OF TWISTS AND TURNS, AND THE MEANING OF TIWAI

By Greg Sise

We talk about the Tiwai Pt aluminium smelter almost every day at work – will it stay, or will it go? But it occurred to me today that I have absolutely no idea what Tiwai means in Te Reo. I went searching, and was surprised at what I found.

Now, I do my best, but would be the first to admit that I am no expert when it comes to Te Reo Māori. But I can at least tell that Tiwai is likely to be a word with a heritage extending back long before my ancestors arrived in Aotearoa from Scotland and America. A quick search on Google soon revealed that as a noun, Tiwai means ‘trunk’, as in tree trunk, or in some contexts a certain type of waka (waka tiwai).

But what piqued my interest is its meaning as a verb, which is ‘to turn from side to side’ (https://maoridictionary.co.nz/) or ‘to steer badly, zigzagging back and forth across the intended course of a boat; to go out of the line of course’ (https://glosbe.com/).

What does that remind you of? Well for me, seeing that verbal meaning, instantly evoked images of all the twists and turns in the Tiwai saga, that started soon after Meridian Energy and NZAS (majority owned by Rio Tinto) signed an 18-year agreement (2013 to 2030) in Q3 of 2012.

Since then, Rio Tinto has come back a number of times to renegotiate what should have been a rock-solid long-term agreement, whenever markets turned against it, culminating in the announcement in 2020 that it would close the smelter by August 2021, followed soon after by a modified agreement which terminates, without any mechanism for renewal, at the end of December 2024.

Now, no one believes this is the end of the Tiwai story, and we’re hearing more and more people suggesting it is likely Tiwai will stay well beyond 2024. No one knows for sure if Tiwai will stay or go, but this post briefly sums up our thinking and some of the rationale behind it.

In our latest long-term electricity Price Path, we give it a 10% chance of staying, but that is only an educated guess based on two key factors. First, the constant uncertainty around Tiwai is tremendously disruptive of investment in new generation, which is interfering in the transition to 100% renewables (or close to it) and, worse still, exacerbating price volatility because of the lag in building new plant to replace fossil-fuelled thermal plant and to supply new demand growth.
Second, no one in their right mind is ever going to sign another supply or hedge agreement with Tiwai unless they are absolutely sure it is rock-solid, and won't be disrupted like it has over the past eight years. The current hedge agreement is rock-solid, but only because the price of $35/MWh is so low that NZAS can't help but make lots of money through to the end of 2024. But to sign up at this price after 2024 would be a sign of desperation, unless underwritten by the government. Government involvement means subsidies which, though not impossible, seems unlikely for any more than a transition period. But we are already in a transition period, so how much longer does it really need to run after 2024? Not long I would say.

So how could a new agreement be made rock-solid?

Assuming the price is more realistic, say in the $50 - $70 range (which even then is likely to be below the market price, as it will be based on a Tiwai-exit price), a lot of people appear to be projecting the current record aluminium prices well beyond 2024. If this does eventuate, then Tiwai could be profitable at prices of $70 or even more, but (and this is a big but) what happens when aluminium prices fall again? Like they did after 2008, which was the last time aluminium prices were this high: between mid and late 2008 the aluminium price fell by over 50%. See the chart below.

I would say that it is only a matter of time that aluminium prices fall to a point which prompts Rio Tinto to once again look at its options.

But that is the point: no one in their right mind would sign another agreement for Tiwai if it leaves any room of Rio Tinto to unilaterally look at its options. Or at least not to the extent of closing or dramatically downsizing Tiwai.

Unless, of course, they get paid a large premium when aluminium prices are high: perhaps a full risk-sharing agreement could work. Or perhaps the penalty for closure or downsizing could be very large, with government involvement to ensure (a) full compliance with the agreement and (b) full cleaning and restoration of the smelter site upon closure.

I talked in a post back in January of “Tiwai fatigue” and we at Energy Link are suffering from it (I’ve even been to a doctor about it, but the advice of quitting my job and leaving the country didn’t go down well with me), as we repeatedly try to forecast whether it will stay open or finally close. I’m sure that market participants are suffering from it as well, and the public announcements and reports coming from Meridian confirm that the company is determined to find alternatives beyond 2024.
So, what is the bottom line?

First, if Meridian, assisted by Contact, finds alternative load to replace most of Tiwai after 2024, then that is almost certainly the end of Tiwai. The only lifeline for the smelter would be to build its own generation, which can't be ruled out, but is an unlikely scenario. Meridian and Contact are working as hard as they can to find that new load, and although it is a big ask in only three years, finding enough to go on with is not impossible. The key benefit of closure is that it removes the single largest source of uncertainty from the market and allows the market to focus on achieving the much bigger long-term goal of moving the nation away from fossil fuels and onto renewable electricity.

Second, a new agreement between NZAS-Rio Tinto and one or more market participants will need to be rock-solid, with no wriggle room for either party. How this could be achieved is beyond my legal knowledge, but it does seem likely that it will require big penalties for early termination, and involvement of government to ensure compliance.

Third, if there is not much load to replace Tiwai in 2025, and no agreement can be reached, then what is the worst that can happen? Sure, prices would fall, but not as far as they would if the lower South Is grid was not fully upgraded (as it will be this time next year). The cure for low prices is low prices, as they say, and we'd see some thermal retirements or mothballing, followed by renewed interest in electricity as the energy course of choice as consumers work to decarbonise.

Only time will tell how this plays out. I read recently on stuff.co.nz that Rio Tinto and the government are still talking about site cleaning and that a decision on what happens needs to be made sooner rather than later. The recent change in leadership at Rio Tinto could also have a bearing on the outcome, given that Rio has egg on its face after destroying ancient rock drawings in Australia and clearly needs to clean up its act.

But right now, I think my Tiwai fatigue has relapsed by writing this post, and I need to go do lie down.