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## **Rockgas Acquisition**

**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.

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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.

# Introduction

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- Presentation will cover:
  - Overview of acquisition and the Rockgas business
  - Synergies and Opportunities

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## Overview of the Acquisition and Rockgas Business

## Overview of Rockgas acquisition

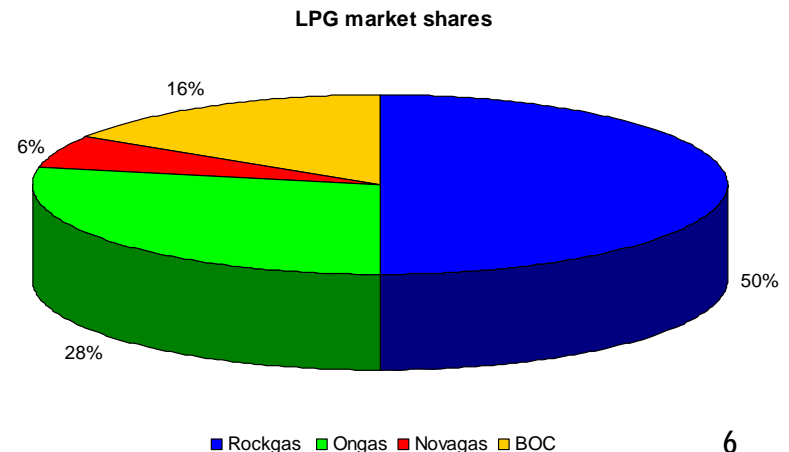
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- Contact has announced that it will purchase the Rockgas business from Origin Energy. The acquisition is subject to Overseas Investment Office approval
- The price to be paid by Contact will be \$156m (assuming a 1 July 2007 transaction date)
- Rockgas is New Zealand's largest supplier of LPG and adds a significant new product into Contact's energy offering
- Contact has been independently investigating the possibility of entering the LPG market for some time and concluded that the acquisition of Rockgas represents the best opportunity to achieve this
- The acquisition by Contact represents a value enhancing opportunity for both Contact and Origin. Contact can deliver upside which Origin cannot extract itself directly, and Origin will benefit from the upside through its ownership of Contact
- An independent report concluded that the acquisition cost is fair

# Overview of Rockgas

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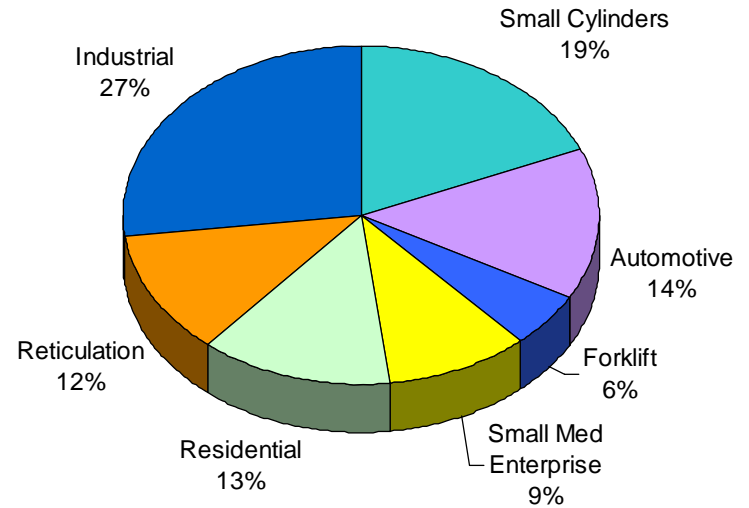
- Rockgas is an LPG specialist which has been operating since 1934
- Supplies over 50% of the New Zealand market
- Supplies over 300 bulk industrial customers, 7,000 commercial customers, and 17,000 residential customers
- Distributes to a further 15,000 customers through an extensive franchise network
- Distributes to over 300 automotive LPG refuelling outlets around New Zealand via the Caltex, Mobil and Challenge networks
- Significant development in reticulation networks, particularly in the South Island with underground networks in Queenstown and Christchurch
- About 150 staff located throughout New Zealand
- Supported by shipping and transportation arrangements with Origin for imported product and for supply of Kupe product once the field is producing



# The New Zealand LPG Industry

- Liquefied Petroleum Gas (LPG) is the generic name for a mixture of two hydrocarbons, propane and butane
- The most common LPG supplied to the New Zealand customer is general product, which is 60/40 mix of propane and butane
- The major uses of LPG include automotive, industrial, domestic heating and commercial use. The cylinder market encompasses small cylinders that are typically filled at service stations, and larger 45kg cylinders that are delivered to residences and small to medium enterprises
- LPG can also be supplied via reticulated pipelines. The largest reticulated networks are in Christchurch, Dunedin and Queenstown

**LPG Market Segments**



Process heating	3 PJ
Space and water heating	4 PJ
Motive fuels	1.7 PJ
Industry	8.77 PJ
Industry Total	175 kT





Source: Rockgas and LPGA

## The New Zealand LPG Industry (continued)




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- The total New Zealand market for LPG is estimated at 175,000 tonnes in 2007 and has shown steady growth since 1999
- The LPG business in New Zealand is strongly influenced by seasonality, with demand peaking during the cooler winter months
- All of New Zealand's indigenous LPG is produced from the Taranaki region. While production from some existing domestic producers is diminishing, additional supply is coming to market from new fields and developments. During periods of demand in excess of production, the balance is covered by imports from regional trading markets
- LPG has a reduced environmental impact compared with other fuels:
  - Compared to petrol and diesel for vehicles LPG produces less aromatic hydrocarbons, less carbon monoxide, less nitrous oxides and less greenhouse gases than petrol and less particulates and nitrous oxides than diesel
  - For use in heaters, water heaters and boilers, LPG produces less greenhouse gases, less sulphur and less particulates than coal, wood or oil

## Overview of industry - segment characteristics

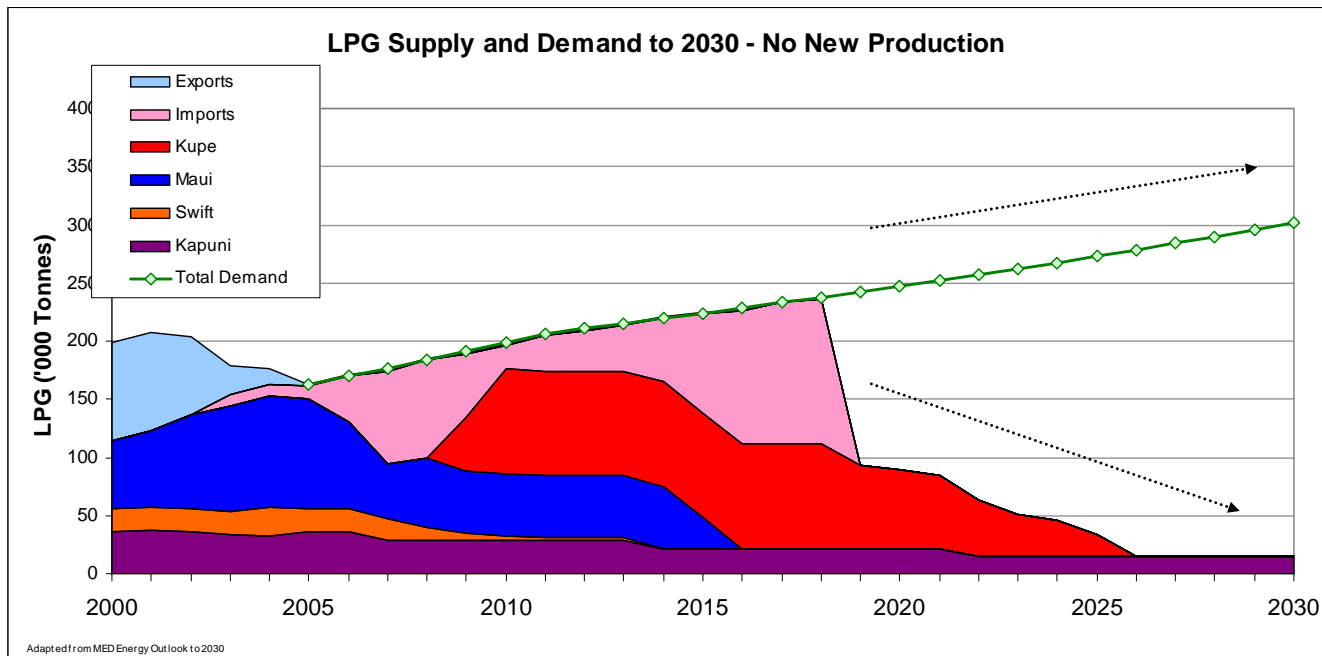
	Market Environment	Competitive Profile	Segment Dimensions	Future Drivers
	<p>Immediate value benefits and suitability for application</p>	<p>Natural gas, electricity, industry competitors. Ease of meeting high demand loadings.</p>	<p>23,600 Tonnes</p>	<p>Strong growth drivers</p>
	<p>Increasing energy consumption, investment in lifestyle</p>	<p>Competes with electricity, value proposition is unique to gas</p>	<p>23,000 Tonnes</p>	<p>Strong growth drivers</p>
	<p>Area of significant growth, particularly in the SI</p>	<p>Competes with electricity, other non gas sources of heating</p>	<p>21,000 Tonnes</p>	<p>Strong growth drivers</p>
	<p>Sustained mature demand, significant latent heating demand</p>	<p>Instantaneous, portability, value</p>	<p>33,000 Tonnes</p>	<p>Growth from new applications</p>

## Overview of industry - segment characteristics

	Market Environment	Competitive Profile	Segment Dimensions	Future Drivers
	Environmental and long term economic benefits	Competes with oil distillates, natural gas, electricity	40,000 Tonnes	Growth with new applications, some attrition
	High level of acceptance	Intra industry competition, some diesel	10,500 Tonnes Some bulk, mostly cylinders	Growth indexed to economy
	Strong uptake during recent period of oil price uncertainty	Economic drivers must be strong to overcome resistance	24,500 Tonnes	Sustained interest from fleet users

## Overview of industry – sources of LPG

- Maui and Kapuni LPG have historically dominated supply
- Imports will play an increasing role until the development of the Kupe gas field
- Rockgas has access to Rimu and Waihapa LPG as well as Maui LPG from Liquigas
- Rockgas has negotiated rights to Origin's share of the Kupe LPG
- Rockgas' current and future import requirements are met by Origin
- There are legacy arrangements in place under which the Maui and Kapuni LPG is sold at a significant cost advantage to import cost
- These arrangements last until the end of the Maui Blue Book (December 2009)
- LPGs are currently not being stripped from the Pohokura gas field



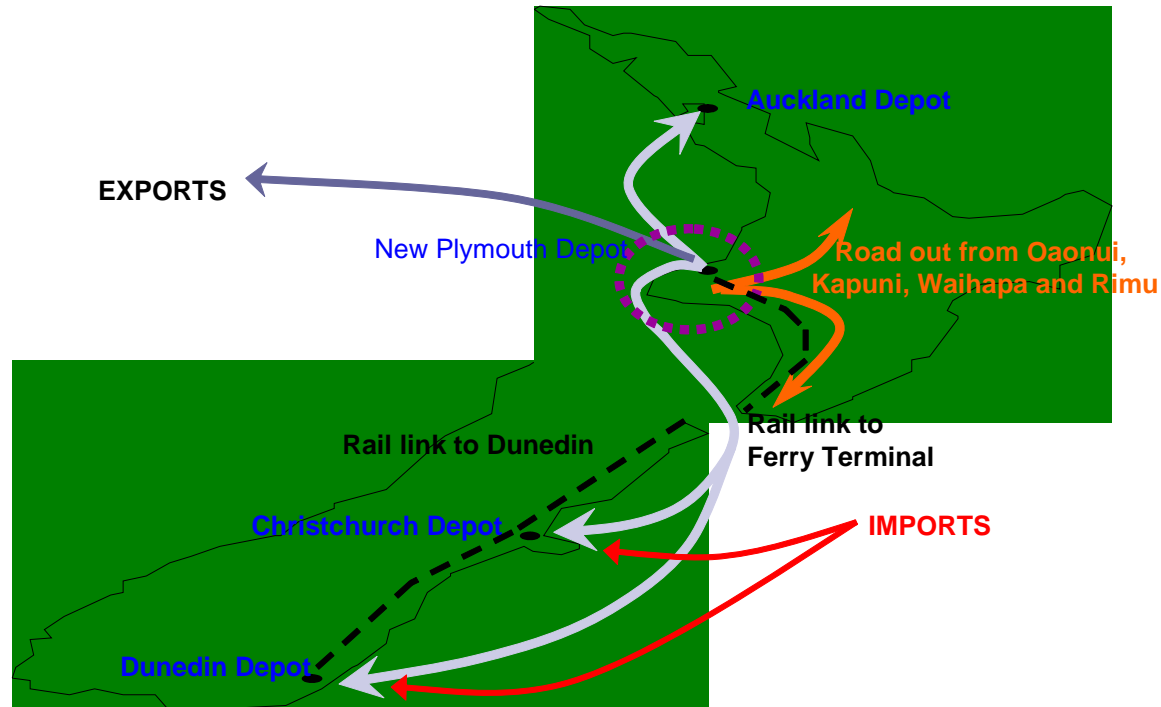
## Overview of Liquigas

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- Liquigas is owned by four shareholders:
  - Vector: 60.3%
  - BOC: 18.7%
  - Todd: 12.5%
  - Rockgas: 8.5%
- Liquigas sources LPG from the Maui field at a fixed price. Liquigas determines its own wholesale price based on market conditions
- Liquigas also acts in a supply management capacity by ensuring that domestic supply is augmented by imported product when required. Sale and transport is coordinated by Liquigas on behalf of its shareholders
- The future role of Liquigas once the Maui fixed price rights expire is uncertain

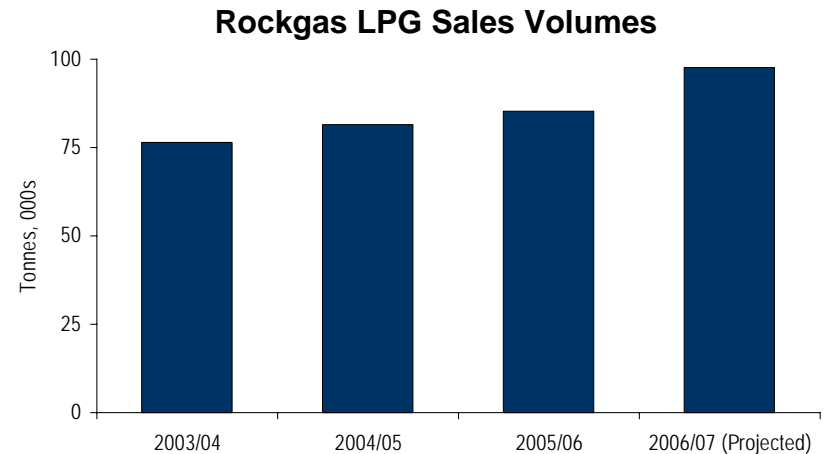
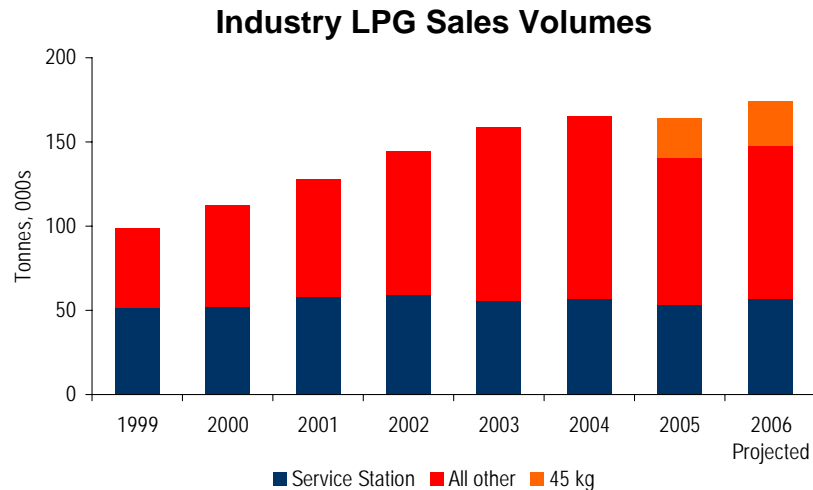
## LPG supply infrastructure

- The bulk of North Island demand is supplied by Maui and other local fields (Kapuni, TAWN)
- Liquigas acts as a distributor through its purchase of the Maui LPG and ownership of the key infrastructure.
- Once processed at Oaonui the LPG is then transferred to Liquigas facilities in Taranaki and then transported to Auckland and the South Island
- Product is transported by truck within the North Island
- South Island demand is met from shipments from the North Island or through direct imports
- Liquigas has several storage facilities at Christchurch and Dunedin to receive Maui or imported product



## Growth in LPG use in New Zealand and historic Rockgas growth

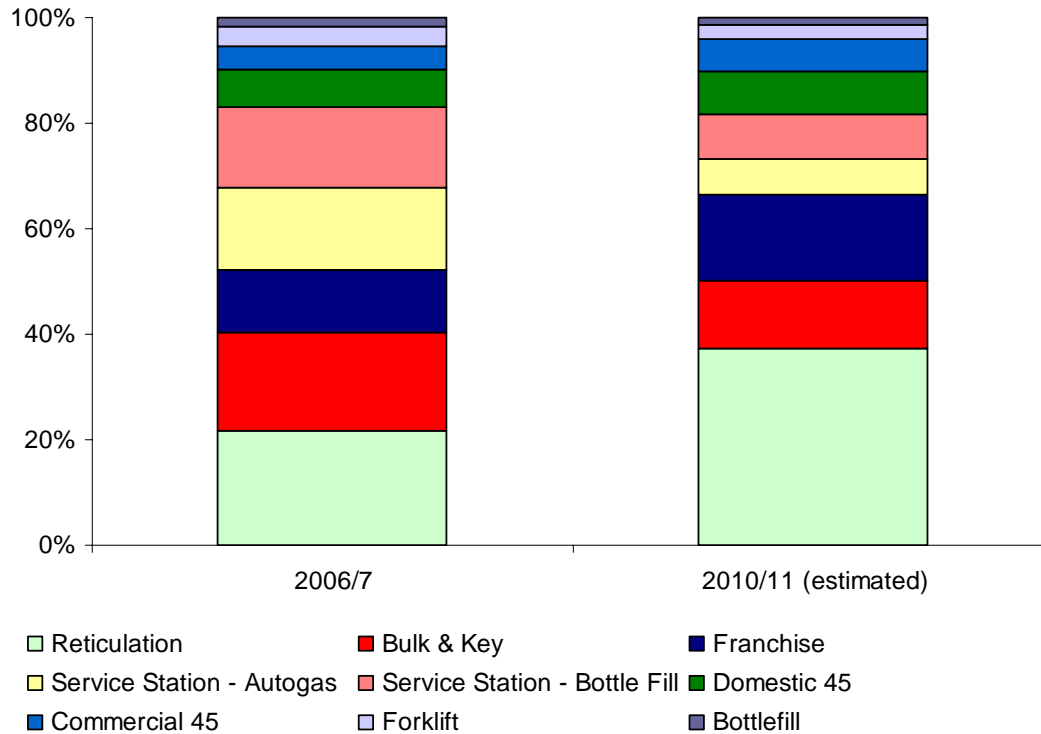
- The LPG market has grown significantly in the past few years, primarily in the non-automotive market
- Rockgas volumes have grown in line with that underlying sector growth



Source: LPG Association

# Breakdown of Rockgas sales volume by segment

Segment % contribution by volume



- This provides an indicative view of breakdown of Rockgas sales by segment and estimated transition over time
- The 2010/11 estimate is based on current views of the potential growth in the market and relative competitiveness against alternatives
- Illustrates the expectation of relative decline in automotive segment but continuing growth in reticulation, franchise, and residential and commercial cylinders
- These segments are also the main source of opportunity for a bundled product with electricity and/or natural gas

# Rockgas distribution network

- Rockgas has a significant presence in the South Island where Contact also has 40% of its customers



## Overview of franchise arrangements

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- Rockgas has a series of franchise arrangements with parties in various locations throughout New Zealand
- These provide the franchisee with the right to operate the franchise and use Rockgas' trademark in a defined area. Rockgas retains the right to operate wholesale, service station and 9.5kg cylinder operations in the same area
- These are relatively long term arrangements and follow a standard form under which Rockgas
  - Owns and maintains bulk storage facilities and undertakes delivery of the LPG
  - Provides ongoing training to the franchisees
  - Provides opportunities for the franchisees to participate in national cylinder agreements, channel partner arrangements and the Rockgas 0800 number
  - Contributes to the total advertising requirements of the franchise
- The franchisee must purchase LPG from Rockgas but can independently set retail prices

## Proposed Structure post acquisition

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- It is proposed that Rockgas will become an operational division of Contact Energy with the GM Rockgas becoming a member of the senior management team
- The operational aspects of Rockgas will remain intact in this group for the immediate future. As sales and marketing initiatives and synergies unfold over the short term, the structure will be reviewed to ensure optimal functioning
- Corporate functions and responsibilities - finance, human resources, communications and IT will be consolidated within the Contact groups

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## **Synergies and Opportunities**

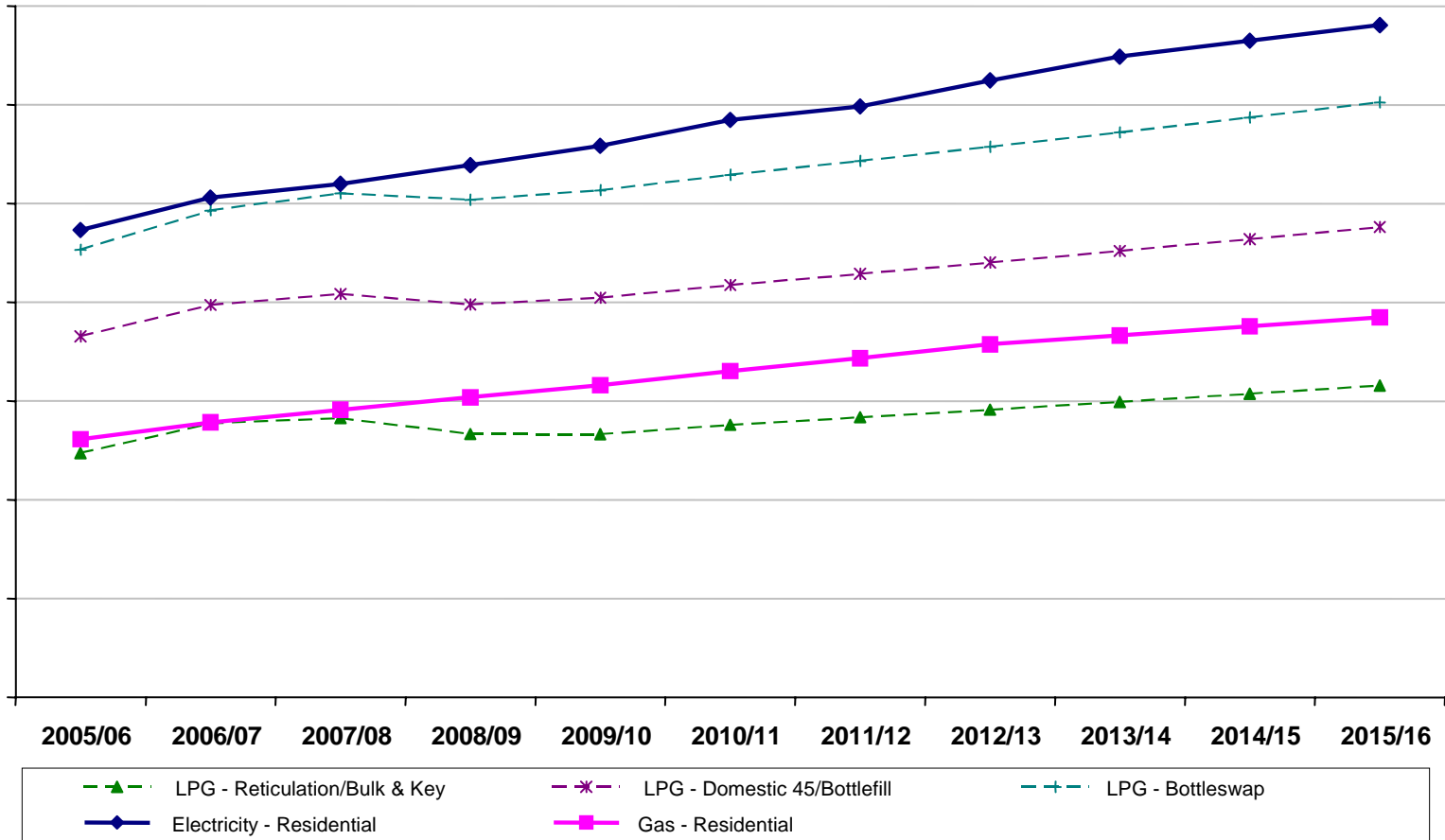
## Rationale for purchase by Contact

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- There are a number of benefits for Contact in the purchase of Rockgas
  - Key element in positioning Contact as an “energy solutions” company
  - LPG is the major alternative energy source in the South Island where there is no domestic gas reticulation – 40% of Contact’s customer base is in the South Island
  - Experience of Contact’s existing dual fuel offering has confirmed that retention of customers is higher with a joint product
  - A number of gas customers can be better served with an LPG solution and this enables Contact to provide more appropriate solutions for those customers
  - The existing customer bases of both companies represent significant cross selling opportunities
  - The LPG market is growing at a high rate, particularly in new connections, which provides opportunities for both electricity and LPG offerings
  - Potential rationalisation of administration, systems and sales functions
- The synergy analysis which underpins the acquisition does not depend on operating cost cuttings to any great extent. While there are clear opportunities for some efficiencies no personnel cuts are assumed
- There are a range of other opportunities which have not been quantified as part of the valuation exercise

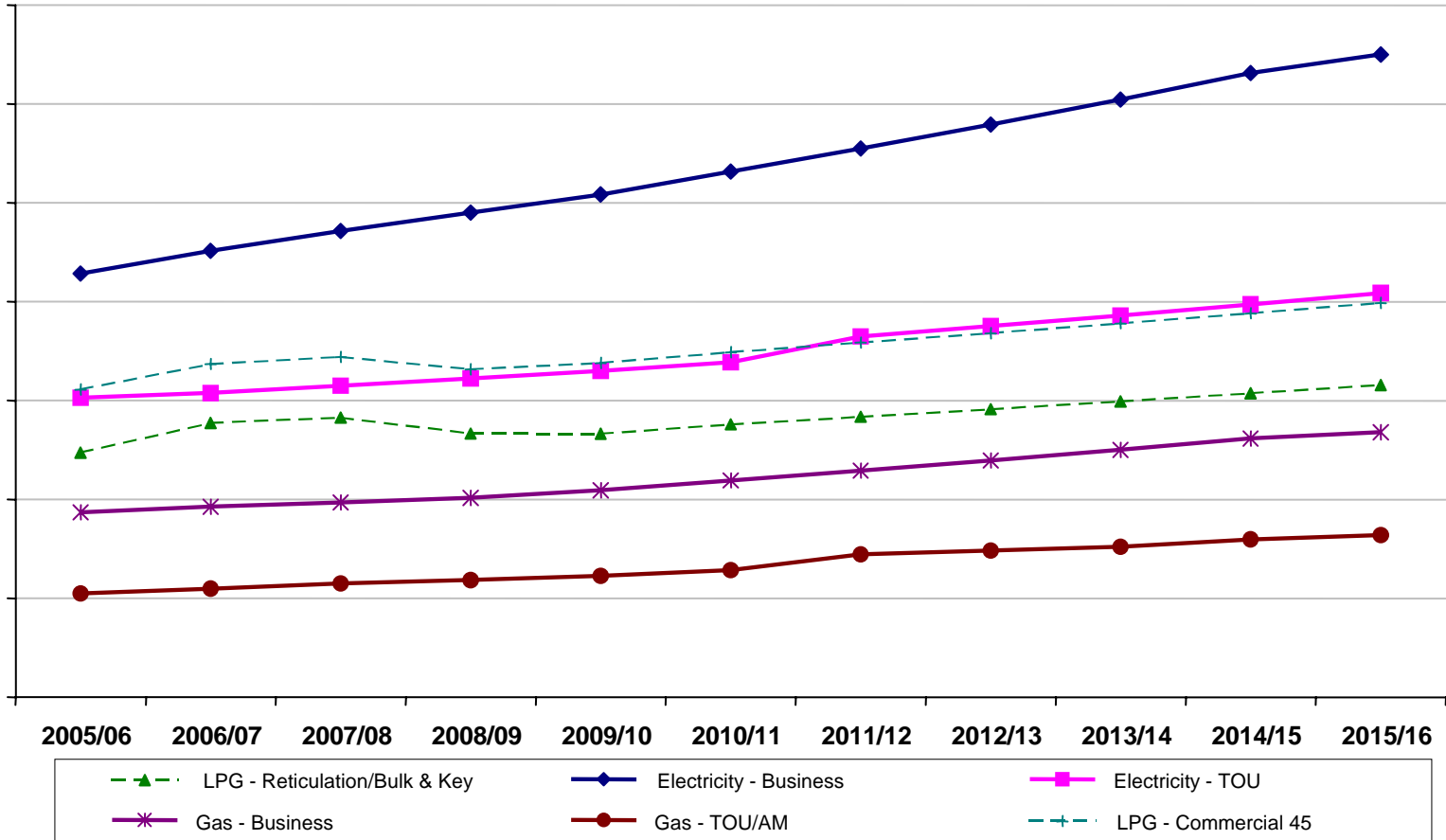
# Illustration of relative fuel cost forecasts

Residential Cost to Customer (\$/GJ)



# Fuel Cost Comparison - Commercial Customers

Commercial Cost to Customer (\$/GJ)



# Retail Markets

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## Auckland

- There are approximately 250,000 homes in Auckland that front a natural gas main pipeline
- Of those only 28% are connected, leaving some 180,000 homes without gas currently
- Some causes are:
  - houses some distance from pipeline making connection uneconomic
  - volcanic rock preventing connection pipeline
  - consumption profile making gas use uneconomic
- In addition it is calculated that the number of customers that do not have access to the network is in the order of 250,000

## Christchurch

- The network company has a critical peak pricing element to its charging which is designed to incentivise flattening of load in peak periods
- LPG, accompanied by new metering technology, provides opportunities to capitalise on that pricing structure

# Peak Shaving

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- Contact continues to develop as an energy solutions provider to the commercial and industrial market
- Adding LPG to its stable of products creates a wider range of potential solutions
- In essence it provides a small scale storage option that can be economic in certain industrial processes
- A good example is peak shaving
  - Where customer gas profile is very peaky, there are opportunities for LPG to be used to cater for those peaks
  - Provides either an alternative or a complementary product to natural gas
  - Capacity constraints (and hence costs) in natural gas are changing the economics of this fuel for many applications
- An added benefit to the customer would be strengthening security of supply to deal with force majeure events in natural gas supply

## Infrastructure Synergies

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- The combination of the business infrastructure assets presents some potential future opportunities that require significant further analysis
- Those synergies are likely to revolve around using existing sites from one business line for development of infrastructure assets of the other business line
- Potential opportunities include
  - siting of small scale peaking plants
  - siting of additional LPG storage

## Channels to Market

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- Rockgas has a very different market channel strategy to Contact through its branch and franchise network
- This opens up a broader range of opportunity for Contact in getting its product to market
- The franchise channel in particular we expect to embrace the opportunity to diversify their product range

## Summary

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- The acquisition of Rockgas presents an exciting opportunity for Contact
- The transaction represents a value enhancing proposition to both Contact and Origin given Contact's ability to derive more value through cross selling and other synergies
- This positions Contact as the only energy retailer with national capability to provide electricity and gas solutions to any customer
- Provides firm foundation to support Contact's vision to provide complete a range of energy solutions for customers