# Reliability obligation to manage dry-year risk

## Fonterra submission

21 July 2026

Fonterra welcomes the opportunity to comment on the proposed reliability obligation to manage dry-year risk.

Fonterra is a dairy co-operative owned by around 8,000 New Zealand farming families with manufacturing sites across the country, making us New Zealand's largest exporter and a major supplier to the domestic dairy market.

With manufacturing operations spread throughout New Zealand, Fonterra is one of the largest electricity users. We rely on stable and affordable access to electricity to support our operations. This reliable and affordable access underpins New Zealand's export competitiveness.

Fonterra supports the objective of mitigating dry-year risk and we welcome efforts to improve both energy security and put downward pressure on elevated wholesale electricity prices. We also support the Government's wider package to strengthen the regulatory framework for managing dry-year risk.

Fonterra's energy strategy is focused on ensuring security of supply is maintained across our sites and driving more affordability to maintain the Co-op's international competitiveness. Alongside this, we have a comprehensive programme of decarbonisation that is continuing.

Fonterra agrees that current market settings are unlikely to ensure adequate investment in firming generation capacity and fuel supply to mitigate dry year risk in the electricity sector. There is a clear need to maintain investment in firming generation. We also agree that dry-year risk premiums are factored into electricity futures prices as a result of this.

However, we do not agree that the reliability obligation, as designed in this proposal, is likely to be most appropriate way of resolving these issues. Before any decision is made, we recommend more work is undertaken to compare the proposal against potential alternatives, such as a government-led capacity scheme.

Fonterra does not support the proposal on two substantive grounds:

1. We are concerned about the lack of analysis of alternative options to the long-term obligation as proposed. The obligation as currently drafted could add significant complexity and uncertainty and lead to inefficient outcomes which may not achieve the desired outcome of reducing wholesale electricity prices. Several alternatives to the proposal are noted in the discussion document but are not given thorough analysis, including several successful Australian schemes; and
2. We are also concerned that the long-term obligation could inadvertently capture large electricity users which purchase electricity on a retail basis. While the proposed de minimis threshold does not capture Fonterra's current load, we forecast that as our decarbonisation programme accelerates and more of our electrification projects come online, we will exceed 500GWh over the April to September period in the coming years. Any security obligation should be allocated to the electricity retailers supplying electricity rather than the retail customer themselves.

Fonterra is more comfortable with the short-term obligation, although we consider that the effectiveness of the short-term obligation is likely to be limited in the absence of an effective longer-term mechanism to ensure investment in capacity. We acknowledge the importance of ensuring the generators have sufficient fuel in

place to avoid shortfalls over winter and we welcome the opportunity for Demand Response (DR) to play a greater role in the electricity system.

Fonterra has provided more detailed responses to several consultation questions below, focused on the long-term obligation, and we welcome further engagement with officials as this policy process continues.

**PART 1**

| Consultation Questions | Responses |
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| Q1 Do you agree with the analysis in this chapter of why New Zealand does not currently have sufficient dry-year firming? If not, where do you disagree? | Fonterra agrees that there is a real risk to the electricity system associated with a dry year and that without changes to the current approach, the risk will remain high as a greater proportion of wind and solar enter the market.<br><br>The 2024 winter illustrates the problem clearly, with significantly elevated wholesale prices which ultimately forced several industrial users to permanently shut.<br><br>We agree that further changes are necessary to improve resilience, competition and put downward pressure on electricity prices.<br><br>We welcome the commentary that indicates the likelihood of changes putting downward pressure on prices, but we are concerned that there is a lack of modelling provided to confirm that. We also are concerned that some options that may be more viable have not been fully considered against the proposals. |
| Q2 What do you consider to be the principal remaining barriers to investment in additional dry-year firming following the recent reforms to improve fuel adequacy (Government procurement of an LNG importation facility)? | Investments in firming capacity are long-term in nature and dry year frequency is difficult to predict, creating uncertainty on the return of potential investments. |
| Q3 Do you agree that, despite the recent reforms to improve fuel adequacy, information, roles and tools, further measures are still needed to strengthen incentives to invest in dry-year firming? If not, please explain why not? | Yes. Fonterra agrees that further intervention is necessary, but we are not convinced that the long-term obligation proposed is necessarily the most efficient option. |
| Q4 Do you agree that there is value in building new measures on existing regulatory architecture, rather than creating an entirely new regime from first principles? Why or why not? | Wherever possible, using existing regulatory architecture is preferable. However, the case needs to be made that the measures proposed on top of that architecture will adequately address the problem definition and not make the situation worse. |

## Long-term Obligation

| Consultation questions | Responses |
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| Q5. Do you agree that a long-term obligation should be introduced to strengthen incentives to secure sufficient dependable winter cover in advance where a forecast winter energy adequacy shortfall is identified? If not, why not? | Fonterra recognises the importance of improving reliability within the electricity system. We also acknowledge the risks from a dry year in New Zealand and the importance of having structures in place to mitigate this risk.<br><br>We agree with the analysis that the current energy-only approach has failed to provide sufficient certainty to bring forward necessary investments to mitigate against a dry year. We also agree that deliberately putting in place a mechanism is preferable to emergency interventions.<br><br>But we have strong reservations regarding implementation of the proposed long-term obligation.<br><br>There is a lack of a comprehensive cost-benefit analysis. As such, there is no empirical evidence to indicate the significant compliance and investment costs likely to be associated with the obligation won't ultimately result in higher structural electricity bills for New Zealand businesses.<br><br>There is also a lack of modelling on how the obligation will affect contract market liquidity, which is a significant risk with three-year advanced obligations.<br><br>Fonterra recognises there may be potential benefits that the long-term obligation could deliver for the electricity system, but the lack of robust analysis and thorough cost-benefit assessment against viable alternatives undermines the credibility of those potential benefits. We recommend further work be completed before a decision is made to proceed. |
| Q6. Do you agree that the long-term obligation should be placed on large wholesale purchasers rather than on, say, generators or the market more broadly? If not, which parties should hold the obligation, and why? | Fonterra opposes a demand-side obligation without more robust analysis against alternative options, such as a government led capacity investment scheme, and we strongly oppose any obligation that inadvertently captures end-users of electricity, rather than electricity retailers.<br><br>The dry-year problem is a supply-side failure. Intermittent renewables are expanding while thermal generation exits and fuel availability declines. Forcing the end consumers to legally underwrite and manage the transition risk is an inefficient way to solve a generation problem.<br><br>Fonterra is concerned that viable alternative frameworks may have been overlooked or potentially prematurely discarded. The discussion document itself refers to several without substantive analysis, such as the Australian federal Capacity Investment Scheme and its replacement, and the New South Wales' Long-Term Energy Service Agreement scheme.<br><br>There are also domestic policy concepts that have previously been promoted that would be useful to compare against the proposal. For instance, if the problem is primarily the availability of firming, the Thermal Co concept may be worth revisiting.<br><br>To fairly assess the merits of the long-term obligation, a comprehensive cost benefit analysis alongside a comparative analysis of alternatives should be carried out. |

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| Q7. Do you agree that a de minimis threshold should apply to limit the obligation to wholesale purchasers with a material winter load? If so, is the 500 GWh threshold appropriate, and should it be measured by reference to aggregate load over the winter period? | The currently proposed threshold risks creating unintended economic consequences that could undermine the Government's broader objectives.<br><br>We acknowledge the rationale behind established a de minimis threshold, however, we are concerned that design of the long-term obligation fails to adequately differentiate between retailers of electricity who are actively managing price risk for a commercial customer base and industrial end-users, who consume electricity as an input for manufacturing.<br><br>As large-scale electrification accelerates to meet climate targets, productive manufacturing businesses could end up being captured under a complex and electricity-market orientated obligation that is unrelated to their core business. In circumstances where such end consumers have contracted with an electricity retailer for their energy supply, placing the security obligation on the end consumer is completely inappropriate.<br><br>Applying the obligation directly to end users would introduce substantial administrative overheads, duplicate existing market incentives, and actively penalise industrial decarbonisation.<br><br>While Fonterra's current aggregate load over the period from April to September is below the proposed de minimis threshold of 500 GWh, this will change as the Co-op's decarbonisation plans accelerate and our load over those months will exceed the proposed threshold.<br><br>Subject to our comments above regarding the proposal's design, if the security obligation were to proceed as contemplated, Fonterra recommends that the obligation be clearly imposed on electricity retailers participating in the wholesale market and not on end users who procure electricity from such retailers. |
| Q8. Do you agree with the proposed staged approach under which a warning notification would be issued five years out, a binding obligation would be issued three years out and compliance would be assessed one year out? If not, what timing or trigger approach would be preferable? | There is a lack of investment appetite in firming assets, partially driven by a lack of long-term offtake contracts, but forcing wholesale customers to purchase cover for 1 dry year at a time on 3 years notice is unlikely to solve this problem. It is more likely to incentivise short-term solutions that fail to drive the outcomes being sought, such as downward pressure on prices. |
| Q9. Do you agree that any identified adequacy shortfall should be allocated among obligated wholesale purchasers by reference to their shares of expected winter demand? If not, what allocation approach would be preferable? | Fonterra's position is that end-users should be excluded altogether. If a purchaser-focused model is maintained, the obligation should be clarified so that it expressly excludes the retail purchase of electricity for consumption.<br><br>We are concerned that spreading the obligation amongst a pool of market participants could lead to inefficient outcomes as each participant will procure firm capacity to suit only their own needs when the market requirement could be much better served by a single investment in a larger project providing more capacity (which could be delivered by a Government led capacity investment scheme).<br><br>In addition, the construct proposed would result in multiple participants competing for a limited pool of firming assets in distressed circumstances which will ultimately drive-up prices.<br><br>Exacerbating this concern is the fact that participants will only be required to procure firm capacity for a single year at a time which would be highly inefficient if market conditions required longer term capacity investment |

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| Q10. What forms of cover should be eligible to meet the long-term obligation? | To minimise long-run cost to consumers, the definition of qualifying cover should remain technology-neutral and place demand-side flexibility on an equal regulatory footing with traditional supply-side generation.<br><br>Fonterra welcomes the reference to Demand Response as one option that should be considered.<br><br>While meaningful participation in DR by Fonterra is currently constrained by the nature and design of our operations, in the future with a diversity of assets, we would seek to participate as much as possible in any market. |