



**New Zealand's leading integrated energy  
company**

**Presentation to Investors**

October 2009

# Disclaimer

This presentation 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.

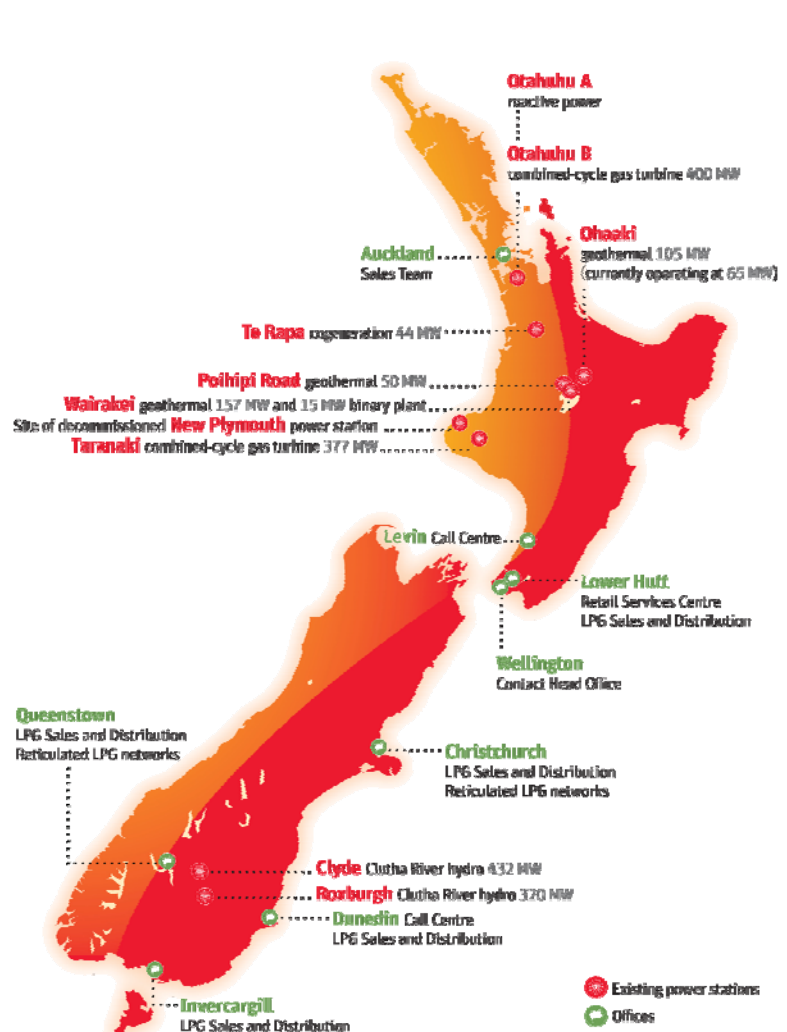
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Although management may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realised.

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



# Contact is a diversified energy company with generation and customers located throughout New Zealand



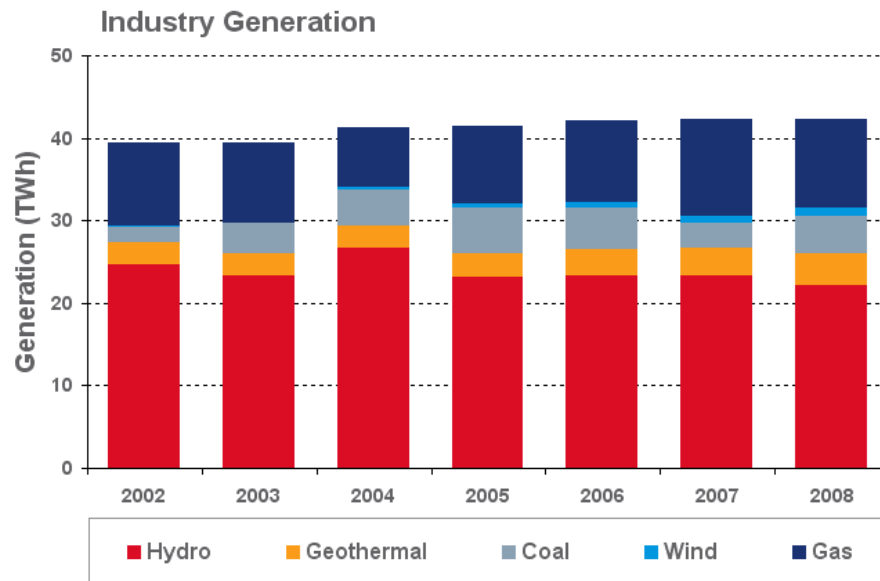
... **Oakey** distillate/gas-fired peaking station, located in Queensland, Australia. Commissioned in 2000. Contact holds a 25 per cent shareholding interest in the Oakey power station and is the operator of the plant.

- 600,000 customers (electricity, gas, LPG)
- On average generates approx. 26% of NZ's generation output from 9 power stations:
  - 50% Natural Gas
  - 35% Hydro
  - 15% Geothermal
- 25% of electricity retail market
- 35% of the gas retail market
- 50% of LPG market

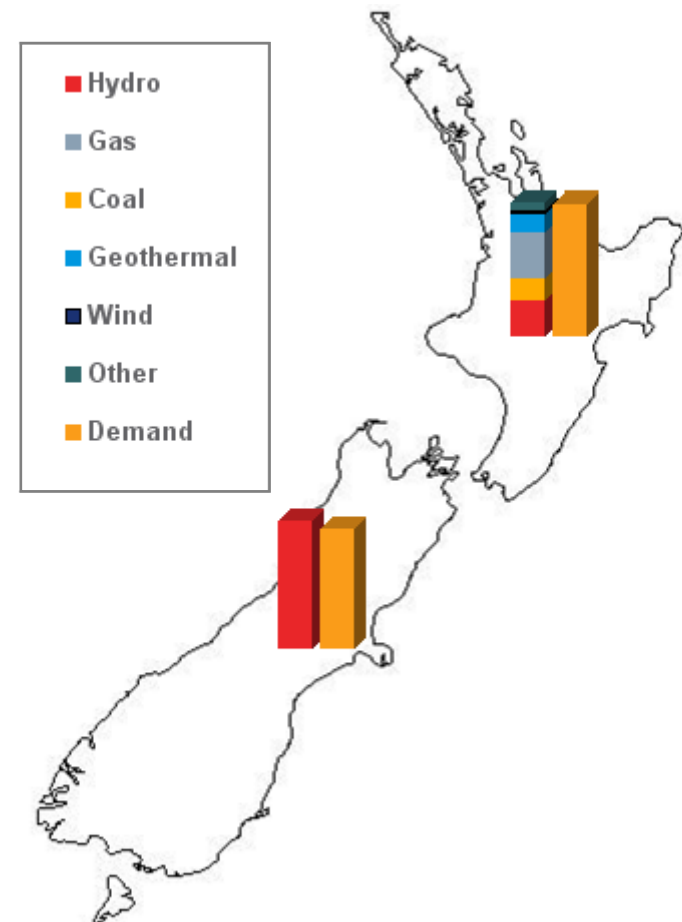


# Overview of New Zealand electricity generation

- The New Zealand electricity generation market comprises roughly between 50% - 55% hydro generation, 10% other renewables, and the remainder, thermal
- The majority of hydro generation is in the South Island

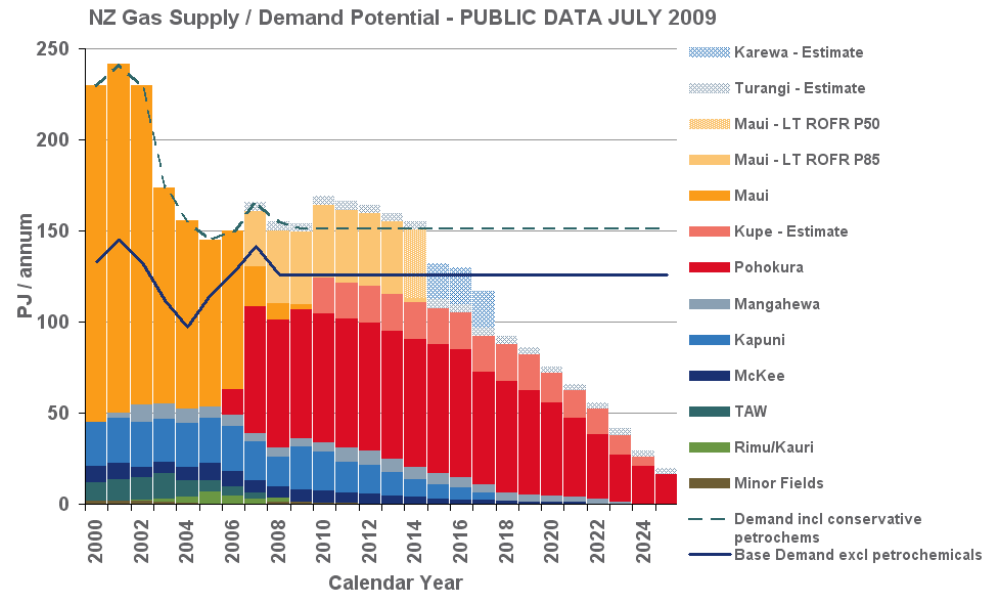
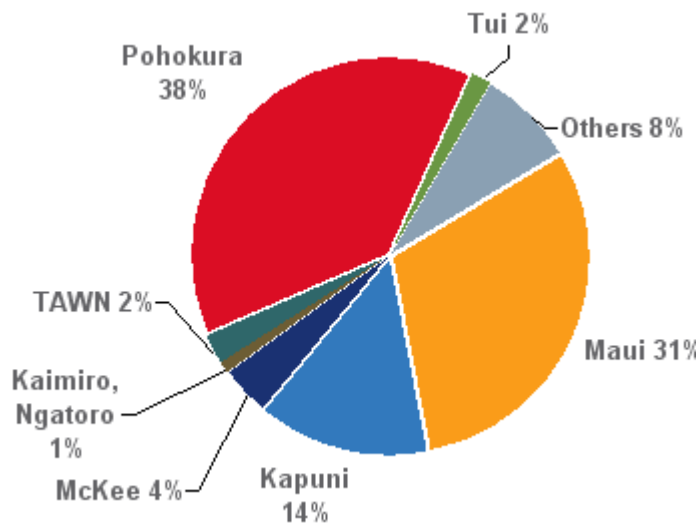


Generation and Demand by Region - 2008



# New Zealand's gas market

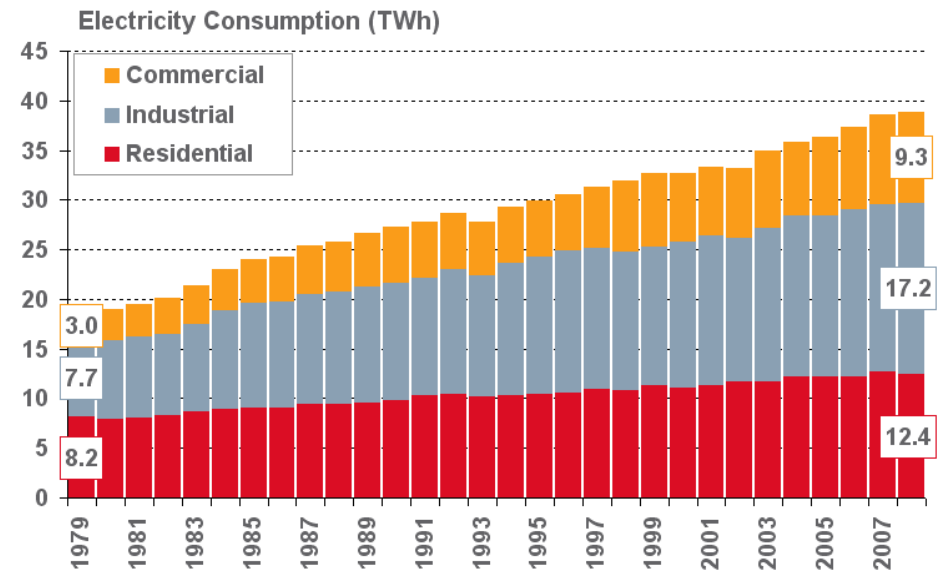
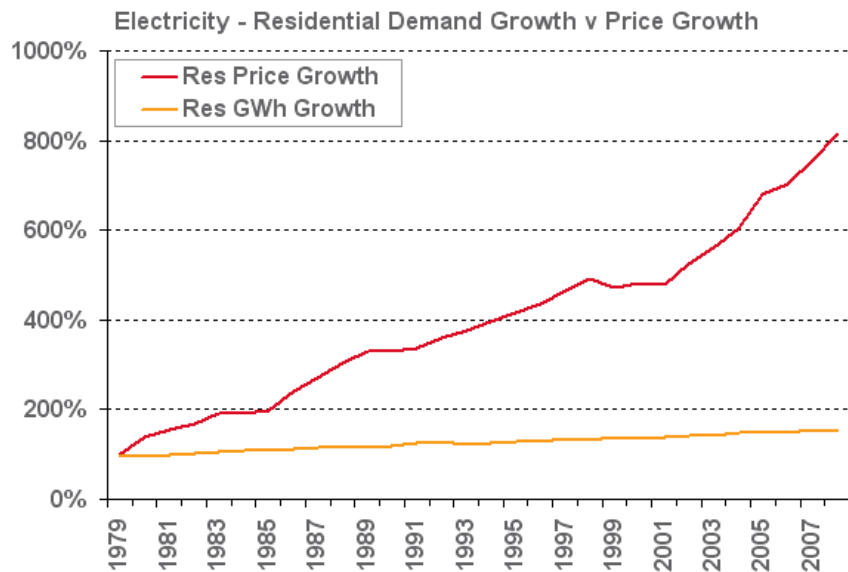
- The major owners of gas in New Zealand are:
  - Shell (48% Pohokura, 50% Kapuni, 84% Maui)
  - OMV (26% Pohokura, 10% Maui)
  - Todd (26% Pohokura, 50% Kapuni, 6% Maui, 100% McKee and Mangahewa)
  - Origin (100% Rimu / Kauri and TAWN)
  - Greymouth (100% Ngatoro, Turangi and Kaimiro)



**contact.**

# Electricity demand

- Electricity demand has been growing at around 2% p.a. over the last 10 years
- Residential demand has grown despite price increases which have averaged 5% p.a. over the last 10 years
- The recession has resulted in a period of relatively flat demand; growth is expected to transition back to long-term average

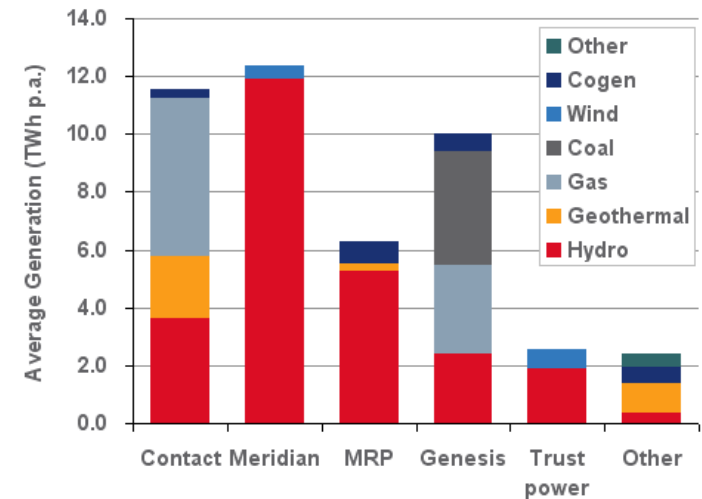
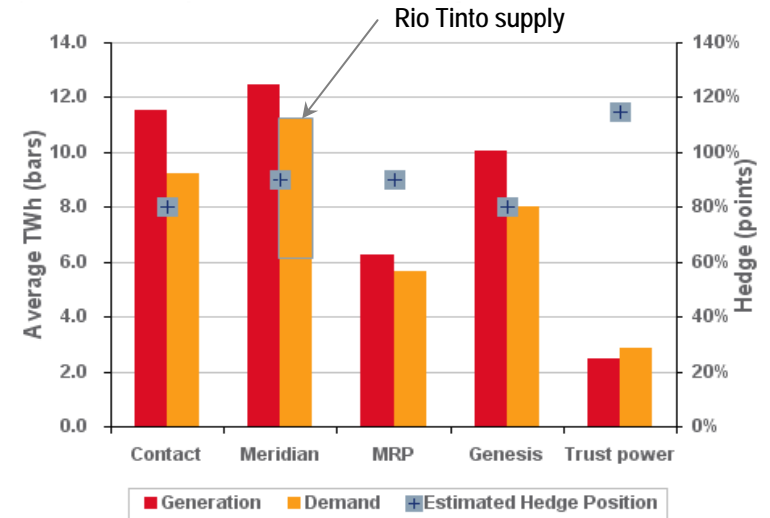


# The electricity sector is dominated by integrated generator / retailers

- A high level of integration between generation and retail customer bases
- Three of Contact's competitors are state owned
- Generation and retail are unregulated

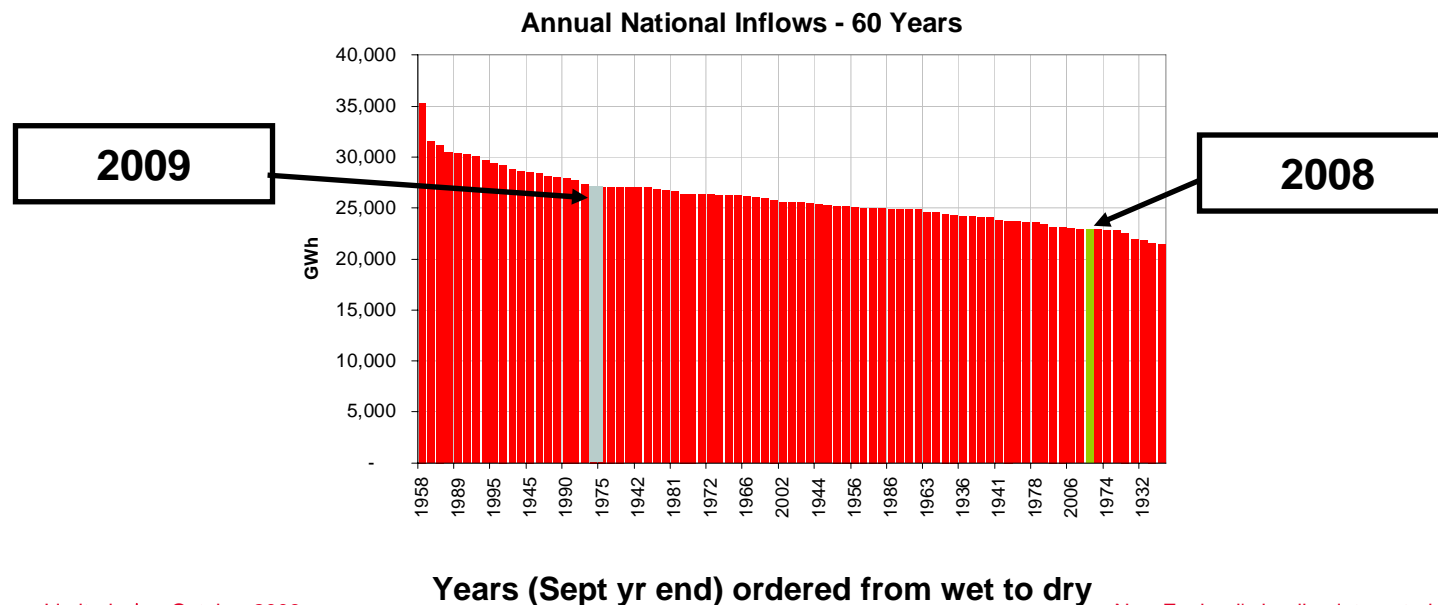
Meridian Energy	Mighty River Power	Genesis Energy	Contact Energy	TrustPower
2,617MW (hydro, wind)	1,298MW (hydro, gas, geothermal)	1,780 MW (coal, hydro, gas, wind)	1,879MW (hydro, gas, geothermal)	557MW (hydro, wind)
Elec cust 230,000	Elec cust 390,000 Gas cust 43,000	Elec cust 546,000 Gas cust 106,000	Elec cust 479,000 Gas cust 67,000 LPG cust 53,700	Elec cust 230,000

↓  
Government owned



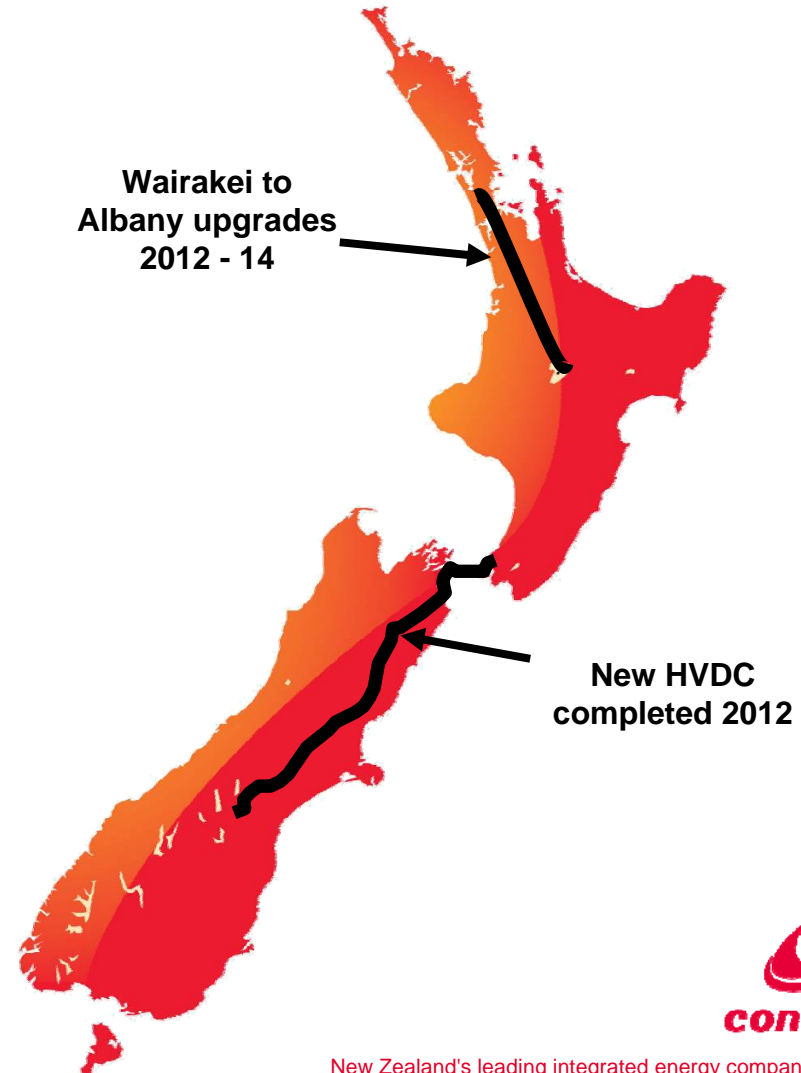
# Electricity spot market operation

- New Zealand operates a “gross pool” – all generation sales and retail purchases must be made through the spot market
- The dominant dynamic in the market has been hydro volatility and the consequent requirement for thermal generation to provide certainty
- Hydro generation is centred in the South Island, while thermal generation depend on North Island gas and coal. As hydrology varies so do flows on the transmission system
- New Zealand has “full nodal pricing” – so that the cost of line losses and transmission constraints are reflected as price differences between generation and purchase nodes



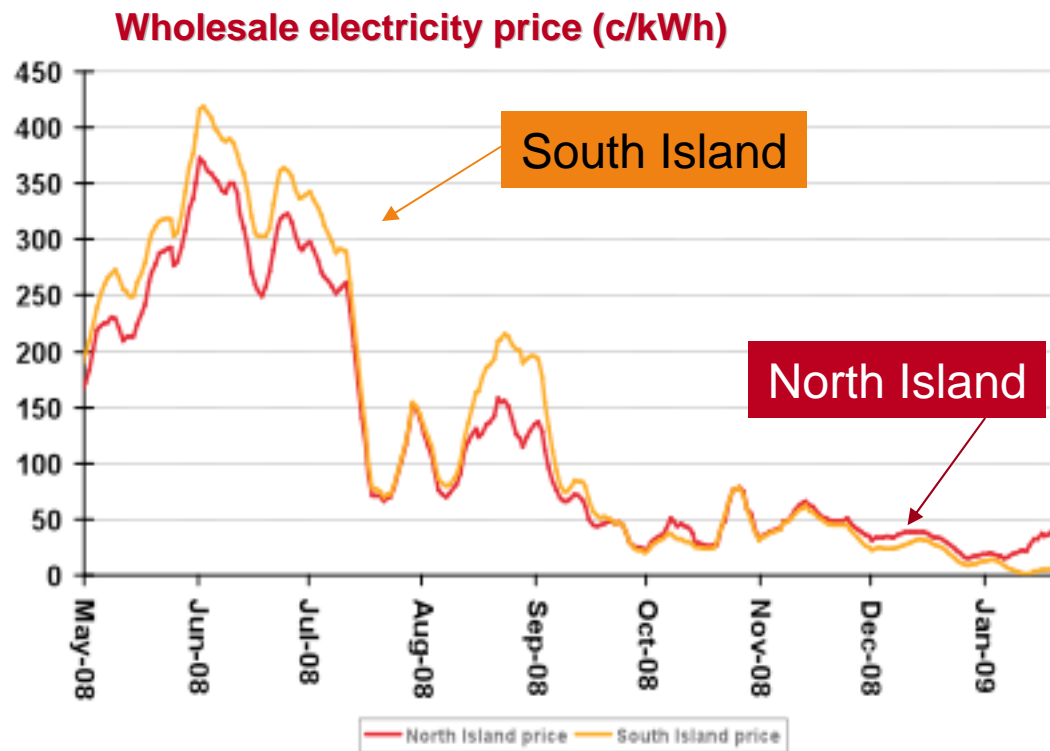
# Overview of current transmission issues

- New Zealand's transmission system has seen limited investment for 30 years
- Transpower is engaged in a major transmission upgrade. Major approved upgrades include:
  - the lines from Wairakei to north of Auckland
  - a replacement of pole 1 of the inter – island HVDC link
- Transpower is also looking to short term solutions where these are available – into Wellington and out of the lower South Island



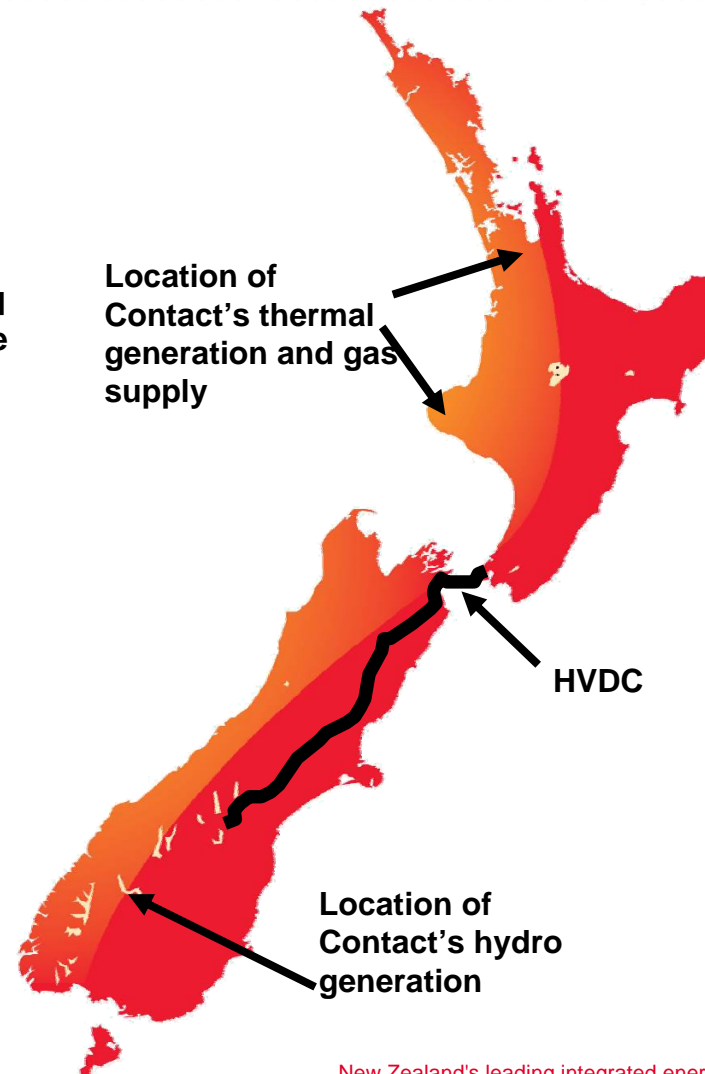
# Wholesale electricity prices

- Previously, North and South Island spot prices were closely linked
- Volatility in the past (pre 2008) has been largely driven by hydrology
- Following the decommissioning of pole 1 there has been an increase in the volatility between the islands particularly over the high-demand winter period



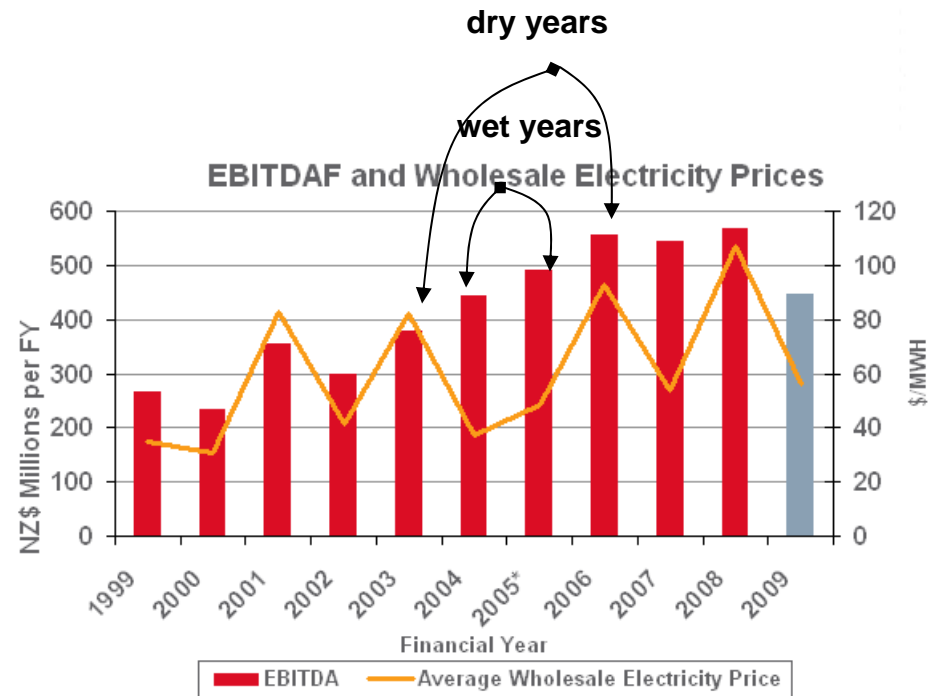
## Contact's ability to leverage its geographic and fuel diversity has depended on the HVDC and gas flexibility

- In the past Contact has been able to rely on the HVDC to move hydro generation north in times of high inflows and storage
- When inflows were low the thermal generation operated to cover the short hydro position
- The flexibility and low cost of the Maui gas enabled Contact to defer gas take in high hydro conditions and to increase its gas take when storage and inflows were low
- The HVDC ensured that the energy could flow from one island to the other
- With the transition from flexible Maui gas Contact has lost some of this historic operational flexibility – this was expected
- The unexpected decommissioning of pole 1 in November 2007 has temporarily exacerbated this loss of flexibility – the replacement pole is expected to be in operation in early 2012



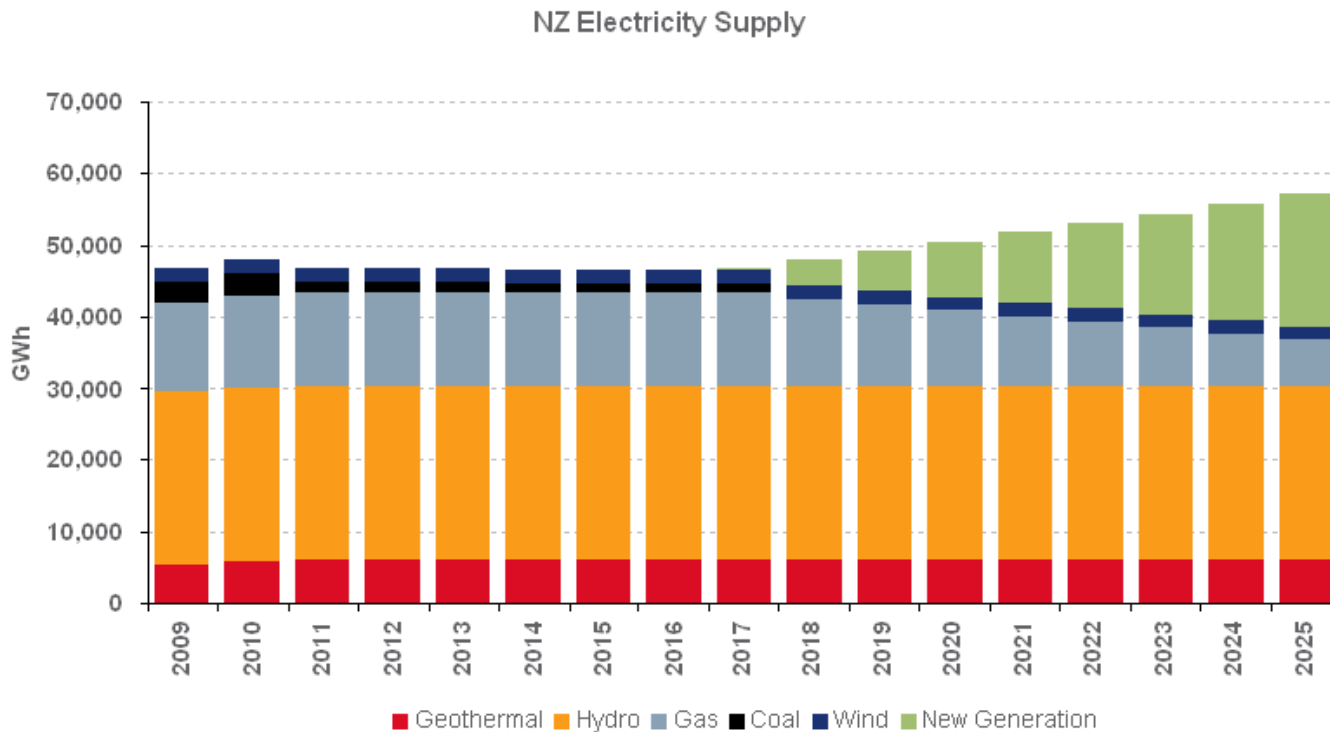
## Despite volatility in wholesale prices Contact's portfolio enabled the company to perform well irrespective of weather conditions

- Due to hydro conditions the electricity price in New Zealand can fluctuate
- The effects of the loss of pole 1 of the HVDC and the loss of gas flexibility can be seen in the 2009 financial results
- The loss of the gas flexibility was anticipated
- The decision to invest in gas storage was made in order to replace the loss of contractual flexibility
- Gas injection has commenced and the project will be able to operate commercially in mid 2010
- The investment in gas peaking plant which will also be operational by mid 2010 will further assist Contact to manage volatility



## Wind and/or hydro generation is expected to be required by about 2018 with geothermal filling the gap until then

- The requirement for new generation over the next decade will be driven by two major factors:
  - The growth in demand – long term average for New Zealand has been 2% but this is constrained by the economic recession in the short term
  - Fuel replacement as coal moves up the merit order and gas supply runs short towards the middle to the end of the next decade



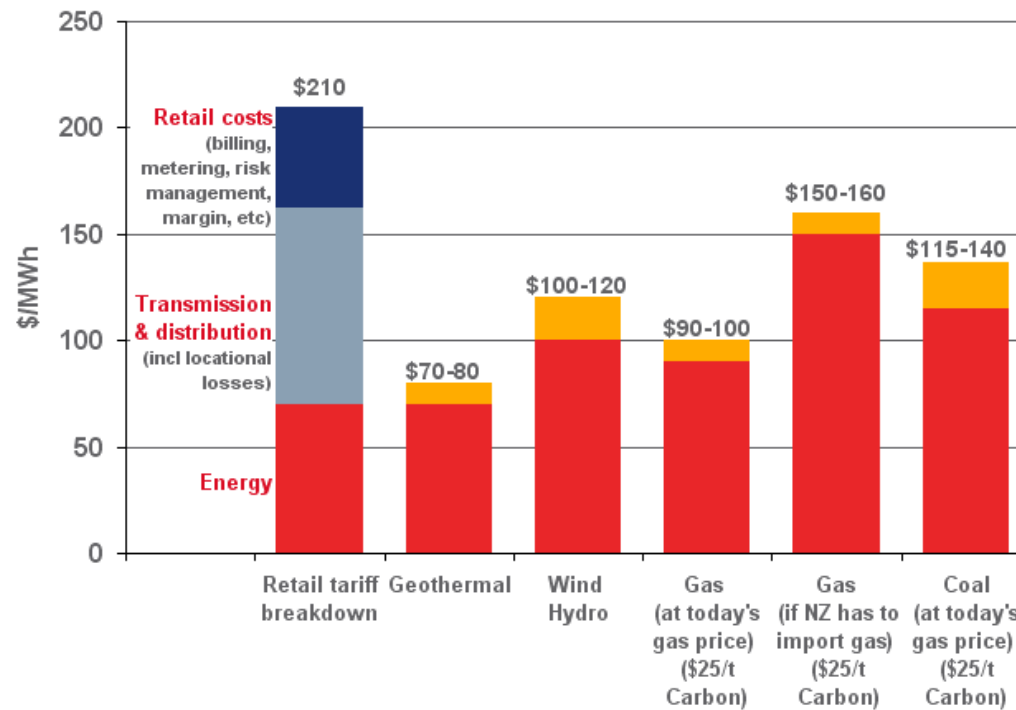
Assumes no gas finds (worse case), and gas generation declines from 2018



# Long-term energy prices

- Despite the recent economic challenges the fundamental drivers of long term electricity prices remain the same
- In the absence of significant new and accessible gas reserves, wind and hydro remain the likely sources of new generation, once available geothermal options are built

Retail tariffs and long term energy costs

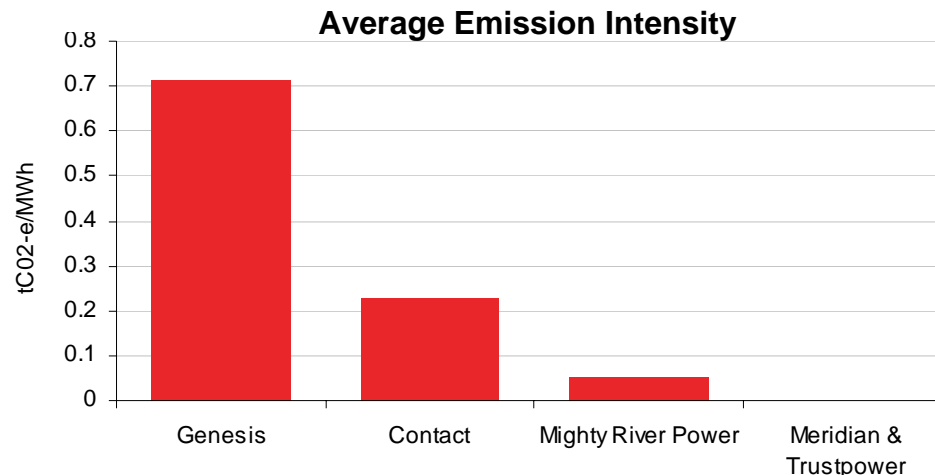


Based on long term average forecast exchange rates



# NZ Emission Trading Scheme (ETS) – What it means for Contact?

- To meet its Kyoto Protocol obligations the Government introduced a Greenhouse Gas ETS at the end of 2008
- The Government is now in the process of revising the legislation. Key amendments:
  - Commencement date delayed 6 months to 1 July 2010
  - A 2½ year transition phase to 1 January 2013 which includes:
    - A 50% obligation for emitters
    - A price cap of \$25/t (effectively a price cap)
- Contact's emissions are dominated by thermal generation with the total liability falling between 3 and 4 million tCO<sub>2</sub>-e per annum, the swing being driven by hydrology
- In the short term electricity prices will be set by offer behaviour, with thermal generation continuing to be the predominant marginal generator
- The Ministry of Economic Development (MED) has forecast the marginal emission factor to be 0.52 tCO<sub>2</sub>-e/MWh. At price of \$25/tCO<sub>2</sub>-e, this equates to a spot price premium of \$13/MWh. Contact's average emission factor is ~0.23 tCO<sub>2</sub>-e/MWh



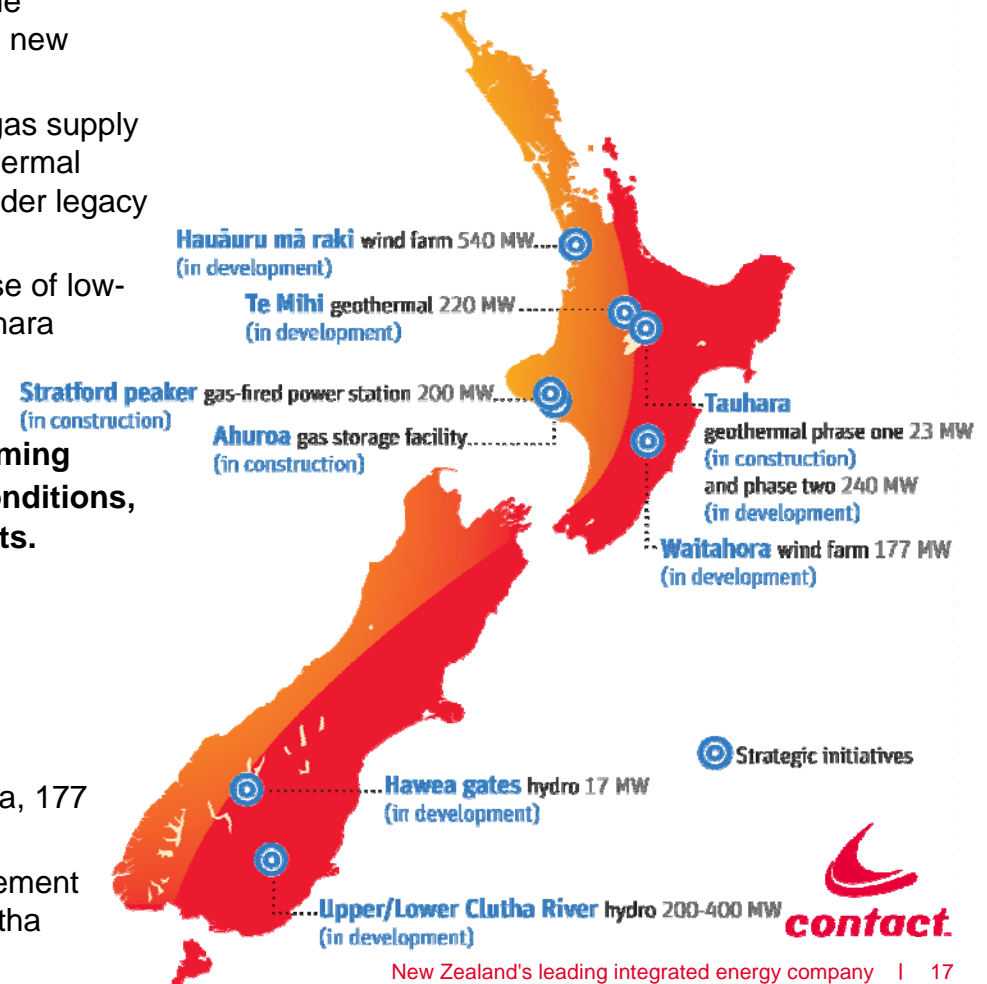
## Contact's underlying value proposition is the leverage the business obtains from its superior set of options, particularly geothermal and peaking plant

- **Electricity demand has been flat over the past year**
- **Peak demand has continued to grow despite the recession.** Which will benefit Contact's new 200 MW gas-fired peaking plant, expected to be in operation in mid calendar 2010
- **Underlying demand growth is expected to revert to more normal levels of annual growth by 2012, resulting in new investment in generation by 2014**
  - Likely to be geothermal capacity utilising Contact's resources
- **The Huntly coal-fired power station owned by Genesis is expected to be gradually decommissioned over the coming years**
  - Further supporting the need for new generation investment
- **Wind is still expected to set the long run marginal cost of electricity**
  - Which establishes the basis of retail electricity prices
  - And increasing the value of Contact's existing renewable generation capacity (geothermal and hydro)



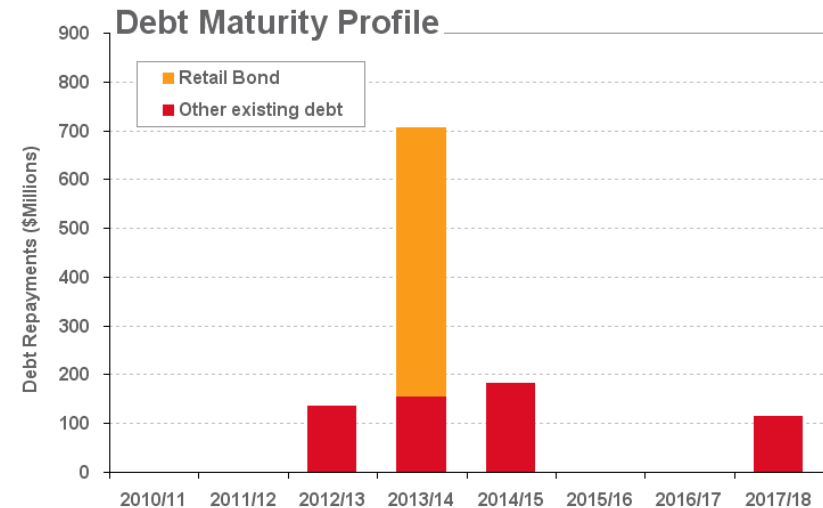
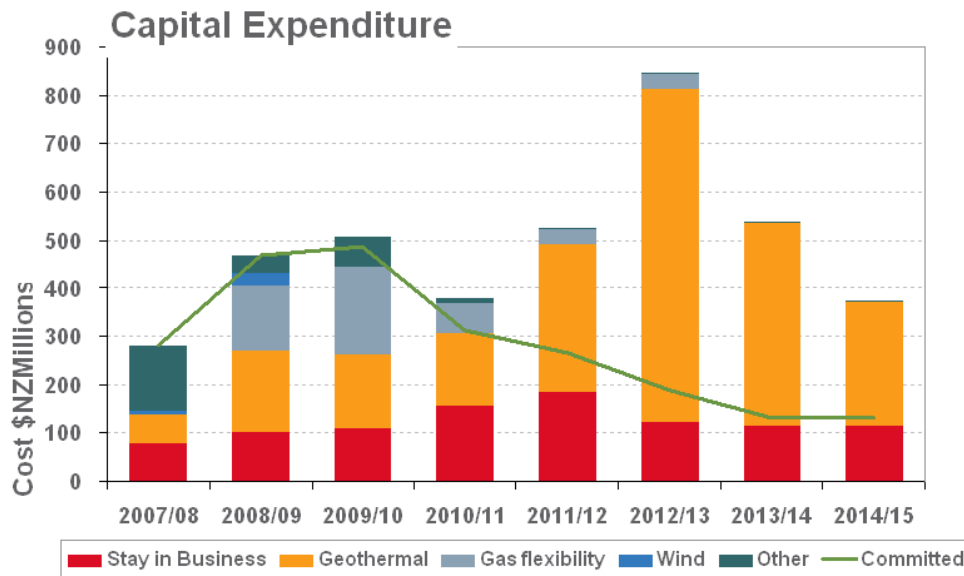
## Contact's strategic initiatives are progressing well

- **Projects to restore flexibility back into the portfolio are on track for commercial operation in mid-2010**
  - **Stratford peakers** (200 MW, \$250m): Adds flexible generation capacity. Replaces New Plymouth with new technology fast-start efficient gas turbines
  - **Ahuroa gas storage** (\$250m): Adds flexibility to gas supply by storing gas during periods of low demand for thermal generation. Replaces supply flexibility provided under legacy gas contracts
  - **Tauhara phase 1** (23 MW, \$100m): The first phase of low-variable cost geothermal generation from the Tauhara resource area
  
- **Near-term development projects – sequencing and timing depend on factors such as demand growth, credit conditions, carbon policies, currency rates and resource consents.**
  - **Te Mihi geothermal** (220 MW): FEED complete
  - **Tauhara phase 2** (270 MW): Consent application preparation progressing
  
- **Medium-longer term development projects**
  - **Wind**: Two projects (HMR, 540 MW and Waitahora, 177 MW) in consenting processes
  - **Hydro**: Conceptual design and community engagement underway for options on the Upper and Lower Clutha



# Capex programme

- Two major committed CAPEX projects under way
  - Stratford Peaker
  - Tauhara Binary
- The Ahuroa gas storage facility is also planned to be constructed during the 2009/10 financial year and is in the committed capex for the purposes of the graph
- The chart below shows Contact's committed capital expenditure to 2014/15 which is fully funded; timing of additional capital expenditure on geothermal is indicative



## Contact is in a strong financial position

- **Net debt as at 30 June 2009 was \$1.1bn**
  - Net debt to net debt plus equity was 27%
- **Extended and added to bank credit facilities**
  - As at 30 June 2009 Contact's committed credit facilities totalled \$685m, all of which was available
- **Over subscribed retail bond issue**
  - Issued \$550m unsubordinated unsecured bonds
- **Implemented a Profit Distribution Plan**
  - \$120m was retained to support the execution of strategic initiatives
- **Committed capital expenditure is fully funded**



## Conclusion

- **A challenging year**  
**Weather extremes, transmission constraints, portfolio inflexibility**
- **\$600 million of construction underway**  
**Portfolio flexibility initiatives**  
**The first of a series of new geothermal projects - in operation in mid-2010**
- **Well positioned for growth**  
**Excellent growth opportunities**  
**Strong balance sheet**



