

# The Treasury

## New Zealand Aluminium Smelters (NZAS) Information Release

September 2013

### Release Document

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information, or who is the subject of the information
- [3] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
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- [8] 9(2)(h) – to maintain professional legal privilege

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [3] appearing where information has been withheld in a release document refers to section 9(2)(f)(iv).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

7 July 2013

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Dear John,

Ahead of our meeting with the Deputy Prime Minister Hon. Bill English and the Minister for State Owned Enterprises Hon. Tony Ryall scheduled for Tuesday morning, I thought it might be helpful to outline the proposal we seek to put before the Government concerning the supply of electricity to the Tiwai Point aluminium smelter (NZAS).

As you know, we have engaged in extended negotiations with Meridian concerning the long term supply of electricity to NZAS. We have made solid progress with Meridian in recent months and have documentation of the revised arrangements at an advanced state.

The position we have reached with Meridian goes some way to improving the economics of the smelter. However, even under these proposed revised contractual arrangements, and given current difficult conditions in global aluminium markets, the owners of the Tiwai Point smelter will continue to suffer substantial cash operating losses.

We are seeking the assistance of the Government to ameliorate a portion of these losses to secure the immediate future of the smelter and the estimated more than 3,000 jobs it provides in the Southland region directly and indirectly.

In particular, we are seeking the following:

- 1) **Supplementary viability assistance:** NZAS requests that the NZ Government provide some form of supplementary assistance to NZAS, effectively reducing the cost of electricity to NZAS by [2,6,7] to [2,6,7]. This assistance should apply for so long as NZAS pays Meridian the lowest price tariff under the proposed contractual arrangements. The approximate maximum annual cost of this Government support would be [2,6,7]. The owners Rio Tinto Limited and Sumitomo Chemical Co., Ltd are not asking the Government to take uncapped downside risk. Even with a [2,6,7] electricity price, the smelter would continue to suffer significant cash losses under the prevailing unfavourable conditions in global aluminium markets and will be exposed to additional downside from further market deterioration.

- 2) **Relief from high transmission charges:** NZAS is also seeking a cap on the electricity transmission charges payable by NZAS at a unit rate of [2] ; this rate is higher than that incurred by NZAS during and until 2011. NZAS has suffered significant increases in annual transmission charges over the past two years, as Transpower has, in effect, levied users to fund the development of its extensive infrastructure projects. These projects, primarily located in the North Island, have provided little, if any, benefit to NZAS. The increases in transmission charges have been imposed on NZAS at a time when the smelter has simultaneously been forced to reduce demand for power, and consequently its production levels. The resultant significantly increased unit costs of production are exacerbated by the higher transmission charges and undermine the smelter's long term viability. With NZAS being charged for transmission based on its proportion of national power demand, not proportionate use of the network or directly beneficial enhancements, the continued upgrade of the national transmission grid by Transpower would see transmission charges continuing to rise uncontrollably for the smelter in coming years. These upgrades include a bypass around Tiwai Point and capital investment to send power generated in the South Island to the North Island. Not only are the increases in transmission charges for the smelter inequitable, they will cripple the smelter's financial viability.
- 3) **Protection of commercially sensitive information:** NZAS requests that the Government respects the commercially sensitive nature of NZAS' arrangements with Meridian and that it ensures that electricity prices paid by NZAS remain publicly undisclosed. To do so, we ask that the Government apply for, and diligently seek an exemption order from the Financial Markets Authority such that any reference to prices payable by NZAS as part of documentation regarding the proposed float of Meridian be kept confidential. This would include redaction of the pricing provisions of the amended Electricity Agreement if that document is registered with the prospectus as a material contract. We anticipate that Meridian would support such an application.

Rio Tinto and Sumitomo Chemical would be prepared to conclude negotiations on these matters as soon as possible and, subject to Board approvals, formally execute documentation in early August in order to remove uncertainty regarding the future of the smelter and to leave the way clear for the Government to progress its proposed float of Meridian.

We look forward to discussing these matters further with you in Wellington on 8 July.

Yours sincerely

**Phil Baker**  
**Chief Financial Officer**