MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

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.

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

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

Decision sought	Analysis produced for the purpose of informing Cabinet decision on a proposal to strengthen the electricity security of supply regulatory framework to ensure that dry year risk will not re-emerge in future
Agency responsible	Ministry of Business Innovation and Employment (MBIE)
Proposing Ministers	Minister for Energy
Date finalised	7 May 2026

The Minister for Energy proposes legislative changes to clarify and strengthen the Electricity Authority's (EA's) role in relation to monitoring and managing dry-year risk. The specific changes being proposed are:

- give the EA an explicit function to ensure the system responds to mitigate the impacts of dry-year risk
- introduce minimum requirements for regular reviews by the EA of key security-of-supply monitoring frameworks and methodologies
- require the EA to report to the Minister for Energy annually on current and emerging security-of-supply risks.

Summary: Problem definition and options

What is the policy problem?

What is the problem that the intervention is seeking to address?

Tightening energy adequacy margins and persistently elevated wholesale forward prices indicate that the electricity system is currently not responding sufficiently to mitigate the impact of dry-year risk. This trend can be explained, at least in part, by the EA giving insufficient attention to the 'reliability limb' of its statutory objective. Without intervention, this situation could likely worsen as the system faces increasing exposure to dry year risk as it becomes more reliant on weather dependent renewable generation, domestic gas supply declines, and legacy thermal generation retires.

What is the policy objective? The objective is to ensure the electricity regulatory framework enables more effective risk monitoring and management of dry year risk, while preserving the core features of New Zealand's energy-only market. Success will be indicated by: • earlier and more consistent identification of emerging dry year risk through security of supply assessments • improved confidence among market participants and Government in the quality and timeliness of security of supply information • clearer alignment between identified dry year risk and timely market responses, including contracting and investment decisions, and • over time, reduced reliance on emergency or high cost responses to dry year risk and lower sustained risk premia reflected in wholesale electricity prices. These indicators will be observed through security of supply reporting, regular methodological reviews, and monitoring of market outcomes.
What policy options have been considered, including any alternatives to regulation? The following options have been considered: 1. **Status Quo / Counterfactual —** relying on the EA's existing statutory objectives and functions, current security-of-supply frameworks, and existing crown entity accountability mechanisms. 2. **Legislative clarification of the EA's role and accountability —** amending the Electricity Industry Act 2010 to give the EA an explicit statutory function relating to dry-year risk and requiring regular review of foundational risk monitoring frameworks and annual reporting. 3. **Additional regulatory powers for the Minister —** providing new powers for the Minister to directly impose requirements on industry participants through secondary legislation or the Electricity Industry Participation Code, circumventing the EA's role. The second option, 'Legislative clarification of the EA's role and accountability' is the preferred option included in the Cabinet paper.
What consultation has been undertaken? Targeted consultation on the options presented in this RIS was undertaken between late 2025 and early 2026. Engagement occurred through three primary channels: • Engagement with an Expert Advisory Group (EAG) comprising experts in electricity market design and economics across the New Zealand, Australia, and wider markets, and executive leaders from the Electricity Authority and System Operator (Transpower). DPMC and Treasury participated as observers. • Regular discussions with EA, Transpower (System Operator), Treasury and DPMC. • Two targeted workshops with electricity market participants. Given the Minister's request to progress decisions ahead of mid-2026, consultation on high-level options was necessarily targeted and time-limited rather than conducted through a more comprehensive consultative approach.

There was general support for clarifying regulatory roles and strengthening security of supply information, including from the EA and System Operator. These were considered low-regret measures.

Is the preferred option in the Cabinet paper the same as preferred option in the RIS?

Yes

Summary: Minister's preferred option in the Cabinet paper [duplicate if agency's preferred option is different]

Costs (Core information)

Implementing the preferred option is expected to impose modest additional compliance costs on the EA in relation to preparing an annual report on security of supply for the Minister for Energy and more regular reviews of the security of supply monitoring framework.

These activities build on existing EA functions, with the precise costs depend on the EA's implementation. Costs are expected to be met within the EA's existing budget and capabilities, including through prioritisation if needed.

There are no direct costs to industry or consumers.

Benefits (Core information)

The preferred option is expected to improve stakeholder confidence that dry-year risk is being actively managed at a system level. A more resilient and reliable electricity system, with improved regulatory clarity and earlier management of dry-year risk, should place downward pressure on the long-term cost of electricity, which will support further economic growth, and provide greater confidence to invest in more generation.

All benefit estimates are based on high-level assumptions and are qualitative.

Balance of benefits and costs (Core information)

On balance, the benefits of the preferred option are expected to outweigh the costs.

Implementation

Implementation of the preferred option will be delivered by amending the Electricity Industry Act 2010 to give the EA a new explicit statutory function relating to dry year risk and associated requirements to improve risk related information.

The preferred option can be supported through existing crown entity governance and accountability processes, including ministerial letters of expectations.

Limitations and Constraints on Analysis

The options considered in this RIS are constrained by wider Government's decision relating to policy announcements in response to the independent electricity market review

undertaken by Frontier Economics. In particular, this has placed pressure on the time available to undertake a thorough policy process.

I have read the Regulatory Impact Statement and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the preferred option.

Responsible Manager(s) signature:

Privacy of natural persons

Sharon Corbett

Policy Director, Energy Markets

7 May 2026

Quality Assurance Statement	***[Note this isn't included in the four-page limit]***
Reviewing Agency: MBIE	**QA rating:** Partially meets
Panel Comment: *A Quality Assurance Panel from MBIE has reviewed the Regulatory Impact Statement (RIS) prepared by MBIE titled A strengthened electricity regulatory framework to ensure dry-year risk will not re-emerge in the future on 8 May 2026.* *The Panel consider that the information and impact analysis summarised in the RIS partially meets the Quality Assurance criteria. The Panel noted 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. Within that constraint the RIS would benefit from improved options analysis including more discussion of dependencies that may impact delivery and any limitations or unintended consequences of the options; the impact of the preferred option is limited to qualitative estimates without any estimates of quantified costs or benefits. Noting these limitations, the Panel considers the RIS provides sufficient information for Ministers to make a decision.*	

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

1. New Zealand's electricity system underpins household, community and economic activity. It supports daily life, public services, and industrial production.

2. Electricity supply is also central to New Zealand's transition to a low emissions economy and will increasingly determine future prosperity and the country's ability to compete internationally.

The electricity supply chain and market structure

3. The electricity supply chain comprises the infrastructure and organisations that enable electricity to be generated, transported, traded, and consumed across the country.

4. New Zealand operates an energy only wholesale electricity market. All electricity is traded through a spot market, with generators submitting offers that are dispatched on a least cost basis to meet demand. Prices are set by the marginal generator. The system does not centrally procure generation capacity or strategic reserves.

5. Electricity is generated from a mix of renewable and thermal sources. Renewable generation—including hydroelectric, geothermal, wind, and solar—accounts for a large and growing proportion of total generation. Over the past five years, renewables supplied approximately 81–88 percent of New Zealand's electricity, comprising around 54 percent hydro, 20 percent geothermal, and 9 percent wind in 2024. Thermal generation, fuelled by gas, coal, and some diesel, provides additional supply during periods of higher demand or reduced renewable availability (especially in dry years).

6. In principle, the risk to security of supply (i.e., insufficient generation assets (capacity) or fuel (energy) for supply to meet demand) is reflected in spot and hedge market prices. The EA's security of supply framework is also relied on by the market to provide an assessment of the market's ability to ensure supply will meet demand, within acceptable standards, over the long-term. The security of supply and price signals are intended to encourage investment in new supply and firming capability[1] and promoting efficient risk management by retailers and large consumers.

7. However, since around 2017, new supply has not included sufficient long-duration firming capability (able to meet both energy demands over weeks and months and capacity to meet instantaneous peak demands) to replace plant that has retired and replace fuel supply constraints caused by declining gas production. This has resulted in narrowing margins between supply and demand during dry-year conditions.

Structural exposure to long duration dry year risk

8. New Zealand's electricity system is structurally exposed to seasonal hydrological variability. Hydro generation typically accounts for around 60 percent of total electricity

[1] Firm generation is electricity generation capacity that is dispatchable such that it can consistently deliver output when needed. Thermal plants, such as coal- or gas-fired power stations, are examples of firm generation capacity. In contract, generation sources like wind or solar, which cannot guarantee output at specific times, are considered non-firm or "intermittent".

supply in a normal year, yet national hydro storage is equivalent to only around six weeks of total electricity demand. Sustained periods of low inflows into lakes used for hydro, therefore create a prolonged energy shortfall risk, particularly during winter when demand is highest and expected inflows are lowest.

9. Historically, gas and coal thermal generation plant have provided flexible backup to manage this variability. However, faster-than-expected declines in domestic gas production, together with uncertainty around the long-term role of existing thermal plant, have reduced the availability and certainty of this firm backup supply. While the proposed LNG import terminal may improve fuel security it will not create new dispatchable generation capacity, leaving the power system dependent on existing thermal generation assets.

10. At the same time, the generation mix is shifting towards higher shares of wind and solar. While this transition reduces emissions and operating costs, it increases exposure to weather-dependent variability.

11. Long-duration system resilience increasingly depends on firming capability able to manage sustained low-hydro and low-wind conditions. Estimating the reserves required to manage dry-year risk is inherently challenging, particularly as electrification increases demand and intermittent renewable capacity expands.

Current investment pipeline

12. Investment in new generation and firming capacity is expected to respond to wholesale spot and contract market price signals. Higher prices play a key role during periods of expected resource scarcity to incentivise investment to increase capacity.

13. There is currently a substantial generation development pipeline comprising around 300 projects with a combined capacity of about 45 GW.

14. However, most this pipeline capacity consists of intermittent renewable technologies—particularly wind and solar—and grid-scale battery energy storage systems that typically provide firming over a matter of hours rather than weeks or months. This pattern reflects the lower capital intensity and shorter development cycles of renewable technologies. It also indicates the current preference for investments that do not involve long-duration fuel storage or infrequently used firm generation.

15. Finally, while the pipeline is healthy, developers are not expected to invest in projects until they are confident that they will recover investment costs through market revenues.

Current roles and responsibilities *(also see Annex One)*

16. Responsibility for managing security of electricity supply within the existing framework is shared across the EA, the System Operator (Transpower), and industry participants.

17. Under current arrangements:

- the Minister for Energy is responsible for overall policy settings (including portfolio responsibility for primary legislation) and may influence regulatory priorities by issuing a Government Policy Statement to the Electricity Authority and through conventional crown entity accountability mechanisms, such as Letters of Expectations

- the EA is responsible for developing and enforcing market rules, contracting with market service providers, and developing non-regulatory measures (such as information exchange protocols, standardised contract forms and trading platforms) to support its statutory objectives
- the System Operator, under requirements set by the EA, provides information to the market on supply risks and manages supply emergencies
- industry participants are responsible for managing their own supply risks, and make investment and operational decisions, including decisions on fuel stocks and generation assets.

18. The EA is an independent Crown entity established under the Electricity Industry Act 2010. It is responsible for governing the electricity market through regulations and the Electricity Industry Participation Code (Code). Section 15 of the Act sets out the EA's statutory objectives, which are:

- to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.
- to protect the interests of domestic consumers and small business consumers in relation to the supply of electricity to those consumers.

19. Additionally, the EA has the following functions, through which it delivers on its objectives:

- **Monitor, inform and educate -** monitor market behaviour and make data, information and tools available to help improve participation and understanding of the electricity markets by consumers, industry participants and other parties.
- **Operate the electricity system and markets -** responsible for the efficient day-to-day operation of the electricity system and markets.
- **Enforce compliance -** monitor, investigate and enforce compliance with the Electricity Industry Act 2010, its Regulations and the Electricity Industry Participation Code 2010 by industry participants to create a fair and competitive market.
- **Promote market development -** maintaining a responsive and robust regulatory environment that keeps up with innovation and new technologies to enable electrification and deliver better outcomes for consumers today and in the future.
- **Protect the interests of small electricity consumers -** protecting the interests of domestic and small business consumers in relation to industry participants supplying their electricity.

Current security-of-supply monitoring framework

20. The EA has established a security-of-supply framework intended to encourage the market to conserve hydro storage and increase generation from stored or readily available thermal fuels when dry-year conditions emerge. The framework aims to ensure sufficient energy is available through winter to avoid or reduce electricity shortages.

21. The framework includes:

- an energy-only wholesale market with scarcity pricing (prices rise to very high levels at times of scarcity)
- an Official Conservation Campaigns triggered when supply risk exceeds a codified 'emergency' threshold
- a Customer Compensation Scheme requiring retailers to make payments to qualifying customers during an Official Conservation Campaign
- rolling outages as a last-resort mechanism to coordinate demand curtailment when supply in insufficient
- forecasts and information provided through the Security of Supply Monitoring Framework
- forward contracts that enable participants to manage their exposure to spot price risk and signal when investment in new generation is commercially attractive.

22. A more detailed outline of the security-of-supply monitoring framework, including further information on roles and responsibilities, is provided in **Annex One**.

What is the policy problem or opportunity?

The market is not responding to signals that more firm investment is needed

23. In New Zealand's energy-only market, the regulator's role is to ensure that market rules and supporting frameworks enable investment signals — reflected through price (spot and contract) and security-of-supply signals — to drive timely and efficient investment in new generation and firming capacity.

24. Current evidence suggests growing tensions across several dimensions:

- security-of-supply energy and capacity margins (between forecast demand and available generation) are not remaining at or above an efficient standard
- periods of elevated wholesale prices are persisting (rather than temporary), and do not appear to self-correct in response to investment
- limited availability of hedge contracts, in number and type, is hindering market participants' ability to manage their risks
- investment in long-duration firming solutions is not occurring to replace retiring generation capacity.

Market pricing signals

25. Wholesale and hedge market prices appear to incorporate a persistent electricity security-of-supply risk premium. Modelling commissioned by MBIE suggests this risk premium may be in the order of $30–50/MWh.

Figure 1: Long-run marginal generation costs vs ASX forward pricing

Source: Concept Consulting modelling for MBIE

26. In an energy-only market, some level of risk premium is expected where scarcity and reliability risks are monetised through contracts. However, the persistence of elevated risk premiums indicates supply risk is not being efficiently managed through new investment to meet growing demand and to replace aging plant that is facing declining commercial viability.

27. Sustained higher electricity prices associated with unmanaged dry-year risk has been cited as contributing to closures of several wood processing businesses in recent years. More generally, elevated prices could have material macroeconomic impacts over time, including lower household disposable incomes and reduced economic output.

Security-of-supply signals

28. Recent Security of Supply Assessments (SOSA)[2] indicate tightening energy margins in both the short and medium term.

29. Year-to-year variation in security-of-supply assessments highlights the dynamic and uncertain nature of dry-year risk under increasing renewable penetration and tightening thermal fuel constraints. Transpower has noted that these developments reinforce the importance of investment in firm and flexible generation capable of responding to prolonged supply shortfalls.

Why firming investment is constrained

30. There are a range of inter-related factors which appear to be constraining investment in long-duration firming. These have been categorised under the sub-headings below.

Investment risk factors

- Revenue adequacy risks for assets that operate infrequently and may not be required every year.
- Increased demand and supply uncertainty as electrification accelerates.

[2] Transpower, as the System Operator, is responsible for publishing the medium-term security of supply assessment (SOSA) annually. This assessment uses forecasts of electricity supply and demand to assess the ability of the electricity system to meet New Zealand's needs over the decade ahead. More information is available here.

- Policy transition risks related to decarbonisation objectives and future fossil-fuel use.
- Technology risks for emerging firming solutions.
- Regulatory and consenting risks.

Market structure constraints

- A “tenor gap” in contract markets: developers typically require 10–15 years of revenue certainty to finance firming assets, while counterparties are often unwilling or unable to contract for that duration.
- A limited pool of creditworthy buyers willing to underwrite long-term contracts.
- Hedge market depth that may be insufficient to support large-scale investment in long-duration firming.

31. These factors can compound, increasing the cost of capital and reducing the commercial attractiveness of firming investments even where a system level need is identified. However, most of the factors outlined above are being addressed through separate actions and so are not being addressed through options considered in this RIS.

32. There are also government regulatory factors which are constraining investment in long-duration firming. It is these factors which pose a problem to the system which requires regulatory intervention.

Institutional and governance factors

- Limited clarity over responsibility and accountability for managing system-level dry-year risk.
- Security-of-supply monitoring frameworks that are not adaptive to reflect evolving system risks.

33. It is these institutional and governance factors which are currently being unaddressed and require regulatory intervention.

Why this has become a regulatory problem: roles, accountability, and information adequacy

34. The EA has powers, and has acted, to introduce measures to address dry-year risk. For example, following three dry-year events over a ten-year period in the 2000s, the EA introduced the Customer Compensation Scheme (CCS). The intent behind the CCS was to incentivise industry to avoid running hydro storage to low levels by requiring retailers to compensate customers during any Official Conservation Campaign. This appears to have been successful. The EA has also introduced other measures, such the stress testing regime, which assesses the ability of participants to withstand financial stress (such as during a dry year).

35. However, the lack of regulatory clarity on the responsibility and accountability for ensuring that the market responds to dry-year risk is a key factor impeding a market response to address the risk. Additionally, there is a risk that, due to information inadequacy, the system will be under-prepared for dry-year risk and will rely on late stage or high-cost responses (such as industrial demand response to high wholesale prices).

The EA has been slow to respond to, or address, emerging concerns relating to system reliability

36. While the regulatory roles are broadly understood, and appear appropriate, there is evidence that the EA has not anticipated and reacted to changing market conditions, nor ensured regulatory rules kept pace. These concerns were encapsulated within a 2024 report by Sapere, for Mercury Energy, which concluded:

> *The Electricity Authority itself appears to have deprioritised reliability concerns. Its statutory mandate includes competition, reliability, and efficiency, but recent emphasis has shifted toward affordability and low-emissions outcomes. Legal interpretations mean the Authority can prioritize one limb over others, and its public messaging now frames purpose more in environmental and prosperity terms -diminishing clarity around its reliability mandate.*[3]

37. There have been a number of significant developments in the electricity system over the past decade to which the EA has appeared to not respond sufficiently. (or, arguably, lacked clear regulatory responsibility or accountability to address). In particular, these include:

- the impact of declining gas reserves on our electricity system, which limited the availability of back-up fuel to reliably generate electricity in place of hydro during dry years
- the changing generation mix, with declining proportion of firm, thermal generation and increasing proportion of intermittent, renewable generation

38. Additionally, market participants have lacked sufficient risk management tools to appropriately manage their risks. This concern is being addressed through the Energy Competition Task Force which, in 2025, introduced a new risk management product to enable participants to better manage their exposure to volatile morning and evening peak wholesale prices.[4] While this is an example of the EA responding to an issue that had emerged, arguably this intervention came too late.

Security-of-supply monitoring framework policies have not been updated regularly enough

39. Security-of-supply monitoring frameworks and associated regulatory settings have not kept pace with the scale and pace of change in the electricity sector. Since the current security-of-supply standards were established in 2012, the electricity system has experienced material shifts, including declining domestic gas reserves, increasing reliance on intermittent renewable generation, and a growing dependence on fast-start thermal plant and other flexible resources during periods of system stress.

40. These changes have altered the nature, duration, and distribution of dry-year and security-of-supply risks. However, key assumptions underpinning security-of-supply monitoring—particularly those relating to fuel availability, generation flexibility, and the reliability contribution of different technologies—have not been systematically refreshed to reflect evolving system conditions. This has reduced confidence among market participants that the monitoring framework is fully capturing the risks they face

[3] Strengthening the Security and Reliability Council - Sapere.
[4] Energy Competition Task Force | Our projects | Electricity Authority

in practice, which is a significant issue in a market-led system where investment and contracting decisions rely heavily on credible and trusted signals.

41. In 2017, the Electricity Authority conducted a review that identified a number of potential enhancements to improve the relevance and resilience of the security-of-supply standards, but these were not progressed at the time.

42. More recently, Frontier Economics' independent review concluded that aspects of the framework—particularly the North Island Winter Capacity Margin—should be amended to provide greater flexibility to respond to changes in the frequency, duration, and magnitude of loss-of-load events as system risks evolve.

43. Steps taken in recent years have improved information disclosure in areas critical to security-of-supply modelling, including disclosure of generation outages, fuel availability, and some aspects of participant stress testing. However, given the relatively small scale of the New Zealand electricity system, overall supply-demand balance and dry-year risk assessments remain highly sensitive to changes in a small number of large assets, either on the supply side (such as thermal plant closure or refurbishment decisions) or the demand side (such as changes in large industrial load).

44. In the absence of regular, structured review of monitoring assumptions and clearer escalation mechanisms, there is a risk that assessments will not fulfil their intended function effectively:

- assessments may become too reactive, which any changes being made only after risk has materially increased.
- If assessments don't accurately identify emerging risks, participants may either discount them entirely or price uncertainty into long term contracts. This could reinforce persistent risk premia and delay investment in long duration firming, increasing the likelihood that dry year risk is managed through late stage or higher cost mechanisms rather than earlier, more efficient responses..

What objectives are sought in relation to the policy problem?

45. The policy objective is to ensure clear responsibility and accountability within the regulatory framework for mitigating the impacts of dry-year risk, as well as an adaptive security-of-supply monitoring framework. Achieving the policy objective requires a regulatory and market framework that provides:

- ***Clear roles and accountability -*** Defined responsibility for monitoring, assessing, and escalating system-level dry-year risk, and for taking action where emerging risks exceed acceptable reliability thresholds.
- ***Access to credible and timely information -*** Security-of-supply monitoring methodologies and forward-looking assessments that reflect evolving demand, renewable variability, fuel availability, and system sensitivity, and that are reviewed regularly to remain fit-for-purpose. Access to information may need to be supported by appropriate disclosure requirements to give all participants confidence that information cannot be abused for competitive advantage.

How success would be measured

46. Success of the regulatory framework would be indicated by:

- earlier and more consistent identification of emerging dry-year risk through security-of-supply assessments
- improved confidence among market participants and Government in the quality and timeliness of security-of-supply information
- clearer alignment between identified dry-year risk and timely market responses, including contracting and investment decisions, and
- over time, reduced reliance on emergency or high-cost responses to dry-year risk and lower sustained risk premia reflected in wholesale electricity prices.

What consultation has been undertaken?

Form and scope of consultation

47. Targeted consultation was undertaken between late 2025 and February 2026 to inform the development of the proposed regulatory framework for managing dry-year risk.

48. Given the Minister's request to progress decisions by mid-2026, consultation was time-limited and targeted, rather than conducted through a full public discussion document process. The approach was intended to test problem definition, validate proposed directions, and identify key risks associated with potential options, while allowing decisions to proceed within the required timeframe.

49. Engagement occurred through three primary channels:

- consultation with an independent Expert Advisory Group (EAG);
- regular inter-agency engagement; and
- targeted workshops with electricity sector participants.

Engagement with the Expert Advisory Group

50. MBIE developed its advice with input from an Expert Advisory Group comprising experts in electricity market design and economics from New Zealand, Australia, and other jurisdictions, alongside executive leaders from the EA and the System Operator (Transpower). The Department of the Prime Minister and Cabinet and the Treasury participated as observers.

51. The EAG contributed to the framing of the policy problem, including analysis of revenue uncertainty and investment barriers for long-duration firming capability. The advice and perspectives of the EAG have informed the development of this RIS.

Inter-agency engagement

52. MBIE engaged regularly with the EA, Transpower, the Treasury, and DPMC throughout development of this proposal. These discussions focused on:

- institutional feasibility and alignment with existing statutory roles

- interaction with the Electricity Industry Participation Code and Code-change processes
- potential implementation pathways and sequencing.

53. This engagement helped test the practicality of proposed changes and identify dependencies with other elements of the Government's broader energy work programme.

Engagement with electricity market participants

54. In February 2026, MBIE held two targeted workshops with electricity sector participants:

- **Sell-side stakeholders:** Contact Energy, Genesis Energy, Mercury Energy, Meridian Energy, Nova, and the Electricity Retailers and Generators Association of New Zealand (ERGANZ).
- **Buy-side stakeholders:** Independent retailers (including Electric Kiwi and Octopus Energy NZ), independent generators (including Lodestone and Helios), and the Major Electricity Users Group (MEUG).

55. Participants were also invited to provide written feedback following the workshops.

Summary of stakeholder feedback and expert advice

56. The EAG was used extensively to inform MBIE's thinking on the problem definition, policy objectives and option identification. Overall, the EAG was supportive of the proposals within this RIS. The EA was less supportive of, but did not disagree with, the problem definition. However, the EA was supportive of the option proposed.

57. Feedback from the industry engagement sessions was largely positive on the problem definition and options considered in this RIS (noting that this was a subset of a larger package of measures presented in that engagement). There was broad support for the options proposed, which were viewed as low-regret interventions.

58. In the engagement sessions, industry participants provided feedback on MBIE's assessment of price and security-of-supply signals. In particular, this covered the characterisation of tightening energy adequacy margins as assessed by the SOSA over the past five years. This resulted in MBIE adopting a less definitive position on these signals – assessing them as informative rather than conclusive.

Engagement with Māori

59. MBIE did not undertake targeted engagement with Māori specifically on the proposed changes to the Electricity Authority's role and information cadence. The proposals under consideration are technical and market-regulatory in nature, with system-wide impacts and no identified differential effects on Māori rights or interests. They do not engage Treaty settlement obligations.

60. In line with Te Arawhiti guidance, the significance of the proposals for Māori was assessed as low, and targeted engagement was not required at this stage. Any future Code changes progressed by the Electricity Authority will be subject to the EA's statutory consultation processes, providing Māori with opportunities to engage should they wish to do so.

Section 2: Assessing options to address the policy problem

What criteria will be used to compare options to the status quo?

61. Options will be assessed on whether they:

- **Provide clear accountability –** clearly allocate responsibility for identifying, assessing, and responding to system level dry year risk, without gaps or overlap across institutions.
- **Are proportionate and efficient –** responsibilities are allocated to the institution best-equipped to perform them, minimising unnecessary complexity, duplication, and compliance costs.
- **Preserve market-led investment –** remain consistent with New Zealand's electricity market design and minimise risk that Government or regulator actions will crowd-out or chill private investment.

What scope will options be considered within?

62. The options considered in this RIS are constrained by the Government's decision on Action 2.5 of the Energy Package. In October 2025, following a major independent review by Frontier Economics of the electricity market, the Government announced its Energy Package.[5] Action 2.5 of the Energy Package committed the Government to strengthen the current dry-year regulatory framework. This RIS supports some of the measures being consider as part of Action 2.5.

63. This has constrained the options considered in two ways:

- **Timeframe:** the Energy Package committed MBIE to design a strengthened dry-year regulatory framework by Q1 2026. This timeframe precluded opportunity to develop and consult more thoroughly on detailed regulatory options that address the objectives relating to improving regulatory responsibility and accountability and information.
- **Options considered are part of a wider package of measures which are not subject to this RIS:** this RIS only applies to regulatory change measures being considered as part of Action 2.5. Other measures being progressed address additional aspects of the problem definition and are complementary to with options within this RIS. These include:
  - Updates to the Government Policy Statement for Electricity, issued in October 2024 under s17 of the Act, with clear expectations on the EA to prioritise the management of dry-year risk.
  - Consultation on a new reliability obligation that will incentivise the four large gentailers (Contact, Genesis, Mercury and Meridian) to cover dry year risk.

[5] Securing New Zealand's energy future | Beehive.govt.nz

What options are being considered?

Option One – Status Quo / Counterfactual

64. Under the status quo, responsibility for managing dry year risk would continue to flow from the EA's existing statutory objective to promote reliable supply, alongside other objectives, and subject to discretionary prioritisation within the EA's work programme.

65. Government would continue to signal expectations through non statutory mechanisms such as the Government Policy Statement (GPS) and Letters of Expectations. Any changes to the EA's focus or prioritisation of dry year risk would remain dependent on existing governance and accountability processes.

66. Given the current focus on dry-year risk, due to persistently elevated futures prices, tightening energy adequacy margins and declining gas reserves, it is possible that the status quo would deliver, at least temporarily, more action by the EA to mitigate the impacts of dry-year risk and improved information (not least as the security standards and Security Standards Assumptions Document are currently being updated). Additionally, other actions being progressed as part of the wider package of measures under Energy Package Action 2.5 are likely to have a positive impact. These wider actions include:

- amendments to the Government Policy Statement (GPS) issued to the EA in October 2024 which would set out expectations regarding how the EA should improve information and availability of risk management tools
- consultation on a new reliability obligation to give greater assurance that the sector has enduring incentives to manage dry-year risk effectively.

67. However, there is a risk that these improvements would not be enduring. Without clear and enduring requirements, it is not guaranteed that the benefits would be lasting.

Option Two – Legislative clarification of the EA's role and accountability

68. This option proposes amending the Electricity Industry Act 2010 (the Act) to give the EA an explicit function relating to the effective management of dry year risk. In addition, the Act would also be amended to require the EA to:

- 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 and seek independent review by its Security and Reliability Committee
- undertake more regular reviews of foundational security of supply monitoring framework policies (reviewing the Security Standards and Security Standards Assumption Document (SSAD) at least every five years and the Security of Supply Forecasting and Information Policy at least every three years).

69. While promoting the reliable supply of electricity is part of the EA's statutory objective, it is not included as one of its specific functions as laid out in the Act. Explicitly including, as a function, that it should ensure the system can identify and respond to dry-year risk will place greater onus on the EA to ensure the system remains robust. It will also enable the EA, by better clarifying its role, to adapt more quickly to strengthen the framework to account for evolving risks.

70. However, functions are not duties (i.e., they may be exercised but don't need to be). To provide greater certainty that the objectives intended to be achieved are delivered, this option would be implemented along with a GPS (which is being progressed separately). This would have the benefit of providing greater clarity about the measures the EA should consider in fulfilling its explicit function to promote dry-year reliability.

71. Requiring the EA to provide an annual report to Government on current and emerging risks to security of supply will ensure the EA maintains a holistic overview of the risks, current and future, facing the market. It will also provide an avenue for the EA to indicate whether the regulatory system and/or market can manage these risks or whether Government intervention is required. Had this been in place, it may have enabled the EA to have more clearly raised concerns about the impact of declining gas reserves on the electricity market.

72. Requiring more regular reviews of, and updates to, the foundational security of supply monitoring framework policies will ensure these keep pace with the rate of change in the electricity sector. As the current security standards and SSAD haven't been updated since 2012, this would deliver a strengthened system by providing an enduring basis for regular review of these foundational documents, and improving sector confidence in these assessments.

73. This option would not change the existing role of the EA - it is already implicit that the EA has this function. However, specifically including a dry-year function and providing the EA an avenue to raise any risks it considers the market cannot address without Government intervention could provide greater delineation in relation to agencies roles in mitigating the impacts of dry-year risk.

Option Three - Additional regulatory powers for the Minister

74. This option considers providing the Minister for Energy additional powers to directly legislate to deliver a strengthened dry-year regulatory framework. This could be achieved by providing the Minister either:

- **a new regulation-making power** to enable to Minister to make secondary legislation to address emerging dry-year risk factors
- **a new backstop Code-making power** to enable the Minister to directly amend the Code address emerging dry-year risk factors.

75. This could enable the Minister to introduce, for example, new information disclosure requirements, requirements for the System Operator to monitor risk against regulated standards or obligations for industry to invest in generation plant and fuel supplies.

76. To deliver either of the additional regulatory powers outlined above would require an enabling power first being established in the Electricity Industry Act 2010. Any new regulatory measures would sit alongside those developed by the EA and set out in the Code.

77. This option may be disproportionate to the problem identified, as it would provide powers that could go far beyond the scope of what was intended. Additionally, it risks reducing regulatory role clarity as it would introduce uncertainty around where responsibility sits for ensuring the system responds to mitigate the impacts of dry-year risk.

How do the options compare to the status quo/counterfactual?

	Option One – Status Quo / Counterfactual	Option Two – Legislative clarification of the EA's role and accountability	Option Three - Additional regulatory powers for the Minister
Provide clear accountability	**0**	**++** *materially improves accountability and provides durable clarity about the regulator's role*	**– –** decreases clarity of responsibility, shifts responsibility away from the independent regulator
Proportionate and efficient	**0**	**++** preserves regulatory independence, avoids complex structural change	**– –** disproportionate to problem identified, risks complex structural change
Preserve market-led investment	**0**	**+** retains energy-only market principles and supports private sector investment	**–** retains energy-only market principles but risks chilling investment (due to less predictable regulatory regime)
Overall assessment	**0**	**++**	**–**

Key:

++	much better than doing nothing/the status quo/counterfactual	-	worse than doing nothing/the status quo/counterfactual
+	better than doing nothing/the status quo/counterfactual	- -	much worse than doing nothing/the status quo/counterfactual
0	about the same as doing nothing/the status quo/counterfactual		

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

78. The assessment indicates that Option Two provides the clearest and most proportionate improvement in accountability while remaining consistent with existing market design. Additionally, this option was supported by stakeholders during consultation. The EAG and agencies flagged concerns with the impacts to the independent regulator's independence and regulatory uncertainty of Option Three.

79. Option Two is assessed as most likely to strengthen role clarity and accountability, and thereby result in action by the EA to:

- ensure earlier and more effective identification of dry-year risk
- support efficient risk management by industry particpants, including timely investment (in new resources) and efficient operations (e.g. timely procurement of fuel); and
- do so at the lowest risk of unintended consequences or structural disruption.

80. Additionally, Option Two will be supported by the wider package of measures being progressed under Action 2.5 of the Energy Package, including the proposed updated to the 2024 Government Policy Statement.

Is the Minister's preferred option in the Cabinet paper the same as the agency's preferred option in the RIS?

81. The Minister's preferred option in the Cabinet paper is the same as the preferred option assessed and recommended in this RIS.

What are the marginal costs and benefits of the preferred option in the Cabinet paper?

82. The table below indicates that the marginal costs of the preferred option are low and concentrated primarily on the regulator, reflecting incremental analytical and reporting activity that builds on existing functions. No direct compliance costs are imposed on electricity market participants, and no material fiscal costs are expected for the wider government sector.

83. By contrast, the benefits are system wide and accrue over time, primarily through improved identification, escalation, and management of dry year risk. These benefits are largely non monetised but include improved confidence in security of supply information, clearer accountability, and reduced reliance on higher cost late stage or emergency responses.

84. While the precise scale and timing of benefits cannot be quantified with certainty, the table shows that the expected non monetised benefits outweigh the modest non monetised costs, indicating that the preferred option represents a proportionate and net beneficial response to the policy problem identified in this RIS.

85. Modest additional administrative and analytical costs associated with preparing an annual Security of Electricity Supply report to the Minister and undertaking more regular reviews of foundational security of supply monitoring frameworks. These activities build

on existing functions and are expected to be incremental, with costs managed within existing baseline and capability.

Affected groups	Comment – nature of cost or benefit, evidence and assumptions	Impact	Evidence certainty
Additional costs of the preferred option compared to taking no action			
Regulated groups (electricity market participants)	No direct compliance costs are expected. The preferred option does not introduce new obligations on market participants, change operational market rules, or require investment or contracting decisions.	None / Low	High
Regulator (Electricity Authority)	Modest additional administrative and analytical costs associated with preparing an annual Security of Electricity Supply report to the Minister and undertaking more regular reviews of foundational security-of-supply monitoring frameworks. These activities build on existing functions and are expected to be incremental, with costs managed within existing baseline and capability.	Low (non-monetised cost)	High
Others (wider government)	No material fiscal costs expected. Some additional Ministerial and agency engagement associated with reviewing the annual report and considering any escalation.	Low (non-monetised cost)	Medium
Total monetised costs	No material monetised costs have been identified.	$0	High
Non-monetised costs	Primarily administrative and analytical costs borne by the regulator.	Low	High
Additional benefits of the preferred option compared to taking no action			
Regulated groups (electricity market participants)	Improved clarity, credibility, and timeliness of security-of-supply information. Earlier identification of dry-year risk supports better risk management, contracting, and investment decisions. Benefits are indirect and not monetised.	Medium (non-monetised benefit)	Medium
Regulator (Electricity Authority)	Clearer statutory accountability and expectations regarding dry-year risk. Improved prioritisation and focus of regulatory activity.	Low–Medium (non-monetised benefit)	Medium
Others (consumers and wider economy)	Over time, improved management of dry-year risk may reduce reliance on high-cost late-stage or emergency responses, and place downward pressure on sustained dry-year risk premia in wholesale prices. No direct consumer costs are expected.	Medium (non-monetised benefit)	Low–Medium
Total monetised benefits	Monetised benefits have not been estimated given the systemic and long-term nature of the impacts.	n/a	n/a
Non-monetised benefits	Earlier risk identification, stronger accountability and escalation pathways, improved confidence in the regulatory framework, and a more resilient electricity system over time.	Medium–High	Medium

Section 3: Delivering an option

How will the proposal be implemented?

86. The preferred option will be implemented by amending the Electricity Industry Act 2010 to provide the EA with an explicit statutory function relating to dry year risk and security of electricity supply. While promoting reliable supply is already embedded within the EA's statutory objectives, explicitly including a dry year risk function would place clearer accountability on the EA and strengthen expectations that the regulatory framework adapts in a timely manner as system risks evolve.

87. The inclusion of an explicit dry year risk function is not intended to demote or lessen the EA's other statutory objectives. Rather, it is intended to sharpen accountability and prioritisation in relation to system level security of supply risks.

88. This new statutory function would include requirements for the EA to ensure the security of supply monitoring framework is reviewed and updated at least every five years. It would also be required to report annually on current and emerging risks to security of electricity supply with independent input from the Security and Reliability Council. The purpose of the report would be to provide a holistic system level overview and trend analysis of risks facing the electricity market, and to indicate whether existing market and regulatory settings are adequate to manage those risks or whether further intervention may warrant consideration.

89. This legislative change will be progressed through the Electricity Industry Amendment Bill 2026, Constitutional conventions

How will the proposal be monitored, evaluated, and reviewed?

90. The EA reports quarterly and annually to the Minister for Energy on its performance as an independent Crown entity. MBIE has a statutory role monitoring the EA and routinely advises the Minister for Energy on the EA's performance and on electricity policy outcomes as part of its regulatory stewardship responsibilities for the energy sector. MBIE's Energy Markets branch is responsible for energy policy and will play a central role in monitoring the implementation and effectiveness of the A1 measures once they come into effect.

91. Under the preferred option, monitoring and evaluation will be supported by new, ongoing information and accountability mechanisms introduced through the preferred option.

92. MBIE will use the information generated through these mechanisms, alongside its ongoing monitoring of market outcomes, to evaluate whether the changes are achieving their intended effects. In particular, MBIE will observe whether there is evidence of:

- earlier and clearer identification of emerging dry-year risk
- improved confidence in security-of-supply information among market participants and Government
- more timely regulatory and market responses to emerging risks.

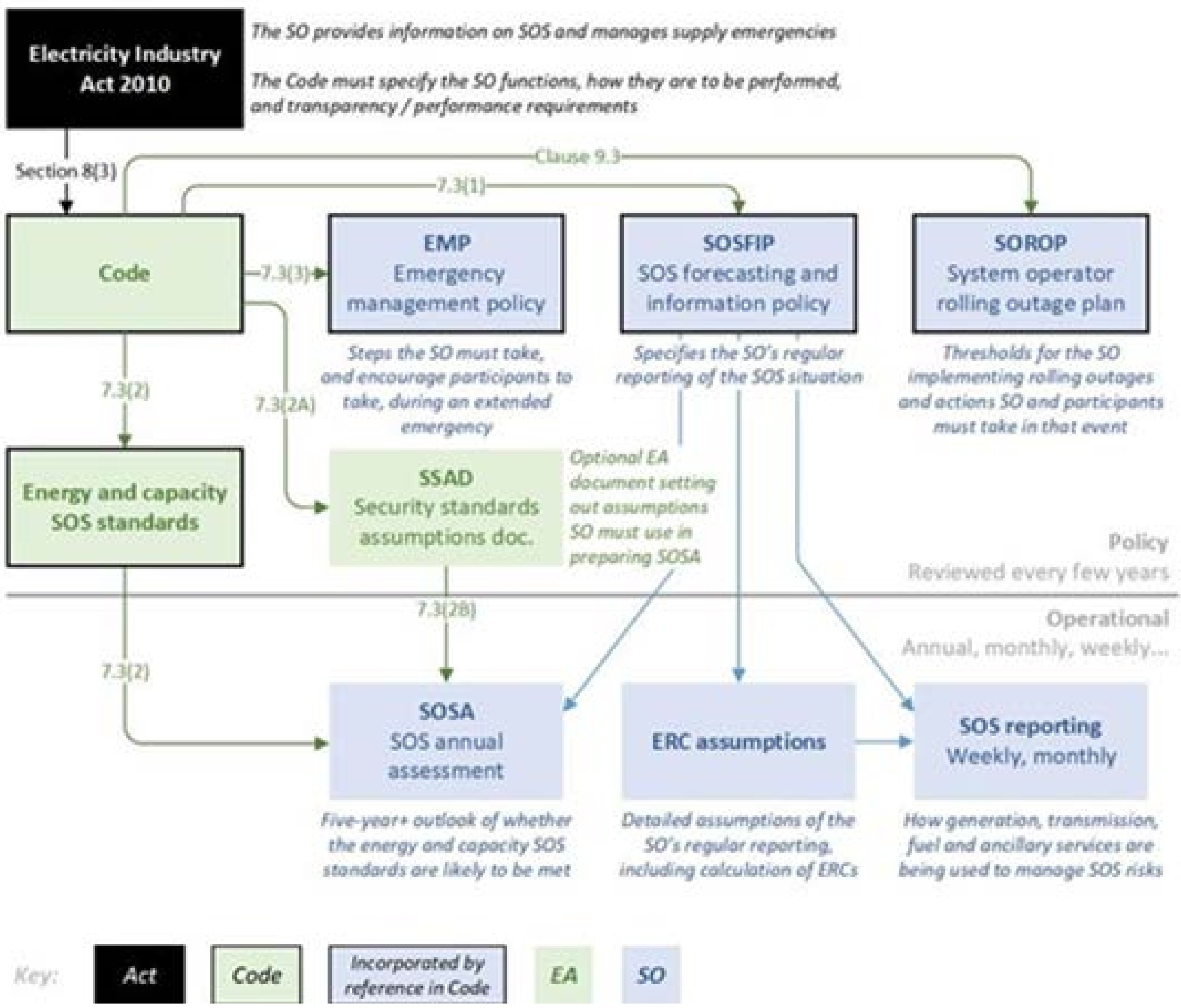
93. As part of this monitoring, MBIE will also keep under observation wholesale market indicators associated with dry-year risk, including forward price trends and the extent to which a persistent dry-year risk premium appears to be embedded in contract prices. While many factors influence electricity prices, a sustained reduction in risk premia over time would be consistent with improved confidence in dry-year risk management and information frameworks.

94. Given the long timeframes associated with investment and system change, formal quantitative evaluation of impacts is not proposed at this stage. Instead, evaluation will draw on trends in security-of-supply assessments, market behaviour, and price signals.

Annex One: Security of Supply Monitoring Framework

The Electricity Industry Act 2010 requires the System Operator to provide information, and short-to medium-term forecasting on all aspects of security of supply. The Code requires that the System Operator explain how it will do this through a Security of Supply Forecasting and Information Policy (SOSFIP). The System Operator is responsible for operating the policy and preparing changes to the policy, often in conjunction with the Authority. The Authority is responsible for the over-arching market design which the policy sits under and must approve any changes to the policy.

Figure 2: *Security of supply monitoring framework*



Roles and responsibilities

Central government

Responsible for ensuring the legislative framework is sufficiently clear and robust so that industry understands the rules, accountabilities and consequences and has confidence in the system.

This is primarily achieved through administering the Electricity Industry Act 2010 which outlines that:

- The System Operator must provide information, and short- to medium-term forecasting on all aspects of security of supply.
- The Electricity Authority must specify the functions of the System Operator and how its functions are to be performed.

Electricity Authority

An independent Crown entity, established under the Electricity Industry Act 2010, tasked with governing the electricity market as electricity sector regulator. Responsible for ensuring that the regulatory environment promotes an efficient level of reliability for electricity consumers. In particular, considers the trade-off between the cost of providing security of supply against the costs and risks associated with a loss of supply.

This is primarily achieved through administrating the Electricity Industry Participation Code which, among other things, sets out:

- The standards for energy and capacity security.
- The System Operator must publish a 'Security of Supply Forecasting and Information Policy' (SOSFIP), and what it must include.
- That it may publish a 'Security Standards Assumptions Document' (SSAD).

System Operator (Transpower)

A State-Owned Enterprise, established under the Electricity Industry Act 2010, responsible for ensuring that electricity supply and demand are in balance at all times, that the grid remains stable at all times and monitoring how much energy, or fuel, is available to the system over different time horizons to help the industry understand whether there is enough generation capacity to power the country.

Provides information and short to medium-term forecasting on all aspects of security of supply, and to manage supply emergencies. Has operational responsibility for providing information on all aspects of security of supply and for managing supply emergencies. This is primarily achieved through publishing:

- A 'Security of Supply Forecasting and Information Policy' (SOSFIP).
- An annual 'Security of Supply Assessment' (SOSA).
- A monthly update to the year-ahead 'Electricity Risk Curves'.

Security and Reliability Council

An independent advisory group, established under the Electricity Industry Act 2010. Provides independent advice to the Electricity Authority on:

- the performance of the electricity system and the System Operator
- reliability of supply issues.

Electricity generators

Responsible for managing their generation plant and fuel supply to make sure there is enough generation to meet demand.