



# Sale of the Ahuroa Gas Storage facility

Portfolio optimisation

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# Contact's strategy is to optimise the Customer and Generation businesses to deliver strong cash flows



## Customer

Will deliver value by providing customers with choice, certainty and control while reducing cost to serve and improving the customer experience through systems-enabled operational improvements



## Generation

A low cost, long life and flexible generation portfolio with a continuous improvement programme focusing on safety, spend, reliability and resource utilisation to improve the efficiency of our generation assets

Underpinned by a disciplined and transparent approach to operating and capital expenditure while continuing to investigate ways to optimise our portfolio of assets

# Executing our strategy – Transaction summary

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- » Contact has entered into an agreement to sell the Ahuroa Gas Storage facility (AGS) to Gas Services New Zealand (GSNZ) an associate of First Gas Limited (First Gas).
  - » GSNZ is a provider of operational services for First Gas and other customers. GSNZ operates one of New Zealand's largest gas networks, with 2,500 kilometres of high pressure gas transmission pipes and around 4,800 kilometres of gas distribution pipes in the North Island.
- » As part of the transaction, Contact has entered into a 15 year agreement for gas storage services with GSNZ at a level required to support Contact's generation portfolio. Contact will also provide certain transitional services for three months after completion of the sale.
- » The sale price of \$200 million, which is payable in cash at completion, will be subject to tax of approximately \$48 million. Contact will apply the net proceeds to the reduction of debt. The payment of tax will provide additional imputation credits, which could enable FY18 dividends to be distributed fully imputed to New Zealand shareholders.
- » To support potential new customers of AGS, GSNZ has committed to an expansion of AGS within approximately two years of completion of the sale of the transaction.
- » Until there are additional long term customers of the facility, S&P will capitalise the storage services payments. The S&P net debt / EBITDAF ratio remains substantially unchanged post transaction. Contact expects the transaction to have no impact on its BBB credit rating from S&P.

# Creating value for Contact shareholders through the sale of AGS

The AGS reservoir is larger than Contact's requirements and is capable of supporting storage services to other customers



**Monetising unused capacity**

- » By selling the last units that Contact uses from AGS, Contact is effectively selling the least valuable units of its current capacity to someone for whom the units will be the first and more valuable.



**GSNZ is a higher value owner**

- » GSNZ has a lower cost of capital than Contact.
- » GSNZ existing operations based in Taranaki present opportunities for operational synergies and enhanced gas market services.



**Reduction in gas storage costs**

- » Committed to an initial expansion of AGS, which reduces the cost per unit of storage.
- » Contact's effective share of operating costs will reduce as AGS signs up new customers.



**Independent owner of storage**

- » Without upstream or downstream interests, GSNZ is likely to be seen by potential new customers of AGS as a more independent counterparty than Contact.

# Contact retains access to competitive storage services compatible with thermal requirements

Flexible thermal generation is fundamental to the renewable New Zealand electricity market



## Flexible gas at reasonable cost

- » Gas storage makes large quantities of gas instantly available, for electricity generation, without the requirement to commit to long term take or pay arrangements with gas producers.



## Supporting renewables

- » New Zealand's renewable electricity supply peaks in summer while demand peaks in winter. The primary role of gas storage in the electricity market is to provide fuel for thermal generation when hydro-generation is below average.



## Economically delivering flexibility

- » The amount of flexible thermal fuel to provide a reliable electricity supply ranges between 40 and 50 PJ/annum.
- » Newer distributed and battery technologies cannot economically compete yet.



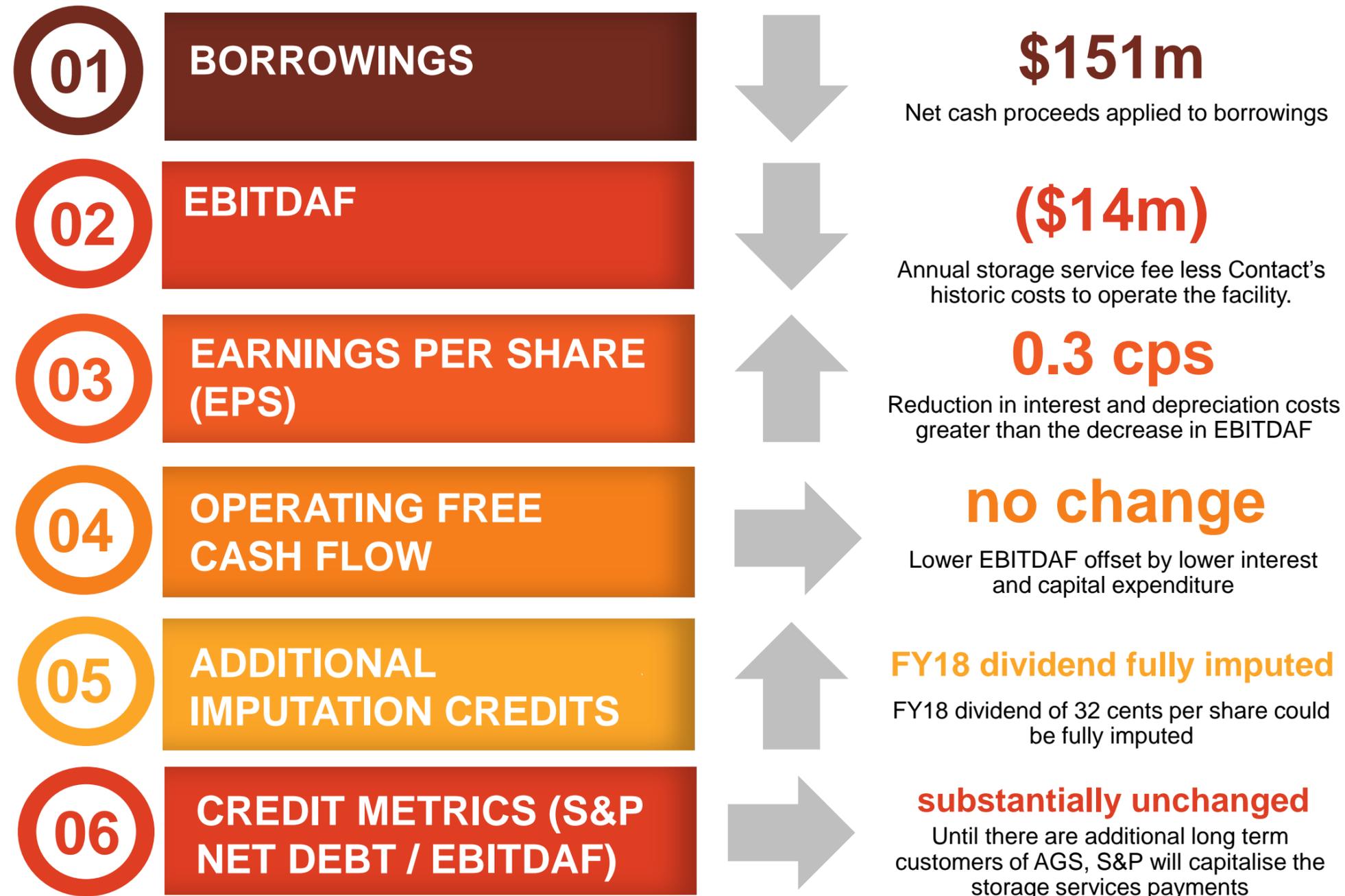
## 15 year gas storage agreement

- » Contact's own flexibility requirements from AGS for the operation of the Stratford peaking plant are contracted for 15 years.
- » Contact retains the ability to extend for further periods of 5 years at a time until 2050.

# Key transaction terms

	On Completion (targeted June 2018)	Post initial expansion (Completion +24 months)
Sale price	\$200m	
Net cash proceeds - after tax payable and \$1 million in transaction costs	\$151m	-
Accounting book value	\$184m	
Term of storage services	Initial term of 15 years, with the ability to extend for further periods of 5 years at a time until 2050	
AGS facility initial expansion	GSNZ to expand the facility within approximately 2 years of completion. Contact maintains its capacity rights following the expansion of the AGS facility.	
Facility capacity	27 TJ/day of injection and 45 TJ/day of extraction	65 TJ/day of injection and 65 TJ/day of extraction
Contact contracted capacity	75% of injection (up to 20.25 TJ/day) and extraction (up to 33.75 TJ/day)	69% of injection (up to 45 TJ/day) and extraction (up to 45 TJ/day)
Third party customers - Contact fee reduction	Contact's annual fee payable for gas storage services provided by GSNZ reduces where third party customers are contracted	
Contact annual fee payable to First Gas over an initial term of 15 years	\$20m + PPI	Less than \$20m + PPI if fully contracted

# Key financial impacts



**Economics of the transaction expected to improve with Contact's foundation rights maintained**

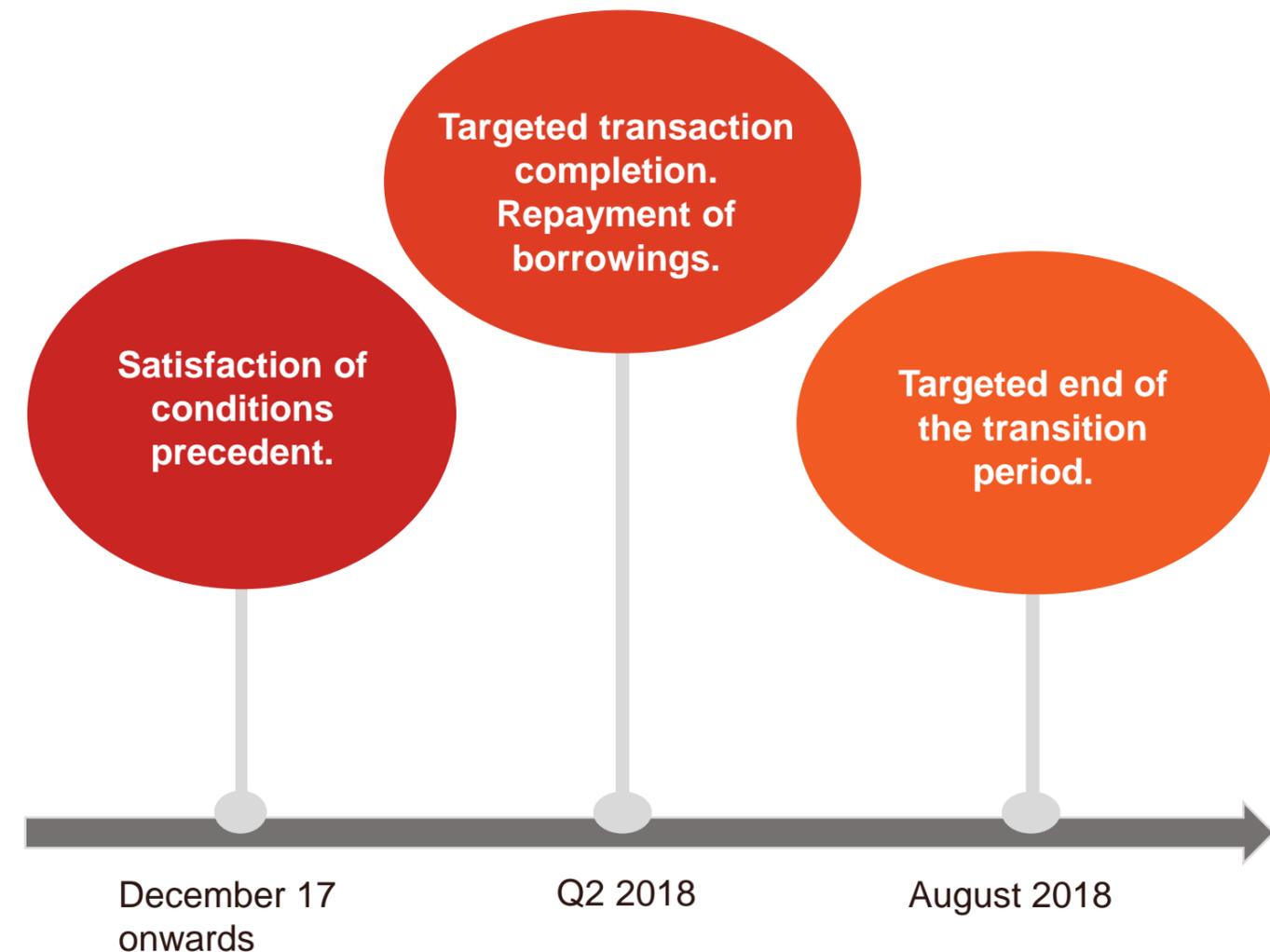
- » AGS initial expansion will facilitate further third party sales and potentially trigger a change in the S&P treatment of the Contact storage agreement
- » AGS expansion increases plant resilience and availability
- » Fee reduction mechanism where third party customers are added reduces cost to Contact of gas storage services
- » Potential for further expansions

# Conditions precedent and transaction timeline

## Limited conditions precedent

- 01** Ministerial consent for the transfer of the petroleum mining permit and change of operator
- 02** Overseas Investment Office (OIO) consent for GSNZ to purchase AGS
- 03** OIO consent for Contact to enter into the gas storage services agreement
- 04** GSNZ to obtain an Inland Revenue binding ruling on tax treatment of AGS
- 05** Agreement from a third party to take up or waive its entitlements to limited gas storage capacity

Contact is targeting transaction completion by the end of FY18



# Commercialising AGS - Available capacity at AGS for new customers

25% of the capacity of AGS is available for long term contracting. This will increase post expansion.

Gas storage services	Current available capacity for additional customers	Post initial expansion (Completion +24 months)
Storage capacity	4.5 PJ	4.5 PJ
Injection capacity	6.75 TJ/day of injection	20 TJ/day of injection
Extraction capacity	11.25 TJ/day of extraction	20 TJ/day of extraction



# AGS history

- » In December 2007, in conjunction with Origin Energy's acquisition of the New Zealand assets of Swift Energy, Contact acquired from Origin the rights to develop an underground gas storage facility using the depleted Ahuroa gas field. The cost of the acquisition was \$164m, including 4 PJ of cushion gas.
- » Between 2011 and 2017, Contact invested \$58m in the development of the AGS facility, providing the ability to inject pipeline specification gas.
- » Origin was originally the operator of the AGS facility and also provided reservoir management services for Contact. When Origin sold its onshore NZ assets to New Zealand Energy Company (NZEC) in 2013, Contact entered into agreements for operational services with NZEC.
- » Contact has improved the integrity, reliability and costs of operation since 2013. The facility cost Contact \$6m p.a. to operate in FY17, compared to historical levels of >\$12m p.a.

