27 June 2019

Contact hosted institutional investors and analysts for dinner in Wellington on Wednesday 26 June. Dennis Barnes, Contact's Chief Executive, presented a brief update on the progress of the Wholesale business in delivering on its strategy

Decarbonising New Zealand

"Relentless execution of Contact's strategy to optimise both the Customer and Wholesale businesses to deliver strong cash flows, has seen Contact increase ordinary dividends by 50% while reducing net debt by more than $500m over the last two financial years.

Our quality portfolio of low-cost, long-life renewable generation assets and strong balance sheet have informed our distribution policy with the Board targeting a pay-out of 100% of expected operating cash flow which results in an ordinary dividend of 39 cents per share. This clear commitment not only rewards our shareholders with a strong and predictable income stream for their support for our previous capital investment programmes, but also drives a strong capital discipline.

New Zealand is at the start of a decades-long transformation from a reliance on fossil fuels, which remarkably still includes the significant use of coal for process and space heat, to renewable electricity. Contact is well placed to meet the expected growth in electricity demand which will result in meaningful reductions to the nation's carbon emissions. This alignment with political and public sentiment underpins our Wholesale business strategy which has the goal of being 'an innovative, safe and efficient generator, working with business customers, and partners to decarbonise New Zealand'. This strategic intent is backed with large-scale consented geothermal development options, world-class geothermal capability and our strong balance sheet.

Contact has secured 4.5PJ of gas for this winter and access to new Maui gas until the end of 2024 as the field is progressively invested in. Our perspective is that gas is getting more expensive and less reliable at a time when it's facing increased competition from renewables. To maintain its share of energy production it should be doing the opposite. This unreliability has also impacted our ability to call on energy under a long-standing insurance product which has significantly devalued its future worth. On a more positive note the Ahuroa Gas Storage facility expansion is progressing well with completion expected in early 2020 and we understand there is a long term contract with another user imminent.

The increased price and reducing reliability of gas is accelerating the case for the long-term economic substitution of thermal plant with new baseload geothermal. After successfully lowering the cost of geothermal since our last build, we are taking the next step in developing the geothermal project we have consented at Tauhara by committing to drill a series of four appraisal wells. In gas equivalent terms Tauhara is a 20PJ per annum resource, and that’s just the currently consented portion. The drilling will lay the groundwork for a final investment decision for a new power station in early 2020. The results of the drilling will further define the extent of the reservoir and its characteristics and confirm our initial assessment that along with steam turbine technology cost improvements Tauhara is New Zealand’s lowest cost new generation build.

While it is clear that decarbonisation will drive electricity demand growth, the timing currently remains unclear. With electricity demand still at 2008 levels, the first stage of any potential Tauhara investment would be sized to substitute the energy we currently produce from our Taranaki combined cycle plant (TCC). If the green-shoots of demand growth accelerate, TCC has the capacity to be the lowest cost transitional source for new demand while the business case for new renewable generation is developed. This ongoing business case for TCC is dependent on securing an additional reliable gas supply at a significantly lower price than current expectations.

We are actively partnering with our commercial and industrial customers, who are undoubtedly the prime decarbonisation opportunity. Our target is to enable customers to switch to electricity from their current energy sources, help them be more energy efficient, reduce their costs and cut their carbon emissions. We will accelerate the delivery of our in-house energy management offering with our purchase of a 49.9% shareholding in Simply Energy (Simply), this includes a $2 million injection to fund investment in systems and technology to deploy their bespoke products and services. We can increase our shareholding to 100% in two years and have agreed an aligned set of KPIs that will provide tangible proof of our progress; for example the Simply team have been challenged with conversion of 40MW of currently emissions intensive energy use to renewable electricity by 2022.

Finally, you would have seen that I have made the Board aware of my intention to leave Contact in 2020. The Board has commenced a process to find my successor. In making this decision I know that the company is in a strong position, with excellent prospects and with a talented and committed team in place. I am proud of many things Contact has delivered under my leadership but I’ll leave that list until I’m actually going and in the meantime you can rest assured that we will continue to deliver on the execution of our strategy” said Mr Barnes.

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