

**TOMAGO ALUMINIUM** Company Pty. Limited

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**SUBMISSION BY TOMAGO ALUMINIUM COMPANY PTY LTD**  
**TO THE**  
**AER REVIEW OF THE ELECTRICITY TRANSMISSION REVENUE**  
**AND PRICING RULES.**

**BACKGROUND**

Tomago Aluminium Company Pty Ltd operates an Aluminium smelter at Tomago, near Newcastle NSW. The smelter was built in the early 80's after a long term electricity contract was entered into with the then Electricity Commission of NSW. Aluminium Smelting is an energy intensive industry, characterised by high demand and a flat load profile. Tomago is the largest electricity user in NSW with a constant demand of approx 850 MW..

Aluminium production is also a very capital intensive industry, typically requiring an investment horizon of more than twenty years. As electricity consumption accounts for about 40% of an aluminium smelters costs, investment in expansion of production or modernisation of plants can only be made where there is certainty regarding competitive future electricity prices. For that reason, the contracts for supply of electricity to Tomago are long term and were negotiated in advance of any commitment of capital expenditure.

The smelter was expanded significantly in 2002/03 after negotiation of a supplementary power contract with Macquarie Generation. This supplementary contract includes a discounted transmission price.

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**TOMAGO ALUMINIUM COMPANY PTY. LIMITED**  
(Agents for the participants in the  
Tomago Aluminium Project, an unincorporated joint venture  
of Alcan Primary Metal Australia Pty Limited, Gove Aluminium Finance  
Limited, CATHJOH HOLDINGS PTY LIMITED, Hydro Aluminium  
Pty Limited and Hydro Aluminium Tomago, Inc.)



## **TOMAGO SUBMISSION**

Tomago wishes to comment only on the issue of TUoS discounts.

Tomago submits that the existing Discount provisions are important and should be retained. In the case of Tomago, discounts to transmission pricing negotiated as part of the supplementary power supply contract were an essential precondition for the recent expansion of the smelter referred to above. This discount enabled a competitive electricity price to be developed for Tomago, which in turn enabled Tomago to incur expenditure of over AUD\$200m to expand production by approx 20 %. Without this discount, this expansion would not have occurred. The discount has resulted in a favourable economic outcome in terms of both the local, state and national economy and a significant public benefit.

Tomago is strongly opposed to changes to the existing discount provisions, and submits that if there is to be any change to discount provisions, then existing discounts must be "grandfathered" to preserve existing commercial arrangements entered into in good faith under the current guidelines. It would be highly inequitable were the discount provisions to be changed or removed after a major investment has been made based on the discount.

Tomago submits that the discount guidelines are appropriate and equitable, and by ensuring a discount is granted only where that is the correct economic result, maximise the public benefit.

## **ENHANCEMENTS TO EXISTING SCHEME**

Tomago submits that the existing scheme could be improved as follows -

- The key principles should be included in the NEM Rules (rather than just in AER Guidelines which the AER can change if it chooses)
- The AER should be able to approve discounts at the time they are put forward, rather than just at the TNSP's next revenue reset.
- The AER should be able to approve discounts for the life of the proposal up to some reasonable limit (20 or 25 years)