



AUSTRALIAN
ALUMINIUM
COUNCIL LTD

Energy Security Board (ESB)
Via info@esb.org.au

10 June 2022

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Dear Chair

Australian Aluminium Council Response to Response to Transmission Access Reform Consultation Paper May 2022

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 ESB on its Transmission Access Reform Consultation Paper May 2022 (the Paper). The Paper shortlists options for reform of transmission access and management of transmission congestion. The ESB intends to prepare draft recommendations informed by feedback on and further assessment of these options, prior to submitting a proposed rule change to Energy Ministers by the end of 2022. The Council is pleased to note that key objectives of any reform include appropriate allocation of risks and, critically, providing a framework and signals for efficient investment which can provide the most benefit for consumers.

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 and uses more than 10% of the electricity consumed in the NEM. Accordingly, the Australian aluminium industry has a strong interest in electricity policy. 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. For the aluminium industry, it is the delivered cost (including transmission) of electricity which drives international competitiveness.

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.

Transmission Access Reform in Context

The ESB's own Transmission Access Reform Project Initiation Paper¹ clearly highlighted the difficulties in reaching agreement on changes to the NEM's open access regime over a long history of examination and review. As further evidence, the Paper itself has broadened the scope of the ESB's review from "*a more detailed iteration of the CMM [Congestion Management Model] ... which incorporates issues raised by alternative models*"² to explicit consideration of four distinct options for access and congestion management in investment and operational timeframes, only one of which directly builds on the CMM originally proposed by the ESB. While the Council commends the ESB on being responsive to industry feedback, this broadening also reflects divergence of views amongst participants on what reform is required.

The scale of the generation and transmission investment task outlined in AEMO's 2022 draft Integrated System Plan³ (ISP), and industry stakeholders' judgement that the ISP Step Change scenario is most likely to be realised, highlight the critical importance of rapidly resolving uncertainties and potential roadblocks to progressing the energy transition.

In this context the Council considers that we must not let "the perfect be the enemy of the good" when it comes to any specific element of the Post 2025 reforms and urges the ESB to adopt a pragmatic and timely approach to any reform of transmission access arrangements.

While the congestion, and additional system security, problems which have arisen from the most recent wave of generation investment in areas not well served by existing transmission networks have been well articulated by the ESB and others, industry stakeholders are arguably now far more aware of these issues and risks. The development of Renewable Energy Zone (REZ) frameworks for better integration and management of supply, storage and transmission infrastructure development is one positive and pragmatic response. Similarly, review of transmission planning and investment is being undertaken separately by the AEMC to deal with issues arising from existing regulatory frameworks in relation to the timely and efficient delivery of major transmission projects⁴.

The Council notes that as a result of such responses much of the impetus for the next wave of supply and transmission investment will be driven by state government sponsored REZ initiatives, which necessarily include the development of intra-REZ access and planning mechanisms which aim to effectively allocate connection capacity, build new capacity where demonstrably economic, and limit and manage the impacts of congestion within REZs to efficient levels.

Given this context, any changed arrangements for NEM-wide or non-REZ transmission access and congestion management should not be viewed as the principal drivers or even critical enablers of the NEM's near-term generation and transmission development pathway. Any changes that are made should be timely and to the maximum extent possible seek to avoid and remove uncertainties about:

- the possibility of yet further reviews of or extensions to reforms implemented on a partial, transitional, or trial basis; and
- unpredictable / unforecastable incidence of price, contractual, or other risks introduced by new dispatch or trading mechanisms within or ancillary to the NEM spot market.

ESB Model Options for Transmission Access

As large end users of electricity rather than supply-side participants, Council members are not in a position to provide detailed comments on each of the models and sub-options being proposed in the Paper. The Council is primarily concerned that any new model recommended is demonstrably in the interests of electricity consumers, as required by the National Electricity Objective, and has widespread industry support

¹ ESB, Transmission access reform – Project Initiation Paper, November 2021.

² *ibid*, p. 6

³ AEMO, Draft 2022 ISP for the National Electricity Market, December 2021.

⁴ Australian Energy Market Commission, Transmission Planning and Investment Review, 19 August 2021.

amongst parties who will be directly responsible for the supply and transmission investments required to successfully transition the NEM towards Australia's overall net-zero by 2050 emissions objective.

The Council does, however, note that under each of models and options proposed in the Paper there remain many design features and complexities left unresolved and with minimal detail provided. This raises concern that reforms involving new and inherently difficult to model mechanisms for dispatch, allocation of access rights, definition of "congestion zones", calculation of long run congestion costs, or compensation for congestion impacts, may further elevate risk premia or delay investment and not necessarily improve the market's overall efficiency and cost-effectiveness.

The Council's broad preference would therefore be for changes which minimise complexities as far as possible, and which elicit broad stakeholder consensus about their practicality. Nor should the status quo, however problematic that may currently appear, remain off the table given the likelihood that the factors discussed in the previous section are more likely to drive and enable an effective transition along pathways mapped in the ISP than transmission access reform per se.

Conclusion

The Council appreciates the ESB's responsiveness to stakeholder feedback on transmission access reform options, evidenced by the Paper. The Council encourages the ESB to progress to resolution amongst these alternatives in a timely and pragmatic way that will best support settlement of the Post 2025 reform package and provide a stable agreed platform for the next phase of NEM development.

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 P2025 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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