

8th October 2019



**AUSTRALIAN
ALUMINIUM
COUNCIL LTD**

PO Box 63, Dickson

ACT 2602

Ph: 6267 1800

info@aluminium.org.au

Safeguard Team

Department of Energy and Environment

By email: Safeguard.Mechanism@environment.gov.au

CONSULTATION ON ON-SITE ELECTRICITY GENERATION SAFEGUARD

Thank you for the opportunity to provide feedback on the proposed prescribed production variables and default emissions intensity values for on-site electricity generation, as outlined in the Consultation Draft of Production Variable Development, On-site Electricity Generation, September 2019 (the Paper).

Australia's aluminium smelters, alumina refineries and bauxite mines are all required under the Safeguard Mechanism to keep their net Scope 1 emissions below a facility-specific baseline. In March 2019 amendments to the Safeguard Mechanism provided for the development of Government-determined prescribed production variables (which broadly define what is produced at Safeguard facilities) and default emissions intensity values.

Australia's aluminium sector generates electricity onsite, including:

- Diesel generation at remote mine sites, which are not grid connected;
- Cogeneration at alumina refineries which may be connected to the NEM or SWIS grids; and
- Incidental generation via solar PV installations.

Of these, cogeneration at the alumina refineries is the most significant.

The Aluminium Council is significantly concerned about a number of the proposed approaches in the Paper. The Council's views on these matters are outlined in Table 1 (attached). It is the Council's view that a single production variable for on-site electricity generation that does not reference external grid emissions intensity is more aligned with the policy intent and the application of the four principles (Effective, Consistent, Practical and Robust) outlined by the Department for assessing default production variables. For completeness, Table 1 addresses the Council's views on the questions raised in the paper should the proposed approach of two separate production variables be retained.

Thank you again for the opportunity to provide feedback on the Consultation Draft of Production Variable Development, On-site Electricity Generation. I am happy to provide further information on any of the issues raised in this letter and look forward to working further with the Safeguard Team on these matters.

Yours sincerely



MILES PROSSER

EXECUTIVE DIRECTOR

AUSTRALIAN ALUMINIUM COUNCIL

T 02 6267 1800

M 0429 923 605

miles.prosser@aluminium.org.au

Table 1. Australian Aluminium Council Response to Proposed Approaches

| Proposed Approach | Council Response |
|--|--|
| Matters of Significant Concern | |
| <p>1. Two electricity production variables be set and both placed in Schedule 2 of the Safeguard Rule:</p> <ul style="list-style-type: none"> • One production variable would apply to electricity generated on-site and used on-site or sent off-site (but not to a grid). The emissions intensity would be based on the default emissions intensity calculation method. • The other would apply to electricity generated on-site and sent off-site to a grid, and be based on the emissions intensity of the grid. | <p>It is the Council’s view that a single production variable for on-site electricity generation that does not reference external grid emissions intensity is more aligned with the policy intent and the application of the four principles (Effective, Consistent, Practical and Robust) outlined by the Department for assessing default production variables.</p> <p>The other questions set out below largely fall away if a single production variable is applied. The Council has responded to them to give the Department feedback should the two electricity production variables outlined in the Paper be added to Schedule 2.</p> <p>Should these two production variables (electricity generated on site and not sent off-site to a grid; electricity generated on-site and sent off-site to a grid) be applied it is vitally important that the operation of Schedule 2 also support a single production variable for on-site electricity generation for those facilities that already have in place an initial calculated baseline that uses this production variable.</p> <p>For electricity exported to the grid, it is inconsistent to decrease the default intensity below that of the production weighted average emissions intensity of on-site generation. Emissions from the grid are regulated through the Safeguard Mechanism sectorial baseline along with support from the Renewable Energy Target (RET). It is proposed that the default for electricity exported to the grid be the grid intensity, but this would not be permitted to fall below the production weighted average emissions intensity of on-site generation.</p> |

| Proposed Approach | Council Response |
|--|--|
| Matters of Significant Concern | |
| <p>2. That the default emissions intensity for electricity produced and used on-site or sent to another location that is not a grid be the lower of (a) the production weighted average emissions intensity of on-site generation, and (b) the grid average emissions intensity.</p> | <p>The aluminium industry does not support this approach because it is an inconsistent approach compared to:</p> <ul style="list-style-type: none"> • other production weighted average emissions intensity defaults; • site specific emissions intensities that won't decline over time; • default emissions intensities for non-grid connected generators which won't decline over time; and • designated generation facilities with a sectorial baseline that is not expected to change <p>This therefore does not meet the four principles (effective, consistent, practical and robust) outlined by the Department as the basis for assessing default production variables.</p> <p>As facilities are 24 hour operations, even if the on-site electricity generation emission intensity is higher than the grid average, it may not be higher than the grid emissions intensity at night. Further, as the Paper notes it is the marginal emissions intensity of the grid that matters and the average grid intensity is not the same as the average. If the facility switches to importing rather than on-site generation it could lead to the grid emission factor increasing.</p> <p>Where electricity is not exported to a grid, but is used on-site, or sent to another location that is not a grid, the production weighted average emissions intensity of on-site generation should be used.</p> |
| <p>3. Facilities that are not practicably able to connect to a grid would be permitted to continue to use the production weighted average emissions intensity of on-site generation if the grid average emissions intensity falls below the production weighted average emissions intensity of on-site generation.</p> | <p>It is unclear how practicality of connecting to a grid would be defined. For example, even if there is a grid connection, the grid may not be capable of supplying sufficient electricity to the facility to offset the on-site generation.</p> |

| Proposed Approach | Council Response |
|--|---|
| Matters of Significant Concern | |
| 4. It is proposed that Safeguard facilities specify which grid they are connected to when applying for a baseline that uses a production variable that covers electricity exported to a grid. | No issues with the proposed approach. |
| 5. Consistent with the approach used in NGERs, electricity production and associated emissions from co-generation plants will be included in the calculation of the on-site default emissions intensity values. Emissions associated with steam production will not be included. | No issues with the proposed approach. |
| 6. Emissions from steam generation will be included in the 'primary' or another production variable, and not assigned to a standalone steam production variable. | Support this approach as it will apply to alumina production. |
| Other Matters | |
| State vs grid emissions intensity | For consistency with Scope 2 NGER reporting, use of State based emissions intensities is supported; |
| Including only Safeguard Facilities in the calculation dataset or all on-site electricity generators | Including all on-site electricity generators as it is consistent with the approach used for other production variables and due to the potential variability in applying the Combined Heat and Power (CHP) method this large dataset is better, therefore this is supported. |