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Submission: Options for Information Disclosure in the Wholesale Gas Sector

Please accept this letter as the submission of Methanex New Zealand (“Methanex”) on the Options for Information Disclosure in the Wholesale Gas Sector, Consultation Paper.

Methanex Corporation is the world’s largest producer and supplier of methanol. Methanex currently operates production sites in Canada, Chile, Egypt, New Zealand, Trinidad and Tobago and the United States. Our operations are supported by an extensive global supply chain of terminals, storage facilities and the world’s largest dedicated fleet of methanol ocean going vessels.

Methanex is the largest production site for Methanex Corporation, producing 22% of our total methanol supplied or 3% of the world’s total methanol production. This is a material operation, by both New Zealand and global standards.

Methanex is committed to working with the Gas Industry Company and stakeholders to resolve valid and reasonable issues concerning disclosure in the gas sector. As the single largest gas user in New Zealand, we will look to answer those questions that are relevant to our position in the New Zealand gas market.

Of the questions raised within the discussion document, Q26 points to the heart of the issue and asks:

“Do you agree with the proposed coverage for disclosure obligations? What issues do you see with the proposed coverage?”

1. Methanex does not agree with the proposed disclosure options for gas users. While information disclosure from a producer perspective may provide benefits to the NZ energy sector, we do not believe user disclosure will provide any such benefits. We concur that Methanex is the single largest gas user in New Zealand, and while this does mean we are important in the gas market, we do not believe disclosure of our plant outage, pricing and volume information will assist New Zealand’s broader energy security.

DISCLOSURE IMPACT - METHANEX CORPORATION

2. The consultation paper questions the need for disclosure of both planned and unplanned outages of major gas users. While the paper points to Australia and the UK as examples of disclosure processes, we disagree that these markets are relevant when considering the NZ gas landscape. Incidentally, we do not believe that the Gas Industry Company has accurately described how these markets work in regard to large gas users.

3. Additionally, nowhere in the globe is Methanex required to disclose its business operations in the detail proposed.
4. Methanex' contracted gas is usually sizable in volume and duration of supply, with the negotiated contract price reflecting this and the other commercial matters. Taken in isolation, the gas price for a particular month (or year) does not accurately reflect the commercial deal. As such, we do not believe that disclosure of gas price under our bilateral contracts would be helpful in providing guidance to market participants. Additionally, once contracted, this gas is not available to the NZ wholesale gas market and naturally does not have bearing on what may be purchased on the spot market.
5. For wholesale market data to be relevant and useful it needs to relate to accessible, tradeable gas. Methanex considers that this is already provided for via ems-trade point and would be distorted by disseminating pricing and volume information from bi-lateral gas contracts.
6. As a publicly listed company on both the NASDAQ and Toronto stock exchanges, Methanex has a duty of care regarding information disclosure. It has long been Methanex Corporation's global policy to not publicly disclose plant outage information as this is deemed to be commercially sensitive and could have a material impact on sector wide demand and supply, with a flow on effect to share and product pricing. This is evidenced by our quarterly public conference calls where our CEO is regularly required to decline answering questions on plant outages.
7. Due to the significance of our New Zealand operation to the methanol industry as a whole, we are of the understanding that the Gas Industry Company has in the past been contacted by our international competitors seeking to confirm our plant outage information. While we do not believe this information was provided, it does show the reality of this situation and the potential to undermine our operations through public information disclosure.
8. Therefore, there is significant risk for our business in revealing commercially sensitive information and in particular Methanex is concerned about making public disclosure of forward-looking information; specifically, where the information is individually identifiable and relates to plant outages or contract details. Methanex would face adverse consequences if such information were to be widely disclosed, given the prospect that its competitors in global methanol markets would be able to use that information to gain a competitive advantage where they are not required to disclose such information themselves.

DISCLOSURE IMPACT - NEW ZEALAND ENERGY SECURITY

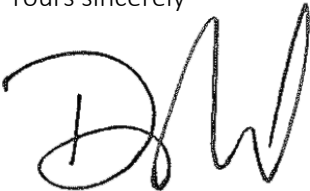
9. Methanex plays a key role in the New Zealand energy sector, providing a healthy gas demand that incentivises exploration for future gas supply which is vital for cost effective, secure, low emission electricity supply; supporting industry and North Island residential customers.
10. As Methanex underpins the New Zealand gas market by entering into long-term contracts, using approximately 45% of the country's natural gas output, we provide the stable base load demand that makes upstream exploration and development viable. These contracts are often entered into prior to a field being developed and provide both the impetus and financial security for gas sector development.

Methanex will continue to be part of the conversation about "Options for information Disclosure in the Wholesale Gas Sector" and how this will look for major gas users. We encourage the development of supportive policies that recognise the uniqueness of the New Zealand energy market and the tensions between national and international sectors.

When weighing up the benefits of information disclosure, the Gas Information Company ought to consider consequences for individual organisations being required to disclose. It should carefully and objectively consider whether any disclosure requirements will provide relevant information for the intended parties and whether the benefits of disclosure outweigh the risks and costs to the disclosing companies.

We would welcome the opportunity to discuss these matters face-to-face or provide you the opportunity to visit our production facility here in New Plymouth.

Yours sincerely

A handwritten signature in black ink, consisting of a large, stylized 'D' followed by a 'W'. The signature is fluid and cursive.

DEAN RICHARDSON
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APPENDIX 1. COMMENTS ON QUESTIONS RAISED IN THE CONSUTATION PAPER

Question	Comment
<p>Q4: Have the demand-side and its potential information issues been characterised appropriately? Have we missed aspects of the problem or are there parts of the identified problem that we have not described correctly? Please provide details and any examples in your response.</p>	<p>We believe that GIC has not accurately described the information disclosed by Large Users on Australian Gas Bulletin Boards. The disclosure requirements of Large Users are far more restricted than those applied to gas producers and pipeline operators.</p> <p>GIC has also not clarified that a clear differentiation is made between LNG Producers and other Large Users on the East Coast Gas Bulletin Board. GIC should further investigate the characteristics that make Queensland-based LNG Producers unique from other large gas users including such things as the level of vertical integration that exists between LNG producers and gas field operators.</p> <p>Methanex would face adverse consequences if information on planned outages were to be widely disclosed, given the prospect that its competitors in global methanol markets would be able to use that information to gain a competitive advantage, where those competitors are not required to disclose such information themselves.</p>
<p>Q10: Have the potential information problems in the wholesale gas market been identified appropriately? Have we missed aspects of the problem or are there parts of the identified problem that we have not described correctly? Please provide details and any examples in your response.</p>	<p>Methanex doesn't agree that wholesale price and volume information under bilateral contracts will provide useful guidance as to wholesale gas prices or tradeable volumes. This gas is generally not available to the traded wholesale gas market. Any such disclosure will have adverse implications for Methanex' commercial position both in New Zealand and internationally.</p>
<p>Q26: Do you agree with the proposed coverage for disclosure obligations? What issues do you see with the proposed coverage?</p>	<p>Requiring Methanex to publicly disclose information on plant outages (both planned and unplanned) would impact commercial arrangements that Methanex will seek to put in place to meet its customer supply obligations and will impose additional costs on Methanex. Methanex' competitors in global methanol markets would be able to use that information to their commercial advantage, and those competitors are not required to disclose such information themselves.</p> <p>While we don't necessarily see the relevance of comparison to the Australian gas market, in its analysis of that market we believe that GIC has not sufficiently described the scope of coverage in those jurisdictions. In particular, it has not highlighted the more restricted requirements placed on Large Users when compared to gas producers and pipeline operators.</p>
<p>Q42: Should there be publication of weighted average wholesale prices & aggregate traded volumes that cover the entire gas wholesale sector (with data sources including price and volume information covered under bilateral agreements and other arrangements)?</p>	<p>Methanex disagrees that prices and volumes in bilateral gas contracts are relevant in setting a gas price signal to wholesale market participants.</p> <p>Bilateral gas contracts (in particular long-term contracts) typically have a number of features unique to that arrangement that mean pricing information extracted from those contracts would have little meaning or relevance in isolation. In addition, the volumes in these contracts are committed to the buyer and generally not available to the market.</p> <p>Characteristics of bilateral contracts that contribute to the overall commercial value of the deal include tenure, Take-or-Pay obligations, daily and annual flexibility in gas uplift, pricing linkages to exotic commodity indexes, interruptible or gas priority provisions, reserves risk exposure and other factors. Pricing terms will also be influenced by the amount of gas committed to under the contract and the capital expenditure incurred by the buyer to establish and maintain the</p>

		<p>demand. All of these features make it impossible to extrapolate a meaningful wholesale gas price signal from the gas price paid in a given month or year.</p> <p>Methanex strongly opposes the disclosure of pricing and volume information in bilateral contracts in terms of the value of the information to the operation of a wholesale market and the damage it would do to Methanex to have that information disclosed to other parties both in New Zealand and internationally.</p> <p>Methanex considers that given the proportion of gas it purchases under bilateral gas contracts it would be challenging to sufficiently aggregate the information to ensure that Methanex specific information is protected.</p> <p>The wholesale gas market (emstradepoint) captures wholesale gas that is uncommitted and tradeable. While it doesn't represent a significant proportion of gas produced and sold in New Zealand, this doesn't invalidate it as an efficient market for uncommitted gas and the setting of a meaningful marginal price signal.</p>
Q43:	Do you agree with the advantages that have been identified for this weighted average price & volumes option? Have any other advantages been missed or are there advantages that have been listed that mischaracterised?	Methanex disagrees that pricing and volume information in bilateral gas contracts would provide any meaningful information for the wholesale gas market.
Q44:	Do you agree with the disadvantages that have been identified for this weighted average price & volumes disclosure option? Have any other disadvantages been missed or are there disadvantages that have been listed that are mischaracterised?	In the New Zealand context, where Methanex has a significant share of the gas supplied under bilateral arrangements, aggregation would not adequately prevent disclosure of its commercially sensitive information.
Q50:	Should a twelve-month outlook for major users' gas consumption information ('gas consumption information') be disclosed under an information disclosure regime? Please provide reasons in your response.	<p>Methanex doesn't believe that provision of its outlook for gas consumption would assist in monitoring electricity security of supply matters. Given that this is commercially sensitive information, and if provided publicly would be available to its overseas competitors, Methanex opposes this suggested disclosure.</p> <p>As far as we can ascertain, neither gas bulletin board in Australia requires the disclosure of 12-month gas consumption forecasts.</p>
	Publication Channels	<p>Methanex does not consider that information disclosure should be made available to the broader public.</p> <p>Information for which disclosure incurs costs (direct or indirect) should be limited to those who have a relevant use for the information. Restricting the scope of disclosure, as well as aggregation of data, reduces the impacts on those parties disclosing commercially sensitive information. More work is needed by GIC to assess costs and benefits of disclosure and address methods of disclosure that would reduce negative impacts on disclosing parties.</p> <p>It is of particular concern to Methanex that information could be accessed by our competitors in international markets.</p>

We are the world's largest producer and supplier of methanol to major international markets, with production sites around the globe.

How methanol production is used:

55%

HIGH TECH
HIGH DEMAND
PRODUCTS



Pharmaceuticals, wind turbines, solar panels, paint, clothes, electronics and medication.

45%

ENERGY
APPLICATIONS



Marine fuel, transport fuels, biodiesel and industrial boilers.



Our key markets in New Zealand are China, Japan and Korea.



Our contributions to the economy total

8% of Taranaki GDP
\$834 million
Nationally



Methanex is New Zealand's **only** methanol producer, exporting up to **2.4 million tonnes per year** from our two sites in Taranaki.

We underpin the New Zealand gas market, using approximately 45% of the country's natural gas output.



We employ over

270 jobs directly & 3,000 jobs indirectly.

Our headquarters are in Vancouver, Canada.
Methanex is listed on the Toronto and NASDAQ stock exchanges.

REDUCING GLOBAL EMISSIONS



RENEWABLE ENERGY

Methanol can be made from geothermal and industrial waste gas feedstocks. We have commercial interest in a plant in Iceland (CRI) making renewable methanol; though not yet at a commercial scale.

REDUCE EMISSIONS

Methanol is important in manufacturing products that help reduce emissions. E.g. electric cars, solar panels, batteries and wind turbines.



34%

Reduction of Methanex global CO2 intensity since 1994.

Our gas-based methanol plants are among the most CO2 efficient plants in the world; with less than half the emissions of coal-based plants.



READILY BIODEGRADABLE

Methanol is a clean-burning, clear liquid chemical that is water soluble.



EMISSION REDUCTION COMPARED TO CURRENT FUEL

CO2*

25%

Sulphur (SOx)

99%

Nitrogen (NOx)

60%

Particulate Matter (PM)

95%

*According to recent Stena Line trial

Emissions reduction

Providing significant benefits in the transition to a lower emissions economy.



Shipping is a developing market

Replacing heavier marine fuels for low-sulphur emissions.



Power generation

The Energy Sector is methanol's fastest growing market.



Methanol is a cost effective liquid fuel alternative for power generation.



1000+

INDUSTRIAL BOILERS CONVERTED IN CHINA

To run on liquid methanol. Demand for methanol is expected to grow as China phases out coal-fueled boilers.



BOILER AND SHIPPING CONVERSIONS

Only minor modifications are needed to accommodate the use of methanol as a fuel.



WE'VE ADOPTED THE TECHNOLOGY

Seven methanol powered ships, with four more on order, were introduced to our fleet in 2016; they are regular visitors to Port Taranaki.