



BRIEFING

Procurement overview for the importation of Liquefied Natural Gas

Date:	9 July 2025	Priority:	High
Security classification:	In Confidence	Tracking number:	BRIEFING-REQ-0017428

Action sought		
	Action sought	Deadline
Hon Simon Watts Minister for Energy	Discuss at your weekly meeting with officials	15 July 2025

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Justine Cannon	General Manager	s 9(2)(a)	
John Scott	Policy Director		✓

The following departments/agencies have been consulted
The Treasury and DPMC have been sent this briefing and commented on a draft.

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☐ Withdrawn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 provides you with an update on the work to develop a procurement framework for liquefied natural gas (LNG).

Executive Summary

LNG is one option for addressing the energy shortage resulting from the decline of gas supply. In line with Cabinet direction, MBIE has been reviewing a suite of LNG options and preparing a procurement approach for government investment. The options identified include:

- Conventional (large) -scale LNG, s 9(2)(ba)(i)
- Small-scale LNG s 9(2)(ba)(i) (whole of life costs approximately \$0.5 billion, excl. LNG)
- s 9(2)(ba)(i)

The private sector may develop a small-scale LNG facility at some point, but there is no guarantee of this. Further, it is not clear that a small-scale scheme is feasible from a logistical viewpoint or is suitable for New Zealand's needs. The private sector is unlikely to develop a conventional-scale LNG facility. Work on LNG will have to be driven by Government if LNG is to be a reality in New Zealand in the foreseeable future.

There is no stand-out location to host a conventional -scale LNG facility and the timeframes to deliver a conventional-scale facility vary from site to site. s 9(2)(ba)(i)

A technical peer review of s 9(2)(ba) proposal is underway and will be complete in late July.

Two potential approaches for procurement have been identified. The first would be to run a relatively traditional procurement approach, which would see contracts signed with a preferred supplier of LNG infrastructure mid next year. The earliest that LNG might be available through this route is s 9(2)(ba) .

If the peer review of the s 9(2)(ba)(i) is positive, an alternative procurement approach would s 9(2)(ba)(i)

MBIE would want a high degree of confidence that s 9(2)(ba)(i) could deliver before a decision is made to proceed with the s 9(2)(ba)(i) approach. s 9(2)(ba)(i)

We are also developing advice on the suite of options that the Government could consider for addressing the energy gap created by declining gas supply. We are including LNG in that assessment. This broader advice will be with you shortly.

Following your consideration of this broader advice, we would propose to prepare a draft Cabinet paper to seek agreement to the best option / package of options for the Government to adopt to manage through the declining gas supply, including whether to invest in LNG.

Recommended action

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

- a **Discuss** this briefing with officials

Discuss

- b **Note** additional advice will be provided to you shortly on the suite of options for addressing the energy shortfall

Noted

- c **Note** that following that advice and subject to your considerations, we will prepare a Cabinet paper for decisions on the Government's preferred approach

Noted

s 9(2)(a)

Justine Cannon
Energy Markets, MBIE

Hon Simon Watts
Minister for Energy

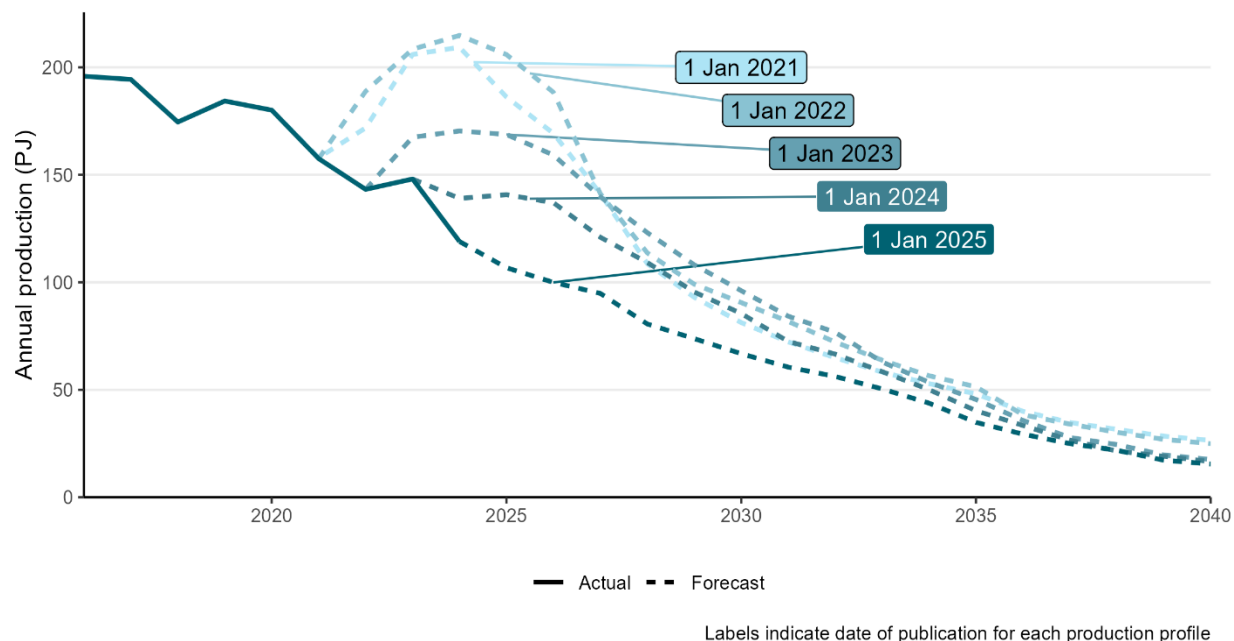
10 July 2025

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Background

1. Since 2021, gas reserves have halved, resulting in higher costs and in some cases difficulty in accessing supply. Supply continues to be below the sector's own forecasts despite significant investment. Production in 2025 is forecast to be 107 PJ, 24% lower than previously forecast. This represents a drop in production of close to 40% since 2020. This has impacted both electricity and broader energy markets. Reliable domestic gas supplies have underpinned much of the flexible and firm generation required to deliver reliable and low-cost electricity in recent decades, as well as low-cost energy and feedstock for industrial use.

Production forecasts and production outcomes as reported to MBIE (2021 to 2025)



2. In May 2024, the Gas Security Response Group (GSRG) was set up to address challenges in the gas market. This included an industry-led workstream on investigating LNG imports as one way to reduce the risks to security of supply for energy and electricity.
3. In August 2024, Cabinet agreed [ECO-24-MIN-0172] to develop an Energy and Electricity Security Bill, which would (among other things) remove barriers to the construction and operation of an LNG gas facility. Progress on this Bill is on hold, pending the review of electricity market performance and / or decisions on importing LNG.
4. In April, Cabinet [ECO-25-MIN-0055] directed development of a procurement framework for Crown investment in LNG imports, taking account of industry investigations into small-scale LNG options and the independent review into electricity market performance.¹
5. Alongside work on LNG, you are also currently considering
 - a. the review of electricity market performance, and
 - b. further options for addressing the impacts of the decline in gas supply.

¹ LNG import facilities are described as being either conventional- (large) scale or small-scale. These terms refer to the size of the cargo of LNG that services the facilities. There is a common cargo size internationally (approx. 174,000 cubic metres (m³) of LNG) – this is referred to as conventional-scale. There is a range of smaller sized cargoes (with smaller cargo ships).

6. A decision to develop an LNG import facility could be made independently of these, however, we recommend considering the suite of options in the energy market to ensure a least cost transition and options that are consistent.

What is LNG and might it be useful to New Zealand?

What is LNG

7. LNG is natural gas that has been cooled and liquefied so it can be transported relatively easily. Liquefying natural gas reduces its volume by about 600 times. Once an LNG cargo arrives, it is transferred to a storage unit and regasified so it can be used as natural gas. Storing and regasifying LNG isn't a trivial exercise; LNG is stored and transported at -160°C.
8. LNG is a proven technology that is commonly deployed overseas. Small-scale options are typically quicker and cheaper to develop than conventional-scale options but may not fit New Zealand's energy and electricity needs as well. Both are discussed below.

How might LNG be useful to New Zealand

9. There are significant potential benefits associated with LNG. Specifically, LNG could provide fuel for:
 - Managing 'dry year' risk in the electricity system
 - Electricity firming, and
 - Industry, commercial users and households.
10. LNG is likely to come in at a higher price point (potentially around \$25/GJ) than domestic natural gas has historically been available. Anecdotally, businesses have indicated price increases from around \$7-\$8/GJ in 2018 to \$25-\$35/GJ in 2025. At these prices, demand will change. Alternative fuels will become more economic, for example, and we would expect some industrial demand reduction (either through fuel switching, lower production levels, or closures). LNG may provide a cap on gas prices, which could offer lead time for firms to switch to other energy sources.

Dry year risk – LNG offers a flexible response option

11. In the context of managing dry year risk, LNG would essentially be an insurance policy. In some years it will not be needed for this purpose. But the consequences of the *risk* a dry year poses are significant, even if the "lights may not go out".
12. When faced with a dry year, electricity generators tend to bid at whatever price is necessary to acquire fuel (or take actions to decrease demand). The positive aspect of this is that the lights tend to stay on in dry years. The negative impact is that those with less financial flexibility or that are not fully hedged are squeezed in terms of production and profitability in a dry year. Industrial and commercial businesses have felt the pain of decreased domestic gas production through increased prices for electricity and gas. Some industrial and commercial businesses have also felt the pain through difficulty in obtaining gas. This has reduced economic activity and contributed to some of the de-industrialisation we have recently seen.
13. Coverage for a dry year would require at least 10PJ of LNG (producing 1TWh), assuming coal-based generation is maximised (covering half of dry year requirements, or 1.5TWh), and demand response from Tiwai (0.7TWh).

Gas for firming – LNG could be part of the thermal mix, along with domestic gas, coal and diesel

14. LNG could also be used to ensure that there will be sufficient dispatchable fuel available for “firming” new renewables coming into the electricity system. This would provide confidence for generators to invest in *more* intermittent renewable generation than otherwise would be the case.
15. Average electricity prices may well drop relative to a counter-factual of not having LNG. LNG would build confidence in the market and would remove much of the risk premium currently in forward pricing and it would also reduce the scarcity spot pricing that happens in dry years such as 2024. As noted above, perceptions around the availability (or otherwise) of domestic gas are currently factored into the forward electricity price curve, resulting in elevated prices.
16. Further advice on options for addressing the impacts of falling gas supply is in development. This considers use by the electricity sector as well as industrial users.

Industry, commercials and households may look more to alternatives

17. LNG could also be used as a fuel outside of electricity generation. It may be economic for some industrials, commercials and households to use gas produced from LNG. However, many industrial gas users require gas at a price well below likely prices for LNG-sourced gas. This is likely to drive switching e.g. electrification, and/or closure of some industrials. We have previously briefed you on impacts of constrained gas supply on industrial users (Briefing-Req-0015942).

Investigations into LNG import facilities

Investigations into a conventional-scale LNG import facility

18. In late 2024, a feasibility assessment of conventional-scale LNG import options for New Zealand was prepared by Gas Strategies (a UK firm) for an industry consortium – as per the workstream set up under the GSRG. This work identified four preferred locations (over 30 locations were considered). The differences in terms of cost and time to first delivery of LNG as estimated by Gas Strategies between the different sites are significant.²

Costs and timeframe for conventional-scale LNG import facilities (Gas Strategies 2024)

Site	Whole of life cost (central estimate, excl LNG, \$m)	Total cost annualised over 15 yrs (\$m/yr)	Estimated time to first possible LNG (months)
s 9(2)(ba)(i)			

19. s 9(2)(b)(ii)

² The timeframes in the table do not include time for procurement but they do assume normal consenting processes.
s 9(2)(ba)(i)

20. Based on further work MBE has undertaken, we consider that the delivery times quoted above might be able to be reduced assuming (1) with regulatory support and (2), s 9(2)(ba)(i) s 9(2)(ba)(i) advance investment in port works.

21. A peer review of the Gas Strategies work has nearly been completed. This peer review suggests that the Gas Strategies reports are “comprehensive” s 9(2)(ba)(i)

22. s 9(2)(ba)(i)

Investigations into a small-scale LNG import facility

23. Gas Strategies also undertook a study into the possibility of a small-scale import facility (May 2025). The key finding of this work is that it is possible to develop a small-scale LNG import facility at s 9(2)(b)(ii) without significant port upgrades. It is not clear however that small-scale ships will be able to berth and obtain gas at a sufficiently nearby port. s 9(2)(ba)(i)

24. A range of small-scale options exist; the model developed by Gas Strategies would see between 7-9 PJs / year of gas entering New Zealand – perhaps in time for winter 2028. This would need to be supported with significant underground gas storage (as supply could not be ordered as required, but on a continuous stream) and may not meet the full needs for a dry year.

s 9(2)(ba)(i)

25. The small-scale proposal includes LNG supply as this is integral to the commercial arrangements. The costs of LNG have, therefore, been included in the annualised cost estimates developed by Gas Strategies. For comparison with the other proposals, MBIE has also presented figures that are LNG exclusive. It’s also worth noting that annualised costs are for 7 years only, s 9(2)(ba)(i)

Other possible LNG import facilities

26. There are two possible LNG import facilities that officials are aware of that were not covered in the Gas Strategies reports. These are:

a. s 9(2)(ba)(i)

s 9(2)(ba)(i)

b. s 9(2)(ba)(i)

27. s 9(2)(ba)(i)

28.

Private sector interest in developing an LNG scheme

29. s 9(2)(ba)(i)

30.

Volume of gas required through an LNG facility

31. Work to determine how much gas might be needed from LNG is underway. This isn't a straight-forward exercise, as

- a. LNG would be a relatively costly fuel that would fill in gaps between different fuel types,
- b. there are many ways in which the New Zealand energy sector could evolve in terms of both the level of thermal kit in the electricity / industrial / commercial sectors, and the future available (thermal) fuel mix, and
- c. demand is likely to change in response to future energy costs as well as levels of economic growth

There are different estimates of gas requirements in the future, ranging from 10 – 28 PJ

32. Recent EA work suggests that in a dry year, between 18 and 20 PJs of gas would be required to run the existing thermal kit to support electricity generation [assuming that the

s 9(2)(b)(ii)

Rankines run fully on coal, there is no TCC and a Tiwai demand response]. The EA work does not comment on whether this would come from domestic gas or imported gas (LNG).

33. The conventional-scale Gas Strategies report estimated that in the period up to 2030, approximately 10 PJs may be needed from LNG to cover dry year risk. The Gas Industry Company was involved in developing this estimate, building on modelling carried out by EY. The same report identified a post-2030 structural demand scenario that could see LNG fill a gap of up to 28 PJs. This structural demand scenario assumes that domestic gas production continues to decline.
34. MBIE analysis into the possible gas supply and demand balance in 2030 and 2040 is ongoing. But the work done thus far suggests that the future gas balance will be very tight. We will provide you advice soon that will look at a range of scenarios, including
 - a. maximising use of coal ie Rankines are running fully on coal in dry years
 - b. s 9(2)(ba)(i)
 - c. Options on other fuel mixes: including diesel, bioenergy, and demand response.

Procurement approach

35. There is a high degree of complexity involved in determining the “best” LNG import facility for New Zealand. Should Government decide to invest in LNG infrastructure, we must be sure that:
 - a. the project is likely to be operational in the agreed timeframe,
 - b. costs and risks are adequately understood and apportioned between the various parties, and
 - c. the project delivers across technical, commercial, environmental and operational considerations.
36. Experience overseas suggests that an overly accelerated process is likely to compromise elements of delivery.
37. Two different approaches for procurement are being developed s 9(2)(ba)(i)
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
38. s 9(2)(ba)(i)
[Redacted]
39. [Redacted]

s 9(2)(ba)(i)

s 9(2)(ba)(i)

40. Under both scenarios, a technical and commercial team will need to be set up – initial steps on this are underway. This is likely to take 2-3 months.
41. Skills required include technical input in relation to LNG, gas engineering, coastal and marine engineering, maritime, operations and logistics, environmental analysis, permitting and safety, along with relevant commercial, legal, project management and leadership skills. Developing an LNG import facility is not a trivial exercise.

LNG importation will also require s 9(2)(b)(ii) and the purchase of the gas

42. This briefing has focussed on issues pertaining to procuring the infrastructure required to import LNG. But for LNG imports to occur, s 9(2)(ba)(i) and obtaining the LNG itself will also be required.

s 9(2)(ba)(i) *LNG molecules*

43. Accessing LNG is relatively straightforward if a conventional-scale facility is developed. There is an active international market for LNG that New Zealand can tap in to – we would likely begin with spot-market purchases from a panel of preferred providers. However, there are issues associated with accessing LNG for a small-scale operation from s 9(2)(ba)(i)

44. s 9(2)(ba)(i)

Funding an LNG regime – levy and pricing

45. We have also been working on the funding model to be employed. Our recommended approach is to:
 - a. Finance the infrastructure and the costs of managing and operating the LNG infrastructure through either a levy on electricity generation, or a levy on electricity and non-electrical related gas users. The first of these would be most appropriate if the import of LNG is heavily (entirely) focussed on managing dry year risk / providing firming cover. An additional “re-gas” fee could be considered if there was wider use of the LNG facility (this would be used to offset levy costs). This approach will minimise the risk of under-recovering costs for the facility.
 - b. Recover the cost of the gas molecules and storage through sales/charge per GJ of gas. This would ensure that incentives for considering other energy sources are maintained.
46. Preliminary analysis suggests that the cost of the LNG infrastructure would, if spread across the wholesale electricity market and not the gas market, equate to a cost of roughly \$4/MWh s 9(2)(ba)(i) This equates to \$35 per average household per annum. The net impact on households would be lower than this if LNG provides greater certainty to the market, leading to reductions in long-run pricing.

47. The cost per GJ of gas will be dependent on future world LNG/oil prices, emissions trading scheme costs, and the cost of storage. A working assumption of a cost to users of \$25 / GJ seems reasonable. This includes the delivered cost of the gas (around \$18-21/GJ), plus an allowance for the emissions trading scheme costs, storage and transmission. The delivered cost of small-scale gas could be as much as \$26/GJ, or cost to user of around \$30/GJ. Once more is known about the commercials for an LNG importation facility, more robust costings can be developed.

Next Steps

48. MBIE is working with the peer reviewers to complete reviews of both the Gas Strategies reports s 9(2)(ba)(i) . We are also undertaking preparatory work for procurement to ensure we can rapidly go to market if Cabinet decides to proceed with an LNG investment.
49. The Gas Industry Company is finalising a report on the impact of LNG on the domestic gas market, which will be useful in understanding broader considerations, such as incentives for upstream exploration. We will build the findings of this work into future advice.
50. You will shortly receive advice looking at the energy “gap” created by the declining gas supply. This will include scenarios for demand and supply, and an assessment of which options, over what timeframes might best be deployed. This analysis will include LNG options.
51. Following that, we would propose to prepare a draft Cabinet paper for your consideration, seeking agreement on the best option / package of options for the Government to adopt to manage through the declining gas supply, including whether to invest in LNG.

Appendix 1: Summary of the traditional procurement approach

The traditional procurement model that has been identified to provide a level of competitive pressure whilst maintaining momentum can be summarised as follows:

Stage 1	Proactively approach potential suppliers of LNG infrastructure. Seek registrations of interest, provide high level documentation for what is required.
Stage 2	Issue request for proposals from registered parties. Include evaluation criteria etc, and high-level thinking on commercial structure etc.
Stage 3	Identify 3 preferred suppliers to enter into direct negotiations.

s 9(2)(ba)(i)

