

NZ Petroleum Conference 2008

NZ Energy Sector Report 2008

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Scope

- ▶ A health check on the NZ gas sector, Maui redetermination + 5
- ▶ Increase investor awareness and knowledge of NZ's upstream energy space
- ▶ Outlook, options, opportunities.



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- ▶ A health check on the NZ gas sector, Maui redetermination + 5
- ▶ Increase investor awareness and knowledge of NZ's upstream energy space
- ▶ Outlook, options, opportunities
- ▶ Outline:
 - What has happened?
 - What is happening?
 - What might happen?



The NZ context

NZ an isolated, captive market

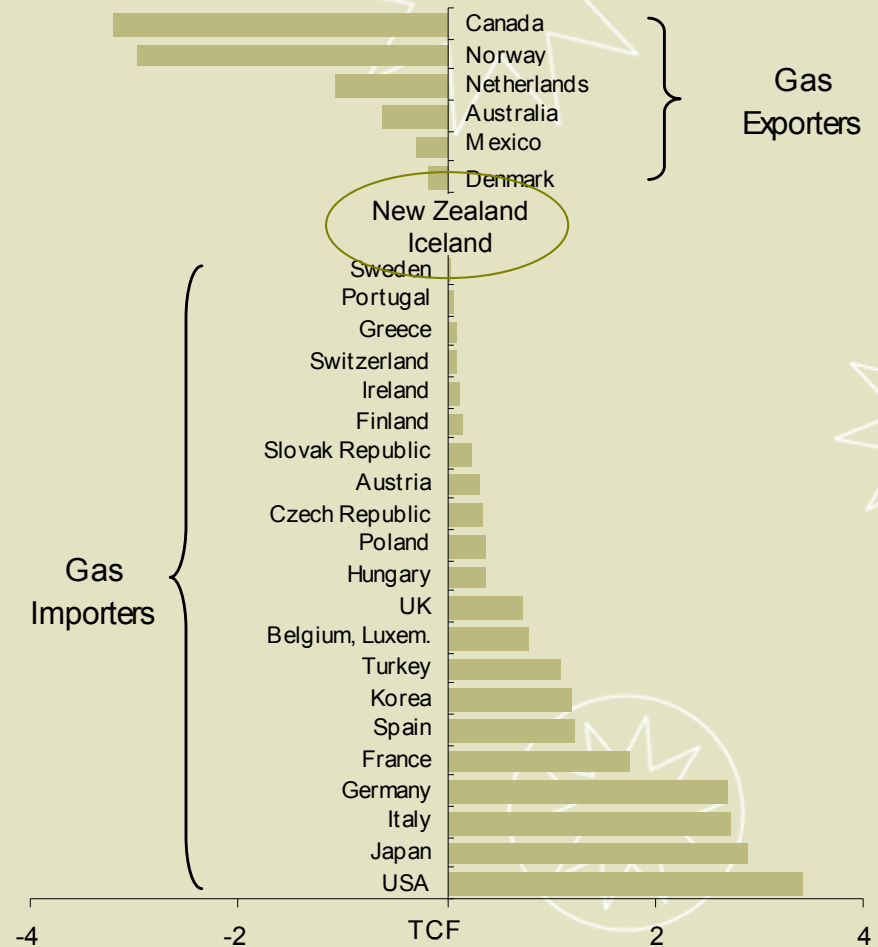
Proven hydrocarbon province

Substitutes achievable, but expensive

Regulatory environment has been fluid, but is firming

Substantial load growth potential, much of which is 'easy'.

OECD Nation Net Gas Imports



Source: Data from BP Statistical Review of World Energy, June 2007



The NZ Supply context, 2003-08

2003: Remaining contract Maui 367PJ

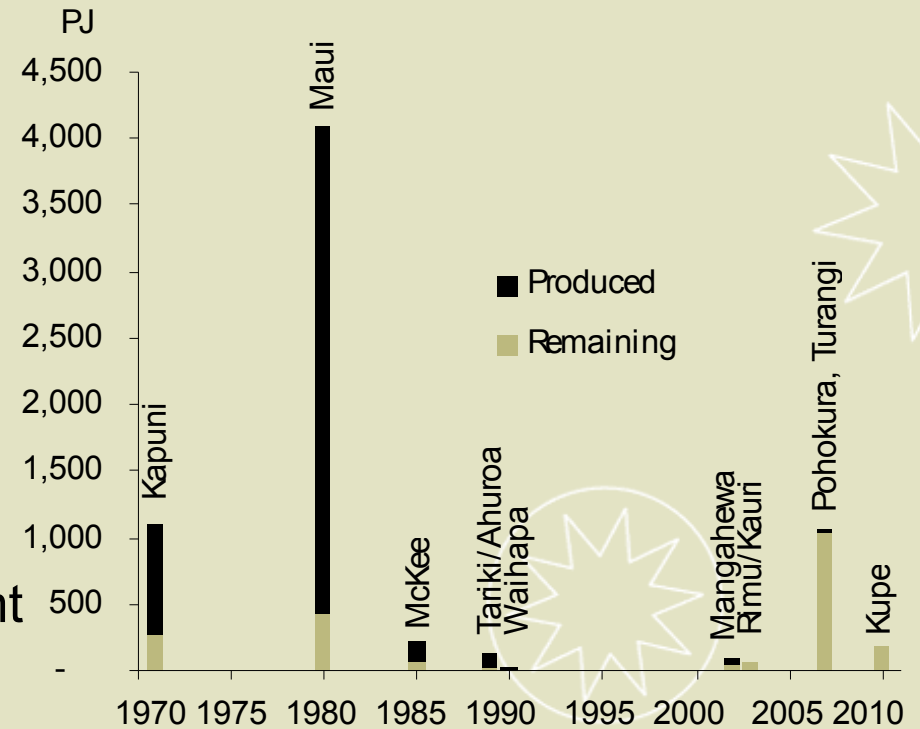
2004: New gas-to-market. Strong seller premiums, price and non-price

2006/07: liquidity rises with new gas

Focus shift from contract to commodity, and towards shorter-term gas book mgmt

More recent GSA terms may have eased?

Major Gas Discoveries, by Year of First Gas



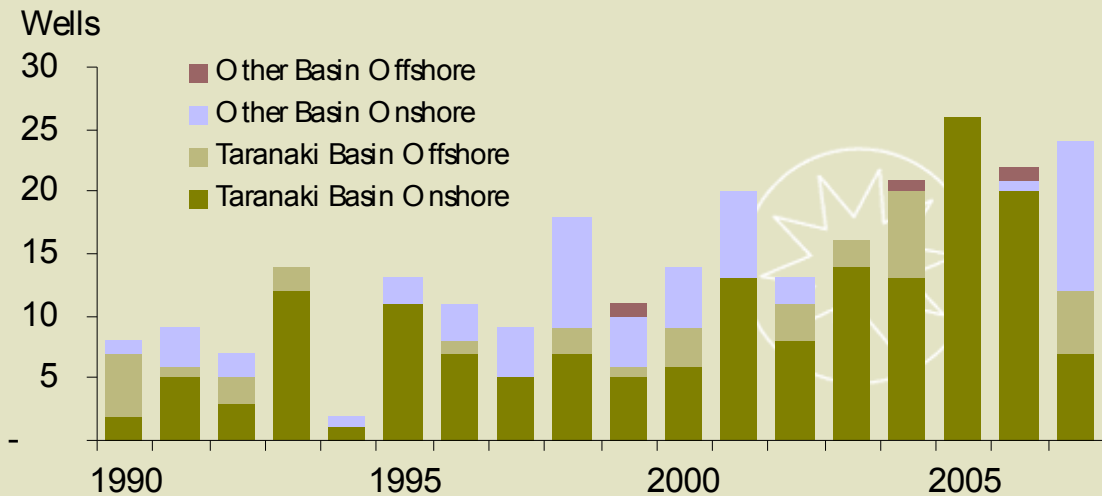
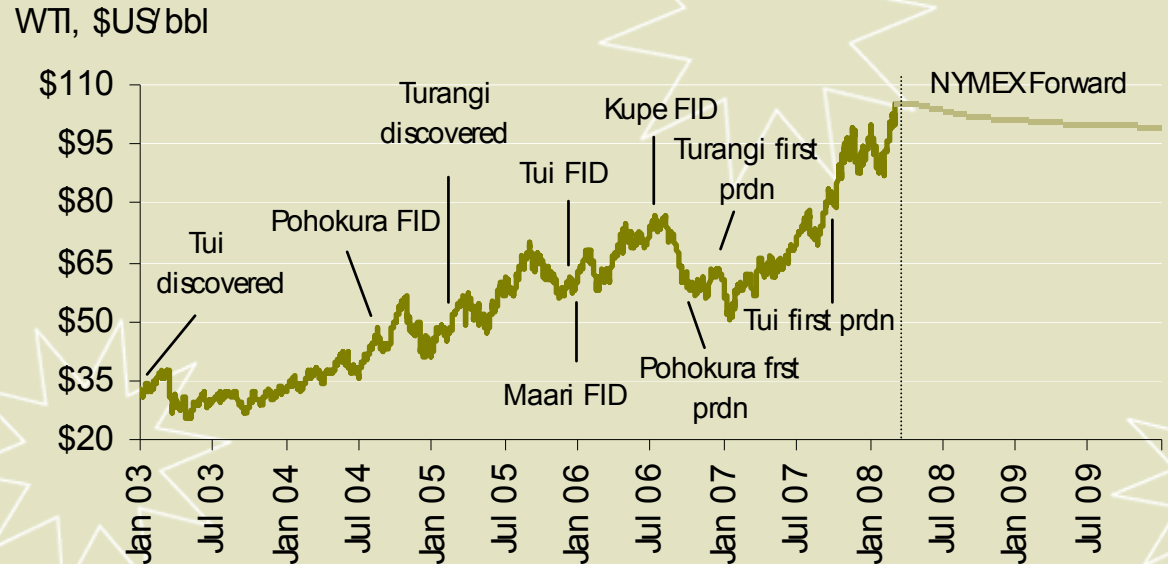
Source: MED Data File, McDouall Stuart Research



Upstream: Incentives aplenty

Strong fundamentals,
increasing activity,
yielding good results.

Onshore Taranaki:
1990-2002: 3.5 wells pa
2003-2007: 11.2 wells pa

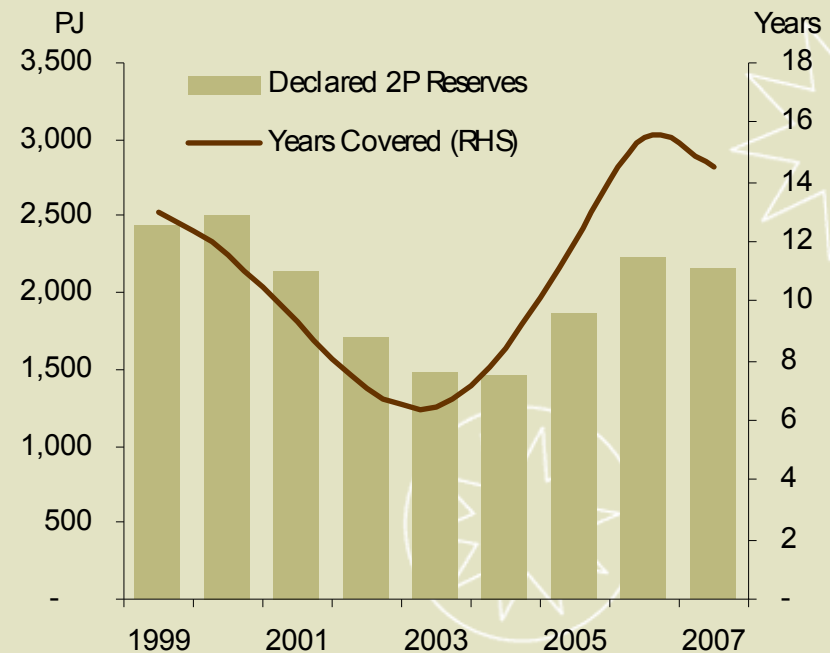


Supply $t+5$: the doomsdayers were wrong

A clear maturing on the supply-side:

- ▶ Maui strawman settled, ROFR to market
- ▶ Pohokura to market
- ▶ Kupe sanction
- ▶ New entrant success
- ▶ Improved access to infrastructure
- ▶ Loosening of royalty regime
- ▶ Dilution of supply control
- ▶ Innovations in gas marketing

2P Reserve Coverage, 10 Year Trend



Source: MED Data Files, McDouall Stuart Research



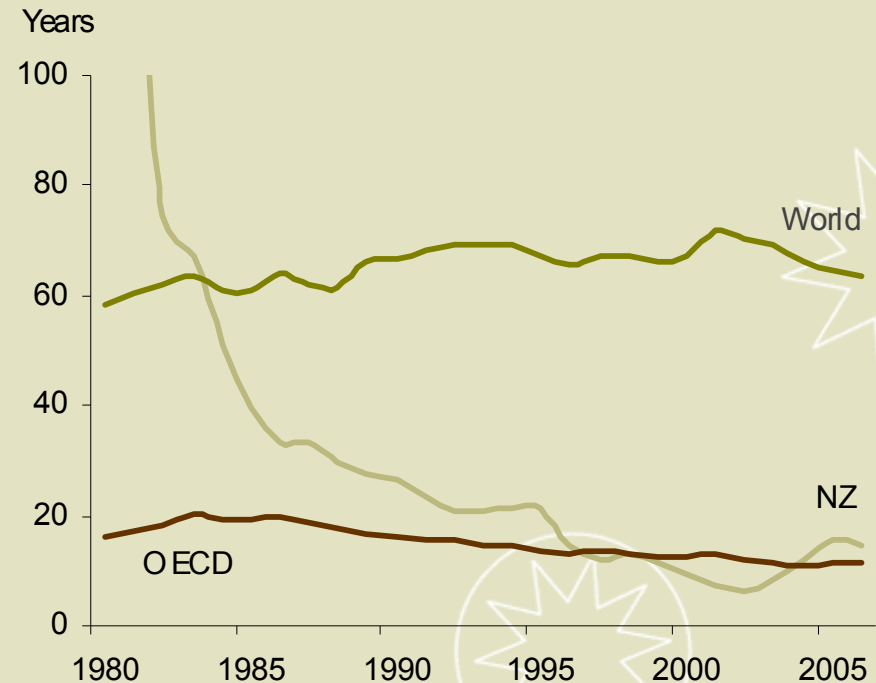
Supply: So how do we rank?

Of 30 OECD nations:

- ▶ 2 countries swamp all others
- ▶ average OECD coverage = 11 years
- ▶ 12 nations have indigenous gas, of which, NZ ranks 5th for coverage
- ▶ 6 indigenous gas holders also import

Are we settling towards a steady state?

2P Reserve Life Cover

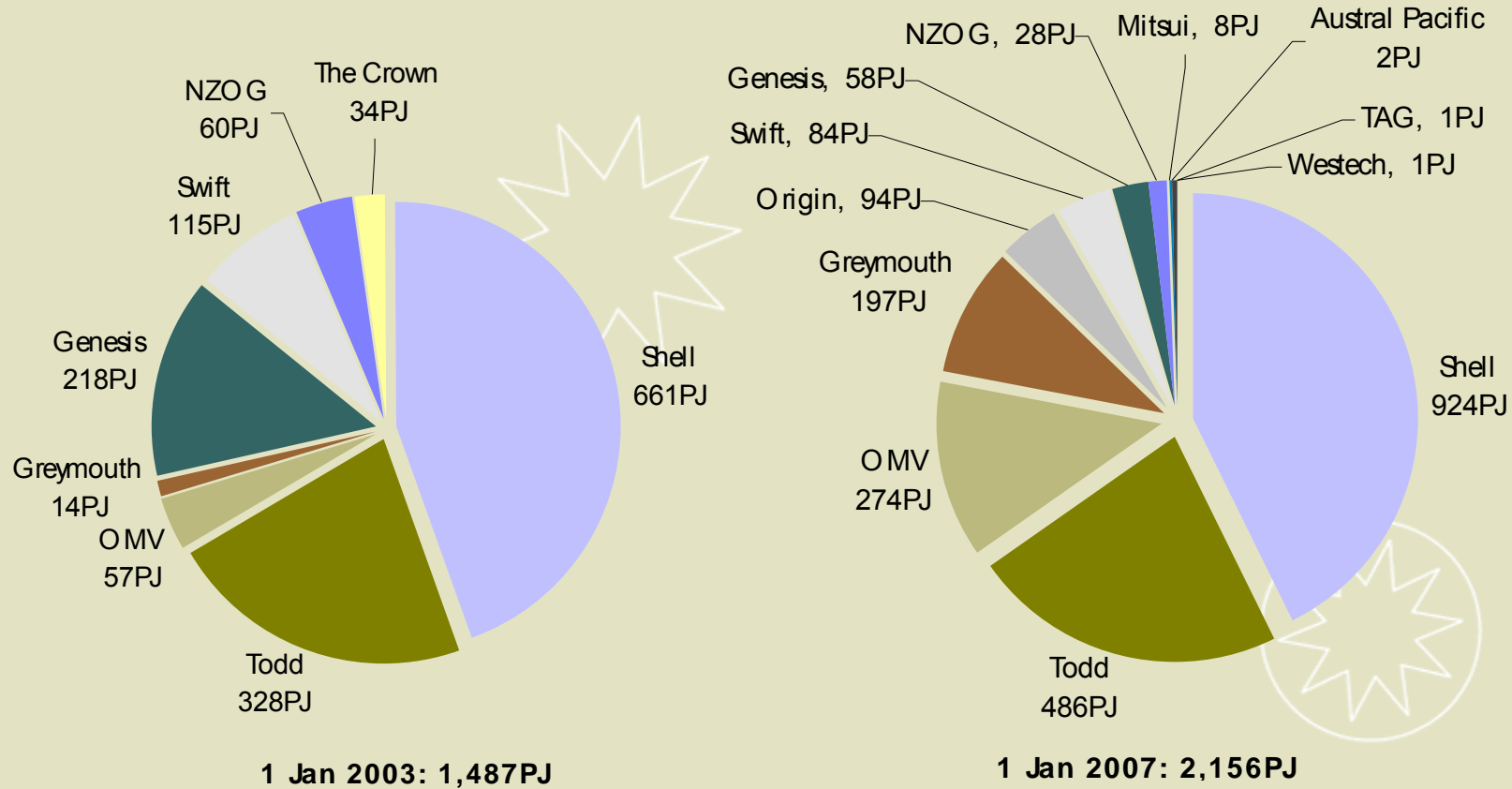


Source: Data from BP Statistical Review of World Energy, June 2007, MED Data Files



More product, more sellers

2003 vs 2007, Producing + Non-Producing Fields



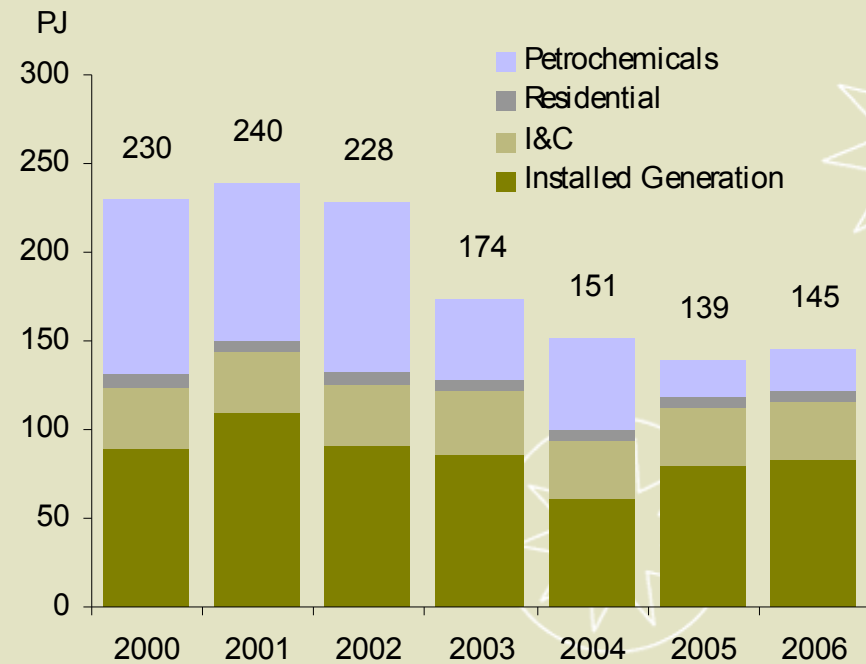
Source: MED Data Files, McDouall Stuart Research



Demand: firming-up, with risk to upside

- ▶ e3p commissioned, +20PJ pa
- ▶ Huntly-to-coal transition complete
- ▶ Few further at-scale load shedding options left, Methanex excepted
- ▶ Liquid secondary market, providing sink for fully-laden gas books
- ▶ Methanex a willing buyer.

Demand Composition, 2000-06



Source: MED Data Files



Demand-side: also maturing

Options: risk management + leverage

Substitute fuels



Downstream-to-upstream



Non-indigenous gas



Gas storage



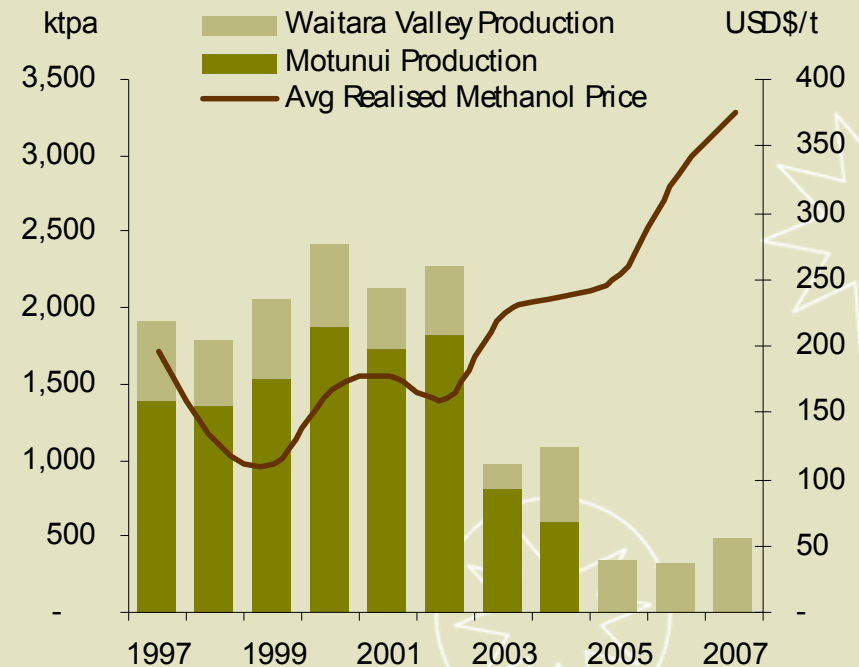
Methanex: ramping-up

NZ's biggest non-generation gas user ...
... is looking to get bigger

Waitara Valley: 5 year life extension
completed November 2007, 530ktpa

Motunui: speculation that 1 x 900ktpa
train to be recommissioned,
possibly from as early as 3Q08.

Methanex NZ Production & Pricing



Source: Methanex Factbook, McDouall Stuart estimates



Methanex: 50+ PJ pa of potential

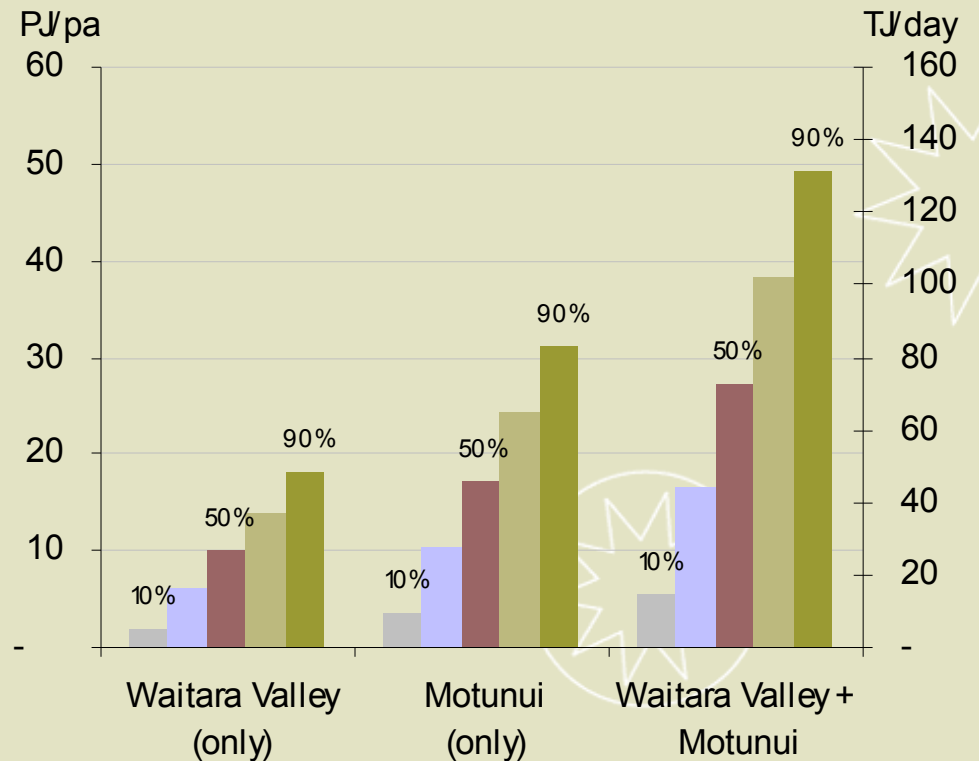
Potentially major implications
supply & demand mix implications:

Waitara Valley: 530ktpa, 5 years
@ 20PJ pa (cap) = 100PJ potential

Motunui: 900ktpa, 5 years
@ 34PJ pa (cap) = 170PJ potential

Motunui + WV: 1.43mtpa, 5 years
@50+PJ pa = 250+PJ potential

Methanex's Gas Demand Spectrum



Source: McDouall Stuart estimates



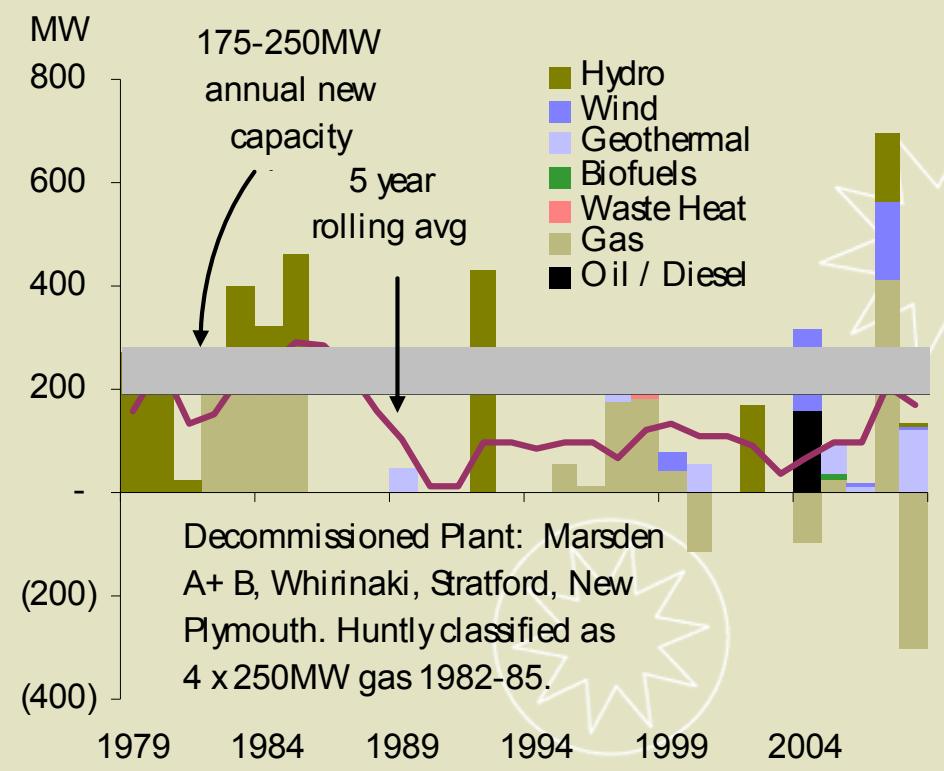
~~Peaking~~ Intermediate gas-fired thermal plant

Load growth in generation gas
kneecapped? Maybe not.

Is target net new build achievable?

1989-2008: ~100MW pa
2008-2025: ~175-250MW pa?

Net New Generation Build, 30 Years



Source: McDouall Stuart Research



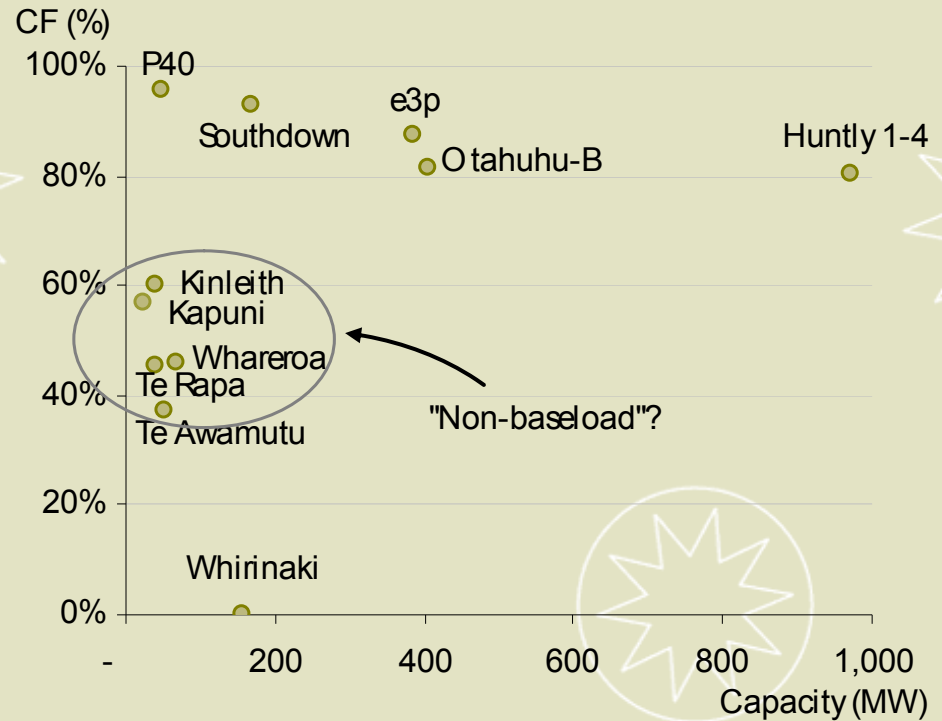
Distributed, intermediate gas-fired generation

Likely to emerge as increasingly feasible

Site and provider availability possibly the key constraints

Technical issues with cogen remain a challenge

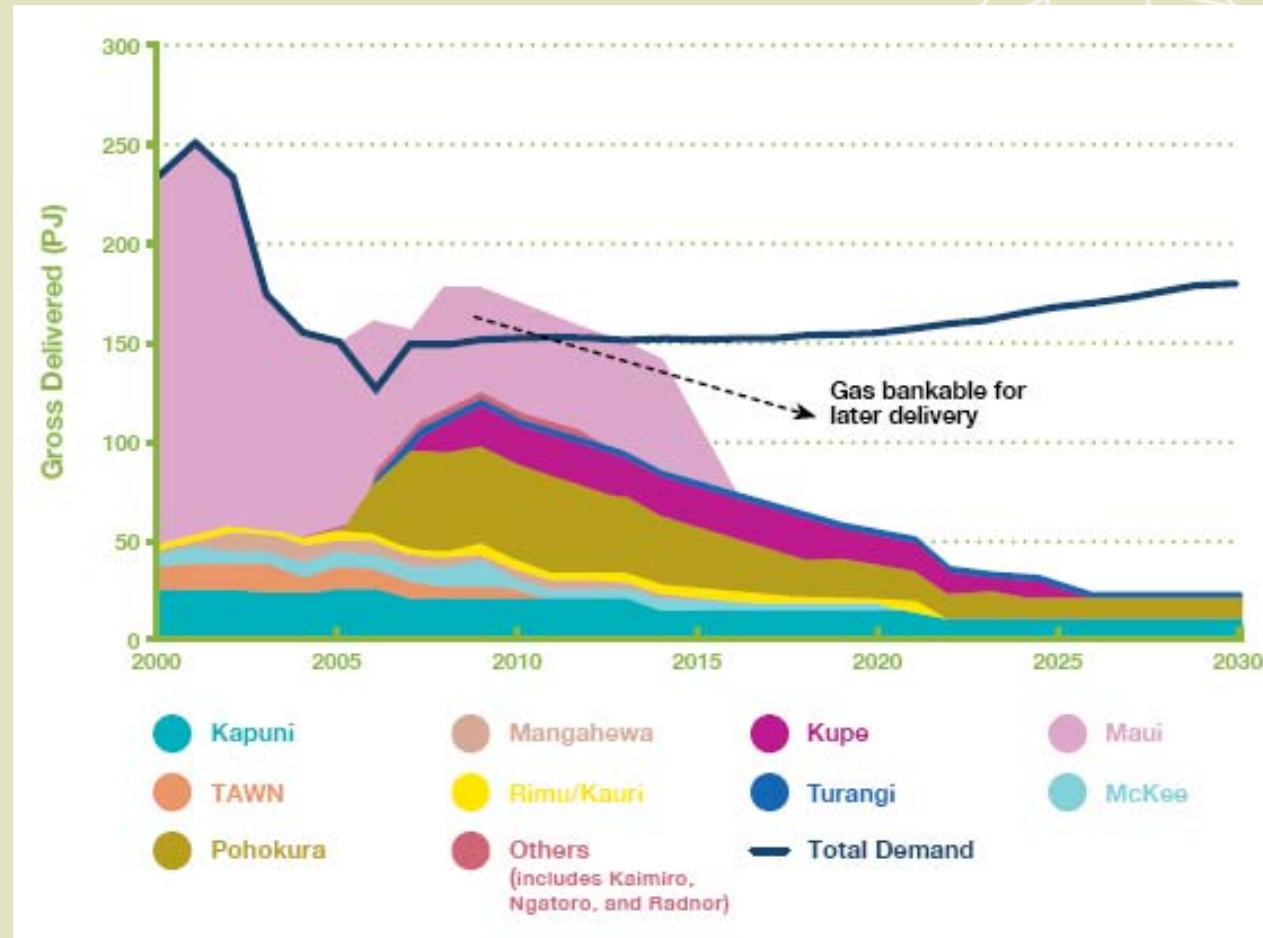
Nameplate vs Operating Capacities



Source: Data from Electricity Commission SOO 2006



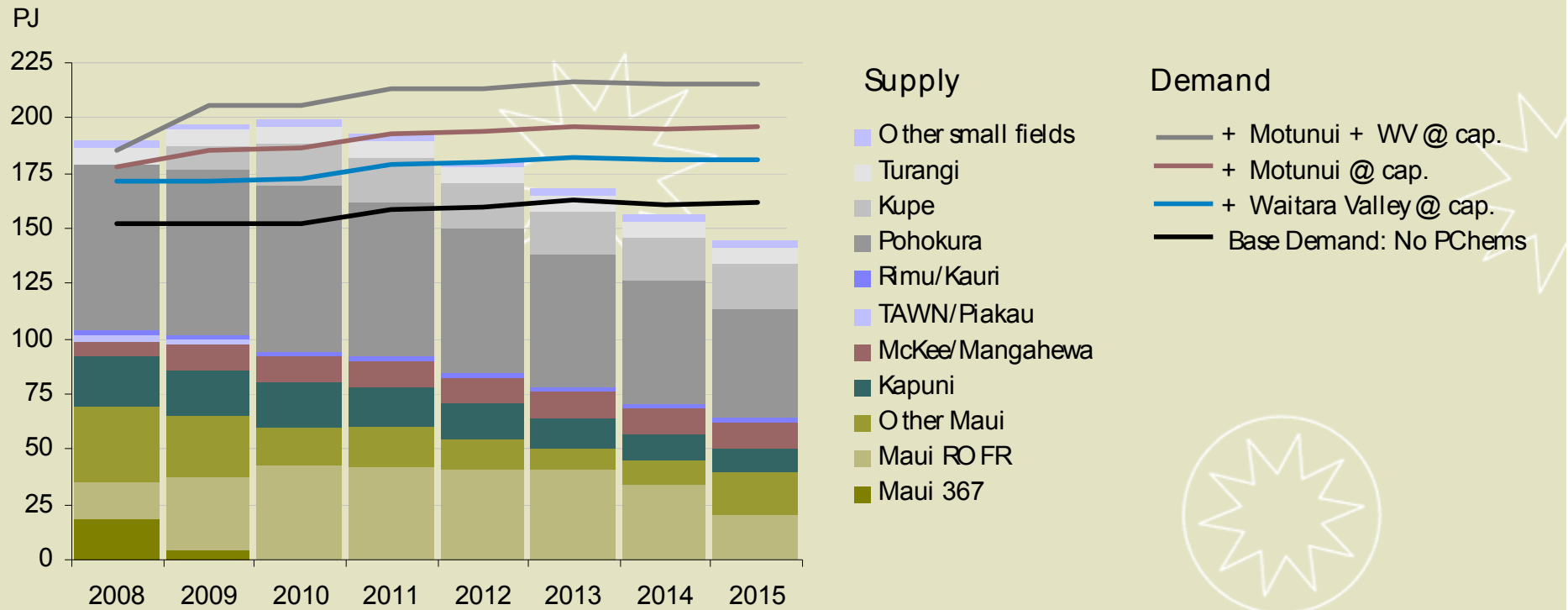
Supply/Demand: The 'Official' Position



Source: MED Energy Outlook to 2030



Supply/Demand: Another Possibility



Source: McDouall Stuart Research



Rising to the Challenge

To be standing still in 5 years:

- ▶ No Methanex
 ↳ 150PJ pa wins needed
- ▶ Waitara Valley
 ↳ 200-250PJ pa wins needed
- ▶ Motunui
 ↳ 250-300PJ pa wins needed
- ▶ Motunui + WV
 ↳ 300-350PJ pa wins needed

Reserve Coverage Scenarios

Years Covered, t+ 5 (CY12)

Gross Reserve Growth pa	----- Methanex -----			
	No Methanex	Waitara V.	Motunui	WV+ Mot.
150PJ	150PJ	20PJ	34PJ	54PJ
Nil	9.4	7.4	6.5	5.4
5%				
10%				
15%				
20%	28.5	25.2	20.9	18.2
25%	35.7	29.3	26.5	23.3

Source: McDouall Stuart estimates



Key themes

Upstream supply outlook the firmest it's been in a decade, but user access to long-term gas still an issue

Focus shift towards shorter term gas management

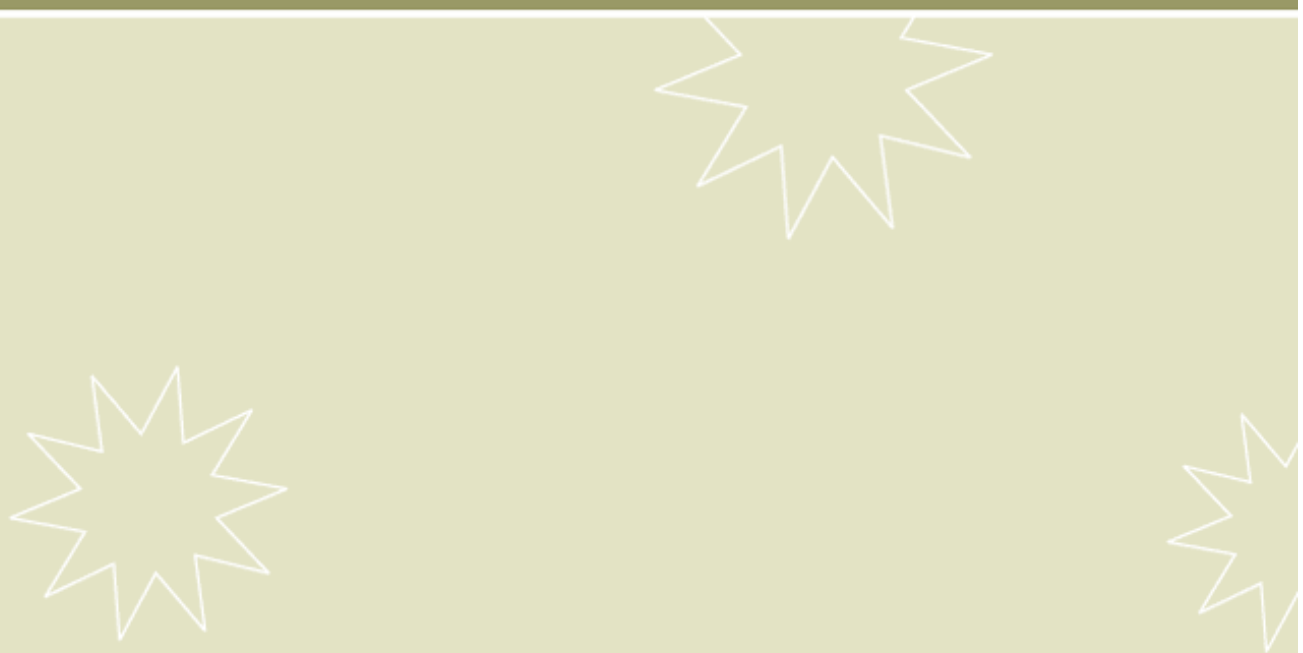
Maturity, option-making indicative of a healthier market

Demand stable, with considerable scope for 'easy' upside

Clear need for further long-term gas

Methanex a key player.





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