



meridian

Release

Stock exchange listings: NZX (MEL) ASX (MEZ)

Meridian Energy signs a variation to its electricity agreement with the smelter owner

3 August 2015

Meridian Energy has signed a variation to the existing Electricity Agreement with New Zealand Aluminium Smelters Ltd (NZAS) following extended negotiations.

“It has been a complex and demanding negotiation, but this is a good outcome for Meridian,” said Meridian Chief Executive Mark Binns.

NZAS did have the right to terminate the existing contract today with effect from 1 January 2017, but by signing this variation, this right has been waived. The variation commits Meridian to cover the full 572 MW currently used at the smelter from 1 January 2017 at more competitive rates for the smelter than would have applied if NZAS chose to rely on the previous arrangement for the full 572 MW.

“This variation will give the smelter the flexibility to operate at current production levels for the full contract period should it want to and provide Meridian with an improved overall price for its electricity.

Although the smelter already had the option of a contractual volume of 572 MW from 1 January 2017 prior to this amendment, pricing had meant NZAS was incentivised to reduce to 400 MW from that date,” said Mr Binns.

“Meridian has always been clear that the contract structure entered into in 2013 was intended to incentivise NZAS to obtain 172 MW from other generators and allow Meridian to achieve market prices for this volume, which would be released from the contract.

Meridian’s view was that it was in the interest of other generators to provide that cover to NZAS. While Meridian is disappointed NZAS was unable to reach an agreement with other parties, it believes the new arrangement provides pricing for the 172 MW that is more in line with market expectations,” said Mark Binns.

Meridian and NZAS had agreed to an extension of the termination right from 1 July to 3 August, when it was clear that negotiations between NZAS and other generators were not going to be completed by 1 July.

“While other generators have differing views as to the impact of a smelter exit on their competitive position, Meridian has been able to gain sufficient support from some parties to warrant it covering this extra volume from 2017,” said Mr Binns.

Meridian is committed to cover Tiwai Point’s electricity usage at current production levels through to 2030, but NZAS retains all its termination rights from the 2013 round of negotiations, which includes a 12 month notice of termination that can be given any time from 1 January 2017.

ENDS

Note: below is a summary of the history of the Tiwai Point Electricity Contracts and key outcomes.

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Tiwai Point smelter electricity agreement – history and key outcomes

Original Agreement

- Three Physical Supply Agreements (1963) (1981) and (1993) totalling 540 MW with predecessor companies to Meridian and NZAS.

2007 Agreement

- Changed contract from a supply contract to a Contract for Difference style contract (i.e. not direct supply but a hedging contract).
- Volume 572 MW.
- Price to be increased significantly upon contract commencement on 1 July 2013.

2013 Variation

- Price reduced from that agreed in 2007.
- Step up in price agreed if in the future aluminium prices on the London Metal Exchange increased above set levels in New Zealand dollars.
- Contract price incentives for NZAS to reduce volume from 572 MW to 400 MW from 1 January 2017.
- NZAS obtained various additional termination rights including:
 - One-off notice of termination on 1 July 2015 to terminate with effect from 1 January 2017.
 - Rolling 12 month notice of termination any time after 31 December 2016.
- NZAS gets right to reduce volume under the agreement to 400 MW, effective at any time between 1 January 2015 and 31 December 2016, on giving 12 months prior notice.
- Meridian receives guarantees from the parent companies of the NZAS shareholders.

2015 Variation

- Meridian agrees to re-price the full contract volume (572 MW) from 1 January 2017 through to 31 December 2030 on contract terms (other than price) similar to those that it had previously agreed to supply 400 MW from 1 January 2017.

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- Price increased for the full 572 MW to a blend of the price agreed in 2013 for 400 MW (post 1 January 2017) and a more market-related price for 172 MW.
 - The price per MWh applying if in the future aluminium prices on the London Metal Exchange increased above set levels in New Zealand dollars is adjusted upward.
 - NZAS's additional rights of termination amended to the extent that the first date it can now provide notice of termination is 1 January 2017 (i.e. termination on 1 January 2018).
 - NZAS's initial right to give 12 months notice reducing contract to 400 MW is extended to 30 April 2016 (effective 30 April 2017) and after a year's hiatus can be exercised again any time on or after 30 April 2017 (effective 30 April 2018).