Transcript – Meridian Energy Half Year Result 9:30am – NZDT Wednesday 28 February 2024

Speakers:

+ Neal Barclay, CEO

+ Mike Roan, CFO

Neal Barclay

Kia ora koutou and welcome again to Meridian's interim results presentation for the half year ended 31 December 2023. I'm Neal Barclay, Meridian's Chief Executive and I'm joined by Mike Roan, our CFO.

I'll touch on some highlights for the last 6 months, handover to Mike to drill into the numbers and then I'll round out by covering progress against our strategic direction, along with some market and regulatory updates.

And we will have plenty of time for questions at the end.

I think the top line is performing well. The volume of energy sold was up 3% from the same period last year. For several years now we have been consistently improving our retail market share and lifting netbacks across all customer segments. Whilst EBITDAF between retail and wholesale can move around between years, our retail performance is ultimately fuelling the bottom-line performance and progressive growth in our dividend.

For the first time in many years, monthly demand numbers have a positive look to them. When we look through irrigation swings, which are a feature at this time of year, we do believe demand has lifted by around 1% over the last 6 months or so.

We are super pleased with progress on the electrification of process heat. The Fonterra and Open Country Dairy deals referred to on this page are sizable and we now have new demand under contract, or MOU, totalling 891 Gigawatt hours.

Operating costs have lifted, and inflationary pressure is certainly a factor, but some of our key growth initiatives are causing a sizable - and hopefully temporary - bubble in the cost line. Mike will break down our cost forecasts shortly.

This week we commissioned our 20th turbine of the 41 at Harapaki and we are on track to complete construction within the next 6 months. Progress has been exceptional of late and in stark contrast to year ago when we were in the thick of the Cyclone Gabrielle devastation. At that stage we were not even sure how, or when, we would be able to get turbine components to site.

The Ruakākā battery is also progressing well. And we've materially improved our near-term development pipeline through our Joint Venture with NZ Windfarms to repower the Te Rere Hau wind farm.

I'll provide some thoughts on the new coalition government's energy focus a bit later - suffice to say we think the policy direction is positive for the sector and ultimately for customers.

There are probably two issues causing us headaches right now, and transformers is one of them. Two of our seven Manapōuri transformers are on extended outages. They were both removed from service last year due to elevated gassing levels. These are relatively new transformers, being less than 10 years old, and they shouldn't be misbehaving. Finding the root cause of a transformer issue without destructive testing is notoriously difficult. But we think we have zeroed in on the issue with one of them, and we may be able to affect a fix on site. No guarantees at this point, but we're hopeful of having at least six units available this coming winter.

We have also written-off the faulty West Wind transformer and procured a replacement. There are long lead times on transformer deliveries, and unfortunately the reality is we probably won't have the wind farm up to full availability until early 2025.

The other issue is the situation with NZAS. For quite some time now, we've been in negotiations with Rio Tinto and NZAS to agree long term energy contracts beyond 2024. Those conversations have been constructive, but at this juncture we do not have agreements in place, and we are not able to provide any meaningful update or guidance on the likely eventual outcome. We understand this continued uncertainty is frustrating, most acutely for the smelter employees and the people of Southland, but I think all parties involved are working hard to get a resolution as soon as possible.

On a much more positive note, Meridian and NZAS have signed an additional new peak demand response agreement covering a 12-week period for this coming winter. The agreement will allow Meridian to require the smelter to reduce its consumption of electricity by up to 20 Megawatts, over four trading periods a day, and up to 20 trading periods over a fortnight. The entire industry is very focussed on ensuring we don't have any security of supply issues this winter and this agreement will certainly help reduce pressure on the electricity system over peak periods. This agreement is in addition to the larger demand response agreement signed in 2023, which allows Meridian to require NZAS to reduce its consumption of electricity by up to 50 Megawatts over a longer period of time. I believe these agreements are a sign of a more constructive relationship between the smelter, Meridian and the sector.

I'll now hand to Mike to talk to our financial result.

<u>Mike Roan</u>

Ngā mihi Neal, and kia ora everyone joining the call this morning.

As usual, I am going to talk to our financial statements for the next fifteen minutes or so.

And to kick things off I am going to talk about dividends. The lift in interim dividend shouldn't be a surprise. While we do not provide dividend guidance, we have said that we would use some of the proceeds from the Meridian Energy Australia sale to support dividend flow through 2024, or at least up to the point when Rio Tinto makes it clear what it intends to do at Tiwai. And we have been doing that, lifting the dividend.

Today is no different. What you see here is a lift in the interim ordinary dividend of 2.5% - from 6 cents per share to 6.15 cents per share. The dividend will be imputed at 80% and paid to shareholders on the 26th of March. We are also applying the dividend reinvestment plan to this interim dividend. But as we did for the final dividend payment last year, participants in that plan will not receive a discount to market for the shares purchased.

Now, for those who do choose to participate this year, you should also consider the fact that NZAS will need to make a decision to stay in, or exit, NZ this calendar year as part of your decision.

And before I leave Tiwai behind, the only thing I wanted to reinforce is that regardless of which way the decision lands, Meridian and the electricity sector will have certainty and that is incredibly valuable given the large investment decisions being made by many participants.

Pretty straightforward. So, onto EBITDAF. Headline EBITDAF lifted by 4% on the first half of last financial year. The graph to the right of this slide shows a fulsome breakdown of the drivers behind the lift, but to summarise, energy margin lifted faster than operating expenses. As I will explain shortly, the lift in energy margin is likely a durable outcome and one that we have focused on given our cost base is lifting.

I will break down energy margin in a minute, but before I do, the last bullet and the graph below that bullet deserve a little attention.

The second half of this financial year started with good inflows. Yep, you heard that correctly, good inflows. I know that is surprising as the last time we had above average inflows in January was 2019. Anyway, it had become increasingly dry in the SI hydro catchments in the lead up to Christmas but in mid-Jan the heavens opened. Now that doesn't mean that we are set for the year, but it does mean that the business has a decent shot at a strong second half result.

Roll forward to today and it has got a bit dry again so the wholesale team has rightly cautioned me not to 'count my chickens' and I would do the same with investors, but it is nice to be in the position that we are... particularly as during the last three interim announcements I have had to pour cold water on second half expectations. And the team is off to a good start with the January operating report recording the strongest January performance the business has ever seen.

If I jump to the graph at the bottom of the slide, as you would expect, operating cashflows lifted alongside EBITDAF. And at year end I will switch my commentary to the cashflow statement a little more directly, given the changes made to the Income statement last August.

The inclusion of unrealized derivatives in that statement complicate investors' line of sight (in my view), whereas there's nothing complicated about the cashflow statement: investors get to see operating, investing and financing cashflows directly. More on that then.

Right, energy margin. The summary is that Energy Margin lifted by $31m on the prior comparable period. And within that result, you can see that Retail fixed price sales revenue lifted by $70m, while financial contracts supporting the wider portfolio also lifted by $54m.

To be clear, we do not enter into financial contracts to make money in their own right. They are entered into to support the wider portfolio – some periods they will make money, some they will not. But they do provide balance and stability to energy margin delivery.

Now this is different to retail sales that are put on specifically to lift revenue beyond what would have been possible in wholesale markets. And the $70m lift in sales revenue you see here is as impressive as it is durable. It was a bit inconvenient that spot market prices took away some of the gain this year, but that will not be the case every year.

Now, I want to move to customers. You can see from this slide that the $70m lift in Retail sales revenue was driven by customers once again switching to Meridian (as evidenced by increasing sales volumes) and increases in price.

Overall, customer sales volumes grew by 136 GWh when compared to the first half of the last financial year. That volume growth continues to slow as the team pushes up against portfolio limits, but it remains clear that products and services offered by the retail team continue to hit the mark.

And given this ongoing success, we have asked our retail team to grow the range of products it offers. At the interim result last year I mentioned demand response from large industrial customers, and I referred to demand response from residential, small business and corporate customers being just around the corner.

I noted that we intended on buying these services from customers in the coming years. I will talk to this a little more when I get to costs but simply put, we've decided that we need to begin investing in this proposition. There is a bit of water to flow under the bridge, but the role of electricity consumers is changing and we want to be a big part of that change.

Production volumes were 266GWh lower than in the first half of the previous financial year. As noted on this slide, this was largely because inflows were 5% lower than average, whereas in the comparable period they were 14% above. Lower production volumes were offset by wholesale prices that were 150% higher than in the six months to December 2022. And while it may not be as obvious from this slide alone, when you compare first-half performance of this year to last, the large differences between periods provide you with a glimpse of a portfolio in action. Last year there was a lot of water but with low prices, this year there wasn't as much water but wholesale prices were higher. When you think about the energy margin graph that we showed you a couple of slides ago, you can see that these two elements tend to balance each other out (unless hydro storage is at the extremes). So, if you want to durably improve portfolio performance, you need to see lifts in retail performance. And that was demonstrated this year.

Now in January, the average generation spot price lifted to $188/MWh on similar levels of generation production to the same month last year. So, we had higher prices and strong generation volumes. Hence the stellar January result.

As usual, and before moving off this slide, I also want to provide an update on volumes traded on the ASX over the past 12 months. This market has become increasingly important to us, and others, as a mechanism to manage risk.

While we haven't shown a table here that captures ASX trading volumes, over the past 12 months they continue to represent more than two times the annual physical electricity consumption in New Zealand. So, there is plenty of liquidity for us and others to manage risk at those sorts of levels.

So, all good.

As signalled last August, operating costs continue to lift. The graph at the bottom right provides detail on why that is:

- we continue to build capability in our development team and within our subsidiary Flux, so we committed an additional $4m to those two activities.
- and like all businesses, we need to attract and retain good people. So, we paid our people $3m more to ensure they were compensated competitively.

And we're starting to see inflation flow through a little more generally into areas like rates, wind generation components, contractors and ICT costs.
The key point I want to leave you with is that other than for retaining good people, we continue to put funding into growth activities – Flux and our development team. And our development pipeline continues to benefit from this, as Neal will talk to soon.

Now I know that what you really want me to talk about is the lift in operating cost guidance from last August. In August 2023 I noted an operating cost guidance range of $268 to $274m. Today, I am lifting that guidance to $276m to $282m.
There are two reasons for this.

First, when I talked to you in August we did not have the Te Rere Hau development on the books. Second, we had not agreed internally that we needed to grow Retail product offerings. We have now confirmed both and have allocated $5.5m to the Retail team to focus on technology-led Retail offerings that will integrate home, small business and C&I solar, battery and EVs into its product offerings. We will unpack that focus properly at an investor day that we are tentatively scheduling for May assuming NZAS has made a decision by then.

At the same time, Te Rere Hau development costs, that we would capitalize if we were the sole owner/developer will be expensed. And the same will happen with Southern Green Hydrogen. The best estimate I have for now for both is $4.1m this financial year.

It is important to note that we will be re-imbursed for half of Te Rere Hau costs should it reach Final Investment Decision or FID and entirely for Southern Green Hydrogen, but those re-imbursements flow through 'Other Income', so matching them directly to costs can be difficult.

Now for capex: At the start of the year I suggested we might spend between $420m and $445m. That is looking more like $345m to $370m today. The primary reason for this change is that the Ruakākā solar farm has been pushed to FY25, given consenting delays. To a smaller extent, the fall also reflects that we have not purchased land to support solar developments, rather the team has been able to enter into royalty arrangements with landowners.

There is also a bit of minutiae like Southern Green Hydrogen costs that were initially captured in the capex forecast but will be expensed. I also want to point out the generation team total cash costs here. We have lifted this to $95-100m given the Manapouri transformers have caused us some grief and that was unexpected. Given the lift in generation costs are largely capital related, we have lifted the SIB capex forecast to $70-75m for the same reason, but time will tell how both these elements play out.

As I have said any number of times, Net Profit After Tax moves around as a result of unrealised fair value movements in electricity and interest rate derivatives. So, until you strip those items out, it has limited value as a measure of operational performance in my view. But we show it here as it is a GAAP measure. We also provide a non-GAAP measure, underlying net profit after tax, in an effort to remove the effect of unrealized derivatives. That measure was lower than the prior comparable period, even as EBITDAF and operating cashflows lifted, which is interesting as typically movements in EBITDAF, operating cashflows and underlying net profit after tax are aligned. Yet in this instance underlying net profit after tax fell as depreciation and amortisation was $20m higher than last year driven by an increase in generation asset values of $1.1b.

Actually, there is one more interesting element on this slide tucked away in the bullets. We received a $9m windfall following a protracted stamp duty disagreement with the Australian tax office.

Jason Woolley and his legal team were resolute that we should chase that issue as we exited Australia and the fact we received cash, signals they had a point – thanks Australian taxpayers and thanks to the Meridian legal team, that closes the latest chapter on Australia.

A couple of things to note on this one:

- the value of generation assets did not change.
- the balance sheet remains in a healthy state, with the net debt to EBITDAF ratio sitting at 1.3x at the end of December.

- all going well, we will move into a new Wellington office at the Old Bank Arcade in April. This follows two years of temporary accommodation for Meridian's Wellington team. That isn't actually on the slide, but is relevant to staff and investors who might visit.
- And, as announced this morning, we are considering a Green Retail Bond issue in the coming weeks that will replace an expiring Green Bond while supporting growth.

Look out for confirmation of that Green Bond on the 11th of March.

To summarise all of that - the operating business continues to deliver strong results. And when you add in progress growing the business, it felt like a superb six months.

Ka hoatu te rakau ki a Neal
mo mātou tikanga,
mo matou whainga,
mo ta matou rautaki,
me a matou hua
ah me-ake nei.

I will now hand back to Neal so he can shine a torch on growth more directly, the regulatory environment and other elements that drive our strategic ambition and influence performance over time.

<u>Neal Barclay</u>

Thanks Mike, I'll now round out a review of the business.

As I mentioned at the outset, the success of our retail business has powered the company's earnings growth for at least the last 5 years. I believe this has been underpinned by a winning culture, a strong service proposition, competitive pricing, and a standout brand. But the competitive landscape and opportunities for growth are evolving rapidly, fuelled by technology and an imperative to decarbonise our economy.

The only credible way New Zealand can achieve its zero carbon aspirations is by electrifying everything that moves, spins and burns fossil fuels. So, to remain relevant and successful as a retailer of energy, we must deliver greater value to customers through energy solutions that support the adoption of EVs and the electrification of in home and business energy consumption.

Accordingly, we have stood up a new energy solutions team within our retail business and they are tasked with delivering cleaner, cheaper energy to customers. As Mike pointed out there is a cost to this investment, but we do clearly see it as an investment and again, you'll hear more about our next generation retails plans at our next investor day.

We are making better progress supporting the electrification of process heat than we originally expected. The target we set in 2021 was 600 Gigawatt hours by 2025 and today we have 891 Gigawatts - either contracted or under MOU and likely to be commissioned around that timeframe. The most recent partnerships with Open Country Dairy and Fonterra will remove around 90,000 tonnes of CO_2 from the atmosphere each year. This is the equivalent of permanently removing 40,000 cars off New Zealand roads. And there is plenty more in the pipeline, as well as further value-add opportunities in demand response.

On the construction front, we have now commissioned close to half of the 41 Harapaki wind turbines and I expect we will come inside both the September full power target date and the capital envelope.

Our Harapaki Team have really done a remarkable job given the serious challenges they have had to deal with.

We've made steady progress at our Ruakākā battery site. The civil works and balance of plant construction activities are taking a little longer than anticipated. This is our first utility scale battery, we have learned a lot, and it will take the balance of this calendar year to complete the project.

Pleasingly, the first batch of our battery containers has now arrived at Northport, and so has the switching gear. You always worry about procurement lead times; however, these are landing as we hoped.

The JV with NZ Windfarms to repower Te Rere Hau is an exciting opportunity. The site has an exceptional wind resource with expected capacity factors of around 50%. Installation of up to 39 modern, three-blade turbines by the end of 2027 should increase the annual electricity production to around 750 Gigawatt hours - that's at least seven times more than the farm produces today. Meridian will have a 50% share of the redeveloped wind farm and 100% of the offtake agreement.

We now have consent applications in play for both the 300-Gigawatt hour Mt Munro wind farm and the 225-Gigawatt hour Ruakākā solar development. I'll share some more thoughts on the RMA consenting process shortly - it's fair to say these things never happen as quickly as you hope.

The most significant consenting job on our books is the application to reconsent the Waitaki Power Scheme for the next 35 years. The scheme accounts for around 18% of Aotearoa's electricity and, more importantly, around 67% of the country's average hydro storage, so it is clearly nationally significant. In support of the application, Meridian and Genesis have agreed a range of mitigation agreements with most affected and interested parties. Those agreements will improve environmental and cultural outcomes within the catchment for the next 35 years, whilst supporting the flexibility of the scheme. The new consents, if granted, are due to be in place by April 2025.

And with a view to the longer term, we entered into an MoU with Europe-based Parkwind to the explore offshore wind potential in New Zealand. Depending on the outcome of the joint exploration, we may decide to work towards a feasibility permit.

There's no doubt new generation capital costs have escalated in the short term and the domestic part of the overall cost increases may stick around. Compared to our most recent build at Harapaki, we are seeing wind turbine components costing around 15 to 20% more today. But at the same time, we are seeing solar panel costs falling - currently around 25% lower than pre-Covid levels - or about half of what they were mid-2022. These are New Zealand dollar comparisons, so currency changes are part of the equation. The in-house Meridian view is still an expectation of a downward trend in real costs over time as technology and scale efficiencies improve. And in that context, we also still see quality projects still being viable now.

As you would expect our development pipeline is evolving. The most salient point in the last few months has been the introduction of Te Rere Hau and our progress on consent preparation work for a large-scale Taranaki wind option.

As Mike mentioned earlier our balance sheet has significant capacity to support continued investment in our development pipeline. The next two slides summarise key policy positions and shifts from the new coalition government.

My summation of the Government direction is they have reaffirmed the importance of renewable energy and their commitment to electrification as part of New Zealand's net zero by 2050 target.

But, at a principled level, Government want to rely on the ETS to deliver price signals that incentivise investment in green technology, and they want to avoid specific policy decisions that attempt to pick winners. Hence their decisions to cease work on Lake Onslow, repeal the ban on offshore oil and gas exploration, withdraw the GIDI funding and wind up the clean car discount scheme.

It is kind of hard to argue against the economic purism of this approach and so I won't. And net / net I think the policy shifts are positive. Lake Onslow looked like a very expensive and risky option to manage dry year risk. It would also have had a significant dampening effect on other smaller, but cumulatively more efficient and timely solutions. And most market participants and observers understand that gas must remain a feature of this country's economy for a while yet, and further investment in gas infrastructure is critical to support the transition to a more renewable electricity system.

I suspect we will see a slowdown in momentum with both EV uptake and process heat conversions. However, I don't think that will be material to the long term, as the relative economics of electrification continue and improve against fossil fuel alternatives. In short, nothing in the Government's energy direction has caused us to materially shift our medium-to-long term view of demand growth or wholesale electricity price forecasts.

Potentially very positive is the government's intention to introduce new legislation to streamline consenting of regionally and nationally significant projects. This proposed legislation will be introduced to Select Committee in March and will include a schedule of projects that will be referred to an expert panel for decision making. Something certainly needs to change here. The onus must remain on developers to bring all affected people with them and to mitigate adverse effects on communities and the environment. But in Meridian's experience, the current Resource Management regime is getting progressively less efficient and more difficult to reach sensible decisions. For example, the Mt Munro wind farm is set in farmland with no natural landscape values, and yet on current course and speed, it will take Meridian longer to consent it than it will take to build it. So, the proposed reform is most welcome.

Lastly, its pleasing to see hydrogen getting prominence in the policy mix. We have high conviction in the versatility and economic opportunity this future fuel offers New Zealand. Transpower has submitted its next charging period proposal for April 2025 to March 2030. This proposal is far from finalised, and the Commerce Commission's final determination isn't due until late this year. However, as the graph highlights, cost increases could be significant. A key feature of the current WACC based regulatory return model, is that it heightens the cost imposition on end consumers during times of higher interest rates and Transpower's WACC is driving much of the proposed cost increases.

Even more materially, Retailers are expecting significant cost increases from distribution networks. We will learn more from the Commerce Commission later this year on where distribution costs are likely to go in the next regulatory period.

We have been dealing with NZAS uncertainty, it seems like, forever. So, as you would expect, we have continued to work hard on implementing the mitigation plan we developed when NZAS terminated their current contract in 2020. It is worth emphasising that many aspects of this plan are now embedded in our BAU operations and will continue even in an NZAS 'stays' scenario.

Most of the initiatives are looking good, albeit Southern Green Hydrogen, has certainly taken longer to conclude the security holder agreement than we expected. This has proved to be a complex process but I'm hopeful we'll reach that milestone in the next couple of months. All up, if NZAS do decide to close the smelter later this year, Meridian remains in good shape.

So, to round out or story for the last 6 months.

The financial performance has been solid, supporting continued growth in our dividend.

Our construction programme is on track, and we've improved the quality of our development pipeline. With a strong balance sheet, we are well placed to keep investing in renewable energy solutions for our customers.

Obviously the NZAS uncertainty remains a frustration, but we are hopeful that we will know the future of the smelter - one way or another - within the next few months.

And to finish on a positive note, we are very optimistic about the Government's proposed new consenting pathway for nationally and regionally significant infrastructure projects. We believe it is likely that many renewable electricity developments will fit within the scope of this new legislation and that must help accelerate our potential build programme, lower costs, and ultimately improve New Zealand's odds of achieving zero carbon by 2050.

Thank you all, that concludes our presentation, and we can now move to questions. We'll take question firstly from those in the room with us here in Wellington.

Andrew Harvey-Green - Forsyth Barr

Hi, Andrew from Forsyth Barr. A couple of questions, firstly on the pipeline. It looks like the number of advance prospects for wind for has dropped quite a bit and solar has gone up. It seems to be a significant tilt towards solar away from wind – could you talk to that?

Neal: When we look at the long-term price pass for expected LOCs we are seeing a lower price ultimately for solar and certainly we think the inflection point is probably in the 2030s. We think solo could be the new one in New Zealand.

Andrew: And a follow on question from that is you're not too concerned about duck-curve considerations and things like that?

Neal: It could be a feature of the New Zealand market and we'll have to manage that carefully and we will see that evolve. But the difference with New Zealand is we will see that quite acutely in the markets eg in Australia we have the flexible hydro fleet that can adapt and flex around solar, intra day solar and intra-day wind as and when it occurs.

Andrew: Thank you, just a couple of questions, one around Opex and one around Capex. On Opex, are you using easing of inflationary pressures at this stage, is there more Opex pressures we can see in 2025?

Mike: Not seeing them ease in the increase of our numbers over the last few years. But you look generally to the economic conditions and inflation is slowing. Looking forward and having the same expectation from our business. I think on the Opex front, certainly the reserve bank which I'm sure will come out later today I'm sure, to support the news we're giving you this morning, continues to keep people focused then inflation should be under control.

Andrew: Last question is just on Capex and on 18 million that has been reduced, how much it shifting into FY2025 which is Ruakākā not buying land which I presume drops out completely

Mike: Yeah not buying land drops out completely. We will still have placeholders next year to make sure we have the option next year to buy land or enter into a landowner arrangement so that'll be captured in next years forecast, but that's around $15 million of the 80 that you mentioned, so it largely is the movement of Ruakākā.

Andrew: That is all from me, thank you.

Tim McQuarrie Asset Management: I have a question, you talked about obviously delays to projects that are coming through, hearing from other people as well, with bringing on renewable projects. Does it change the long-term in terms of bringing the projects forward knowing that it can be delayed in terms of getting it operational?

Neal: No, I don't think we have seen there is no massive change in our overall strategic direction in terms of the build programme. Probably be critical to decision that needs to be resolved is the NZAS stay or go, because it would either accelerating the build programme or delay it. Certainly the learnings we've got out of recent projects at Harapaki and Ruakākā BESS, plus the work that we are doing on Ruakākā solar, assuming that we can get the consent through we think we can get them delivered within a really prime time.

Mike: We're pushing our development team as they would know if they listen to the call, we're pushing them as hard as we can cos we've to keep up with the expected growth that will come from decarbonisation so they're feeling it, but as Neal has said we have the juncture with the smelter that we need to balance and manage. As I said, we will get certainty this year in relation to that.

Neal: Probably. Probably. (Laughter)

Mike: That would be disappointing. Yes, there is always that possibility. That will determine the acceleration and/or slow it. The consenting delays as Neal mentioned it is a new process that has been formed to help deal with some of the consenting issues that we talked to.

Neville Gluyas, Jarden

Three from me, the first one really you mentioned a couple of months as the timeframe you might expect an NZAS outcome, is there a reason for that?

Neal: I thought I said a few months actually.

Mike: You probably did. I probably have been wrong with the prediction I have made, so, a couple of months.

Neal: It's just we're closing in on the end of the year, they have got contractual requirements they need to meet and they need certainty on the workforce, so common sense would suggest it's got to be within the next few months.

Neville: We could all hope so.

Neal: We are not making the decisions. We can't really give a time frame around it.

Neville: The second question is around the evaluation uplift in this latest report. Is that it due to a higher long run price on the higher costs you are seeing for power stations, for the new ones? And if so, what is your revised broad views on what that looks like?

Mike: I do wonder as I was talking if I might confuse people a little bit in those comments. We didn't change the valuation in our asset base as part of the interim valuation for this year, we did see a lift in the last 12 months and we did increase the evaluation of -- valuation of the asset based by about 1.1b over that period. We haven't changed our underlying forecasts since I think it was October 2022 I want to say, somewhere around there but we are looking at it right now. Probably April somewhere, early indication, but it's only early indication as it might be a slight lift in the price range we provided for all the reasons. But we will unpack that bit more once we've got the real oil on it.

Neal: I think in the near term we are still seeing projects being strongly viable. We think that good wind is probably in $80-$85 range. And solar is in the $90-$100 range at the moment. That relationship will probably inverse as I said probably early to mid next decade.

Neville: Last one form me, I expect you've spoken to nearly about everyone in terms of the conversion certainly in the South Island maybe in the North, do have a view now of how much of the remaining heat conversion will go towards electricity vs biomass? So rough numbers there?

Neal: I think we will come back to you on that one. I don't think we have spoken to everyone. There are a lot of customers out there who have potential to electrify. But certainly, the ones we are speaking to, the strong emphasis is on electrification, the availability of a viable fuel source in terms of biomass in the South Island is still to be proven out.

Mike: There was a study that suggests about 4000 gigs of consumption, that might either electrify or move to wood mass. And there's about 50% might look like it will electrify. Maybe slightly less than that. I think those numbers are still about right.

Neville: Thank you. That's it for me.

Neal: Anyone else in the room? We can go to the lines I think.

>> Thank you, if you want to ask a question, please press star on your phone. You have a question from Grant Swanepoel from Jarden.

Grant: Good morning team. Sparkling result. First question. Your consideration of solar and wind is 95 to 100 or 80 to 85. That is unfirmed I assume and back in October 2022 you had 85 to 90 as your guidance on wholesale price over the longer term. Do we real inflate that to now for the starting point or will you go a notch above that? And can you align that with Contact who go to 110-120 if possible? That's my first question thanks.

Neal: That is unfirmed. That is just LOCE of new development specifically. As Mike said we are working through our price path views at the moment. We have signalled I think it is 80 to 90 or 85 to 90 in the past. There is probably some upward pressure based on the earlier analysis I have seen. We might be calling out 95 to 100. I'm not quite sure. We probably will provide more clarity on the Investor Day in May.

Grant: (Inaudible) inflation adjustment really

Neal: So reconciling Contact's views so they're a wee bit higher but I suspect we will be lower than their projections. But it is a competitive market. We all have views and what we have seen in the market, and our views on long-term trends in terms of technology improvements, scale efficiencies, long term trends suggest a sub- $100 average probably seems to be a reasonable assumption from our perspective.

Grant: Thank you. With the gigawatt hours confirmed, does that come on 25 to 26 and then add about 2- 2.5% on demand?

Mike: Yes, that is right.

Neal: That is gigawatt hours actual demand.

Grant: So it starts coming on from from calendar 25, I assume?

Neal: Some of it's already coming on Grant It'll come through the bulk of the rest of this year and into the 25 year. Most of the opportunities we are looking at, certainly the sizeable ones -- will be in place before the next calendar year.

Grant: And with the line cost increases going up materially from April next year, can we assume that you will continue to push mass-market ahead of that?

Neal: We will continue to price appropriately, given not only the competitive environment that we operate in, but also our cost structures. Typically retailers pass on those distribution cost increases, but we have to have a look at the energy component to see what we can do there. Ultimately we are trying to minimalise -- minimise the impact particularly on residential customers, but also business customers as we manage the transition. We take the long-term view of customer relationships and path -- price paths, when we think about price changes every year.

Grant: Thanks. On dividend, if there is Tiwai announcement ahead of the year and, can we continue to expect a lift in the dividend payout as we move into (inaudible) dividend payment?

Mike: I think I said it in my notes, we don't provide guidance on dividend, but what we have said previously and then what we've done, you can take something from it as well. We do expect to go back to the drawing board in relation to dividend and dividend formation once we have certainty on NZAS staying or leaving. I would say by year and, assuming the decision is made, you can expect us to come out with either confirmation of the existing policy or some changes in that space.

Grant: That's good to hear. Thanks. My final question, on Tiwai the latest deal of pushing your demand response of 70 MW, if a deal is struck and you talk about demand response in the deal, are you looking for more than 70 MW as a future type construct, or is 70 MW the number we should be thinking about? And your comment that (inaudible) may invest today, as long as a Tiwai deal has been struck. That implies internally you think something will happen before May, or my reading too much into it? Thanks.

Neal: You might be (Laughs). We are ever optimistic, but we think it would be more valuable to investors to spend a day working through the business, updating you on the strategic direction, if we had that level of certainty. If it is not made, it might mid-November. The first part of the question?

Mike: Demand response. The answer is simple. We encourage them and others to think about the demand response they can provide. As a country we are targeting zero carbon, we need to supply the needs that the energy system has with new products and services. So whether it is Rio or NZAS or anyone else, demand response will be an important part of the equation. I would expect that they can offer more than the 70 MW that we have captured today.

Grant: Thanks so much.

>> Your next question comes from Stephen Hudson with Macquarie Securities. Please go ahead.

Stephen: Hi Neal, hi Mike. Just a couple from me. Just on NZAS, just going to potline 4, NZAS talked about recruiting to get their workforce up to a position where they can reopen that potline. When they talked about it, they were 40 people short, can you give us a feel for what you are planning for there? Whether your working assumption is that potline 4 will reopen, post December 2024 period. And I have one other question.

Neal: We are not actively working with NZAS around the contract for potline 4. We do not have an expectation it will be fired up from 24 onwards. Not to say it won't, but it is not an active conversation we're working with them on.

Mike: Someone else not be working on that Steve and, and ultimately the physical configuration of the plant, the decisions are up to them. Whether they contract or not, if they get the people and aluminium prices are reasonable, they might decide to run it or not. But as Neal said, we are not actively engaged in a conversation on potline 4.

Steve: Thanks. And on the units, your understanding is in conjunction with the consultants will you review the contract for any reinstatement of both the units, are you aware of whether or not MBIE have reviewed any draft contracts to date?

Neal: No, we are not aware of exactly where that process is at, but we understand it will take place. I think it is MFE that will review that - they are the government ministry that have the a mandate, and it is the Minister of climate change who will take it to cabinet, if there is any change in government policy or direction around that.

Steve: Thank you. And coming back to the chestnut around long-term pricing, 2 questions. Your existing long term (inaudible) assumption is on a Tiwai phase. I just want to confirm that. And secondly, a provocative question, but are we going to see a doubling in the allowable WACC for lines companies next year? Which reminds us all we have been living in a world of artificially low discount rates for many years. Are you certain you have the number right against that backdrop? And you are not going to let projects go through to the keeper as a result of getting it wrong, potentially too low.

Neal: It's interesting. We periodically review past business cases and the performance of the existing wind farms that we have developed over the years. And in every single case, we have been materially out on our forward price path assumptions. Not materially out enough to actually hurt the economic outcome, they have all paid back quite well, but we have been wrong. So we will be wrong in terms of what we are projecting now, for sure. I think it is based on reasonable analysis, but it is always anchored on what we see today, and what we see today is not a necessarily a good guide of what will happen in the future. We will look at all projects, Stephen. And we will try very hard to get them over our internal hurdles, because we want to be part of the growth. We intend to be part of the growth in the sector, but we do have reasonably stringent hurdles, they have to be economic. I don't see us sending through any through to the keeper at the moment, but we will see how things play out over the next few years.

Stephen: That's useful. And just confirmation of the 80 - 90 range you've got, that is a Tiwai exit range.

Mike: It is reasonably independent, in that it's a long run price path. There are obvious immediate effects of a Tiwai exit but you will see a supply response. When we talk to that 80-90 dollar range, we mean medium to longer term, as opposed to the immediate effects. You effectively zero out the, what Tiwai does. In the longer term.

Neal: Actually, Stephen, just to add a bit of colour, when we look at a business case, we don't just intake our internal view of price paths, we take other views published and put a range of potential outcomes. We just acknowledge that we can't predict the future. We try and understand what the range of the future, potential outcomes could look like, and the context of whatever project we are reviewing. That gives us some confidence as to whether we are likely to get an economic outcome not.

Steve: Makes sense, thank you.

>> The next question comes from Cameron Parker with Craig Investment Partners. Please go ahead.

Cameron: Morning, thanks for the presentation. Just one question around your retail base in the North Island. You have got generation coming on with Harapaki, you have also got a battery, some others in the pipework up north. Just came to understand what sort of level of growth we can expect in your retail book, and where you think it will drive pricing both in the mass market, and what you are seeing in the C&I, really -- price arena really.

Mike: Competition drives pricing in all markets. Competition, residential markets is pretty strong. C&I is strong as well. It tends to follow ASX prices far more directly than residential pricing. The reality is, as we both talked to, we have a retail team that has shown time and time again that they can grow. And they will continue to grow in products and services, and then the number of customers we sell to. But we have also said that growth is limited to an extent by portfolio bounds, and so we have slowed the rate of that growth down, I think I said 136 GW hours of growth in the retail business over the last 6 months. They are champing at the bit to continue to grow, as we roll assets and contracts into our portfolio, that will support them. But hopefully that gave you a bit of colour.

Cameron: Yeah, that’s excellent, that's cool, thanks Mike.

>> There are no further phone questions.

Neal: OK, well thank you all for attending. Sorry about the stutter start beginning. We made a comment on it in the room here, whilst we might have lost the telecommunications feed, the lights did stay on. In our industry that's important. Thank you all, we will see you hopefully at the investor day, some of you, in May hopefully. And if not, at year end. See you, bye.