



## BRIEFING

### Review of electricity market performance – draft Cabinet Paper

<b>Date:</b>	12 June 2025	<b>Priority:</b>	High
<b>Security classification:</b>	Sensitive	<b>Tracking number:</b>	BRIEFING-REQ-0015721

Action sought		
	Action sought	Deadline
Hon Simon Watts <b>Minister for Energy</b>	<b>Provide feedback</b> on the revised draft Cabinet paper.	18 June 2025
Hon Shane Jones <b>Minister for Resources</b>		18 June 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	

The following departments/agencies have been consulted

Minister's office to complete:

☐ Approved

☐ Declined

☐ Noted

☐ Needs change

☐ Seen

☐ Overtaken by Events

☐ See Minister's Notes

☐ Withdrawn

Comments



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### Purpose

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To provide:

- A revised draft Cabinet paper on the Review of electricity market performance for your feedback.
- An indicative timeline and approach to implement the new regime, subject to Cabinet decisions.

### Recommended action

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

- a **Provide feedback** on the draft Cabinet paper on the Review of electricity market performance.

*Provided*

- b **Note** the indicative timeline and approach – covering detailed design, the passage of legislation, and implementation – if we are to proceed with the New Co solution.

*Noted*

Justine Cannon  
**General Manager, Energy Markets**  
**Building, Resources and Markets, MBIE**  
12 / 06 / 2025

Hon Simon Watts  
**Minister for Energy**

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Hon Shane Jones  
**Minister for Resources**

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## Background

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1. Frontier Economics (Frontier) provided its final report on the Review of Electricity Market Performance (the Review) on Friday 23 May 2025. The two independent peer reviewers provided their peer reviews on Monday 9 June 2025.
2. We provided you with MBIE's preliminary advice on the most pressing problems highlighted through the Review of Electricity Market Performance (the Review), and an initial draft Cabinet paper on 29 May [Briefing 0014912 refers].
3. You have since met with Frontier to discuss their report and provided further guidance to us on next steps and what options you want to propose to Cabinet. This briefing:
  - a. Summarises the key updates we have made to the draft Cabinet paper, reflecting your feedback to date and other developments.
  - b. Sets out an indicative timeline and approach – covering detailed design, the passage of legislation, and implementation – if we are to proceed with the New Co solution.
4. Note that, as with Frontier's report itself, MBIE's advice in this briefing is market sensitive and should be handled accordingly.

## Updated draft Cabinet paper

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5. We have attached a revised draft of the Cabinet paper (Annex One) reflecting your feedback and our understanding of the recommendations you want to present to Cabinet. This section highlights key aspects of the revised Cabinet paper.

*The paper now discusses the macroeconomic impacts of high energy prices*

6. As suggested by DPMC in your meeting with Frontier Economics, we are incorporating analysis of the macroeconomic impacts of high energy prices as part of the discussion of the problem. This will include the impact on GDP and on specific sectors of the economy.
7. We have engaged Sense Partners to undertake economic modelling to estimate the impact of recent electricity prices on sectors and the economy. The modelling will also estimate future impacts: if action taken achieves price reductions, prices remain elevated, or continued shortages of fuel and firm generation plant mean prices increase further. The results of this analysis will be incorporated into the paper before it is lodged.

*The paper recommends proceeding with work to create a new Energy Regulator*

8. Frontier recommended establishing a new Energy Authority by amalgamating the functions of the Electricity Authority and the Gas Industry Company (GIC). Our initial advice recommended that this work should be progressed at a later date (notwithstanding we agreed there are merits in combining the two regulators).


9. Free and frank opinions
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*The paper reflects your direction on broader elements of the Review*

10. The paper reflects our understanding of your direction to not progress Frontier's recommendations relating to:
  - a. electricity in the Emission Trading Scheme

- b. the ownership structure of Genesis, Mercury and Meridian (the three mixed-ownership model (MOM) gentailers)
  - c. forced amalgamation of electricity distribution businesses (EDBs).
11. In relation to EDBs, the paper notes there are efficiencies to be gained from greater alignment and recommends work to realise greater efficiencies short of forced amalgamation. This is likely to involve incentivising or mandating co-management or collaborative models for EDB investments and operations.

*The paper now incorporates the broader set of report-backs on energy security of supply*

12. On 9 April 2025, the Minister for Energy took a paper to Cabinet ECO Committee on Securing New Zealand's Gas and Electricity Supplies [ECO-25-MIN-0055]. Cabinet invited the Minister to report back on a range of matters, which are now included in this draft Cabinet paper as follows:
- a. Cabinet invited the Minister to report back on a procurement framework for Crown investment in LNG and cost estimates. The Cabinet paper includes an annex with further detail on LNG import options and costs. We are currently reviewing industry-developed options, and have commissioned a peer review of key industry reports. The decision to import LNG, and the scale of what is required, are dependent on choices on the role of Government in the electricity sector.
  - b. Confidential advice to Government  

  - c. Cabinet invited the Minister to report back on actions to expedite the Transpower generation connection queue. The paper provides an update on Transpower's actions (including surge resourcing) and improvements in throughput to date.
  - d. Cabinet agreed to explore options to leverage all-of-government procurement to support new energy supply and invited the Minister to report back on progress made. The paper notes the intention to publish a Request for Information by September 2025 seeking information about potential long-term partnership options with the Government. In addition, we expect to have more clarity in late June on securing an ongoing collective gas supply arrangement for government agencies, which includes critical services such as hospitals and prisons.
  - e. Cabinet noted that the Government will continue to engage with the gentailers to advocate for them to contract for sufficient thermal fuel. The paper provides an update on recent developments, including the recent gas deal between Contact and Methanex.

## **Workstreams and indicative timelines**

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13. You asked for an indicative implementation timeline, if we are to proceed with the new approach to security of supply. This section sets out our proposed approach and timing for (1) detailed design work and developing the associated legislation and (2) undertaking implementation work in parallel.

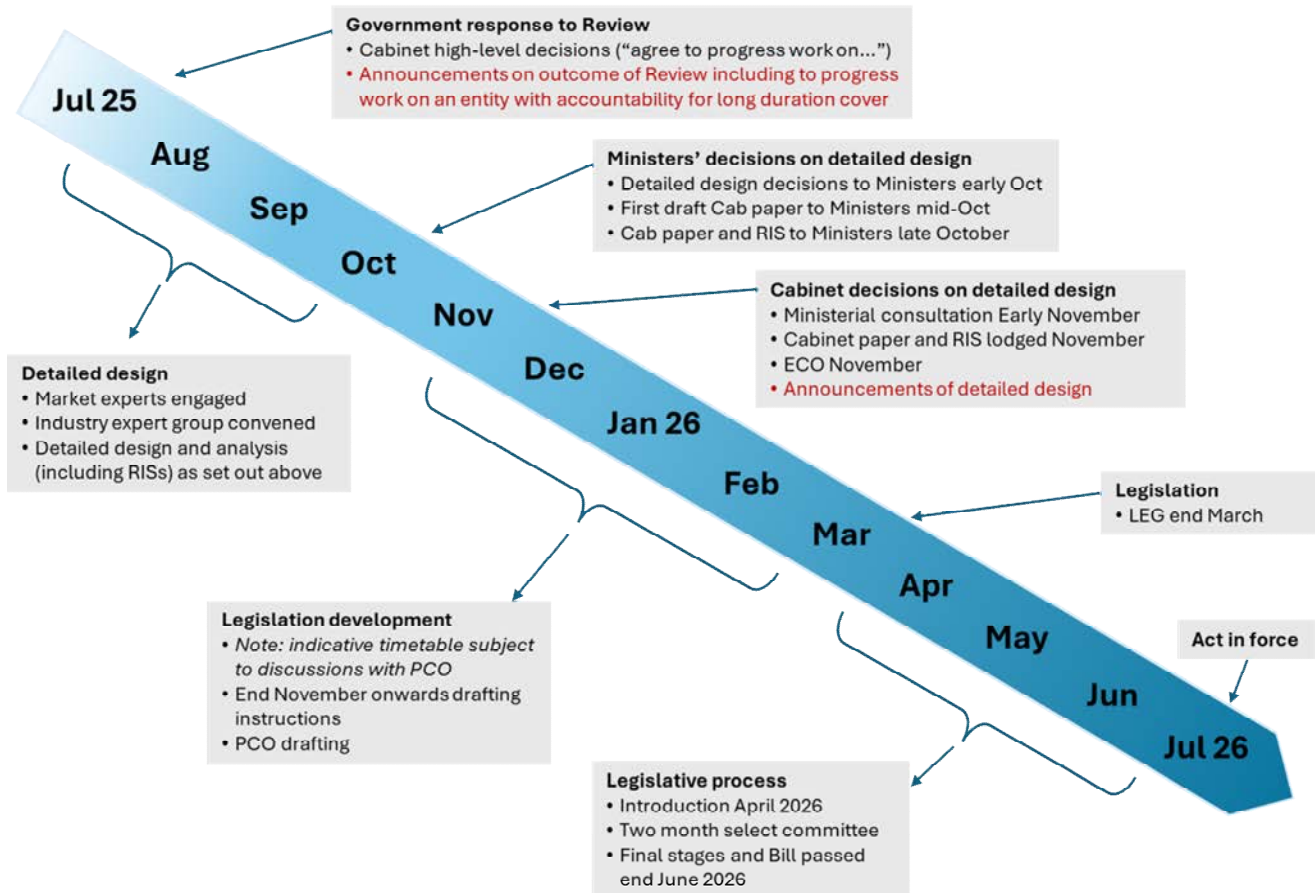
### Detailed design and legislation

14. Subject to Cabinet's agreement to proceed, we would commence detailed design of the new security of supply mechanism. The table below sets out the workstreams that would need to be undertaken.

Workstream	Description
<b>Regulatory impact analysis</b>	Regulatory impact analysis of New Co against other feasible options to ensure sufficient long-duration cover, including the counterfactual. To include quantification of the costs and benefits of New Co versus the counterfactual.
<b>Mandate, target and other guardrails</b>	Design of the targets New Co is required to achieve (e.g. an energy and capacity margin) over different time horizons, how the targets are set over time and who sets the targets, and the guardrails around investments to meet the targets.  Design of the scope or mandate that sets what types of fuel and generation New Co can invest in to meet the targets, to ensure the regime addresses our investment problem but avoids crowding out investment that would otherwise occur on commercial terms. (e.g. is it thermal only, upstream and downstream etc.).
<b>Wholesale market interactions (spot and contracting)</b>	Design of the detailed rules about how New Co interacts with the electricity wholesale market, including: <ul style="list-style-type: none"> <li>rules around how the capacity must bid into the spot market, and</li> <li>rules around how contracts must be sold, including any packaging of forward contracts in a way that is desirable for independent parties.</li> </ul>
<b>Entity design</b>	Decisions on what kind of entity New Co should be, including design of governance arrangements and accountability mechanisms.
<b>Funding arrangements</b>	Design of a levy to recover any shortfalls, cashflow forecasting to calculate any potential shortfalls and impact of a levy on electricity bills, approach to funding upfront costs, capital structure etc.  Decisions on how significant investment decisions are made and approved, particularly significant long-term investments such as infrastructure for LNG imports.

15. To bolster our inhouse capability, MBIE would engage electricity market experts to support this work, including consultants and (potentially) secondees from the likes of the System Operator. We would also propose to convene an industry expert group to test key design decisions. This expertise will be crucial to the success of the new model, given the complexity of electricity market interactions and potential for unintended consequences.
16. Our proposed approach – engaging experts and convening an industry expert group – would enable the design to progress quickly (versus undertaking a full public consultation process) while still ensuring we get the input needed. We think it will be important to progress quickly and to engage openly with the sector through the detailed design phase Free and frank opinions
17. The timetable below shows indicative timing of the detailed design phase followed by the passage of legislation. A shortened select committee process will be needed if the Government wishes to pass legislation by mid-2026.

**Figure 1: Indicative timetable for detailed design and legislation**



*Implementation work could be progressed in parallel with the legislative process*

18. So that New Co is ready to commence operating as soon as the required legislation and funding arrangements are in place, there may be merit in establishing an interim team who would begin work to:
  - a. set out the projected investment ‘gap’ over time (how many GWh of dispatchable long-duration cover do we need for security of supply but the market won’t deliver).
  - b. take into consideration the lead time and investment readiness of solutions (e.g. LNG imports, gas exploration, new technologies such as biogas).
  - c. design the mechanism(s) by which the entity will ensure delivery of dispatchable long-duration capacity (e.g. PPPs, PPAs, other underwrite, support or ownership schemes).
  - d. develop a procurement strategy to deliver open, competitive and transparent procuring (to ensure it provides the lowest cost solutions).
  - e. progress procurement of LNG import infrastructure (subject to Cabinet decisions).

## Next steps

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19. You have asked for a July report-back. The table below sets out the proposed process to go to the first Cabinet ECO Committee in July which is 16 July. The Cabinet ECO Committee is also meeting on 23 and 30 July should the need arise to go to a later meeting in July.

Date or week	Task/action/milestone
Week beginning 16 June	Ministers discuss proposals with key Ministerial colleagues
Wednesday 18 June	Feedback from Ministers on draft Cabinet Paper
Week beginning 23 June	Further feedback from Ministers on draft Cabinet Paper (if applicable)
Monday 30 June	Final draft of the Cabinet Paper provided
Tuesday 1 July	Full Ministerial consultation commences
Tuesday 8 July	Full Ministerial consultation completed
Thursday 10 July	Cabinet Paper lodged for ECO Committee
Wednesday 16 July	Cabinet ECO Committee
Monday 21 July	Cabinet
After Cabinet decisions	Announcements made on Government decisions and Review reports published

20. Next steps after 21 July, including announcements and publication of review materials, will depend on the Cabinet decisions:
- If Cabinet agrees with the preferred approach to address dry-year risk, next steps on detailed design, legislation and entity establishment would be undertaken as set out in paragraphs 14 to 18 above.
  - 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.
  - The Final Frontier Report and Peer Review Reports will be published at the appropriate time and following your approval.

## Annexes

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Annex One: Revised draft Cabinet paper, Review of Electricity Market Performance

Withheld - Confidential advice to Government