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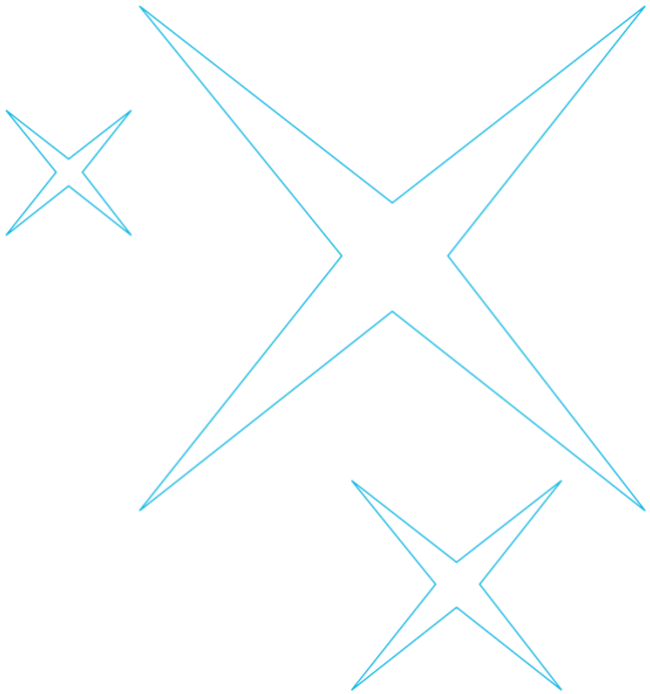
Aotearoa New Zealand Sustainable Finance Taxonomy

Guidance on the role of fossil gas generation activities in a credibly transitioning portfolio

Draft for public consultation



Guidance on the role of fossil gas generation activities in a credibly transitioning portfolio – draft for public consult

The Aotearoa New Zealand Sustainable Finance Taxonomy (NZ Taxonomy) identifies Energy activities that can substantially contribute towards a Paris Agreement-aligned future. It also acknowledges that New Zealand's highly renewable electricity system will continue to rely on firming and peaking generation options to ensure security and continuity of supply. Some of these firming and peaking options may continue to be powered by fossil fuels in the short to medium term, with a view to transitioning the whole system to low carbon, renewable sources.

This section provides guidance on the role of fossil gas in the context of a credibly transitioning Energy portfolio. It outlines the key considerations in including fossil gas for firming (rather than baseload) purposes in a primarily renewable portfolio. While it does not form part of the Taxonomy criteria, i.e., gas firming should not be treated as Taxonomy-aligned, it can support assessments of an entity's transition plan by its investors, lenders and other stakeholders. This section is not intended to penalise entities that continue to have fossil gas-powered generation in their portfolios, and not meeting this guidance does not preclude entities from receiving Taxonomy-aligned sustainable financing, subject to fulfilling the respective activity criteria.

The guidance is available for feedback in this consult.

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Gas as back-up firming in the NZ Taxonomy

The role of gas for electricity generation

The electricity system in New Zealand has moved significantly away from fossil gas and towards a fully renewable system. The country is projected to reach 98% renewable generation if the electricity industry continues to build renewables at the current pace.[1] Likewise, to achieve New Zealand's fourth emissions budget (EB4), fossil gas consumption is substantially reduced, making up only a small amount averaging about 2% of total generation during the EB4 period (2036-2040). On the ground, decreases in existing gas field production and downgrades in gas field reserves have also reduced the availability of forecasted gas. All of which point to a diminishing role for gas in baseload generation, in line with industry expectations and respondents to the Gas Transition Plan Issues Paper by the Ministry of Business, Innovation & Employment (MBIE).

The role of gas in firming renewable electricity generation

The electricity mix of New Zealand is dominated by hydropower, geothermal, and wind, making up 54%, 20%, and 9% of total generation respectively in 2024. Meanwhile, the renewable supply pipeline largely comprises intermittent generation, with wind and solar projects forming 85% of the unconsented pipeline.

Consequently, the need for firming capacity to ensure security in electricity supply during intermittent renewable supply, winter, and dry years is increasingly pertinent. Per the Climate Change Commission's advice, a combination of renewable overbuild, demand response, batteries, and flexible thermal generation would be necessary. Dispatchable low carbon generation, such as hydropower and geothermal and bioenergy, may also play an increasingly firming role as intermittent renewable (wind and solar) capacity scales up further as baseload.

In particular, national assessments have identified a shift in the role of fossil gas in electricity generation from baseload generation to firming and peaking. The Security of Supply Assessment 2025 by Transpower concluded that with existing and committed pipelines, the North Island Winter Capacity Margin (NI-WCM) could drop below the Electricity Authority's lower security standard of 630MW as early as 2028, under a low gas supply sensitivity. The decommissioning of all Rankines, CCGTs and gas peakers would lead to insufficient potential renewable supply projects to provide additional capacity in maintaining the NI-WCM at the lower security standard in 2034. Along with scaling up batteries and demand responses, the assessment highlights the need for sufficient gas supply for gas-fired peaking generation over peak load periods.

Can back-up gas firming be included as an activity in the taxonomy?

The New Zealand Taxonomy focuses on economic activities that make a substantial contribution to climate change mitigation. As an activity, gas-powered generation has a declining role in line with this objective and has readily deployable alternatives already employed by the country.

As an activity-level tool, the Taxonomy is unable to account for the inherent system-level uncertainties around when and whether the back-up function provided will be required, and generally focuses on avoiding carbon lock-in through the emissions performance of the whole activity, subject to the activity meeting the other methodological filters (see methodological design features report here).

This is consistent with the International Capital Market Association's guidance that green enabling activities should not lead to locking-in high emitting activities relative to other technologically feasible and/or commercially viable solutions (ICMA, 2024).

Instead, the NZ Taxonomy offers a framework to define how back-up gas firming capacity may be recognised and assessed within a credibly transitioning portfolio of generation and storage assets. Note that the inclusion of gas firming guidance under the taxonomy is not intended to undermine the pursuit of other firming alternatives such as dispatchable low carbon generation, storage, and demand responses, which should instead be prioritised.

For activities in other sectors where gas is required to facilitate the transition of certain hard-to-abate industrial sectors, it can be used to meet the Taxonomy criteria, particularly for high heat processes while electrification and low-carbon hydrogen technologies continue to mature.

Advice for addressing firming and back-up generation activities in a credibly transitioning portfolio

To respond to variable peak demand needs and provide back-up support to the highly renewable electricity system, on an intraday and particularly on an interseasonal basis, the Taxonomy includes a framework to define how such functions, and their overarching activities, can be articulated, recognised and assessed in a credibly transitioning portfolio of assets.

This advice extends beyond the boundaries of the activity-focused New Zealand Taxonomy and provides a framework to evaluate the credibility of portfolios that include activities that provide gas firming activities.

It will aim to cover the following key issues:

- How may utilities and project developers demonstrate to financial institutions their progress toward credibly transitioning their power generation and storage asset mix?
- How can investment in assets that provide back-up support be recognised within a credibly transitioning portfolio of assets?
- What requirements/checks are needed of the system and how can these be applied to an entity?

Transition plans: A tool to assess the credibility of a transitioning portfolio

Taxonomies are classification systems that identify and quantify the contribution of individual economic activities to key sustainability objectives. Accordingly, taxonomies are not equipped to make portfolio or system-level assessments. Transition plans enable assessments of the credibility of transition progress at the portfolio level.

Generic frameworks, guidelines, and sector specific requirements have been developed by a variety of institutions. Each specify detailed expectations regarding the following components of the transition planning process:

- Targets: quantitative goals to measure the progress and success of the implementation of an entity's transition plan.
- Delivery strategy: how the entity will align business activities and operations with its climate objectives and priorities.
- Accountability mechanisms: how the entity is structured to provide oversight, incentivise, and support the implementation of the transition plan.

This guidance focuses solely on identification of key requirements to assess a transition plan of a portfolio that may include firming assets.

Notably, this advice has been developed to support the consideration of firming in transition plans. This has not been explicitly covered in best-practice guidance to date. However, given the importance of firming – including shallow, medium and deep storage, and gas firming as back-up support – to support New Zealand's renewable electricity system, this advice aims to provide an introductory framework.

Entity and system-level considerations – transition plans

Linkage between the entity and the system in transition plans	
As noted by GFANZ, "the disclosure of transition plans, including the detailed assumptions and data that underpins these, enables the effective engagement and capital allocation across the financial ecosystem". The disclosure of assumptions that will govern an entity's business and financial decisions – i.e., the transition plan's delivery strategy – over the time horizon of decarbonisation process, will enable financial institutions to better understand factors on which the success of the transition plan will ultimately depend. These factors are predominantly external to the company and their disclosure allows entities to demonstrate how they expect the system in which they operate to change, and their operations to evolve in line with this. From the perspective of evaluating the credibility of portfolios which include fossil fuel-based firming, assumptions regarding aspects such as: technological developments (e.g., non fossil fuel-based firming); security of supply, demand projections, and cost competitiveness are, among others, especially important. Out of the frameworks recommending disclosure of assumptions, GFANZ and TPT require the greatest level of granularity, with best practice being sensitivity analysis. TPT recommends that "an entity should assess the sensitivity of its plan to changes in key assumptions and external factors on which it depends, and should seek to mitigate delivery risks where possible". The sensitivity analysis enables better assessment of how resilient the plan is to changes in the external factors and provides evidence that the entity has thought through the consequences of instances in which the selected assumptions fail to materialise in reality.	
GFANZ	**Transition Plan Taskforce**
Describe the key assumptions underlying the company's transition-related business, financial, and operational plans, such as:	Disclose the nature of the key assumptions that it uses and external factors on which it depends, and their implications for the achievement of the Strategic

• Activities or technologies that the company is not currently performing at scale (e.g., CCS and DAC). • Actions of the company's supply chain. • Development and implementation of policies and regulations. • Significant shifts in demand for products or services. • Other external actions (e.g., level of grid decarbonization, action/subsidies for governments).	Ambition of its transition plan, these may relate to matters such as: • Policy and regulatory change. • The decarbonisation trajectory of the global economy, relevant geographies, and/or sectors. • Macroeconomic trends (e.g., labour availability, cost of borrowing etc.). • Microeconomic and financial factors (e.g., availability of finance, relative prices). • Technological developments. • Access to counterparty data and reliability of data. • Shifts in client and consumer demand. • The levels of warming over the short-, medium-, and long-term. • The physical impacts of the changing climate, and the regional and spatial implications of these. • The effectiveness of adaptation efforts and possible limits to adaptation, and the regional and spatial implications of these.
Disclose how these assumptions are reflected in the company's financial statements and audit reports.	Disclose the timeframes over which any key assumptions and external factors are expected to occur.
Articulate the impact on the transition plan if certain assumptions prove incorrect.	Disclose whether and how the key assumptions are reflected in the entity's financial statements.

Key considerations for gas firming in transition plans

Targets

Cover the whole entity, consider the full range of levers that the entity has available, and cover short, medium and long-term emissions.

	Key considerations	Purpose
For the transition plan	• Emissions targets cover the short-, medium- and long-term. • Emissions targets do not exclude substantial portions of emissions.	To verify if the entity's transition: • Is aligned with science-based benchmarks, rather

	• Emissions targets are benchmarked against scientific sectoral pathways/ benchmarks.	than subjectively designed pathways. • Comprehensively evaluates the climate impact of all of its actions, rather than its selected areas of economic activity. • Takes into account all material direct and indirect emissions.
For firming	• Does the entity's long-term emissions goals, and its emissions reduction trajectory to achieve them, align with the goals of the Paris Agreement – specifically, limiting warming to as close as possible to 1.5°C? • How aligned is the average CO_2 intensity of the entity with the decarbonisation pathway set by targets? • Does the entity's goal include upstream Scope 3 emissions?	

Delivery strategy

Connected to the entity's business and operations planning and financial accounts, and underpinned by assumptions and an analysis of dependencies and uncertainties.

	Key considerations			Purpose
For the transition plan	• Action plans are comprehensive and consistent with the emissions targets. • Key assumptions and external factors on which the transition plan depends are identified.			The purpose of these requirements is to assess the connection between the targets and the entity's ability to achieve them. Without an assessment of the overarching plans, targets may sit in isolation and not be achieved.
For firming	Existing capacity	Renewables	• What is the current share of renewable generation? Is this growing?	The purpose of this consideration is to place the firming capacity in context – i.e., if fossil-based capacity is increasing but the share of renewables remains static or declining, this can signal that the portfolio is not

				transitioning according to a credible pathway.
		Firming	• Is there a plan to decarbonise firming capacity? • Does the company distinguish between fossil and non-fossil firming? • How is firming capacity enabling the increase of renewables penetration and how is this demonstrated? • What are key system level assumptions validating maintenance of transitional capacity – firming power plants? • Is the evidence base underpinning assumptions credible? • How is the entity considering the use of other non-fossil firming alternatives?	The purpose of this consideration is to understand the extent to which the entity is using firming capacity to enable further renewable energy penetration. There should also be evidence to support this claim provided. It is also to assess how reliant on fossil-based firming capacity the entity is for the foreseeable future. The majority of firming will need to be decarbonised under pathways aligned as close as possible to 1.5°C. An aligned portfolio should be assessing and testing alternatives and their viability. Entities that do not distinguish between fossil and non-fossil firming capacity in their targets impede the ability for lenders and investors to understand how the entity is also investing in non-fossil capacity as required by 1.5°C scenarios.
		Transitioning away	• Does the transition plan address decarbonisation/transition away from fossil	A credible transition will be underpinned by the scaling of renewable capacity and the phase

			fuels/phase out as a decarbonisation lever?	down of fossil-based capacity. Transition plans should address both of these levers.
	New capacity	Renewables	• Is the percentage of renewable capacity as a proportion of portfolio increasing?	To follow the decarbonisation pathway and thus to bring down emissions of the entity, new investments should focus on scaling up zero-emission technologies to replace assets that are being phased-out.
		Firming	• Is new firming capacity enabling a further increase in renewable energy penetration? To what extent is additional firming capacity required for this? • What are key system level assumptions validating development of new firming capacity? • Is the evidence base underpinning assumptions credible? • How is the entity considering the development of other non-fossil firming alternatives?	System level assumptions are important for validating the fit of the firming capacity within a credible system. If the system-level assumptions are not in line with pathways that limit warming to as close as possible to 1.5°C, then the firming capacity assumptions would also not be aligned.

Accountability mechanisms

	Key considerations	Purpose
For the transition plan	• Sufficient disclosure around the transition plan, and specifically all emissions and non-emissions targets.	The credibility of transition, and associated assumptions, have to be underpinned by objective, independent, science-based sources.

	• Independent evaluation of the transition plan.	These need to be disclosed to ensure transparency. Third party verification helps to bring legitimacy of the choices made to select sources and methodologies for assessment.
For firming	• Has the entity disclosed and is using credible data/scenarios to assess above? • Is there third-party verification to assess credibility of scenarios and assumptions?	

The consultation is open from Monday 8 June – Friday 10 July 2026.

Please contact taxonomy@sustainablefinance.nz for any questions or assistance.