Market Performance (the review)
- Agreement for MBIE officials to discuss other draft recommendations of a more technical nature with the appropriate regulator to inform our advice
- Agreement on the process, and timing, for next steps.

### Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

- a **Agree** to the next steps timeline, including a target date of 25 June 2025 for reporting back to Cabinet ECO Committee on the review  
*Agree/Disagree*
- b **Agree** to provide initial direction to officials on the key recommendations contained in Frontier's draft report  
*Agree/Disagree*
- c **Agree** to MBIE officials discussing Frontier's recommendation on removing electricity generation from the Emissions Trading Scheme with the Ministry for the Environment to inform our advice  
*Agree/Disagree*
- d **Agree** to MBIE officials discussing Frontier's concerns on the proposals relating to non-discrimination and virtual disaggregation with the Energy Competition Task Force to inform our advice  
*Agree/Disagree*
- e **Agree** to MBIE officials discussing Frontier's concerns regarding the 'Huntly Heads of Agreement' with the Electricity Authority and Commerce Commission to inform our advice  
*Agree/Disagree*
- f **Agree** to MBIE officials discussing technical recommendations set out in Annex One with the relevant regulators (Electricity Authority, Gas Industry Company, Commerce Commission, as relevant) to inform our advice  
*Agree/Disagree*
- g **Agree** to discuss this briefing with officials  
*Agree/Disagree*

Justine Cannon  
**General Manager, Energy Markets**  
Building, Resources and Markets, MBIE  
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Hon Shane Jones  
**Minister for Resources**  
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Hon Simon Watts  
**Minister for Energy**  
..... / ..... / .....

## Background

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1. Frontier Economics (Frontier), the lead reviewer, provided its draft report Friday 28 March 2025 and briefed the Ministers for Energy and Resources on Monday 31 March 2025. The peer reviewers<sup>1</sup> delivered their comments on the draft report on 11 April 2025. Frontier is now undertaking further work towards its final report due Friday 23 May 2025. Peer reviews of the final report are due Friday 6 June 2025.
2. In advance of government receiving Frontier's final report, officials are seeking your direction on the priority recommendations which, if implemented, would have market implications and constitute significant reforms to the sector. In particular, we are seeking your initial direction on how these recommendations should be reflected in the upcoming June report-back Cabinet paper on the review [ECO-25-MIN-0055 refers], noting we are awaiting Frontier's final report and peer reviews on that final version.
3. You are also due to report back to Cabinet on a procurement framework for Crown investment in liquified natural gas (LNG) imports later in May [ECO-25-MIN-0055 refers]. As the primary objective of any Crown investment in LNG import facilities would be to mitigate dry-year risk, officials advise Ministers to make decisions to progress procurement once the government has made decisions on its response to the review, including the role of government in resolving dry-year risk and consideration of a broader set of potential interventions (if required).

### Key recommendations in Frontier's draft report

4. The key recommendations are:
  - a. The establishment of a new government entity to take responsibility for securing and selling thermal capacity to manage dry-year risk
    - i. Included in this proposal is that independent retailers, industrials and independent generators would have priority access to this firm capacity to enable a more level playing field
  - b. Divestment of government shareholding in the three mixed-ownership model (MOM) gentailers (Meridian, Mercury and Genesis)
  - c. Amalgamation of electricity distribution businesses (EDBs)
  - d. Removing the application of the Emissions Trading Scheme (ETS) to the electricity generation sector.
5. While Frontier did not list improving gas market transparency as one of its top five recommendations, we consider this to be of sufficient importance to the functioning of electricity and gas markets and therefore cover this topic in the body of the briefing.
6. In addition, Frontier are providing advice on the governance of the electricity and gas sectors, including considering whether there is a case for a combined gas and electricity regulator e.g. merging the Electricity Authority (EA) and Gas Industry Company (GIC). This issue is not discussed in Frontier's draft report however we've been advised this will be in the final report and we have received preliminary advice from Frontier on this which is set out in this briefing. We also seek direction on this issue.

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<sup>1</sup> There are two peer review teams – NERA, an economic consultancy based in the UK and a team of experts led by Professor James Bushnell at the University of California – Davis.

7. The rest of this briefing:
  - a. Provides an overview of each priority recommendation above, including peer review comments and initial MBIE views
  - b. Outlines the proposed next steps for the rest of the recommendations in the draft report, including seeking your agreement to discuss some with other agencies and regulators to inform our advice
  - c. Sets out the timeline of proposed next steps to report-back to Cabinet in June.
8. For ease of reference, all recommendations in Frontier's draft report are contained in the table in **Annex One**. Included in the table are the actions we are seeking from Ministers and proposed next steps for each recommendation.

## **New government entity to manage dry-year risk**

9. As you are aware, Frontier has recommended the establishment of a new government entity to manage dry-year risk. Frontier is now undertaking further analysis on a wider set of options to address dry-year risk. Therefore, we are seeking any initial views from Ministers on the range of options being considered, pending Frontier's final report.

*Frontier identified government policy risk as the main problem with the lack of investment in reliable fuel together with flexible and firm generation assets to mitigate dry-year risk*

10. Frontier's overall observation is that from the perspective of managing dry year risk and providing firming capacity, New Zealand's energy security and reliability hangs in the balance. As the system's reliance on renewable (intermittent) generation increases to meet new demand and existing thermal capacity declines, so does its vulnerability to dry year shortages. In their view, without definitive action by Government, dry year risk will lead to increased prices, loss of supply and economic disruption that will drive industry out of New Zealand. Therefore, dry year risk also represents a significant economic and social risk for New Zealand.
11. Frontier considered in detail the existing incentives to invest in new generation assets across all fuel and technology types to support security and affordability. Their main findings were that:
  - a. There are no major obstacles to investment in new renewable power assets. While uncertainty around supply, demand and government policy has influenced investment in recent years, there is now a strong pipeline of new renewable generation projects and batteries underway – driven by both gentailers and independent generators.
  - b. There is a problem with investment in reliable fuel and flexible generation capacity (thermal assets) to support dry-year risk which has driven higher spot and forward contract prices than they otherwise would be. This is not caused by market structure problems or a lack of oversight on participant behaviour.
    - i. Frontier further comment that this means less firm capacity is available to back firming hedges which are highly sought after in the market. This relative decline in the supply of firm contracts inevitably increases the costs of hedging as progressively more intermittent supply competes over the dwindling supply of firm energy to back their non-firm investments (or manage their retail books). Reallocating this dwindling supply of firm energy to different parties by regulatory mechanisms or other means does not solve the fundamental scarcity of this form of energy supply.

- c. Frontier notes that thermal generation is not the only firm generation in the system. Hydro generators provide the vast majority of firming to our system. However, the ability of hydro to provide firming diminishes in dry years and as more intermittent generation enters the system and as demand grows with increasing electrification, more firming will be required.
  - d. The key underlying problem Frontier identified to investment in dry-year risk management is government policy risk. Investment in thermal fuel supply and firm capacity is not occurring, in large part, due to the considerable risk arising from government policy volatility. Frontier characterises this risk as 'at a stroke of a pen', the value of an investment can be destroyed. This is a risk the market is unable to manage.
  - e. Shareholder aversion to investment in fossil fuel generation assets is also a key problem identified i.e. investor ESG preferences and share market recognition of stranded asset risk. There is also a fuel supply risk issue and a free-rider problem making it difficult for these projects to earn sufficient revenue and therefore be financeable.
12. The two peer review teams were less convinced that a problem exists. Key feedback included:
- a. The main finding of government policy risk is hard to confirm as the peer reviewers did not have the same access to New Zealand stakeholders – the extent to which you believe government policy risk is a real issue is important.
  - b. They did not see definitive evidence that the current market is not dealing with the dry year problem.
  - c. It was unclear the extent to which the problem is with a failure of electricity market design versus an access to fuel (gas production, gas storage or even LNG import) issue.

*Frontier's draft recommendation is to establish a new entity ('Guardian Power') to take responsibility for securing and selling thermal capacity to manage dry-year risk*

13. Given Frontier's finding that government policy risk is the main barrier to investment in new thermal firm assets, they consider that only government can provide a solution and a market response will not be forthcoming. Therefore, their key recommendations are as follows:
- a. Retain the energy-only market design as it is generally working well and incentivising investment in new renewables.
  - b. Do not adopt the Energy Competition Task Force's proposed changes to the market structure, including no structural separation of the vertically-integrated gentailers, as Frontier believe it would not lead to more investment in new capacity.
  - c. Create a new government entity (currently referred to by Frontier as Guardian Power) to take responsibility for securing and selling thermal capacity (potentially including securing fuel such as gas), guaranteeing that New Zealand has the backup generation it needs when hydro inflows are low and to provide access to firm power at all other times.
    - i. Require the new government entity to offer priority access to capacity with the aim of providing independent retailers with the virtual vertical integration (and its associated benefits) and independent generators a firming product so that these parties do not have to rely on gentailers offering firming contracts. Priority access would also be given to industrials.

14. Feedback from the peer reviewers on these draft recommendations included:
- a. General agreement the energy-only market design is working well.
  - b. Emphasis that the creation of a new government entity would represent a significant change to the market which could dictate the long-term trajectory of the industry and potentially foreclose investment paths that would otherwise have been pursued by markets. It would also represent a shift toward a centralised approach to delivering reliability as opposed to the current decentralised approach.
  - c. Scepticism that the creation of a new government entity would reduce government policy risk given concerns that publicly owned firms are exposed to political pressures and could make investments based upon political rather than economic criteria. This could distort efficient market outcomes and impact other market participants.
  - d. Concern about any type of priority access, or preferential treatment schemes for independents. For example, Bushnell et al commented that proposals of this nature risk forcing a specific market structure, rather than having a structure emerge from competitive dynamics.

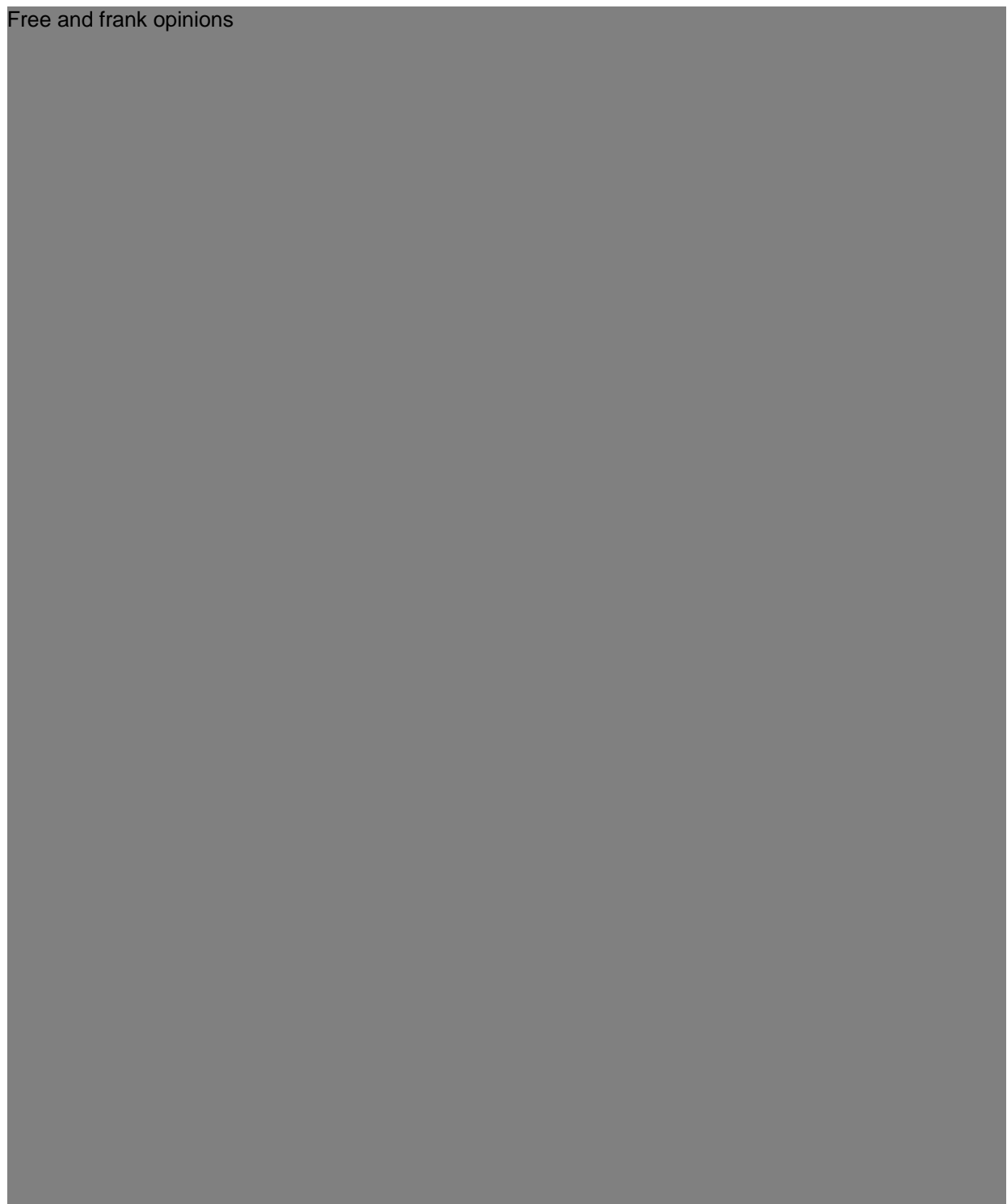
**MBIE comment**

15. We generally agree with Frontier's identification of the problem that New Zealand needs more reliable fuel and firm generation capacity and that there are barriers to investment for the reasons outlined by Frontier. This is consistent with previous MBIE advice [BRIEFING-REQ-0007758 refers].
16. Frontier's draft report did not contain meaningful analysis of alternative options to Frontier's new government entity proposal. Officials have asked Frontier to analyse a wider set of options to provide a more well-rounded analysis to inform Ministerial decision-making.
17. Table 1 below sets out, at a high-level, the range of options Frontier are further analysing and some key features of each option. These are draft and subject to refinement from Frontier as they prepare their final report. In general, the options cover a range of regulatory intervention. Frontier are looking at overseas mechanisms and taking into account peer review comments on the draft report and will be providing advice on the extent to which they consider these options would address the problem.

Free and frank opinions



Free and frank opinions





18. Moving to a capacity market design<sup>2</sup> was discounted by Frontier as they found the current energy-only market generally works well and that a capacity market option represents a major market overhaul of the existing market design with extensive regulatory and administrative costs. We do not expect the final report to fully evaluate this option.
19. We also note previously in 2021 Contact Energy proposed 'ThermalCo' as a consolidated ownership model of thermal generation assets between Contact, Genesis and Nova. Other than consolidation, the main feature of the proposed approach was a transparent platform for the trading of thermal capacity. The ThermalCo proposal was not focused on investing in new capacity, rather was presented as a means of managing the exit of thermal plants from the New Zealand system. Commercial agreement between parties could not be reached and the proposal did not progress any further.

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<sup>2</sup> A capacity market – this form of market pays generators for making capacity available regardless of actual electricity generation

20. **We are seeking your feedback on whether you consider an appropriate range of options are being considered to address the dry-year risk problem or whether you would like further investigation. We also seek any initial direction (or constraints) you may wish to provide noting that Frontier are due to provide their final report by 23 May 2025.**

## **Divestment of government ownership in MOMs**

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21. In its draft report Frontier considers that majority Government ownership of three MOM gentailers – Genesis, Mercury and Meridian – is distorting market outcomes, primarily because Government ownership appears to constrain their ability to invest in larger projects.
22. Frontier recommends divestment of the Government shareholding of the MOM gentailers. Frontier considers that without the Government as the major shareholder, these gentailers would have greater flexibility to raise capital, make larger investments and respond more dynamically to market demands.
23. Frontier does not consider this divestment recommendation is integral to its Guardian Power/dry-year risk proposal (discussed above). However, without the funds generated from divestment, it notes Government would need to directly fund the new entity.
24. The two peer reviewers commented on the divestment proposal. In summary, while there may be potential benefits of divestment, the potential negative impacts of the current ownership model may not be as material as stated and should be further investigated. There are also countervailing considerations to be factored in, such as loss of the dividend stream Government receives and how privatised gentailers might behave. The proposal appears to rely heavily on stakeholder interviews and further analysis is required.

### **MBIE comment**

25. Frontier's draft report only considered the option of fully selling down the government's 51% ownership to address their concerns about capital constraints. We note that there are a range of intermediate options that were not explored.
26. The Ministers of Finance and State Owned Enterprises are shareholding Ministers representing crown ownership in the three MOMs. We recommend that you engage with shareholding Ministers, if you wish to progress this recommendation as is, or variants of it.
27. **We are seeking Ministers initial direction on how you would like officials to progress work on this recommendation and what you would like reflected in a report back to Cabinet.**

## **Amalgamation of EDBs**

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28. The draft report recommends rationalising the number of EDBs, claiming that the New Zealand EDB industry is too fragmented, with most EDBs operating well below minimum efficient scale.
29. Frontier propose amalgamating all EDBs into five 'super EDBs', all of similar size with each one headquartered in a major New Zealand city. The peer reviews agree that consolidation and harmonisation of EDBs could improve efficiency through economies of scale and be more conducive to innovation and investment. However, the reviews question the strength of the evidence, noting the report does not justify why five is the optimal number, or whether the benefits of amalgamation outweigh the costs.
30. Softer (structural) options Frontier also identified are:
- a. require amalgamation for EDBs that do not have any private ownership

- b. maintain the existing 29 EDBs but require coordination within defined regions, such as joint procurement and shared services.
31. Frontier will provide more detail on how 'softer' options could work and be implemented which will be reflected in their final report.

#### **MBIE comment**

32. We think there are efficiencies that can be gained across EDB capital investments and operations. Areas include capital expenditure, procurement, operations including technical standards, staffing, and also customer-facing aspects including connection processes, connection charges and core network pricing.
33. Our initial view is that the amalgamation Frontier propose could improve the efficiency of EDBs. However, forced amalgamation could face strong opposition, temporarily pause some innovation underway, and could be complex given the different ownership models. For example, the ownership structures of EDBs can have a mix of council/trust or private ownership, have a mix of local or international investors, or be a listed company.
34. Frontier's proposed approach also contrasts with the government's shift in the water sector away from amalgamation and towards localised solutions. The Minister for Energy has asked the Commerce Commission and MBIE to develop advice more broadly on encouraging EDB efficiency and potential learnings from economic regulation of the water sector. We are developing this advice in collaboration with the Commission.
- 35. We are seeking any initial direction on how this recommendation to amalgamate EDBs should be reflected in the upcoming Cabinet paper.**

#### **Removing the application of the ETS to electricity generation**

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36. Frontier considers that electricity's inclusion in the Emissions Trading Scheme (ETS) increases electricity prices without improving environmental outcomes, and recommends it be removed. The carbon price is intended to incentivise investment and operation in new low and zero emission technology and create disincentives to use higher emission technologies. However, Frontier considers that the New Zealand carbon price is doing very little to produce this desired outcome because, they believe, the economics of power generation in New Zealand produces this outcome in any case.
37. Frontier considers that, as thermal generation is already the highest cost generation in our market, adding the carbon tax to the cost stack only serves to increase wholesale electricity costs without changing operating or investment decisions. They consider it is unclear what the carbon price is doing in terms of reducing emissions more than would occur without the carbon price. Frontier contends consumers would be better off without the carbon price on their energy bills, without causing environmental outcomes to be materially worse.
38. Neither of the two peer reviewers support this recommendation, citing countervailing views and lack of analysis. For instance, NERA considers electricity's inclusion does have an environmental benefit through encouraging fuel switching between coal and gas and between more and less efficient gas generators; and by incentivising greater investment in renewables. Bushnell et al believe emissions trading systems can be more durable as climate policies than alternatives such as technology mandates, goals, and tax credits - all of these can be, and have been, adjusted or revoked with changing political sentiment.

## **MBIE comment**

39. MBIE notes that removing electricity from the ETS would be a material departure from government climate change policy, including the Climate Change Strategy, where one of the five pillars is pricing emissions fairly and effectively to incentivise emissions reductions.
40. **We seek your direction on how this recommendation should be reflected in the upcoming Cabinet paper. We also seek your agreement to discuss this recommendation with the Ministry for the Environment to inform our advice.**

## **Improving gas market transparency**

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41. Frontier's draft report investigates gas market information provision as transparency on demand and supply conditions in the gas market is necessary to support efficient decisions about the use of and investment in gas infrastructure. They consider current published information is fragmented, incomplete and is hindering the ability of the market to plan efficiently to meet future gas demand and respond to changing conditions (such as unforecast declines in gas production).
42. Key recommendations include:
  - a. Centralising access to gas market information into a single 'gas market dashboard'
  - b. Codifying the requirement to produce an annual supply and demand study.

## **MBIE comment**

43. Frontier's draft recommendations align well with MBIE's work. We have also identified the need for improved information on gas availability to improve market confidence in the quality of this information. Improved confidence should flow into longer contracts (bringing greater stability for businesses) and lower prices.
44. Out of scope

## **Reforming gas and electricity governance**


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45. The draft report considered whether the regulators have the right roles and responsibilities to promote security of supply and affordable prices. It focused on the roles of the Electricity Authority and Commerce Commission and concluded that no material change is required in the delineation of their respective roles in the electricity sector. Frontier also recommended that the System Operator role should remain with Transpower as there wasn't evidence this arrangement was distorting outcomes.
46. Frontier's draft report included some recommendations for the GIC to improve gas market transparency but it did not otherwise comment on the GIC's role in the regulatory system.
47. When asked to comment, Frontier responded that gas regulatory arrangements could be revisited in light of changes in the energy market. Frontier notes that the existing gas governance arrangements were developed to give industry participants greater control over their industry to encourage investment in the sector. Free and frank opinions
48. Frontier notes that there has been significant convergence between the electricity and gas industries in the past 20 years. Frontier considers gas is a crucial energy source to smooth the transition away from coal and oil/diesel electricity generators. Further, without gas being

carefully integrated into the operation of the electricity system, reliability and security will be undermined, and prices will be higher.

49. Frontier said combining electricity and gas under the umbrella of a broader energy regulator might help both industries develop in a coordinated manner to ensure the smoothest transition for consumers. Benefits could accrue from more efficiently harmonising policy and regulatory processes that are common across the two industries.
50. Frontier observed that amalgamating the GIC and EA would reduce organisational overhead costs although these might be modest. Frontier also considered that any real or perceived conflicts of interest between the gas supply industry and consumers would be better managed when regulatory governance is overseen by a crown entity rather than by an industry-owned body.
51. Overall, Frontier consider consistent and urgent action is required to manage the energy transition, and this together with cost savings opportunities, represents a credible case to justify the amalgamation of gas and electricity functions in a single regulator.

#### **MBIE comment**

52. Free and frank opinions  

53. These savings and potential benefits would need to be weighed against the potential benefits of the existing arrangements, drawing on the original rationale that industry-led gas regulation would:
  - a. benefit from the expertise of those most familiar with technical issues in the gas industry;
  - b. likely result in regulatory or non-regulatory solutions that are more appropriate to the relatively small scale of the gas industry; and
  - c. have lower compliance and administrative costs than government mandated solutions.
54. We expect Frontier's final report to provide more commentary on the case for combining the EA and GIC into one entity.
55. **We seek your direction on how this should be reflected in the upcoming Cabinet paper.**

#### **Next steps on the remaining recommendations in the draft report**

56. Beyond the priority draft recommendations outlined above there are 25 other recommendations in the draft report that require consideration. A full list of recommendations can be found as Annex One.
57. We are progressing work on each of the recommendations so that direction can be sought from Cabinet in the June report-back.
58. For some of the recommendations in the table in Annex One we are seeking your agreement to discuss these with the relevant regulator for their consideration or comment to inform our advice. The regulators would either be the EA, Commerce Commission or GIC.

## Two live issues to bring to your attention

### *Non-discrimination proposal by the Energy Competition Task Force*

59. Frontier have raised concerns relating to the Energy Competition Task Force's proposals for non-discrimination and virtual disaggregation.<sup>3</sup> Frontier considers that the proposals would more likely increase prices for consumers and will not address the underlying problem of a lack of new firm capacity in the market. Their reasoning is that if gentailers do possess market power, they could respond to a non-discrimination obligation by increasing the price of internal contracts—thereby also raising the price of contracts they offer to the broader market so that they are 'non-discriminatory'. Frontier's alternative proposal is for 'Guardian Power' to offer priority access to firm contracts for independent retailers and independent generators and industrials (refer to paragraph 13(c)(i)).
60. MBIE has, to date, supported the Task Force's development of level playing field (non-discrimination) measures as a way to ensure innovation efficiencies can be realised at the retail level, and to support independent generators to enter, and later expand into more upstream firm generation themselves. We also recognise the concerns raised by Frontier.
- 61. We seek your agreement to discuss Frontier's concerns with the Task Force to inform our advice to you on this recommendation.**

### *Huntly Heads of Agreement commercial discussions*

62. Genesis, in conjunction with the other gentailers, announced their intention to develop a 'Heads of Agreement' for the future use of the Huntly Rankine units. It is expected the Heads of Agreement will be a 10-year arrangement that will permit the gentailers to toll fuel through the plant. While independent retailers have not been included in the Heads of Agreement, we understand there is an intention for some portion of capacity to be made available to other parties.
63. Frontier have raised serious concerns with the currently proposed Heads of Agreement for Huntly. They consider the potential agreement is anti-competitive and will entrench any market power that exists because it appears that the other gentailers have preferential access to firm capacity from Huntly. Frontier also considers a deal would not address the impact policy risk is having on the capacity for the market to deliver long-term fuel supply options and their recommendation is that this agreement does not proceed.
- 64. We seek your agreement to discuss Frontier's concerns about the potential Huntly Heads of Agreement with the Commerce Commission and EA to understand whether they share those concerns, and if so, what measures can be taken to address them.**

## Next steps – process and timing for reporting back to Cabinet

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65. Table 2 below is a proposed timetable for next steps and milestones leading up to the June Cabinet report-back on the review.

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<sup>3</sup> As a starting point, these would require the gentailers to offer contracts to independent generators and retailers on the same terms as their own downstream retail arms.

**Table 2: Proposed timetable for next steps**

Date	Task/action/milestone
Monday 19 May	Feedback from Ministers on general approach to key issues and agreement to discuss technical recommendations with relevant regulators
Friday 23 May	Final Frontier report
Thursday 29 May	Draft Cabinet Paper to Ministers
Wednesday 4 June	Feedback from Ministers on draft Cabinet Paper
Friday 6 June	Final peer review reports
Monday 9 June	Further draft of the Cabinet Paper to Ministers
Tuesday 10 June	Ministerial consultation commences
Tuesday 17 June	Ministerial consultation completed
Thursday 19 June	Cabinet Paper lodged for ECO Committee
Wednesday 25 June	Cabinet ECO Committee
Monday 30 June	Cabinet

## **Annexes**

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Annex One: Complete list of Frontier draft recommendations and suggested next steps

## Annex One: Complete list of Frontier draft recommendations and suggested next steps

	Frontier Economics draft recommendations (summarised)	Officials' proposed next steps
	<b>Dry-year firming and wholesale competition</b>	
1.	<b>Dry-year Firming</b> <ul style="list-style-type: none"> <li>Crown to take primary responsibility for security and selling on-demand dispatchable capacity and energy – Guardian Power or alternative</li> </ul>	<ul style="list-style-type: none"> <li>Refer to Briefing section beginning paragraph 9 for a wider discussion of this recommendation</li> <li><b>Initial direction is sought</b> on whether the appropriate range of options are being considered</li> </ul> <p style="text-align: right;"><b>Discuss</b></p>
2.	<b>Gentailer structure</b> <ul style="list-style-type: none"> <li>Do not require vertical structural separation of existing gentailers</li> </ul>	
3.	<b>Energy-only market</b> <ul style="list-style-type: none"> <li>Retain New Zealand's gross pool energy-only market, with no changes to the market structure</li> </ul>	
4.	<b>Priority Access to Firming for Independents</b> (generators, retailers, industrials) <ul style="list-style-type: none"> <li>Independent retailers, generators and industrials have priority access to this firm capacity and energy at all times</li> </ul>	
5.	<b>Task Force proposal for non-discrimination and virtual disaggregation</b> <ul style="list-style-type: none"> <li>Abandon proposals for non-discrimination of contracts and virtual disaggregation of the gentailers – will not resolve the underlying market issue but will impose higher costs</li> </ul>	<ul style="list-style-type: none"> <li>Refer to Briefing sections beginning paragraph 9 and paragraph 59 for context and a wider discussion of this recommendation</li> <li><b>Agree</b> to officials discussing Frontier's concerns with the Task Force to inform our advice</li> </ul> <p style="text-align: right;"><b>Agree/disagree</b></p>
6.	<b>Huntly Heads of Agreement in development</b> <ul style="list-style-type: none"> <li>Stop the currently proposed Heads of Agreement for Huntly, as this would entrench the potential for market power and not solve the long term issues of fuel supply and investment in new capacity</li> </ul>	<ul style="list-style-type: none"> <li>Refer to Briefing section beginning paragraph 62 for a wider discussion of this recommendation</li> <li><b>Agree</b> to officials discussing Frontier's concerns with the following regulators to inform our advice: <ul style="list-style-type: none"> <li>Electricity Authority</li> <li>Commerce Commission</li> </ul> </li> </ul> <p style="text-align: right;"><b>Agree/disagree</b></p>



	<b>Gentailer ownership</b>	
7.	<b>Divestment of Mixed Ownership Model (MOM) Gentailers</b> <ul style="list-style-type: none"> <li>Government divestment of its shareholding of the gentailers, with these funds being used for investment in secure and reliable sources of fuel and generation capacity</li> </ul>	<ul style="list-style-type: none"> <li>Refer to Briefing section beginning paragraph 21 for a wider discussion of this recommendation</li> <li>Note that Treasury officials are involved in providing advice on this recommendation</li> <li><b>Initial direction is sought</b> on how you would like this recommendation reflected in the upcoming Cabinet paper</li> </ul> <p style="text-align: right;"><b>Discuss</b></p>
	<b>Regulatory Institutions</b>	
8.	<b>Combine gas and electricity under the umbrella of an Energy Authority</b> <ul style="list-style-type: none"> <li>Amalgamate gas and electricity regulatory functions under an expanded Electricity Authority to be renamed the Energy Authority, taking over the functions currently managed by the GIC (creating parallel arrangements for gas as they apply to electricity, where appropriate, and bespoke arrangements for gas, where appropriate)</li> </ul>	<ul style="list-style-type: none"> <li>Refer to Briefing section beginning paragraph 45 for a wider discussion of this recommendation</li> <li><b>Initial direction is sought</b> on how you would like this recommendation reflected in the upcoming Cabinet paper</li> </ul> <p style="text-align: right;"><b>Discuss</b></p>
9.	<b>Review of Electricity Authority</b> <ul style="list-style-type: none"> <li>Targeted review of how the Electricity Authority is performing its functions, to identify if it is allocating resources to right areas of its functions, whether resources are well aligned with function delivery, and if internal decision-making processes have sufficient checks/balances for robust outcomes</li> </ul>	<ul style="list-style-type: none"> <li>Related to Row 8</li> <li>No further action needed at this time</li> </ul>
	<b>EDB Issues</b>	
10.	<b>Required EDB Rationalisation</b> <ul style="list-style-type: none"> <li>Require rationalisation of the number of EDBs, preferably by amalgamating the 29 EDBs into five super distributors</li> </ul>	<ul style="list-style-type: none"> <li>Refer to Briefing section beginning paragraph 28 for a wider discussion of this recommendation</li> <li>Note that Commerce and Consumer Affairs officials are involved in providing advice related to this recommendation for the Minister for Energy</li> <li><b>Initial direction is sought</b> on how you would like this recommendation reflected in the upcoming Cabinet paper</li> </ul> <p style="text-align: right;"><b>Discuss</b></p>

11.	<b>Incentivise EDB Cooperation and Amalgamation</b> <ul style="list-style-type: none"> <li>Incentivise cooperation and amalgamation of EDBs</li> </ul>	<ul style="list-style-type: none"> <li>As per Row 10 of this table</li> <li><b>Agree</b> to officials discussing Frontier's recommendation with the Commerce Commission to inform our advice:</li> </ul> <p style="text-align: right;"><b>Agree/disagree</b></p>
12.	<b>EDB Standardisation of Pricing, Contracting Terms</b> <ul style="list-style-type: none"> <li>The Electricity Authority should expand its existing work harmonising contractual terms for new network connections to consider more detailed matters. The aim being to bolster consistency across EDBs and so facilitate the entry of more innovative energy solutions across NZ</li> </ul>	<ul style="list-style-type: none"> <li>As per Row 10 of this table</li> <li><b>Agree</b> to officials discussing Frontier's recommendation with the Electricity Authority to inform our advice:</li> </ul> <p style="text-align: right;"><b>Agree/disagree</b></p>
13.	<b>IPP Regulation for all EDBs</b> <ul style="list-style-type: none"> <li>Remove exemptions for price and quality regulation for distributors and abolish default price path regulation, i.e. individualised ex-ante price regulation applies to all EDBs</li> </ul>	<ul style="list-style-type: none"> <li><b>Agree</b> to officials discussing Frontier's recommendation with the Commerce Commission to inform our advice:</li> </ul> <p style="text-align: right;"><b>Agree/disagree</b></p>
14.	<b>Retain current restriction on EDBs from generation in own area</b> <ul style="list-style-type: none"> <li>Do not relax existing restrictions on EDBs owning and controlling generation assets in their own service areas, but allow EDBs to invest in generation assets outside their distribution area</li> </ul>	<ul style="list-style-type: none"> <li><b>Initial direction is sought</b> on how you would like this recommendation reflected in the upcoming Cabinet paper</li> </ul> <p style="text-align: right;"><b>Discuss</b></p>
15.	<b>Scope of Input Methodologies for EDBs</b> <ul style="list-style-type: none"> <li>Electricity Authority should determine the scope of the Input Methodologies (IMs) for EDBs. This would mean Commerce Commission would not have power to remove or exclude IMs the EA has determined it must develop</li> </ul>	<ul style="list-style-type: none"> <li>Note that Commerce and Consumer Affairs officials are involved in providing advice on this recommendation</li> <li><b>Agree</b> to officials discussing Frontier's recommendation with the following regulators to inform our advice: <ul style="list-style-type: none"> <li>Electricity Authority</li> <li>Commerce Commission</li> </ul> </li> </ul> <p style="text-align: right;"><b>Agree/disagree</b></p> <p style="text-align: right;"><b>Agree/disagree</b></p>

16.	<b>Finance-ability Test</b> <ul style="list-style-type: none"> <li>Embed a finance-ability test within the regulatory framework to provide investors with certainty and confidence to commit funds to network investments</li> </ul>	<ul style="list-style-type: none"> <li>Note that Commerce and Consumer Affairs officials are involved in providing advice on this recommendation</li> <li><b>Agree</b> to officials discussing Frontier's recommendation with the Commerce Commission to inform our advice:</li> </ul> <p style="text-align: right;"><b>Agree/disagree</b></p>
17.	<b>Remove Ban on Commerce Commission Benchmarking EDBs</b> <ul style="list-style-type: none"> <li>Remove prohibition of Commerce Commission using comparative efficiency benchmarking to set prices, as it overly constrains Commerce Commission's decision making and its ability to assess the efficiency of NZ lines businesses</li> </ul>	<ul style="list-style-type: none"> <li>Confidential advice to Government [REDACTED]</li> <li><b>Agree</b> to officials discussing Frontier's recommendation with the Commerce Commission to inform our advice:</li> </ul> <p style="text-align: right;"><b>Agree/disagree</b></p>
<b>Consumer issues</b>		
18.	<b>Electricity Bill Consistency</b> <ul style="list-style-type: none"> <li>Electricity Authority should implement a program to achieve bill consistency so that customers are better able to compare retail offers and also identify ways to improve their electricity use</li> </ul>	<ul style="list-style-type: none"> <li>Note that related text was included in the 2025 Letter of Expectations to the Electricity Authority</li> <li><b>Agree</b> to officials discussing Frontier's recommendation with the Electricity Authority to inform our advice:</li> </ul> <p style="text-align: right;"><b>Agree/disagree</b></p>
19.	<b>Consumer Data Access</b> <ul style="list-style-type: none"> <li>Progress an electricity sector designation under the Customer and Product Data Act to ensure customers have greater control over their data and to make switching retailer easier</li> </ul>	<ul style="list-style-type: none"> <li>Note that related text was included in the 2025 Letter of Expectations to the Electricity Authority</li> <li><b>Agree</b> to officials discussing Frontier's recommendation with the Electricity Authority to inform our advice:</li> </ul> <p style="text-align: right;"><b>Agree/disagree</b></p>
<b>ETS Regime</b>		
20.	<b>ETS Removal from Electricity Market</b> <ul style="list-style-type: none"> <li>Remove the ETS from the electricity market as it is imposing additional costs to customers without delivering a corresponding environmental benefit</li> </ul>	<ul style="list-style-type: none"> <li>Refer to Briefing section beginning paragraph 36 for a wider discussion of this recommendation</li> <li>Note that Treasury officials are involved in providing advice on this recommendation</li> <li><b>Agree</b> to officials discussing Frontier's recommendation with the Ministry for the Environment to inform our advice:</li> </ul> <p style="text-align: right;"><b>Agree/disagree</b></p>

Electricity Authority Governance, Monitoring Issues		
21.	<b>Formal Code Change Process for Electricity Authority</b> <ul style="list-style-type: none"> <li>Electricity Authority should be subject to a formal code change process – any person could submit a request for a code change, and the Electricity Authority would be required to assess that proposal in accordance with a prescribed process</li> </ul>	<ul style="list-style-type: none"> <li><b>Agree</b> to officials discussing Frontier's recommendation with the Electricity Authority to inform our advice:</li> </ul> <p style="text-align: right;"><b>Agree/disagree</b></p>
22.	<b>Hedge Data Analysis and Annual Reporting</b> <ul style="list-style-type: none"> <li>Electricity Authority should make better use of the data it collects on hedging. This includes by preparing an annual report that identifies trends in contracting and the implications these trends are having on competition</li> </ul>	<ul style="list-style-type: none"> <li><b>Agree</b> to officials discussing Frontier's recommendation with the Electricity Authority to inform our advice:</li> </ul> <p style="text-align: right;"><b>Agree/disagree</b></p>
23.	<b>Transpower data catalogue</b> <ul style="list-style-type: none"> <li>Require Transpower to maintain a data catalogue focused on data that is needed for market surveillance activities, to assist the Electricity Authority with its market monitoring functions (and for SOSFIP / EMP)</li> </ul>	<ul style="list-style-type: none"> <li><b>Agree</b> to officials discussing Frontier's recommendation with the Electricity Authority to inform our advice:</li> </ul> <p style="text-align: right;"><b>Agree/disagree</b></p>
Transmission and System Operation Issues		
24.	<b>Grid Investment Test Process for Projects in Prescribed Value Range</b> <ul style="list-style-type: none"> <li>Introduce a new streamlined Investment Test for Transpower augmentation projects below the \$30 million base capex threshold but above say, \$8 million – provides additional public consultation and confidence</li> </ul>	<ul style="list-style-type: none"> <li>Note that Commerce and Consumer Affairs officials are involved in providing advice on this recommendation</li> <li><b>Agree</b> to officials discussing Frontier's recommendation with the following regulators to inform our advice: <ul style="list-style-type: none"> <li>Electricity Authority</li> <li>Commerce Commission</li> </ul> </li> </ul> <p style="text-align: right;"><b>Agree/disagree</b></p> <p style="text-align: right;"><b>Agree/disagree</b></p>

25.	<b>Transpower Annual Statement of Opportunities</b> <ul style="list-style-type: none"> <li>Require that Transpower produces an annual Electricity Opportunities Statement (EOS) that highlights the opportunities for investment in new electricity assets, include opportunities to co-locate and reduce costs (rather than a Renewable Energy Zone that is an intrusive and expensive alternative)</li> </ul>	<ul style="list-style-type: none"> <li>Note that Commerce and Consumer Affairs officials are involved in providing advice on this recommendation</li> <li><b>Agree</b> to officials discussing Frontier's recommendation with the following regulators to inform our advice: <ul style="list-style-type: none"> <li>Electricity Authority</li> <li>Commerce Commission</li> </ul> </li> </ul> <p style="text-align: right;"><i>Agree/disagree</i></p> <p style="text-align: right;"><i>Agree/disagree</i></p>
26.	<b>Update Security of Supply Standards</b> <ul style="list-style-type: none"> <li>Amend North Island Winter Capacity Margin to provide greater flexibility to respond to factors that change the frequency, duration and magnitude of loss of load events</li> </ul>	<ul style="list-style-type: none"> <li><b>Agree</b> to officials discussing Frontier's recommendation with the Electricity Authority to inform our advice:</li> </ul> <p style="text-align: right;"><i>Agree/disagree</i></p>
27.	<b>Transpower Data Gathering for Security of Supply</b> <ul style="list-style-type: none"> <li>Amend Code to enable Transpower to gather the information needed for it to implement and comply with Security of Supply Information Policy and Emergency Management Policy</li> </ul>	<ul style="list-style-type: none"> <li><b>Agree</b> to officials discussing Frontier's recommendation with the Electricity Authority to inform our advice:</li> </ul> <p style="text-align: right;"><i>Agree/disagree</i></p>
28.	<b>Improve TPM arrangements for First Mover Disadvantage</b> <ul style="list-style-type: none"> <li>Introduce a pioneer scheme relating first move disadvantage issues under the Transmission Pricing Methodology (TPM) to minimise the administrative burden on Transpower, who will play a key role in facilitating these refunds</li> </ul>	<ul style="list-style-type: none"> <li><b>Agree</b> to officials discussing Frontier's recommendation with the Electricity Authority to inform our advice:</li> </ul> <p style="text-align: right;"><i>Agree/disagree</i></p>
29.	<b>Retain System Operator Role within Transpower</b> <ul style="list-style-type: none"> <li>Retain the System Operator role within Transpower, as the dual as Grid Owner and System Operator does not appear to distort outcomes</li> </ul>	<ul style="list-style-type: none"> <li>No action required at this stage</li> </ul>

Gas Market Issues		
30.	<b>Gas Market Dashboard</b> <ul style="list-style-type: none"> <li>GIC to centralise access to relevant gas market information in a single ‘gas market dashboard’, to make it easier for gas market participants to locate the information they need and to have a common understanding of ‘point-in-time’ supply and demand conditions in the market</li> </ul>	<ul style="list-style-type: none"> <li>Refer to Briefing section beginning paragraph 41 for a wider discussion of this recommendation</li> <li><b>Agree</b> to officials discussing Frontier’s recommendation with the GIC to inform our advice:</li> </ul> <p style="text-align: right;"><b><i>Agree/disagree</i></b></p>
31.	<b>Annual Gas Supply and Demand Study</b> <ul style="list-style-type: none"> <li>Codify requirement for GIC to prepare and publish an annual supply and demand study on a (currently voluntary)</li> </ul>	<ul style="list-style-type: none"> <li>Refer to Briefing section beginning paragraph 41 for a wider discussion of this recommendation</li> <li><b>Agree</b> to officials discussing Frontier’s recommendation with the GIC to inform our advice:</li> </ul> <p style="text-align: right;"><b><i>Agree/disagree</i></b></p>