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Energy Security Board (ESB)  
Via [info@esb.org.au](mailto:info@esb.org.au)

17 August 2022

Dear Chair

***Australian Aluminium Council Response to Response to T3 Ministerial lever August 2022***

The Australian Aluminium Council (the Council) represents Australia's bauxite mining, alumina refining, aluminium smelting and downstream processing industries. 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.

The Council welcomes the opportunity to provide feedback to the ESB on the T-3 Ministerial lever for the retailer reliability obligation (RRO) consultation paper (the Paper). The Council recognises the short time frame for submissions and the relative technical simplicity of the amendment and has framed its response accordingly.

The Council agrees that the National Electricity Market (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. However, in designing the P2025 market the Council urges the ESB to carefully consider how consumers, including those which hold long term contracts, do not face duplicate costs as a result of this Mechanism.

The Council notes that the Paper states that the RRO amendment has value including in encourage contracting by large commercial and industrial participants contracting directly from the wholesale market. All of Australia's aluminium smelters have long term existing contracts. The expiry of these contracts for Australian smelters varies from 2025 to 2029 (with Bell Bay Aluminium in Tasmania the first to finish). The owners of Australia's four smelters have signalled their desire to recontract renewable electricity at the end of the current terms<sup>1</sup>. Recent evidence<sup>2</sup> is that large customers, such as aluminium smelters, are already

<sup>1</sup> <https://www.afr.com/companies/energy/4b-offshore-wind-farm-proposed-to-power-smelter-20211207-p59fe4>,  
<https://www.abc.net.au/news/2021-11-08/aloca-melter-pot-restart-operations-at-portland/100602358>,  
<https://www.riotinto.com/news/releases/2022/Rio-Tinto-calls-for-proposals-for-large-scale-wind-and-solar-power-in-Queensland>,  
<https://www.riotinto.com/news/releases/2022/Tasmania-and-Rio-Tinto-partner-for-a-strong-and-sustainable-future-at-Bell-Bay>

<sup>2</sup>For example, <https://www.riotinto.com/news/releases/2022/Rio-Tinto-calls-for-proposals-for-large-scale-wind-and-solar-power-in-Queensland>, <https://www.afr.com/companies/energy/4b-offshore-wind-farm-proposed-to-power-smelter-20211207-p59fe4>

signalling an intent to underwrite large scale investment via equity or long term PPA offtake agreements and that without these large customers it is harder for renewable generation to facilitate entry into the market.

The Council supports the concept of a 3 year notice period to enable AEMO to generate robust reliability forecasts and to allow new supply-side resources to enter the market and the need to use a transitional arrangement to manage timing risk. The Council also supports harmonisation across the NEM, noting that the Council has raised concerns about the increased focus on variation for jurisdictions to develop their own path within the NEM.

However, the Council has concerns about the potential overlap of a T3 RRO with the proposed capacity mechanism<sup>3</sup>. The RRO is essentially a decentralised capacity mechanism. It can underwrite new dispatchable capacity. The Council had previously articulated its concerns about an overlap between a capacity mechanism and a potential Operating Reserve mechanism. The Council considers the T3 RRO to also potentially be an overlapping mechanism. Noting the very tight timeframe for response and notwithstanding the need for NEM reform, the Council urges caution in developing multiple markets in parallel which risk embedding poor design and duplicate costs for consumers. The Council urges the ESB to consult on this overlap of policy mechanisms more formally.

### **Conclusion**

The Council supports the development of a single mechanism which incentivises the right technologies and structures to ensure the grid can be maintained in a secure state during times of maximum duress, whether that be lack of supply to match demand, or lack of demand to match supply. The Council does not support overlapping mechanisms which risk customers twice for the same service provision.

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 P2025 market design is a crucial aspect of this for the aluminium industry. The Council and its Members will continue to be actively involved in the P2025 market design and looks forward to continuing to work further with the Energy Security Board, the Department and other agencies on its development.

Kind regards,



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<sup>3</sup> Notwithstanding the potential changes to the capacity mechanism as outlined in the [Energy Minister's Communique](#) of 12 August 2022.