20 JULY 2026: SUBMISSION TO MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT REGARDING DRY YEAR RISK

The electricity market needs to better manage dry year risks

Over the last decade, New Zealand has faced dry year challenges in 2017, 2019, 2021, 2024 and 2025 exposing major vulnerabilities. The electricity market seems to repeatedly move from one crisis to the next which is not something a country with New Zealand's natural resources should be experiencing.

These problems are symptomatic of broader issues with the adequacy of investment in new electricity generation, not just investment in firming generation capacity, and the state of competition in the electricity market.

The consultation itself represents a significant public policy acknowledgement that the market is not working the way it should for the long-term benefit of consumers. We consider that this reflects underlying structural problems in the market coupled with gaps and weaknesses in the regulatory framework.

Entrust backs urgent reforms to ensure reliable and affordable energy. Stronger competition and more investment are essential to protect Kiwi businesses and households from price spikes and supply shortages.

Summary of Entrust's submission

- The electricity market and New Zealand's natural resources should be an engine for economic growth. Something is very wrong if New Zealand businesses are curbing their growth or laying off workers due to problems in the electricity market.

- The current system is failing to deliver reliable and affordable electricity.

- The consultation details well that there hasn't been enough investment in new and firm (backup) generation which is leaving the country vulnerable to supply shortages and sharp wholesale price spikes during dry years. This is leading to price increases, business disruption, and reduced confidence in the market. These are outcomes New Zealand should not accept.

- It should come as no surprise that Entrust's 2025 consumer survey highlights Auckland households are concerned about affordability, supply resilience and the adequacy of investment in new generation.

- Entrust supports the Government's focus on improving energy security.

- Entrust supports applying the proposed Winter Energy Reliability Obligation to the major market participants (the large incumbent gentailers and New Zealand Aluminium Smelter (NZAS)) to help ensure the regulations are targeted at market power in the electricity market.

- We are open minded about different options for managing dry year risk and recognise they each have their own costs and benefits. The key thing now is that the Government takes proactive actions and doesn't just wait for the next crisis before deciding what to do.

- We see competition and under-investment in generation as key issues that make dry year problems more likely and frequent.

- Entrust welcomes the Government's initiatives to make generation investment easier and believes there should also be a stronger focus on reducing barriers for smaller and independent generators.

- Increasing competition doesn't just mean more investment by new entrant generators. It can also mean an increased focus on alternative and disruptive supply options. We consider that promotion of demand flexibility and distributed energy resources is also an area which warrants further investigation.

- The Government has signalled an intention to strengthen the Electricity Authority which we would support. As part of this, Entrust considers that the accountability and statutory performance expectations of the Electricity Authority should be strengthened, including regular public reporting on reliability outcomes, scarcity pricing and investment performance.

Entrust's submission

Entrust shares the Government's concerns about the electricity sector's preparedness for dry winters. We agree the winter of 2024 exposed serious vulnerabilities in New Zealand's electricity market, particularly when hydro lake levels are low and generation is constrained. We also agree the electricity system has not delivered enough long-duration, firm generation to reliably get through dry winters.

These problems make challenges with energy affordability worse and harm Kiwi businesses and New Zealand's economic growth and prosperity. New Zealand needs more reliable supply of energy including during dry years.

For more than two decades New Zealand consumers have been told wholesale market incentives, scarcity pricing and vertical integration would deliver timely investment, reliable electricity supply and efficient long-term outcomes.

If that proposition had been successful, this consultation would not be necessary.

Instead, the Government is now proposing direct regulatory intervention because the market and regulatory settings have failed to deliver sufficient firm generation, fuel security and demand-side capability to maintain confidence in winter electricity supply.

Entrust accordingly welcomes development of energy policy reforms aimed at protecting consumers from price spikes and outages, and which encourage investment in backup (firming) generation and fuel supply to ensure continuous power when intermittent renewables like wind and solar drop.

Entrust's consumer survey backs up the Government's concerns

Entrust commissioned Insights HQ[1] to survey Auckland residential consumers to help improve awareness of consumer views and concerns in late 2025.[2]

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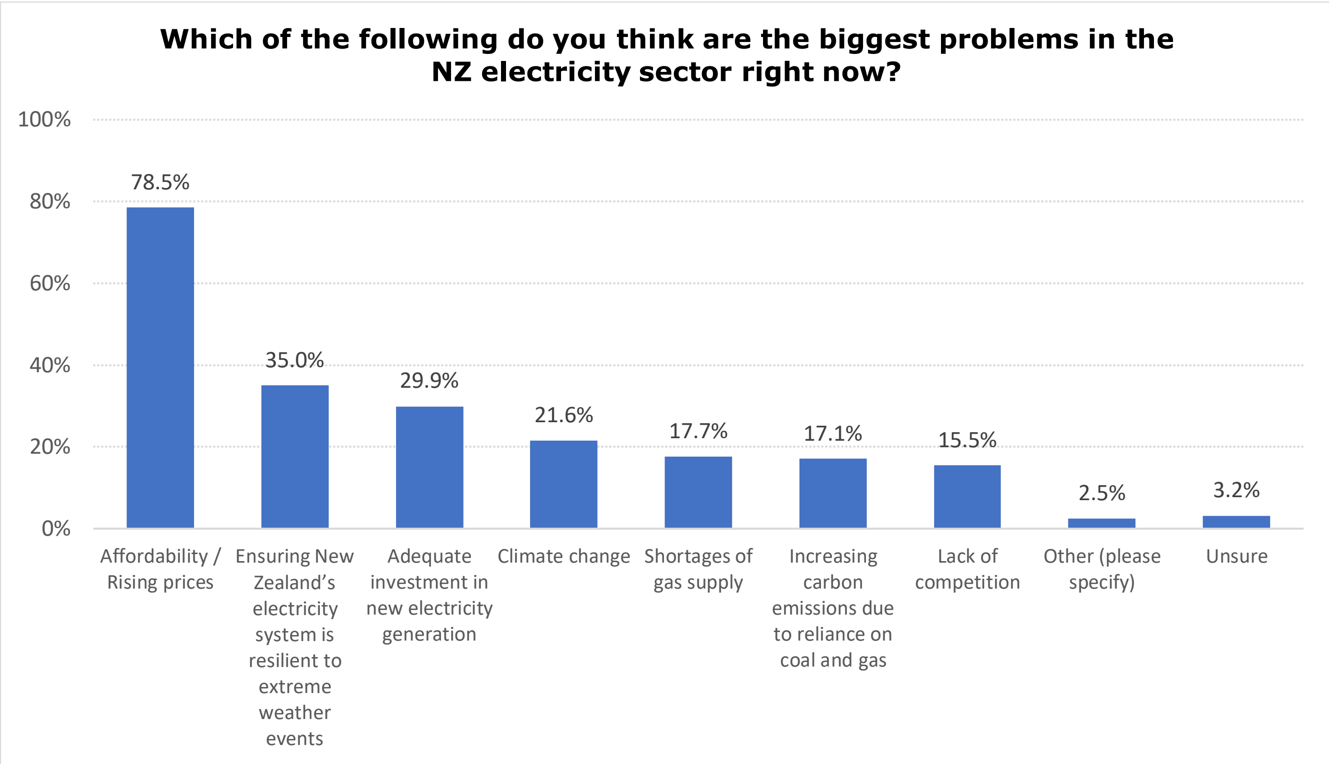
[1] https://insightshq.co.nz/

[2] Insights HQ undertook an online survey among a representative sample of 1,019 Aucklanders from within the Vector catchment area matched and weighted to census based on age and gender. The margin of error on a sample of 1000 is +/- 3%. Where the survey was split into two streams of 500 respondents each, the margin of error is +/-4%.

The survey was conducted from the 16th of October to 2nd November 2025.

The survey provides useful consumer insights and reinforces the focus of the consultation on addressing issues with wholesale electricity pricing, and reliable electricity supply:

- Nearly 80% of survey respondents are worried about affordability;
- 35% are worried about how resilient the electricity system is; and
- 30% are worried about the adequacy of generation investment.



The consultation is evidence of regulatory and market failure

The consultation itself represents a significant public policy acknowledgement that the electricity market is not working the way it should for the long-term benefit of consumers. We consider that this reflects underlying structural problems in the market coupled with gaps and weaknesses in the regulatory framework.

The consultation recognises that:

- existing market incentives have not delivered sufficient reliability;
- dry-year risk remains unacceptable;
- fuel security remains uncertain;
- demand-side participation remains underdeveloped; and
- Government intervention has become necessary.

There appears to be material under-investment in new generation

Entrust considers dry year risk part of a broader competition problem in a market dominated by four large, incumbent 'gentailers'. We appear to be seeing persistent under-investment and generation build occurring later than could be expected in a workably competitive market. The market is being kept perennially tight.

It can be expected that markets which are fully competitive will result in higher supply than monopoly or oligopolistic markets such as the electricity industry.

This should be of particular concern given the electricity market has had elevated wholesale and futures prices for an extended period of time to signal scarcity and the need for new investment. If those investment signals had worked as intended, the MBIE consultation would not be necessary

Entrust considers this to be an area that warrants more attention. We have seen investment by new entrant solar farms etc but not enough to offset the deficit in incumbent gentailer investment or to reduce their market share, or market concentration.[3]

The questions about whether there is sufficient investment in generation aren't new. It is a problem that has been raised by industry regulators, market participants and Government.

The Commerce Commission-Electricity Authority Energy Competition Task Force (ECTF) acknowledged the need to "encourage more and faster investment in new electricity generation …". Meridian's Chief Executive has suggested "we do need further investment and we need it relatively quickly" and "we're probably not at the run rate where we need to be right now."[4]

The Electricity Authority commented during its wholesale market review (WMR) that "The total quantity of definitely committed investment projects is not enough to replace existing thermal generation."[5]

This corresponds with concerns the Minister of Energy and Associate Minister have variously raised. The Minister of Energy has commented there has been a lack of investment in generation capacity over the past decade: "I think we haven't seen as much investment back into generation as we should have from the gentailers".[6] In a similar vein, the Associate Minister of Energy has expressed concern that "The gentailers have not invested in giving New Zealanders energy security by additional capacity" and, instead, "exploit scarcity".[7]

Dry year risk is part of broader electricity market failings

Entrust considers that dry year risk is largely a symptom of broader market failures. Weak competition has contributed to delayed or under-investment in generation and

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[3] We have provided various evidence that the wholesale market remains concentrated, and market competition statistics are not improving e.g. https://www.entrustnz.co.nz/media/ulqnrmum/submission-on-review-of-competition-in-the-wholesale-market-14-december-2022.pdf.

[4] https://youtu.be/DCBS6QodIEw?si=Sng-DfGt9OiCH8ev

[5] Electricity Authority, MARKET MONITORING REVIEW OF STRUCTURE, CONDUCT AND PERFORMANCE IN THE WHOLESALE ELECTRICITY MARKET SINCE THE POHOKURA OUTAGE IN 2018, information paper, undated/published October 2021.

[6] https://www.1news.co.nz/2024/08/25/simeon-brown-on-nzs-energy-crisis-lng-imports-solar-power/#:~:text=The%20minister%20acknowledged%20there%20had,told%20Q%2BA's%20Jack%20Tame

[7] https://www.rnz.co.nz/news/national/525898/shane-jones-threatens-to-end-electricity-authority-if-it-doesn-t-man-up

persistently high wholesale prices. Weak competition makes supply security worse and vice versa.

Dry year risk and competition problems are inextricably linked:

- Weak competition → under-investment → tighter supply;
- Tight supply → greater market power → higher prices.

The result has been higher wholesale prices[8] and annual increases in incumbent gentailer profits,[9] which is not a good outcome for Kiwi households, businesses, or the wider economy.

The MBIE consultation spells out that "The electricity system is becoming more exposed to dry-year risk". The Electricity Authority and its former Market Development Advisory Group (MDAG) made similar observations and warned the energy transition could result in increased market power for incumbent generators with storable fuel. Increased market power in turn translates to higher electricity prices.

If the dry year risk and competition problems aren't properly fixed the concerns raised in the consultation about dry years resulting in "industrial users paus[ing] operations or clos[ing] permanently" and "rising electricity prices add[ing] to pressure on household budgets and the cost of living" are likely to get worse. The higher prices could undermine the transition to a lower emissions economy and provision of affordable energy for Kiwi households and businesses.

Entrust agrees with the Minister of Energy that "competition … supports more renewable investment." A more competitive electricity market is needed to deliver more and earlier investment in electricity generation and help both with ensuring prices aren't too high or too high for too long and to better ensure reliable electricity supply.

The Government's concerns align closely to OECD warnings. The OECD has identified that "high energy costs" are adversely harming New Zealand's productivity growth. The OECD also identified that increasing competition and easing market-entry barriers in the electricity market would help boost investment in firming capacity and renewable generation vital to ensuring a reliable and affordable energy supply.[10]

Entrust agrees a "multi-faceted response" is likely to be required. Reforms targeted at improving reliability of supply should be supported by broader reforms aimed at addressing the electricity industry's competition problems. These problems should not be treated as discrete matters or addressed independently of each other. There should be a strong focus on removing barriers to investment in generation by new entrant and independent generators.

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[8] The Electricity Authority undertook its WMR in 2022 into the state of competition in the wholesale market. The approach to the WMR broadly mirrored the approach the Commerce Commission has undertaken in its market studies for petrol retailing, groceries etc. The Authority found evidence of market power and wholesale electricity pricing that was higher than could be expected in a workably competitive market e.g. it found "evidence to suggest that prices may not have been determined in a competitive environment." Average wholesale electricity prices have increased since then e.g. refer to: https://www.ea.govt.nz/news/eye-on-electricity/past-and-future-spot-market-volatility/.

[9] We provided MBIE with evidence of incumbent gentailer profits in 2023 and they have only risen since then: https://www.entrustnz.co.nz/media/1kjhb15v/submission-to-mbie-re-energy-transition_2-november-2023.pdf.

[10] https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/12/oecd-economic-outlook-volume-2025-issue-2_413f7d0a/9f653ca1-en.pdf.

Stronger role warranted for demand flexibility

Demand flexibility represents one of New Zealand's greatest opportunities to improve reliability at lower cost.

Successful demand flexibility reduces:

- wholesale price volatility;
- scarcity pricing;
- peak generation revenues; and
- the value of existing generation portfolios.

Those outcomes strongly benefit consumers.

They do not necessarily maximise returns for vertically integrated gentailers. Expecting incumbent market participants to consistently pursue outcomes that may reduce the profitability of their own generation assets creates an inherent conflict of interest.

It is appropriate to target the largest market participants

Entrust agrees it is appropriate that the proposed Winter Energy Reliability Obligation would apply to the four, large incumbent gentailers (Contact, Genesis, Mercury and Meridian) and NZAS.

We agree with the reasons detailed in the consultation for targeting these market participants. We agree, for example, that the obligation should apply only to market participants "whose actions can materially influence system outcomes". This includes, for example, decisions Genesis makes about import of coal, and Meridian's management of its resource consent to draw down Lake Pukaki by an additional five metres.[11]

No individual electricity consumer has greater influence on New Zealand's electricity system than Tiwai Point. NZAS consumes approximately thirteen percent of national electricity demand and represents one of the country's largest potential demand-response resources.[12]

The proposal to target the incumbent gentailers and NZAS is recognition that those receiving the greatest benefits from the electricity system should also contribute to its resilience.

We also consider it appropriate that the regulation will apply to market participants with market power. This is an orthodox approach to regulation. If Contact, Genesis, Mercury and Meridian didn't have market power they would be unlikely to have the ability to influence market outcomes in ways that impact security of supply, and how well dry years are managed.

The size of each of these market participants means their commercial decisions impact the whole of the market. This was made very clear by the Contact, Genesis, Mercury and

[11] The Minister of Energy has raised concerns that unilateral decisions made by Meridian could harm supply security e.g. https://www.thepost.co.nz/business/361037428/energy-minister-simeon-brown-accused-meridian-taking-unilateral-approach-over-lake-pukaki-rights.

[12] NZAS also benefits from a long-term electricity contract widely understood to provide prices materially below prevailing wholesale market outcomes and substantially reduces exposure to the scarcity pricing signals that underpin the existing market. If a participant is largely insulated from those price signals, policy should not rely on price alone to deliver efficient reliability behaviour.

Meridian application for authorisation of a Strategic Energy Reserve Huntly Firming Option. The application detailed how they could impact (positively or negatively) security of supply, particularly during dry winters, through their investment decisions and the commercial arrangements they enter into.[13]

Recommended Actions

The consultation demonstrates there are structural problems in the electricity market coupled with gaps and weaknesses in the regulatory framework which has meant Government intervention has become necessary.

Entrust considers that the Government should introduce a package of reforms aimed at addressing dry year, under-investment in generation and competition problems. We consider that a broad package of reforms would be better than ad hoc interventions in terms of providing investors as much certainty as possible and signalling a clear medium to longer-term energy strategy.

Entrust supports Government intervention to fix dry year problems.

We support applying the Winter Energy Reliability Obligation to the major market participants (the large, incumbent gentailers and NZAS) to help ensure the regulations are targeted at market power in the electricity market.

We recognise there are a range of other potential options the Government could consider to specifically address dry year risk, many of which are canvassed in the consultation. We are open minded about different options and recognise they each have their own costs and benefits. The Government has spent a considerable amount of time working through the different options such as through the sector review Frontier Economics was commissioned to undertake.

The key thing now is that the Government takes proactive actions and doesn't just wait for the next crisis before deciding what to do.

While the proposed Winter Energy Reliability Obligation is a positive step, it only addresses part of the problem. The broader structural issues remain unresolved.

We see competition and under-investment in generation as key issues that make dry year problems more likely and frequent. Fixing competition problems and encouraging a major uplift in new entrant investment in generation could go a long way towards resolving dry year problems.

We welcome that the Government is undertaking initiatives to make investment in new generation easier, including through the fast-track process and Resource Management Act reform.

We think there should also be a focus on addressing issues that are specifically disadvantaging smaller and independent generators, such as problems with access to wholesale products to manage spot market risk. We are aware of substantive concerns from small and independent generators that the transmission pricing methodology makes it difficult to forecast transmission costs and is hampering new generation investment.

[13] https://www.comcom.govt.nz/case-register/case-register-entries/genesis-energy-limited-contact-energy-limited-meridian-energy-limited-and-mercury-nz-limited-the-gentailers/

Entrust has also been on record as supporting options that would help promote a more competitive market.[14]

Increasing competition doesn't just mean more investment by new entrant generators. It can also mean an increased focus on alternative and disruptive supply options. We consider that promotion of demand flexibility and distributed energy resources is also an area which warrants further investigation.

The Government has signalled an intention to strengthen the Electricity Authority which we would support. As part of this, Entrust considers that the Government should strengthen the accountability and statutory performance expectations of the Electricity Authority, and require regular public reporting on reliability outcomes, scarcity pricing and investment performance.[15]

Concluding remarks

Entrust wants to ensure electricity is supplied in an efficient and affordable way to all consumers, including our 372,000 beneficiaries in the Trust District of central, east and south Auckland.

The Government's proposed Winter Energy Reliability Obligation is an important acknowledgement that New Zealand's electricity market is not delivering the reliable, affordable outcomes consumers were promised. Entrust supports the Government taking action to address serious weaknesses in New Zealand's electricity market, exposed not only during the 2024 dry winter but also during 2017, 2019, 2021 and 2025.

New Zealand faces supply issues which are resulting in higher prices and an affordability problem. There hasn't been enough investment in new and firm backup generation, which is leaving the country vulnerable to supply shortages and sharp price spikes during dry years.

The challenge now is to ensure the response addresses the underlying causes rather than simply treating the symptoms.

New Zealand needs a market that rewards preparedness rather than scarcity, allocates reliability obligations fairly across all major participants, values firm capacity appropriately, promotes genuinely independent demand flexibility and holds regulators accountable for measurable consumer outcomes.

Absent adequate intervention, dry year risks will worsen as New Zealand becomes more reliant on renewable generation and the market power of the large gentailers will get worse.

The impact is already being felt by consumers, with affordability, reliability, and adequate investment in generation identified as top concerns in a recent Entrust-commissioned survey.

[14] e.g. https://www.entrustnz.co.nz/media/1kjhb15v/submission-to-mbie-re-energy-transition_2-november-2023.pdf.

[15] The Authority should become more outcomes-focused by:

- introducing measurable reliability performance indicators;
- undertaking regular independent reviews of market performance against statutory objectives;
- reporting publicly on scarcity rents, reliability outcomes and consumer impacts;
- removing barriers to independent demand-side participation; and
- regularly reviewing whether existing market structures continue to serve consumers effectively.

Entrust would support electricity market reforms that:

- boost competition to ensure fairer prices and better outcomes for consumers;
- accelerate investment in reliable backup and renewable generation; and
- strengthen the electricity system to reduce the risk of shortages and price spikes.

New Zealand has the natural resources to deliver reliable, affordable electricity and to support energy-intensive industries to compete on the world stage. What’s needed now is a more robust and mature regulatory framework and a more competitive market to ensure it happens.

Kind Regards

Alastair Bell
Chair of Regulation and Policy Committee