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Consultation – Extension of AEMO Functions and Powers
Attention: Energy Ministers Secretariat
Via Email gas@industry.gov.au
7 October 2022

Dear Minister

Re: Extension of AEMO Functions and Powers

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 seventh 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 refining, aluminium smelting and extrusion 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 and aluminium industries (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) where 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 at Competitive Prices

The Council welcomes the recognition by Energy Ministers of the need to take a range of comprehensive actions aimed at supporting a more secure, resilient and flexible east coast gas market and recognises that the measures outlined in the Extension of the AEMO Functions and Powers to Manage Supply Adequacy in the East Coast Gas Market Consultation Paper (the Paper) are part of a suite of measures aiming to address this. The Council's Members are concerned about the supply and price of gas across east coast markets, particularly with ongoing shortfalls projected in future years. Recent announcements about further closures of coal fired power stations, will only continue to add to the pressure on Australia's gas resources, with AEMO forecasting

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.

that a substantial amount of gas fired power generation (12GW) is required to ensure a stable and reliable energy system. 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.

The Council notes that industry has been calling for gas 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 ACCC 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.

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.

Extension of AEMO’s Functions

The Paper outlines a proposed legislative and regulatory framework to enable AEMO to better manage supply adequacy and reliability risks ahead of winter 2023, and in the longer term progress development of further supply adequacy and reliability measures which will help to guide and frame how AEMO approaches its new functions. The Council, in principle supports the expansion of AEMO’s powers to enable it to monitor and signal shortfalls, however, the Council is concerned about extension of AEMO’s powers to *manage* supply shortfalls. Enabling AEMO to direct gas supply could effectively enable it to constrain the delivery of gas to industrial users on domestic pipelines that already have capacity limitations. The Council believes that the two week consultation is insufficient time for full and complete consultation on the breadth of this additional power.

The Council notes that as large gas users, with nameplate capacity equal to or more than 10 TJ of natural gas per day, many of the Council’s members will have obligations under the proposed reforms to forecast their future gas demand and usage will be subjected to AEMO’s ability to direct Member’s gas supplier to re-direct that gas (even if it is under contract). The proposed reporting reforms, as presented, would present a substantial administrative burden on industry. Any reforms need to ensure the needs of domestic energy consumers, including both supply and price, are consistently the focus of this reform. The Council also notes that this reform must be undertaken with other broad reforms of the gas market.

The Council supports the Energy Users Association of Australia’s detailed submission in response to the stakeholder questions posed in the Paper.

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. There needs to be sufficient supply of competitively priced 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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