

## Contact's gas prices for power generation rise 25% in past year

**10 September 2009 - Contact Energy's gas costs per unit for power generation increased by 25% in the year to 30 June 2009, the company said in its report for the year.**

Contact said the average cost of gas used in generation increased from \$6.03 per gigajoule (GJ) to \$7.55 per GJ.

This increased cost, combined with loss of gas flexibility, placed a large burden on the business in a year in which wholesale electricity prices averaged \$56 per MWh.

There was a shift to stringent take-or-pay gas contracts and the removal of the New Plymouth power station from the company's portfolio.

During periods of high hydro inflows and low wholesale prices, this gas supply inflexibility constrained the company's ability to reduce higher-priced thermal generation.

Historically, under flexible low-cost legacy Maui gas contracts, Contact had been able to simply switch off its baseload gas-fired power stations when there was a high level of hydro generation, and use the gas later. Contact still retains further ongoing rights to other Maui gas.

The Ahuroa underground gas storage project and the 200 MW Stratford gas-fired peaking project in central Taranaki, both to come into operation in mid 2010, would restore some of this flexibility, Contact said.

Contact's thermal generation for the year to June 2009 was 4,094 GWh, 1,257 GWh lower than the financial year 2008. This was largely due to a scheduled six week outage at Contact's Otahuhu B gas-fired power station and additional outages of both TCC and Otahuhu B for preventative maintenance.

Most new generation options are higher cost than current generation, so electricity prices will need to rise to meet those costs. Tariff increases, possibly higher than inflation, would be needed well into the next decade to support new generation investment.

Contact's gas revenue from wholesale customers reduced by \$24.6 million to \$72.8 million in the period ended 30 June 2009.

Retail gas revenue was slightly lower at \$82.2 million, compared with \$84.1 million in the financial year ended 30 June 2008. The sales volume was 4% lower at 3.9 PJ compared with 4.1 PJ in the financial year ended 30 June 2008.

Sources: Contact Energy and Lindsay Clark

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