Hon Simon Watts
Minister for Energy
Parliament Buildings
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5 March 2026

Dear Minister,

I am writing to raise some important questions that deserve answers before any commitments are made to secure the infrastructure needed to permit the importation of LNG.

Over the eight years that I have been Parliamentary Commissioner for the Environment, I have maintained a watching brief on the direction of energy policy. The sources of energy to which we have access and the incentives that govern their use have a significant bearing on the emissions intensity of our economy. At the time of the announcement of the previous Government's offshore oil and gas exploration ban, I was troubled on the one hand by the ban's lack of convincing environmental benefits and on the other by the absence of evidence to support claims of economic carnage. The recent announcement of Government support for LNG importation is similarly plagued by claims that are hard to substantiate.

New Zealand cannot eliminate dependence on fossil fuels overnight. How we go about reducing our emissions must start from two defining features of our energy system that have until recently been highly advantageous:

1. An overwhelming preponderance of renewably generated electricity
2. Significant access to domestic gas below world prices.

While we have been exposed to the international price of oil for transportation purposes, electricity generators and industrial gas users have been shielded from the international price of gas. Recent events have revealed two vulnerabilities: the risk of a dry year reducing our baseload hydro-electricity supply and declining gas reserves increasing the price of whatever gas may be available for thermal generation and/or industry. These twin vulnerabilities have resulted in electricity price spikes that appear all the more worrying given the likely increase in demand for electricity.

From an environmental point of view, we should be attempting to overcome both vulnerabilities in a way that reduces our long-run emissions trajectory. From an economic point of view, we should be shielding ourselves from externally driven supply shocks and ensuring that industry and consumers face the long-run marginal cost of providing for their energy needs.

I have always taken a pragmatic view about how we should go about pursuing a lower emissions energy sector. The transition to a low emissions economy will not happen if it imposes costs that put people out of business. Environmental policies have to support economic policies, not fight them. While electrification of the economy based on abundant

low emissions energy sources is clearly achievable, the cost of accomplishing this in the short term may be higher than some gas-reliant industries can afford. Similarly, providing cover for dry years through the over-build of solar and wind, coupled with pump and battery storage, is plausible – but will take time to put in place.

In the short to medium term, fossil fuel will be needed to bridge dry years, to firm electricity supply at demand peaks and generate heat in some industrial applications. The question is: how affordable access to fossil energy can be maintained without building a new path dependency that undermines our emissions objectives?

Your recent announcement that electricity consumers will have to foot the bill for an LNG importation facility raises the possibility that not only will we lock ourselves into a higher emissions pathway but will do so in a way that exposes us to higher energy costs – the worst of both worlds.

Initially, I had understood that the Government's rationale for pursuing LNG importation was for the sole purpose of shoring up New Zealand's electricity system during dry years. However, the recently published cabinet paper highlights a number of "spillover benefits" that LNG might provide for New Zealand, such as continuity of gas supply for industrial users and supporting firming of both existing and new renewable generation build.

This is despite the cabinet paper clearly highlighting the risks associated with this broader use, including the observation that "over-reliance on LNG could link domestic gas prices to global markets, increasing costs for consumers". Higher gas prices would have system-wide effects in an electricity market where – according to a recent BCG report – gas-fired generation sets the wholesale price 70–90% of the time.[1] This risk is more likely to eventuate if LNG is made available either for electricity firming of daily peak demand or for industrial gas users.

The possibility of this occurring is significant enough that fully half the scenarios considered in modelling commissioned by your officials assumed that domestic gas prices become linked to LNG prices.[2] In all cases where a direct comparison is possible (eight), median hydrological year electricity prices in those scenarios are higher than a counterfactual involving no LNG import.

In short, progressing LNG with a view to "spillover benefits" undermines the Government's argument that this proposal is about dry year risk and reducing electricity prices. In making an investment of this size, the Government needs to make it absolutely clear what the objective is. I will explore each potential objective in turn.

If the objective is reducing dry year risk

I understand the Government intends to contract for an LNG import facility before the election. Based on the procurement documents published in October last year, this will be a "long term arrangement (15–25 years)".[3] If this intervention is truly about dry year risk and the resulting impact on electricity prices, officials need to think very carefully about how this contract should be structured so as to mitigate the above risks. That might mean specific thresholds for when LNG can be imported (for example, when hydro storage drops below a certain level). It might also mean limiting the quantity of gas that can be imported in any given year (for

[1] https://web-assets.bcg.com/27/08/7fcb68024dcc92f2ba01527e8623/energy-to-grow-full-report.pdf
[2] https://www.mbie.govt.nz/dmsdocument/31770-concept-consulting-modelling-results-for-lng-analysis
[3] https://www.beehive.govt.nz/sites/default/files/2025-10/Fact%20sheet%20-%20LNG%20Procurement.pdf

example, to the 12 petajoules the cabinet paper considers necessary to solve dry year risk).[4] Whatever contractual mechanisms are used, they should aim to ensure that LNG use is restricted to managing dry year risk only rather than more regular use.

Of course, restrictive terms such as these are unlikely to be attractive to prospective LNG providers. An idle floating storage and regasification unit (which seems likely to be the preferred import mode given the proposed winter 2027 timeline) has a large opportunity cost attached to it. If prospective providers are limited in their ability to generate revenue through LNG sales, then it is reasonable to expect them to seek higher fixed charges. In other words, the cost of the dry year insurance policy would increase.

If the terms on which LNG is available to New Zealand for dry year cover are unsatisfactory, the Government should be prepared to walk away. As the cabinet paper and underlying modelling attests, there are a number of alternatives available to reduce New Zealand's exposure to dry year risk in the short term. The reduction in dry year electricity prices associated with additional gas storage at Tariki is notable, for example. Even the relatively high unit cost of running diesel-fired generation every few years looks less unpalatable if it avoids the large upfront-cost of an LNG import facility. None of these options are silver bullets but having them in your back pocket will strengthen the Government's position during negotiations on LNG.

The longevity of any LNG import facility means there is also a longer term to consider. Here I would simply highlight that New Zealand's electricity system is in a fundamentally better position than it was in winter 2024 and is continuing to improve. Investment in new intermittent generation is increasing rapidly. Genesis has increased the Huntly coal stockpile and is investing in the Rankine units so that they will be more reliable options for dry year cover than was the case in 2024. The Government's ongoing work on the regulatory framework relating to dry year risk may also help to sharpen incentives for investment in long-duration firm capacity.[5]

I think there is a legitimate question as to whether an expensive state-sponsored LNG import facility makes sense to manage dry year risk, or whether other options would be better-suited to meet New Zealand's changing flexibility requirements. Such options range from an additional Rankine unit burning biomass, through to dual fuelling with diesel in certain cases. Committing to a large, hard to reverse option on the basis of an LNG-specific procurement process risks New Zealand making an expensive mistake. If LNG is the Government's preferred solution to the dry year problem, then it should be strictly reserved for that purpose. Otherwise, there is a real possibility that electricity prices will rise, reducing the uptake of electrification and thereby slowing decarbonisation.

If the objective is "spillover benefits"

In the absence of any major new domestic gas discovery, I accept that LNG is the only way to ensure the continued supply of gas for industrial gas users (including electricity generators with existing gas assets). Once again, I note that if this is the objective, it most likely won't reduce electricity prices overall and – in the short term at least – is likely to raise gas prices as well. It is also worth noting that not all current industrial gas users are dependent on gas.

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[4] https://www.mbie.govt.nz/dmsdocument/31754-government-investment-in-dry-year-risk-cover-consideration-of-an-lng-import-facility

[5] https://www.beehive.govt.nz/sites/default/files/2025-10/At%20a%20Glance%20-%20New%20Zealand%27s%20Energy%20Package.pdf

Some have the ability to switch to electricity or biomass. My understanding is that for low-temperature industrial process heat applications, it is already more cost effective to switch, although securing the capital for the transition might be a challenge. The incentive to switch would be greater if users had to pay prices that approach the international price for LNG.

If the Government is interested in the "spillover benefit" of a secure long-term but more expensive gas supply, this raises the question of who should pay for this insurance policy. The current proposal is for the levy to be paid solely by electricity users. This is questionable. Industrial gas users will benefit **even if** LNG is only imported for electricity generation during dry years because they would face less competition for fuel at peak times. If LNG import **is not** strictly restricted to dry years, the balance of benefit shifts further in favour of industrial gas users – it would offer them long-term security of supply (provided they are happy to pay the international price).

The question of who benefits from any LNG terminal is crucial in determining who should pay. My interest in this point is based on the fact that the relative prices between electricity and gas are crucial for the incentives to decarbonise. Any levy put in place to fund an LNG terminal will inevitably distort prices and should be carefully designed. It is vital that no sector – particularly one using fossil fuel – should be subsidised by another, particularly one using renewable energy. According to the Treasury Funding and Financing Framework "Beneficiary pays should guide all funding decisions". In my assessment, under this "spillover benefits" scenario, gas users (industrial and residential) would become the main beneficiary over the life of the LNG terminal. This needs careful analysis because, if it is the case, it follows that gas users should be paying for the cost of the terminal.

Finally, I would like to reiterate my previous calls for an energy strategy. MBIE officials have worked on this in the past, but nothing has ever been published. The LNG decision – if progressed – would signal a strong preference for security of supply over affordability and a preference for a prolonged reliance on fossil fuel. These are matters that should be addressed as part of a coherent energy strategy. I strongly recommend that officials are directed to complete that work.

I hope this analysis is of some interest.

With kind regards

Rt Hon Simon Upton
Parliamentary Commissioner for the Environment
Te Kaitiaki Taiao a Te Whare Pāremata