



COVERSHEET

Minister	Hon Simeon Brown	Portfolio	Energy
Title of Cabinet paper	A strengthened electricity regulatory framework to ensure dry-year risk will not re-emerge in the future	Date to be published	15 June 2026

List of documents that have been proactively released

Date	Title	Author
May 2026	Energy Package Action 2.5: A Strengthened Electricity Regulatory Framework to Ensure Dry-year Risk will not Re-emerge in the Future	Office of the Minister for Energy
21 May 2026	Regulatory Impact Statement – A strengthened regulatory framework to ensure dry-year risk will not re-emerge in future	MBIE
27 May 2026	ECO-26-MIN-0087 Minute	Cabinet Office

Information redacted

YES

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Appendix 3 of the cabinet paper has been withheld for constitutional considerations and Appendix 4 of the cabinet paper has been withheld as being released via separate consultation process.

In Confidence

Office of the Minister for Energy

Cabinet Economic Development Committee

Energy Package Action 2.5: A strengthened electricity regulatory framework to ensure dry-year risk will not re-emerge in the future

Proposal

1. This paper seeks agreement to actions that improve dry-year security of supply by improving role clarity and accountability, improving access to accurate and timely information, developing more effective risk-management tools, and ensuring market participants take responsibility for managing dry year risk.

Relation to government priorities

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

Executive Summary

3. New Zealand's electricity market is successfully delivering new renewable generation, but it is not delivering the long-duration reliable generation ('firm generation'), backed by secure fuel, needed to manage sustained periods of low hydro ('dry years'). Without sufficient dry-year cover, electricity prices will be higher than necessary, and consumers will face higher risk of supply interruptions.
4. In September 2025, Cabinet agreed to a package of measures to support reliable and affordable electricity [CBC-25-MIN-0054 refers]. This included commencing procurement of an LNG import facility, recognising that the most immediate constraint is a shortage of gas to fuel existing gas generation plants.
5. Cabinet also agreed to strengthen the current regulatory framework to ensure dry year risk will not re-emerge in the future. The new framework will reinforce that responsibility for managing dry-year risk sits with the electricity sector. I am now seeking agreement to the new regulatory framework, which has four components:
 - 5.1. **Roles:** I will place greater accountability on the Electricity Authority (EA), so that I can have confidence they are proactively monitoring and responding to evolving dry-year risk, including through ensuring the industry has the right information, tools, and incentives to invest.
 - 5.2. **Information:** I will improve the information and reporting on dry-year risk so that Government, the EA and the sector are better able to identify and understand evolving risks.
 - 5.3. **Risk management tools:** I will ensure risk-management tools are updated – and kept up to date – to support efficient risk management and timely investment in dry-year cover.

- 5.4. **Incentives:** I will consult on a new obligation that will place greater responsibility on market participants to ensure they respond faster to signals indicating emerging dry-year risk, backed by strong penalties for non-compliance.
6. Taken together, these measures will ensure security of supply risks are identified earlier and that the market has both the tools and the incentives to manage evolving risks.
7. Changes will be required through several mechanisms to give effect to the package:
 - 7.1. **Changes to the Electricity Industry Act 2010** to (1) give the EA an explicit function to ensure effective management of dry-year risk, (2) introduce minimum requirements for regular reviews by the EA (and where relevant the System Operator) of key security-of-supply monitoring frameworks and methodologies, and (3) require the EA to report to the Minister for Energy annually on current and emerging security-of-supply risks. These changes can be progressed through the current Electricity Industry Amendment Bill, **Constitutional conventions**
 - 7.2. **Updates to the Government Policy Statement for Electricity (GPS)**, issued in October 2024 under section 17 of the Electricity Industry Act, with clear expectations on the EA to prioritise the management of dry-year risk. Once the GPS has been agreed by Cabinet, it will be notified in the Gazette and will take effect from the date specified in the Gazette notice.
 - 7.3. **Consultation on a new reliability obligation** that will incentivise the four large gentailers (Contact, Genesis, Mercury and Meridian) to cover dry year risk. A copy of the draft discussion document is attached to this Cabinet paper.

Background

8. Frontier Economics' (Frontier) independent review of electricity market performance, delivered in June 2025, found that while the current energy-only market effectively incentivises investment in renewable generation, it is not delivering enough long-duration 'backup' generation. This creates risks to security of electricity supply, particularly when backup generation is insufficient to cover a large shortfall in weather-dependent hydro and wind generation that can last for weeks or months.
9. Frontier recommended establishing a new entity to take responsibility for securing and selling thermal fuel and firming capacity. Cabinet agreed with Frontier's finding but not its recommendation. Instead, Cabinet agreed [CBC-25-MIN-0054] that:
 - 9.1. the Government would progress development of a Liquefied Natural Gas (LNG) import facility.
 - 9.2. the System Operator would deliver more detailed assessments of security supply risk.
 - 9.3. the EA would oversee and enforce a strengthened regulatory framework which would ensure that dry-year risk will not reemerge in future.
10. This paper proposes actions to strengthen the regulatory framework governing the industry's management of dry-year risk. The proposals complement the actions already taken by Government, including the announcement on 9 February that it will

progress procurement of an LNG import facility (this decision was confirmed by Cabinet on 28 April following increased geopolitical uncertainty).

11. In October 2025 MBIE established an expert advisory group to help clarify problems with dry-year risk management and assess options to provide stronger assurance that dry-year risk will be well-managed in future. The expert group comprised New Zealand and Australian electricity market experts, the Chair of the Commerce Commission, and representatives from the Electricity Authority and Transpower (System Operator). The findings and options developed by MBIE and the advisory group were tested with selected stakeholders in two workshops held in February 2026.
12. The issues and actions set out in this paper are informed by the analysis undertaken by MBIE and the advisory group, tested through targeted engagement with parties representing electricity generator, retailer and industrial consumer interests.

Problem

Dry year risk is evolving...

13. New Zealand's electricity system faces increasing exposure to long duration dry year risk as it becomes more reliant on weather dependent renewable generation, domestic gas supply declines, and legacy thermal generation retires. Recent security of supply assessments indicate tightening energy adequacy margins over the medium term, while wholesale forward prices continue to embed a persistent dry year risk premium.
14. The electricity industry is currently investing in renewable generation at pace, but some within the industry, and many outside the industry, have lost confidence that the industry will continue to invest in the mix of generation, storage and fuel resources necessary to manage dry-year risk well over time.

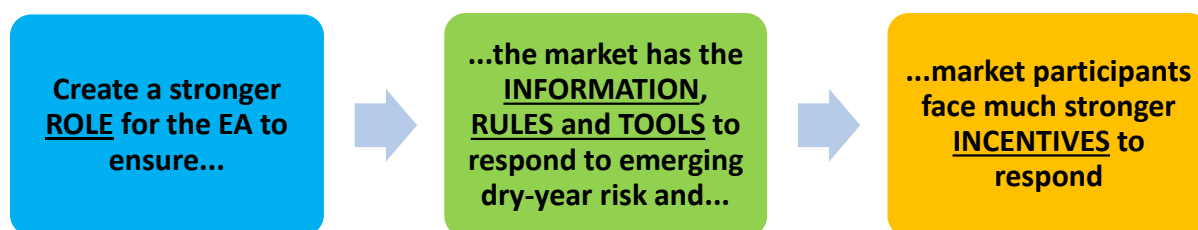
...but the electricity regulatory framework has not kept pace with the changing environment

15. The current regulatory framework for identifying and responding to dry-year risk was designed in the early 2010s. While the electricity market has changed significantly since then, the framework – particularly the security-of-supply monitoring settings and the risk-management tools available to participants – has not kept pace. The new risks emerging over the previous decade include:
 - 15.1. New generation correlation risks: the increasing proportion of renewable generation increases the risk to the system of a larger proportion of installed capacity not being available when needed.
 - 15.2. New operational constraints and risks: with the declining proportion of thermal generation on the system, fast-start thermal has gained a greater importance to our system to meet peak demand.
 - 15.3. New 'fuel' availability risks: the rapid decrease in our gas reserves has presented increased uncertainty to the fuel supply of remaining gas-fired plant and a barrier to investment in gas-fired, long-duration cover.
 - 15.4. Retiring plant risks: potential uncertainty about the timing of significant plant refurbishment/retirement decisions (e.g., Genesis' Huntly plant).

- 16. Participants also require risk-management tools that reflect emerging risks. With the exit of thermal plant and the growth of intermittent generation, traditional baseload hedge contracts are less suited to participants' needs. However, the tools available – such as hedge products – are only being updated now, arguably long after new tools were needed.

A strengthened regulatory framework to ensure dry-year risk will not re-emerge in the future

- 17. To address the problems identified above, we need an electricity regulatory framework that has clear roles, accurate and timely information, effective tools and enduring incentives for participants to respond to the evolving dry-year risk.
- 18. More specifically, the regulatory framework needs to deliver:
 - 18.1. regular reviews and updates of the assumptions and assessment methodologies underpinning our security of supply monitoring framework
 - 18.2. actionable information provided to market participants, including investment opportunities to address identified risks
 - 18.3. fit-for-purpose risk management tools available to market participants that evolve as risks change over time
 - 18.4. enduring incentives on industry participants to respond appropriately to information about supply risks.
- 19. The roles assigned to the Minister, the EA, the System Operator and industry participants remain broadly appropriate. The Government has been clear that responsibility for managing dry-year risk sits with the electricity sector, not the Crown. However, I need greater confidence that the EA will take action where needed to address evolving risks and that the electricity sector has the incentives to respond. Additionally, while it is the sector's responsibility to manage dry-year risk, it could be better equipped to do so and face greater consequences for failing in this responsibility.
- 20. I propose a package of measures that, taken together, will:



- 21. I am seeking agreement to the new regulatory framework, an overview of which is included as Appendix 1.

Amendments to the Electricity Industry Act

- 22. To improve role clarity and accountability, I propose to amend the Electricity Industry Act 2010 (Act) to give the EA an explicit function relating to the effective management of dry year risk. While ‘promoting reliability’ is already a core EA

objective, an explicit dry-year function would make the EA more clearly accountable for that outcome. The proposed addition is not intended to demote or lessen the EA's other objectives.

23. Consistent with this new function, I propose Cabinet agrees to amend the Act to require the EA to:
 - 23.1. submit an annual Security of Electricity Supply Report to the Minister for Energy, for which it must seek modelling inputs and expertise from the System Operator (Transpower), and seek independent review by its Security and Reliability Committee; and
 - 23.2. undertake more regular reviews of foundational security of supply monitoring framework policies (reviewing the Security Standards and Security Standards Assumption Document at least every five years and the Security of Supply Forecasting and Information Policy at least every three years).

Amendments to the Government Policy Statement

24. I also propose Cabinet agrees to amendments to the Government Policy Statement (GPS) issued to the EA in October 2024. The proposed amendments (Appendix 3 attached to this paper) would set out expectations regarding how the EA should undertake its additional function, setting clear expectations on the EA to:
 - 24.1. ensure Code provisions governing the System Operator's risk monitoring framework are regularly reviewed and updated
 - 24.2. promote transparent participant information about material changes to planned plant retirement dates, plant commissioning dates, and planned or forecast demand
 - 24.3. monitor and regularly review the effectiveness of risk management practices in the industry and investigate new products (such as standardised derivative contracts) to facilitate better risk management by industry participants
 - 24.4. promote liquid trading of risk management products and transparency of forward prices to support investment in dry-year resources
 - 24.5. ensure industry participants have enduring incentives to manage dry-year risk across operational timeframes and investment timeframes.
25. The GPS will also note that MBIE will update the Electricity Demand and Generation Scenarios at least every three years, and I will make this expectation clear to MBIE.

Consultation on a new reliability obligation

26. Finally, I propose to release a discussion document on a new reliability obligation to give greater assurance that the sector has enduring incentives to manage dry-year risk effectively. The discussion document proposes a new reliability obligation covering two timeframes: longer-term (up to five years) and short-term (within year).
27. The two parts of the proposed reliability obligation are:
 - 27.1. **A longer-term, investment-focused, obligation:** if the System Operator's long-term security of supply assessment identifies a reliability shortfall, the

largest wholesale purchasers (in practice, the large gentailers and New Zealand Aluminium Smelter) would be obligated to take action to secure additional energy cover so that the shortfall is addressed. This could include building new plant, contracting for more firm generation supply, or negotiating demand response agreements.

- 27.2. **A short-term, operational-focused, obligation:** if the System Operator’s weekly market operations reports show hydro storage is projected to cross the electricity risk curves within the next 90 days, the largest generators (in practice, the large gentailers) would be obligated to take action so that the risk is reduced. This could include securing more fuel for existing generation (e.g. by placing a firm order for imported LNG), changing outage plans, or calling upon demand response agreements.

Figure 1: How the long-term obligation would work in practice



28. Failure to take action to meet the obligation would result in financial penalties. This will strengthen commercial incentives for generators to invest in fuel supplies, invest in new generation or bring forward planned generation faster. However, the proposals could drive higher costs into the generation market if they incentivise ‘over-insurance’. The consultation will be focussed on ensuring the right balance is struck – i.e. the obligation is set at the right level to improve security of supply without leading to inefficient outcomes that ultimately increase costs to households.
29. A draft discussion document is included as Appendix 4. As officials continue to refine the detail of the proposed obligation, I seek Cabinet’s delegated authority to approve a final version of this discussion document.
30. Constitutional conventions

Proposals in this paper complement Government’s decisions on LNG

31. Our domestic gas supply is in sharp decline – diminishing confidence in the electricity sector that gas will be available as a fuel to generate electricity during dry years. This is having a significant economic impact. Recent analysis indicates that sustained periods of high energy prices linked to fuel uncertainty since 2017 reduced GDP by an estimated \$5.2 billion (1.25 per cent) in 2025, lowered real wages and household spending, and weakened the trade balance.
32. Procuring an LNG import facility is the most cost-effective option to enable certainty around fuel supply and address dry-year risk. However, despite this action by the Government, dry-year risk could still reemerge in future if the legislative and

regulatory settings don't provide durable incentives to deliver investment in long-duration dispatchable capacity.

33. The problems identified and recommendations outlined in this paper complement the decision to progress procurement of an LNG import facility. In particular, introducing a new short- and long-term reliability obligation, which will be backed by strong penalties for non-compliance, is intended to place increased responsibility on market participants (mainly the gentailers) to ensure there is sufficient fuel in the system each winter, which may require importing LNG, as well as sufficient investment in new capacity to meet long-term reliability standards.

Cost-of-living Implications

34. The package of measures proposed in this paper is intended to reduce the dry-year risk premium currently reflected in forward wholesale electricity prices. The package, if implemented, could lower the wholesale energy cost component of electricity bills for New Zealand households and businesses.
35. The proposed regulatory obligation for industry participants to proactively manage dry-year risk has the potential to increase costs for industry and consumers depending on the detailed design. Analysis of costs and benefits will be undertaken as the obligation is designed and developed to ensure the expected benefits will exceed costs.

Financial Implications

36. There are no financial implications associated with the proposals in this paper.

Legislative Implications

37. Some proposals in this paper require legislation.
38. The Electricity Industry Amendment Bill 2026, which aims to strengthen the Electricity Authority, Constitutional conventions

Impact Analysis

Regulatory Impact Statement

39. The impact analysis requirements apply to the proposals for three legislative changes relating to the EA's role and information as described in this paper. A Regulatory Impact Statement (RIS) has been prepared and is attached as Appendix 2.
40. A panel from MBIE has reviewed the RIS and considers that the information and impact analysis summarised in the RIS partially meets the quality assurance criteria. It notes that the RIS has been constrained by prior Cabinet decisions and sits within a broader work programme. This impacted the problem definition, scope of options, and timeframe to prepare advice. Noting these limitations, the Panel considers the RIS provides sufficient information for Ministers to make a decision.

Climate Implications of Policy Assessment

41. The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to the policy proposals in this paper, as the threshold for significance is not met.

Human Rights

42. No human rights implications associated with this paper have been identified.

Use of External Resources

43. An Expert Advisory Group was convened to provide advice to MBIE. The group comprised experts in electricity market design and economics across the New Zealand, Australian and wider markets. In total, approximately \$85,000 (excl. GST) was spent on the Expert Advisory Group. This cost was met from existing MBIE baselines.
44. Some members of the Expert Advisory Group provided additional consulting services on specific design aspects of the reliability obligation. The cost for these services was approximately \$75,000 (excl. GST), which was met from existing MBIE baselines.

Consultation

45. A long list of options to address dry-year risk was tested in discussions with the Expert Advisory Group. A short-list of options was tested via targeted engagement with representatives of generators, retailers and industrial consumers.
46. The Treasury, Department of Prime Minister and Cabinet, Ministry for Regulation, Parliamentary Counsel Office, and the Electricity Authority were consulted on the development of this paper.

Communications

47. I will announce the decisions and next steps through a media release.

Proactive Release

48. I intend to release the Cabinet paper proactively in whole, with redactions consistent with the Official Information Act.

Recommendations

The Minister for Energy recommends that the Committee:

- 1 **note** that in September 2025, the Cabinet Business Committee agreed to “establish a regulatory framework to ensure the market has durable incentives to deliver long-duration dispatchable capacity” [CBC-25-MIN-0054 refers];
- 2 **note** that the Government’s announcement to progress procurement of an LNG import facility will help to address dry-year security of supply in the near term but an enduring framework is required to address dry year risk over the longer term, particularly as existing thermal generation plant exits;

- 3 **note** that the security of supply monitoring settings and risk management tools available to participants have not kept pace with recent changes in the sector, including the sharp decline in natural gas production;
- 4 **agree** to amend the Electricity Industry Act 2010 to:
- 4.1 give the Electricity Authority (EA) an explicit function relating to the effective management of dry-year risk;
 - 4.2 require the EA to report to the Minister for Energy annually on Security of Supply risks, an annual Security of Electricity Supply Report, for which it must seek modelling inputs and expertise from the System Operator (Transpower), and seek independent review by its Security and Reliability Committee; and
 - 4.3 require the EA to undertake more regular reviews of foundational security of supply monitoring framework policies (review the Security Standards at least every 5 years and the Security of Supply Forecasting and Information Policy every 3 years);
- 5 **invite** the Minister for Energy to issue drafting instructions to the Parliamentary Counsel Office to give effect to the policies in recommendation 4;
- 6 **note** that the Minister for Energy has consulted the EA on amendments to the government policy statement issued in October 2024, attached to this paper;
- 7 **authorise** the Minister for Energy to issue the amended government policy statement, attached to this paper, subject to any minor amendments required;
- 8 **authorise** the Minister for Energy to release for public consultation, after approving any necessary revisions, the attached draft discussion document proposing a new reliability obligation to manage dry-year risk;
- 9 **note** that the actions in recommendations 4, 7 and 8 will strengthen the regulatory framework that promotes reliable electricity supply through:
- 9.1 regular reviews and updates to the information and methodologies underpinning our security of supply monitoring framework;
 - 9.2 timely and actionable information provided to market participants, including regular publication by the system operator of a statement of electricity investment opportunities and publication by MBIE of electricity demand and generation scenarios;
 - 9.3 disclosure by industry participants of timely information about changes to planned generation and demand that could materially affect supply security;
 - 9.4 annual reporting by the EA to the Minister for Energy on security of electricity supply;
 - 9.5 liquid trading of fit-for-purpose risk management products, supported by market-making services where necessary or desirable; and

9.6 regulatory incentives on industry participants to proactively manage dry-year risks;

10 **note** that the Minister for Energy intends to include legislation giving effect to recommendation 4 in the Electricity Industry Amendment Bill 2026, [REDACTED]
Constitutional conventions [REDACTED]

11 Constitutional conventions [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Hon Simeon Brown

Minister for Energy

Appendix 1: Proposed regulatory framework to address dry year risk

MEASURES	EXPLANATION/NOTES	WHO TAKES ACTION
LEGISLATIVE CHANGES TO THE ELECTRICITY INDUSTRY ACT 2010		
ROLE	Give the EA an explicit function relating to dry-year risk	To place greater accountability on the EA and enable it to adapt more quickly to strengthen the framework to account for evolving risks
		Government to legislate EA to take action per its statutory objective and functions
INFORMATION	Require the EA to submit an annual Security of Electricity Supply Report to Minister for Energy	To clearly inform the Government of the current and emerging risks to security of supply and whether the current regulatory setting are adequate to address the risks or if further enhancements are required
		Government to legislate EA to seek review by Security and Reliability Council EA to publish annually
	Require the EA to regularly review foundational security of supply monitoring framework policies	EA to undertake regular reviews to security standards, Security Standards Assessment Document (SSAD), and Security of Supply Forecasting and Information Policy (SOSFIP)
		Government to legislate EA to review the Security Standards and SSAD at least every 5 years and the SOSFIP every 3 years
AMENDMENTS TO THE 2024 GOVERNMENT POLICY STATEMENT ON ELECTRICITY		
INFORMATION	Information improvements	To ensure information provided to the market, as set out in the security of supply monitoring framework, changes dynamically with evolving security of supply risks
		EA to assess, and can decide to introduce in Code
	Publication of a new 'Electricity Security Opportunities Statement'	This will ensure information on security of supply shortfalls is accessible and show options for what investment would firm that shortfall Proposed by Frontier and agreed by Cabinet
		EA to set out requirements for an Electricity Security Opportunities Statement System Operator to publish annually
	New market participant disclosure obligations	Participants must disclose exit plans for firm generation (or substantive changes to entry plans), and substantive new load
		EA to assess, and can decide to introduce in Code
	More regular updates to Energy Demand and Generation Scenarios (EDGS)	To ensure MBIE produces more regular electricity demand and generation scenarios, including better future load forecasts
		MBIE to publish at least every 3 years
RULES AND TOOLS	Improvements to the stress testing regime	Stress testing (of participant's exposure to financial risk relating to dry year exposure) to be improved, so each large customer, and the EA, is better aware ahead of time (and can chose to take action)
		EA to assess, and can decide to introduce in Code Participants required to undertake tests and report to EA
	Improvements to market liquidity	Assess liquidity in hedge markets and the effectiveness of market making obligations. Consider strengthening or extending market making obligations where needed
		EA to assess, and can decide to introduce in Code
	New standardised risk management products	Introduce new standardised long-duration cover contracts to enable customers to manage risk. This will be similar to standardised super-peak contracts current available, but for longer durations)
		EA to assess, and can decide to introduce in Code
CONSULTATION ON A RELIABILITY OBLIGATION (implementation decisions will be subject to further advice):		
INCENTIVES	Introduce a new reliability obligation	A new Winter Energy Reliability Obligation (an ex-ante obligation) covering: short-term fuel procurement, and long-term energy adequacy
		MBIE to consult on options

Appendix 2: Regulatory Impact Statement - A strengthened regulatory framework to ensure that dry-year risk will not re-emerge in the future

Appendix 3: Draft amendments to the Government Policy Statement on Electricity

Appendix 4: Draft Discussion Document: A proposed reliability obligation to manage dry-year risk