



Wednesday, 16 November 2022

## CEO's address to ASM

Looking back over the past year, I feel a real sense of pride and satisfaction at all the Contact team has achieved.

It is a year characterised by a solid financial performance, progress on nationally significant renewable developments, managing through a challenging economic environment, supporting New Zealand's energy wellbeing and exploring new demand and generation opportunities.

All this is underpinned by our Contact26 strategy to build a better Aotearoa New Zealand by leading the country's decarbonisation.

I will first turn to our generation and development activity.

We have over \$1b of construction projects underway at Tauhara and Te Huka.

We have plans in place to develop up to 5.7 TWh of new renewable generation this decade. Of this, 3.0 TWh represents our geothermal renewable developments in the Tāupo region, including Tauhara, Te Huka and the planned redevelopment of Wairakei.

The remaining 2.7 TWh represents wind and solar opportunities where plans are progressed with land access secured and for some sites consenting has begun. In addition to this, we are also continuing to explore opportunities to further build our pipeline of other wind and solar opportunities.

To provide some context to the scale of Contact's development pipeline, 5.7 TWh equates to nearly an eighty per cent increase in Contact's current renewable generation output in a mean hydrological year.

The recent BCG report suggests that an increase of 11 TWh of generation will be required in New Zealand by 2030. If realised, when netted with our thermal closures, these developments could contribute almost half this required increase in generation.

Our Tauhara project remains on track. The impact of COVID and tight supply chains, like other construction projects, has placed additional pressure on project cost. We continue to feel the impact of higher input costs, increasing labour costs, and China's COVID policies shutting factories at short notice. As the project progressed, we also found the complexity and scope definition of the plant were beyond initial expectations.

As a result of all these combined factors, project costs have increased to \$880m, a \$62m increase since our previous update including contingency. We have a high level of confidence that the updated cost of \$880m fully reflects the remaining cost to complete this project.

Pleasingly, a significant component of the increased cost reflects a further expansion in the capacity of the plant, which has increased to 174 MW, up a further 6 MW from our last update. That means that on a cost per MW basis, the project cost has escalated by 4% since our last update. At approximately \$5m/MW of baseload renewable energy, Tauhara remains a world-class project without peer in a New Zealand context.

Since the project began, we have also seen wholesale electricity market prices increase due to rising capital costs across all generation technologies, higher interest rates, higher carbon costs and the increasing costs of thermal fuel. As a result, we are increasingly confident of stronger returns from uncontracted sales, despite the higher build costs.

The project remains on track for delivery in the second half of next year, which given the external environment and excellent project economics is a pleasing outcome.

We have also taken the learnings from the Tauhara build into our next project at Te Huka. We announced this 51.4MW plant in August and work is already commenced. We expect this plant to be up and running by late 2024.

We are particularly proud of the training and employment opportunities that these projects offer. Since launching in October 2021, our Ka Hiko programme has seen 60 ākonga (including 12 wahinetoa) complete the course and start work on site at Tauhara. Ka Hiko brings to fruition our promise to provide job opportunities to the local community.

Consenting work on the Wairākei field is well progressed. The consent hearing was held in October with no opposition from submitters or the Council. This reflects the positive engagement and the building of sustained relationships with the local community and tangata whenua. We expect a final decision on the consent by year-end. If approved, this will enable our continued operation on the Wairākei field for the next 35 years.

I expect you will have seen regular announcements about new wind and solar developments from a myriad of potential local and international investors. It remains unclear how many of these announcements will eventuate. A similar phenomenon occurred in Australia a few years ago, with many parties 'kicking the tyres' but few making it to market.

We take a very disciplined approach based on great data with our wind and solar investment pipeline, starting with the selection of good sites. We have begun consenting activities for a number of priority South Island and North Island sites and are finalising land access agreements for several sites. We have several wind masts arriving before the end of the year which will be erected to further assess the available wind resource.

### **Our commitment to our customers**

When it comes to customer experience, our commitment to innovative products and experiences has paid off with significant growth in customer satisfaction and retention. Our Voice of the Customer programme shows 67 percent of our customers say they are satisfied with Contact, and 79 percent say Contact is easy to deal with. Our Net Promoter Score – the number of customers who say they would recommend us, versus those who would not – increased significantly again this year from +31 to +39. Contact has 580,000 connections, and we remain one of the country's fastest growing broadband providers.

Having said that, we acknowledge that New Zealanders are living today in an environment where there are inflationary pressures on households. Interest rates, global supply and the effects of two years of pandemic uncertainty have taken effect.

At Contact we had to increase our retail prices recently. In line with our pricing principles, we have shielded customers from the full impact of the wholesale price increases for the past three years – which has helped customers and ensured that Contact remains competitive in a highly competitive market, and we can keep growing our retail business.

Wholesale prices are likely to remain elevated for several years. This reflects the reality that firmed electricity in a renewable transition is more expensive. Significant investment in renewables on the scale Contact is committed to will address this over the longer term, as New Zealand's reliance on thermal energy reduces.

We are also focused on getting alongside New Zealand consumers to help them shift their demand to off-peak periods, reducing the need for thermal generation that is currently required to support periods of peak demand.

Earlier this month, we launched **Dream Charge**, our EV charging plan that enables customers to recharge EVs with cheaper rates from 11pm to 7am and redeem AA Smartfuel credits that can be converted to ChargeNet credits. And more than 35,000 customers have signed up to our Goodnights plan – giving them three hours of free electricity from 9pm to midnight.

We are well into the transition to renewable electricity as a country – and a company.

Gas will be an important part of the transition and we are confident of an ongoing supply of gas for our generation plants and consumers in the foreseeable future. The reality is that rapidly growing intermittent wind and solar will continue to rely on fast start thermal generation to provide firming. We are well insulated from price volatility that may emerge as gas use declines, given our proximity to gas supply, our storage capacity, and the closure of our Taranaki Combined Cycle plant in 2024.

## **Our Transformation**

Our transformation programme, **Mau taniwha, Mauri ora**, which broadly translates to **Harness Energy, Create Wellbeing** is ensuring that we have the capacity and capability to deliver on our strategy. In essence it is about building muscle strength for sustained growth through focussed execution.

It is aligned in our aspirations to:

- lead New Zealand's energy transition to leave our home in a better place for future generations,
- become New Zealand's most sought-after workplace with a workforce that reflects NZ,
- innovate the way we work and deliver value to our customers through digitisation, and
- deliver value to our shareholders by doubling the value of our company.

Our Transformative Ways of Working programme continues to give our people flexibility and choice to work from anywhere. It is well embedded. It makes us a more effective and productive place to work, and it ensures that we continue to attract top talent.

Two days ago, we launched our new parental leave policy, Growing Your Whānau, of which I am very proud. From basic compliance, we now offer primary carers 26 weeks salary top up, employer Kiwisaver contributions while on leave, 10 days paid special leave, six months flexible working at 80 percent but paid at 100 percent on return to work, along with three months of free power, and a \$5,000 childcare koha. It ensures that Contact is the one of most attractive workplaces in New Zealand and we attract and retain the critical skills that underpin our ambitious growth plans.

With the next generation in mind, we are focused on being a responsible world-class organisation. We know our families; our teams and our communities expect us to be good

corporate citizens. Similarly, investors increasingly consider sustainability-based measures alongside traditional financial measures when assessing company performance.

Our Dow Jones Sustainability Index results were released recently. This year we scored 72 and are rated in the top 87<sup>th</sup> percentile in the Asia Pacific region. In December we will know whether we will be included in the prestigious Asia-Pacific DSJI index.

## **Thanks**

Before I finish, I would like to thank Rob and the Board for their continued support.

I would also like to give a huge thank you to the Contact team for their purpose and passion to doing a great job. None of what we have achieved would be possible without our people.

Thank you to our customers and our suppliers. Thank you to our neighbours. We live, work and operate in communities across New Zealand, and we know our action impacts on the people and the environment around us. We will keep striving to be the neighbour you want to have.

And thank you to you – our investors – we appreciate your continued support of Contact.

Ngā mihi nui.

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