

COAG Energy Council
Energy Security Board
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Dear Chair



AUSTRALIAN
ALUMINIUM
COUNCIL LTD

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Re – Response to Consultation on Draft Interim Reliability Reserve Rules

The Australian Aluminium Council (the Council) represents Australia’s bauxite mining, alumina refining and aluminium smelting 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 around 14,500 people, including 4,000 full time equivalent contractors. The industry also indirectly supports around 40,000 families in regional Australia.

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 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.

While the focus of this submission is in the context of a Draft Interim Reliability Reserve Rules, it is important to recognise that Australia’s electricity intense manufacturing sector is facing intense challenges. These challenges have been exacerbated by the collapse in aluminium and alumina prices because of COVID-19, and the longer-term future of industry will depend on the rate of recovery of the global manufacturing sector and the impact this has on international demand. To be sustainable Australia’s electricity intense manufacturing sector, particularly aluminium smelters, require relief from the high delivered cost of electricity.

Equally, the COVID-19 pandemic has underscored the importance of electricity intense manufacturing domestically, both in terms of economic and employment contribution but also in underpinning the stable operation of the NEM. Australia’s ability to ensure its world class energy resources are translated into internationally competitive, low emissions, reliable energy will be central in ensuring the electricity intense manufacturing sector, such as aluminium, can continue to support the energy transition. This will help ensure industrial production, emissions and jobs are not exported to other countries.

The Council welcomes the opportunity to provide feedback to the May 2020 Energy Security Board (ESB) discussion paper “Draft Interim Reliability Reserve Rules” (the Paper), including the supporting studies by ACIL Allen and EY. In considering its response to the Paper, the Council has considered how the Paper contributes towards meeting the needs of both the aluminium industry and the design principles for a future NEM. Council members generally have very long-term electricity contracts. However, the expiry of these varies from 2021 to 2029, spanning the duration of the proposed period of reform under consideration by the ESB. Even smelters with existing long-term contracts are not immune to changes in the market as contracts still contain a range of change-in-law provisions. As each smelter and refinery has unique electricity arrangements, the Council will reserve its comments on the Paper to a high level.

The Council’s members already provide a range of services into the NEM, including Reliability and Emergency Reserve Trader (RERT). The industry has increasingly been called upon to provide these, to support grid stability and reliability, particularly in recent summers because of smelters’ large and fast-acting interruptibility.

The Council welcomes the recognition in the Paper of the value industrial loads can provide for a stable, reliable and competitive NEM. The aluminium industry values the bankability of payments so it can confidently invest and plan for the future. In this respect, the proposal to guarantee availability payments over three years, irrespective of whether demand response is called, is welcomed by the industry. However, there is no guarantee that it will be implemented from 2020/21. The proposed mechanism will only be triggered if the Electricity Statement of Opportunities (ESOO), indicates a requirement for at least two of the following three years including the summer of 2020-2021. At this stage, forecasts indicate that it does not appear likely to be triggered, reducing the bankability of this mechanism. Smelters seeking to recontract are facing difficult decisions, especially under current economic conditions. The Council believes the ESB should consider how it can expedite these Interim Reliability Reserve Rules to increase certainty in the bankability of this mechanism.

Additionally, the Council has concerns that Contract terms of up to three years, proposed in the Paper, are still only short term in the context of the investment cycle for aluminium smelters, so do not fundamentally offer a change to a smelters long term strategy. Also, three years does not provide a sufficient time horizon for investment which would allow smelters to enhance their capability to provide additional services to the market.

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

Kind regards,



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