Long Term Gas Supply and Demand Scenarios Submission from Contact Energy

1. The report is a good assessment of the current supply and demand situation however it does not fully address some of the important implications of the scenarios. Contact understands that some of these implications will be addressed by the GIC in subsequent reports. We look forward to reviewing those reports.

2. Whilst the three market scenarios appear to cover the possible states of the gas market, these states (and the sustainability of these states) depend heavily on the economics of gas production and gas usage (both of which are not directly covered in this report) and as a result there are perhaps only two long term scenarios: high and low demand. For example:

    a. If there is a plentiful supply of gas it might be economic for participants to export this surplus as either LNG, urea, methanol or another commodity. Therefore, the Plentiful Supply scenario would converge to the Tight/Moderate Supply Scenario.

    b. Conversely, under the Tight Supply scenario prices may reach levels (as a result of production costs) that are uneconomic for users to purchase gas and ultimately these users might leave the market shifting the market back the Moderate/Plentiful Supply Scenario. This outcome could also happen as a result of export parity prices in the domestic market.

    The above market adjustments may occur quite quickly (i.e. < 5 years), for example the possible closure of the Tiwai aluminium smelter at the end of 2016 could trigger the outcome presented in 2a. Contact understands that the GIC is preparing a paper on market expansion options (e.g. LNG, urea or methanol etc) if a surplus does develop. Contact assumes that this report will cover the economics of demand and supply; the Tiwai example is worthy of being a stand-alone scenario. Without this analysis, it is premature to state that methanol production will be mothballed (second to last paragraph on page 6) during periods of tight supply; Methanex's "ability to pay" is quite possibly higher than other large gas users.

    In addition if the market does reduce in size, the effect on transmission investment and cost recovery also needs to be assessed. Is the GIC considering this outcome?

3. The demand projections for each sector appear reasonable. In terms of the electricity sector it would be interesting to see how the price of domestic coal compares with natural gas and how this might affect the composition of electricity supply in the future (i.e. will coal displace natural gas?).

4. Lastly, there seems to be disproportionate amount of analysis of demand issues compared with supply issues. In addition to the aforementioned issue of production economics, a lot of additional material could have been included (e.g. deliverability and processing capacity, expansion options).

We are happy to discuss our comments.

Kind regards
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