



Interislander and Terminals Replacement

9 June 2021



The Interislander is important for New Zealand

- Strategic national asset, owned and operated by New Zealand.
- State Highway 1 and Main Trunk Railway between North Island and South Island.
- Essential for freight flows and connecting our people together.

The Interislander operates **3,800** Services a year

Transporting **\$14b** worth of freight

About **850,000** passengers
And **250,000** cars



The ships are old and costly to maintain

New Interislander ferries are needed to:

- Grow in line with the market
- Increase profitability
- Meet maritime safety requirements
- Provide efficient, safe workplaces
- Avoid prohibitive maintenance and repairs
- Reduce the high carbon emissions

Above all, we do not want a repeat Arahura situation with forced decommissioning.



ARATERE meaning quickpath

27

in 2025



KAIARAHĪ meaning leadership or lead/guardian or guard

29

in 2025



KAITAKI meaning challenger

27

in 2025



The port infrastructure is obsolete and the ports want to renew

- Port infrastructure in Wellington and Picton developed in 1960s, now obsolete.
- Needs replacing and upgrading, regardless of new ferries.
- The bulk of the cost is independent of the size of the ships.
- We're renewing these ports in partnership with CentrePort and Port Marlborough



\$1.450b total investment

Buys:

Two Large Rail-Enabled Ferries

[38]

Resilient and Operational Ports

[38]

Project Costs

[38]

Enables:

40%
reduced emissions

Secure
New Zealand supply chains

Jobs
in Wellington and Picton

Freight
growth and demand met

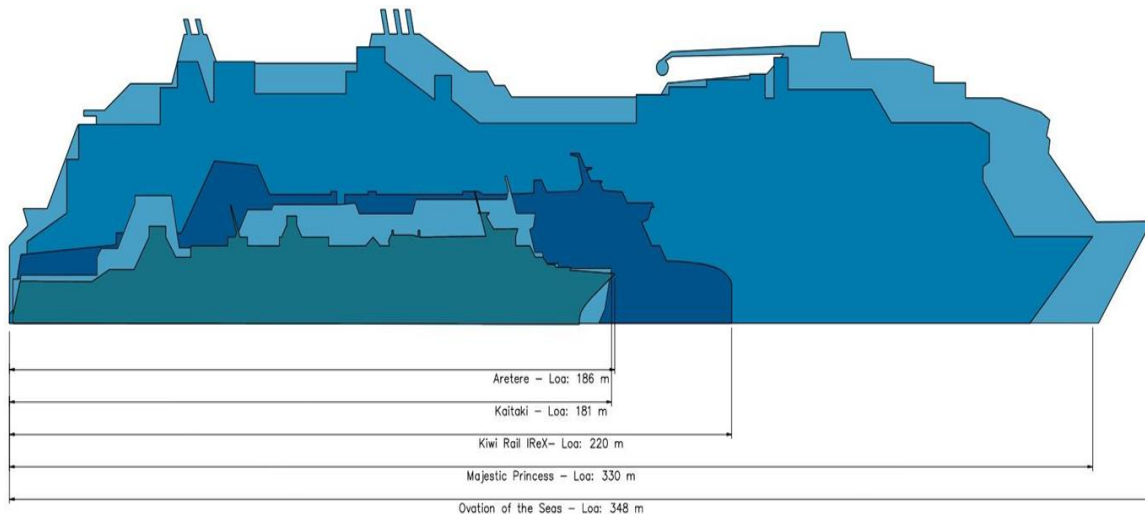
Earnings
viable ferry business



We have assessed the ship procurement options

**\$207m
NPV**

2 Large Rail Ships



\$84m

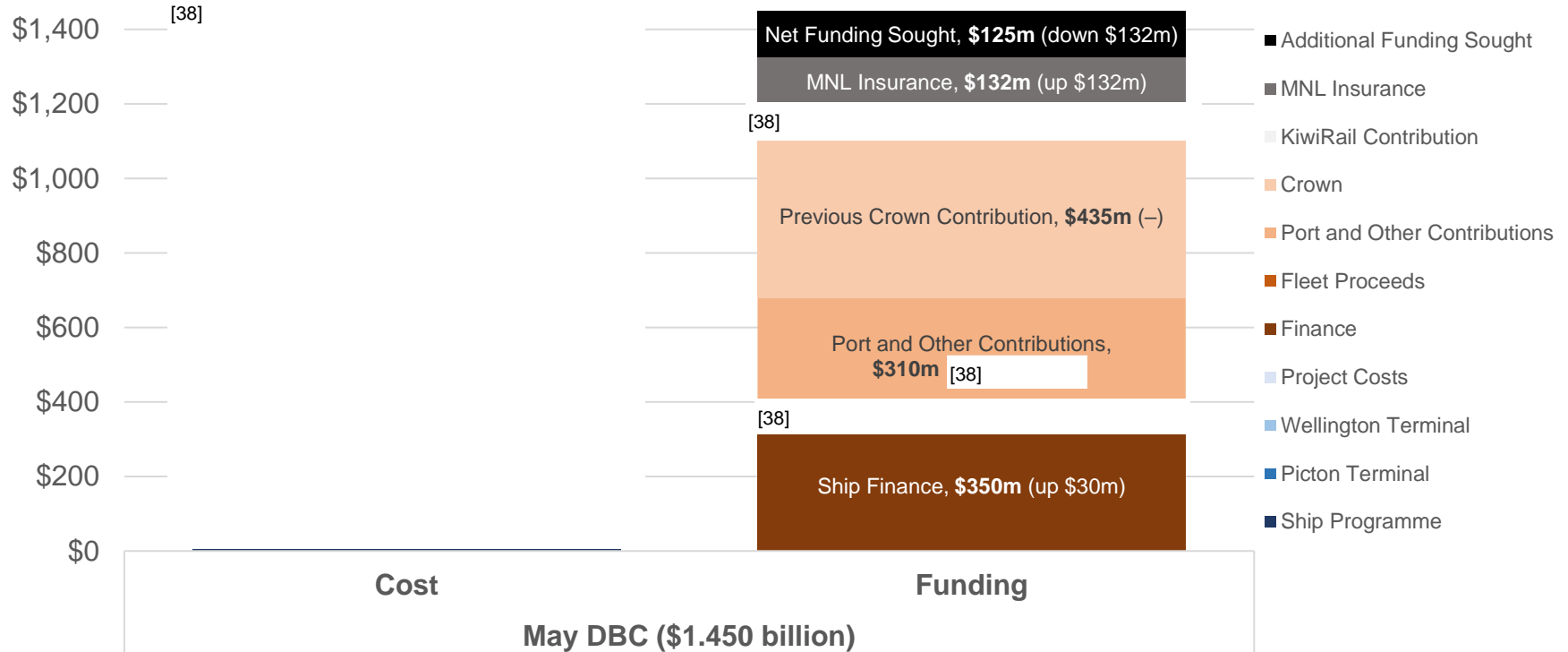
2 Medium Rail Ships

-\$136m

3 Medium Rail Ships



\$1.450b overall, but \$257m more needed to deliver the Project



We have sufficient contingencies and an enterprise stretch

- 15,000+ hours of engineering and quality assurance expertise since February.
- Minimised Crown ship programme risk through price and design negotiated under the letter of intent and funds already hedged.
- Managed Crown's infrastructure risk through value engineering exercise involving substantial engineering, architectural, geotechnical, cost estimation, traffic modelling and other expertise to establish design, cost, contingency and construction timeline.
- Further supported by [38] enterprise stretch, meaning we can cover these costs but incentives are on KiwiRail to reduce this cost through:
 - Lower overall delivery costs as we further design development and staging, meaning full contingencies need not be drawn upon.
 - Increase port contributions, meaning we've assumed a high port return but any improvement is a positive to KiwiRail.
 - Utilising any retained earnings, meaning improved performance by the company will contribute to Project iReX.
- **We have packaged this investment to limit the Crown's exposure to the [38] with high confidence that the project will be delivered within \$1.450b.**

[38]



The new ferries contribute to a zero carbon future

- KiwiRail has established a net-zero carbon objective by 2050, in line with the Government's objective.
- The Interislander ferries are an essential component of this objective, reducing overall fleet emissions by 40% and supporting mode shift to rail.
- Hybrid technology will run these ferries, with electrical propulsion from generators fuelled by diesel and electrical shore power.
- The ferries' design and engines allow for low carbon fuel sources to replace diesel and the capacity of the batteries can increase.
- **Diesel is on the way out – this procurement does not lock us in, it starts our transition away.**

40%
reduced emissions



The port costs and contributions are reliable

Wellington

Picton

[38]



In Wellington, it's about consents and

- Wellington will receive a new wharf, new terminal building, linkspan, rail and road marshalling, utilise the existing road connection, preserve future growth options, and will align with the master plan for a Multi-User Ferry Precinct.
- **We will seek fast-track consenting.** Lodged by December 2021, consented by June 2022, infrastructure delivered before the new ship arrives in 2025 (200 days of contingency). KiwiRail proposes consenting for immediate infrastructure only, CentrePort favours full Multi-User Precinct programme.
- [38]

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In Picton, it's about ^[38]

- Picton will receive a new wharf, linkspan, roading improvements, rail and road marshalling, **and a new terminal** coupled with limited disruption to their existing tenants (tabled 3 June). We have a consented programme thanks to fast-track consenting. ^[38]

- [38]

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KiwiRail can take on more debt to \$350m

- We have fully considered our debt options.
- The Board is prepared to take on \$350m in debt, reducing the Crown's contribution by \$30m.
- Directors must be responsible and must take into account the ability to service a facility, which relies on increased earnings being met and sufficient headroom left when the debt is at its highest.
- \$320m, \$380m and \$400m options were also considered, however higher levels were not considered prudent if unexpected events impact future earnings.
- We will continue to work with Treasury as they review the detailed business case.

\$350m
debt finance

up from
\$320m



We've included and fully costed essential investments

- The necessary land transport investments are in the Regional Land Transport Plans for Wellington and Picton, all as “high priorities”.
- Picton roading investments are already subject to a jointly developed business case.
- Wellington modelling completed to confirm the investment needed. Future investments are outside of Project iReX, to be developed by the Future Port Forum.



We recommend Project iReX proceeds

- The Detailed Business Case confirms that the overall programme can be delivered within \$1.450b.
 - Net infrastructure costs and ship programme costs are unchanged, however confidence has increased.
 - [38]
 - KiwiRail can take on \$30m more in debt.
 - KiwiRail can contribute [38]
- Further Crown funding of \$257m is sought, however:
 - \$132m is proposed as retained insurance proceeds, meaning
 - [38]

Item	NZD
KiwiRail Investment	
Purchase of new ships	[38]
Picton Terminal - KiwiRail assets	
Wellington Terminal - KiwiRail assets	
Programme management and initiation costs	
Total KiwiRail Investment	\$1,140m
Funding identified	
Ship financing	\$350m
Crown funding committed	\$435m
Sale of existing fleet	[38]
Enterprise stretch	
Remaining funding required	\$257m
Other party investments	
Port Marlborough for assets for KiwiRail benefit	[38]
CentrePort for assets for KiwiRail benefit	
Other parties	
Total other party investments	
Total programme cost	\$1,450m
[38]	



Next Steps

