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28 August 2009

Glenn Appleyard
Regulator
Office of the Tasmanian Economic Regulator
GPO Box 770
HOBART 7001

Dear Mr Appleyard

Re: Declaration of Electrical Services

Rio Tinto Alcan welcomes the opportunity to provide comment on your intention to declare the supply of raise contingency frequency control ancillary services by Hydro Tasmania as a declared electrical service under Regulation 19 of the *Electricity Supply Industry (Price Control) Regulations 2003*.

As you would be aware, Rio Tinto Alcan owns and operates an aluminium smelter at Bell Bay in northern Tasmania and we are a major stakeholder both in Tasmania and the Tasmanian electricity market.

Our Bell Bay smelter directly employs 580 men and women, and our operation is responsible for the creation of a further 1800 Tasmanian jobs. In 2008 we paid \$50.1 million in salaries and spent \$171 million purchasing goods and services from Tasmanian suppliers, excluding \$24 million in capital investment projects.

Rio Tinto Alcan is the largest consumer of electricity in Tasmania, with a take or pay contract to 2014 for 322 megawatts - representing about one quarter of the State's electricity demand. In aluminium production, electricity is a major raw material, accounting for around one third of the total cost of converting alumina to metal. The long term availability of secure electricity supply at a competitive price and quality is therefore fundamental to the viability of our business and indeed to our future in Tasmania.

In 2008 the Bell Bay smelter produced 180,000 tonnes of aluminium for domestic and export markets. However, the price we receive for our products is not determined by us, but set by the London Metals Exchange. As a price taker operating in a competitive and volatile global market, we are unable to pass on any increase in costs to our customers. It is not possible in a competitive market to work on a cost plus margin position. Rather we are required to align operating costs and expenditure so that adequate margins exist at prevailing market prices.

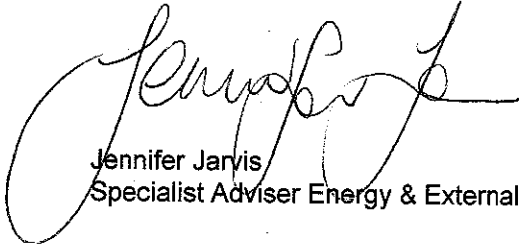
Rio Tinto Alcan acknowledges the Tasmanian electricity market is constrained by its relatively small size, and the limited number of generators and ancillary service providers. However we remain concerned that the electricity market in Tasmania is transparent and efficient, and facilitates and encourages competition.

As you would appreciate, the cost to a generator for the procurement of ancillary services, including raise contingency frequency control ancillary services, are passed through to retailers and ultimately customers, through higher electricity prices. Currently there is little transparency in the way these costs are incurred and charged.

It is our experience that these charges for ancillary services appear as single line on an invoice. Generally speaking, there is little or no oversight or confirmation by the Regulator to ensure the charges passed through to major industrial customers are both justified and reasonable.

Rio Tinto Alcan therefore supports the Regulator's review into the supply of raise contingency frequency control ancillary services. As it is ultimately customers who pay the consequences of an uncompetitive market, we encourage you to take whatever action is necessary to ensure that any market power does not result in avoidable increases in electricity costs to consumers, or harm or limit the potential for increased competition in Tasmania.

Yours sincerely



Jennifer Jarvis
Specialist Adviser Energy & External Relations