THE EXPLORERS
NEW ZEALAND OIL & GAS

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Gas Industry Company Ltd
Submission online

To whom it may concern

Re Consultation report "Long Term Gas Supply and Demand Scenarios"

New Zealand Oil & Gas Limited welcomes the Gas Industry Company commissioning the "Long term gas supply and demand scenarios" report, which we see will add understanding of the New Zealand gas market.

As requested, we are providing feedback on the report.

While we have no view on or we support most of the report, we consider the "Plentiful gas supply scenario" does not represent a realistic scenario. The reasons for this view are:

1. A $2.5 to $3.5/GJ post treatment price is unlikely to be viable. If there is an offshore gas find with significant associated liquids, sufficient to pay for the development, the landed gas price must still justify bringing the gas ashore and processing it. Otherwise the developer will simply re-inject the gas back into the reservoir after removal of the condensate.

2. Even if a very large new gas supply did come to market the assumed $2.5 to $3.5/GJ prices are still too low. In real terms these prices are less than the NZ wholesale price was in the unique situation when the Maui field provided a substantive surplus supply at artificially reduced prices (a price which had escalated at less than inflation for nearly 30 years). We note the real wholesale gas price for 2000 and 2001 (as published by MBIE) was still $4/GJ when the Maui supply was at its maximum downward price pressure – that is, near its lowest price, with prepaid (banked) gas a significant component of supply and prior to the reserves redetermination reducing supply expectations.

3. However, we do not see how the current portfolio of exploration prospects both near shore and on-shore can deliver this scenario. We note that in order to maintain status quo reserves cover, the market must discover and develop in the vicinity of 2000 PJ of new supply in the next 10 years, which will be a significant achievement in itself given the planned drilling programme. To put this in perspective, maintenance of a status quo market requires a new Pohokura scale discovery every 5 years or so.

4. If we do discover a large gas field in the next couple of years this is unlikely to cause a surplus due to the time required to develop the discovery. We note that the key existing gas fields are likely to move from installed capacity to declining capacity soon after the end of this decade. In addition, any larger discovery is likely to be off-shore and therefore commissioned at or after the end of the decade - simply replacing and continuing the current gas supply capacity rather than creating a surplus.

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In summary, we consider the “Plentiful” scenario relies on a number of particularly large onshore gas finds in the near future, which is simply not realistic given the NZ geology. We also consider that having an unrealistic scenario sends unhelpful signals to the market, including to potential new entrant explorers at a time that NZ needs to be encouraging an active gas exploration portfolio to replace the existing cornerstone gas fields.

Yours Sincerely

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