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21 July 2026

Electricity Markets Policy
Building, Resources and Markets
Ministry of Business, Innovation and Employment
By e-mail: electricitymarkets@mbie.govt.nz

Re: A proposed reliability obligation to manage dry-year risk – submission

Dear Electricity Markets Policy Team,

Lodestone Energy Limited (Lodestone) welcomes the opportunity to submit on MBIE's discussion document *A proposed reliability obligation to manage dry-year risk (Action 2.5 of the Government's Energy Package).* Our detailed responses to the 24 consultation questions are set out in the attached submission form. This letter provides a brief covering summary of our position.

Lodestone was founded in 2019 with the mission to harness the sun's energy to power Aotearoa's zero-carbon future. We are New Zealand's first utility-scale solar developer and an independent electricity generator-retailer, with operating solar farms at Kaitaia, Edgecumbe, Waiotahe and Whitianga, further sites under construction, and a substantial consented pipeline increasingly paired with battery energy storage. We therefore have a direct interest, as both a generator and an emerging retailer, in how the electricity market allocates the responsibility – and the opportunity – to secure New Zealand's dry-year resilience.

In summary, Lodestone supports the proposed Winter Energy Reliability Obligation. We agree that further measures are warranted to strengthen incentives to secure long-duration firm energy, and we support placing the long-term obligation on large wholesale purchasers and the short-term obligation on large generators, with obligated parties required to cover 100% of any identified shortfall.

We would welcome the opportunity to discuss any aspect of our submission further.

Regards,

Privacy of natural persons

Peter Apperley
GM Engineering and Technology

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Consultation submission form

The Ministry of Business, Innovation and Employment (MBIE) would like your feedback on:

A proposed reliability obligation to manage dry-year risk.

Please provide your feedback by **5pm, 21 July 2026**

When completing this submission form, please provide comments and supporting explanations for your reasoning where relevant. Your feedback provides valuable information and informs decisions about the proposals.

We appreciate your time and effort taken to respond to this consultation.

Instructions

To make a submission you will need to:

1. Fill out your name, email address, phone number and organisation. If you are representing an organisation, please provide a brief description of your organisation and its aims, and ensure you have the authority to represent its views.
2. Fill out your responses to the discussion document questions. Where possible, please provide us with evidence to support your views. Examples can include references to independent research or facts and figures.
3. If your submission has any confidential information:
    i. Please state this in the email accompanying your submission, and set out clearly which parts you consider should be withheld and the grounds under the Official Information Act 1982 (Official Information Act) that you believe apply. MBIE will take such declarations into account and will consult with submitters when responding to requests under the Official Information Act.
    ii. Indicate this on the front of your submission (e.g. the first page header may state "In Confidence"). Any confidential information should be clearly marked within the text of your submission (preferably as Microsoft Word comments).
    iii. Note that submissions are subject to the Official Information Act and may, therefore, be released in part or full. The Privacy Act 1993 also applies.
4. Submit your feedback:
    i. By email to *electricitymarkets@mbie.govt.nz*
    ii. By mailing your submission to:

    Electricity Markets Policy
    Building, Resources and Markets
    Ministry of Business, Innovation and Employment
    PO Box 1473, Wellington 6140
    New Zealand

Submitter information

MBIE would appreciate if you would provide some information about yourself. If you choose to provide information in the section below, it will be used to help MBIE understand how different sectors view the proposals and options for requiring and achieving minimum onshore fuel stockholding. Any information you provide will be stored securely.

Your name, email address, phone number and organisation

Name:	Peter Apperley
Email address:	Privacy of natural persons
Phone number:	
Organisation:	Lodestone Energy Limited

☐ The Privacy Act 1993 applies to submissions. Please tick the box if you do **not** wish your name or other personal information to be included in any information about submissions that MBIE may publish.

☐ MBIE may upload submissions and potentially a summary of submissions to its website, www.mbie.govt.nz. If you do **not** want your submission or a summary of your submission to be placed on either of these websites, please tick the box and type an explanation below:

I do not want my submission placed on MBIE's website because... [insert reasoning here]

Please check if your submission contains confidential information

☐ I would like my submission (or identifiable parts of my submission) to be kept confidential, and **have stated** my reasons and ground under section 9 of the Official Information Act that I believe apply, for consideration by MBIE.

Questions for the consultation

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?

☐ Yes ☒ Yes, with changes ☐ No

Please explain your views.

Lodestone considers this proposal positive for the New Zealand electricity market and for Lodestone as a new entrant renewable generator that is also entering mass market retail.

We agree that the energy-only market has not reliably delivered enough long-duration firm energy, and the combination of declining gas supply and retiring thermal plant has coincided with a rapidly-growing share of weather-dependent renewables. The failure to adequately invest in firming capacity has, therefore, increased exposure to dry-year risk. We agree that firming assets that run infrequently require long-dated contractual support that buyers have so far been reluctant to provide.

We fundamentally disagree with the framing of the suggestion that renewables are the source of the problem. The issue is not that more wind and solar have been built – that is the market working extremely well and responding to price signals. Rather, the problem is that insufficient firming and long-duration storage has been built alongside them.

While Lodestone is solutions-focused, we do note that the products and physical resources required to provide dry-year cover are, and historically have been, concentrated amongst the vertically integrated gentailers. The firm fuel positions (gas and coal) and flexible plant that can provide these services reflect long-held, historical positions that smaller, independent, and newer participants have had no ability to acquire.

In this context, we generally support the steps outlined in the proposal.

Lodestone is New Zealand's first utility-scale solar developer, with four operating solar farms at Kaitaia, Edgecumbe, Waiotahe and Whitianga; two sites (Clandeboye and Ongaonga Rd) under construction and a substantial consented pipeline, designed to be paired with battery energy storage. Lodestone recently received draft consent under the Fast Track consenting panel for a 200 megawatt solar farm at Haldon Station in the Mackenzie Basin.

Solar with battery storage is a material part of the firming solution, not a cause of the shortfall.

The analysis should explicitly recognise that the cheapest path to dry-year resilience increasingly includes distributed renewables firmed by storage and demand response. The regulatory framework should actively enable and encourage independent participants to contribute that firming rather than entrench reliance on legacy thermal plant held by the incumbents.

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)?

Please explain your views.

In Lodestone's experience, the principal barriers to investment in additional dry-year firming, beyond adequate access to fuel are:

1. **Concentrated control of the products and resources required to provide cover**. The products that satisfy a reliability obligation – firm fuel (gas and coal) positions and flexible, dispatchable plant – are, in practice, only readily available to participants who have held those positions over a long period.

Smaller and independent participants, who have never had access to historical fuel contracts or legacy flexible plant, cannot secure these products on equivalent terms. This is a historical structural barrier, not a function of the efficiency or merit of independent firming projects.

2. **Revenue certainty and the tenor gap**. New firming – including grid-scale and co-located battery storage – requires bankable long-term revenue streams. We agree with the discussion document that PPAs of at least 10 years (and often 15–25 years for security-of-supply assets) are needed for bankability, yet counterparties willing to contract for that tenor are limited and dominated by the gentailers.

3. **The incumbents' long-standing revenue position**. The major gentailers have, over many years, benefited from a market in which carbon costs are reflected in the wholesale price, regardless of the volume of thermal generation produced. This price support should, over time, have generated sufficient revenue to fund continued investment in the firm fuel and flexible plant the system now needs, but it has not.

The persistence of the firming shortfall – and the level of thermal capacity available to the market over time – clearly demonstrates that elevated wholesale revenues have not consistently been reinvested in dry-year cover. This reinforces the case for an obligation that requires the parties best placed to invest to do so, while ensuring the resulting cover is made available to the wider market on fair terms.

4. **Concentrated access to firming and contract markets**. This is a material issue that must be addressed and Lodestone has welcomed the EA's clear focus on ensuring more transparent, accessible and liquid firming markets. Lodestone has strongly supported market improvements through the requirement for Non Disclosure Obligations (NDOs) for the major gentailers, and new Retail Price Consistency Assessments (RPCAs) as part of the EA / Commerce Commission Competition Taskforce's Level Playing Field work.

Scrutiny of the success of these new measures must be robust to determine whether they regime is adequate in practice. If not, additional measures will be urgently required to deliver the stated objectives.

5. **Transmission and connection costs are deterring investment**. Unpredictable Transmission Pricing Methodology (TPM) allocations – including benefit-based charges that can swing materially year to year for embedded generators in remote networks – add unquantifiable cost risk to firming investment cases and disproportionately affect distribution-connected and co-located assets.

Lodestone has experienced annual increases in transmission charges of 37% and 20% respectively on a single site from movements in simple benefit-based investments and 15-20% increases of transmission charges on other sites. This inability to accurately forecast and budget for material costs is a significant issue that undermines the ability to plan appropriately and provide certainty in business case development.

6. **The Huntly dampening effect**. The continued availability of the Huntly Rankine units (now underpinned by the Strategic Energy Reserve and the HFO) may provide short- to medium-term relief for the market, but it also suppresses the commercial case for new replacement firming, including storage. This 'catch-22' further reinforces that the targeting of the obligation must fall on those established participants that have created this context. Any new obligation must be designed so it does not further entrench this position.

7. **Regulatory and compliance burden**. The cumulative weight of obligations across CACTIS, wholesale market rules, ancillary obligations and now a reliability obligation falls disproportionately on smaller and distribution-connected participants with limited resources and is itself a barrier to entry and expansion.

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, I agree ☒ I agree in part ☐ No, I don't agree

Please explain your views.

We agree that further measures are warranted, and we regard the Winter Energy Reliability Obligation as a positive step.

The reliability obligation will likely support security of supply, but will not, by itself, deliver the competition and affordability benefits the document suggests – deeper, liquid hedge markets; more effective competition; and downward pressure on retail prices. Those benefits depend on the level-playing-field measures that sit alongside this obligation being effective, including the introduction of NDOs, supported by RCPAs; and the introduction of a super peak hedge product.

Taken together, measures comprising the EA / Commerce Commission's level-playing-field regime is strongly supported by Lodestone, but its efficacy remains untested.

We develop these points further in responses to Q5, Q6 and Q14. The case for the obligation should also be weighed against measures already underway (LNG procurement, the Huntly Strategic Energy Reserve, SOSA improvements, stress testing, market-making and new standardised products), to ensure it adds proportionate value rather than layering cost and complexity.

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?

☒ Yes, I agree ☐ No, I don't agree

Please explain your views.

Building on existing regulatory architecture (particularly the SOSA, the New Zealand Winter Energy Margin, the Electricity Risk Curves and the Code) is preferable to designing a wholly new regime from first principles. There is insufficient time and / or appetite for a complete redesign and to attempt to do so would run the risk of damaging investor confidence at precisely the wrong time.

We support leveraging and developing existing frameworks that participants already understand, reducing implementation costs, and improving transparency and predictability.

However, where existing regulatory mechanisms are opaque or unpredictable – the TPM benefit-based charge methodology being the most obvious example – building further obligations on top risks compounding existing distortions. The regime should therefore be accompanied by a commitment to improve the transparency and predictability of the underlying frameworks on which it depends.

Long-term Obligation

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?

☒ Yes, I agree ☐ No, I don't agree

Please explain your views.

Yes. The proposed obligation targets the tenor gap and revenue-certainty problem that the market has not solved on its own. The proposal is positive for the market and for independent generators and retailers.

However, the obligation will only deliver its intended competition and affordability benefits if it operates alongside effective level-playing-field measures. An unintended outcome that must be avoided is inadvertently reinforcing the power of incumbent gentailers. For example, if obligated parties were able to discharge the reliability obligation exclusively through their own legacy portfolios, the regime would improve security but entrench incumbency – an outcome that would fail to unlock the new, independently-developed firming (including solar-plus-storage, grid-scale batteries and demand response) that the proposal is designed to encourage.

Security of supply and long-term competition and innovation are all achievable, but only if the reliability obligation and the level-playing-field obligations are implemented effectively together.

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?

☒ Yes, I agree ☐ No, I don't agree

Please explain your views.

Lodestone agrees that the long-term obligation is better placed on large wholesale purchasers than on generators or the market more broadly.

Placing the obligation on load aligns responsibility with the parties procuring cover for consumers. A purchaser-facing model better preserves technology and resource neutrality, which is important for enabling solar-plus-storage and demand response to compete to provide cover.

However, the effectiveness of a purchaser-facing model depends on obligated purchasers contracting with third-party providers of firming. Because the obligated cohort (the four gentailers plus NZAS) are themselves the parties that own most existing firming, flexible plant and firm fuel positions, there is a real risk they discharge the obligation through internal portfolio cover with little or no new contracting with independent providers. The regime therefore needs to operate alongside, and draw on, the level-playing-field measures the Authority has now put in place.

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?

☒ Yes, I agree ☐ I agree in part ☐ No, I don't agree

Please explain your views.

Yes, this is consistent with the principles of materiality and proportionality: obligations should fall on participants whose actions can materially affect system reliability – and which have contributed to the development of the problem over time - and should not impose disproportionate or additional compliance costs on smaller participants or create barriers to entry and expansion. To do so would be counter to the objectives of the proposal.

Capturing the four large gentailers and NZAS at a 500GWh winter-load threshold is a reasonable starting point. Measuring by aggregate load over the winter period (1 April – 30 September) is appropriate because the policy / security concern is winter energy adequacy rather than annual consumption or instantaneous peak.

We support the intention to prevent artificial fragmentation of load to avoid liability, and to assess the threshold by reference to a party's aggregate winter load rather than individual sites or contracts.

We caution against setting the threshold so low in future that it sweeps in independent generator-retailers and emerging participants whose inclusion would add disproportionate compliance burden without materially improving reliability – the cumulative regulatory burden on smaller and distribution-connected participants is already significant and, again, this would be an outcome in direct contradiction to the objectives.

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?

☐ Yes, I agree ☒ I agree in part ☐ No, I don't agree

Please explain your views.

The staged approach is a sensible way to balance forecast uncertainty against the lead time participants need to respond. The longer notice period is particularly important for new-build firming such as grid-scale batteries and solar-plus-storage, which require time for consenting, connection, procurement and financing.

Our partial agreement reflects two concerns:

- First, three years' notice of a binding obligation is at the short end of what is required to bring forward genuinely new firming as opposed to contracting existing plant. This risks biasing compliance towards incumbent resources that already exist (principally Huntly) rather than new independent investment. MBIE should consider whether the binding trigger should be earlier, or whether qualifying cover that is contracted earlier in the warning window should receive recognition in order to give new entrants a genuine opportunity to compete.
- Second, the document flags the difficulty of how the stages interact if the outlook changes materially between warning, obligation and assessment. The regime needs clear, predictable rules for revising obligations that avoid exposing participants to compliance costs driven by volatility rather than genuine structural change.

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?

☒ Yes, I agree ☐ I agree in part ☐ No, I don't agree ☐ Not sure/no preference

Please explain your views.

Allocating a shortfall among obligated purchasers in proportion to their share of expected winter demand is a straightforward and equitable approach that aligns responsibility with the scale of each party's load. This is likely the simplest workable method.

We specifically endorse the proposal that the obligated cohort must secure cover for 100% of the identified shortfall, rather than only the proportion of total winter demand that the obligated parties represent. This is an important design foundation and it is the correct approach.

By virtue of their scale, historical firm fuel positions and flexible plant, it is appropriate that the large encumbents carry full responsibility for closing the dry year cover shortfall. Any regime design that left part of the shortfall unaddressed would defeat the purpose of the obligation and leave consumers exposed.

Q10. What forms of cover should be eligible to meet the long-term obligation?

Please explain your views.

Lodestone strongly supports a technology- and resource-neutral definition of 'qualifying cover', focused on the outcome (a credible, verifiable improvement in the system's ability to maintain supply across winter) rather than on prescribing particular technologies or commercial forms.

Without 'picking winners' qualifying cover should expressly include:

- Battery energy storage systems (grid-scale and co-located solar-plus-BESS), recognised on a transparent, evidence-based de-rating or duration-adjusted basis that reflects their genuine contribution to winter energy adequacy over the relevant duration;
- Contracted demand response;
- Generation under firm contract (including PPAs with independent renewable and storage developers);
- Existing generation plant; and
- Other dependable arrangements that can be verified.

It is essential that the eligibility rules do not in any way advantage legacy thermal fuel cover over new forms of storage and renewables-plus-storage. As technology matures, long-duration and aggregated storage will provide an increasing share of dependable cover, and the regime should be explicitly designed to accommodate and encourage this rather than lock in a thermal-centric definition of 'firm.'

We also note this question is connected to the Electricity Authority's parallel work on BESS and hybrid solar-plus-BESS arrangements. The definitions of 'firm' cover must be consistent across all workstreams.

Q11. How should the compliance framework be designed? In particular, what evidential standard should apply, and how should the regime address more difficult issues such as hydro treatment, attribution, portfolio treatment, shared arrangements and double counting?

Please explain your views.

The compliance framework should be designed around three principles: transparency, contestability, and the encouragement of genuine third-party contracting.

Evidential standard. The standard should be clear and predictable so that participants can plan and finance against it. For a purchaser relying on its own portfolio, the test should be whether the relevant generation or storage can properly be treated as qualifying cover for the period.

For a purchaser relying on contracts, the test should be whether it holds a sufficiently clear and enforceable entitlement to the cover. We agree that the Authority need not conduct a full operational assessment of every underlying asset, but the framework must avoid an outcome in which obligated gentailers simply assert internal portfolio cover that no independent party could have competed to provide.

Additionality and double counting. The framework must test that cover is real, additional and not double-counted across obligations (including across the Authority's separate BESS, ancillary and wholesale obligations, as well as the Huntly Strategic Energy Reserve). Cover already committed elsewhere must not be counted twice.

Hydro treatment. Hydro storage that is itself the source of dry-year risk should not be treated as firm cover without appropriate scrutiny, consistent with the treatment proposed for the short-term obligation. Lodestone has a clear preference that requests to access an additional five metres of contingent water storage at Lake Pukaki should be limited to the provision of this kind of dry year cover, rather than operational capacity.

Portfolio and shared arrangements. Where cover is provided through contracts with third parties (including independent solar-plus-storage developers), the framework should positively recognise such contracting and not make third-party cover harder to qualify than for self-supply.

Where a purchaser relies on third-party contracts, the Authority's Non-Discrimination Obligations (NDOs) monitoring data – including Retail Price Consistency Assessment (RPCA) disclosures, non-discrimination policies and audit reports – is a natural, already-collected evidentiary source for testing whether cover has genuinely been secured on competitive terms, and MBIE should draw on it rather than build a parallel disclosure regime.

This is the single most important design lever for ensuring the regime broadens access to firming rather than entrenching incumbency.

Q12. Should the regime deal with arrangements that appear compliant in advance but later fail because of counterparty failure, project delay, force majeure or similar events? If so, how?

☒ Yes, I agree ☐ I agree in part ☐ No, I don't agree ☐ Not sure/no preference

Please explain your views.

Yes. The regime should make limited allowance for genuinely exceptional events – force majeure, counterparty failure or project delay that could not reasonably have been prevented or mitigated by a prudent participant. A penalty framework that took no account of such cases would be unduly harsh and would over-price ordinary risk into contracts, ultimately to the detriment of consumers.

However any such allowance must be very tightly monitored and administered. It should be confined to genuinely exceptional events and must not extend to ordinary

commercial risks that participants should manage through prudent contracting, portfolio design and contingency planning.

We agree that the distinction should turn on what a prudent participant could reasonably have anticipated and managed. For independent providers entering long-dated firming contracts, clear and predictable treatment of these cases is important to bankability.

Q13. Should penalties for non-compliance be designed and calibrated to tilt investments to comply without overly encouraging inefficient over-procurement? Please explain your reasoning.

☒ Yes, I agree ☐ I agree in part ☐ No, I don't agree ☐ Not sure/no preference

Please explain your views.

Lodestone agrees that penalties should be calibrated to tilt investment decisions. Penalties need to be material enough to move borderline firming investments toward financial close, without being so high as to drive inefficient over-procurement or simply to be passed through to consumers as a higher cost of doing business.

We support the 'preferred' middle option in Table 3 as the right solution.

A dollar-per-MWh shortfall charge for the unmet portion of an allocated obligation is a reasonable and transparent starting point because it ties the penalty to the scale of the failure. Two points are important here:

- The penalty must be set so that contracting with independent third-party firming (including storage and solar-plus-BESS) is a genuinely economic alternative to non-compliance – the 'avoided penalty' should be capable of underwriting new independent investment, not merely incumbent self-supply.
- Penalty calibration interacts with the Huntly dampening effect: if compliance can always be achieved cheaply through existing thermal arrangements, the penalty will not tilt investment toward new firming at all. MBIE should model penalty levels against the cost of new firming, including storage, rather than only against the cost of retaining existing plant.

Q14. What other design features, transitional arrangements, or implementation issues should be considered to ensure that the long-term obligation is workable, proportionate, cost-effective, and beneficial for consumers?

Please explain your views.

Lodestone highlights the following additional design and implementation considerations, the first of which we regard as essential to the regime delivering its stated benefits:

1. Level-playing-field measures are a precondition for the competition and price benefits, and their vigorous enforcement now matters more than their introduction. The Winter Energy Reliability Obligation will support security of supply, but it will only support long-term competition and drive down retail prices if it operates alongside effective level-playing-field measures. Several of these are now decided including:

a. **the Electricity Authority's Non-Discrimination Obligations (NDOs),** in force from 1 July 2026, requiring non-discriminatory supply of risk management contracts – including firming products sold to match a PPA – with compliance demonstrated through the Retail Price Consistency Assessment (RPCA), which

has replaced Internal Transfer Price reporting (removed from the Code as not useful in practice);

b. **mandatory market-making obligations**, which already require gentailers to bid and offer hedge products on the ASX, including through the standardised super-peak hedge product.
c. **Lodestone's consistent position** – across our submissions on the Authority's Level Playing Field consultation and the Commerce Commission's Huntly authorisation – has been to support these measures while pressing for a more prescriptive approach and vigorous ongoing monitoring. Because the NDO regime is new and untested (the first RPCA disclosures are due in September 2026), MBIE should not assume the level playing field is already secured.

We recommend this obligation's compliance and monitoring framework be explicitly coordinated with the Authority's NDO and market-making monitoring, so that MBIE and the Authority can jointly assess whether obligated parties are securing dry-year cover through genuine, competitive third-party contracting, rather than simply through their own legacy portfolios.

2. **Integration with BESS and hybrid workstreams**. This obligation, the Authority's quality and wholesale arrangements for BESS and BESS-hybrid stations, and the forthcoming hybrid solar-plus-BESS consultation must be designed coherently and in an integrated way. Inconsistent definitions of 'firm' or 'qualifying' cover across these workstreams would create compliance uncertainty, undervalue storage and potentially confuse and discourage investors.

3. **Transmission and connection cost predictability**. New firming investment is materially deterred by vague, unpredictable and volatile TPM benefit-based charges and connection costs, which fall disproportionately on distribution-connected and co-located assets. Improving the transparency and predictability of these costs would do much to make qualifying cover much more investable. This is an important issues for the market that needs to be urgently solved.

4. **Proportionality and cumulative burden**. The cumulative compliance burden across CACTIS, wholesale market rules, ancillary obligations and this regime should be monitored, with explicit attention to proportionality for smaller and distribution-connected participants.

Short-term Obligation

Q15. Do you support the introduction of a short-term obligation as a targeted backstop where a near-term winter reliability risk emerges despite the operation of the long-term obligation?

☒ Yes, I agree ☐ No, I don't agree

Please explain your views.

Lodestone supports a short-term, in-year backstop to address residual dry-year risk that emerges close to winter, despite the operation of the long-term obligation.

This two stage approach is logical and complementary: the long-term approach addresses investment and contracting ahead of time, while the short-term approach addresses near-term operational fuel availability. The events of winter 2024, when

gas-fired plant could not run at the level required, demonstrate the value of a near-term firm-fuel backstop.

As with the long-term obligation, our support is conditional on the regime remaining technology- and fuel-neutral, so that storage, demand response and diverse renewable portfolios can contribute on an equal basis to the backstop rather than the mechanism defaulting to thermal fuel alone.

Q16. Do you agree that the short-term obligation should apply to large generators whose contribution to annual energy supply exceeds a defined *de minimis* threshold? We welcome views on whether 2,500GWh of expected annual generation is the appropriate threshold.

☐ Yes, I agree ☒ I agree in part ☐ No, I don't agree

Please explain your views.

Lodestone agrees that the short-term obligation should apply only to large generators whose contribution to supply is material enough to affect near-term outcomes, consistent with materiality and proportionality.

Confining the obligation to the four large gentailers via a 2,500GWh annual-generation threshold is a reasonable starting point and appropriately excludes participants of Lodestone's current scale, for whom inclusion would be inequitable and would add disproportionate compliance cost without materially improving winter reliability.

This partial support reflects a forward-looking concern about threshold design. As independent generators (including solar-plus-storage portfolios) grow, the threshold should continue to be set by reference to genuine ability to influence near-term winter supply, and should not capture intermittent renewable generators whose output cannot reasonably be treated as firm fuel cover.

A purely volume-based annual-generation threshold could, over time, sweep in large but intermittent renewable portfolios that are poorly suited to a firm-fuel obligation. We encourage MBIE to define the threshold so that it tracks the capacity to provide firm winter supply rather than total energy volume alone.

Q17. Do you consider the proposed trigger – projected hydro storage crossing the Watch Curve within 90 days if it declines at an assumed rate of 18GWh/day – is appropriate? If not, what alternative trigger should be considered?

☐ Yes, I agree ☒ I agree in part ☐ No, I don't agree

Please explain your views.

Lodestone does not want to try and second-guess the System Operator's hydrological calibration. We accept that the 18GWh/day decline assumption and the 90-day Watch Curve crossing appear, on the evidence presented (including the retrospective application to 2020–2025), to provide a reasonable fit that captures genuinely concerning years without over-triggering.

We agree in part rather than fully for two reasons.

- First, the trigger relies on a single national storage trajectory, whereas dry-year risk and the firmness of particular resources are regional; the detailed design should consider how regional storage conditions are accounted for, as the document acknowledges in the context of hydro firmness.

- Second, the trigger should be kept under review as the generation mix evolves and as storage and demand response play a larger role, so that it continues to reflect genuine residual risk rather than historical hydro-thermal patterns. We support periodic review of the trigger methodology as experience with the contracted and physical Electricity Risk Curves is gained.

Q18. Do you agree with the proposed monitoring period, notification process, three-week response window, and approach to switching off the obligation if conditions improve? If not, what alternative process would be preferable?

☒ Yes, I agree ☐ No, I don't agree

Please explain your views.

The proposed monitoring window (January to end of June), the staged notification process, the three-week verification period, the four-week response period, and the mechanism for switching the obligation off if conditions improve are a reasonable and proportionate operational design.

The verification period allows information and assumptions to be checked before a binding obligation crystallises, and the 'switch-off' mechanism avoids requiring costly action once a risk has declined.

Q19. Do you agree that each obligated generator's obligation should be determined by reference to the winter load its portfolio is expected to support, including its own retail load and relevant contractual commitments? If not, what alternative basis should be used?

☒ Yes, I agree ☐ I agree in part ☐ No, I don't agree

Please explain your views.

Yes. Determining each obligated generator's short-term obligation by reference to the winter load its portfolio is expected to support – including its own retail load and contractual commitments to others (including independent retailers) – is sensible. It correctly focuses on the load a generator stands behind rather than nameplate capacity.

However, where a gentailer has sold firming or hedge cover to an independent retailer, the obligation should correctly attach to the party that has committed to supply that load, and the framework should ensure independent retailers buying such cover are not themselves disadvantaged or double-counted.

The treatment of contractual commitments to third parties should support, not deter, the willingness of gentailers to contract firming to independents.

Q20. What forms of firm energy fuel cover should qualify under the short-term obligation? In particular, how should hydro be treated, including whether, and in what circumstances, existing stored water should be capable of counting toward compliance?

Please explain your views.

Qualifying firm fuel cover under the short-term obligation should remain technology- and fuel-neutral and should focus on genuine deliverability. It should include:

- secured fuel for thermal plant (coal or LNG or domestic gas actually ordered and deliverable in time);
- activated or ready-state demand response;
- battery storage that is connected, charged or chargeable and contracted; and
- diverse renewable portfolios to the extent a defensible, de-rated contribution can be demonstrated.

The common and relatively simple test should be whether the resource can credibly deliver when the system needs it – not merely whether plant or a contract exists in the abstract.

On hydro, Lodestone supports cautious treatment. Because the obligation is triggered by projected hydro storage decline, existing stored water should generally not be treated as firm cover in the same way as secured thermal fuel or contracted storage.

The desired market structure is one in which greater solar and wind penetration directly enables higher hydro storage levels in key catchments.

Generators must not be permitted to assume optimistic hydrological outcomes. Hydro should count toward compliance only to the extent a defensible volume can be shown to be genuinely available given the expected rate of decline and the position of the relevant catchment, assessed consistently with the same scrutiny as applied to thermal fuel. We support the objective that the obligation ensures sufficient alternative cover so that rational hydro conservation can occur without compromising security of supply.

Q21. How should compliance be assessed? We welcome views on what evidence should be required, and how the Authority should approach questions of firmness, attribution, double counting, and reliance on third-party arrangements (including examples of how these matters are addressed in other jurisdictions).

Please explain your views.

Compliance should be assessed against the quantity and the firmness of the cover claimed. For self-supplied cover, the Authority should assess whether thermal plant has secured deliverable fuel, whether storage is connected and available, whether demand response is in a state of readiness, and what contribution a diverse renewable portfolio can reasonably be credited with delivering.

For third-party cover, Lodestone agrees that the Authority should generally be able to rely on a sufficiently robust contractual arrangement – including warranties, undertakings, status-updates and confirmation rights, and an indemnity allowing the obligated party to recover any penalty in the event of counterparty non-performance – rather than conducting a full audit of every underlying asset.

A strong indemnity creates a powerful incentive on the counterparty to perform and is a proportionate way to manage attribution and reliance on third parties. This contract-centric approach also lowers the barrier to independent providers offering cover, since it gives obligated parties confidence to contract externally.

The framework must guard against double counting across this obligation, the long-term obligation, the Authority's BESS and ancillary obligations, and the Huntly Strategic Energy Reserve.

We support MBIE drawing on international experience (for example the operation of the Australian Retailer Reliability Obligation) in designing the evidential and firmness

tests, while also recognising that the New Zealand energy-adequacy problem differs from the capacity-adequacy focus of those schemes.

Q22. How should the regime deal with arrangements that appear compliant in advance but fail in practice because of upstream supply failure, transport disruption, force majeure, counterparty failure, or similar events?

Please explain your views.

As per the response to Q12, the short-term regime should make a narrow allowance for genuinely exceptional events – upstream supply failure, transport disruption, force majeure or counterparty failure that a prudent participant could not reasonably have prevented or mitigated.

Because the short-term obligation operates in a period of already acute risk, the bar for such an allowance should be higher than for the long-term obligation: generators are expected to move quickly, build in contingency and manage ordinary near-term commercial and operational risk.

The most effective and proportionate mechanism for managing these risks is contractual risk allocation, including indemnities that allow the obligated party to recover penalties from a non-performing counterparty. This aligns incentives, keeps the Authority's inquiry proportionate, and ensures that the cost of genuinely exceptional failures falls where it is best managed rather than being priced indiscriminately into consumer bills.

Q23. How should penalties for non-compliance be designed and calibrated so that they provide a credible incentive to secure genuine firm fuel cover without encouraging inefficient or disproportionate responses?

Please explain your views.

Given the role of affordable, secure energy to the economy, penalties for non-compliance need to be material enough to drive meaningful behaviour change. Penalties under the short-term obligation should be credible enough to change behaviour rather than be absorbed as a cost of doing business, but not so high as to drive disproportionate, last-minute responses that increases costs to consumers. A shortfall charge calculated by reference to the unmet quantity of qualifying cover is a transparent and proportionate form, tying the penalty to the scale of the failure.

Given the short response window, calibration should reflect the realistic cost of securing genuine near-term cover (fuel, demand response or available storage), so that a generator that has acted prudently but cannot fully close a residual gap is not penalised as if it had simply failed to act. The framework should clearly distinguish the clear case of non-compliance (reaching the end of the response period without sufficient cover) from cases where a generator has overstated the firmness of an arrangement, and should reserve the highest penalties for the latter kind of conduct.

Q24. What other design features, transitional arrangements, or implementation issues should be considered to ensure that the short-term obligation is workable, proportionate, cost-effective, and beneficial for consumers?

Please explain your views.

Lodestone highlights the following for the short-term obligation, several of which mirror our response to Q14:

1. **Fuel- and technology-neutrality.** The obligation must not default to thermal fuel. Storage and demand response that can respond within the seven-week window should be fully recognised – and indeed encouraged – as qualifying cover.

2. **Integration and consistency with LNG, the Huntly Strategic Energy Reserve, and the Authority's BESS workstreams.** The obligation must complement but not duplicate the Huntly arrangement or LNG procurement, and the same discipline should apply to the Authority's BESS, ancillary and hybrid workstreams to avoid double counting and inconsistent definitions.

3. **Proportionality and cumulative burden.** The combined weight of in-year disclosure, verification and compliance obligations should remain proportionate, and confined to participants who can genuinely influence near-term winter supply.

4. **Transitional clarity.** Clear transitional and grandfathering provisions should be provided for existing assets and committed projects, consistent with the position Lodestone has advanced in the CACTIS consultation.

5. **Review and learning.** The trigger, thresholds and qualifying-cover definitions should be reviewed periodically – and regularly – as the generation and storage mix evolves and as experience is gained with the contracted and physical Electricity Risk Curves, so the regime continues to reflect genuine residual risk.