

10<sup>th</sup> August 2015

Australian Energy Regulator

[AGN2015GAAR@aer.gov.au](mailto:AGN2015GAAR@aer.gov.au)

Dear Sir/ Madam

**Re: Australian Gas Networks (Access arrangement revision proposal 2016-21)**

Nyrstar welcomes the opportunity to provide its comments and views in relation to Australian Gas Networks Access Arrangement for the period of 2016 -2021. By way of background Nyrstar Port Pirie is located on the Spencer Gulf about 200 km north of Adelaide. It is an integrated lead-zinc smelter also producing silver, gold, copper and acid. Based on a socio-economic study conducted in 2011, the smelter is a significant socio-economic contributor to regional South Australia providing direct and indirect employment of 3,250 jobs, value add to GSP of approximately \$495 million p.a. and provides a total wages/ salaries effect of \$253 million. The smelter is currently embarking on a major capital development program which will transform the smelter's technological footprint, operating capability and significantly improve its environmental impact on the community (Redevelopment). Nyrstar is a price taker in international commodity markets which can be volatile and must continually manage and improve its cost position in order to be competitive in a global market. Nyrstar Port Pirie cannot pass-through cost increases in inputs such as gas commodity, transportation and distribution charges. Nyrstar Port Pirie is a large gas user with an annual consumption of ~1PJ and uses the AGN gas distribution system for gas supply to the smelter with these distribution services contracted through a gas retailer. We have reviewed the proposed AGN Revised Access Arrangement for the period 2016 – 2021 and offer the following comments in relation to this proposal.

- Whilst Nyrstar welcomes a reduction in tariffs in the first year the proposed increases year on year (at least twice the rate of current inflation) is difficult to justify. Nyrstar Port Pirie is concerned that AGN's regulatory asset base value in \$nominal increases by approximately 40% over the regulatory period. Nyrstar questions whether the level of Regulatory Asset Base (RAB) on a RAB per unit of gas transported basis is grossly inflated and urges the AER to benchmark the RAB and other RAB drivers such as capital expenditure to ensure the RAB is not inflated.
- The proposed AGN capital expenditure is approximately \$700 million which amounts to half of its current RAB value. This quantum of capital is significant and raises questions on whether the capital expenditure is indeed efficient and whether AGN has properly risk assessed the proposed capital program and have they considered alternative solutions or delaying part of their capital program. Nyrstar is not advocating capital reductions that compromise the distribution network safety and integrity but the approach to capital expenditure should be consistent with the principles of how an enterprise manages and allocates capital in a competitive industry where capital is viewed as a scarce resource.
- The proposed Weighted Average Cost of Capital that AGN are seeking is excessive and is not consistent with recent regulatory decisions in electricity networks.
- The proposed operational expenditures in real terms is essentially flat but raises the question is why such a proposed large capital investment is not translating into

Resources for a changing world

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greater efficiencies and cost reductions greater than the rate of inflation?

- Nyrstar is concerned with some of the provisions in the SA Access Arrangement Annexure G, General Terms and Conditions July 2011. In particular, section 5 'Daily over runs' and Section 6 pertaining to provisions of an administered MDQ for a period of 2 years. Nyrstar considers these provisions as unreasonable and should be exempt for large gas users. This is because there may be occasions where large gas users like Nyrstar cannot control the gas demand and hence cannot mitigate against exceeding MDQ due to safety or other operational reasons. In Nyrstar's experience these 'administered MDQ arrangements' have been applied and has caused large increases in distribution costs for which Nyrstar cannot do anything to reduce. Furthermore, it is questionable whether these price signals do anything to improve network efficiency and investment.

We look forward in further discussing this Access Arrangement with you.

Nyrstar Port Pirie Pty Ltd