



pure kiwi mettle

NEW ZEALAND'S ALUMINIUM SMELTER

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23 October 2018

Electricity Price Review
Secretariat, Ministry of Business, Innovation and Employment
15 Stout Street
PO Box 1473
WELLINGTON 6140

By email to: energymarkets@mbie.govt.nz

Submission on: *Electricity Price Review: First Report*

New Zealand Aluminium Smelters Limited (NZAS) is pleased to have the opportunity to provide a submission in response to the Electricity Price Review's first report, (the Report). Nothing in this submission is confidential.

About NZAS

NZAS is the operating company for the aluminium smelter at Tiwai Point in Invercargill which is managed by Rio Tinto (79.36% ownership) 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 GDP¹) and supports more than 3,200 direct and indirect jobs in the region. In 2017, NZAS paid \$481 million to New Zealand suppliers and in wages and salaries. This included \$40 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.

Aluminium will continue to have a significant role in a carbon-constrained world. It is light, strong, flexible, non-corrosive and endlessly 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 CO₂ over the life of the vehicle. The increased use of electric vehicles is expected to accelerate this trend.

NZAS is a unique entity within the New Zealand electricity system. It is by far the largest user of electricity taking more than ten times from the grid that of the next largest user. The continuous nature of the smelter's operation means that it is a very stable base load within the New Zealand electricity system.

¹ Venture Southland: The economic and social impacts of NZAS on the Southland Economy, 2012

Our submission

NZAS congratulates the review panel on a well thought out and measured Report on the issues.

NZAS is a member of the Major Energy Users' Group (*MEUG*) and supports their submission on the Report.

There is one issue is very close to our heart. The charges that NZAS pays for transmission roughly return the book value of the assets that generally supply us every single year. A significant portion of our annual charges contributes to paying for assets we do not use. As a trade-exposed business, this is a cost we cannot recover from our customers. To our knowledge NZAS pays the highest charge for transmission for a smelter anywhere in the world, despite being located close to our major sources of generation.

NZAS strongly supports securing a fairer, as well as more efficient, transmission pricing methodology and so we have provided a submission (attached) that addresses the Reports question in respect of this matter.

If you would like to discuss our comments further, please contact either Lesley Silverwood by email: Lesley.Silverwood@pacificaluminium.com.au or Jennifer Nolan on (04) 916 1496 or by email: Jennifer.Nolan@pacificaluminium.com.au.

Yours sincerely

**Stewart Hamilton**

General Manager

New Zealand Aluminium Smelters



ELECTRICITY PRICE REVIEW

SUBMISSION FORM

How to have your say

We are seeking submissions from the public and industry on our first report into the state of the electricity sector. The report contains a series of questions, which are listed in this form in the order in which they appear. You are free to answer some or all of them.

Where possible, please include evidence (such as facts, figures or relevant examples) to support your views. Please be sure to focus on the question asked and keep each answer short. There are also boxes for you to summarise your key points on Parts three, four and five of the report – we will use these when publishing a summary of responses. There are also boxes to briefly set out potential solutions to issues and concerns raised in the report, and one box at the end for you to include additional information not covered by the other questions.

We would prefer if you completed this form electronically. (The answer boxes will expand as you write.) You can print the form and write your responses. (In that case, expand the boxes before printing. If you still run out of room, continue your responses on an attached piece of paper, but be sure to label it so we know which question it relates to.)

We may contact you if we need to clarify any aspect of your submission.

Email your submission to energymarkets@mbie.govt.nz or post it to:

Electricity Price Review

Secretariat, Ministry of Business, Innovation and Employment

15 Stout Street

PO Box 1473

Wellington 6140

Contact details

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Use of information

We will use your feedback to help us prepare a report to the Government. This second report will recommend improvements to the structure and conduct of the sector, including to the regulatory framework.

We will publish all submissions in PDF form on the website of the Ministry of Business, Innovation and Employment (MBIE), except any material you identify as confidential or that we consider may be defamatory. By making a submission, we consider you have agreed to publication of your submission unless you clearly specify otherwise.

Release of information

Please indicate on the front of your submission whether it contains confidential information and mark the text accordingly. If your submission includes confidential information, please send us a separate public version of the submission.

Please be aware that all information in submissions is subject to the Official Information Act 1982. If we receive an official information request to release confidential parts of a submission, we will contact the submitter when responding to the request.

Private information

The Privacy Act 1993 establishes certain principles regarding the collection, use and disclosure of information about individuals by various agencies, including MBIE. Any personal information in your submission will be used solely to help develop policy advice for this review. Please clearly indicate in your submission whether you want your name to be excluded from any summary of submissions we may publish.

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Transmission

What are your views on the process, timing and fairness aspects of the transmission pricing methodology?

Timing of the TPM Review

Although the EA published their first TPM Review issues paper in 2012, as the First report acknowledges, the debate about the issues with the current TPM commenced several years earlier.

In a letter dated 6 November 2006, we wrote to the Electricity Commission regarding the effect of the TPM given the (then) planned major investment in the grid to service the upper North Island, stating that we were

“...concerned at the significant cross subsidy that consumers in the lower North Island and all of the South Island will be forced to provide to consumers in the upper North Island because of the significant economic inefficiencies in the existing transmission pricing methodology and that persist in the revised methodology that has been proposed.”

NZAS has been paying more than its fair share of transmission costs for over a decade during which more than \$2 billion was invested in the grid in the central to upper North Island.

Fairness of the TPM

The First Report observes that

“We are unaware of any other country undertaking retrospective reallocation of past grid investments. Indeed, some say retrospective reallocation is the principal obstacle to progress on a new TPM.”

The issues with the current TPM were identified well before the major upgrades were developed but the review of the TPM has been significantly delayed for various reasons, aided by opposition from those benefitting from the current TPM. This is unfair to those who are continue to pay too much today, rewards delay and encourages a continuation of delaying tactics by those who currently pay less than required to cover the cost of the assets they are using.

It should be noted that there has never been a proposal to compensate those that have been paying too much for years, only that future pricing should reflect a fairer distribution of asset costs to those that benefit from using them.

Our submissions¹ on the TPM Review have addressed in detail the economic arguments that support reallocating the costs of historical assets, so we will not repeat them here, but we do consider it to be both economically sound and fairer than the current TPM.

Process of the TPM Review

Everyone acknowledges that the process of the TPM Review has taken too long, but it is a robust process that has considered a wide range of opinions and analysis, having consulted widely.

On 16 October the EA confirmed, in its annual report, its commitment to completing the TPM review as a matter of priority and reaffirmed its view that the current TPM needed to be revised.

We strongly believe that the EA should be allowed to complete the review, without being fettered with new policy guidance or a change in organisational accountabilities, which would undoubtedly cause delays and, at worst, could result in the review needing to restart.