MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

Update on the case for LNG

Date:	1 April 2026	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	BRIEFING-REQ-0030426

Action sought		
	Action sought	**Deadline**
Hon Simon Watts **Minister for Energy**	**Forward** this briefing to the LNG Ministerial Reference Group	2 April 2026

Contact for telephone discussion (if required)			
Name	**Position**	Privacy of natural persons	**1st contact**
Sharon Corbett	Policy Director, Energy Markets		✓
Babu Bahirathan	Programme Director, LNG		✓
Rebecca Heerdegen	Policy Director, Energy Markets		

The following departments/agencies have been consulted

Minister's office to complete:

- ☐ Approved
- ☐ Noted
- ☐ Seen
- ☐ See Minister's Notes
- ☐ Declined
- ☐ Needs change
- ☐ Overtaken by Events
- ☐ Withdrawn

Comments

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Purpose

To provide an update on the case for LNG in light of recent developments, including the Middle East conflict and updated information on domestic gas production.

Executive summary

Cabinet agreed in December to proceed with procurement of an LNG import terminal to address New Zealand's dry-year risk. While global conditions have shifted since then, the updated analysis in this briefing reinforces that the case for LNG has strengthened rather than weakened.

Although the conflict in the Middle East has disrupted global LNG supply and lifted LNG spot prices, New Zealand LNG users will not be purchasing LNG until 2028, and LNG forward prices for 2028–29 remain broadly consistent with the assumptions previously considered by Cabinet. The medium-term outlook for global LNG supply remains positive as new production from North America comes online. Recent events underline the importance of diversification, contracting and hedging to manage volatility, rather than calling into question the strategic value of having access to LNG.

It is also important to note that LNG prices do not affect the cost of the LNG import facility itself. The Government is procuring the terminal only (currently estimated at around Commercial Information and this cost is independent of LNG commodity prices. The LNG molecules would be purchased by electricity generators and other gas consumers in due course.

The core benefit of LNG remains unchanged: it provides access to reliable fuel for gas-fired electricity generation in dry years at a cost well below the extreme spot prices otherwise expected. In 2024, dry-year spot prices exceeded $800/MWh. Since then, domestic gas production has declined materially, and without LNG, future dry years are expected to have more severe consequences. In particular, the expected cessation of Māui production and the exit of Methanex will remove both a major source of domestic gas and the "circuit-breaker" that has previously enabled gas to be redirected to electricity generation in dry years.

By contrast, markets have responded positively to the Government's LNG decision, with electricity forward prices for 2028 and 2029 falling by around $20/MWh since the announcement, reflecting r educed concern about dry-year shortages. Confidential information entrusted to the Government

Recent analysis, including the latest Gas Supply and Demand Study, points to a disorderly gas transition without LNG, with increasing security-of-supply risks, higher gas and electricity prices, and accelerated demand destruction. LNG materially reduces these risks by stabilising gas supply, lowering electricity prices, and supporting an orderly transition while the renewable build-out continues and longer-term firming options emerge.

Recommended action

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

a **Note** MBIE's updated advice on the case for LNG

Noted

b **Forward** this briefing to the LNG Ministerial Reference Group

Agree / Disagree

Sharon Corbett **Policy Director, Energy Markets** MBIE	Hon Simon Watts **Minister for Energy**
01 / 04 / 2026	..... / ..... / .....

Background

1. In December Cabinet considered the case for LNG and decided to proceed with procurement of an LNG facility.

2. In the three months since that decision, some context has shifted:

    a. The Middle-East conflict has disrupted global LNG supply and caused prices to rise

    b. Domestic gas supply has continued to decline and the gas sector regulator has released the latest Gas Supply and Demand study which points to a disorderly transition without LNG

    c. The electricity market appears to have factored the LNG announcement into their trading of electricity forward contracts.

3. As requested, the purpose of this briefing is to outline how these factors have impacted the case for LNG. This briefing also briefly outlines next steps in the procurement process.

Middle East conflict

4. The conflict in the Middle East has disrupted global energy markets, including LNG supply, alongside impacts on oil and transport fuel prices. LNG prices have increased in response. This has prompted questions about the Government's decision to procure an LNG import facility, and whether that decision remains appropriate given current market conditions.

Long-term LNG supply outlook remains broadly positive despite near-term disruption

5. LNG prices do not affect the cost of the LNG import facility itself. The Government is procuring the terminal only (currently estimated at Commercial Information and this cost is independent of LNG commodity prices. The LNG molecules would be purchased by end-users in due course; where LNG is used for electricity generation, electricity generators would pay for the LNG in the same way as any other generation fuel.

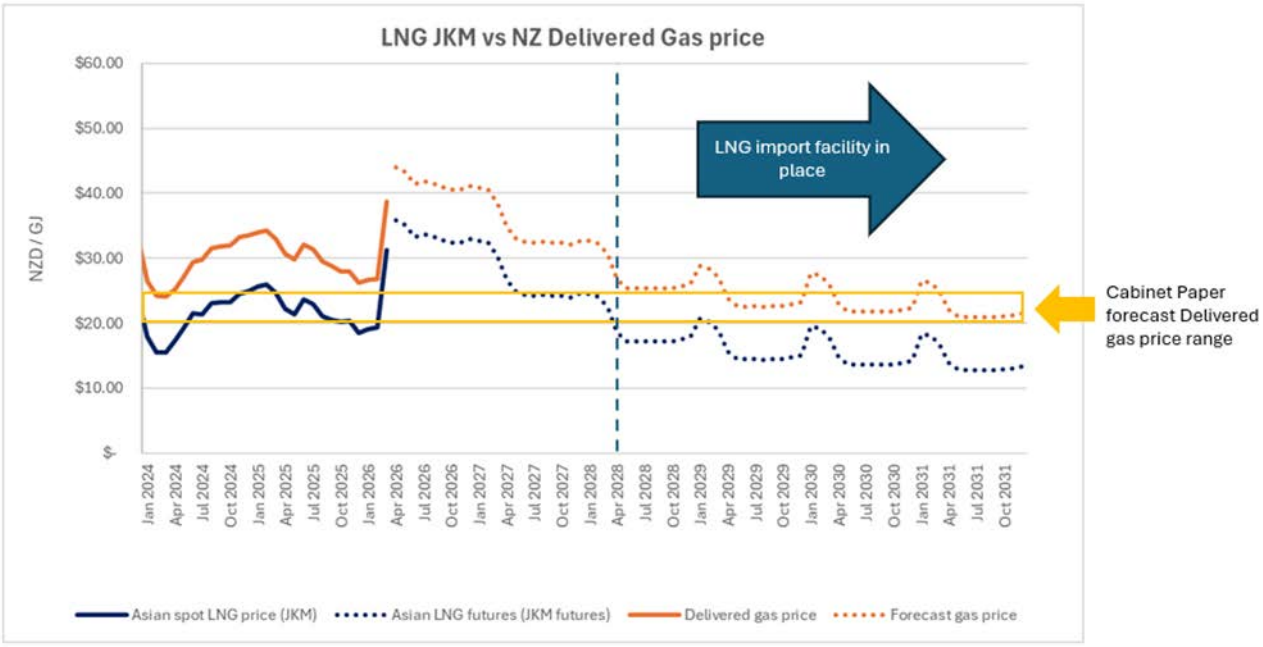
6. New Zealand LNG users will not purchase LNG until the import facility is operational, expected ahead of winter 2028. While current geopolitical developments have increased near-term uncertainty, the medium- to long-term outlook for global LNG supply remains broadly positive:

    a. Prior to recent geopolitical developments, 2026 was expected to mark the beginning of a period of global LNG oversupply, driven by approximately 7 per cent growth in LNG production from Qatar and North America. On this basis, spot LNG prices were forecast to decline from around USD 12/GJ in 2025 to an average of approximately USD 9/GJ over 2026–2028.

    b. However, the conflict in the Middle East has resulted in an estimated 20 per cent reduction in global LNG supply, reflecting the suspension of exports from Qatar. Qatar has signalled an intention to resume production once the security situation stabilises, although the longer-term implications for well recovery and gas production remain uncertain.

    c. Despite this uncertainty, current LNG futures prices for 2028 and 2029 remain consistent with the price assumptions used in earlier Cabinet analysis of the role of LNG. Figure 1 below shows historical LNG prices and current LNG forward prices (blue line), alongside estimated delivered prices to New Zealand (orange line).

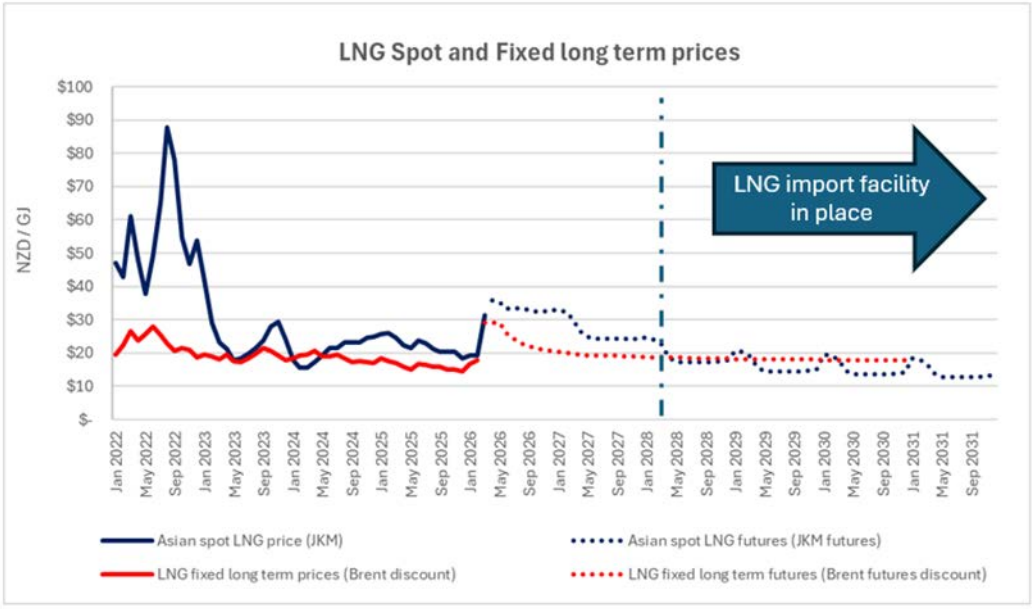
Figure 1: Forecast LNG price



7. Taken together, this suggests that while short-term volatility has increased, market expectations for LNG prices at the time New Zealand would be purchasing LNG have not materially changed.

Managing volatility through contracting and sourcing strategies

8. The current situation reinforces the importance of contracting and hedging strategies to manage price volatility once LNG imports commence. Figure 2 illustrates how long-term LNG contracts can insulate buyers from price fluctuations; in particular, the red line shows LNG contracts (these are typically priced at 12–15 per cent of Brent crude oil prices meaning fluctuations are muted).

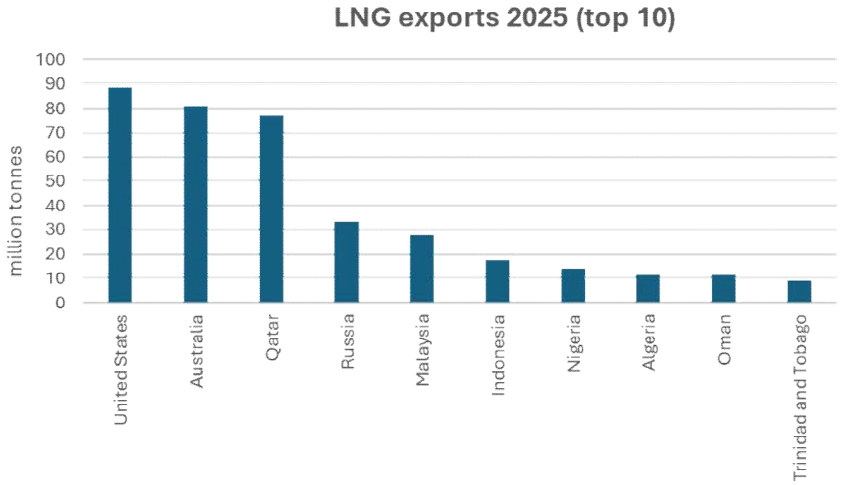


9. The situation also reinforces the value of diversified sourcing strategies. Figures 3 and 4 illustrate global LNG trade flows and exports by country, highlighting New Zealand's ability to

source LNG from multiple regions, including North America and Australia, reducing exposure to regional supply disruptions.

Figure 3: Global LNG trade between regions

Figure 4: LNG exports by country in 2025



Even if LNG prices rise, its core value is ensuring gas for generation in a dry year

10. The core value of LNG for our energy system is that it will enable our electricity system to run gas-fired generation to keep the lights on in a dry year:

    a. As long as the cost of running our generation on LNG is less than the spot prices that would otherwise be expected in a dry year, it will put downward pressure on electricity prices.

    b. As explained in the December 2025 LNG Cabinet paper, without dry year cover, spot prices would be expected to go very high. In 2024 spot prices exceeded $800/MWh and domestic gas production has declined markedly since then (see section below on gas production). This is far above the cost of generating electricity from LNG, even if the price of LNG doubled.

    c. This risk of very high spot prices in a dry year was adding a $30-$50/MWh risk premium to electricity contracts, which set the prices paid by most households and businesses.

LNG remains the strongest option to address the dry year problem quickly

11. While recent global supply disruptions highlight the importance of diversified energy supplies and energy self-sufficiency where possible, MBIE remains of the view that LNG is the strongest option to address the dry-year problem, particularly in the required timeframe:

    a. There is no renewable solution that can address the problem in time given New Zealand's rapidly declining gas production (see next section for an update).

    b. The business case showed that the next best option (after LNG) to address the dry year problem involved increased use of diesel generation. However, diesel is subject to the same geopolitical risks as LNG and has a much higher cost of generation.

    c. Over the longer term, a wider range of solutions may emerge. LNG is a flexible, transitional option: it sits at a higher position in the generation cost stack than renewables and therefore does not undermine incentives for investment in lower-cost or emerging technologies as they become viable.

Gas production update and the Gas Supply & Demand Study

Domestic gas production continues to decline

12. The December Cabinet paper on LNG canvassed New Zealand's rapidly declining gas production. We now know that gas production declined 14 per cent in 2025. Commercial Information [redacted] This means we will have insufficient gas to fuel electricity generation in a dry year, because Methanex (fuelled by gas from Māui) is the only player that offers seasonal flexibility to release the high volumes of gas needed by electricity generators during dry years.

The 2026 Gas Supply and Demand Study underscores the need for LNG in the face of rapidly declining gas supply

13. On 12 March 2026 the Gas Industry Company released its annual Gas Supply and Demand Study, undertaken by PwC. The study underscores the urgent state of New Zealand's rapidly declining domestic gas supply. Key findings include:

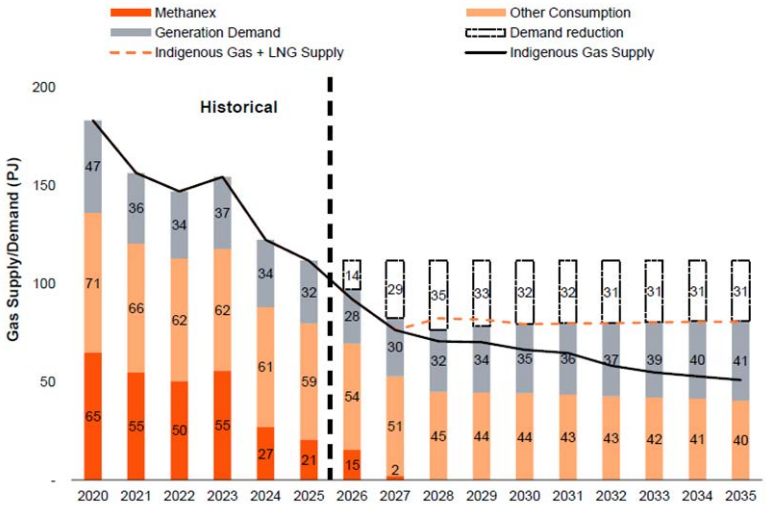
    a. Domestic gas production halves by 2035, requiring demand (excluding Methanex) to reduce by 44 per cent over the decade. Delivered gas prices [without LNG] are projected to rise to around $31 per GJ by 2035.

    b. Even in a normal hydrological year, [without LNG] consumers will face a rapid and potentially turbulent gas transition, resulting in businesses switching to more expensive fuel sources or closing their operations, while gas-fired electricity generation is forced to operate at constrained levels.

    c. In dry years, particularly from Winter 2027 onwards (assuming Maui and Methanex are no longer operational), the energy system will face increasing security of supply risks, with the loss of flexible gas to support electricity generation, and the potential for higher gas and electricity prices, further industrial closures, and accelerated demand destruction.

14. Figure 4 below shows the study's forecast of gas supply and demand with LNG (orange dotted line) and without LNG (black line). Introducing LNG helps stabilise total gas supply and prices, reduces structural scarcity pressures, and restores confidence in the market to support an orderly gas transition.

Figure 4: Gas supply and demand scenarios



Electricity forward prices

15. As set out in the LNG Cabinet paper in December, MBIE expected that the availability of LNG would reduce electricity forward contract prices by *at least* $10/MWh reflecting lower dry-year risk and improved security of supply.

16. Consistent with that expectation, since the Government announced it would procure an LNG import facility on 9 February, electricity forward prices for 2028 and 2029 have been consistently $10–$30/MWh lower than pre-announcement levels. These price reductions have occurred ahead of any cost recovery, which will not commence until the facility is operational.

17. Market commentary has explicitly linked the reduction in forward prices to the LNG announcement, including:

    a. Enerlytica, which has reported that declining forward prices indicate the market is signalling early support for the LNG facility and its risk-mitigation role.

    b. Forsyth Barr, which has noted that the LNG facility announced on 9 February appears to have been a key factor in the decline in 2028 and 2029 ASX electricity futures prices.

Consequences of a dry year without LNG

18. LNG imports would provide access to sufficient gas for the electricity system to respond to a dry year. Without LNG, system resilience is materially reduced.

19. As shown in Box 1, this risk is increasing due to the expected cessation of Māui field production and Methanex's exit from the New Zealand gas market. Together, these remove:

    a. a major source of domestic gas supply (Māui), and

    b. the effective "circuit-breaker" provided by Methanex, which previously diverted gas to electricity generators during dry years (including 2021, 2024 and 2025).

Box 1: A future dry year is expected to have more extreme consequences than 2024

2024 dry year (with Methanex available):

- Total domestic gas production: **~122 PJ**
- As hydro storage declined, gas-fired generation could not run at full capacity due to fuel constraints. Huntly Unit 5 (New Zealand's largest, most efficient gas unit) ran at only 65% over winter
- Spot electricity prices exceeded **$800/MWh** in early August
- Methanex subsequently curtailed operations for three months, supplying **6.7 PJ** of gas to electricity generators, stabilising the system

Hypothetical 2028 dry year without LNG:

- Total domestic gas production: **~70 PJ**
- Gas-fired generation would be **more fuel-constrained than in 2024** as illustrated in Figure 4 above.
- There would be **no mechanism to redirect material volumes of gas** to electricity generators
- This creates a **genuine risk of energy shortages and extreme spot prices**, including scarcity pricing (> **$20,000/MWh**) and outages if generation cannot meet demand. If the forecast risk of electricity shortage exceeded 10 per cent, an official conservation campaign would be required
- In an extreme scenario where gas supplies were exhausted before hydro recovery, and other mitigation measures proved insufficient, **rolling outages would be required as a last resort** to preserve system integrity
- In effect, the 2028 system would face a dry year with significantly less gas supply, no circuit-breaker, and no substitute firming capability

20. Absent access to LNG, a dry year could be expected to unfold as follows:

    a. Electricity spot prices rise sharply, signalling a heightened risk of shortage. Unhedged industrial users may be forced to curtail or close operations. Generators would activate existing demand-response agreements (e.g. with the aluminium smelter) and seek additional demand response at escalating cost.

    b. With no Māui/Methanex circuit-breaker, hydro lakes would continue to run down and prices would likely exceed those observed in 2024. Industrial gas users would face increasing difficulty renewing supply contracts; although any gas redirected from these users would be insufficient to materially address the scale of the dry-year shortfall.

    c. If the forecast risk of electricity shortage exceeded 10 per cent, an official conservation campaign would be required. Rolling outages would be a last-resort measure to maintain system stability.

21. Even in average hydrological conditions, the absence of LNG would embed a persistent risk premium in wholesale and forward electricity prices, estimated at $30–$50/MWh, reflecting the system's reduced ability to manage dry-year risk. As above, this premium has reduced by around $20/MWh since the Government's announcement to proceed with LNG [redacted]

22. While the rapid build-out of renewable generation is improving the overall supply–demand balance, it does not address the dry-year problem. New Zealand will require significantly more renewable generation to meet rising electricity demand as the economy electrifies, and this build-out is underway, with the system on track to reach 95–98 per cent renewable electricity. However, hydro lakes provide only around six weeks of storage, and New Zealand can experience prolonged periods of low hydro inflows coinciding with low wind and solar output. As a result, access to significant long-duration firming remains necessary to maintain security of supply in dry years.

Procurement Update

Process towards signing a contract in mid-2026

23. The procurement process for the supply of LNG facility services (the installation and operation of an LNG facility) to New Zealand is well advanced. Commercial Information

24. Annex 1 summarises the process towards signing a contract in mid-2026 including the following near-term milestones:

Commercial Information

25. We note that pausing procurement at this stage would likely increase perceptions of risk by respondents, potentially limiting future interest, and/or increasing the cost of a facility.

Annexes

Annex One: LNG Procurement Process

Commercial Information