

What rising gas prices mean for NZ businesses

Insights from our discussions with medium to large gas users, as part of the reset of gas pipeline charges (Gas DPP4 2026)

To better understand the current gas sector context and its impacts on medium to large industrial consumers, we spoke individually with a range of businesses across different sectors. These businesses are facing significant cost pressures and operational challenges due to elevated energy prices.

While our primary role is to set the maximum revenues for gas pipeline businesses, we broadened the scope of our conversations to explore wider energy-related challenges. This is because the viability of large energy users directly affects the long-term utilisation and sustainability of the gas network - and, by extension, the regulatory settings that support it.

This summary captures the key themes, concerns, and strategies shared during those conversations. It reflects how energy-intensive businesses are adapting, the barriers they face in transitioning to alternative fuels, and what support they are asking for to remain viable in a changing energy landscape.

Who we heard from and context

We spoke with twelve medium to large gas users representing a broad cross-section of New Zealand's industrial, commercial, and public sectors.

- These included:
 - Manufacturers and processors involved in materials production, recycling, and chemical processing.
 - Food and beverage producers, including those operating in large-scale horticulture and packaged goods.
 - Public sector and institutional energy users, such as healthcare providers, defence facilities, tertiary education institutions, and local government venues.
- Sectors represented included metal production and recycling, extrusion, food and beverage, horticulture, chemicals, and pulp and paper.
- These organisations varied in ownership and structure - from family-owned enterprises to internationally affiliated companies, as well as Crown entities and local government bodies.
- All participants were located in the North Island, with access to reticulated natural gas. Regions represented included Auckland, Waikato, Bay of Plenty, Taranaki, and Hawke's Bay, among others.
- Collectively, these organisations are significant energy users and employers, many of whom play a critical role in regional economies, national supply chains, and essential public services.
- Some businesses had operations with hundreds of employees, contributing significantly to regional economies and national GDP.

- Many had strong links to their region or community - supplying or buying from other businesses in the region and or being a large regional employer.
- A number of businesses were the sole NZ suppliers of key commodities, meaning their closure would lead to reliance on imports.

Energy Dependence and Sensitivity

- Most of the businesses are highly energy-intensive and price-sensitive due to their individual production processes.
- Some of the businesses face other forms of volatility, being exposed to global commodity pricing e.g. metal recycling and processing.
- Reliance on gas or electricity varies by process, with some considering they are locked into gas for the next decade at least.
- Their contracted gas prices have increased dramatically - ranging from 50-200% increases in the past year - more sharply than electricity.
- Some businesses use solar photovoltaics, but typically only for low-consumption applications like lighting. This is less relevant for transitioning gas-intensive processes.

Gas Usage and Equipment

- Gas usage varied across businesses from common applications like cooking (stovetops, ovens), heating, hot water, and steam to more bespoke equipment for high-temperature heat or chemical processes.
- Most businesses have already addressed the low-hanging fruit of decarbonisation i.e. energy efficiency upgrades, vehicles, electrification of some processes; remaining upgrades are more complex and costly -often requiring electrical capacity upgrades.

Contracting and market challenges

The businesses we spoke to were at various stages in their gas contract cycle. Some are proactively seeking to renegotiate their contracts -in some cases well ahead of expiry - while others are approaching the end of their current agreements with limited viable options. A few had secured longer-term contracts before the recent supply and price pressures intensified.

- Businesses reported limited supplier options, restricting their negotiation leverage.
- A typical experience was going out to market and receiving a single or no tenders for gas contracts.
- Often the offer was from their incumbent gas retailer.
- For some businesses, their retailer suggested they could develop a plan to reduce gas usage over time to gain bargaining power in advance of going out for tender.
- Some businesses have registered as a participant in the spot market due to lack of reasonable contract offers (or no offers at all).
- For these businesses, spot market participation is challenging for business planning due to limited visibility of future gas availability and pricing.
- Some businesses are forming joint tenders to improve contract terms - either with related companies or other businesses in the region.
- Long-term contracts enable better planning and investment decisions, but not all businesses are being offered longer-terms.

- Concerns exist about making long-term investments to electrify or decarbonise based on currently high electricity prices, which may reflect a temporary peak rather than a sustained trend.
- Some gas contracts include difficult terms like take-or-pay, which can hinder future decarbonisation efforts.
- Fixed charges are especially burdensome during periods of low production.

Impacts of high gas prices

How businesses are managing/responding

- Some businesses employ dedicated energy or sustainability managers on an ongoing basis.
- Others rely on senior executives who have self-educated or hired external experts - often at significant cost - to understand the challenges with contracts and to tender on their behalf.
- Strategies include:
 - Exploring alternative fuels: biomass, biogas, hydrogen, LPG, used oil.
 - Shutting down gas-intensive processes.
 - Passing costs to customers (though many are price-takers and cannot).
 - Selective electrification based on asset lifecycle and return on investment.
 - Flexibility in operations - pausing or shutting down processes to manage energy costs.
 - Grouping contracts (across sites) or collaborating with other businesses to secure better deals.

Decarbonisation Efforts

- Many have engaged with EECA through its Energy Transition Accelerator programme to develop technically and economically viable decarbonisation plans tailored to their energy use and emissions profile.
- Some have committed to carbon neutrality.
- Some of the technologies/opportunities the businesses mentioned exploring include:
 - Heat pumps, electric boilers, geothermal.
 - Sizing solutions to base load and supplementing peak demand.
 - Solar (limited use), geothermal expansion.

Barriers to transition

- Many businesses felt there was a lack of a cohesive national strategy for energy transition and expressed a need for enduring policy direction that is supported across the political spectrum.
- Businesses reported that navigating the energy system and terminology is challenging.
- Trade-exposed businesses cited their challenges trying to compete with countries that lack carbon taxes and benefit from government subsidies, making it difficult for New Zealand producers to remain competitive in global markets.
- Several businesses raised concerns about the competitive disadvantage created by New Zealand's ETS carbon pricing. They noted that they are competing against

overseas firms with no carbon tax, significantly lower energy costs, and no import tariffs when selling into the New Zealand market. Relief or adjustment to ETS costs was suggested as a way to level the playing field and support domestic viability during the transition.

- Most have already implemented the more straight-forward decarbonisation measures, such as transitioning vehicle fleets to hybrids or EVs, and are now grappling with the more complex challenges, such as decarbonising reticulated gas use.
- Electrification presented numerous barriers often linked to the temperature, intensity or scale of the processes involved:
 - Grid capacity limits require upgrades, often costly - this was a key barrier to most of the large businesses considering transitioning off gas to electricity.
 - Equipment is expensive and often requires bespoke solutions.
 - Electrification did not offer favourable economics for many businesses, particularly those using gas process heat hot water or steam.
 - Replacing gas boilers with electric alternatives often resulted in higher energy costs - particularly for high-temperature processes.
 - While heat pumps could improve efficiency, businesses faced barriers related to scale and temperature requirements - with some processes needing specific hot water temperatures or steam that standard heat pump technology could not reliably deliver.
 - Additionally, some businesses could meet their base load with electric solutions but required hybrid systems to manage peak demand, especially during colder months, further complicating the transition.
 - Solar PV is not suitable for energy-intensive processes.
- Alternative fuels also presented challenges:
 - Some businesses had explored biogas, but found it was not available at the scale or cost required at present.
 - Biomass adoption is constrained by geographic and regulatory factors, such as RMA restrictions on particulate emissions.
 - Transport logistics for biomass - including sourcing, storage, and delivery - were also cited as a barrier.
- While some businesses had access to geothermal energy, expanding its use was often constrained by location-specific factors.
- A key theme coming through from many businesses was the risk of stranded assets, particularly in the context of long-lived infrastructure and equipment tied to gas.
 - We heard that boards are increasingly cautious about committing capital without a clear and feasible transition pathway, supported by enabling policy and investment signals. This includes interest in renewable alternatives such as biogas, geothermal, and biomass, where uptake depends on both technical viability and long-term certainty.
 - Businesses highlighted the need for better coordination across government agencies on energy and emissions-related policies. They noted that unaligned decisions, such as those involving carbon allocation, discharge-to-air consents, and exploration policy, can create unintended consequences for

energy-intensive sectors, complicating investment planning and transition efforts.

Broader Impacts and Concerns

- Businesses are responding to government investment signals but find policy shifts with changing governments difficult to navigate.
- We heard requests for clearer, more consistent government signals.
- Many businesses expressed appreciation for network owners and retailers who take the time to understand their operational needs, enabling more informed negotiations and tailored solutions for contracts and grid upgrades.
- Businesses mentioned unintended consequences of high gas prices in a decarbonisation context - where more emissions-intensive coal is being used as an alternative to gas.
- Business planning horizons have shortened from 5 years to 1-3 years in the current energy sector context.
- Some manufacturers are absorbing all their increased input costs but are nearing their financial limits.

Network concerns

- There is a perception that network companies (pipelines and electricity lines) may be making large profits - and a desire for more transparency on infrastructure investment.
- There is some resentment that regulated monopolies or firms with significant market power in the energy sector can pass on all their cost increases to consumers, unlike large energy users who must carefully consider their customers' willingness to pay.
- Pipeline (and lines) cost increases add to the financial pressure businesses are already facing.
 - Businesses cited other rising costs they are facing including living wage requirements, water charges, and production-specific input costs (e.g., produce for kitchens).
 - **Medium-term issue:** There was a concern as more end users transition away from gas, the shrinking customer base will reduce the ability of lines companies to spread costs, likely resulting in higher charges for remaining users and further undermining the users' financial viability.
 - **Longer-term issue:** There were calls for a strategy to protect the last remaining customer from paying for the entire country's transmission and distribution network costs. Perhaps a collaboratively designed solution.

What businesses are asking for

- Transparent pricing and genuine engagement from network companies.
- Clear policy signals from government.
- A comprehensive and enduring energy strategy with support across the political spectrum.