

Media Release

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Greater electricity capacity needed to support growth

Local electricity generation and lines network company, Top Energy partnered with Bank of New Zealand last week to present issues of general interest to a meeting of invited guests. Top Energy outlined issues facing the Far North's electricity supply capacity and security. The bank presented its assessment of the present economic situation and what the future might hold.

Built over previous decades, particularly during the 1960s and 1970s, the Far North's electricity network capacity has recently experienced significant increases in demand, so that additional capacity is now required to be constructed. For electricity supply growth to continue, there is a pressing need to invest substantially in the network, to both expand the volume of power which it can handle and to improve the system's reliability. This investment will not only ensure sufficient new capacity for local residents but will also encourage new businesses to the region.

Even after allowing for the fact that the Far North is remote, sparsely populated and that the network is at times crowded by extensive and fast growing vegetation, Top Energy's electricity supply reliability has deteriorated, when compared with other similar lines networks companies.

In large part, recent outage performance has been the result of severe weather events during the year. Three 1-in-50 year weather events occurring in a single year suggest that we are facing significant changes in weather patterns, but it has also highlighted the Far North's network vulnerability, capacity and supply reliability issues.

According to Top Energy CEO, Russell Shaw, unplanned outages are mostly caused by trees and debris being blown into lines during severe weather events. The other significant cause is lightning strikes. But he also admits the company's network has some major design or configuration shortcomings, when it comes to capacity and reliability of supply.

"Power consumers on our network have experienced some of the highest levels of power disruption, when compared with similar networks in other regions. We also have some long-suffering power consumers who are inconvenienced with multiple outages", says Shaw.

The company has already embarked on the first stages of its improved reliability programme, part of which involved a \$4.4 million investment in automation equipment to isolate faults and a \$2 million investment to reduce the effects of lightning strikes. The company is also investing \$9 million in a vegetation control programme, over the next 3 years.

Says, Shaw, "Since stage 1 of our reliability programme was completed back in March this year, the number of outages has been cut by around 60%, so it's pretty clear that investment in the network will produce real returns. Of course we still have a huge amount of work to do".

"On the transmission side, 10,500 power consumers in Kaitaia rely on a single Transpower feeder and ageing transformers. We have similar transformer concerns at the Kaikohe point of supply, affecting up to 15,000 consumers. On the lines distribution side, we have major capacity issues in Waipapa, Moerewa and Kawakawa, which is restricting growth and new connections in Kerikeri and the Bay of Islands. And we still have around 7,650 power consumers in Pukenui, Taipa, Russell and Omanaia, who rely on single circuits, with no alternative supply lines", he said.

Shaw says that over the next 10 years, Top Energy will need to increase network investment by about \$124 million, over and above the historic level of around \$60m for a similar period.

Key projects planned include the construction of a new dual circuit, 33kV High Capacity Line between Kaikohe and Waipapa (which will have an eventual upgrade to 110kV planned), the construction of a new substation near Wiroa Road in Kerikeri and 7 new 33kV Substations in Kerikeri, Russell, Purerua, Kaeo, Moerewa, Awanui and near Bulls Gorge. The construction of new 33kV High Capacity lines between Waipapa, Kaeo, Kerikeri, Haruru and Taipa are also planned.

Said Top Energy Chairman, Paul Byrnes, "While lines charge increases must be expected, to ensure that some minimum level of return is earned on our network assets, we want to ensure any increases deliver better reliability than currently being achieved and that overall performance is in line with our peer group of similar rural lines businesses."

Craig Ebert, Senior Economist with BNZ Capital, presented his thoughts on the economy and financial markets. Having in early 2008 forecast a recession, and estimating property prices were 30% above long-term trends, BNZ has, since early this year, been forecasting an economic recovery. However, it's likely to be a very bumpy one, according to Ebert. The world financial system, while stabilising, is very battered and bruised, with barely 50% of the so called "toxic loans" properly accounted for. In the end, damaged balance sheets – whether personal, business, or government – will need a lot of repairing before a full recovery can transpire.

On property, Ebert acknowledged the stability emerging in the local housing market, including, now, in prices. However, the real test, he says, will come when housing supply factors – whether listings or newly constructed homes – pick up from recent lows and the demand drivers of relatively low interest rates and collapsing emigration of New Zealanders eventually reverse. As Ebert points out, even with the recent correction, NZ home prices remain very high in relation to incomes, and certainly look extreme by international standards. So it would be pushing it to presume any sustained up-leg in home prices from here, he believes.

Ebert also noted the tourism markets have importantly been held up by Australian travellers, especially for this ski season, offsetting marked declines from most long-haul markets. There are signs that Asian markets might be recovering a bit. Nonetheless, it is likely to remain a difficult next six months for the tourism industry, in general, he believes.

Top Energy CEO, Russell Shaw commented that the evening had been well received by those attending, although the future direction of the Northland economy continued to be uncertain. He assured guests that Top Energy's need to invest significant sums in the Far North's electricity infrastructure was something the company was working actively on. He believed the company's Contracting Services division was not, however, expecting property developments to revitalise in the immediate future and when sections in the region begin selling again it will still take some time before Top Energy sees any benefit from this. END.

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