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Australian Energy Market Commission (AEMC)
Via https://www.aemc.gov.au/contact-us/lodge-submission

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Dear Chair

Re: Amendment of the Market Price Cap, Cumulative Price Threshold and Administered Price Cap

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 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 AMEC on its consultation paper National Electricity Market Amendment [Amendment of the Market Price Cap (MPC), Cumulative Price Threshold (CPT) and Administered Price Cap (APC)] Rule (the Paper). The Paper responds to the Reliability Panel's (the Panel's) rule change request, following its review of the market price settings.

The Paper notes that the Panel's request for a material increase to the MPC, CPT and APC over the review period to 2027 with the MPC and CPT to increase by 42% and 61% respectively, and the APC to reduce from the current $600 introduced in 2022 to $500, but which is still a 67% increase on the long term APC of $300.

While the Panel's request is intended to serve the long term interest of consumers in terms of reliability, the Council questions whether it serves the interest of consumers in terms of price. Additionally, the Council is not convinced that the MPC and CPT are the best levers to incentivise the significant new investment in generation, demand response, and network capacity to supply consumers with reliable, consistent and internationally competitively priced energy as the incumbent thermal generation fleet progressively retires from service.

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 which use more than 10% of the electricity consumed in the NEM. Within each state, this can be much more significant, for example up to 35% of electricity used in Tasmania is used by Bell Bay Aluminium. 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. Unlike some other large

energy users[1], both aluminium and alumina are globally traded commodities, which are unable to pass costs incurred domestically through to customers. There are also more than 20 extrusion presses, which while much smaller electricity users, are exposed to the retail and short term contract markets. For the aluminium industry, it is the delivered cost (including transmission) of electricity which drives international competitiveness. Increases of 40-60% in three years as is proposed for MPC and CPT are hard to justify in this context.

The electricity supply requirements of the aluminium industry, can be summarised as follows:

- least cost, and an internationally competitive electricity cost, as a minimum;
- consistent uninterrupted 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.

Aluminium Industry and the Energy Transition

Aluminium smelters already offer a range of services and functions which support the network over varying weather, network demand and operating conditions, including Reliability and Emergency Reserve Trader (RERT) and Frequency Control Ancillary Services (FCAS). Smelters' large and fast-acting interruptibility helps secure and restore stability to the network before and after contingencies occur. The industry has increasingly been called upon to support grid stability and reliability, as the challenges in managing the grid increase. For example, during May and June 2022 Tomago Aluminium provided 32 hours of modulation across 18 events which were a mixture of RERT and responding to high market price. This response by Tomago supported AEMO to manage a complex and challenging system and maintain supply to domestic customers.

Feedback to Paper

The NEM is going through a once in a century transformation, as Australia moves towards net zero emissions by 2050 and that this transition will need to be carefully managed, to ensure that all consumers are provided with competitively priced, reliable, low emissions energy. The Council has for many years recognised that the NEM is at risk of becoming a system which lacks reliability and system strength and has been actively working with Australia's energy market bodies on the market reforms which will be necessary in the transition, including signals which will be needed to incentives the new dispatchable capacity needed to maintain a secure and reliable energy market.

For example, the Council's Members Rio Tinto and Tomago have sent clear public signals to the market about the industries needs and are providing commercial arrangements necessary to underpin this investment:

- Rio Tinto[2] through a formal market Request for Proposals (RFP), has called for proposals to develop large-scale wind and solar power in Central and Southern Queensland to power its aluminium assets, help meet its climate change ambitions and further encourage renewable development and industry in the region. These assets require 1140MW of reliable power to operate, which equates to at least 4000MW of quality wind and solar power with firming.
- Tomago Aluminium Company[3] have been looking for Expressions of Interest (EOI) to develop, invest in or procure long-term traceable renewable energy and dispatchable firm power generation projects or contracts, to supply its production assets (requiring 950MW) and underpin its decarbonisation strategy and net-zero ambition.

[1] https://www.afr.com/companies/energy/we-either-pass-energy-costs-on-to-customers-or-shut-down-companies-20220706-p5azhc

[2] https://www.riotinto.com/en/news/releases/2022/rio-tinto-calls-for-proposals-for-large-scale-wind-and-solar-power-in-queensland

[3] https://www.tomago.com.au/tomago-aluminium-future-renewable-energy-needs/

While the Council recognises that these signals do not represent sufficient incentive for the NEM as a whole, the do indicate that industry is not expecting others to do the heavy lifting but is prepared to work collaboratively on the transition. Large energy consumers, like aluminium smelters, use hedge contracts, which essentially bundle the many markets services required to meet continuous electricity demand at an internationally competitive price. Additionally, some jurisdictional investment schemes have been providing additional support to encourage new investments in the market to meet regional renewable generation and reliability objectives. The Federal government is also designing a Capacity Investment Scheme to fund revenue underwriting scheme to support the entry of zero emissions dispatchable generation and storage technologies in all jurisdictions. Given these additional measures to support reliability, the Council does not believe the increases to market settings like MPC and CPT are justified and risk increasing costs to all consumers while there are more effective ways to incentivise new investment in the market.

Conclusion

At a time when manufacturers are facing serious challenges, energy is one of the few advantages Australia has to offer. The Council urges the AEMC to continue to consider appropriate responses which help solve the challenges in the energy transition. Rapid responses to solve for an incorrect problem statement risk imposing increase costs on Australian consumers for years to come.

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 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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