

# **The Treasury**

## **New Zealand Aluminium Smelters (NZAS) Information Release**

**September 2013**

### **Release Document**

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



# Cabinet Economic Growth and Infrastructure Committee

## Summary of Paper

EGI (13) 155  
REV 1

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### New Electricity Contract for Tiwai Point Smelter

**Portfolios**      **Finance / State Owned Enterprises**

On 5 August 2013, Cabinet considered an earlier version of this paper and invited the Minister of Finance and the Minister for State Owned Enterprises to submit a revised paper to the Cabinet Economic Growth and Infrastructure Committee (EGI) on 7 August 2013 [CAB Min (13) 26/5].

EGI has Power to Act to take decisions on this paper.

**The Minister of Finance and the Minister for State Owned Enterprises recommend that the Committee:**

#### Background

- 1 note that on 29 July 2013, Cabinet:
  - 1.1 noted that the aluminium industry has been in a sustained downturn with low prices and a strong New Zealand dollar threatening the viability of production in New Zealand;
  - 1.2 noted that Pacific Aluminium, a business unit of Rio Tinto (the majority owner of the New Zealand Aluminium Smelter (NZAS) at Tiwai Point), has approached Meridian Energy Limited (Meridian) to renegotiate the electricity agreement between the two parties;
  - 1.3
  - 1.4 noted that, following a year of negotiation, a revised agreement has been reached between NZAS and Meridian that significantly reduces the price paid for electricity by the smelter from approximately [2,5,6,7] to [2,5,6,7] ;

- 1.5 noted that in return for the reduction in price, Meridian receives guarantees over the contract from NZAS's parent companies, Rio Tinto and Sumitomo Chemical, an extension of the earliest possible smelter exit date to 1 January 2017, and a reduction in the contract volume from 572MW to 400MW from either 1 January 2017 or 1 January 2018;
- 1.6 [2,5,6,7]
- 1.7 noted that Pacific Aluminium claims that this reduction is not sufficient to return the smelter to viability, and that as a result Pacific Aluminium has approached the government for further support to reduce the price of electricity and the cost of transmission;
- 1.8 agreed not to support NZAS with a price or transmission-based subsidy;
- 1.9 agreed that, for the purposes of providing certainty to NZAS workers, the Southland community and the New Zealand electricity market, it would be desirable for NZAS to enter into the revised electricity agreement with Meridian;
- 1.10 agreed to fund a sign-up incentive to NZAS of \$30 million on execution of the revised agreement with Meridian to encourage NZAS to enter into the new agreement with Meridian;
- 1.11 agreed that a condition of the payment to NZAS is that NZAS will repay the \$30 million lump sum in full if an on-going review of the viability of the smelter is publicly announced before 30 June 2015;
- 1.12 invited the Minister of Finance and the Minister for State Owned Enterprises to report back to Cabinet to seek agreement to the details of the payment and the communication of the payment by 7 August 2013;

[CAB Min (13) 25/5]

- 2 note that since 29 July 2013, NZAS has elected that the reduction in contracted volume from 572MW to 400 MW will occur on 1 January 2017 (see paragraph 1.5 above);

### **Financial implications**

- 3 agree to establish a new Non-Departmental Other Expense appropriation "New Zealand Aluminium Smelters – Electricity Agreement Incentive Payment" in Vote Finance;
- 4 agree that the scope of this appropriation be "This appropriation is limited to the provision of an incentive payment to New Zealand Aluminium Smelters on the execution of a revised electricity agreement with Meridian Energy Limited";



- 5 approve the following changes to appropriations to give effect to the policy decisions agreed by Cabinet on 29 July 2013, with a corresponding impact on the operating balance:

Vote Finance Minister of Finance	\$m - increase				
	2013/14	2014/15	2015/16	2016/17	2017/18 & Outyears
Non-Departmental Other Expense: New Zealand Aluminium Smelters – Electricity Agreement Incentive Payment	30.000	-	-	-	-

- 6 agree that the change to appropriations for 2013/14 above be included in the 2013/14 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 7 agree that the expenses incurred under paragraph 5 above be a charge against the between-Budget operating contingency, established as part of Budget 2013;
- 8 note that Pacific Aluminium has also requested that an exemption from the requirement to disclose the price it pays for electricity under the revised contract in the offer document for the proposed Initial Public Offering (IPO) of Meridian be made to the Financial Markets Authority (FMA);
- 9 note that Meridian has agreed to request the exemption from the FMA on the basis that this is standard practice;
- 10 note that the amount offered to NZAS is a net amount, and that as the tax treatment of the payment is unclear, the Minister of Finance will grant NZAS an indemnity over any tax expense incurred as a result of the payment;
- 11 note that a condition of the incentive payment is that NZAS's owners will not announce a public review of NZAS's viability before 30 June 2015;
- 12 note that Pacific Aluminium has indicated that the offer of an incentive payment will be sufficient for it to accept the revised agreement with Meridian, but that this will be subject to final approval from the Sumitomo Chemical and Rio Tinto Boards in early August 2013;

## Publicity

- 13 note that Meridian Energy will take the lead on media enquiries relating to the underlying electricity agreement, beginning by meeting its continuous disclosure obligations to the NZX once an agreement is concluded.

Janine Harvey  
Committee Secretary

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