



AUSTRALIAN
ALUMINIUM
COUNCIL LTD

Australian Energy Market Commission (AEMC)
Via <https://www.aemc.gov.au/contact-us/lodge-submission>

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Dear Chair

Australian Aluminium Council Response: Amending the administered price cap

The Australian Aluminium Council (the Council) represents Australia's bauxite mining, alumina refining, aluminium smelting and downstream processing industries. The aluminium industry has been operating in Australia since 1955, and over the decades has been a significant contributor to the nation's economy. It includes five large (>10 Mt per annum) bauxite mines plus several smaller mines which collectively produce over 100 Mt per annum making Australia the world's largest producer of bauxite. Australia is the world's largest exporter of alumina with six alumina refineries producing around 20 Mt per annum of alumina. Australia is the sixth largest producer of aluminium, with four aluminium smelters and additional downstream processing industries including more than 20 extrusion presses. Aluminium is Australia's highest earning manufacturing export. The industry directly employs more than 17,000 people, including 4,000 full time equivalent contractors. It also indirectly supports around 60,000 families predominantly in regional Australia.

The Council welcomes the opportunity to provide feedback to the AEMC on its consultation paper Amending the Administered Price Cap (APC), August 2022 (the Paper). The Paper responds to Alinta's rule change request to increase the APC from \$300/MWh to \$600/MWh in every NEM region for 12 months to address the significant increase in the short-run marginal cost (SRMC) of most generators as a result of high global commodity prices. The Council notes that as this is an expedited rule change process, there are two processes running, firstly objections to the expedited process and secondly submissions on the Paper. While the Council has not formally made an objection to the rule change, we support the objection to the expedited process lodged by the Energy Users Association of Australia (EUAA). Noting this, the Council will in this submission focus on feedback to the Paper itself.

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 which use more than 10% of the electricity consumed in the NEM. Within each state, this can be much more significant, for example up to 35% of electricity used in Tasmania is used by Bell Bay Aluminium. 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. Unlike some other large energy users¹, both aluminium and alumina are globally traded commodities, which are unable to pass costs incurred domestically through to customers. There are also more than 20 extrusion presses, which while much smaller electricity users are exposed to the retail and short term contract markets. For the aluminium industry, it is the delivered cost (including transmission) of electricity which drives international competitiveness.

¹ <https://www.afr.com/companies/energy/we-either-pass-energy-costs-on-to-customers-or-shut-down-companies-20220706-p5azhc>

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;
- an ability to secure electricity supply under long-term contractual arrangements; and
- an ability to be compensated adequately for system services which smelters and refineries provide for the network and its stakeholders.

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

Aluminium industry and “Energy Crisis”

The NEM is going through a once in a century transformation, as Australia moves towards net zero emissions by 2050 and that this transition will need to be carefully managed, to ensure that all consumers are provided with competitively priced, reliable, low emissions energy. The Council has for many years recognised that the NEM is at risk of becoming a system which lacks reliability and system strength and has been actively working with the Energy Security Board (ESB) on the Post 2025 Market Reforms. Aluminium smelters already offer a range of services and functions which support the network over varying weather, network demand and operating conditions, including Reliability and Emergency Reserve Trader (RERT) and Frequency Control Ancillary Services (FCAS). Smelters’ large and fast-acting interruptibility helps secure and restore stability to the network before and after contingencies occur. The industry has increasingly been called upon to support grid stability and reliability, as the challenges in managing the grid increase. For example, during May and June 2022 Tomago Aluminium provided 32 hours of modulation across 18 events which were a mixture of RERT and responding to high market price. This response by Tomago supported AEMO to manage a complex and challenging system and maintain supply to domestic customers. The Council and its members recognise the unprecedented conditions which faced market operators in May and June 2022, and that under the current NEM rules AEMO had few options left in order to regain control of the market. However, these events were not driven in any way by changes in consumer behaviour, and particularly not by large industrial facilities which provided system services to manage the crisis.

Large energy consumers, like aluminium smelters, have long term existing hedge contracts, which essentially bundle the many markets services required to meet continuous electricity demand at an internationally competitive price. The scale of these contracts means that counterparties to these contracts *should have in place the necessary capacity and the necessary fuel* to ensure that they are able to meet their obligations without undue risk.

Feedback to Paper

The Council agrees that there is currently a mismatch between the \$40/GJ gas price cap, and the \$300/MWh administered price cap. However, the solution of raising the APC is not the only option. The Council would support Australian Energy Market Operator (AEMO) lowering the gas administered price cap from \$40/GJ to \$20/GJ. As noted in Section 2.3 of the Paper, this is still a substantial gas price, compared to long run gas production costs and international markets. The Council notes that a \$20/GJ price would be unviable in the long term for gas consumers, but consistency in the signals for both the gas and electricity markets would be of benefit.

Therefore, the Council does not agree with the pretext that the APC is itself the problem, it is the misalignment which is the problem and the best interests of consumers. The problem is ensuring adequate gas supply and competitive prices for gas will be essential to ensuring electricity reliability is maintained at least cost to consumers. This rule change is not an effective solution to this problem.

The Council notes the work currently being undertaken by the Federal Government to secure Australia’s Domestic Gas Supply² and believes that this, not an amendment to the electricity APC, is the appropriate

² <https://consult.industry.gov.au/securing-australias-domestic-gas-supply>

pathway to solve for the challenges of gas shortfalls and domestic fuel costs which are linked to the international market.

Conclusion

At a time when manufacturers are facing serious challenges, energy is one of the few advantages Australia has to offer. The Council urges the AEMC to continue to consider appropriate responses which help solve the challenges in the energy transition. Rapid responses to solve for an incorrect problem statement risk imposing increase costs on Australian consumers for years to come.

The Council seeks a national climate and energy policy framework which is transparent, stable and predictable, while maintaining the economic health of the nation including vital import and export competing industries. The ongoing electricity industry reforms, focused on the total system cost is of critical importance to the Council and its members. The Council is happy to provide further information on any of the issues raised in this submission.

Kind regards,



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