

Opportunities for Maori in the Business of Sustainable Energy

A presentation by Tania Simpson, Director, Mighty River Power

Maori and the Business of Sustainable Energy Conference


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Maori Economic Development – Alive and Well!

- NZIER Maori Economic Development - Successful Clusters
 - FOMA
 - Iwi Based Economic Summits
 - Waitangi Claims Settlements
 - Fisheries Settlement
 - Hui Taumata
- Move away from dependence to independence
- Successful emergence of Maori economy
- Mighty River Power contribution

Mighty River Power – Who are we?

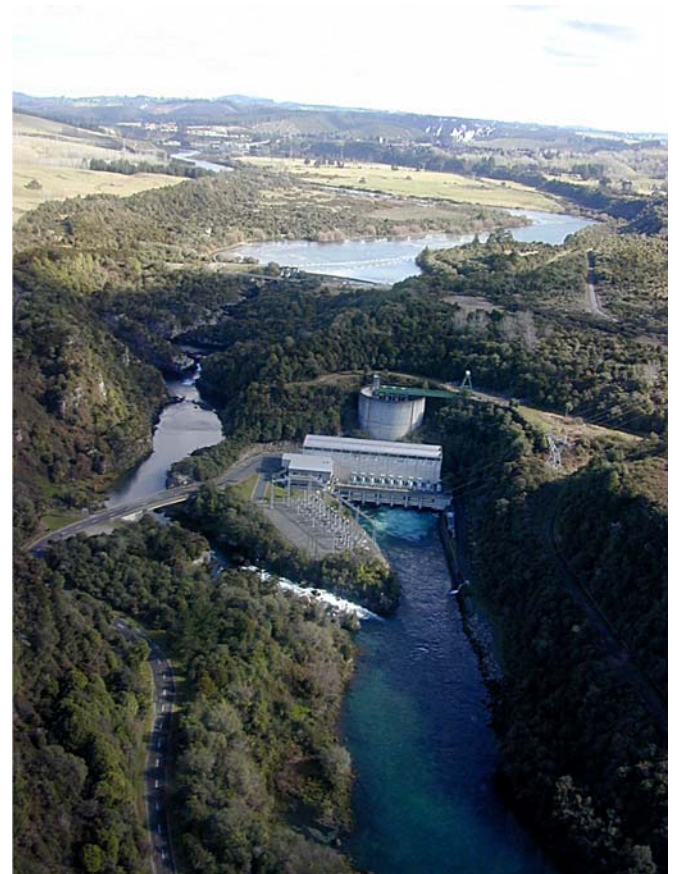
- Integrated Energy company - generate and sells electricity - Mercury Energy (is our Retail brand) 
- Strong financial profile; worth over \$2 billion; annual profits over \$100million
- Strong cash flow (over \$150m p.a.) to fund development
- Integrated business provides superior ability to manage market uncertainties and operational risks
 - Not subjecty to spot market volatility
 - Electricity sold to direct end users

Mighty River Power – Who are we

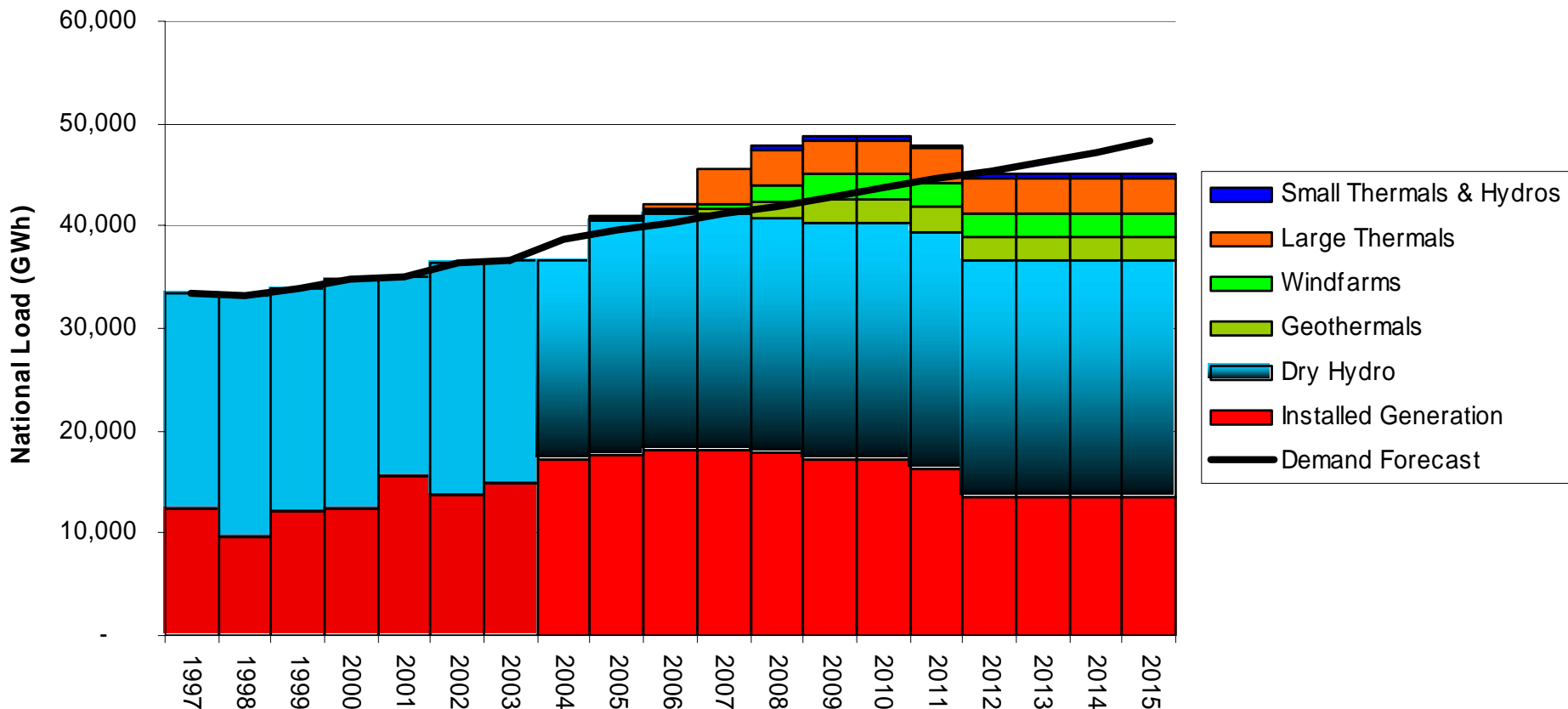
- Preference for renewables development (geothermal, hydro, wind)
- Existing Renewables approx 70% of Portfolio
- Significant investment in geothermal business
- Significant investment in wind generation
- Hydro supplemented by geothermal combined cycle gas & methane

What is Sustainable Development?

- Energy supply is a very long term business (over 100 years)
- Reliable fuel supply is vital in renewables
- Sustainability is commercially essential for energy developments
- Company commitment to sustainable development



Future of the Energy Sector



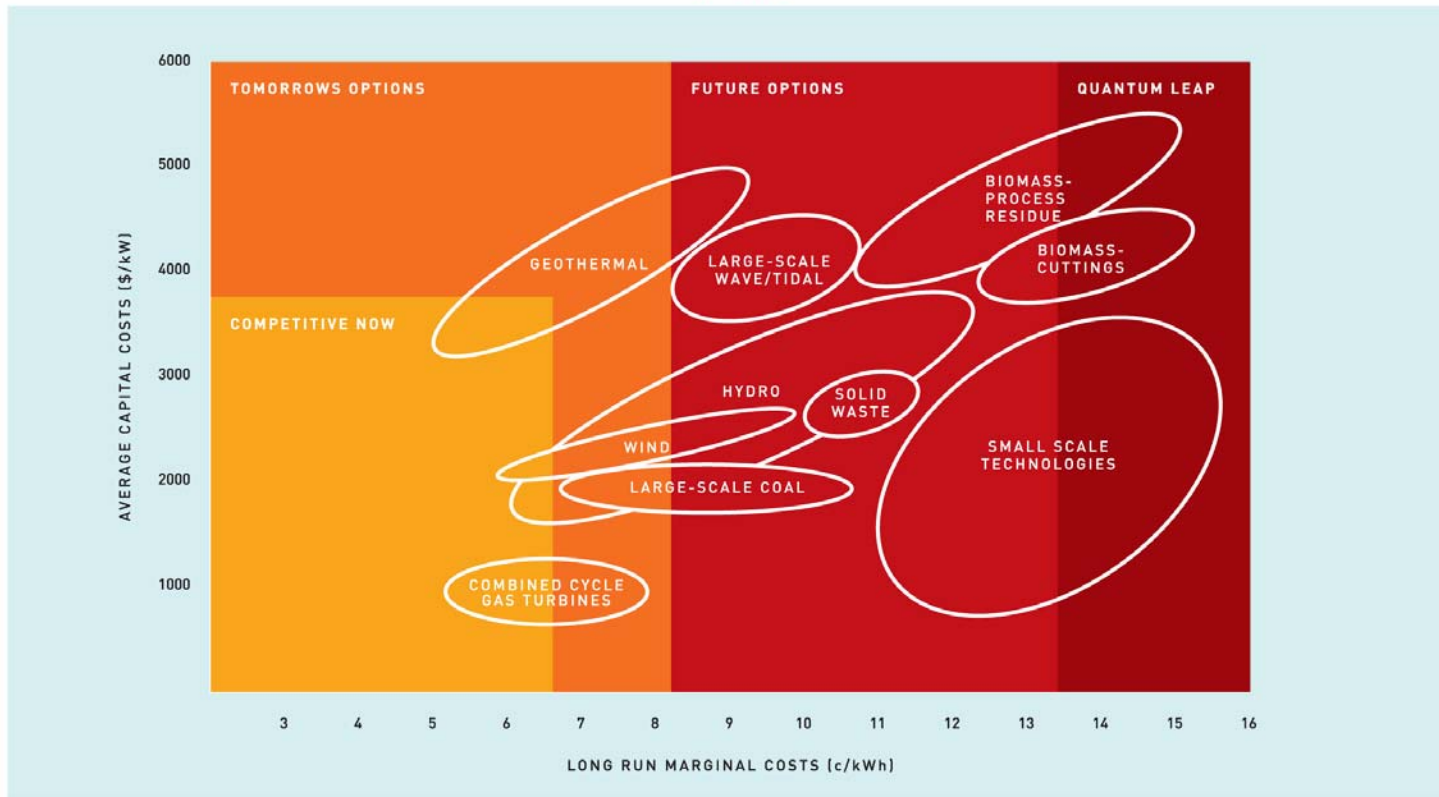
- Energy demand increasing – 2%
- Gas - 20% generating capacity loss 2010
- Generating capacity (constant to low increase)

Future of the Energy Sector - An Opportunity

- Electricity price rise to support new investment
- New generation where from?
- Geothermal, wind, small scale hydro – good opportunity
- Investing in Electricity Industry - good opportunity!

Comparative Economics (without carbon tax)

Commercial Investment Point for New Zealand Electricity Supply



➔ Economics of technologies differ widely

What are the Opportunities?

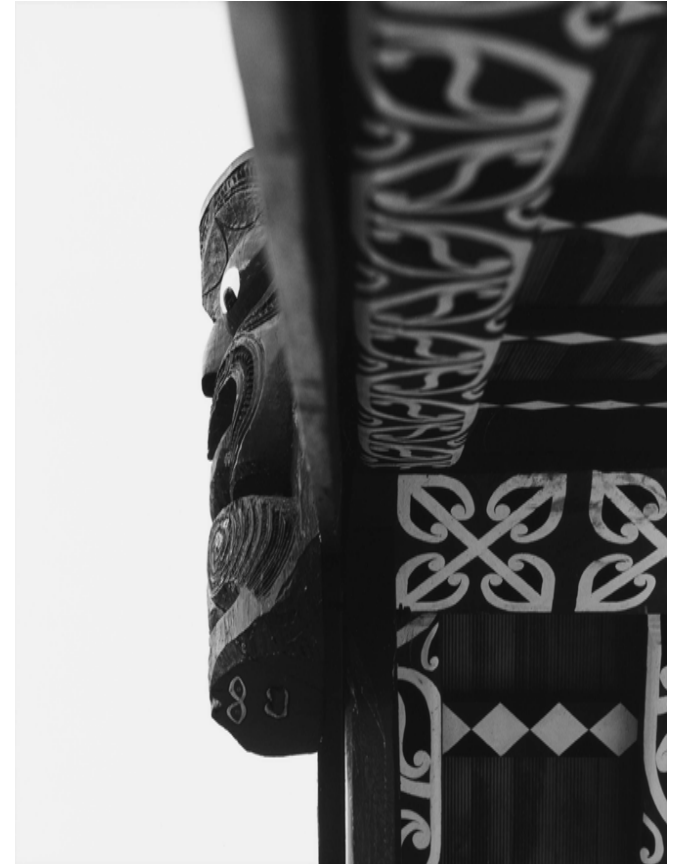
- Maori control access to a number of sustainable energy sources.
 - Geothermal – Maori Land Owners, through land ownership above reservoirs, control access to some or all of many geothermal reservoirs. eg. Mokai, Rotokawa, Tikitere, Kawerau, etc.
 - Wind – Maori Land Owners own land which may make economically viable wind farms.
 - Hydro – Maori Land Owners own land required to construct hydro scheme.
- Controlling access alone does not create wealth!

How Can You Benefit from these Positions?

- Strategic direction for Trusts (hapu or iwi)
- Understand the market environment
- Choose your partner well

Some Ideas to Create Wealth

- Financial benefits
 - Income interest (requires less risk)
 - Ownership interest (requires risk capital); or
- Indirect benefits
 - Education
 - Trade skills, apprenticeship programmes
 - Work placements
- Building Wealth - Long Term Involvement
 - Building Maori capability
 - Achieving long-term goals



Cascade Uses for Geothermal

- Business opportunities using residual heat from the geothermal plant
 - Prawn farms
 - Hot houses
 - Aquaculture (fish farming)
- Spontaneous benefits
- There are numerous opportunities to create wealth



What does this mean for your Organisations

- Be prepared to seize development opportunities
- What are you prepared to trade?
 - Decide appropriate level of involvement & risk
 - Ownership/control = high entry cost & high risk – possible with partnership
 - Royalties (not ownership) = financial benefit & low risk
- Balancing development and risk with Rangatiratanga
- Choose your partner well

Choose Your Partner Well

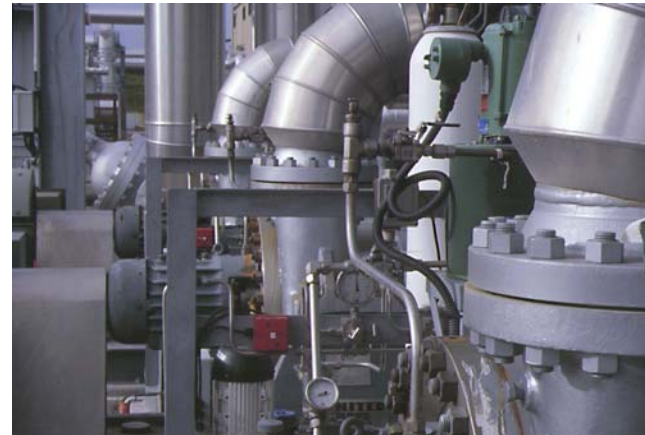
- Profile of an Ideal Partner
 - Add skills, expertise, experience to improve value and/or reduce risk
 - Provides Complementarity
 - Beware - Competition
 - Long Term Commitment to your Region
 - Delivers the most benefits over the longest time

A Case Study of Mighty River Power's Involvement in Geothermal



Mokai – Tuaropaki Power Company

- 75% Tuaropaki Trust -
25% Mighty River Power
- 100MW geothermal
power station circa
\$250m business
- 6th largest in country
- Board of Directors (3
Trust, 1 Mighty River
Power)

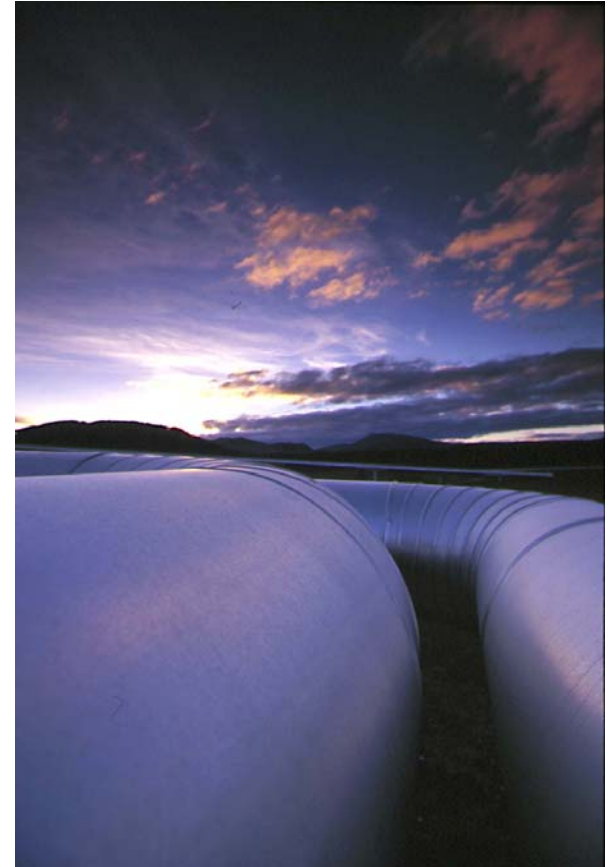


Critical Success Elements

- Critical success elements = importing experience and expertise to TPC
 - Tuaropaki Consents
 - Fuel Supply and Resource
 - Stretton & Co Administration
 - Management and
 - Mighty River Power
 - Generation operations
 - Reservoir management
 - Electricity Sales and Marketing
 - Created a strong commercial structure

Outcomes at Mokai

- A successful geothermal power company
- Form Partnership
- Provides certainty (plant reliability, fuel certainty, output price and volume)
- Getting good returns on capital
- Providing strong dividends to its owners
- Best of both worlds!



What are the Partnership Ingredients at Mokai?

- Strategic alignment by the two shareholders
- Commercial focus by the Board
- Management of risks to ensure owners' returns
- Fuel supply, electricity revenues (during outages), operations and management services
- Very stable business with growth potential
- A win/win

Are all Situations the Same?

- No
- Mokai was an already proven resource with significant scale
- Initial development was very low cost because of good scale, and lower market risks (pre-energy market reform)
- Equity is not always appropriate
- Well considered decisions + robust plans = Risk Success!

What does Mighty River Power have to Offer?

- Long term relationship
- Understands Maori Trust dynamic
- Synergies for partner – not a competitor
- Interest in the wider picture
- Strong financials and good track record of performance
- Integrated business
- Market and operating experience



TAINUI

TUWHARETOA MAORI TRUST BOARD



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