

Release

Stock Exchange Listings NZX (MEL) ASX (MEZ)

Meridian responds to Electricity Authority's Wholesale Market Review

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The Electricity Authority's consultation papers confirm that high wholesale electricity prices over the last three years, reflect tight supply and demand conditions, and natural gas scarcity for electricity generation.

However, the EA analysis speculates, incorrectly in our view, that if the smelter had closed this year, prices would have promptly and permanently been much lower for at least some of the country's residential customers.

Meridian Chief Executive, Neal Barclay says "Most residential customers are on fixed-term plans that shield them from the volatility of the wholesale market, and we know retailers compete hard on price to ensure customers are not exposed to this volatility."

"In reality, if the smelter closed the market would adjust, so any wholesale price effects would likely be relatively short-lived. And residential price effects are hard to predict."

"The Authority also seems to think the NZAS contract is priced too cheaply. The Authority's incorrect view about the price under the NZAS contract has potential implications for all large businesses in Aotearoa. If companies that need a lot of electricity cannot sign commercially competitive deals, they simply cannot survive."

"If we follow the EA thinking in this paper, it will mean this electricity market would operate differently to every other market. The price per apple for a million apples is a lot less than the price per apple for a bag of apples. That's how markets work", adds Barclay.

Meridian has been transparent that the smelter exit contract price is extremely sharp – but the exit contract itself provides a wider set of important benefits for the country, such as:

- Time for the Southland community to plan to attract and secure new industries and jobs. The smelter is Southland's largest employer and an exit has a far-reaching impact on the region's economy.
- Time for generators and Transpower to plan and build necessary new transmission and generation options.
- And in exchange for a sharp price, the exit contract sees the smelter agreeing to ramp down production when the country needs the electricity.

Barclay says, "If we follow the Authority's thinking around the smelter exit contract, this has some seriously negative implications for new large electricity consumers, and our collective goal to create a zero-emissions economy with more opportunity for jobs."

"The Authority seems to believe that that the price offered to the smelter was 'possibly' below what Meridian could have got by selling this electricity elsewhere. We believe this is incorrect. We look forward to further engaging with them on this."

“The Authority also asserts that hydro generation offers should be priced more cheaply - a lot more cheaply than other types of generation. Hydro offers reflect scarcity and during the period they reviewed we had a gas supply issue. If we had followed the Authority’s guidance here and priced our hydro offers lower, there would be implications for security of supply. We have estimated that following the Authority’s guidance this year would have meant that we would have run out of water well before winter and possibly as early as late March.”

Meridian is reviewing the Authority’s consultation papers and we anticipate there will be areas where the Authority’s analysis will benefit from feedback and more information from stakeholders - particularly in relation to any future policy options or responses. As always, the focus of the Authority must be on the long-term benefit of consumers and actions that will best contribute to energy affordability, security of supply and sustainability. We look forward to engaging with the Authority as they consult on their analysis and develop final recommendations.

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ENDS

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