MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Fact sheet: LNG

What is LNG and how can it be imported?

- Liquefied natural gas (LNG) is natural gas that has been cooled and liquefied so it can be transported relatively easily. It is a proven technology that is commonly deployed overseas. Liquefying gas into LNG increases the amount of gas per unit volume by about 600 times.
- Once an LNG cargo arrives, it is unloaded from its carrier by pipe, stored as LNG (for a time at least), regasified, and "sent out" into the transmission network for use as natural gas (in the same way as our domestic gas supply is).
- There are many sources of LNG throughout the world. In order to import LNG, New Zealand needs an LNG import facility or terminal. An LNG import terminal is a facility that can receive LNG from an LNG carrier, store it, regasify it, and send out the resultant gas for use by end users.

What types of LNG import facilities are available?

- The same basic functions of receiving, storing, and regasifying LNG, and sending out the resultant natural gas to the transmission network are common across all LNG import facilities.
- Most facilities are ship-based, but there can be land-based components as well.

What are the next steps in the procurement process?

- Stage 1 of the procurement process closed on 17 November 2025, including accelerated delivery solutions with capability to be operational as early as 2027.
- The Minister for Energy has approved a shortlist of accelerated delivery solution submissions. Shortlisted proponents will provide further information in relation to feasibility to MBIE to consider in early 2026.
- The shortlisted proponents will be refined further to the top two or three proposals in Q1 2026. These proponents will be invited to participate in a closed Request for Proposal.
- The Government is aiming to have a contract finalised mid-2026.
- It's too early to confirm the location of the facility at this stage. The details will depend on the next phase of the procurement process, which we are progressing with at pace. Having said this, the shortlisted ADS submissions are all located in the Taranaki area.

What are the potential uses of gas produced from LNG?

- The primary purpose for Government considering LNG infrastructure is to remove the fuel risk associated with dry years. The availability of LNG as dry-year insurance cover is expected to bring down electricity prices (see below).
- LNG could also have value in providing fuel for "firming" the electricity system beyond dry year requirements and be a fuel source for industrial, commercial and residential users, but in the first instance its benefit is providing insurance against dry years.

The role of LNG in providing dry-year cover

- Dry year risk is the biggest challenge for our electricity system. In a dry year, hydro generation falls sharply, and we need non-intermittent generation sources to fill the gap.
- This risk has always existed, but it is now worse because our domestic gas supply has declined—2025 gas availability is about half of what was expected three years ago. As a result, New Zealand has enough gas-fired generation capacity, but not enough gas to run it.
- Dry years require much more gas than normal years. The system needs flexible access to gas when hydro inflows are low.

- LNG imports could provide this flexibility. LNG would act as a backup fuel source, available when needed—especially in dry years—helping maintain security of supply and stabilise prices. LNG effectively provides a level of insurance against dry year risk.

Electricity price impacts and cost to benefit ratio

Costs of LNG

- There are two components to the cost of LNG; the cost of providing and operating the LNG infrastructure, and costs directly associated with the import of LNG into New Zealand. The quantum of these costs will be determined through procurement processes.
- The first of these (the cost of the infrastructure) will be incurred every year, regardless of whether New Zealand uses the facility or not. This will be paid for via a levy on electricity. The levy for the infrastructure is paying for the insurance that LNG provides. It is therefore appropriate that the electricity system bears this cost.
- The costs associated with importing LNG will be paid for by users of gas produced from LNG. It will include the cost of the LNG itself, and also the costs of processing the LNG.

Headline impact

- Current forward prices include a dry year risk premium of $30-50/MWh (risk of shortages or costly security-of-supply deals) because there is no clear fuel or plan to provide security of supply in a dry year. LNG would reduce this risk, pulling forward prices down.
- LNG availability is expected to lower forward electricity prices by at least $10/MWh, regardless of whether LNG is used in any particular year or not, delivering upwards of $265 million savings per year (at least $400 million gross savings).
- Electricity generation that is fuelled by gas produced from LNG is expected to cost somewhere between $200 & $250/MWh, which will have the effect of reducing spot prices during dry years. This is well below the > $800/MWh experienced in August 2024.

Costs and savings

- An indicative estimate of the levy on electricity to pay for the LNG facility is between$2 & $4/MWh
- The expected price reduction in forward prices is at least $10/MWh
- Given that the electricity prices businesses and consumers face are driven by forward prices, this provides a savings-to-cost ratio of between 2.4 & 4.9

Wider economic benefits

- By 2025, higher energy prices are estimated to have reduced New Zealand's Gross Domestic Product by $5.2b (1.25%), lowered real wages by 1.4%, cut household spending by 1.65%, and worsened the trade balance by $275m.
- Because energy is a core input across the economy, lower electricity prices improve business cost structures, investment certainty, and productivity—suggesting total economy-wide benefits exceed direct electricity cost savings noted above. Modelling commissioned by MBIE suggests that compared to a scenario where gas prices continue to rise, an LNG terminal that can effectively cap gas prices, would mean GDP is $1.2b better off per annum by 2035.

Spillover benefits – renewables, emissions reductions and gas market stability

- Having an LNG import facility is expected to support greater renewables development in New Zealand and reduce emissions (albeit by a small amount) in New Zealand's Emissions Budgets 2 and 3. It will also support gas market stability.

Benefits for renewables	**Emissions impact**
• LNG is expected to support increased investment in renewables by providing reliable backup fuel supply for firm generation. Renewable developers need	• Modelling shows emissions would be (very slightly) lower with an LNG import terminal than with no additional dry year cover.

this firm back-up to make their projects bankable. • Modelling shows the existence of reliable dry year cover enables the sector to use more cheap, clean hydro generation to power the electricity system, rather than holding water in reserve to reduce risks associated with an extended dry period. • Flexible approach to LNG imports i.e. on an as-needed basis, maintains flexibility in the system for new technologies to emerge as viable alternatives. • Greater security and affordability in electricity system will encourage businesses and households to electrify.	• Having an LNG import facility is expected to reduce emissions by 0.244 Mt CO_2-e in EB2 and 0.04 Mt CO_2-e in EB3, driven by changes in the fuel mix for electricity generation across renewables, LNG, diesel, and coal.

Benefits for the gas market
• LNG would act as a back-up supply should a structural shortage emerge. • LNG availability would reduce the risk of severe price spikes and supply disruptions. This will help avoid de-industrialisation as domestic gas production declines and enable users to consider the best, long-term energy solutions for their individual needs. • LNG could provide an alternative natural gas supply, should domestic gas fall to a point where prices rise to the LNG price point. At that point, LNG will cap the price of natural gas. • LNG availability would also extend the viability of gas networks – avoiding underutilisation that would make them uneconomic and accelerate decommissioning

LNG vs alternative options considered

- In order to support Cabinet's decision, MBIE prepared four illustrative options to compare with LNG, taking into account cost, timeliness, impact on electricity prices, flexibility, and wider impacts.
    - New thermal generation plant to run on either coal or biomass.
    - A combination of new and converted 'peaking' plant, that would run on diesel.
    - A portfolio option comprising a new unit at Huntly Power station, new and converted diesel peakers (per the previous option), and a demand response.
    - A combination of LNG importation and refurbishing the Taranaki Combined Cycle plant (offering additional capacity, as well as fuel).
- Other options, including renewable projects, were considered but not advanced due to a range of factors such as expected time to construct, feasibility of generating power reliably on the required scale, and effects on electricity market incentives.
- The four illustrative options were sized so that they could deliver up to 1.5TWh of electricity over a three-month period and were assumed to be built in addition to the renewable generation currently in the pipeline.
- LNG was the preferred option after consideration and analysis of the options. LNG was found to lower electricity prices at relatively low capital cost and deliver spillover benefits. A key advantage of LNG over alternatives is that it simply adds a fuel option without locking in new generation capacity or requiring direct intervention in the electricity market (which would be more likely 'crowd out' private sector investment).
- More detailed information on the assessment of the options is included as an annex to the Cabinet paper, which will be released in due course.