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focus

Optimistic About New Zealand's Energy Future: Interview with Stew Hamilton, Mercury CEO



Stew Hamilton and Generation Programme Manager Jane Ganley at one of Mercury facilities

You joined Mercury just over four years ago and have been CEO for a year. What has been your focus since stepping into the CEO role?

It's been a really interesting ride. A lot of significant changes have happened to Mercury over those four years. Those include the acquisition of Tilt Renewables and rolling its wind portfolio into Mercury, and the acquisition of Trustpower's retail business and rolling that in as well. They have significantly shifted what Mercury looks like.

My focus over the past year has been thinking about the strategy for the next five to 10 years, given the significant changes that have taken place. It considers our strengths and opportunities and gets really crisp on the two or three things that we think we can do better than anybody else, and then how we can deliver. Having a crystal-clear strategy is the first focus. The next thing is then to make sure we have a culture and a team that can execute on it. I have been working on recruiting and building a new executive team over the past year. And of course, once you match up the strategy and the culture, then ultimately it's about delivery.

Much of your career has been in mining and resources, including being CEO of New Zealand Aluminium Smelters. How does running a utility company that provides an essential service to New Zealand households and businesses differ from working in the resources sector?

Probably less than you would imagine. It's actually not that different. They are large New Zealand organisations that provide a significant benefit to the country. They have 24/7 operations that require a focus on safety and a focus on performance, and they have a large team of people who are there to deliver their best. So there are quite a lot of similarities, and

that extends across into the impact on the community. Resources don't typically have customers who are households, but they are still a key part of the community, so there is a strong focus on partners and community in that space as well.

The difference really comes through interacting with the investment community, which is great in terms of having owners and analysts who are invested in the future of our organisation. Often, when operating a resources company, you're owned by a large global mining company, whereas with Mercury it's a diverse set of owners, from government to families. That's really interesting—engaging with people and bringing them along on the journey.

Mercury is one of four large electricity companies listed on the New Zealand stock exchange. In what ways is Mercury different to the others?

I'd say we all have really good people. It's one of the things that New Zealand has that's special relative to the rest of the world—our people are really, really awesome. But that's not different; our competitors also have great people. So it really comes down to probably three key areas.

The first is that our assets are quite different. We have a diversified set of generation assets across hydro, geothermal, and wind. That's a nice mix. We can use geothermal for baseload generation. We can use our wind across the country to produce power when it's windy, and then hydro assets enable us to firm and fill in the gaps. So that's a nice mix of fuel types. It's also very geographically advantaged. We have the majority of our assets in the North Island, where the bulk of the population is, and we're distributing our electricity up and down the country. So that's the first benefit—the generation assets that we have.

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The second thing, which I think is an advantage for Mercury, is the build project options that we have. We've got a great pipeline of geothermal and wind projects. We also have a very strong balance sheet that gives us the potential to grow. So when you combine those, there's a good long-term growth story.

And then the third component is around our linkage to customers. We are a scale business now. We're the largest electricity retailer in New Zealand. We're now also the fourth-largest broadband supplier. That gives us the opportunity to grow further and bundle our products across electricity, energy, and telco.

So those three, for me, are key things that I think are different to the others. They provide a base level of earnings, sustainable dividend payments, and a good opportunity for future growth.

For many New Zealanders, their main impression of the electricity industry is that prices keep rising, contributing to cost-of-living pressures. What's been the driver of these price increases and what can Mercury realistically do to help ease this pressure?

I do recognise that, over the last few years, the cost of energy has been a huge challenge for New Zealand, as has the cost of living generally. I also recognise that our company has a big role to play in what can be done around energy costs.

The big drivers of the electricity cost growth have been: (1) we're short of energy; and (2) we're short of the ability to firm that energy. We can be impacted by dry years. And now, with gas supply dropping off – which would previously have been used to help during dry years – we have to fill the gap with something else.

If you look at the household energy bill for New Zealanders, about 40% is made up of the energy produced. About 10% is the retail costs, and the rest is associated with lines and transmission. From a Mercury perspective, we're very much focused on the 40% around energy production and that middle 10% around retail. We are building projects as fast as we can. We've got \$1 billion of new projects under construction at the moment. They will come on stream over the next couple of years. We've also been doing a lot of work with the rest of industry on initiatives like the Huntly firming option, which will ensure three coal generation units are maintained to provide backup supply. That means when we do have dry periods, we'll be able to manage that risk.

Talking about dry year risk, we often hear about the dry-year problem and the security of supply risk in New Zealand. Transpower has warned of possible blackouts in the future. Does New Zealand have sufficient electricity generation and, if not, why?

We do have enough energy. The issue is, do we have it when we need it? And that relates particularly to dry periods.

New Zealand's electricity grid is about 60% delivered by hydropower. When we have dry periods, particularly in the South Island where most of that hydropower comes from, historically we have relied on fossil fuel to fill the gap. With a sudden drop off in gas, that becomes quite challenging.

That means we need other ways to help close that gap. Some of that will be through mechanisms like the Huntly firming option. Some of it will be to keep

building renewable generation. Some of it will be to work with customers to determine their ability to do what's called demand response — flex their load in response to market conditions.

There isn't a silver bullet that will solve it. We do have enough energy projects in front of us. We've built the equivalent of about 12% additional capacity over the last five years. There are enough projects in the pipeline for another 50% in the next five years. It's making sure that we're bringing that on at the right pace and putting them in the right place.

There is currently quite a bit of political and regulatory focus on the sector due to the events of winter 2024. Do you think this could result in any significant changes to the sector? Should investors be concerned?

There is potential for change. The government is seeking solutions to enable energy to be more affordable, as are we. We absolutely support looking at what can be done, but we do have a system that works quite well. We shouldn't throw the whole system out. Can it be better? We think it can. And so, we're supportive of that work; we just want to make sure that the work addresses the problem — which is producing more energy.

One way New Zealand is aiming to reduce carbon emissions is to replace fossil fuels with electrification in transport and industry. In addition, there is potential new demand from the likes of data centres. Can we build enough generation to meet this potential demand growth? What role do you see for Mercury in supporting this goal?

It's a really good story to tell here. Since the 1950s — so for the last 70 to 80 years — New Zealand's growth has been well supported by energy, and the electricity industry in particular. The work we're doing now will continue to support growth and productivity in New Zealand for the next 50 to 100 years.

A key driver of that is to understand which industries New Zealand can be good at, and which industries New Zealand can power. We have supported aluminium smelters. We've supported steel operations. We've supported dairy factories. Going forward, if you look at those three industries, they're still committed to New Zealand through long-term power agreements. Those companies operate in global industries and could choose to put their operations in other parts of the world. But they choose to be in New Zealand. That's for a number of reasons, but one of those is access to electricity, which enables them to be globally competitive.

Looking forward, there's a lot of talk about data centres, which we believe have huge potential in New Zealand, as does electrification of dairy factories like Fonterra, and working with companies like Visy, a packaging company. So we think that there is a strong future for electricity, both in terms of lifting the production of New Zealand's industries and helping to electrify those industries away from fossil fuels.

What role will new technologies play in meeting New Zealand's electricity needs in the future? Is Mercury actively considering investing in any of these technologies?

If you look at Mercury's history over the last 100 years, it has evolved to utilise newer forms of technology to generate electricity. A hundred years ago, we were producing power from hydro sources. Then, through the 1990s and early 2000s, we moved into geothermal, and most recently, in the last 10 to 15 years, we've moved into wind.

Going forward, we will largely stick to those three fuels. We'll also look at solar as the next form of energy, and batteries will follow that.

Then there's the question: how do you become more efficient with those different types of generation? How do we use artificial intelligence to better predict weather patterns, better understand what water flows will look like, and make sure that we're using our 39 hydro units on the Waikato River as efficiently as possible? How do we use artificial intelligence to help in our geothermal plants, to make sure our pressure and temperature settings are optimised?

Then there are some other technologies that are a bit further out — things like supercritical geothermal generation. We are supportive of the work that the government is doing to look at supercritical geothermal, which will enable us to extract much more electricity from the Earth's energy. That will require a lot of research and development, a lot of collaboration between government scientists and organisations like Mercury, and we're really keen to be a part of that in the future.

Are you optimistic that over the medium to long term the industry can deliver a reliable, clean, and affordable electricity system for New Zealand?

I am optimistic. As we transition, will there be some bumps in the road? Yes, and those bumps are not going to be easy. But I'm optimistic because we have a history of doing things really well in the electricity industry in New Zealand. Yes, there are periods that get tight, but the industry has adapted and responded.



...We've got a good plan to deliver value for our owners, our customers, and all our stakeholders...

We have seen New Zealand's industry move to being one of the most renewable in the world. We're up towards 90% renewables and have a good plan to get towards 95%. We have seen a lot of work being done over the last few years to support building out the security of New Zealand's electricity system to manage some of the changes that are coming, like the drop in gas. And then the next thing we're working on is the third leg of the energy trilemma, which is affordability. I am confident that we're doing the right things. It will take a little bit of time, but I'm optimistic about what it's going to look like.

Are there any final thoughts or comments you'd like to leave with our investors?

Yes, I think Mercury has a great set of assets. We've got some awesome people. We've got exciting opportunities ahead of us, and we've got a good plan to deliver value for our owners, our customers, and all our stakeholders. I'm really excited to be a part of that, and excited to play our part in New Zealand's energy future over the next few years.

If at any time you want to discuss investment options and opportunities, your Forsyth Barr Investment Adviser is available to provide you advice and assistance.

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