

Transend Revenue Cap Application

Draft Determination

- Comalco Aluminium Limited owns and operates aluminium smelters in Queensland, Tasmania and New Zealand
- Bell Bay aluminium smelter is the largest consumer of electricity in Tasmania with take or pay contract for 286MW – around 25% of all State load
- Commodity producer – must compete globally
- Tough market conditions – impacted by increased capacity, particularly out of Russia and China; SARS; September 11 etc.

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- Price Taker – price paid for product is not determined by us – but set by LME
- LME declining in real terms at rate of 1.5% per annum
- To maintain margin, commodity industries must therefore reduce operating costs annually to offset decline in commodity price and maintain competitiveness
- Yet we are operating in an environment where electricity suppliers work on cost plus margin

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Draft Determination

- Electricity is our major raw material – and accounts for more than one third of the total cost of converting alumina to metal
- Higher costs cannot be absorbed by industry– margin already eroded
- Outcome of Draft Determination will see smelter transmission rates increase by a massive ~35%
- From where do we cut costs to fund this increase?
- Increase will impact substantially on the viability of our business – and that of many other industries in Tasmania

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Draft Determination

- Cost of delivered energy in Tasmania is not competitive with other Australian States/Territories – even before transmission price increase applied!
- Tasmanian energy prices significantly above internationally competitive rates
- Delivered cost of energy in Tasmania continues to rise and indications are that NEM entry will see these price increases continue

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Draft Determination

- Transend is monopoly provider
- Unlike commodity producers, Transend enjoys secure and predictable income and is not subject to fluctuations in price/revenue
- Adopts a cost-plus approach with little incentive to reduce costs or seek operating and capital efficiencies
- GHD identified the absence of a rigorous process to ensure lowest net cost option is adopted and capital efficiency demonstrated
- GHD also commented that, as a monopoly service provider, these aspects are critical especially to support the Application. *“it is difficult to assess the right level of investment in a review process such as this”*

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- In other jurisdictions load growth has helped to absorb transmission price increases
- However, Tasmania has experienced only marginal load growth (if any) which means existing customers must carry the full burden of price increases
- In the event of a large consumer closing down that burden will be even greater
- A recent survey by Tasmanian Minerals Council has shown that no Tasmanian mine is operating at a profit

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- Asset Valuation - ACCC states increase of nearly \$7m per annum is directly related to the asset value set by Tasmanian Government
- The Tasmanian Government has rejected requests for consultation on the issue, and refuses to open or review the valuation
- ACCC must use OTTER valuation of 30 June 2001 which properly considered actual capex, depreciation and disposals, to ensure fair and reasonable outcome

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- Assets being replaced should be regarded as fully depreciated
- Either assets are of low value and in need of replacement, or they are of high value and do not need replacement
- ACCC should phase in increases in valuation – as the assets are commissioned

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- Increase in OPEX suggests Transend may have become less efficient and/or it is not implementing efficient capital solutions
- The increase in OPEX is at odds with significant capital expenditure and historical levels of OPEX
- ACCC should direct Transend to provide information previously requested and detailed on page 37 of the Draft Determination

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- ACCC must ensure that rigorous external review of all capex is implemented to ensure lowest net option is consistently adopted and capital efficiency demonstrated
- It is concerning that majority of capex is spent early in the cap period and that past performance suggests that value will not be delivered
- GHD assertion that the technical solutions are correct has not been tested

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- ACCC estimate that its Draft Decision will result in 10% increase in nominal terms on average in transmission charges
- A number of large industries are reporting an outcome of up to ~40% increase in Transmission Charges – on top of reported increases in energy charges and other delivery costs (Renewable Energy Certificates)
- If Draft Determination is accepted, Tasmanian industry will be negatively impacted