

## **TRANSCRIPT OF VIDEO BRIEFING FOR MEDIA**

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### **Meridian – Tim Lusk and Paul Chambers**

**Tim:** Good morning everybody. My name's Tim Lusk. I'm the chief executive of Meridian Energy. My colleague Paul Chambers is Chief Financial Officer. I just want to make some brief introductory comments before we get into the numbers and the questions.

Today we are reporting a strong financial result for the year; the same year that we made a number of hard calls in our business as we reset ourselves for the future. So 18 months ago now we did have a very close look at our business model and our performance, and over this financial year, we've completed a major reorganisation and we've enhanced our commercial focus while retaining what we regard as the unique DNA of Meridian, that was built over the first 10 years.

In our main retail business we've achieved an uplift in performance and we've pushed strongly into the North Island. Our other new retail venture is Powershop an online retail experience; the fastest growing energy retailer in New Zealand last year and uniquely has created a new benchmark for customer satisfaction with a Consumer Institute rating of 92%. We're reporting strong performance in commissioning wind, and the development of consented options for both wind and hydro in New Zealand.

Operationally, we've been able to significantly improve our overall productivity, and we measure that in earnings per megawatt hour. We're also reporting a very significant improvement in our health and safety record. The previous year was not one you would have been proud of. So we're reporting a 50% improvement in our health and safety performance. And in terms of overall staff engagement, another key indicator to us: a 6% improvement.

In Australia and USA we report progress in wind and solar that is vital to build our knowledge, Meridian's financial strength, our partnering capability, and our purchasing power in pursuit of long-term benefit to New Zealand. Along the way we also extended our funding sources this year by successfully raising \$200 million through New Zealand's first online issue of retail bonds.

Now while our biggest investments continue to be upstream of the customer's meter box, importantly Meridian has invested in a small set of subsidiaries, particularly in energy efficiency technologies and services. I mention that because this is very much what the future is going to look like, and what I can tell you is that when you start putting together a stable smart metering platform with two-way communication – couple that with an

online experience like Powershop – all of a sudden you’ve got customers telling you that they can log in every night, look at their electricity usage, they can decide how they want to change their behaviour, they can purchase electricity forward. These customers, some of them are reporting reductions in the cost of their electricity of up to 20% without any reduction in their standard of living. We’ll talk a wee bit more about that later.

**Tim:** So at this point I will move into the slides [page 6]. This one really just puts numbers to some of the things I talked about in my introduction. Paul’s going to talk about the 29% uplift in our underlying net profit after tax, critically driven by an 11% uplift in our basic productivity – to \$46.3 per megawatt hour generated.

During the year we added a total of 219 megawatts of renewable generation to our portfolio. That was in New Zealand, in Australia and importantly for us, a five megawatt photovoltaic solar generating plant in California – the first such plant to be connected to the Californian grid.

I’ve mentioned the meteoric rise of Powershop in the eyes of New Zealand customers. Paul will talk a little bit more about the quite unusual in-flows that we had to deal with this year. So I think at this point, Paul, if you’d be good enough, we’ll have a wee bit of a changeover.

**Paul:** Thank you Tim. So I’m just going to take you through some of the numbers. First thing to reiterate is, as Tim said, it’s been an excellent result this year, particularly against the background of the changes which Meridian has seen internally and externally during the year.

[page 7] We’ve got an uplift in our basic operational earnings, EBITDAF of 25%, converting into an Underlying NPAT of \$251.9 million – an uplift of 29%. And behind that, you’ve got both growth in our generation – 13% uplift in the quantity volume that we’ve generated during the year – and an improvement in our earnings from that generation. A more integrated performance; a better retail performance, and all of this has enabled us to pay a cash amount of dividend of over \$350 million to our shareholder this year, who is ultimately the New Zealand public.

I’m gonna leave with you this in the handout [page 8] rather than talk to it. Just one thing to point out, you’ll see a growth in NPAT, the final number if you like, of 106%. That’s pretty misleading in that it includes all those strange accounting fair value movements, which we all love to hate. So I think you really need to focus more on the underlying result when you think about how we’ve done.

The key drivers of our operational performance, of our EBITDAF [page 9]: we’ve seen obviously better hydrology than last year. We started with high lake levels and we’ve seen good in-flow throughout the year. Underlying demand, across the national market has been flat, although our principal customer – Tiwai Point, the smelter down there, did get back to full production during the year. We’ve also seen a doubling of our wind

generation with West Wind coming online, all of this contributing to our enhanced generation.

**Paul:** Our retail business has improved its earnings despite a residential price freeze throughout the period, and that's been really through getting the basics right and coordinating much better with our wholesale position.

On the negative side, we've had large increases in our transmission costs; that's the cost of us using the Inter-island HVDC link, and an 8% increase in distribution costs in local networks.

Our cost of 'running the show' if you like, if you exclude transporting and purchasing energy, has remained pretty much flat, when you take out the impact of a number of one-offs and the increased cost of maintaining our enhanced generation base. The one-offs have been about reorganising ourselves for better performance, and also expensing some of the costs of acquisition and projects overseas under the new accounting standards.

I thought it was worthwhile trying to represent our result in sort of graphical fashion [page 10]. It's a bit difficult to do. These numbers don't exactly tie up to the financial statements – there's a bit of a netting off in there – but they give you a good idea.

If you think about our business sequentially, we start off by selling what we generate into a wholesale spot market, quoted in half hour chunks, and that's a large source of revenue. But we then have to balance that with a set of fixed price contracts with retail and wholesale customers. To satisfy those fixed price customers, we have to buy back from that same market, and we buy back not necessarily at the same price that we sell them; it can be a tricky position. In a wet year, when prices are relatively low, you can see that there are some good margins to be made from that business. In a dry year, you've got fixed price commitments and the price in the wholesale market is high; that margin can be squeezed to nothing or negative. And you can then see how the money is spent in our operating expenditure, to reach our operating EBITDAF performance.

If I look at our net profit after tax [page 11]: apart from our basic earnings performance, we've seen an increase in depreciation over the year with our generation base increasing. We had a write-off of two IT projects during the year. These were projects which we had to review given all the changes we've been undergoing and take a hard look at the level of cost involved, and we decided that we would stop those on the basis that we wouldn't get the return required out of the future spend on those projects.

Income tax has been relatively stable, with for us the impact of the changing in building depreciation more or less off-setting the change in corporate tax rate. And we've seen a shift upwards in our interest costs, mainly because we've been capitalising less, but also because we've seen an increase in our debt levels. And I talked about our fair value movements: we're seeing a big appreciation in the New Zealand dollar during the year and some serious shifts around in various other commodity rates which have shifted our fair value of financial instruments.

**Paul:** So where do we spend our money? This is a picture of our capital expenditure [page 12] over the last few years, and this year, most of the money has gone into wind, as last year, with West Wind being completed, Te Uku commenced, and Mt Millar being acquired. And you can see the small slug of solar in California there. The forward projection: that's a quite conservative set of assumptions around when consents will come, so that that profile could be brought forward somewhat.

It's important that we have stable funding [page 13] in order to carry out a programme of this nature, and during the year we've maintained our rating. You can see we have a good long tenor of debt. We've increased the diversity of our funding through both the bond issue, which I think showed really the appetite of the New Zealand public for investing in renewables and through loans from the Danish Export Credit Facility. We ended the year with \$740 million of undrawn debt in facilities.

I talked a little bit about our storage position. This is around our fuel source; water is our fuel. You can see in the chart on the left [page 14] here that we started the year – the black line shows this year and the brown line last year – with a much improved storage position in our lakes. And if you compare the chart against the dotted line, which is the average lake level, we've basically remained above the average throughout the year with some very strong in-flow sequences which have caused a number of headaches in managing our position.

You can see that reflected in prices. We didn't see the same spiking in price that we saw at the beginning of last year with the lack of water, and there's been a lot less separation between the islands in terms of price during the year. Later on, we did see some rising in price levels as northern lakes dried out, and there were a number of thermal outages.

And all of this reflects itself in increased generation [page 15]: mainly the first four months of the year, in hydro, but you can see the impact of both hydro and increased wind throughout the year – 13% overall uplift.

Tim talked about our internal reorganisation, which we call Fit for Purpose [page 17]. There are two prongs to that. The first one was around cost reduction and we saw this year a reduction in our corporate centre head count; a reorganisation of our retail business; a reduction in the level of revenue leakage in our retail business through more efficient process; and some step changes in some of our procurement activities.

This hasn't just been about cost though, it's about bottom line, it's about commercial focus. We've enhanced our capital allocation disciplines. We've put in place a much more integrated decision-making framework and measurement framework, and we've linked that to everybody's personal rewards and objectives. We're already seeing the benefits in the integration of our business, but this is a journey of continuous improvement.

**Paul:** Our two main segments are our wholesale and retail segments. Our wholesale business [page 18], as I alluded to before has seen a big uplift in generation, resulting in a 16% topline growth and a reduction in our wholesale electricity costs of purchase for our wholesale customers. That includes Rio Tinto by the way, this sector. Our staff and other operating costs have been mainly driven up by the increased costs of maintenance on an enhanced generation base.

If we turn to our retail business [page 20], we've had a price freeze in place on residential over the entire year and we're still seeing some improvement in our gross margins. That's been about better management of our portfolio and a better balance within our customer mix. That's been offset somewhat by the large rise in distribution charges out of the local network companies. And we've managed to keep our operating costs, our employer and other operating costs more or less flat, despite having the pressure of much-increased churn, customer switching, in the market.

One thing I would just note though is that if you substituted what we actually paid for electricity for what the long-term underlying price that energy hedge – which is the trade in futures energy market – is running at, at the moment, which is around \$80, we would have been pretty close to break even this year. So an improved performance, but still some way to go.

I spoke about increased retail competition, and really this has taken a step change this year. Customers are switching at a rate that's really not been seen for nearly a decade [page 21], and we're expecting this to continue. There's a much better educated public out there and they're being presented with a lot more choice, and we're part of providing that choice through Powershop. I think you could characterise the energy consumer as no longer really being a passive price taker, but an active participant.

I'd like to hand over now to Tim, who's going to talk about the renewable development part of our business, which is our great portfolio of renewable generation options.

**Tim:** Thanks Paul. The 'take away' from this slide [page 23] really is the strength of Meridian's consenting pipeline if you like in renewable generation in New Zealand. I suspect we've cheated a little bit by counting Te Uku because that's under construction. But principally what you'll see there is a nice mix between the two islands, and it does include a couple of hydro projects: Mokihinui and North Bank Tunnel; some more wind; interestingly and importantly, an irrigation project Hunter Downs that again leverages Meridian's core competency around hydro development. So we've also set out there approximate timings and the size of the capital build. Now each of those projects are actually at different points in the consenting process.

**Tim:** This slide [page 25] just reminds us of the journey to consent these projects. It can be as fast as a few weeks. I think White Hill was the benchmark for how fast you can do these things when everything is aligned. But more often they do take a number of years. Other aspects that come into the consideration are things like short-term demand fluctuation, the high volatility of New Zealand's currency, the debate now around market valuation, and I guess the market sentiment around the value of a renewables business and regulatory uncertainty.

But our response has to be a long-term response. These are multi-decade assets and when it comes to hydro, they're in fact almost multi-century in nature. So our focus is on building the best portfolio, to get the consent, and then as a separate matter, decide when the right time to make the investment should be – very much focussed on economic fundamentals.

This is a slide [page 27] where we brag again about West Wind. It is a spectacular development. It has performed well beyond its business case assumption since we commissioned it, and importantly it's contributed to the security of supply in the Wellington area on several occasions. I know I will get the question that it... West Wind remains one of those projects where we continue to work with the local community. We've made I think really significant progress in being able to tune that wind farm, some of the tonal qualities that have been problematic. That's work in progress and we remain highly committed to going beyond the compliance arrangements. That project does comply in every respect with the resource consent. That's not good enough for us because we need to be part of that community for a long time to come.

Just a note on some of the other projects [page 28], Te Uku. Quite a unique project in that we probably only became interested in that development about two years ago and now we're closing on being able to commission it. So when these things go well, you can build wind very quickly.

Manapouri Tailrace Amended Discharge – a long title. That's just an example of the effort that we put into getting the most out of our existing assets. So with no capital investment, but very much leveraging off our relationships with the Waiiau Working Party, we've been able to negotiate an increase discharge regime so we get more juice out of that station.

And Ross Island remains something that this company feels really good about, demonstrating our credentials, and we hope one day soon we'll get a chance to dramatically expand that facility. And it does save a hell of a lot of diesel fuel being carted down to that island every year.

**Tim:** Overseas development: crucial to this company's future [page29]. The importance of the overseas development is it's an opportunity to leverage our core skills. It's an opportunity to learn in other environments. In Australia particularly and the USA, the regulatory environment is very supportive of renewable generation. The whole idea of partnering and learning from other companies in other jurisdictions is critical as we bring that experience back to New Zealand, and they are also very good investments. They have to be very good investments in the first place.

Innovation [page 34]: I touched in my introduction around the importance I place in our subsidiaries as demonstrating the way of the future. The portfolio of subsidiaries is not completely listed there, but the ones that contribute in New Zealand are around the demand side participation, energy efficiency, Powershop I've talked about Powershop.

Energy For Industry is a company we've just created as a wholly owned subsidiary; a substantial little company that owns a number of co-generation plant on industry sites. It takes waste products and produces heat and electricity. They continue to win EECA Awards for their industrial projects.

Arc innovations: our smart metering platform. A huge amount of effort went into that during the course of the last year to tighten up the business. It's performing exceedingly well as a business and it has created a very stable smart metering platform in Christchurch in particular – over 120,000 meters. And due to the churn, the fact that Christchurch is now a very competitive environment, a lot of those smart meters that initially were held if you like by our retail company, have now become available to Meridian's competitors. So we now have quite a lot of development work being done by a number of retailers operating in Christchurch, based on that smart metering platform.

I should dwell briefly on the Ministerial Review [page 35]. It's probably well-known to people in this room. The first slide just summarises the packages. There's no doubt about the overall government policy objective around improved security of supply and increased level of retail competition. There are a number of components in the draft decisions that the government announced in December of last year, including sale of Tekapo A and B to Genesis Energy and some long-term contracts for differences. The sale of Whirinaki from the Crown to Meridian. A scarcity pricing regime. And the implementation of an active market for trading financial hedge contracts. So there was a lot of detail in that.

It does represent a significant adjustment to the settings in the electricity market in this country, and those decisions do have an impact on this company [page 36]; perhaps on this company more than others. The sort of impacts are probably pretty obvious: again the shift of the Tekapo assets from Meridian to Genesis coupled with the virtual asset swaps dramatically shift our risk portfolio in respect of the customer contract book that we currently have. So it creates issues about how quickly we can shift our retail book.

**Tim:** Transfer of Whirinaki potentially has some opportunity for us around dry winter risk and the scarcity pricing regime has still to be worked through. Those are details that will pass to the new electricity authority.

On the liquid hedge market, I think Meridian would say that one of the things that's prevented us moving north earlier was in fact a lack of liquidity. We are currently the largest trader in the ASX and energy hedge, but overseas experience does suggest that the journey to creating a reasonable critical mass in that liquidity is some way away.

Progress to date [page 37]: Meridian has, at every step of the way, been highly committed to achieving the outcome that the government sought. We have engaged openly and completely with all parties. It is coming down to the wire on the programme that the government has set. We have already started moving perhaps more strongly north than we would have, in anticipation of the outcome.

The essential programme that the industry and government are publicly working to will I think complete the Electricity Industry Bill legislation in September, with directives from the government occurring in the period following that.

A lot of the details have been agreed between the respective parties and we're in a process now, over the next few weeks, just to see if we can't tidy up the transition detail to achieve the government's objectives. I'll pass back to Paul just to provide the CFO view of the outlook.

**Paul:** [page 38] As you know with 93% of our generation coming from hydro, we have a relatively volatile fuel source. So it's very difficult to give firm guidance on earnings in our sort of business. What we can do is give you some pointers as to where we are at the moment.

We started the year with our lakes again at a high level – 122% of average, and as a result, July and August have seen relatively low market prices. We do expect some improvement over the year, but our projections are suggesting that gross margin from NZ electricity supply is probably going to be slightly lower than last year, after taking into account the Tekapo transfer. I would caution everyone that it can go dry very quickly and particularly while the HVDC is constrained; that can have a big impact on us.

This year we know that we'll see the benefits of Australian growth coming through. The Fit for Purpose cost reductions will be getting a result and we're already seeing improved subsidiary performance showing itself. Overlying all of that, we are seeing demand is still flat, and retail competition is expected only to intensify. That's all from me. Thank you very much.

## QUESTIONS & ANSWERS

**Brian:** Brian Fallow from the *New Zealand Herald*. You say you see demand remaining flat. What sectors of the residential business? Can you break that down for us? And why do you think it's happening?

**Paul:** It's a very difficult thing to judge. All we can say is that what we're seeing at the moment is demand remaining flat. I'm not sure how long that's going to continue, and it is across most sectors.

**Patrick Smellie, Businesswire:** Can you tell us a bit about your cost to serve initiatives? That was an area of considerable concern at one stage as I remember it. Can you say anything about where cost to serve now sits?

**Tim:** We had this debate last time.

**Paul:** You can sort of work out the numbers from what's there. Our cost to serve is on a downward sort of trajectory at the moment. We've taken out about 10% of the headcount so far in our retail business. We've seen some decreases in our metering costs. It has been offset by some higher marketing acquisition and retention costs with the increased churn.

**Gavin:** Gavin Evans from *Energy News*. Can you tell us a bit more about what's happening in the retail market? And are you seeing an increase in bad debts and can you really save enough within your own business to recover your increased marketing costs and the real costs of churn?

**Paul:** Our bad debts over the year have increased slightly, but we've actually been managing our overdue position well. So it hasn't had a significant impact on us, and all I can say so far we've managed to keep pace with the increase in those churn costs.

**James:** James Weir from the *Dominion Post*. When does your price freeze officially come off, and what's likely to happen to retail prices after that?

**Paul:** Tim, do you want to speak to that?

**Tim:** It's currently there until October. We certainly are seeing some of the increased input costs that other retailers are talking about. We haven't yet made any decisions about when we might move on that. That's the position at this point.

**Patrick: Patrick Smellie** from Business Desk. Where are things at with the Tiwai Arbitration?

**Tim:** look. it's certainly in process. My information is that we now have information back from Rio Tinto that we will look at. I'm not quite sure just when it actually goes forward, but it's moving relatively well. It certainly has no impact on our operating relationship with Rio Tinto Alcan New Zealand.

**Patrick:** Just in terms of your retail strategy, can you tell us a bit more about where in the North Island you've gained your customers, and where in the South Island you've shed customers from? And how do you see that playing out in the next year?

**Paul:** Our largest growth has been around the Wellington region. We'd also be targeting the Waikato, but we are a national retailer and so we'll also be looking to grow in Auckland and surrounding area. The South Island: well clearly our largest customer base is in and around Christchurch, so naturally if we lost customers it would be mostly from that customer base.

**James:** James Weir. In net terms then, have you gained or lost customers over the past year? If so, how many?

**Paul:** In net terms, we're about flat.

**James:** Okay. And could I just go back to the question on retail pricing? In October we've got the GST increase as well. Can you give any indication of, is there a five to 10% increase coming along for your customers at that point? What sort of estimate can you give?

**Tim:** No, we haven't made any decisions on that James. We're certainly aware of the GST impact, so that's part of our thinking as well in terms of how we ultimately deal with it.

**James:** Is part of your thinking in that the competitive pressure, it's going to be difficult to push through a significant price rise on people, given how much churn there is? How much switching?

**Tim:** It is a fact there is a very different market to what it was a year ago; highly competitive, particularly in the markets that we aspire to be in. I mean almost weekly, prices are moving out there, so that's the environment we're operating in.

**James:** And just to clarify, what sort of incentives to retain or gain customers are you actually offering out there at the moment?

**Paul:** A variety of incentives in different parts of the country, so we take a regional approach and regional strategy. And that'll include payment discounts, short term price reductions, other normal industry incentives.

**Participant:** About the hedge market and the ASX, do you have any sense of when it might be liquid enough by your standards? You said something about it still being quite a long journey.

**Paul:** But we're probably judging best against what happened in Australia or Scandinavia being the sort of equivalent markets. Australia's been going now for, I think, nearly a

decade. And it's really taken till this point to grow to a size which is large enough to consider properly liquid. We would hope that it happens fast, and we'll do our bit to encourage that.

**Patrick:** Do you have any customers now for Arc smart meters outside of Meridian? Have you made sales?

**Tim:** I don't have the numbers, but I think we can get them. We can get them, but it's becoming quite significant in Christchurch. I think of the 120,000 meters in Christchurch, there's probably one of the retailers is probably enjoying the services of maybe eight to 10,000 of those meters. So there's significant churn. Other retailers in Christchurch are enjoying smart meter capability.

**Patrick:** But has Arc actually made sales to any other retailer anywhere, either in New Zealand or in the world?

**Tim:** I think not yet. But the meter stays in the customer premises, so as the customer churns, the new retailer gets access to the capability of those meters, so there's agreements in place that allow that to happen quite seamlessly.

**Patrick:** So I guess what I'm trying to get is a sense of whether the Arc smart\_metering technology is actually getting uptake anywhere outside of Meridian and its churning customers?

**Tim:** I think that's an unfolding story in this industry. There's several smart metering providers in New Zealand. I think Arc is very well placed. We haven't yet made significant sales outside our own retail business.

**Patrick:** There's been some speculation also that Meridian may prefer not to own Whirinaki. Can you comment on that?

**Tim:** That is a negotiation that's taking place, so I wouldn't comment on the speculation. We're simply working to achieve the outcome the government's looking for.

**Patrick:** So you're not saying that you do want to own it - or that you don't want to own it?

**Tim:** I'm not making any comment on that.

**Participant.** Right, okay.

**Gavin Evans:** Just on Whirinaki, I mean, if you did own it though, how might you use that asset differently? Because it's a pretty key asset but it's not ideally fuelled and it's not ideally located. But given the old reserve system is going to go, it could be run in quite different ways, couldn't it?

**Tim:** We've said that we'd keep all our options open on what we would do with Whirinaki if we owned it. It's highly unlikely it would stay where it is. But where we would use it is still subject to a view of whether you can get fuel, and where you might put it.

**Participant:** I don't know whether you're aware of this or not, but the way you've presented the accounts almost looks like you could say Meridian's a good wet year performer. Looking forward with the loss of Tekapo A and B, and more North Island virtual generation, how does that change the strategic settings, if you like, of the business model?

**Tim:** Sorry, the last bit. The settings?

**Participant:** Of the business model.

**Paul:** I don't think it changes the business model. It certainly changes what the ideal retail portfolio is. But the business model doesn't change. And I think, yes, we are a good wet year performer. We've improved the degree to which we are a good wet year performer, and I think we could also be characterised as a good average year performer going forward.

**James:** Tim, could I go back to your comments about West Wind. Are you still getting a large number of complaints about the sound, and what exactly are you still doing? I mean it's been many months since you've got the project underway. I've been told that there are questions about infrasound, if you're familiar with that term? Low level hum. What's the picture out there? And why aren't things sorted by now?

**Tim:** James, I believe we're making good progress with the Makara community. The level of so-called complaints is low, and it's pretty confined to the people that we know well. So we just continue to work through with them, trying to understand better what it is that still worries them. I commented on the quite significant improvement that we've been able to make in, if you like, the performance of the plant in terms of some of the tonal qualities. The infrasound is a phenomena that is referred to, but we don't see that it's a significant factor at West Wind, but I'm confident in time we'll work through. I think the fact that Mill Creek is out there as a near-term Environment Court appeal has probably heightened some of the issues in the minds of the people at Makara so we're working through that as well.

**Participant:** Has it reached a point where you just need to buy some of those people out, at Makara?

**Tim:** No, we haven't contemplated the need for that at all.

**Participant:** With respect to the Australian segment, over what period of time do you expect that to start to become profitable for you? And, looking out into the future, how much of Meridian's earnings do you expect proportionately to come from Australia?

**Paul:** We'd be looking to generate profits from that from an early stage. If you acquire a wind farm fully built, then that's going to be providing revenues from the start. Our recently announced joint venture with AGL will be providing profitable flows within two and a half years, I think it is. We would anticipate it being a reasonably significant portion, but still within cautious bounds. We are primarily a New Zealand business, and will remain primarily a New Zealand business.

**Participant:** Do you have a sense of proportion?

**Paul:** It would be, at maximum, looking at the sort of 10 to 15% of asset range.

**Participant:** Just on Australia. What sort of scale benefits do you get in having large projects in Australia and New Zealand at the same time? And will any of the deals that you've done in Australia have immediate benefits for projects for Central Wind or Hurunui, any of the next ones on the list?

**Tim:** It's very evident to us already, and I'd include USA in this story too, because the whole idea of partnering and learning in other jurisdictions, it does have a very supportive regulatory environment, and bringing the learnings back, is already very evident in the way we approach procurement. Our purchasing power, particularly when you start to imagine the possibilities with a 50/50 joint venture with a company like AGL, your purchasing power shifts very significantly. So we've seen already the learnings from our solar investment in USA, and the sort of contract structures, the power purchase agreements, the engineering procurement contract. The way other jurisdictions procure and form contracts are valuable learnings, so we translate that from USA into Australia and back through New Zealand. Some of those learnings, we're already applying in the small solar plant that we're undertaking in Tonga. Again, that's a strategy in action really, but we're already seeing strong benefits.

**James Weir:** Do you see solar power coming to New Zealand at some point?

**Tim:** Yes. I think some of that's probably in the six to 10 year, but again that's a conscious move by Meridian – it took us probably six years or more to become competent in wind. So the way we think about solar is that we can become competent faster by going off-shore and learning, and bringing that experience back. I don't know currently where it sits in the technologies, but it's probably six to 10 years out. Maybe sooner.

**James:** Is that predicated on an improvement, a dramatic drop in cost of solar panels and so on?

**Paul:** It is a technology which has seen a very significant cost curve reduction over time, and we would expect that to continue. It's showing every sign of continuing.

**Participant:** Because as it stands, it wouldn't make sense commercially, would it?

**Paul:** Not at the present time. No. But you have to learn how to deal with technologies before you get to the point when you're installing them.

**Participant:** Just thinking about the \$80 per megawatt hour figure that you featured there, and the fact that average prices this year are under \$50, and that presumably your wind and other options are all over \$100 per megawatt hour to justify themselves. Presumably you're in no great hurry to necessarily to build anything new at the moment?

**Paul:** The first thing to say is, I think suggesting that all of our wind and other options are over \$100 a megawatt hour is incorrect. So...

**Participant:** Where should I be pitching that number?

**Paul:** Well, I think lower than that. If there's a range - and it depends very much on the individual investment and opportunity - we certainly wouldn't be building our projects which were over \$100 a megawatt hour. And we see wind, I mean, there is a tranche of geothermal brown field options out there, but I mean if you looked at Contact's presentation the other day, they would recognise, as we think, that it's somewhat limited before you go straight into green field projects with lots of drilling costs involved. And therefore, our portfolio of options, which is a strong one, I think can make up a significant portion of the next 10 to 15 years of New Zealand energy need growth.

**Interview ENDS 49.40**