He Pou a Rangi
Climate Change Commission

# Energy, industry, and buildings sector

## Switching from fossil fuels to clean energy is increasingly viable, but high upfront costs, uncoordinated policies and weak policy signals mean the transition is not occurring at the pace required.

Greenhouse gas emissions in this sector come from burning fuel to produce electricity, manufacture goods, operate mobile equipment and power buildings. They also result from the production, transmission and storage of fossil fuels, and from chemical reactions that occur during the production of certain products, like steel.

The country can reduce these emissions by improving efficiency, shifting to less emissions-intensive production processes and switching from fossil fuels to renewable energy sources. A secure, reliable and affordable supply of electricity is also a critical enabler of electrification, which has a wider role for reducing emissions in other sectors.

## Snapshot of emissions

| Total sector emissions |
|---|
| **17.7 $MtCO_2e$** (2023) |
| **17.9 $MtCO_2e$** (2024) |

| Percentage of country's gross emissions |
|---|
| **23.6%** |

| Percentage of projected net reductions (2026–2030) |
|---|
| **45.2%** |

| Change in emissions between 2023 and 2024 |
|---|
| **+30.3%** in electricity generation |
| **–6.9%** in industry |
| **–2.2%** from fuel use in the residential, commercial and institutional sectors |
| **+6.9%** in gas supply chains |

# Policy scorecard

Scorecards assess the adequacy of current policy and plans for reducing emissions in each sector, and determine if the risk has increased, decreased or remained the same as in our 2025 assessment.

– No change in risk since 2025 ↓ Decreased risk since 2025 ↑ Increased risk since 2025

| Policy area | Overall risk assessment | |
|---|---|---|
| | EB2 | EB3 |
| Gas supply | ↓ | ↓ |
| Buildings | ↓ | ↓ |
| Industry | ↓ | – |
| Electricity generation | ↑ | – |
| Electricity networks | – | – |

No significant risks Moderate risks Significant risks

# Key findings

## Changes in emissions

- Energy and industry emissions were largely unchanged between 2023 and 2024, due to large emissions increases in some areas that masked reductions in others.
- Electricity generation emissions rose sharply because lower inflows (rain and snow melt) limited the amount of water available for hydropower.
- Manufacturing emissions fell mainly due to a drop in production linked to declining gas availability, rather than from genuine reductions driven by efficiency improvements or switches to lower-emissions technologies and energy sources.

## Policy changes in the last year

- The Government advanced the procurement of a liquefied natural gas (LNG) import facility and interventions in gas supply, signalling a focus on energy security alongside incremental progress on electricity market reforms.
- Consenting and enabling system reforms advanced, with the fast-track approvals process starting to bed in. Alongside new and updated national policy instruments, this aims to improve consenting certainty and efficiency.

## Risks to achieving planned emissions reductions

- Ongoing affordability and reliability concerns – coupled with the uncertain timing and effectiveness of interventions such as LNG – risk weakening confidence and delaying

investment in the electrification needed to unlock economy-wide emissions reductions.

- High upfront capital costs, weak New Zealand Emissions Trading Scheme (NZ ETS) investment signals and limited demand-side support put the industrial emissions reductions modelled for the third emissions budget at significant risk.

## Areas for attention

- Without a clear plan and sufficient demand-side support to enable fuel switching, conflicting policy decisions risk locking in fossil-fuel-based pathways.
- Despite new renewable generation being commissioned, low-emissions firming and flexible demand remain insufficient. The electricity system is therefore still exposed to winter and dry-year risks, undermining affordability and confidence in electrification.
- Upfront capital cost barriers are limiting industrial, commercial and residential fuel switching. While the newly announced Gas Transition Loan Guarantee Scheme is a positive step, further action is urgently needed.
- Flexibility initiatives must be scaled rapidly to avoid network owners defaulting to costly grid reinforcement and locking in higher long-term system costs.

## Opportunities for further reductions

- Falling costs for solar panels and batteries are improving affordability. Uptake by households and businesses could be accelerated by electricity pricing that better reflects underlying supply and demand conditions and broader access to low-interest, long-term finance, supporting affordability and resilience.
- There is a growing economic opportunity to decarbonise industrial heat. Switching to industrial heat pumps is now cheaper than continuing to run coal, gas, LPG or diesel systems for low-temperature applications. For higher-temperature applications, low-carbon options can be cost-competitive with fossil fuels as well.

## Overall findings of the 2026 report

- Greenhouse gas emissions are gradually falling, but the pace needs to more than double.
- The risks to meeting the country's emissions goals have increased. If additional action does not occur in the next one to two years, it will no longer be feasible to meet the 2030 biogenic methane target or the third emissions budget.
- Climate disruption and economic impacts in Aotearoa New Zealand are growing, and greater and more durable emissions reductions are needed to manage these risks.
- Acting earlier to reduce emissions can strengthen resilience, reduce exposure to shocks, and lower costs for households, businesses and the country.

### About emissions reduction monitoring

Each year, He Pou a Rangi Climate Change Commission (the Commission) independently monitors Aotearoa New Zealand's progress on reducing greenhouse gas emissions. These reports form a picture over time, showing how the country is tracking towards its climate change goals.

This is our third annual report. It tracks emissions reductions overall, as well as the government's progress towards meeting the second and third emissions budgets and the 2050 target.

New Zealand's Greenhouse Gas Inventory provides emissions data up until the end of 2024; Stats NZ estimates and Government projections supplement this to provide a more up-to-date picture.

### Want to read more?

There are also summaries of the agriculture; waste and fluorinated gases; transport; and forestry sectors, as well as on progress, risks and further opportunities centred on iwi/Māori.

These summaries and the full report – along with the executive summary and a one-page summary of our findings – are on the Commission's website: climatecommission.govt.nz/ERM-2026.