



Sun Metals Corporation Pty Ltd ABN 97 074 241 982
1 Zinc Avenue, Stuart
Townsville Queensland 4811 Australia
PMB 10 Townsville MC, Queensland, 4810

Telephone: + 61 7 4726 6666
Facsimile: + 61 7 4726 6300
Email: admin@sunmetals.com.au

9 February 2007

Mr Mike Buckley
General Manager
Network Regulation North
Australian Energy Regulator
PO Box 1199
Dickson ACT 2602

Email: powerlinkreset@aer.gov.au.

Dear Sir

Submission on AER Draft Decision on Powerlink Revenue Cap 2007-08 to 2011-12

Introduction and Background

Sun Metals has a zinc refinery in Townsville and is a unique participant in the national market in Queensland. Sun Metals is a market customer and a transmission (Powerlink) connected customer. Sun Metals is the second biggest point load in Queensland with a contract demand of 134MW.

Sun Metals is directly impacted by the performance and costs of the Powerlink system that connects North Queensland (NQ) to the rest of the National Grid.

Powerlink has proposed some network developments to reinforce its existing transmission network to cater the forecasted demand growth in the Townsville and northern area. In order to enhance the power transmission capability between CQ and NQ grid sections, the Powerlink proposal has identified three main transmission developments in its annual Planning Report 2006¹, as stated below.

- Stage 1 — Construction of a 275kV transmission line between Broadsound and Nebo substations, and 275kV SVC at Strathmore substation by late 2007
- Stage 2 — Construction of a 275kV transmission line between Nebo and Strathmore substations by late 2008
- Stage 3 — Construction of a 275kV transmission line between Strathmore and Ross substations by late 2010

¹ Refer the Section 5.4.2 of the Powerlink Annual Planning Report 2006.

The draft determination published by the AER on 8 December 2006 rules that the Stage 3 development does not meet the criteria for inclusion in the revenue cap and a smaller project is proposed by the AER and its consultants.

Sun Metals has reviewed the AER draft decision and the ROAM Consulting submission prepared for Townsville Enterprise. Sun Metals has held discussions with Powerlink.

Sun Metals supports the submissions that argue for inclusion of the Powerlink proposed Stage 3 development on the basis that the forecast loads are likely to underestimate growth in NQ and the reduced cost of losses paid by NQ will off-set the increased network costs resulting in net market benefits.

Sun Metals submission requests that the AER reconsider the decision and include the capital expenditure for the Powerlink Stage 3 CQ-NQ development in the revenue cap determination.

Load Forecasts

Sun Metals (134MW) represents a significant proportion (~25%) of the regional demand. Sun Metals refinery has been constructed as a staged development. The layout of the refinery, the civil infrastructure and services have been designed and installed to allow the current capacity to be doubled. This will occur in the future at a time that is determined by zinc market economics and greater certainty in delivered electricity costs.

Sun Metals has included the expansion in its 10 year high growth forecast to Powerlink. This reflects Sun Metals normal conservative forecasts of requirements. Under the right conditions this will be brought forward into the current 5 year likely forecast.

Sun Metals also owns a significant proportion of the industrial estate which makes up the state government's "Townsville Industrial Zone". Sun Metals is aware of the numerous opportunities for further industrial development in the Stuart / Townsville South area which will also increase the NQ demand above the Powerlink forecasts. The recent shelving of the PNG Gas Pipeline project will not impact on these plans. The type of industrial load development that Sun Metals sees in the area is not dependent on PNG Gas.

Sun Metals therefore submits that the Powerlink and AER forecasts are likely to understate requirements from the industrial sector.

Delivered Price

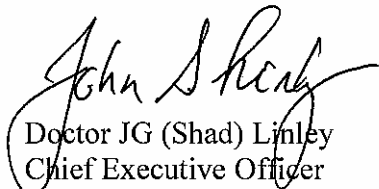
The fundamental realignment of Marginal Loss Factors in NQ that will result from the Powerlink developments (including the Stage 3 double circuit line) will counter the increased network charges to deliver overall market benefits to existing customers. The market benefits will grow over the regulatory period because the reduced MLFs will work to increase the industrial load growth in the area. The increased load growth will tend to reduce the per-unit cost of network charges and hence realign the delivery costs of electricity for NQ.

Sun Metals therefore submits that the market benefits of the Powerlink Stage 3 development will outweigh the short term higher network charges that will be imposed on current customers.

Summary

Sun Metals submits that the Stage 3 development of the CQ-NQ network is consistent with the Rules and the Statement of principles for the regulation of electricity transmission revenues because it accounts for the likely “under-estimate” of industrial load growth in the NQ area and provides market benefits from reduced total delivered costs in NQ.

Sun Metals requests that the AER amend its draft determination accordingly.



Doctor JG (Shad) Linley
Chief Executive Officer
Sun Metals Corporation