



BRIEFING

Addressing the Energy Gap

Date:	21 July 2025	Priority:	High
Security classification:	Sensitive	Tracking number:	BRIEFING-REQ-0017895

Action sought		
	Action sought	Deadline
Hon Simon Watts Minister for Energy	Discuss at your weekly meeting with officials	22 July 2025
Hon Shane Jones Minister for Resources	Discuss at your weekly meeting with officials	31 July 2025

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Justine Cannon	General Manager	Privacy of natural persons	
John Scott	Policy Director		✓(LNG)
Rebecca Heerdegen	Policy Director		✓ (Energy gap)

The following departments/agencies have been consulted
The Treasury has been informed of the content of this paper.

Minister's office to complete:

☐ Approved

☐ Declined

☐ Noted

☐ Needs change

☐ Seen

☐ Overtaken by Events

☐ See Minister's Notes

☐ Withdrawn

Comments



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Purpose

This briefing note outlines work to address the energy gap, specifically:

- A draft Cabinet paper on a potential procurement framework for Crown investment in LNG imports (attached)
- Advice requested on ways to alleviate consequences of diminishing natural gas supplies (by either increasing the supply of energy or reducing gas demand), with scenarios attached as a slide pack
- MBIE's recommended approach to a consolidated work programme and timeline for addressing the energy gap (across the Review, LNG, and other thermal energy options)

We are seeking your direction on next steps.

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

- a **Discuss** the attached Cabinet paper and slides with officials

Discuss

Privacy of natural persons

Justine Cannon
Energy Markets, MBIE

21 July 2025

Hon Simon Watts
Minister for Energy

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Background

1. MBIE has been working with you on a suite of work aimed at addressing the energy gap created by declining gas supply. This includes consideration of how LNG might be imported to New Zealand should Cabinet decide the Crown should invest in LNG importation, other options for addressing the energy gap, and how these fit with the Government's consideration of the Review of Electricity Market Performance (the Review).

Procurement of LNG

2. As part of the work undertaken by the Gas Security Response Group, an industry consortium commissioned a report into the import of LNG in 2024 (completed in December 2024). A similar group commissioned a subsequent report into small-scale imports of LNG (completed in May 2025).
3. In parallel and aligned with the Government's position as set out in the GPS for Electricity, the Government has been developing an enabling framework to remove regulatory barriers. In April of this year, Cabinet [ECO-25-MIN-0055] directed development of a procurement framework for Crown investment in LNG importation. This work has occurred in parallel to the Review. Through this work MBIE established that:
4. Small-scale LNG, as proposed in the Gas Strategies report, is unlikely to meet New Zealand's energy needs
 - a. Conventional-scale LNG provides both the scale and flexibility to meet dry year, firming, and/or demand from non-electricity gas users. However, it will be expensive and technically complex to develop an LNG import facility.

5. Confidential advice to Government

[Redacted text block]

6. MBIE has reported its findings to you over a series of briefings, the most recent being BRIEFING-REQ-0017428. We have concluded that the best option is to follow a relatively traditional approach to procurement, should Cabinet decide New Zealand needs an LNG import facility. We discussed this briefing note with you on Monday 14 July, and you requested we develop a draft Cabinet paper for your consideration.

Considering the broader options for addressing the energy gap

7. You have received a series of briefings on the implications of declining gas supply. Most recently, this has included (BRIEFING-REQ-0009089 refers) an overview of security of supply from a gas perspective and workstreams MBIE has underway (those being):
 - a. Expanding the woody bioenergy market
 - b. Increasing the availability and use of biogas
 - c. Meeting the needs of critical gas users
 - d. Options for improving market functioning
 - e. Industrial gas users
8. We provided you with specific advice on the impact of declining gas supply on gas users on 16 June (BRIEFING-REQ-0015942 refers), and on 18 June you and Minister Jones met to

discuss. At that meeting Ministers requested further advice on options to mitigate the impacts on gas users including, in particular, concerns around possible firm closures.

9. The attached slide deck sets out scenarios for addressing the gap, and advice on next steps is included in this briefing.

Review of Electricity Market Performance

10. The Government recently received the final report on the Review of Electricity Market Performance (Review). The Review advises that there is a market failure in the delivery of dry year firming in New Zealand's electricity market. It suggests intervention by the Government to address this problem of scarcity of firm, flexible electricity generation. This is likely to require support for the thermal capacity and fuel that New Zealand needs, as the market is unlikely to otherwise provide.
11. The option set (specific fuel and/or generation kit) for this electricity problem overlap and therefore form part of the broader option set that could help address the energy gap caused by the decline in production of domestic gas. All options are set out in the attached slide deck.
12. The Review is likely to be considered by Cabinet in August. Given the interplay between the Review, LNG, and other energy options, you may wish to consider the sequencing of Cabinet papers.

Draft Cabinet paper on importing LNG

13. Attached is a draft Cabinet paper as discussed with MBIE last Monday. This draft paper provides an update for your Cabinet colleagues on the proposed procurement process for LNG, should Cabinet agree to go forward with Crown investment in LNG importation, and also, a description of what has been found through the discovery process that has been undertaken thus far. There have been a number of investigations into different possible configurations of LNG facility for New Zealand. It is clear that developing an LNG facility will not be simple.

14. Confidential advice to Government

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Confidential advice to Government

Scope of Cabinet paper and fit with the Review of Electricity Market Performance

21. A decision for the Government to procure LNG infrastructure (or not) fits within consideration of the overall energy mix for New Zealand, and also within the frame of decisions that will be made in relation to the Review. Given this, the attached Cabinet paper is currently drafted as a noting paper.
22. Treasury has suggested there may be interest in considering the sequencing of papers to Cabinet in order to support well-informed decision-making. This could involve an overview paper, followed by papers on the Review and actions for addressing the energy gap including LNG.
23. The Minister for Energy may wish to discuss your approach to the sequencing of papers to Cabinet with your colleagues at your meeting on Wednesday 23 July.

Investigating scenarios to address New Zealand's energy gap

24. As noted above, at a meeting on 18 June, the Ministers for Resources and Energy commissioned work on options for addressing New Zealand's energy gap. This commissioning built on work already underway.
25. Generally, markets provide the best allocation mechanism, however, in this instance the market may not deliver the best outcomes for NZ Inc and/or align with Government objectives. The lack of firm generation capacity in the electricity market, and up-front costs of switching to alternative fuels mean that the transition from a low-cost gas market, to one with limited supply and high prices, may mean greater disruption to the economy than would otherwise be the case. That said, government intervention also comes with risk, and so options need to be considered with care.
26. We have developed some scenarios that could go some way towards addressing the energy gap and reducing the impact on the economy by either increasing the supply of energy or reducing gas demand.
27. The attached slide pack sets out some of the costs and implications of different scenarios. It is designed to enable a high-level comparison of scenarios such as LNG or more coal against the status quo. Further work is required to firm up cost estimates, and develop options for interventions, should you wish to pursue these.
28. Confidential advice to Government

Confidential advice to Government



29. The options for additional action (beyond current market actions) that would have an effect on supply in 2026 and 2027 are extremely limited, and small in scale.
30. The scenarios vary in terms of scale, cost, and the level of government intervention required. These scenarios are an early output of our investigation, and include
 - a. indicative capital costs
 - b. estimates of the (equivalent) price per GJ of gas added or released back into the market
 - c. likely electricity prices for electricity generated using the indicated fuels and additional capital costs
31. These figures provide an order of magnitude, to illustrate which options might be most cost effective.
32. The scenarios include two options for importation of LNG (conventional- and small-scale), enabling them to be compared with other options.
33. This is preliminary analysis, and further work is required to develop more robust costings, and options for how government intervention might be done (regulation, investment, funding models, etc). We are seeking your direction on whether you would like further advice on any of the scenarios provided, and which ones.

MBIE recommends a broad procurement approach to address the gap

34. We recommend consideration of any role for Government in addressing the impact of declining gas supply, including whether the Crown should invest in LNG importation, should be taken alongside the Government's consideration of the Review of Electricity Market Performance.
 - a. As noted above, the option set for addressing the energy gap caused by the decline in production of domestic gas overlaps with the option set for addressing the dry year firming problem in electricity.
 - b. Considering these decisions together would allow Cabinet greater opportunity to consider the interconnected nature of the problems.
 - c. Aligning decisions will have a limited impact on timing for procurement

Analysis of the energy gap and resilience risks is underway

35. For electricity we have recommended that decisions on what specific fuel and/or generation kit are needed would follow a quantitative exercise to determine size of the firming 'gap' and

key resilience risks. This will identify what the market won't deliver, and specific kit or fuel disruptions that would spike the market. This work is due to be completed in November.

36. In parallel we can prepare a multi-criteria analysis of all options included in the slide deck, including, more robust estimates of costs, and likely use of infrastructure/fuel longer term (to inform whole of life costs). Both the modelling and multi-criteria analysis would support business case and regulatory impact analysis requirements.

Broader procurement may generate faster or cheaper solutions to the energy gap

37. A broader procurement process, including the scale of the energy gap, key resilience risks, and research into particular solutions already completed would enable the market to propose a combination of fuels and technologies to most cost-effectively address the energy gap.
38. We can prepare procurement documentation while the gap analysis is underway. This would mean government could go to market immediately following decisions in November. While this is a 2-3 month delay relative to the current LNG proposed timeline, alternative solutions could come on stream more quickly (as set out in the attached slide deck).

Indicative timeline for a consolidated procurement process

	Policy decisions and legislative process	Implementation work in parallel
Aug 2025	- Cabinet informed and considers wider energy and gas issues - Cabinet high-level decisions on Review ("agree to progress work on...") - Announcements on outcome of Review including to progress work on an entity to de-risk firm fuels and capacity	Interim commercial team established

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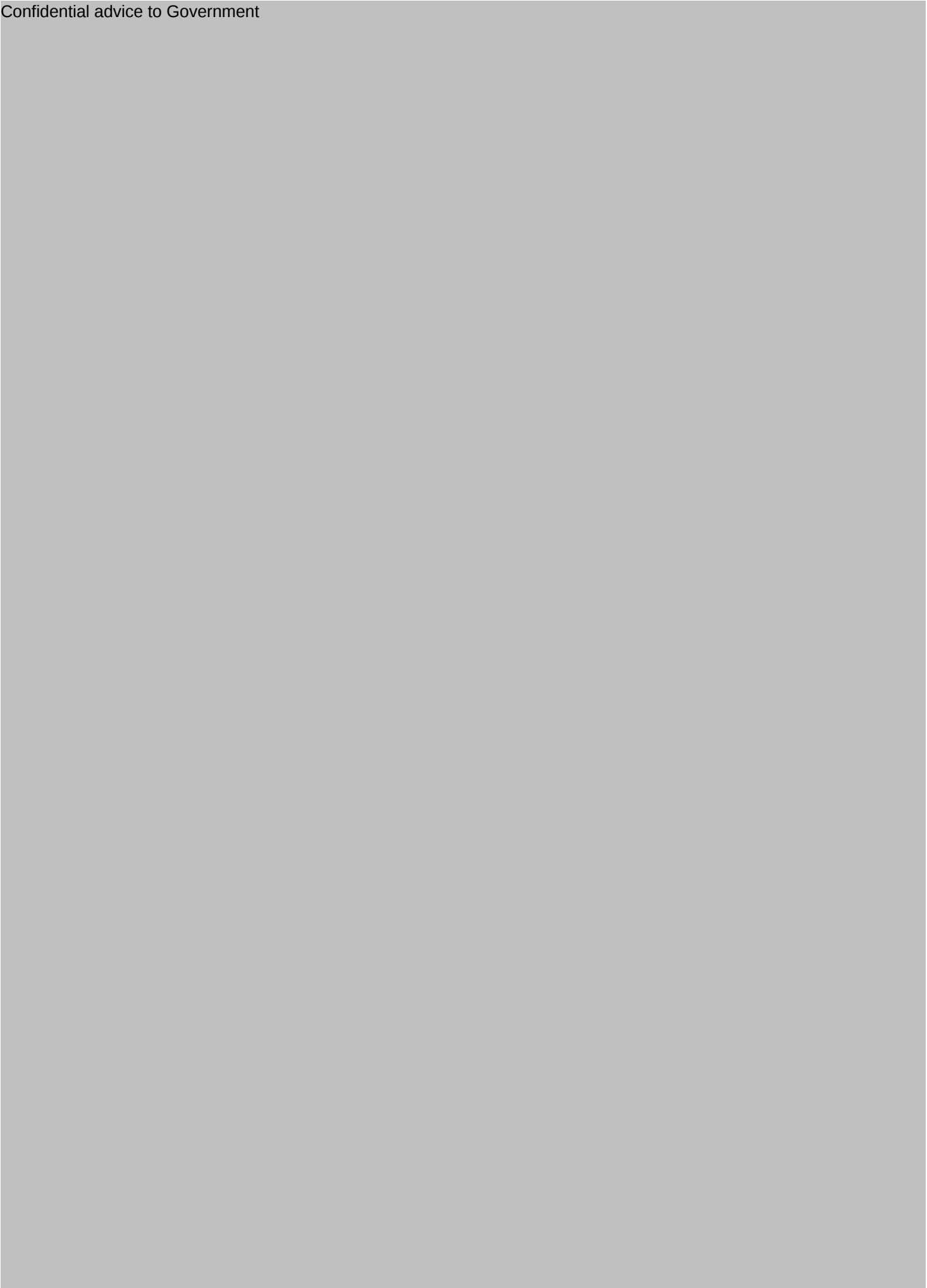
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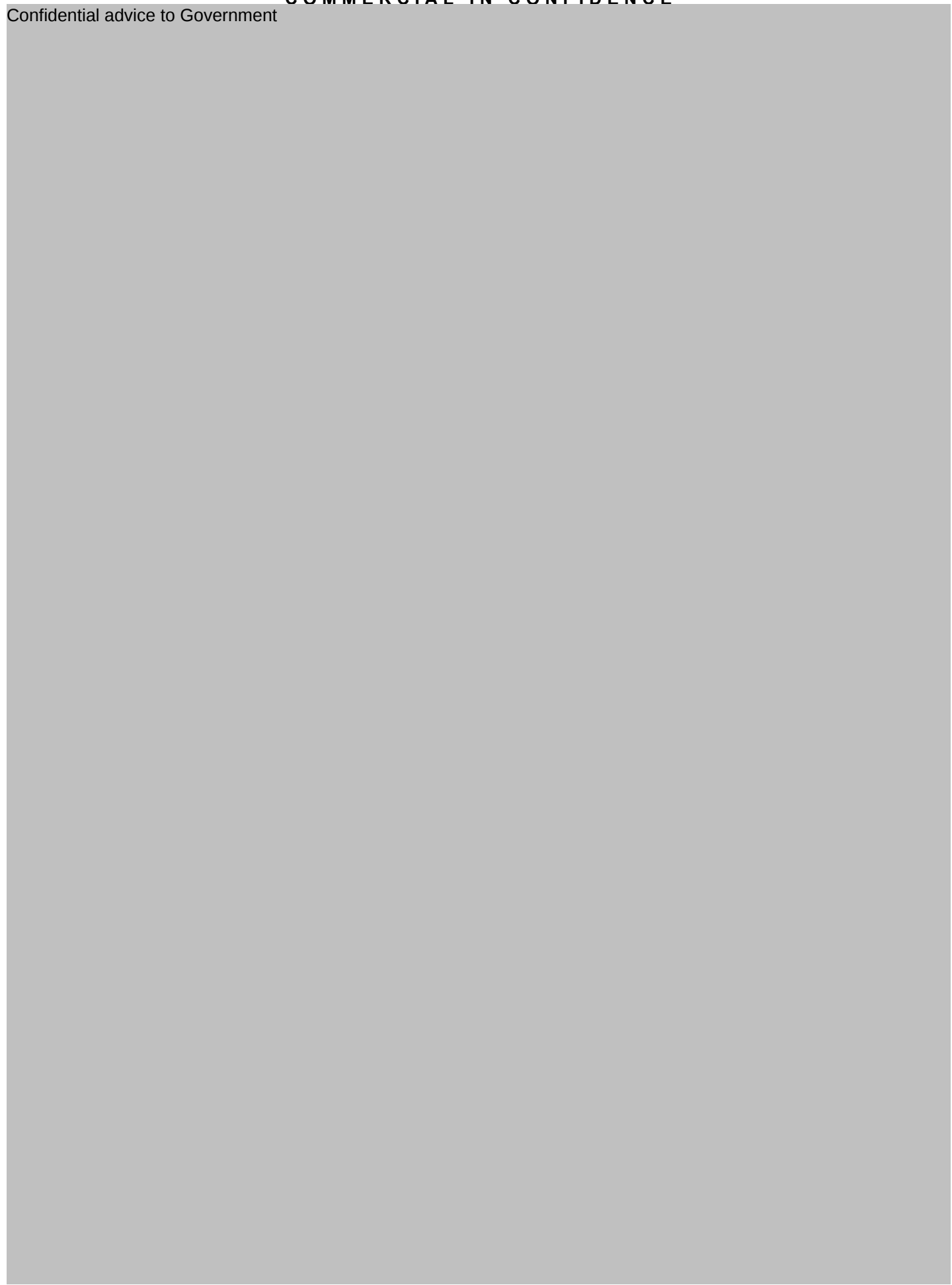
Annexes

Annex 1: Draft Cabinet Paper

Annex 2: Slides on addressing the energy gap caused by declining gas production



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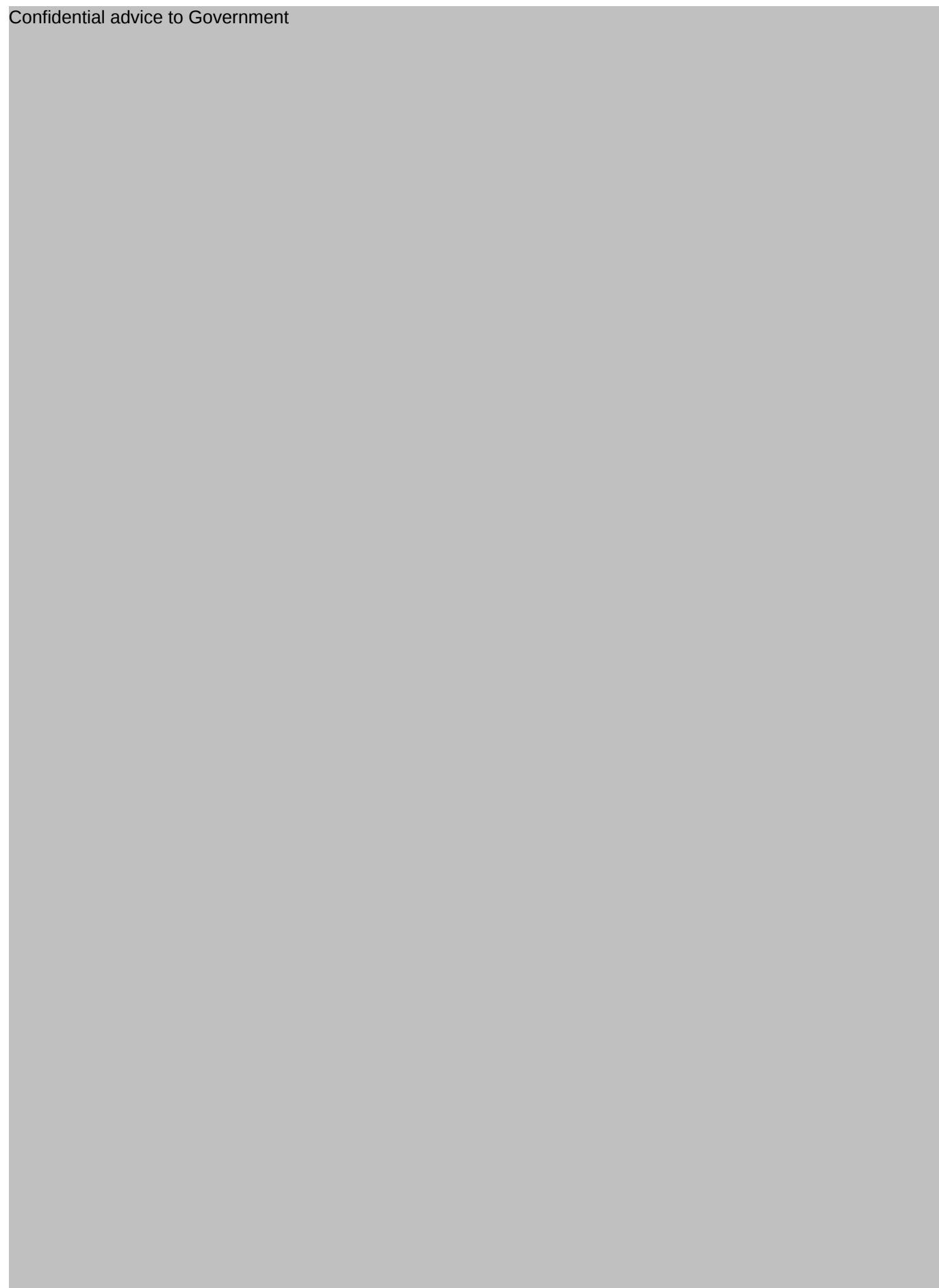
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Addressing the Energy Gap caused by declining gas production

Declining gas supply has implications for both gas users and the electricity market.

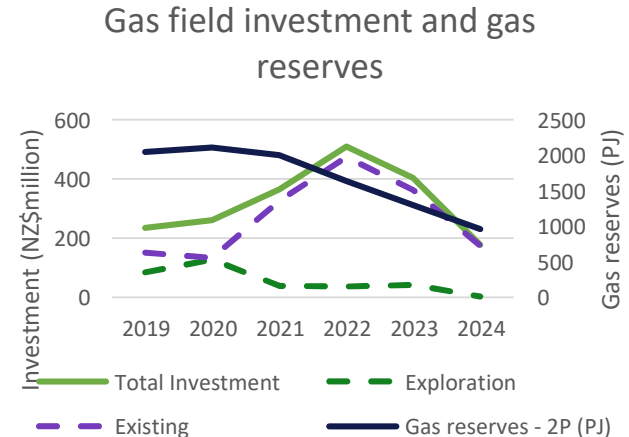
Following our advice in June on impacts of constrained gas on industrial users [BRIEFING-REQ-0015942 refers] and Government intervention options, you have asked for further advice on mitigating the impacts of declining gas production on industrial users.

This slide deck looks at the potential impact of different scenarios to alleviate consequences of diminishing natural gas supplies by either increasing the supply of energy or reducing gas demand.



Our economy has long been supported by low-cost gas...

- Gas supports our:
 - Electricity security of supply
 - A third of domestic gas is used for electricity
 - Gas is a key fuel for 'firming' intermittent renewables (dispatchable generation that is always available)
 - Economy and households
 - Gas supports 300 large industrial customers, 16,000 commercial businesses and 290,000 households
 - Some industrials' cost structures rely on cheap gas (\$10/GJ or less)
- Gas production is falling
 - Despite investment, domestic gas production and reserves have declined much faster than anticipated
 - The forecasted production for 2025 is down 24% on previous predictions.



Declining gas supply is impacting electricity prices and industrial activity...

- Declining supply and resulting increase in gas prices creates two key challenges:
 - A rise in electricity costs, driven by scarce firming
 - A rise in gas prices affecting the commercial viability of some firms
- Declining gas will see business closures (Detailed advice previously provided BRIEFING-REQ-0015942)
 - Some firms cannot switch energy source: technical barriers
 - Others cannot afford capital costs to switch fuels
 - Scarcity will mean some are unable to secure gas (others with ability to pay will outbid them)
 - Outsourcing the manufacture of energy-intensive finished goods to other countries is likely to be the most economic option in some cases



Under the status quo we can expect gas supply to shrink and demand to respond...*

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- Industry (in green) accounts for a significant share of current gas use in NZ
- Industrial use is dominated by five large users
- In 2024, Methanex accounted for around 43% of industrial use; Ballance 10%; Glenbrook 3.2%; Kinleith 4.2% and Fonterra 6.7%
- Estimates for 2026 and beyond are based on statements from Methanex and Ballance, and observed recent trends in gas demand



Is there a potential role for Government in addressing the impact of declining gas supply?

- The decline of gas is a rapid, unexpected change, with implications for gas users, including the electricity market
- Generally, markets provide the best allocation mechanism, however, in this instance the market may not deliver the best outcomes for NZ Inc and/or align with Government objectives
 - Gas shortages are a contributing factor to issues in the market for electricity generation – that is lack of investment in firm generation capacity
 - Regulatory barriers (perceived or real) prevent investment in options that address the energy gap, for example there is a reluctance to invest in fossil-fuel based energy supply
 - Investment uncertainty and/or up-front costs of fuel-switching result in a greater level and/or more rapid rate of industrial closures (impacts on GDP, unemployment)
- But Government intervention also comes with risks
 - Supporting firms that may not be viable long term anyway
 - Driving investment in technologies that may not be required long term, as cheaper alternatives may come to market (lower emission, more efficient)
 - Distortions in the electricity markets (or possibly direct gas-use market) that impact prices more, or for longer than the market impact of declining gas



Work underway to address the energy 'gap'

- Government actions:
 - Reversing offshore gas exploration ban
 - \$200m for co-investment fund for exploration
 - Enabling CCUS through RM Reforms
 - RM consenting reform, offshore renewable energy regulatory framework and Fast track Act
 - EECA support for switching (information, demonstration projects)
 - Developing enabling framework for an LNG gas facility
 - Improving information transparency in the gas market
 - Enabling greater generation from EDBs
 - Changing regulations to enable biogas supply and supporting sector development
 - Establishing the Woody Bioenergy Taskforce
 - Review of Electricity Market Performance (the Review)
- Industry actions:
 - Electricity demand response agreements from Tiwai and gas demand response from Methanex
 - Investigated the feasibility of importing LNG – but it is uncertain they will invest
 - Reducing reliance on gas
 - Importing more coal (Huntly Heads of Agreement)
 - Seeking to change consents regarding contingent hydro storage through the RM Fast Track



But further action could be taken...

- **For 2026 and 2027 there are limited options available, they include:**
 - Some energy efficiency or switching to alternative fuels for gas users (electricity, bioenergy, LPG, etc)
 - High Huntly coal stockpile and demand response (including gas deals) for electricity firming
- There are additional actions that could be taken now, including through the electricity **Review**, that would have an **effect from 2028 onwards**
- However, the Government could act now to bring new energy into the gas and/or electricity markets for future years to increase overall energy supply and/or displace current gas use by electricity to free up more gas for industrial gas users
- Various scenarios have been suggested by stakeholders. The rest of this slide pack is designed to enable a high-level comparison of scenarios such as LNG or more coal against the status quo
- We seek your direction on whether you would like us to develop more detailed advice (incl. detailed cost analysis, volumes required, and mechanisms for delivery).

Scenarios are indicative only – further work is needed

- The following table includes a range of scenarios that could increase supply and/or reduce demand for gas (subsequent slides provide further detail on each)
- It does not include incentives for additional gas exploration: a business case is underway to inform Cabinet decisions on how best to invest the \$200m tagged contingency
- All scenarios are indicative only to illustrate the range of options that could be considered
 - Energy added to the system is indicative, particularly for fuel swap scenarios
 - Further work is required to assess
 - whole of life costs and market prices
 - technical feasibility
 - possible unintended consequences/market response
 - Many options can be scaled up – further work is required to assess the upper limits of what the NZ energy system could use
- Impact on different types of users (ie switching and/or closures) have not been considered for these scenarios
- Most scenarios would require government intervention – regulatory, financial and/or contractual
 - A regulatory impact assessment has not been developed, in particular, there has been no consideration of market response or unintended consequences



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Next Steps

- We seek your direction on whether you would like further advice on any of the scenarios, and which ones
- A preferred option or package of options will require the development of more detailed and robust advice and consideration of trade-offs between cost, timeliness and scale
 - figures in this pack are highly indicative
 - funding options (co-investment, levies, regulatory mechanisms) need to be developed
- We recommend consideration of any role for Government in addressing the impact of declining gas supply be taken alongside the Government's consideration of the Review of Electricity Market Performance



Annex: Status Quo Gas Supply and Demand Assumptions

Data sources for 'base case':

- o MBIE data tables for gas [XLSX, 375 KB]: [gas-2025-q1.xlsx](#)
- o MBIE petroleum reserves data tables [petroleum-reserves-1-jan-2025.xlsx](#)
- o Gas Supply and Demand Study 2024 (GIC) : https://www.gasindustry.co.nz/assets/CoverDocument/GasSupplyAndDemand_2024_11_28.pdf
- o Data obtained from GIC on gas usage statistics for major consumers (2018-2025)

Assumptions:

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- o Non-energy use and Industrial categories have been collapsed into one (industrial). The agricultural category has been omitted from the analyses given the very small amount of PJs consumed by the sector (averaging only around 1.2 PJ/y over the 2020-2024 period)
- o Pre-2030 industrial figures are total industrial usage figures from MBIE gas data tables minus Methanex and Balance figures. Data for the latter sourced from GIC tables.

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- o Commercial and residential figures for 2030 and 2040 are based on GIC 2024 Supply and Demand report. Figures for 2026 and 2035 are average of proceeding and following data points

