

23 April 2008

Greenhouse Gas Reduction Scheme Transition Review
Department of Water and Energy
GPO Box 3889
SYDNEY NSW 2001

By email ggastransition@dwe.nsw.gov.au

Dear Sirs,

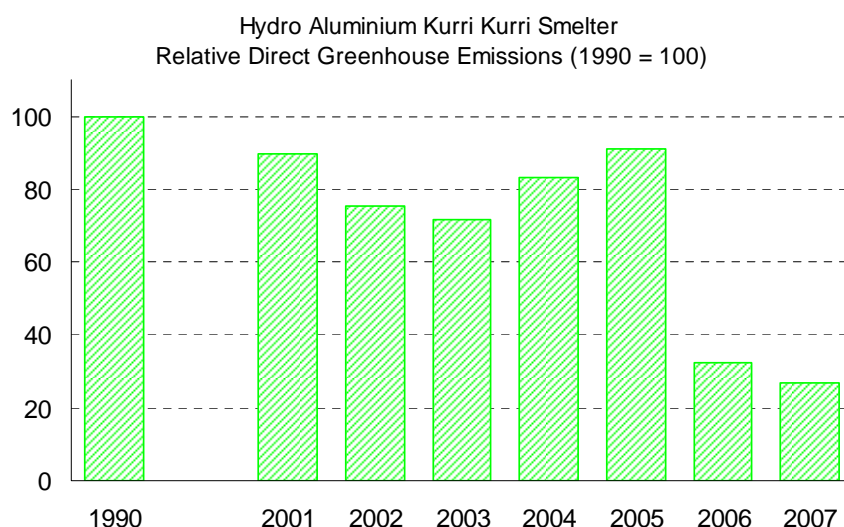
**KURRI ALUMINIUM SMELTER
TRANSITIONAL ARRANGEMENTS FOR THE
NSW GREENHOUSE GAS REDUCTION SCHEME CONSULTATION PAPER.**

Overview

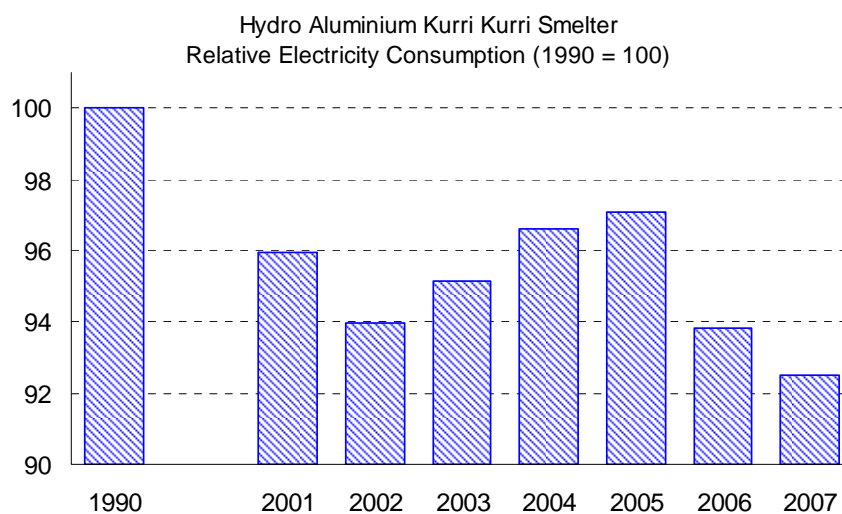
Hydro Aluminium Kurri Kurri Pty Ltd (“Hydro Aluminium”) is a wholly owned subsidiary of Norsk Hydro, one of the largest integrated aluminium producers in the world. Norsk Hydro prides itself as a leader in greenhouse gas mitigation and management among its peer group of aluminium producers.

Hydro Aluminium owns and operates the aluminium smelter located near Kurri Kurri in the Hunter Valley region of New South Wales. The smelter is the largest employer in the local area, with 500 direct employees and a larger number of contractors employed by other local companies. Over 85% of the smelter’s production is exported, creating earnings of approximately A\$400 million annually.

Consistent with the outcomes across Norsk Hydro’s portfolio, the Kurri smelter has taken a leading role in reducing its greenhouse gas intensity in respect of its direct emissions, as depicted in the graph below. Substantial capital investment undertaken in recent years to modernize the Kurri plant has had profound effect in reducing greenhouse emissions.



At its current size, the Kurri smelter is small by international standards. It lacks the economies of scale achieved by newer, larger facilities. To ensure its ongoing viability, the Kurri smelter requires a high degree of certainty as to its cost position. Energy represents one of the largest cost component, in the order of 30% of cash operation costs. The Kurri smelter therefore has a very high incentive to improve energy efficiency and reduce its effective consumption of power. The Kurri smelter's current annual consumption is around 2,800GWh, equivalent to a base load of 320MW of continuous electricity supply. As the graph below demonstrates, Hydro Aluminium has achieved significant improvements in energy efficiency at the Kurri Smelter.



Emissions Intensive Trade Exposed (EITE) Industries

Primary aluminium is internationally traded through the London Metal Exchange with the selling price fixed internationally in US dollars. Smelter profitability therefore only comes from minimizing production costs, as the selling price is determined globally and outside the control of the individual smelter. Local cost increases cannot be recovered in the market.

It is therefore likely that the Kurri Kurri smelter will be recognized as EITE under a national ETS.

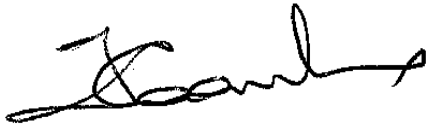
NSW Greenhouse Gas Abatement Scheme (GGAS)

The Kurri Kurri smelter is a registered Large User under GGAS. The greenhouse improvements outlined above have resulted in the smelter being able to create a significant number (around 650,000) of LUACs per annum in meeting its GGAS compliance. The smelter also creates a smaller number (around 40,000) of DSA NGACs per annum.

Large User Abatement Certificates

Paragraph 4.2.5 of the Consultation Paper comments on various transition options for the Large User Abatement Certificates. The Kurri Kurri smelter has made substantial investment decisions based on the existence of the Large User Abatement Certificate scheme being in place until at least 2012. The Smelter supports the proposed transition option for the provision of free permits up to the value of the estimate of disadvantage over the transition period.

Yours faithfully,
Hydro Aluminium Kurri Kurri Pty Limited



Trevor Coombe
Global Alumina and Smelter Growth, Oceania Region