

Box 3 Revised plans for smelter and power station construction

In the past few weeks the scenario for investments in aluminium smelters and power stations has changed in two respects. Norðurál has decided to boost its production capacity by more than previously planned, with an additional investment of just over 10½ b.kr. spread over 2005 and 2006. Alcoa has also revised the cost and development schedules for its aluminium smelter in Reyðarfjörður, east Iceland. While estimated total cost has not changed substantially from previous plans, investment will be stepped up next year with a corresponding reduction in 2007. Overall, the scale of investment in these projects will increase considerably in 2005 and slightly in 2006, but contract in 2007.

In the beginning of November Norðurál concluded an agreement with Suðurnes Heating (Hitaveita Suðurnesja, HS) and Reykjavík Energy (Orkuveita Reykjavíkur, OR) on expanding its smelter at Grundartangi, west Iceland, by 32 thousand tonnes per year (tpy) over and above the 90 thousand tpy expansion that had already been agreed. When this new capacity goes on stream in autumn 2006, total production capacity at the smelter will be 212 thousand tpy. Talks are also in progress with the same utilities on further power sales to boost Norðurál's production capacity by a further 8 thousand tpy in 2006.

Norðurál is also mulling a further 40 thousand tpy expansion over the period 2007-2009. If this project materialises, the smelter's total capacity could increase to as much as 262 thousand tpy towards the end of the present decade. Preparations and talks with OR and other authorities are under way and a conclusion is aimed for within 4-6 months.

Estimated cost of the expansion that has already been agreed is 7.5 b.kr., of which 4.5 b.kr. will be invested next year. The manpower requirement during construction will increase by an estimated one-third, or 140 man-years, compared with earlier plans.

The bulk of power for the plant will be supplied by HS. Geothermal harnessing that it is currently undertaking on the Reykjanes peninsula will provide up to 100 MW. Since this figure is some way above previous estimates, there is more scope for power sales to Norðurál than originally assumed. HS's power station at Svartsengi will be expanded by 20 MW with an investment estimated in the region of 3 b.kr. Total investment in the additional 32 thousand tpy capacity at Norðurál and harnessing the power to supply it is estimated at 10½ b.kr., while the total cost of expanding Norðurál from 90 to 212 thousand tpy is put at 32 b.kr., and the extra power facilities at just over 20 b.kr.

Aluminium and power sector investments: total investment cost 2001-2009

Construction of Fjarðaál smelter, expansion of
Norðurál smelter and related power facilities

