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Energy Markets Policy  
Energy and Resources Markets  
Ministry of Business, Innovation and Employment  
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## **SUBMISSION ON OPTIONS FOR EXPANDING THE PURPOSE OF EXISTING ENERGY LEVELS**

### **Background**

Pacific Aluminium is pleased to have the opportunity to provide a submission to the Ministry of Business, Innovation and Employment on its consultation document; 'Options for expanding the purpose of existing energy levies', released on 17 May 2016. This submission is made by Pacific Aluminium on behalf of Pacific Aluminium (New Zealand) Limited and New Zealand Aluminium Smelters Limited (NZAS). Nothing in this submission is confidential.

Pacific Aluminium is the business unit of Rio Tinto responsible for managing ownership interests in four Australasian smelters. It owns 79.36 per cent of NZAS at Tiwai Point in Southland, in joint venture with Sumitomo Chemical Company Limited, a Japanese company.

The Tiwai Point smelter is a world-class facility which contributes \$525 million to the Southland economy annually (10.5% of Southland's GDP) and supports more than 3,200 direct and indirect jobs in the region. In 2015, NZAS paid \$512 million to New Zealand suppliers and in employee related costs. This included \$48 million to suppliers in Southland. NZAS is one of only two smelters in the world producing ultra-high purity aluminium and the only one producing this using hydro electricity generated from renewable sources, giving it one of the lowest carbon footprints of a smelter anywhere in the world.

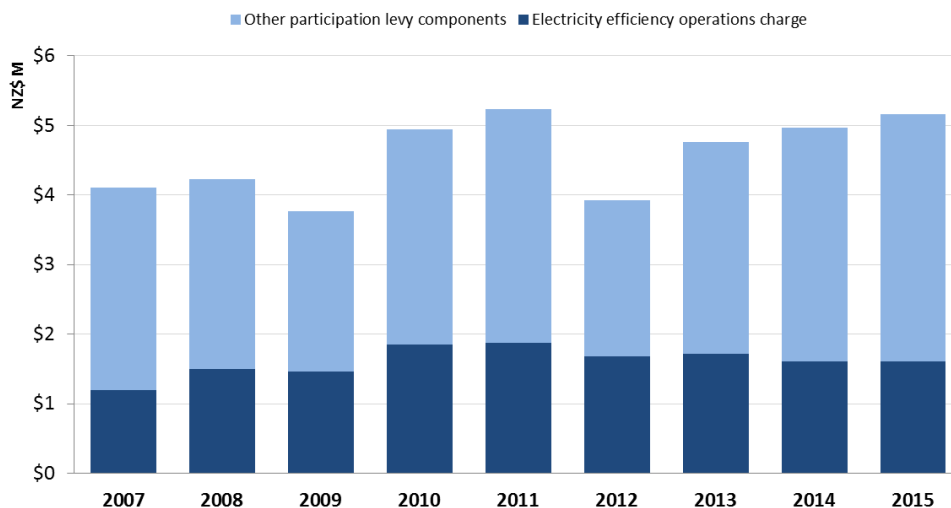
Aluminium will continue to have a significant role in a carbon-constrained world. It is light, strong, flexible, non-corrosive and infinitely recyclable. Recycling aluminium uses only five per cent of the energy needed to produce primary metal. Its use in lightweight vehicles means it is the fastest growing material used in the automotive sector. The use of one kilogram of aluminium to replace heavier materials in a car or light truck can save a net 20 kilograms of CO<sub>2</sub> over the life of the vehicle.

Aluminium is a globally priced commodity, sold on the London Metals Exchange (*LME*). The aluminium LME is, like other commodities, at a low point in the economic cycle. This combined with the internationally high electricity prices NZAS faces in New Zealand results in a marginal ability for the smelter to remain commercially competitive.

The team at NZAS, despite very tough operating conditions, continues to improve productivity; last year beating its own tonnage record for three potlines. It is factors beyond the control of the team that threaten international competitiveness. These are; the high New Zealand dollar, low commodity prices and the relatively high price of power and transmission NZAS faces. Unfortunately, none of these factors look to abate in the short term.

NZAS pays by far the highest Electricity industry participants levy (the electricity levy) of any single entity in New Zealand. A significant proportion of that levy is allocated for EECA funding. Over the past nine and a half years (2007-2016 YTD) NZAS has paid more than forty three million dollars (\$43.2M) in electricity levies with around fifteen million dollars (\$15.1M) of that going to fund EECA’s work in relation to the “encouragement, promotion and support of electricity efficiency.”

**NZAS Electricity Industry participation Levy Payments (NZ\$M)**



NZAS welcomes the input of EECA and looks forward to continuing to work with the organisation but the value NZAS receives in relation to the cost of the levy is extremely mismatched.

Between 2007 and now EECA has collaborated on three projects with NZAS. One with regard to transport efficiency, one with regard to LED lighting and one around Reduction power efficiency. In 2014 NZAS signed a collaboration agreement with EECA. Under this agreement the total value of all EECA funding for projects must not exceed \$135, 000.

Independent of this collaboration with EECA, NZAS continues to work on improving its energy efficiency. For example, during 2015 the team at NZAS, while breaking a tonnage record that has stood since 2008, increased electricity efficiency to the extent of saving the

same amount of electricity as that used annually by three and a half thousand average New Zealand households.

Every electron saved at NZAS represents value gained. The team at NZAS are one of the best in the world at efficiently operating a smelter which requires expertise in using electricity efficiently.

Accordingly, there is no net benefit and a considerable net cost to NZAS from EECA work funded from the existing electricity efficiency component of the electricity levy.

### **NZAS' position**

NZAS does not support the status quo because it is confident that its electricity efficiency practice is world class and that the electricity efficiency component of the electricity levy adds a considerable net cost to NZAS.

NZAS does not agree with this proposal to expand existing levies because it does not believe the best way to fund government proposals to “encourage, promote and support energy efficiency, energy conservation and the use of renewable sources of energy” is via a levy. NZAS currently does not derive a net benefit from the levy expenditure and there is no evidence presented in the consultation document to demonstrate that this would change under any of the proposed options.

In this context, NZAS notes that there are already incentives for businesses to improve their energy efficiency to reduce their exposure to the high cost of electricity in New Zealand and more broadly with the imposition of a broad based carbon price on the New Zealand economy via the New Zealand Emissions Trading Scheme.

The exact nature of the work proposed to be undertaken within the outlined expanded purpose to “encourage, promote and support energy efficiency, energy conservation and the use of renewable sources of energy” is not detailed. Therefore it is difficult to ascertain who would benefit from this work and therefore the best way to fund it. Unless the beneficiaries or causers of the work can be clearly identified then general taxation should be used to fund the work.

### **Some relief from high levy contributions**

As noted above NZAS faces the highest electricity efficiency levy contribution of any single entity in New Zealand. This while having a highly developed electricity efficiency focus and demonstrated results at improving energy efficiency performance.

To the extent the electricity levy continues to be collected NZAS would support a change in the way it is charged from a per megawatt-hour (MWh) consumption basis to a per customer amount per Installed Control Point (ICP) under Option 1A. NZAS does not support the expansion of the purpose of the electricity levy also outlined in that option.

**Concluding Comments**

Pacific Aluminium would be happy to discuss any questions or comments you may have in relation to the points made above. If you would like to discuss our comments further, please contact either Andrew Elder by email: [Andrew.Elder@pacificaluminium.com.au](mailto:Andrew.Elder@pacificaluminium.com.au) or myself on (04) 916 1496 or by email: [Jennifer.Nolan@pacificaluminium.com.au](mailto:Jennifer.Nolan@pacificaluminium.com.au).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'J. Nolan'.

**Jennifer Nolan**

Director External Relations – New Zealand  
Pacific Aluminium