The Treasury

New Zealand Aluminium Smelters (NZAS) Information Release

September 2013

Release Document

www.treasury.govt.nz/publications/information-releases/nzas

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.
Explaining Meridian’s commercial rationale for renegotiating the Tiwai contract

Meridian is exposed to the price of aluminium through the interests of its major customer Tiwai. With low aluminium prices, and Rio under pressure from shareholders to sort out its underperforming aluminium division, we believe Tiwai is at an economic tipping point, and may exit under the existing contract.

Based on figures supplied by Meridian, the renegotiated contract represents a commercially reasonable position for Meridian based on this risk of exit. The Treasury has not independently verified this analysis and to do so would be very complex. [2,5,6,7]

It also offers potential long-term gains for Meridian through reducing the volume in the contract from 572 MW to 400 MW (Meridian can sell the difference to other customers at higher prices).

**Meridian has renegotiated the contract to a lower price…**

The existing contract, negotiated in 2007, increased price to [2,5,6,7] from 2013. [2,5,6,7]

Meridian now renegotiated [2,5,6,7] [2,5,6,7]

This price increases with inflation, and could step up if aluminium prices rise significantly [2,5,6,7] . The new contract comes with a parental guarantee (Rio Tinto and Sumitomo) over the contract to [2,5,6] (still to be decided by Rio) and smaller Pacific Aluminium and Sumitomo guarantees beyond this.

Meridian estimates the value impact is in the [2,5,6] range. …but this is still commercially rational for Meridian given risks of exit under the existing contract. Meridian is at the point of indifference.

Meridian stands exposed to loss in value through the exit of Tiwai [4] . The extent of loss depends on terms and speed of exit, and also the response of other electricity companies.


[2,5,6,7]
[2,5,6,7]
PA has asked for:

- Up to $2,5,6,7 on price to 2026
- Capping of transmission price increases – estimated to be about $2,5,6 growing to $2,5,6 until 2026, under current transmission pricing rules

$30-5,6 lump sum offsets transmission price impacts for a year or two. They take price they negotiated with Meridian.