



9 July 2020

Media release

Contact says smelter closure is ‘disappointing’

Contact Energy (“Contact”) CEO Mike Fuge said Rio Tinto’s intention to effectively close New Zealand’s Aluminium Smelter (“NZAS”) by giving 14 months’ notice on their electricity contract with Meridian Energy was “very disappointing”.

He said all commercial parties involved in dealing with NZAS, including Contact, had collectively delivered significant cost reductions for electricity. “We’ve all had a strong desire to help secure the financial sustainability of the unique low-carbon smelter at Tiwai, and retain the 1,000 high-paying jobs in Southland, plus the 1,600 contractor and supplier roles.

“We’re very disappointed to have played our part in delivering these savings for one of the greenest smelters in the world and to have such limited engagement from Rio Tinto. We urge Rio Tinto to seriously consider the offer for improved electricity supply and encourage them to consider what is right for Southland, for New Zealand and for their own global environmental commitments.”

Mr Fuge said that with the disorderly exit of 13 per cent of national electricity demand looming, Contact would now accelerate mitigation options including the consideration of closure of the Taranaki Combined Cycle thermal power station at Stratford. Contact also expects Transpower to expedite the build-out of the transmission grid and in this regard welcomes the commitment to the lower South Island transmission upgrade.

He said that the smelter’s departure will have a significant impact on the Southland economy. “In addition, the decision will also result in an avoidable and significant increase in global emissions as production shifts away from NZAS to aluminium smelters powered by electricity generated solely from fossil fuels.”

Mr Fuge said customers should expect to see an increase in transmission costs as the proportion of transmission costs currently paid by NZAS will be spread across all customers. “The reality is that NZAS has subsidised transmission costs to consumers for years. Not only will those costs now fall to other customers, there will also be additional costs for the significant transmission investment from Transpower now needed to shift surplus energy from the lower South Island north to where it is needed. In the meantime, the surplus water currently being used to generate renewable energy in Southland will in large part end up flowing down the Clutha River.”

Contact’s ‘shovel-ready’ Tauhara geothermal power station remained New Zealand’s cheapest and most attractive option for new, renewable, baseload electricity generation, but Mr Fuge said the sensible option was to defer this investment. “Tauhara remains a fantastic project, however it is prudent to press pause for now. We need to factor in the impact of COVID-19 and the potential exit of NZAS and get a clearer picture of demand,” he said.

Opportunities to decarbonise transport and accelerate the electrification of South Island industry away from a reliance on coal remained in focus. “One silver lining is that we expect today’s news to be a catalyst for users to accelerate their shift toward low-carbon electricity – however this transformation would be a slow burn and take much longer than 12 months.”

Mr Fuge said Contact would update the market on any implications of the NZAS exit on the company’s expected earnings and dividend. “We’re accelerating our mitigation plans to



minimise the financial impact. Our portfolio of long-life renewable generation assets, flexible thermal assets and fuel contracts, and strong balance sheet provide confidence we are well-placed even in a lower demand environment.”

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