

Contact Energy to sell AGS to Gas Services New Zealand (GSNZ)

Contact Energy Limited (Contact) has announced the sale of its Ahuroa Gas Storage facility (AGS) to Gas Services New Zealand (GSNZ) for NZ\$200 million, while retaining the rights to use the facility to meet its future needs.

Situated in Taranaki, the AGS facility was opened by Contact in 2010 to store gas for use at its nearby Stratford Power Station. GSNZ is a provider of operational services to First Gas and other customers. GSNZ operates one of New Zealand's largest gas networks, with 2,500 kilometres of high pressure gas transmission pipelines and around 4,800 kilometres of gas distribution pipelines in the North Island.

New Zealand's share of renewable electricity generation is among the highest in the world, and growing, however the high level of hydro-electric generation means the system needs flexible fuel to cope with dry periods and peak demand during winter.

"Gas-fired thermal plant plays a key role supporting renewable generation in New Zealand when hydro generation is below average or during peak demand, and AGS helps us to store gas for use at those times," said Dennis Barnes, CEO Contact Energy.

"By selling AGS to GSNZ we maintain access to a flexible and cost effective fuel supply. The deal has the additional advantage of seeing AGS operated by a dedicated gas infrastructure company, letting us focus on the generation and customer sides of our business."

"I believe with GSNZ as the owner, AGS is more likely to get new customers and we've committed to an initial expansion of AGS to facilitate this. We will receive a reduction on our payments to GSNZ as more customers use AGS," said Barnes.

GSNZ's, Paul Goodeve sees AGS as an important part of New Zealand's gas infrastructure. "Flexibility is one of the major attractions of using natural gas. By expanding the services offered at AGS, we see an opportunity to provide gas producers, shippers and end-users with more flexibility to manage their energy needs."

The proceeds of the sale will be put towards repaying debt and the tax paid on the sale could allow Contact to fully impute the FY2018 target dividend of 32 cents per share.

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.

Completion of the sale of the AGS is subject to the fulfilment of certain conditions set out in the transaction agreements, including receipt of certain regulatory approvals as described in the investor briefing materials.

About Contact:

Contact is one of New Zealand's largest electricity generators and retailers, powering over half a million homes and businesses across the country with electricity, natural gas and LPG, supported by a team of over 1,000 based in communities throughout New Zealand.