

16th November 2017
EITE submission
Renewable Energy Policy Team
Clean Energy Branch
Department of the Environment and Energy
GPO Box 787
Canberra ACT 2600

By email: RETEITE@environment.gov.au



AUSTRALIAN
ALUMINIUM
COUNCIL LTD

PO Box 63, Dickson
ACT 2602
Ph: 6267 1800
info@aluminium.org.au

Consultation on draft amendment regulations regarding exemptions for emissions-intensive trade-exposed activities

Thank you for the opportunity to make a submission on the draft amendment regulations regarding exemptions for Emissions-Intensive Trade-Exposed (EITE) activities from the Renewable Energy Target (RET). This submission is made on behalf of the bauxite mining, alumina refining and aluminium smelting industry in Australia.

Overall Position

The Council supports the intent of the proposed amendments and much of the content. Our industry strongly supports the plan to implement these amendments in time for the 2018 compliance year.

A number of specific points regarding components of the proposed Regulations are noted below.

Efficiency of regulation and audit

As in all matters, the Council is seeking efficient regulation. We acknowledge the importance of Governments and the public having confidence in the data that controls costs for industry and any specific policy measures extended by the Government. This is a reasonable justification for requesting data and for audit of that data.

Given that the provision and audit of data are a cost to business we simply seek that data requests be limited only to the minimum information required for the application and that audit requirements be light-handed and not duplicated by subsequent “re-audit” by the Regulator.

We note that there is some ambiguity in the draft material released on the level of audit required for some matters within an application. We have set out our view of an appropriate regime below.

Audit requirements would appropriately be at the “reasonable assurance level” for current and historical data that relates to the level of electricity use, and is held by the entity making the application.

For information on other items – such as definitions, predictions, processes, formulas, delivery on intent, activity definition, etc. – we suggest that audit should be at the “limited assurance” level for the following reasons:

- Audit of this type of information at a higher level than “limited assurance” can markedly increase the time, complexity and cost of audit for limited or no increase in the credibility or rigour of the scheme;
- It is questionable if projections can be audited to the level of “reasonable assurance”;
- Much of this information is already known to the Regulator or is subsequently closely checked anyway;
- Many of these items do not vary from year-to-year for the facility and will be the same as previously known to the Regulator;
- Most relevant data and information items can be readily confirmed or cross-checked by other data within a year.

Methods for determining electricity used in an EITE activity

The Draft Explanatory Statement for the Regulations provides three examples of methods to calculate EITE electricity use at a site. These could be roughly paraphrased as “meter reading”; “meter reading multiplied by a factor”; and “meter reading less a sub-meter reading”.

The Council suggests that a fourth example could be usefully included and considered valid – “meter reading less an absolute amount”:

- “The amount of electricity in megawatt-hours for which a relevant acquisition applies that is supplied to a facility through ‘meter E’ less an amount of electricity in megawatt-hours that describes the amount of electricity supplied to a part of the facility not undertaking EITE activities.”

Consistency for the Regulator, EITE applicant and auditor in determining exemption

The draft Regulations currently give scope for the Regulator to consider the practicalities of the method and the use of EITE activity boundary guidelines when determining the formula set out on the exemption certificate. However the current drafting does not give this same scope to either the EITE applicant or the auditor. The Council suggests that the Regulations are amended so that all those involved in determining the method to be used to calculate the exemption are able to do so on the same basis as the Regulator with a focus on practical considerations.

Consideration of providing exemption amount earlier to EITE entity (in the following year)

The Regulator has released draft Guidelines for completing a 2018 Application for an exemption certificate for Emissions-Intensive Trade-Exposed (EITE) activities under the Renewable Energy Target (RET) – Electricity use method. These put forward the possibility of the period for which the metered data is collected to determine exemption being different from the liability year. This is to manage issues in timing for determining the final exemption amount from a formula. The period proposed for the metered data collection period is 1 December in the previous year to 30 November in the liability year.

Considering the examples of the three methods set out in the Draft Explanatory Statement and the fourth method proposed by the Council above, it is clear that this is an issue only for “meter reading less a sub-meter reading” – in all other cases the exemption can be determined readily as soon as the meter information used for invoicing is available. Accordingly the Council supports this as approach being available as an option to the EITE entity in their application and the Regulator in making their determination but does not support it being the default that applies to all applications.

Accuracy

The draft Guidelines released by the Regulator also request comment on the accuracy requirements for determination of the exemption. The Council is supportive of practical application of accuracy

guidelines to allow the use of clear and simple methods, particularly the use of the meter reading for the whole site, as the basis for determining the exemption.

The proposed accuracy is within 5% or 5000 MWh, whichever is lower. As an indication for a large aluminium smelter this would be an accuracy requirement of <0.1% of the aluminium smelter load. It is important that the Regulator makes it clear (which is not the case in the draft Guidelines) how the Regulator intends for this Guideline to interact with the meter accuracy for determining the electricity amount (including the amount of electricity against which the exemption is offset). For large loads, even meters compliant with the National Electricity Rules do not have this level of accuracy. It would appear that the intention of the draft Guideline is that this accuracy level should apply not to the overall exemption but to the deduction made from the metered amount for non-EITE activity. If this is the case, the Council is supportive of there being a guideline for accuracy and broadly supportive of the amounts proposed, but with recognition that where the amount of non-EITE activity is large there may be issues with the interaction of a fixed threshold and the accuracy of sub-metering on site. It is the Council's view that the Regulator should take a practical approach to the accuracy of onsite sub-metering and that proposals around meter accuracy should not require the capital expenditure for new sub-meters to be installed on site

Role of electricity retailers

While not canvassed in the draft Regulations or explanatory material, there has been some suggestion of increasing the role of electricity retailers in applying for, and receiving, exemptions for EITE activities. This appears motivated by a reasonable desire by retailers to have clear visibility of their exemptions and liabilities within tight timelines for compliance.

If such changes are to be considered by the Department, we emphasise that from an EITE electricity user perspective:

- It is reasonable for the retailer to have access to relevant information (such as electricity use, including sub-meters) on a regular basis so that they have clear visibility of the amount of electricity exempted.
- The EITE entity needs to be in a position to receive the value of the exemption and this is best achieved by providing the exemption to the EITE entity. The exemption should not be given directly to an electricity retailer.

Additional background

The aluminium industry has a significant interest in the Emissions-Intensive Trade-Exposed (EITE) activities exemption under the Renewable Energy Target (RET). Our industry uses more than 10% of the electricity dispatched in the National Electricity Market (NEM) and previous data has shown that aluminium smelting is the most electricity-intensive activity in the Australian economy.

The Council believes that basing exemptions on activity-specific electricity use, as proposed, delivers on the intent of the previous Government decision (with Opposition support) to provide 100% exemption for emissions-intensive trade-exposed (EITE) activities. It also ensures that businesses do not inadvertently receive more (or less) than the intended 100% exemption. Furthermore, difficulties in the current production based approach, caused by fluctuating production levels, will also be addressed under the proposed activity-specific electricity use approach.

Thank you again for the opportunity to comment on the draft amendment regulations regarding exemptions for emissions-intensive trade-exposed activities. If there are any questions regarding our submission please contact me on 0429 923 605 or at miles.prosser@aluminium.org.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Miles Prosser', written in a cursive style.

MILES PROSSER

EXECUTIVE DIRECTOR

AUSTRALIAN ALUMINIUM COUNCIL

T 02 6267 1800

M 0429 923 605

miles.prosser@aluminium.org.au