21 July 2026

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

Via email: *electricitymarkets@mbie.govt.nz*

NZ Steel submission on proposed winter energy reliability obligation to manage dry year risk

Thank you for the opportunity to submit on the proposed winter energy reliability obligation to manage dry year risk. Set out below is a summary of NZ Steel's submissions, which are further reflected in the enclosed consultation submission form.

NZ Steel supports in principle short and long-term initiatives to ensure appropriate investment in firming capacity and fuel storage to manage dry year risk. Our feedback centres around the reliability obligation solution as currently proposed in the consultation document as it relates to large industrial wholesale purchasers. It serves primarily as a warning against unintentionally increasing the risk of deindustrialisation in New Zealand, and disincentivising investments in electrification, decarbonisation and economic growth projects.

The feedback is based on the following key points:

1. In principle, we do not consider that large industrial purchasers should be potentially subject to the long-term obligation. Many industrial purchasers do not have the ability to pass through this cost to their products and will therefore have to absorb it. Imposing the obligation on industrial purchasers as well as Gentailers (as purchasers) is therefore an imbalanced approach, a negative impact to economic growth, further degrades industry competitiveness with other jurisdictions and is not conducive to retention of the industrial base (and therefore base demand). Potential reduction in the industrial demand base is a disincentive to building more generation capacity (firming and renewable) and is inconsistent with avoiding deindustrialisation.

2. There have been several recent examples of major industrial purchasers contracting supply for a significant term. An industrial that purchases under a fixed-price, firm-volume contract, potentially including a demand response mechanism, has already transferred dry-year risk to its supplier and paid for that transfer and/or self-insured. Imposing a parallel obligation on that industrial would charge for the same insurance twice. Additional obligations over and above the contractual responses are unjustifiable in this context.

3. The effect of a *de minimis* threshold to determine obligated purchasers for the long-term obligation risks disincentivising electrification. If an industrial entity is under the threshold and is considering a capital investment to electrify a process that will take their demand over the

threshold, then the threshold will be a further barrier to that investment case. The risk of this proposal is a negative impact on electrification, decarbonisation and economic growth.

4. The proposed *de minimis* threshold of 500 GWh for the long-term obligation would leave New Zealand exposed to these risks. The threshold is low enough that there are entities that are close to the threshold, thereby disincentivising investment in electrification, decarbonisation and business growth. NZ Steel is an entity that this threshold will capture, depending on calculation approach, or could potentially capture in the future, acting as a barrier to a business case for further investment in electrification at the steelworks. If large industrial purchasers are included in an obligation and a *de minimis* threshold is considered necessary, that threshold should be set to at least 2,000 GWh. NZ Steel would also welcome further consultation and clarity around how aggregate load would be calculated.

5. Should any obligation capture a large industrial purchaser, where an industrial's winter load for the period in question is covered by firm supply arrangements or by contracted demand response, that load should be netted out of the industrial's obligation.

6. To ensure investor certainty, the reliability obligations and any threshold should also be accompanied by clear parameters for how they might be reviewed and potentially revised in future. This is an area NZ Steel would welcome further consultation on.

Yours sincerely

Privacy of natural persons

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:	Privacy of natural persons
Email address:	
Phone number:	
Organisation:	New Zealand Steel. New Zealand Steel operates the Glenbrook steelworks, one of the country's largest single-site electricity consumers as well as other sites with large industrial load.

☒ 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.

We agree that New Zealand does not currently have sufficient firming capacity but the analysis presented as to why seems incomplete. The causes identified in the paper are all valid and importantly, the analysis acknowledges that "New Zealand's PPA market is *"relatively shallow"* and is *"currently led by members of the Major Energy Users Group (MEUG) and large multinational data centres such Amazon and Microsoft)."* The analysis could also acknowledge that the dry-year premium already embedded in industrial contract prices and futures has been paid to generators and is itself suppressing electrification and industrial demand and investment. This is relevant to the question of who a long-term obligation should be placed upon (Q6).

There are other causes that arguably have had impact in the lack of sufficient firming capacity. These could include:

1. Political and social uncertainty surrounding build of new thermal plant.
2. Demand uncertainty caused by the well publicised aluminium smelter contract situation.
3. The removal of the Regional Coincident Peak Demand signal that previously flattened the demand peaks, thus impacting the winter energy margins. Since this removal, peak demand has increased and subsequently the firming requirement.
4. Net Zero banking philosophies could also be a factor in the cost of debt financing of thermal firming capacity.

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.

Points made in Q3 apply here.

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.

More firming generation capacity and fuel is clearly needed. It is unclear whether additional incentives are necessary to achieve this but good outcomes will likely require the following conditions regardless of any reliability obligation regime:

1. Broad political acceptance that thermal generation is necessary, at least until sufficient renewable buildout supported by additional geothermal capacity is achieved;
2. Regulatory assistance for new firming capacity (e.g. fast-track mechanism) rather than barriers (e.g. RMA) and;
3. Social license for firming thermal plant for the transition period

If any obligation does proceed, it should be designed so that it can be scaled back and/or removed if the market response changes conditions so that it is no longer necessary.

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.

If any measures are deemed necessary, we would agree there is value on using existing regulatory architecture, especially in that time is a key factor. The SOSA, the NZ-WEM and the Electricity Risk Curve framework are generally understood by participants.

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.

We are supportive of the intent to ensure sufficient firming capacity and fuel for dry winters and agree that there may be a case for introducing a long-term obligation but we have concerns with the current proposal. Our agreement is on the basis that the obligation lands on the generators only as the entities that have the diversified portfolios, access to capital markets, demand insight and social licence to ensure sufficient capacity and fuel to manage dry year risk. We do not consider that large industrial purchasers have an explicit part to play in a reliability obligation and are already participating through the current market mechanisms in place, such as the contract market and demand response provision (refer to Q6).

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.

Placing the obligation on wholesale purchasers is not appropriate for industrials. We note that large industrial users are included in the proposal but there is no clear case provided in the consultation document as to why large industrial customers (as a subset of wholesale purchasers) should also be included in this obligation. We see industrial participation in the form of being sellers of qualifying demand response cover, not as obligated parties.

There are numerous drawbacks which are not addressed, including (but not limited to):

1. Major industrial users have already contracted and provided demand response (alluded to in appendix A), paying the insurance premium already. An industrial that purchases under a fixed-price, firm-volume contract and/or demand response mechanism, has already transferred dry-year risk to its supplier and paid for that transfer and/or self-insured; imposing a parallel obligation on that industrial would charge for the same insurance twice.
2. Any obligation may place an industrial at significant disadvantage relative to obligated generators should their only option to meet an obligation be contractual purchase from a generator. The contract and futures pricing for the period in question will immediately increase when a notification or binding obligation is issued (see also Q8 [1]).
3. Creates a clear disincentive and barrier to electrify, if that results in exceeding the threshold to be included in the obligation
4. Decreases NZ industry competitiveness as it is a cost imposition it cannot pass on
5. Consequent risk of demand base destruction that may exacerbate the investment timing problem in generation
6. Potential impact of hedge accounting rules on major users from over hedged positions
7. Potential corporate governance implications of electricity exposure. If there is a legal obligation to purchase beyond acceptable risk levels and into speculative contracting, ability of Directors or Management to discharge their duties may be compromised.

Any reliability obligation should be placed on those entities that can build generation capacity as:

1. The generators are also the largest portion of wholesale purchasers.
2. It could be argued that generators have been receiving an insurance premium, via the elevated forward curve premiums and contract market, without yet providing the insurance of sufficient capacity and fuel.
3. They are best positioned to impact dry year outcomes, as acknowledged in the consultation document. They possess the diversified portfolios, access to capital markets, demand insight and social licence to ensure sufficient capacity and fuel to manage dry year risk.

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.

A de minimis threshold is not necessary if the obligation is limited to the generators as preferred in Q6. That condition notwithstanding, it is workable providing it is well defined and is predicated on below clarifications.

However, the proposed threshold of 500 GWh is not appropriate nor consistent with the stated intent of the proposal of the obligated parties being the four Gentailers and the aluminium smelter. This threshold can be set significantly higher and still achieve the stated practical intent whilst avoiding inadvertently capturing entities that are close. NZ Steel considers that this threshold as defined in the consultation proposal could potentially capture it as an obligated party. Should a de minimis threshold be considered necessary after consultation, it should be set to at least 2,000 GWh for the six month winter period in question to avoid inadvertently capturing other entities and to reduce the likelihood of disincentivising electrification.

Clarifications necessary include:

1. The basis of measurement; for industrials, this should be load net of firm supply contracts, demand response and cogeneration.
2. The baseline time period should reflect real winter load i.e. account for step changes in load either up or down from any historical metered load reference.
3. The anti-fragmentation rule should be confined to artificial restructuring and must not capture genuine operational or corporate changes
4. A threshold should be reviewable to ensure appropriate application in a changing market but also be accompanied by restrictions in justification for revision to ensure the principles are retained and it is not used for alternative goals.

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.

There are two main concerns to address:

1. The 5 year notification and 3 year binding obligation may create key market price sensitive reference points, particularly if the futures curve is extended to 5 years out. This is likely to put industrial purchasers at a significant disadvantage relative to generators should

their only option to meet an obligation be contractual purchase from a generator. This is another good reason to exclude industrials from being obligated

2. Crystallising a binding financial obligation on a three-year-ahead forecast. The regime may need a defined re-opener: if the Expected Scenario changes materially between obligation and assessment (unforeseen large load exit or entry, plant retirement deferral etc), allocated obligations should be recalculated rather than enforced against a superseded forecast. Participants should also have a formal right to contest the Expected Scenario assumptions before the obligation notification is issued.

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.

In the preferred state that the obligated parties are limited to the generators, we agree as the residual can be allocated pro rata across the obligated generators.

Should any obligation capture a large user, where an industrial's winter load for the period in question is covered by firm supply arrangements, on site cogeneration or by contracted demand response, that load should be netted out of the industrial's obligation (the obligation should sit with the supplier who holds the risk) i.e. if they have already full covered their winter demand, then their allocation would be zero even though they were obligated via a threshold on the basis that they have already paid the premium on dry year risk.

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

Please explain your views.

Eligibility should include anything that verifiably improves the NZ-WEM in the relevant winter. This should include contracted demand response.

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.

Confirmed contractual arrangements should be the default evidential standard for cover, as proposed. For demand response, evidence could be the contract and an activation or readiness confirmation. Site inspections as part of compliance assessment should not be necessary.

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.

An allowance is necessary for genuine force majeure, counterparty insolvency and other events outside the obligated party's control, provided the party acted promptly to recover. Without it, any industrial providers of cover will face demands for onerous indemnities. The boundary could be best set by a reasonableness test.

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.

Provided that the obligation is on generators, we support the middle option in Table 3: penalties calibrated to tilt investment cases. A transparent dollar-per-MWh shortfall charge is preferable to the general Code penalty regime (the higher of $10 million, three times gain, or 10 per cent of turnover). If industrials are included, turnover-based penalties are disproportionate for industrial obligated parties, for whom electricity is an input rather than the business and would provide a further deterrent to electrification.

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.

Additional points to address include:

1. If a threshold is used, define precisely how the threshold is determined. The baseline time period reference needs to be able to flex to ensure this is a reasonable reflection of reality in the period of expected shortage. In the case of where users are included, it must be a reasonable reflection of the load in the future and account for expected load step changes.
2. Define how any funds accumulated from any penalty regime are allocated. These should be ring fenced and applied in such a way as to benefit all consumers in the electricity market. For example, given to Transpower and allocated back out on a pro rata basis as a rebate on transmission costs. This will help compensate consumers for any effects of the non-compliance in question.
3. Commit to an appropriate and regular review period and assessment parameters to determine whether the obligation has had value and is still appropriate rather than assume it is working as designed. The transition period to a different generation mix will inevitably change the context for this obligation.
4. Add appropriate restrictions on the executive and regulators to ensure the rules and intent are not subject to unnecessary change, particularly any threshold that is applied.

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.

We support a short-term fuel obligation. The intent is summed up well in that the purpose is to ensure that the generators can stand behind the load their portfolios are expected to serve i.e. provide the insurance they have been paid for by the market.

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.

We agree in principle that the obligation should include those generators who can have a material impact.

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.

We agree with the outlined intent of the analysis.

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.

We agree with the intent of the monitoring, notification and response periods without having a clear view on its application and inevitably variable consequences across the industry. We would add that, where contracted demand response is used to fulfil obligations, that these periods and compliance assessment allow for minimum notice periods contracted as these will reflect the varied characteristics of the industrial processes that back the demand response.

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.

Sizing each generator's obligation to the load its portfolio supports is appropriate.

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.

Include any storable fuel with delivery confirmed (contracted and with confirmed shipping) that can be used in available generation capacity, an appropriate risk adjusted portion of uncertain fuel (water, wind, solar etc) and any contracted demand response that can be physically called while satisfying all contractual conditions.

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.

Confirmed contractual arrangements should be the default evidential standard for third-party cover, as proposed. For demand response, evidence could be the contract and an activation or readiness confirmation. Site inspections as part of compliance assessment should not be necessary.

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.

Same position as Q12: a reasonableness test for exceptional events outside of the obligated party's control.

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.

A shortfall charge tied to the uncovered volume presents as appropriate. The penalty should exceed the cost of compliant fuel procurement so that waiting is not rational but should not be so severe that generators over-procure and pass excess fuel costs into winter contract prices. This is more proportionate than applying turnover-based Code penalties mechanically.

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.

Additional points to address include:

1. Ensure that information disclosed by generators will remain confidential so as not to reveal commercially sensitive information on their industrial counterparties, including demand response providers.
2. Refer to items 2-4 in response to Q14