



TPM outcome important for future of Tiwai Point Aluminium Smelter

The outcome of the Transmission Pricing Methodology (TPM) review was becoming increasingly important to the future of the Tiwai Point Aluminium Smelter, Forsyth Barr broker Damian Foster said.

Smelter owner New Zealand Aluminium Smelters (NZAS) was undertaking work to determine the level of maintenance capital expenditure it had to undertake. It was expected the company would have to make a decision soon on its deferred maintenance spend.

"Committing to capex is a good indication NZAS is likely to stay open for longer. However, it is clear that the outcome of the transmission pricing methodology



review is becoming increasingly important," Foster said.

In March, the NZAS contact with Meridian Energy was amended to allow the smelter to defer its decision on contract volumes, which would allow NZAS to incorporate the TPM paper result now expected in May into its thinking, Foster said.

With regard to the profitability of NZAS, Forsyth Barr's tracking indicated in March the operating profit/tonne ratio fell 37 per cent to \$181 a tonne. The main drivers of the fall were an increase in the cost of alumina (up 8.5 per cent) and the lift in the NZ dollar-US dollar cross (up 1.7 per cent).

To further underscore the importance of

the TPM, if maintenance capex was assumed to be \$50million, NZAS was cash-flow positive only 53 per cent of the time since the beginning of 2013.

However, the amount of time NZAS was cash-flow positive increased to 76 per cent if transmission prices were \$30million less, he said.

"We maintain our view the TPM is likely to provide NZAS with transmission cost relief of about \$30million a year, which is lower than the \$50million-a-year saving indicated in the last TPM paper published in June 2015.

"That relief, combined with a cautiously positive medium-term aluminium sector outlook, should be enough to ensure NZAS stays open."

Meridian had made its contract with NZAS publicly available, although anything to do with pricing had been redacted, Foster said. Most of the key contract terms were well known to the market, such as termination clauses and the ability to drop contracted volume to 400MW from the current 572MW.

Alcoa to sell Natural Gas Pipeline stake to Duet Group



Lightweight metals major Alcoa announced that Alcoa of Australia has agreed to sell its stake in DBP, the owner and operator of the Dampier to Bunbury Natural Gas Pipeline (DBNGP), to DUET Group (DUET) for AU\$205 million (US\$154 million approx.). DBP is currently owned 20 per cent by Alcoa of Australia and 80 per cent by DUET.

As part of the transaction Alcoa of Australia will maintain its current access to approximately 30 per cent of the DBNGP transmission capacity for gas supply to its three alumina refineries in Western Australia.

The sale is expected to close in early April. The company expects to recognize a gain in connection with the sale of between \$10 million and \$15 million, after-tax and non-controlling interest, or \$0.01 per share. Alcoa of Australia expects the net cash impact of the transaction, after estimated fees and taxes, will be approximately US\$115 million. Alcoa of Australia is owned 60 per cent by Alcoa Inc., and 40 per cent by Alumina Limited.

NALCO's captive power plant in trouble

The 1,200 mega watt (MW) captive power plant of National Aluminium Company (NALCO) faces an imminent closure due to lack of facilities to evacuate the slurry. The two ash ponds of the company have been filled to maximum and are hardly in a position to contain more slurry. The company's proposal to dump slurry in a void coal mine at Talcher, as a long term solution, is pending due to political hassles. Nalco generates about 6,000 tonnes of ash daily at present from its seven 120 MW units.

According to official source, Nalco got a void coal mine at Bharatpur in 2010 and accordingly work order was issued to a contractor in 2011 to construct 23 km pipeline from the power plant to mine. The work was to be completed in about two years time but the construction is not over due to lack of forest clearances and other reasons.



Moreover, local villagers have been demanding sops hindering the process.

"Only 5 km pipeline remains to be completed but the work have suffered cost escalation due to delay. If the work does not restart soon, we will have trouble in dumping the slurry and the power plant will have to be closed", the official said.

"As a temporary solution, we are raising the height of the existing ash dyke by 3 metres with the permission of Odisha State Pollution Control Board (OSPCB). It can be managed for one year more," he said.