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Dear Clare

### **CONSULTATION ON THE NATIONAL ENERGY GUARANTEE**

Thank you for the discussion last week regarding The Guarantee and your suggestion that we provide any early thoughts on the design. I have laid out some initial views from the Council's membership below.

#### Reliability Component

As discussed at our meeting, large industrial facilities typically manage electricity supply under long-term contractual arrangements. As also noted in the meeting, we are working on the basis that our existing contracts – most of which have many years to run – should meet any reliability requirements proposed under The Guarantee. In our view, in order to manage their risk position, the counter-party to each of these contracts will only have entered into them if they had firm access to reliable supply and dispatch.

Any proposed reliability requirement that our existing contracts could not meet, may trigger reopening those contracts which is of significant concern to our members and in our view would be inconsistent with what we understand to be the intent of The Guarantee.

#### Emissions Component

The Energy Security Board, the Prime Minister, and others have already commented on the need for an exemption from the emissions component of The Guarantee for emissions-intensive, trade-exposed (EITE) industry. Such an exemption – similar to that which applies under the Renewable Energy Target – will be critical to the ongoing viability of electricity-using industry such as aluminium smelting and alumina refining.

We anticipate that the upcoming Consultation Paper will propose more detail of this element and we look forward to engaging in more detail, given that the design will be critical in delivering on the policy intent.

### Design Priorities

We suggest that when designing The Guarantee and attempting to meet objectives of reliability and emissions reduction, that affordability must also be prioritised in the design. An increase in contracting has been put forward as leading to reduced costs in future. Of particular importance to our members is the willingness of dispatchable generators to enter into long-term contracts in a market with increasing levels of intermittent generation with low variable costs and which have limited commercial risk if not dispatched during periods of temporary excess supply. If 'baseload' generators cannot secure dispatch even at minimum output when a temporary excess of low-cost intermittent generation is available, they are less likely to commit to long-term contractual arrangements because of the high commercial risk of uncertain market dispatch. In our view it is important in the design of The Guarantee to give full consideration to the interaction of the reliability and emissions reduction elements and the impact on the demand for, and the supply of, long-term electricity contracts.

### Consultation

At our meeting, you outlined the proposed short timeframe for consultation. While we are aware of the constraints of the process, we emphasise that the more The Guarantee proposes to depart from the existing market structure and the contracting arrangements that rely on it, the more care and consideration needs to be taken in consulting affected parties. Some possible models for The Guarantee would represent the largest change in market structure since the establishment of the National Electricity Market (NEM) and impact areas – such as contracting – that are beyond the direct remit of the three electricity market bodies represented on the Electricity Supply Board.

As part of the consultation processes around more detailed design of The Guarantee I would also like to express our interest in providing representatives to any working groups that would benefit from the perspective of large energy users.

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I am happy to provide further information on any of the issues raised in this letter. The Council looks forward to responding to the upcoming Consultation Paper and may also provide further information directly.

Yours sincerely



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