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COUNCIL LTD

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Energy Security Board  
Via [info@esb.org.au](mailto:info@esb.org.au)

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Dear Chair

***Re – Response to Consultation Paper and Draft Rules – Interim REZ Framework***

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.

**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 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.

Electricity in the Australian market has in recent times been consistently priced in the highest (fourth) quartile of global prices for electricity intensive manufacturing. Australia’s industry is seeking a restoration of international competitiveness. A future where Australia’s world class energy resources are translated into internationally competitive, low emissions, reliable energy will ensure industrial production, emissions and jobs are not exported to other countries. Efficient deployment of technological changes will support the transition of economically important industrial sectors such as alumina and aluminium, enabling a greater manufacturing sector.

**Interim REZ Framework**

The Council welcomes the opportunity to provide feedback to the August 2020 Energy Security Board (ESB) discussion paper “Consultation Paper and Draft Rules – Interim REZ Framework” (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*).

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 users.

For the aluminium industry, it is the delivered cost (including transmission) of electricity which drives international competitiveness. Therefore, the potential for high 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.

The Council acknowledges 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. However, the Council's focus is ensuring the additional supply is delivered at least cost and risk, through co-ordinated transmission, storage and generation investments. Accordingly, the Council supports a "causer-pays" approach to ensure transmission network expansions are only built only when to do so, is more cost effective than building new storage or firming generation. This optimisation will not occur if consumers fund transmission costs for selected new generation projects.

The Paper notes that while the required growth in renewable energy is significant, it is not as fast as in recent years and that premature development of too many REZs would risk increasing costs to consumers. The Council supports development of interim frameworks to address immediate needs, while developing long term strategies for beyond 2030. This forward planning should be integrated with the post 2025 National Electricity Market design.

The Council supports the ESB's view that the draft REZ Planning Rule, if properly considered and implemented, should be consistent with the National Energy Objectives (NEO) because they will help to efficiently develop the national transmission network and integrate renewable energy into the power system, provided they ensure efficient connection to minimise future costs for customers.

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 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.