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Submitted via website www.gasindustry.co.nz

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Re: Gas Market Settings Investigation Consultation Paper

Please accept this as the submission of Methanex New Zealand Limited to your request for feedback to Gas Market Settings Investigation Consultation Paper. We thank you for the opportunity to provide feedback.

Methanex supports a robust and market-based energy system in New Zealand where commercial parties interact directly to operate their businesses. We support a regulatory system where the rules are clear and transparent to all without fear of interference in commercial dealings.

We agree with the Climate Change Commission that the Government should consider replacing the 100% renewable electricity target with a lower target given the very high cost of reaching 100%. We agree with New Zealand's target of "net" zero greenhouse gas emissions and would encourage an energy system that took advantage of technology such as carbon, capture and storage which could assist in achieving this "net" goal. We believe the Government ban on new offshore exploration permits has caused a reduction in investment in New Zealand and will increase global greenhouse gas emissions due to the continued use of coal in New Zealand and around the world.

Methanex understands its role in the New Zealand energy system as the country's largest consumer of natural gas. We have, on numerous occasions and over many decades, played a positive role in this system and unfortunately had to close facilities when insufficient gas supply was available, despite producing a product which has substantially lower emissions than global competitors. Methanex New Zealand has an exemplary safety and environmental record and we are focused on continually improving and being a leader in this regard. We are a strong contributing member of the Taranaki community.

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. New Zealand methanol production is sold to local businesses in New Zealand, as well as the Asia Pacific region where we have five office locations to respond to customer needs.

In response to your specific questions:

Q1

We make the following points about your characterization of the role of gas in New Zealand:

- We support gas continuing to provide energy-intensive industries with energy that produces relatively low greenhouse gas emissions during the transition. We note that 45% of the global methanol industry, representing over 30 "Methanex New Zealand's", continue to operate on coal rather than natural gas. The shutdown of methanol produced in New Zealand, such as the recent idling of Waitara Valley, increased global emissions by 5 times.
- We believe the emissions trading scheme, already in place and predicted to increase the cost of emissions in New Zealand, is the tool best suited to "direct use where it is more efficient and/or has a lower carbon footprint than alternatives". We do not support additional policies which try and pick winners, rather we believe that the market will make these choices as emissions costs increase. We believe New Zealand should be a "fast follower" and import best in class technology as it is developed, such as by Methanex with ocean shipping solutions or methanol made from recycled CO₂. While we're supportive of New Zealand led technology, the reality of the size of this market compared to global markets means some technology will need to be imported in order to remain competitive.

Q2

We agree there are a variety of scenarios that could result from the current situation. There are many factors which will influence the outcome (weather, international markets, government policy, etc.) and we do not believe predicting the outcome is possible. Given the overall direction the Government has signaled through the ban on new offshore exploration permits, individual entities, including Methanex, will act in their own self-interest by allocating capital to meet required returns over the time period which they can control. We support a broad regulatory framework within which individual companies can make their choices on the way to the country's ultimate destination. It is up to the Government, and ultimately the people of New Zealand, to decide on this pathway.

Q3

We have no comment on your characterization of the commercial outlook for gas.

Q4

We have no comment on your detailed description of the issues.

Q5

You note in section 5.2 that some participants are seeking “more comprehensive and timely information” and that “further work is underway on whether additional information disclosure is required in relation to contract price and volumes and/or major user outages”. We strongly oppose a requirement to disclose price, volume and other commercially sensitive information to the public. This is obviously commercially sensitive information agreed between parties in bilateral contracts and disclosure would impact other relationships in New Zealand. Furthermore, disclosing this information would impact our global methanol business which is a commodity industry where cost structures are critically sensitive. We would note that any party seeking gas supply is free to discuss with those supplying gas to see if commercial terms can be reached.

We do not have any specific comments on the remaining potential solutions stakeholders have raised.

Q6

As you note throughout your paper, Methanex has played a “flexible” role in the New Zealand gas industry over a long period of time. While we have always desired to operate at full rates, we have made commercial decisions that have meant decreases or increases in production capacity based on our ability to enter long-term contracts and earn a return on capital. We have most recently demonstrated this through the idling of Waitara Valley, and the unfortunate loss of permanent jobs in Taranaki, and the temporary shutdown of one Motunui facility to support the energy sector when renewable sources did not deliver as expected.

Another potential solution would be to encourage New Zealand industry, rather than today’s model of industry being phased out of New Zealand through policy. If Methanex had a stronger operation and was operating three plants at full rates, we could continue to play the role of New Zealand’s battery over the coming decades as we transition towards 2050. If Methanex is not able to continue to operate in New Zealand, this battery which has existed for decades will leave New Zealand further exposed to a reduced industry without a backbone consumer to underpin development.

With regards to the specific proposed solutions, given the amount of gas needed for our business, and the competitive global commodity business in which we operate, we do not believe some of the solutions are practical for Methanex. These include storage and the import of LNG, both of which create increased handling of natural gas and therefore increase its cost. As discussed earlier, we are strongly opposed to the disclosure of confidential commercial information with our suppliers as this has competitive issues both within New Zealand and globally. And finally, we caution against policy which interferes with commercial constructs, such as market reserve mechanisms or wholesale contract interference. Our business, which requires long-term stability to invest in the plants, cannot tolerate these mechanisms which would ultimately increase the cost of gas and consequently our ability to pay.

Q7

Given the Government's signaled and enacted direction, primarily represented by the ban on new offshore exploration permits and the increasing cost of emissions as compared to global competitors, we are not clear that there is a set of solutions that would provide greater confidence to support the required investment. We do agree that in a complex, dynamic, commercial environment such as New Zealand's energy markets there will not be a single solution to any issue but rather a set of factors which drive to the ultimate outcome. If a single solution is pursued without regards to other factors, there will be intended, and unintended, consequences.

Q8

We do not have the answers to this question as we disagree with the ban on new offshore exploration permits which has resulted in less invested capital in the upstream sector. We will continue to operate our business as best we can, focusing on the safety of our people, the environment, and our assets. We desire to operate in New Zealand for an extended period of time as these assets are world-class and 5 times less emissions than the coal-based methanol plants that would replace them. We will continue to interact with our commercial partners, industry bodies and Government in an open manner with the hope that we are part of New Zealand's long-term transition. Ultimately, we will make commercial decisions that are aligned with our stakeholder interests, which include our employees, Taranaki suppliers, and shareholders.

Yours sincerely

A handwritten signature in black ink, appearing to read 'DR', is positioned above the typed name and title.

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