

CONTACT ENERGY ANNUAL MEETING
CHIEF EXECUTIVE ADDRESS
12 OCTOBER 2005

Thank you, Grant. Good morning ladies and gentlemen

This is the 7th Contact Energy Annual Meeting that I have attended since the company listed on the New Zealand Stock Exchange.

And of course, it is the first that I've attended as the Chief Executive of the company.

I joined Contact in 1996, just a few months after its creation as a State-Owned Enterprise.

In those days, Contact's headquarters were in run down offices in a building that we shared -- with an undertaker -- among other tenants.

Contact's power stations were regarded by many industry commentators as the less appealing offcuts from the ECNZ restructuring, and the company had only a handful of customers.

In ten years the company has been transformed. Electricity deregulation in the late 1990s provided a unique opportunity to acquire a substantial retail customer base.

Today, Contact sells electricity and gas to almost 600,000 customers, which makes your company one of the two largest energy suppliers in New Zealand.

And, the power station assets that were seen as offcuts in fact proved to be a solid foundation for the business.

We have substantially grown the generation portfolio from that base. In 1999, Contact commissioned the Otahuhu B power station, and the cogeneration plant at Te Rapa.

Further growth was achieved through the purchase of the Taranaki combined cycle plant at Stratford, and the Poihipi geothermal plant near Taupo. In aggregate, these stations now account for almost 40 per cent of Contact's nameplate generation capacity.

The ownership of the company has also undergone substantial change. In 1999, Contact was floated and gained Edison Mission Energy as a cornerstone shareholder. Many of you here today purchased your shares at that time.

Then, in October last year, EME sold its 51 per cent holding to Origin Energy.

Origin has a business in Australia that is similar to Contact - the major difference being that Origin also has a large upstream exploration and production presence.

A constant theme in Contact's growth has been the pursuit of an integrated business model. That is: generation, retail and especially, given current circumstances, fuel – all within the one business.

So, why is this important? Because we see integration as the best way to reduce earnings volatility and maintain the foundations for investment opportunities to grow the business.

The integrated business model will continue to be the foundation for Contact's future growth.

Review of 2004/05

So, that's the potted history.

Now, let's zoom in on where your company is today.

In the last nine months, we have added 65 Megawatts of new generation through upgrades and additional capacity at existing plant, with more to come. That's enough new generation to supply around 50,000 homes.

These projects included the 16 Megawatt binary plant opened last month at Wairakei, and a programme of new drilling to increase geothermal generation. Indeed, further geothermal developments represent some of our most attractive options.

We are also undertaking upgrades at our modern gas-fired plants. These will increase capacity, operational flexibility and fuel efficiency.

And we have applied for resource consents to build a mini-hydro project at Lake Hawea.

Now, I want to draw attention also to important progress on resource consents for our existing renewable energy assets.

The granting of 35-year consents for the Clutha River power stations is a milestone. It follows a seven-year process and, while it took longer and cost more than is desirable, the result is a positive outcome for Contact, local stakeholders, and for the river.

We are also pleased about progress on consents for our geothermal assets at Wairakei. There are still appeals processes to go through, but we are optimistic about achieving a good outcome, given progress so far.

Securing these consents was a major achievement and I am proud of the work done by the team working on these initiatives.

Lastly on the generation front, we are advancing the plans for a further power station development at our Otahuhu site. This development would help security of supply to the Auckland region, and is the logical next major thermal station for New Zealand. Equally importantly, it is already consented.

On the retail side of the business, we now offer service almost everywhere in New Zealand.

We operate in competitive markets and Contact is focussing on:

- Better understanding customer needs
- Improving retail processes
- and building a strong brand.

Contact's investment over the last two years in a simple, compelling brand idea - to create Positive Energy – is beginning to pay dividends, with a steady improvement in external perceptions of the company.

One of my key tasks is to bring this brand vision to life inside Contact.

As energy prices have risen, customers' appetite for our advice on energy efficiency has also grown.

Contact sees this as an area of emerging opportunity.

The Contact Energy Healthy Homes initiative, launched this year, seeks actively to market the family health and productivity benefits of living in warmer, drier, pollution-free homes.

Likewise, Contact has strongly supported the Energy Challenger programme to help small and medium enterprises use energy efficiently, and manage their energy costs.

Addressing Fuel Uncertainty

The third part of our business is fuel. And that's where we face our most important challenge.

It's the challenge created by the decline of the Maui gas field.

On present estimates, Contact has enough gas to meet its needs until late in the decade.

That is not a long time in the energy business.

And it's all the more important for us because Contact has two of the country's largest gas-fired power stations, and resource consents to build another two.

Our strategy is very clear.

We are seeking cost-effective domestic gas sources and, should local supplies be insufficient, we will look to import natural gas.

Domestically, we are actively pursuing opportunities to purchase additional gas from others, and are becoming more directly engaged upstream in seeking to secure our own sources.

In 2004 Contact acquired a licence area in offshore Taranaki. We will shortly commence seismic work to appraise that area. We have also signalled a willingness to participate in other local gas opportunities where this makes commercial sense.

Indeed, we fully expect locally produced natural gas to remain a substantial part of the fuels mix into the future, even if New Zealand moves to import a proportion of its gas needs.

What Contact is not willing to do is to risk stranded assets or constrained growth by relying solely on domestic gas.

In other words, pursuing imported natural gas as a backstop is prudent risk management.

New Zealand's energy sector is often accused of not looking ahead. On the contrary, that is exactly what we are doing. Together with Genesis Energy we are developing the option to ensure that New Zealand can import natural gas, if needed, early in the next decade.

In doing so, we are helping to meet New Zealanders' most important expectation from this industry - that is, security of supply.

Dealing with this fundamental transition in New Zealand's energy outlook is crucial to Contact's growth.

My recent work with Origin Energy in Sydney gave me a useful perspective on the challenges we face.

In Australia, fuel is abundant. Coal and gas are plentiful and renewable options are expanding.

In New Zealand, the issue is fuel scarcity. Between 60 and 70 per cent of New Zealand's electricity comes from hydro dams, but new large-scale hydro development has become almost impossible.

Sure, wind has rapidly growing potential. But it still represents less than five per cent of the electricity generated today. What's more, as wind generation grows substantially, it will add

further to the need for a more robust national grid and for back-up thermal capacity, such as gas.

The reality remains that the main alternative for hydro power will be thermal generation, which accounts for around 26 per cent of total output today.

As the cleanest burning fossil fuel, natural gas is recognised as one of New Zealand's key options for the future.

The Post-Maui Environment

We are now well and truly in the post-Maui era.

New thermal fuel sources – whether domestic or imported – will be more expensive than Maui and the effect of this is already being felt in higher electricity and gas prices.

Higher fuel costs will also increasingly affect Contact's bottom line, as a greater proportion of our gas supply comes from higher cost sources.

We also know that higher electricity prices are stimulating new generation investment.

We expect this to intensify retail competition, as companies seek customer growth to match their growing generation output.

It is important that shareholders recognise the pressure that this dynamic will exert on our earnings outlook over the next few years.

In response to these pressures, we will be working hard on cost containment, margin management, and securing future growth opportunities.

The Electricity Market Is Working Well

From a customer's perspective, the wave of new generation investment and retail competition are proof that the market for electricity is working.

You can see that in the very large number of power stations now under consideration.

As the graph shows, there are more than 25,000 Gigawatt hours of possible new projects on the drawing board – more than enough to meet demand growth. More than half of these are thermal generation options and their development depends on securing new fuel supplies.

Regulatory Environment

Let me conclude by saying a little about the environment in which our sector operates.

Electricity is an essential part of modern life. There is a low tolerance for any shortages or system failures.

The energy sector attracts political scrutiny and is exposed to potential regulatory intervention.

For a capital-intensive sector with long-lived assets, that is a recipe for tension.

That's why all stakeholders need a stable, predictable regulatory environment. Without this, much-needed investment in new generation won't occur. For that reason, Contact pursues constructive, pragmatic engagement with policymakers to seek the best possible outcomes for New Zealand.

At times, that requires Contact to take a forthright stance. For example, at present, we view the developments in the debate over the national grid with some concern.

The grid provides the national highway that allows generators to supply electricity to customers. Unlike the rest of the electricity system, that highway needs to be centrally planned.

Of course, the precise configuration of the national grid will always reflect a complex balance between the location of power stations and sources of demand.

For example, the construction of a new power station such as Otahuhu-C in the Auckland region could have an impact on the extent and timing of necessary grid upgrades.

But that does not remove the need for a strong national grid. New power stations cannot become regarded as a complete alternative. If that happens, the risks of increased price volatility and regionalised electricity markets are very real.

Equally important, the regime for regulating grid investment and pricing needs to be stable and predictable, given its impact on generation and demand side investment.

Contact would expect the Electricity Commission to recognise this as it considers options for grid enhancement, especially into Auckland and the upper South Island.

Concluding remarks

In conclusion, let me say what a privilege it is to have the opportunity to lead Contact.

Your company has a proud legacy of achievement, growth and wealth creation. My task, put most simply, is to maintain and enhance the value of Contact Energy for the benefit of you, the company's shareholders. All my efforts, focus and experience will be applied to that objective.

While there are big challenges ahead and we cannot be complacent about those, we have a solid foundation to build from, a strong asset base, and a great team of talented people to draw on.

With that knowledge, I'm looking forward to those challenges and to unlocking the opportunities that they will bring.

Thank you.