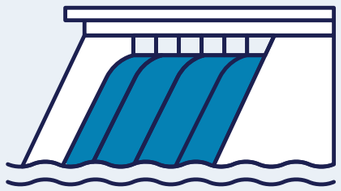
A dry year without gas becomes an economic crisis

Dry years already cause extreme electricity prices. In future, the consequences will be much more severe.

1. WE RELY ON RAIN MORE THAN MOST PEOPLE REALISE

- Around 60% of our electricity comes from hydro.
- Hydro storage lasts weeks, not seasons.
- Every few years, rainfall is low for long enough that lakes steadily drain.
- You only know you have a dry year once the water is already running out.



Dry years are inevitable and cannot be predicted—only endured.

2. IN THE PAST, DRY YEARS WERE PAINFUL BUT MANAGEABLE

In the past, when hydro ran low:

- Coal plants ran hard.
- Gas plants ran for weeks or months.
- One large user (Methanex) could turn off, releasing gas to keep power on.

This acted as a safety net for the system.

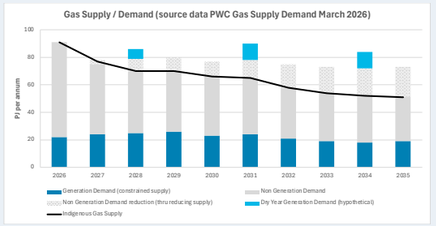
The risk of a dry year increases prices every year:

- Dry year risk is priced into electricity contracts, meaning it's pushing up household and business power bills every year.

New evidence shows electricity contract prices fell after the Government announced the Liquefied Natural Gas (LNG) import terminal because of the certainty it provides.

3. OUR SAFETY NET IS DISAPPEARING

- New Zealand's major gas fields are declining rapidly.
- Māui—one of the largest—is expected to close this year or next.
- When Māui ceases production, Methanex may have insufficient gas to operate.
- This would remove the system's only large, flexible gas buffer.
- New Zealand has:
  - Very limited gas storage
  - No spare domestic supply
  - No alternative generation that can run for weeks or months.



In dry years, additional gas is required for electricity. You only know you need this gas once hydro lakes are already running low. Next time we have a dry year, we won't have a safety net – unless we have LNG.

4. 2024 WAS A WARNING – AND COULD BE THE LAST TIME THIS WORKS

- In 2024 hydro inflows were low (but not extreme).
- Coal ran at maximum.
- Gas generation could not fully run due to fuel shortages.
- The system held only because:
  - Demand turned down (meaning lower GDP).
  - Some firms shut permanently.
  - Methanex curtailed production to shift gas to electricity.
- Even then, power prices spiked from ~$180/MWh to over $800/MWh and economic damage occurred.

Next time we have a dry year, we won't have a safety net – unless we have LNG.

5. IN THE NEXT DRY YEAR, THERE IS NO LOW COST OPTION

If gas is diverted to keep the power on:

- Many gas using firms lose supply.
- Production shuts down with little notice.
- Jobs and export earnings are lost.
- Costs fall heavily on specific regions and industries.

If gas is not diverted to electricity:

- Power prices rise far higher than in 2024.
- Rolling outages become a credible risk, alongside scarcity pricing (>$20,000/MWh).
- Costs are spread across every household and business.

No other gas user can provide the flexibility Methanex has. It would require potentially hundreds of industrial firms to close.

6. THIS MATTERS BEYOND ENERGY

Sustained energy scarcity does not stay in the electricity sector:

- Firms close or fail to invest.
- Prices flow into food, transport and consumer goods.
- Real wages and household spending fall.
- Economic recovery becomes harder and slower.

2025 impacts of sustained high energy prices driven by fuel scarcity since 2017:

- Reduced GDP by $5.2 billion (1.25%)
- Lowered real wages by 1.4%
- Reduced household spending by 1.65%
- Worsened the trade balance by $275 million

Even short periods of energy undersupply can take up to 25 years for the economy to fully recover, due to lost firms, delayed investment, and persistent employment effects.

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