



pure kiwi mettle

NEW ZEALAND'S ALUMINIUM SMELTER

Tiwai Road, Invercargill, Southland, New Zealand
Private Bag 90110, Invercargill 9840
Courier / Delivery Address: 3 Spey Street, Invercargill
+64-3-218-5999 nzas.co.nz

22 March 2019

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 options paper. 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 employs over 900 people in Southland. 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 comprising around 14% of national demand. The continuous nature of the smelter's operation means that it is a very stable base load within the New Zealand electricity system.

Our submission

NZAS congratulates the review panel on a well thought out and clearly expressed options paper.

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

As you will be aware the cost of transmission is very material to our business. 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. It is important to note that our transmission costs increased by tens of millions of dollars per annum post the significant grid upgrades in the upper North Island since 2008 essentially receiving a price shock as a result.

NZAS strongly supports securing a more equitable, as well as more efficient, transmission pricing methodology and we have offered our views on the options paper's question in respect of a government policy statement on transmission pricing below.

E1	Issue a government policy statement on transmission pricing
	<p>NZAS does not support a recommendation that the government issue a government policy statement (GPS).</p> <p>There is potential that well-developed GPS would further slowdown what has been a very long process when it seems the Electricity Authority (EA) is about to release its next paper and has repeatedly said that transmission pricing reform is its number one issue.</p> <p>As the Review Panel says, "Transmission pricing decisions should be settled sooner rather than later.....", however we do not agree that the development of a GPS would assist this.</p> <p>Finally if a GPS were to be developed we do not support Transpower's draft and very detailed GPS being the appropriate strawman for this process. A well-developed GPS should start from a blank slate and be principle based, taking into account the positions of all stakeholders.</p>

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