

The Treasury

New Zealand Aluminium Smelters (NZAS) Information Release

September 2013

Release Document

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Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [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
- [4] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [5] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [7] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied
- [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.

19 July 2013

Honourable Bill English
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Dear Minister,

Re: New Zealand Aluminium Smelters (NZAS) Electricity Arrangements

Thank you for your letters dated July 15 and 17 in which you offered a lump sum payment of \$30 million to NZAS on execution of a new electricity agreement with Meridian.

It is understood your offer is a net payment of \$30 million and reflects the desire of all parties to bring to an end a period of uncertainty. This occurs by setting aside the Electricity Agreement which came into effect from the start of this year and completing more than 12 months of negotiations on new terms acceptable to Meridian and NZAS.

Further, your Government will seek, in good faith, an exemption from the Financial Markets Authority to withhold from public disclosure the prices agreed with Meridian under a new or amended electricity agreement.

You have stipulated that there be no public announcement of any review of the ongoing viability of the smelter before 1 July 2015 (other than in respect of notice given to Meridian to reduce load to 400MW).

We thank you for your offer and I can confirm, on advice from the owners of the smelter, that NZAS accepts your offer.

Nevertheless, as we have discussed, proposed revised terms for a new electricity agreement with Meridian Energy do not prevent the owners of the smelter from incurring substantial ongoing cash losses and leave the owners exposed to further downside in a deteriorating market. The proposed tariff is a tiered structure whereby the tariff increases in line with aluminium metal prices. However, the lowest tariff represents a decrease of only ^[2,5,6,7] to the tariff paid by NZAS for electricity last year when the smelter incurred very significant losses and of course market conditions have deteriorated since then.

Furthermore, already this year the smelter has paid approximately [2,5,6,7] extra in higher electricity charges to the Government-owned Meridian compared with the proposed revised tariff.

We have also discussed with you the need for the Government to address charges for transmission of electricity to the smelter. Based on information provided by Transpower and the Electricity Authority, transmission charges are set to rise dramatically again this year and in coming years, eroding any relief available to the smelter from negotiations with Meridian. While it is unfortunate that this matter has yet to be addressed, it is an issue to be focused on in the future. In short:

- the smelter has suffered substantial increases in transmission charges since the start of last year and, in paying well in excess of the cost of operating and maintaining transmission lines which deliver energy to the smelter, NZAS effectively pays a subsidy to the Government-owned monopoly transmission provider estimated to be [2] last year; and
- the smelter is to pay ever-increasing subsidies for transmission in the future with the projected rise in these subsidies, over and above inflation, estimated to be [2]

We have previously alerted you to the inequity of the continued rampant increase in the subsidy paid by NZAS and the adverse financial impact this will have on the smelter.

Immediately of course we will continue to work closely with Mr Mark Binns at Meridian in pursuing an outcome acceptable to all concerned.

We thank you for your involvement in these matters to date and look forward to your ongoing support.

Yours sincerely

Phil Baker
Chief Financial Officer