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Gas Market Consultation
The Treasury
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Dear Treasurer

Re: Options to ensure the domestic wholesale gas market delivers for Australians - Consultation paper

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. Today's aluminium industry contributes around \$16.9Bⁱ a year to the economy in export value. The Australian alumina, aluminium and downstream manufacturing industries are highly dependent on gas for their operations and viability.

The Council provided feedback to the Competition and Consumer (Gas Market Emergency Price) Bill 2022 on 13 December 2022. This submission should be read in conjunction with that feedbackⁱⁱ.

Feedback on Options to ensure the domestic wholesale gas market delivers for Australians

The Council welcomes the opportunity to provide comment on the Price Cap component of the Options to ensure the domestic wholesale gas market delivers for Australians - Consultation paper (the Paper). As each operation has unique energy arrangements, the Council will limit its comments on the Paper to a high level and notes that a more detailed submission will be made in February 2023 on the Paper as a whole. Based on the timeline for this consultation, the Council notes the Government's intent to implement the greater breadth of reforms as outlined in the Paper from Q2 2023.

The Council and its members have been 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, sellers can bring on additional supply to satisfy this demand. The Council believes that a temporary price cap is the only policy option available which will bring prices down from their current level, at which industry is unviable, in the short term. However, it is worth noting that as the Price Cap only applies to currently uncontracted gas supplied in 2023, the size of the impact on gas producers is very small indeed. The intended mandatory code of conduct with a reasonable pricing mechanism together with other policy changes will be needed to deliver the meaningful reform required for sellers to offer reasonable gas prices with the length of contract to justify ongoing operation of and investment in Australian industry.

Is \$12 per gigajoule the appropriate level for a cap on wholesale contracts offered by producers, for supply from existing fields?

While the \$12 / GJ price cap, as recommended by the Australian Competition and Consumer Commission (ACCC) is substantially above the level which the Council believes is sustainable for industry in the long term, it is at least viable in the interim. 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, to deliver internationally competitive outcomes for consumers. Achieving a market with adequate gas supply is the ultimate goal but will take some time. The Council has previously supported a redesign of the ADGSM to include commercial incentives for LNG producers to supply the domestic market. To restore a fully functioning gas market in the long term with sustainable pricing, the Council supports continued State and Federal collaboration 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 industryⁱⁱⁱ, including a recent agreement with a smaller energy company which was sufficient to underpin the development of a new onshore gas field^{iv}. 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 be part of any ongoing strategy. The price for gas in the West Australian market also represents a price closer to the true long term cost of production while still providing incentives to investors, to increase the diversity of supply.

In relation to the scope of the price cap: – What gas sales need to be covered to make the price cap effective?

While some of the Council's members operate within the wholesale gas market, much of the downstream manufacturing industry relies on retail contracts. The Council notes the existing powers of the ACCC and Australian Energy Regulator(AER) to closely monitoring the behaviour of all participants in the wholesale contract market to ensure that prices in this market reflect the price cap and implementation of a reasonable price under the future mandatory code of conduct.

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. A combined set of actions is needed to help ensure that there is sufficient supply of reasonably priced gas to meet the forecast needs of industry and households 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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ⁱ <https://www.industry.gov.au/sites/default/files/minisite/static/ba3c15bd-3747-4346-a328-6b5a43672abf/resources-and-energy-quarterly-september-2022/documents/Resources-and-Energy-Quarterly-September-2022-Aluminium.pdf>

ⁱⁱ <https://aluminium.org.au/wp-content/uploads/2022/12/221213-Aluminium-Bill-Competition-and-Consumer-Gas-Market-Emergency-Price-2022.pdf>

ⁱⁱⁱ <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.

^{iv} <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>.