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

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Dear Chair

Australian Aluminium Council Response to Response to Transmission Access Reform Directions 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. It includes five large 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 seventh 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 Directions Paper November 2022 (the Paper). In particular, the Council welcomes the recognition by the ESB that the scale and cost to consumers of the optimal development path is already significant and that to protect consumer and taxpayers' interests, it is vital to ensure that all our existing and new infrastructure is used as efficiently as possible, benefitting all consumers. Well designed transmission access reform would provide incentives for storage and flexible loads to operate in ways which alleviates congestion and be located in areas which reward storage and flexible loads for the valuable services that they provide. In almost any other market, sellers either trade at their local price and the consumers pay for transport from that location, or the commodity is traded at a central hub price with the seller paying for transport themselves. In the NEM, producers enjoy free transport to the hub (paid for by consumers).

The Council and its Members have been involved in responses to transmission access reform for many years. In this context, the Council continues to urge the ESB to 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 reform of transmission access arrangements.

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, at an internationally competitive electricity cost level, as a minimum;
- consistent uninterrupted (firm) 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.

ESB Model 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 the proposed hybrid models and 23 detailed design choices outlined in the Paper. The Council remains 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 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 the two hybrid models there remain many design features and complexities left unresolved, which 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. As demonstrated in the Paper, efficient dispatch signals could be of substantial benefit to consumers.

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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