

28 February 2011



Australian Energy Market Commission

PO Box A2449

SYDNEY SOUTH NSW 1235.

Dear Sir / Madam

**SUBJECT: INTER-REGIONAL TRANSMISSION CHARGING
(PROJECT NO. ERC0106)**

By way of background Nyrstar in Australia operates large trade-exposed businesses in regional areas of South Australia (the Port Pirie smelter) and Tasmania (Hobart zinc smelter). These businesses operate in international commodity markets (zinc and lead) where prices can be volatile due to industry dynamics and international economics. These markets are by nature highly competitive. Consequently, Nyrstar cannot pass-through increases in input costs into its final product pricing and costs must be absorbed. Increases in input costs directly effect the cost competitiveness particularly if competing economies do not have similar cost drivers. Typically with smelting processes electricity costs make up a large proportion of direct operating costs. Many large end users like Nyrstar have already experienced significant cost increases in relation to network pricing. For instance, Nyrstar's Hobart smelter will see a doubling in transmission capacity costs over the current regulatory period.

Whilst Nyrstar understands the logic of cost reflectivity behind the intent of the proposed Rule change Nyrstar has a number of concerns with the proposed treatment of inter-regional transmission charging.

The core issues can be summarised as follows:

1. The proposed Rule change is based on the assumption that dynamic efficiency is enhanced through a price signal (the Load Export Charge). However, it is unclear how this price signal will change investment behaviour since end-users like Nyrstar do not 'cause' inter-regional flows or make network investment decisions. In the NEM generators make decisions on importation and as such end-users cannot mitigate or influence a Load Export Charge.
2. The methodology in determining the Load Export Charge does not account for the benefits of reliability from an inter-connector. The inherent value of reliability provided by an inter-connector must be included in the Load Export Charge otherwise it distorts the calculation of a Load Export Charge.
3. The Rule change results in an inequitable outcome for Tasmanian users. The Basslink inter-connector is funded and underwritten by the State of Tasmania, but it also provides Victorian users with reliability in energy and improved efficiency in it's brown coal generators. These factors have not been addressed in any overall net benefit analysis of a Load Export Charge.

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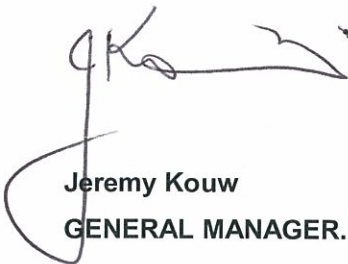
4. The Rule change will also 'pass-through' a portion of the Victorian Transmission Easements Land Tax (the so-called 'smelter levy' which compensates the Victorian Government on the loss of the aluminium smelter contracts). The methodology proposed would apportion these easement costs to an importing region through the common service charges. The proposed Rule has over-looked this issue. This would not be an equitable outcome and wouldn't align with the National Electricity Objective.
5. The AEMC states that the Load Export Charge would not be material for users. However, this would not be the case for many large industrial loads where transmission charges are a material component of energy costs. As previously stated the rate of escalation in transmission charges in recent times has been significant. The application of a Load Export Charge would only exacerbate the pricing pressure on a party that is not in a position to either mitigate or 'pass-through' the charge.

In conclusion, Nyrstar believes that the proposed Rule change is problematic on a number of fronts. The current deficiencies in the methodology would have negative consequences on end-users particularly in regions like Tasmania where the region is highly dependent on hydro-electricity and hence rainfall. Nyrstar recommends that the AEMC reconsider the design framework and methodology of this Rule.

Nyrstar would be pleased to discuss the above issues with the AEMC staff if you require further clarification.

Yours faithfully

NYRSTAR HOBART

A handwritten signature in black ink, appearing to read "J. Kouw".

Jeremy Kouw
GENERAL MANAGER.

Copied to: G. Zooeff, GM Files