

12<sup>th</sup> November 2014

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### **FACILITIES: DRAFT METHOD DETERMINATION**

Thank-you for the opportunity to make a submission on the *Facilities: Draft Method Determination*. This submission is made on behalf of the bauxite mining, alumina refining, and aluminium smelting sectors, which directly employ more than 14,000 people and sustain the livelihoods of more than 50,000 households, most in regional Australia. We are responsible for more than \$9 billion of export earnings for the Australian economy and make up a substantial part of the economic activity in regions where we operate including Arnhem Land, Gladstone, south-west Western Australia, Hunter Valley, Cape York, Portland and Tasmania.

With direct emissions of 3.5 million tonnes CO<sub>2</sub>-e per year and indirect emissions of more than 25 million tonnes CO<sub>2</sub>-e per year there are likely to be opportunities to pursue emissions reductions under the Emissions Reduction Fund (ERF) within our sector and hence our interest in the development of this policy.

#### Project Potential

Overall, the Facilities Method provides an efficient way for projects that will have a material impact on emissions at a whole-of-facility level to bid into the ERF. This type of project invariably involves the investment of significant capital and typically has a longer payback period.

While opportunities for these projects exist within the alumina refining and aluminium smelting sectors in Australia, the businesses are unlikely to be in a position to proceed until market conditions and the Australian currency improve from their current position – even with the possibility of funding from the ERF.

#### Electricity Factors

The Facilities Method proposes the use of electricity factors, which section 28 of the Determination specifies as: “for electricity obtained from an electricity grid that is a grid in relation to which the NGA Factors document in force on the declaration day includes an emissions factor—that factor, in kilograms CO<sub>2</sub>-e per kilowatt hour”.

The current NGA Factors document lists separate factors for each state within the National Electricity Market (NEM). The Council understands from discussions with the Department of the Environment that future versions of the NGA Factors document will include a single

NEM-wide factor and that the reference to a “grid” in Section 28 would then require the use of the NEM-wide factor for ERF projects at facilities that obtain electricity from the NEM and use the Facilities Method.

It is critical for the crediting of the true emissions reduction benefit of projects that reduce electricity use, particularly in Tasmania, that this approach be utilised and we seek confirmation of the arrangements described above either by response to this letter or in a revised version of the Explanatory Statement.

#### Significant Expansions

The Council notes the exclusion in the Facilities Method of projects that lead to a significant expansion where “the maximum productive capacity of all equipment used to produce or process the facility’s production variables is 20% greater than the maximum productive capacity of the equipment that was used before the new equipment was installed” – even if those projects led to a reduction in emissions-intensity of production.

The Council understands that this is due to perceived difficulties in establishing the ‘counterfactual’ baseline for such a project.

It should be noted that projects such as these – where a single redevelopment at a facility leads to an expansion in productive capacity of more than 20% and a significant reduction in the emissions intensity of the original productive capacity – will not be uncommon. For example a facility may add an additional line of productive capacity and upgrade the boilers used to service the original capacity as well as the additional boilers for the expanded capacity, all as part of one project.

It would be relatively straightforward (and efficient) to credit such a project with the reduction in emissions intensity (old emissions intensity minus new emissions intensity) applied to the original productive capacity (or historical production).

These projects will be important components of growth in the Australian economy, particularly as they will be concentrated at facilities that are at the low end of global cost curves and with long-term competitiveness. It is in the Government’s interests – economically and environmentally – for these projects to proceed and the Facilities Method should provide a path for the emissions reduction component to be facilitated.

If the Government was not willing to take that simple approach, it may be appropriate to prioritise the development of a methodology that could effectively credit the real reduction in emissions from the original production level that is achieved by this type of project.

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Thank you for the opportunity to comment on the Draft Facilities Method. We look forward to engaging further on this topic as well as on the Industrial Energy Efficiency Method, the Safeguard Mechanism and other elements of Direct Action. If there are any questions please contact me at [miles.prosser@aluminium.org.au](mailto:miles.prosser@aluminium.org.au), or on 0429 923 605.

Yours sincerely



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