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Department of Industry, Science, and Resources (DISR)
Via - <https://consult.industry.gov.au/securing-australias-domestic-gas-supply>

21 August 2022

Dear Minister

Re: Securing Australia's Domestic Gas Supply

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 six 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 21 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 top 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 Australian alumina and aluminium industries are highly dependent on gas for their operations and viability; directly using more than 166¹ PJ of gas per annum as well as indirect consumption via the electricity market. Energy typically accounts for 30-40% of the industries' cost base, and therefore it is a key determinant of their international competitiveness. The industries' gas usage can be summarised as follows:

- Gas usage by alumina refineries (WA Gas Market) ~125 PJ, which is 32 % of WA's domestic gas market;
- Gas usage by alumina refineries and aluminium smelters (East Coast Gas Market) ~40 PJ, which is 7% of the East Coast domestic gas market; and
- Indirect consumption via the National Electricity Market (NEM) the industry has four aluminium smelters, two alumina refineries and a number of extruders; and uses more than 10% of the electricity consumed in the NEM.

Action is Needed Now to Secure Australia's Domestic Gas Supply

The Government has released Securing Australia's Domestic Gas Supply options paper (the Paper) to improve the Australian Domestic Gas Security Mechanism (ADGSM). The Council welcomes the opportunity to provide feedback on this Paper, noting that a submission was also made to the recent consultation on the extension to the ADGSM. As each operation has unique energy arrangements, the Council will limit its comments on the Paper to a high level.

The Council agrees with the Paper that the ADGSM's current design is insufficient to avoid a shortfall in the supply of domestic gas to the east coast of Australia. The Council notes that industry has been calling for gas

¹ This gas consumption includes gas used in cogeneration for export electricity, as this activity is directly linked to the alumina refineries; and produces low emissions electricity for the National Electricity Market and South West Interconnected System (SWIS). Data provided is for 2021 calendar year.

market reforms for more than a decade. The Council and its members are seeking an efficient, effective and deep Australian domestic gas market – a market which is comprised of many buyers and sellers who are able to negotiate contracts where both sides can obtain a fair return and where, for example, shortages in supply lead to higher prices, which in turn bring on additional supply to satisfy this demand. However, the Council is concerned that in the decade since Australian gas prices have increased, despite numerous inquiries and policy agendas, little has changed on the ground, and indeed as outlined in the Paper and by the ACCC¹ the situation has become worse. The Council urges the implementation of *actions* to address the situation, not simply more consultation.

The Council recognises the need to balance Australia’s contribution to the world’s energy security and the trust trading partners and international investors have shown in Australia’s resources and energy sectors, with the needs of domestic consumers. Currently the pendulum has swung too far in favour of exports, to the detriment of domestic consumers.

Options for Australian Domestic Gas Security Mechanism

Activation at Short Notice

The Council supports facilitation of a more immediate trigger, rather than for the following year, should a shortfall in gas become apparent to the Minister. This, combined with other measures could help address sudden shocks or shortfall risks.

The Council believes that given the current degree of uncertainty and unpredictability in the energy markets, rather than specifying timeframes, thresholds and limitations on the application of the ADGSM, there should be a principle based approach with advice on the specific circumstances to be considered by the Minister as required. The ADGSM and Gas Supply Guarantee² should be used until longer term reforms have effect or where these continue to fail to meet requirements for domestic gas supply.

Price based activation

The Council supports the lowering of the Australian Energy Market Operator (AEMO) administered price cap from \$40/GJ to \$20/GJ. This could also be a trigger for the ADGSM.

This is still a substantial gas price, compared to long run gas production costs and international markets and would have the beneficial impact for the electricity market of removing the current mismatch between the \$40/GJ gas price cap and the \$300/MWh administered price cap. The Council notes that a \$20/GJ price would be unviable in the long term for gas consumers, but consistency in the signals for both the gas and electricity markets would be of benefit.

The Grid Reliability Scenario (Figure 6) in the Interim National Gas Infrastructure Plan showed the modelled gas supply vs demand outcomes are very sensitive to the changes in the electricity sector, due to the use of gas firming to maintain system reliability. Recent outages of major generators and the energy crisis of May/June 2022 have confirmed this. Ensuring adequate gas supply and competitive prices for gas will be essential to ensuring electricity reliability is maintained at least cost to consumers. In addressing both price and supply in a revised ADGSM, the Government has the opportunity to also address this known risk to the electricity market.

Incentivise domestic supply

The Council supports the proposal in the Paper that the ADGSM could be redesigned to include commercial incentives for LNG producers to supply the domestic market. Noting this design may take longer than other measures, the Council believes these reforms may need to be implemented in phases – those which can be done urgently and as a matter of priority and those which require further consideration and co-design with industry.

² <https://aemo.com.au/en/energy-systems/electricity/emergency-management/gas-supply-guarantee>

State and territory measures to increase supply

The Council recognises that the construction of the three LNG export facilities in Gladstone as well as moratoria on gas exploration in some states, has fundamentally changed the gas market with the east coast increasingly reliant on Queensland gas. Increased supply of gas will require an increased diversity of sellers, new sources of gas that meet/exceed current domestic requirements and current LNG export capacity, and removal of physical congestion, in order to deliver internationally competitive outcomes for consumers. A market with inadequate gas supply will continue to track volatile international LNG pricing (less netback) and is unlikely to achieve the Government's policy aims. *State and Federal collaboration is needed to remove barriers to the increases in diversity of supply.*

The industry has experience operating under the Western Australian Domestic Gas Reservation Policy for almost 15 years. This policy has helped provide domestic market security to the alumina industry³⁴, including a recent agreement with a smaller energy company which was sufficient to underpin the development of a new onshore gas field⁵. But it also demonstrates the mutual value which can be created between the mineral processing industry and its energy suppliers, with supportive policy settings. Australia should adopt a strategic national approach to gas and its manufacturing sector, as many of its competitors have. *A prospective gas reservation policy should be one part of this strategy.*

Conclusion

At a time when manufacturers are facing serious challenges, energy is one of the few advantages Australia has to offer and which Government can help to deliver. The combined set of actions including reforms to the ADGSM, lowering administered price caps, increase in diversity of supply and introduction of a prospective gas reservation policy should help ensure that there is sufficient supply of natural gas to meet the forecast needs of energy users within Australia, including supply to the electricity market. 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.

Given the importance of a functioning gas market to the industry, the Council is happy to provide further information on any of the issues raised in this submission and looks forward to continuing to work with the Government on the development of gas policy.

Kind regards,



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⁴<https://www.alcoa.com/australia/en/news/releases?id=2015/04/alcoa-secures-new-gas-supply-agreement-to-power-its-alumina-refineries-in-western-australia&year=y2015> and https://files.woodside/docs/default-source/media-releases/woodside-to-supply-domestic-gas-to-worsley-alumina.pdf?sfvrsn=6706356_2.

⁵<https://www.alcoa.com/australia/en/news/releases?id=2020/09/alcoa-secures-continued-gas-supply-with-three-new-agreements&year=y2020> and <https://www.afr.com/companies/energy/large-alcoa-gas-deal-to-kick-start-onshore-wa-field-20200928-p55zv2>.