

**FY 2017 STATEMENT OF INTENT AND LEVY CONSULTATION
RESPONSE BY METHANEX NEW ZEALAND LIMITED
February 10 2016**

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<p>Q1: Do you have any comments on the GIC's role or Strategy relevant to development of the Statement of Intent and Levy?</p>	<p>We continue to support the strategic objectives of the GIC. However, the recent sale of both the Maui Pipeline and Vector Pipeline has dramatically changed the context in respect to transmission related matters.</p> <p>A new business owner is likely bring significant change to business strategies, capital investment decisions, potential integration of pipeline codes, access arrangements generally and the inter-relationship with gas markets (including balancing).</p> <p>All these factors, combined with the increased monopoly concentration arising from the sale of both pipelines to a single owner, will increase the need for regulatory oversight and we anticipate the GIC will need to play a more significant role going forward.</p>
<p>Q2: Do you have any comments on the process for developing the Gas Industry's SOI and Levy</p>	<p>We recommend an earlier timing for consultation to avoid the process crossing over the new year period. There may also be merit in separating the consultation process on the forward strategy and work programme from consultation on proposed Levy changes.</p>
<p>Q3/Q4: Do you consider there to be any other items that should be</p>	<p>We have confined our comments to those parts of the work programme that are of direct significance to Methanex New Zealand. This is essentially</p>

<p>included/excluded in the GIC's intended Work programme for FY 2017?</p>	<p>those workstreams covered by Strategic Objective 3.2 "Facilitating efficient use of, and investment in, infrastructure". We also have some comments to add in respect to the Gas Quality workstream.</p> <p>Gas Quality</p> <p>We are not so much concerned with quality issues once gas has entered the pipeline network but we do have some concern that the underlying NZS 5442 gas specification is allowing gas of uncertain quality to enter the system. We are seeing this in everyday use of our plant through a mechanism called "hot banding" which is affecting the output and reliability of our plant. We recognise that this may be outside the current scope of the workstream but we would like the opportunity to engage with GIC and the industry regarding the sufficiency of the current gas specification.</p> <p>We recommend that the work streams associated with Strategic Objective 3.2 are reviewed and adapted to the circumstances presented by the change in pipeline ownership along with issues associated with evolution of market-based balancing. This will likely mean GIC needing to devote more of its resources and available funding into this area over the next 18 months.</p> <p>Transmission Access and Pricing</p> <p>We note GIC's vision for code convergence in the context of efficient utilisation of infrastructure.</p> <p>However, we don't consider that the implications of pipeline convergence have been explored fully. Now there is a single owner, convergence seems more likely within a shorter-time frame giving increased urgency.</p> <p>We recommend that the GIC re-assesses the design and implementation of its vision, and GIC's role as regulator in guiding the potential transition, in the light of the ownership change, and importantly, the increased monopoly characteristics of the transmission pipeline system that has resulted.</p>
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	<p>Transmission Pipeline Balancing We note that effective market based balancing requires buy-in from the pipeline owner/operator. It also requires more transparency than is currently present.</p> <p>The policies, procedures (including SOP's) and actions of the pipeline owner and balancing agent are as important as Shipper behaviour. We recommend that this aspect of market-based balancing should be given prominence in the GIC's post-implementation review.</p> <p>Transmission Code Changes and Appeals We consider that the GIC role in processing MPOC code change requests needs to be reviewed.</p> <p>The current situation where the GIC has no role in recommending or requiring alterations to change requests is in our view a serious flaw. The "approve or disapprove" process creates a binary outcome with decisions to approve changes dominating. Since all significant MPOC change requests have been made by the pipeline owner it has in our view created pipeline-biased outcomes.</p> <p>We recommend that GIC looks to strengthen its role in the code change process. This may itself, ironically, require a MPOC change request, or potentially the need for the GIC to introduce new regulations to govern how code changes are made.</p> <p>Transmission Security and Reliability The importance of GIC engagement and coordination with the Commerce Commission was a prominent sentiment aired in the stakeholder meeting held by the Commerce Commission in December 2015.¹</p>
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¹ See "Input methodologies review/Gas pipeline default price-quality path reset 2017, Gas stakeholder meeting – December 2015 – Summary of views" (published 22/12/2015). Available on Commerce Commission website.

	<p>We recommend that the GIC takes a more prominent role in the Commerce Commission-led Default Price-Quality Path Reset for 2017 (and a wider discussion of gas pipeline industry regulation that is needed) given the implications of change in pipeline ownership and the prospects for important capital investment/re-investment decisions being made in coming years.</p>
<p>Q5/Q6: Do you have any comment on the proposed levy for FY 2017</p>	<p>We commend the GIC for keeping costs flat to declining year-on-year since 2013. However, we have some concern that the wholesale levy has been increased on the back of a downward revision in forecast gas volumes.</p> <p>We accept that volumes projected for 2015/16 have been lower than forecast. This has in significant part been due to Methanex' gas requirements being reduced during the calendar year 2015 as the result of a string of unplanned outages. For 2015/16 Methanex' gas use is expected to be about 10 PJ below our previous forecast. This projection also takes into account the impact of the planned Pohokura outage during March 2016.</p> <p>However, permanent repairs have been completed and all our plant is now fully operation. We expect our plants to run at full rates throughout the 2016/17 period. This will restore the 10 PJ lost in 2015/16 which should in large part redress this year's shortfall for the 2016/17 period.</p> <p>As a consequence we do not see the need to reduce volumes as significantly as proposed, we recommend a revised estimate of 180 PJ is more justifiable and wholesale levy adjustment revised accordingly.</p>