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

A proposed reliability obligation to manage dry-year risk

Transpower welcomes the opportunity to submit to the Ministry of Business, Innovation and Employment's (MBIE) consultation on a proposed reliability obligation to manage dry-year risk. This submission is from Transpower in our role as System Operator.

In summary, Transpower supports:

- Strengthening incentives to manage dry year risk. This is an important component in helping ensure the electricity market delivers the energy transition securely and efficiently whilst navigating future uncertainties and helping support increased electricity and economic growth.
- Leveraging (and where required enhancing) existing security of supply management processes¹ where possible. This will reduce implementation complexity and avoid duplication of information and mixed messages.

Transpower looks forward to working with MBIE, the Electricity Authority and industry to further develop and implement the required information signals and triggers to improve industry responses to reduce supply risks².

Transpower supports strengthening incentives to manage dry-year risk

Transpower supports the policy intent behind a reliability obligation. Strengthening incentives including for fuel management is important to ensure an efficient level of reliability for the transition, as our modelling demonstrates. Transpower's [2026 Security of Supply Assessment \(SOSA\)](#) identifies an emerging mid-term dry-year energy gap, with the NZ-Winter Energy

¹ These include the Security of Supply Assessment (SOSA) and Energy Security Outlook (ESO). The ESO includes the Electricity Risk Curves (ERCs) and Simulated Storage Trajectories (SSTs).

² Transpower does not comment on matters outside the System Operator role. This includes commercial barriers to investment, allocation of obligations between participant classes, de minimis thresholds, compliance design, penalty calibration, and treatment of failed arrangements such as counterparty failure, project delay or force majeure.

Margin falling below the lower security standard by 2031. This shortfall³ occurs even with assuming existing and committed investments as well as high likelihood (at least 75% likely) consented investments proceed and come online without delay. To address the shortfall in the margins falling below the standards, additional (currently) unconsented projects need to come online. While there are potential projects in the pipeline that exist to alleviate the risk there is no guarantee these will be developed. The SOSA 2026 results also highlight that dry-year margins are sensitive to project delivery timelines, thermal plant availability, fuel constraints, demand growth, and intermittent generation output. This can result in dry-year security margins dropping further below the security standards.

Long-term obligations can strengthen the link between dry-year adequacy signals and participant action before risks materialise, while short-term obligations can help provide a targeted backstop when near-term winter risks emerge.

Regulatory measures should be based on existing security of supply information products

The SOSA⁴ and Energy Security Outlook (ESO⁵) already provide established, data-driven processes for assessing and communicating energy and capacity adequacy risks. These products are familiar to participants and using them as the basis for obligation triggers should reduce implementation complexity, maintain continuity, and avoid separate or inconsistent risk signals.

For long-term triggers, the SOSA provides a transparent and repeatable adequacy assessment against the economic security standards determined by the Electricity Authority, with a Reference case aligned with the Electricity Authority's Security Standards Assumptions Document (SSAD) and sensitivities and an Expected Future case that reflects the System Operator's view of key uncertainties. The SOSA Reference case and Expected Future case assumptions, sensitivities and draft results are developed through consultation and informed by industry feedback, so the assessment is not an untested internal view.

For short-term triggers, the ESO provides the established basis for near-term energy risk signalling, including the circumstances in which risk status changes and other industry actions triggered⁶. Recent SOSFIP changes affecting the ESO methodology were also subject to industry consultation, supporting their use as a familiar and transparent basis for short-term trigger design. Aligning the short-term obligation with ERC should help avoid mixed messages to participants.

³ Falling below the standards doesn't signal supply shortfall, rather it signals that additional investment will result in an efficient increase in reliability and should be considered alongside the magnitude of shortfall.

⁴ See [Security of Supply Assessment | Transpower](#)

⁵ This includes the Electricity Risk Curves (ERCs) and Simulated Storage Trajectories (SSTs). See [Energy Security Outlook | Transpower](#)

⁶ Access to contingent storage is triggered when controlled hydro storage drops below the Alert curve and an OCC is triggered when controlled hydro storage drops below the Emergency curve and expected to remain below the Emergency curve for at least one week.

Further development of implementation details

Transpower considers that the long-term and short-term obligations should be implemented in a way that supports a clear, consistent and robust SOSA and ESO process that helps industry make more informed decisions. The proposed winter energy reliability obligation may need to further consider the following items for the long-term obligations:

- **Ensuring that the trigger mechanism (SOSA) has the best quality and up to date information:** Robust adequacy assessment depends on timely and reliable information on demand, generation availability, fuel availability, storage, project delivery, retirements, demand response and large load assumptions. Where the long-term dry winter risk framework relies on SOSA results, the framework should ensure that the System Operator has access to all the information needed to produce a reliable assessment, including information that could affect the timing or size of an identified shortfall. This may include information that is not currently captured by existing information disclosure requirements.
- **The framework should set out how updated information is treated:** The framework should specify how updated information is treated if key assumptions change after a notification or obligation is issued, including project delays, fuel availability changes, demand changes or material changes to generation availability.
- **Qualifying cover relied on should match the nature of the shortfall identified:** An energy shortfall should be met by resources that can provide, or reduce demand for, sufficient energy over the relevant dry winter period.

The short-term obligation has a different focus because it is intended to operate as a near-term backstop when winter energy risk is already emerging. This means the design should place greater emphasis on timely information, alignment with near-term risk signalling, and clear trigger/update processes.

- **Timely and reliable near-term information:** Short-term risk assessment depends on up-to-date information on hydro storage, fuel availability, plant availability, demand response and forecast demand. Timeliness is more important than for the long-term obligation because the window for participant response is shorter. Where parties hold information that could affect near-term risk assessments or trigger outcomes, the framework should support timely provision of that information.
- **Alignment with existing ESO processes:** The short-term obligation should align with existing ESO (ERC and SST) processes, rather than creating a separate assessment process. This would help avoid mixed messages about near-term winter energy risk.
- **Clear trigger and update process:** The framework should ensure participants understand when the obligation is triggered, what information is required, and how changes in system conditions affect the obligation.
- **Avoiding double counting:** Qualifying cover should represent physical capability available to manage the identified risk. The same stored energy, fuel, demand response or generation capability should not be counted more than once, particularly where it is already reflected in the security-of-supply assessment that triggered the obligation.

Transpower looks forward to working with MBIE, the Electricity Authority and industry to address implementation considerations and progress this initiative.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Ramu Naidoo', enclosed within a thin, hand-drawn circular border.

Ramu Naidoo

Head of Security of Supply and Forecasting