



AUSTRALIAN
ALUMINIUM
COUNCIL LTD

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Energy Security Board
Via info@esb.org.au

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Dear Chair

Re – Response to Consultation Paper on Interim REZ Framework

The Australian Aluminium Council (the Council) represents Australia’s bauxite mining, alumina refining, aluminium smelting and aluminium extrusion industries. The Australian aluminium industry has been operating in Australia since 1955, and over the decades has been a significant contributor to the Australian economy. Alongside many decades of economic contribution, the industry is globally comparatively young and well maintained. The industry includes five bauxite mines (>10 Mt per annum), six alumina refineries and four aluminium smelters. Australia is the world’s largest producer of bauxite and the world’s largest exporter of alumina, and the sixth largest producer of aluminium. The industry directly employs more than 15,000 people, including 4,000 full time equivalent contractors. The industry also indirectly supports around 40,000 families in regional Australia.

Aluminium industry and the National Electricity Market

Within the National Electricity Market (NEM) the Australian aluminium industry has four aluminium smelters and two alumina refineries and uses more than 10% of the electricity consumed in the NEM. Accordingly, the Australian aluminium industry has a strong interest in electricity policy. Electricity typically accounts for around 30-40% of aluminium smelters’ cost base, and therefore it is a key determinant of their international competitiveness. Alumina refineries, while not as electricity intensive as smelters, are also significantly exposed to electricity policy. The electricity supply requirements of the aluminium industry, can be summarised as follows:

- least cost, and an internationally competitive delivered electricity cost, as a minimum;
- consistent uninterrupted electricity supply; and
- an ability to secure electricity supply under long-term contractual arrangements.

These outcomes need to be delivered within the framework of Australia’s Paris Agreement emission targets.

Australia’s industry is seeking a restoration of international competitiveness. For the aluminium industry, it is the delivered cost (including transmission) of electricity which drives international competitiveness. Therefore, the potential for any additional transmissions costs to be passed through by the Australian Energy Regulator (AER) when it assesses the operating expenditure allowance as part of a revenue determination, are of concern to the Council.

Renewable Energy Zones (REZs)

The Council welcomes the opportunity to provide feedback to the January 2021 Energy Security Board (ESB) discussion paper “Consultation Paper Renewable Energy Zones” (the Paper). The Council has considered how the Paper contributes towards meeting the needs of the aluminium industry and the content has been tested against the Council’s view of design principles for an electricity system (See *Attachment 1*).

The Council welcomes the recognition of the need for a consistent national framework for REZs, given much of their development is being led at a State level. Acknowledging that the current transmission network is insufficient to support the additional connection of large quantities of renewable generation which will occur over the next twenty years, a more orderly development should benefit both renewable investors and electricity consumers. Development of a REZ framework can also provide an appropriate steppingstone to a long-term solution for transmission access reform.

While the Council does not have specific views on the draft amendments to the National Electricity Rules (NER) to support the design of Renewable Energy Zones (REZs), the Council does have views on the need to ensure co-ordinated changes in the transmission and generation investments align with the optimal development path for the power system in a way that has regard to the needs of electricity consumers while advancing Australia's Paris Agreement goals.

The current regime, which requires the Australian Energy Market Operator (AEMO) and Transmission Network Service Providers (TNSPs) to connect new generators even if transmission capacity is limited, has resulted in passed increased cost to consumers. Under the current framework, if a transmission investment associated with a REZ is classified as an actionable Integrated System Plan (ISP) project and passes the Regulatory Investment Test for Transmission (RIT-T), it proceeds on a regulated basis funded by electricity consumers. The Paper notes that historic major transmission investments, arising from ad hoc developments, have results in these costs being passed to consumers through the AER.

The Paper proposes an alternate model whereby generators would contribute to the cost of the REZ's shared transmission infrastructure, through a REZ auction. The Council would support this model, as it should ensure that the group of projects which become part of a REZ is selected on the basis that aligns with the long-term interests of electricity consumers, therefore reducing the cost and risk ultimately borne by customers.

The Council is happy to provide further information on any of the issues raised in this letter and looks forward to continuing to work further with the Energy Security Board on matters to improve the commercial arrangements supporting a competitive, reliable and secure NEM.

Kind regards,

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Attachment 1

Australian Aluminium Council - Electricity System Design Principles

Engender Australian advantage

Support a future where Australia's world class energy resources are translated into internationally competitive, low emissions, reliable energy to ensure industrial production, emissions and jobs are not exported to other countries. As Australia transitions away from a thermal fleet and towards increasingly variable and distributed generation, industrial load provides a physical and commercial "ballast" to the grid. The value of this load as both ballast and interruptible supply needs to be recognised in the development of competitive frameworks.

Avoid shocks to all market participants, including consumers

The approach to transition should be consistent with a rapid evolution, rather than revolution, in electricity reform processes. Transition should seek to avoid shocks and discontinuities where possible and rule makers should work to ensure the preservation of existing commercial contracts (grandfathering) to prevent disadvantage to all market participants who are willing to invest and contract for the long term.

Deliver improvements throughout the transition, not just in the long term

The short term versus long term balance in interpreting the National Electricity Objective is skewed in favour of the long term, which can lead to short term disadvantage. There needs to be a more risk-based approach to changes which reflects the certainty around short term costs and the uncertainty of long-term benefits. The staging of the transition must be recognised, as well as the final outcome, looking for benefits along the pathway. In considering the most beneficial end point, the benefits and costs of the transition, should also be considered.

Recognise the starting point and state-by-state variation in any design

The current energy-only market has not been able to deliver perfect competition, some regions are more balanced than others and many regions have relied on major Government investment to provide supply and manage the transition. Future market reforms need to recognise that the playing field within the market does not start from a basis of levelized competition, regulations will be required which encourage competition in the services which are needed to balance the current imperfections and in jurisdictions where the current market competition levels are unable to drive efficient outcomes. In designing new structures that recognise the reality of the starting point an important principle of design is that the cost of regulation should not exceed the private benefits.

User participation should be voluntary and recognise the complexity of participation

Even for large, sophisticated industrial users, the procurement of electricity is primarily seen as an input into production; rather than being the core process for the business itself. As the emphasis in market design switches to more demand side participation, assumptions need to be continually tested regarding the complexity of requirements to participate. It is important to recognise that demand site participation will impact on both operational processes and safety; and has the potential to distract from the core business processes of end users. It requires complex technical considerations within the businesses of industrial users that interact with the market. Outsourcing participation to an intermediary does not remove the need for the business to manage its physical interface with the market. Accordingly, services that industrial users could provide – such as demand management, stability, ancillary services, and emergency response – should be provided on a voluntary basis and need to be adequately compensated for.