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# **NZ Energy Strategy and Other Regulatory Issues**

**Presentation to Investors**

**Taupo**

**27 March 2007**



**CONTACT**

## Disclaimer

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These presentations may contain projections or forward looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties.

Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks.

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Furthermore, while all reasonable care has been taken in compiling this presentation, Contact accepts no responsibility for any errors or omissions.

## Contact's positioning on climate change

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- Our belief - climate change is being driven by human activity. The cost of doing nothing is more than the cost of taking action
- Contact will take a leadership position on the issue – regarding climate change as a business opportunity not a threat
- Our diverse generation portfolio and development options position us well to play a key role in achieving the Government's energy strategy outcomes

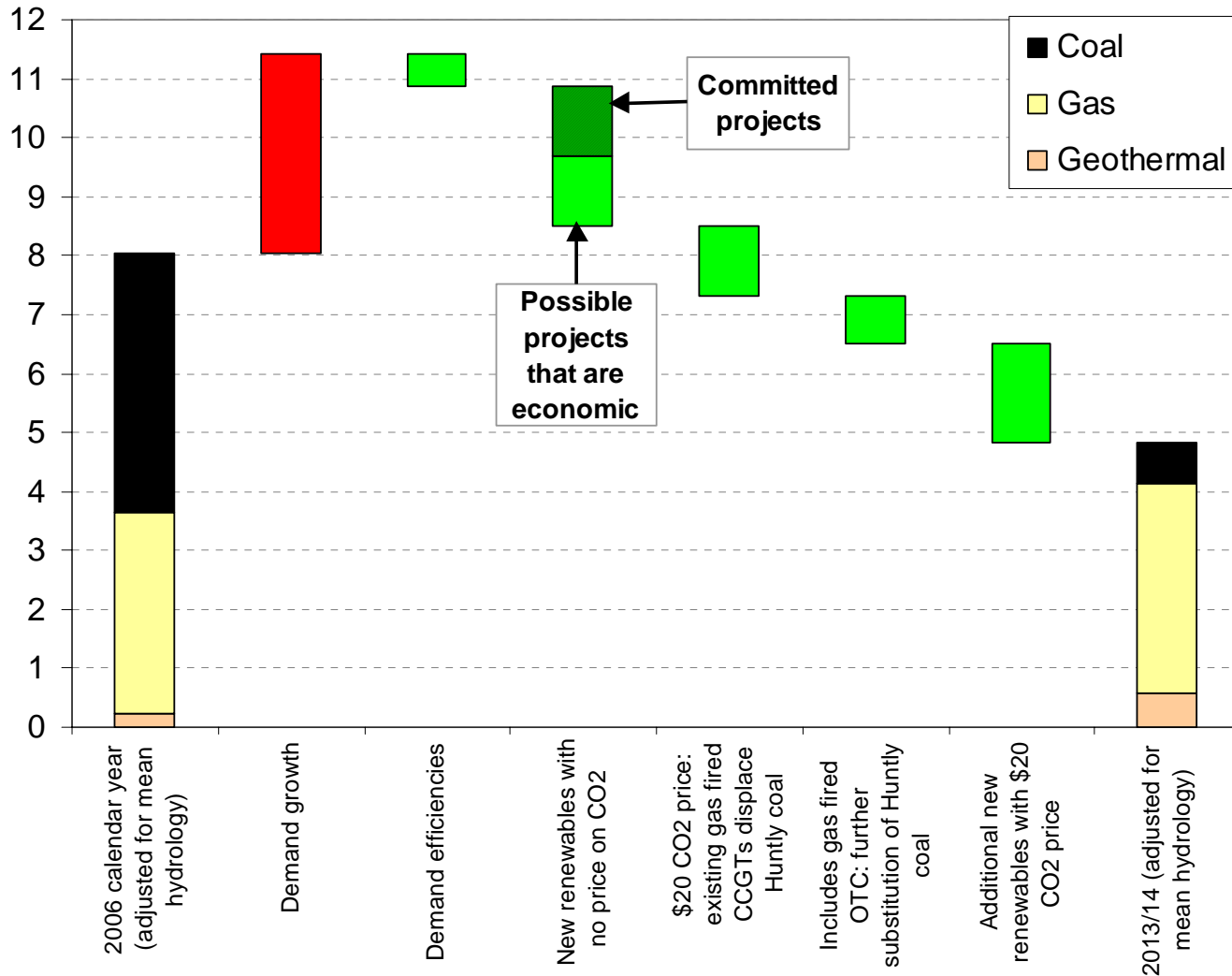
## The industry 40 per cent challenge – reduce electricity sector emissions by 40 per cent within seven years

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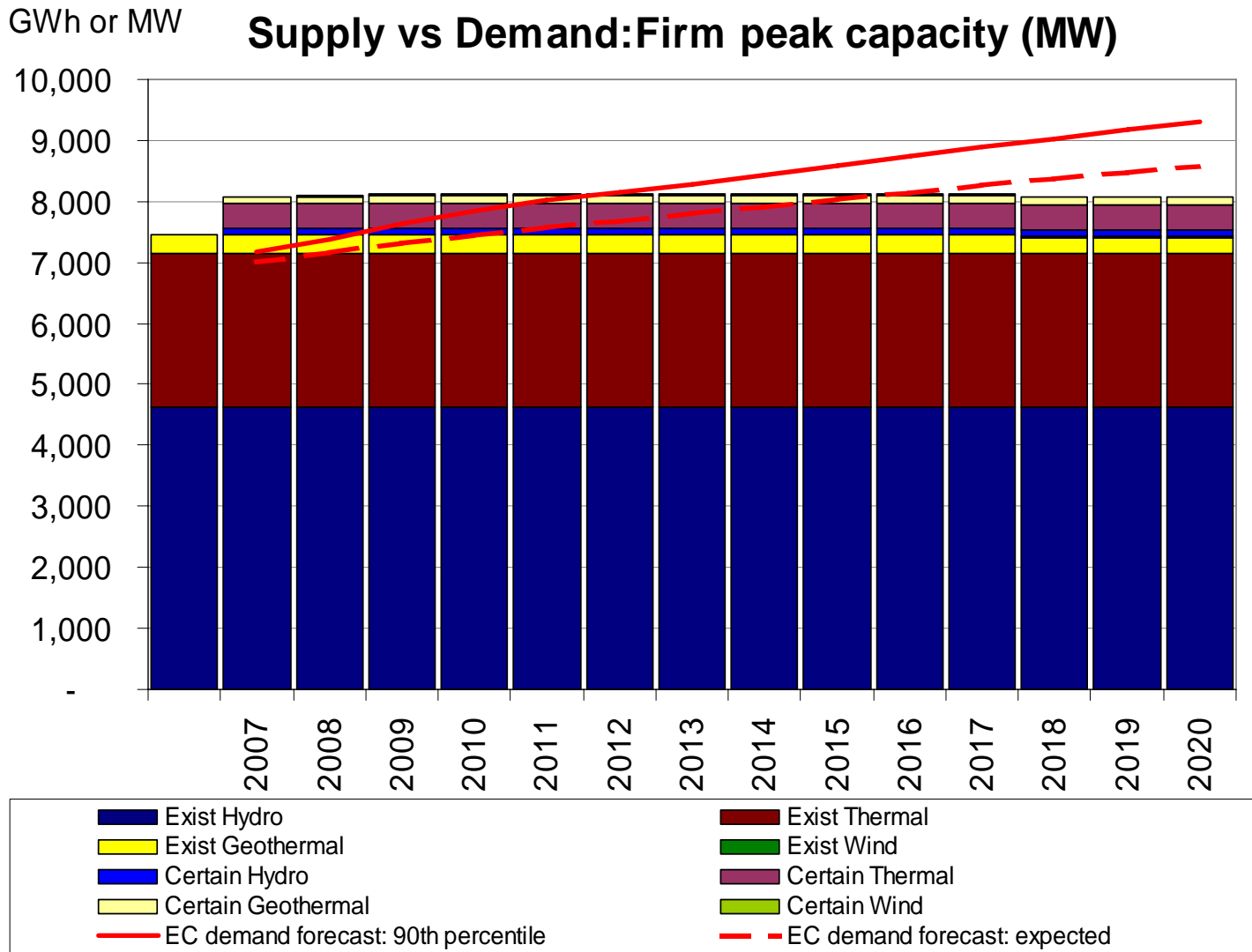
- Our challenge to the sector – we hope other players will take it up as well
- This challenge is at the heart of our NZES submission and our positioning on climate change
- Can be achieved by
  - major investment in renewable energy
  - new gas fired plant to displace Huntly from its current base load role
- A \$20-30/tonne carbon price will push the SRMC of CCGTs using gas below Huntly SRMC
- Current EU market price is \$35/tonne for December 2008 emissions
- A 40 per cent reduction in emissions requires a 3.5m tonnes pa reduction from 2006 levels (adjusted for mean hydro conditions)
- The Contact target is to make the investment needed to achieve at least half if not more of this reduction
- Our \$2 billion renewable programme and Otahuhu C would achieve this

# How 40 per cent reduction in emissions can be achieved

Forecast CO2 Emissions from Thermal Generation (million tonnes per year)



# New capacity will be needed around 2012/13



## There is a window until 2012/13 to develop new renewables

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- To bring on renewables in this timeframe needs certainty and support on RMA consenting
- We can deliver Te Mihi in 2011 and Tauhara in 2012 with call-in of at least the Tauhara consent
- We have had positive discussions with Government on call-in possibilities
- We have deferred a decision on Otahuhu C for 12-18 months to allow policy development on pricing carbon to be clarified
- As the only consented thermal site Otahuhu C can be developed quickly if it becomes apparent renewable developments will not happen in time

# Pricing carbon is the single most important policy area for the Government

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- We support rapid development of a cap and trade system by 2009
- We advocate auctioning not grandfathering of consents for generators
- While the policy can start with electricity generation/stationary energy it must be broadened to other sectors
- We are supporting the NZX development of a NZ carbon market
- The NZ price for carbon should be linked to international markets, particularly Australia

## Contact's customer challenge - help our customers reduce their emissions by one million tonnes by 2014

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- We are starting with a 2007/08 target to reduce customer emissions by 50,000 tonnes
- Programme of customer offers around energy efficiency
- Part of an overall strategy to make joining or staying with Contact highly attractive to customers
- Launched our carbon calculator backed by Landcare (a Government Crown Research Institute)
- Will move to offer carbon abatement options to allow customers to become carbon neutral at home or become a carbon neutral business

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## Reviews of the Electricity Market

## The Electricity Commission has announced a market design review

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- Covers design of market arrangements – not the fundamental question of whether there should be a market or not
- Ministerial review leading up to the NZES canvassed alternatives to the market e.g. single purchaser.
- Conclusion reached was that the market was fundamentally sound but areas of potential improvement could be investigated
- EC review will cover ‘spot trading, reserves, ancillary services and hedge markets’ as well as arrangements applying to the retail market
- Further development of a hedge market is likely to be seen as a key area for facilitating retail competition
- The area of reserve pricing is an area where we see room for development
- Discussion paper in April and conclusions reached by December 2007

## Commerce Commission Inquiry

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- The Commerce Commission is undertaking a review of the electricity market to determine whether there is any evidence of breaches of the Commerce Act i.e. anti-competitive behaviour
- Our understanding is that the Commission instigated the review as a 'health check' rather than on the basis of any specific suspected breached of the Commerce Act
- The Commission has indicated to Contact that an update on progress could be expected mid-year