21 July 2026

Electricity Markets Policy
Ministry of Business, Innovation and Employment
By email: electricitymarkets@mbie.govt.nz

Submission on the proposed reliability obligation to manage dry-year risk

Dear Electricity Markets Policy team,

Haast supports the policy objective of improving winter energy reliability, provided the obligation preserves efficient price signals, competition and the normal operation of risk-management markets. A reliability obligation should strengthen demand for forward cover ahead of dry winters. It should not equate a hedge's value with the seller's ownership of physical generation or create a compliance market that only vertically integrated participants can practically use.

Haast does not expect to be an obligated purchaser under the proposed 500 GWh threshold. Our interest is different: Haast prices, warehouses and reshapes hedge risk for retailers, generators and large users. A rule that recognises only physically backed contracts would reduce the products Haast and other intermediaries can supply and push obligated buyers back toward incumbent gentailer balance sheets.

Summary of Haast's position

- Recognise all bona fide products used to manage wholesale price risk, including contracts with financial intermediaries, and determine their compliance value from published firmness rules rather than seller identity or physical ownership.
- Measure an obligated purchaser's net qualifying position, including bought and sold contracts. Do not trace each hedge through a chain of transactions to an ultimate physical asset.
- Only if evidence shows material systemic uncovered-selling risk should MBIE consider confidential, threshold-based registration or reporting. It should apply by risk profile and must not require continuous one-for-one physical backing.

Response to questions 1-4: additional incentives and the preferred approach

Haast agrees there is a credible case for additional incentives. Winter energy adequacy is increasingly sensitive to hydro inflows, gas availability, thermal fuel cover, project delivery, demand response and less weather-correlated supply. Stronger forward signals should operate through products that participants can understand, price and trade.

A two-layer framework is a reasonable starting point. The long-term layer can create earlier procurement demand when the Security of Supply Assessment indicates a winter energy margin shortfall. The short-term layer can provide a backstop where fuel availability becomes a near-term reliability risk. Both layers should be calibrated so that they supplement price signals rather than replacing them with administrative procurement.

Response to questions 5-9: long-term wholesale-purchaser obligation

The long-term obligation should recognise how risk-management markets actually work. Retailers, generators, large users and intermediaries use baseload, peakload, super-peak, options, shaped products and bespoke OTC hedges to manage different parts of their exposure. A financial intermediary may buy one shape or tenor, sell another, net offsetting positions across counterparties and hold residual risk on its balance sheet. Its risk models, capital and wide OTC relationships allow natural buyers and sellers whose needs do not line up in time or shape to transact.

The same risk can therefore change hands several times in a well-functioning market. That turnover is not spurious and does not create several units of physical supply. It provides liquidity and lets risk reach the party best placed to hold it. Compliance should assess each obligated purchaser's net position in legally enforceable hedges for the relevant winter periods, including bought and sold positions. It should not attempt to trace every contract through a chain of transactions to a particular generator.

All bona fide wholesale price-risk products should be eligible regardless of whether the immediate seller is a generator, retailer or financial intermediary. Standard swaps and futures should receive straightforward treatment. Caps, options, shaped products and bespoke contracts should qualify to the extent that their volume, tenor, shape, strike and contractual limits provide cover for the relevant winter periods.

Generation, storage and demand response can also be recognised, but physical ownership should not be a condition for a financial hedge to count.

The Australian Retailer Reliability Obligation provides a useful comparator, although it addresses peak reliability rather than New Zealand's dry-year energy problem. The Australian framework measures a liable buyer's net contract position and recognises financial agreements entered into to manage spot-price volatility. Its current Contracts and Firmness Guidelines recognise swaps, futures, caps, options and non-standard arrangements; fixed-price swaps with fixed or shaped volumes receive a firmness factor of one, while bespoke firmness methods require independent audit. The useful design principle is to assess contract firmness and buyer net position, not seller asset ownership.

Excluding financial participants would push obligated buyers toward the largest gentailers and produce a more concentrated market with less product choice and weaker access for independent retailers and large users. New Zealand hedge-market policy has repeatedly focused on improving depth, access and price discovery, including through market-making and product-development measures. Whatever the merits of particular complaints about forward risk premia, MBIE should not respond to a hypothetical excess of uncovered speculative selling by removing potential sellers and risk-bearing capacity from the market.

MBIE may nevertheless be concerned that a participant could sell a large volume of qualifying hedges without directly or indirectly procuring offsetting physical or financial cover. The primary controls should be published firmness rules, aggregate net-position reporting, double-counting controls, prudential requirements for counterparty default risk and risk-based audit. Only if evidence shows a material systemic risk should MBIE add threshold-based registration. Any regime should apply by risk profile rather than financial or physical status and keep hedge-book, offset, capital and risk-control information confidential. It must not require every sale to be continuously matched by an identical purchase or physical asset, because that would prevent legitimate warehousing, netting and transformation of risk.

The allocation and compliance design should also avoid free-rider and cross-subsidy effects. If smaller purchasers sit below the direct threshold, the framework should still preserve their access to competitive voluntary hedging. It should not create a separate class of qualifying products available only to large obligated parties or turn the scheme into an opaque bilateral market dominated by incumbents.

Response to questions 10-15: short-term fuel-cover obligation

Haast supports a short-term backstop if it is limited to genuine reliability risk and uses objective triggers. Fuel-cover decisions affect the spot and forward prices used to value dry-year hedges. Haast therefore needs the trigger, de-rating and fuel-cover calculations early enough to price and manage contracts, not only after discretionary decisions have moved risk premia.

MBIE should ensure that hydro-risk triggers, notification periods, de-rating assumptions and fuel-cover calculations are published in a participant-usable form. Participants should be able to see when the backstop is likely to apply, what capability is being counted, how shared or constrained fuel is treated, and whether any discretion has been exercised. Opaque fuel-cover decisions would create avoidable risk premia and could advantage participants with better bilateral visibility of generation and fuel positions.

Response to questions 16-18: penalties, monitoring and implementation

Penalties should be high enough to make the obligation credible but not so high that they become a reason to over-procure illiquid or incumbent-controlled cover at any price. A per-MWh shortfall charge is a sensible mechanism if it is linked to the reliability value being protected and paired with clear compliance methodology.

Market monitoring should test one practical question: whether obligated purchasers can obtain qualifying cover from more than incumbent physical generators, across both standard and bespoke products. Aggregate volumes, prices, concentration and firmness outcomes can be published, but participant hedge-book information should remain confidential.

Requested design safeguards

1. Allow all bona fide wholesale price-risk products to qualify, including contracts with financial intermediaries, and assess compliance through each obligated purchaser's net qualifying position rather than seller identity or physical ownership.
2. Use standard firmness treatment for common products, an independently auditable pathway for bespoke contracts, and participant-usable publication of the SOSA trigger, allocation, de-rating, hydro attribution, fuel-cover and compliance methods.
3. Preserve intermediaries' ability to warehouse, net and reshape risk. If additional safeguards are required, use confidential risk-based reporting or proportionate seller registration, not continuous one-for-one backing of each hedge sale.
4. Monitor competition, liquidity, product diversity, concentration and market-power effects after implementation, including access for independent retailers and large users.
5. Calibrate penalties so they create credible compliance incentives while preserving efficient price signals and workable risk transfer.

Haast supports improving New Zealand's ability to manage dry-year risk. The final framework should deepen forward contracting while preserving the competitive markets that transfer risk to the parties best able to manage it.

Yours sincerely,

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