



AUSTRALIAN
ALUMINIUM
COUNCIL LTD

Department of Industry, Science, and Resources (DISR)
Via - <https://consult.industry.gov.au/reforming-adgsm-guidelines>
23 February 2023

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Barton ACT 2600
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Dear Minister

Re: Reforming Australia's Domestic Gas Security Mechanism Guidelines

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

Securing Australia's Domestic Gas Supply

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.

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.

¹ This gas consumption includes gas used in cogeneration for export electricity at the alumina refineries. This produces low emissions electricity for the NEM and SWIS. Data provided is for 2021 calendar year.

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 industry², including a recent agreement with a smaller energy company which was sufficient to underpin the development of a new onshore gas field³. 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 the Governments strategy.

Response to the Guidelines

The Council welcomes the release of the Guidelines to reform Australia's Domestic Gas Security (ADGSM). The Council made submissions last year on ADGSM⁴ and more recently on other aspects the gas reform processes the Government is undertaking. The intent of the ADGSM Guidelines is to:

- make the ADGSM more responsive;
- ensure enough gas is kept in Australia to meet domestic demand; and
- protect long term contracts.

As each operation has unique energy arrangements, the Council will limit its comments on the Guidelines to a high level. The Council also supports the submission of the Energy Users Association of Australia.

The Council has previously supported facilitation of a more immediate trigger to make the ADGSM, rather than for the following year, should a shortfall in gas become apparent to the Minister to help address sudden shocks or shortfall risks. The Council believes the measures proposed in the Guidelines are adequate, with the trigger now being quarterly.

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. The measures in the guidelines to protect long term contracts are adequate.

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 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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²<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.

³<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>.

⁴ <https://aluminium.org.au/news/securing-australias-domestic-gas-supply/>