Fact Sheet: A proposed reliability obligation to manage dry-year risk

Why this matters

New Zealand's electricity system is increasingly exposed to dry year risk

- heavy reliance on hydro for generation means when we have dry periods, we're short on water as stored energy
- declining gas availability, and retiring thermal plants, means we're facing ever reducing backup generation capacity
- growth in wind and solar energy increases our dependence on weather
- ...but the current market has not consistently delivered enough firm, reliable, generation cover.

Over the past couple of years, we have seen...

- very high peaks, and sustained higher wholesale electricity prices
- industrial curtailment and disruption
- increased costs for households and businesses.

The objective

To enable a market-led electricity system which turns abundant renewable energy into reliable and affordable electricity that is reliable in dry years.

The proposal

Cabinet has agreed to a strengthened regulatory framework to ensure dry year risk will not re-emerge in the future.

We are now consulting on a proposed new reliability obligation. This would require market participants to secure enough fuel or firm generation capacity, in advance of a winter where a shortfall is expected.

The new rules would ensure the sector has enduring incentives to manage dry year risk effectively.

The **two-layer winter energy reliability obligation** would:

- be triggered when forecasts show a future winter energy shortfall
- require market participants to secure sufficient short-term fuel and long-term winter energy cover
- support earlier contracting and investment
- provide greater confidence for households and business that electricity will remain affordable and reliable during dry years.

What we want feedback on

- Do you agree that additional incentives are needed to ensure the market better manages dry year risk?
- What are your views on the proposed reliability obligation?

Submissions Due: 5pm, 21 July 2026

Design challenges (for consultation)	Desired outcomes
○ How security of supply risk is assessed, and when to trigger the obligations? ○ What's the best design for the obligation/s? ○ Who can be allocated an obligation? And how they are allocated across relevant parties? ○ What qualifies as fuel, or long-duration firm generation (or demand response), to meet the obligations? ○ How compliance is measured and what are the penalties for non-compliance? ○ How the regime impacts costs, incentives, and wider market settings.	**Short-term obligation:** • Stronger incentives for the sector to secure fuel and firm capacity • Reduced likelihood of necessary last-minute interventions **Long-term obligation:** • More reliable investment signals for firm reliable generation plant • Sufficient winter energy cover is in place to meet reliability standards • More backup generation supports the transition to a more renewable electricity system.

Read the full version of the report here.