

Department of Climate Change, Energy and Environment (DCCEEW)
<https://consult.dcceew.gov.au/national-electricity-market-wholesale-market-settings-regulatory-reforms>

12 October 2026

Dear Minister,

Re: National Electricity Market Wholesale Market Settings Regulatory Reforms

The Australian Aluminium Council (the Council) welcomes the opportunity to comment on the Consultation Paper on the National Electricity Market (NEM) Wholesale Market Settings Regulatory Reforms (the Paper). The Council supported the development of the Electricity Services Entry Mechanism (ESEM) during the 2026 Review on the basis that it would address the investment or 'tenor' gap without undermining incentives for customers to enter into long-term contracting arrangements themselves. The proposed cost relief mechanism is therefore fundamental to the Council's support.

However, the current proposal does not provide sufficient certainty as to which existing and future contracts will qualify for cost relief, the extent of that relief, or the resulting cost exposure for large industrial customers. Without greater certainty on these matters, the Council is not presently able to support the proposed ESEM reform package.

At a time when Australia's export competing industries, including mining and manufacturing, are facing serious challenges, energy is one of the few advantages Australia has to offer, and which Government can help to deliver. The Council and its Members were extensively involved in the NEM Wholesale Market Settings Review and welcome the next phase of implementation. During the Review, there were three key issues of concern to the Members:

1. ensuring that during the creation of the ESEM to address a tenor gap in the investment market, that there was appropriate treatment for existing or future long duration contracts;
2. mandatory visibility or dispatchability of large loads above a thresholdⁱ; and
3. exclusion of transmission pricing methodology from the Review, which was a missed opportunity, as it is the delivered cost of firmed electricity which consumers incur.

Addressing the first item is the primary focus of this submission. The Council is responding separately to AEMO's parallel consultation on the Market Visibility Framework and considers that wholesale market reform process should not pre-empt the outcomes of that consultation.

As each operation has unique energy arrangements, the Council will limit its comments on the reforms to a high level. Additionally, the Council supports the submission of the Energy Users Association of Australia (EUAA) where the industry has a large number of mutual members.

Australia's integrated aluminium industry

The Australian Aluminium Council represents a resilient, competitive and sustainable bauxite, alumina and aluminium industry that underpins Australia's economic strength, sovereign capability and energy transition. The aluminium industry has been operating in Australia since 1955, and over the decades has been a significant contributor to the nation's economy. The Department of Industry, Science and Resources has recently updated its forecastⁱⁱ to earnings reflecting the geopolitical impacts on the sector, remaining at around \$19B in export

revenue annually. More than \$14B of this comes from the alumina and aluminium industries, as value adding mineral processing sectors. The industry includes six bauxite mines which collectively produce over 100 Mt per annum making Australia one of the world's largest producers of bauxite. Australia is the world's largest exporter of alumina with five alumina refineries producing around 17 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 21,000 people, including 6,600 full time equivalent contractors. It also indirectly supports a further 55,000 families predominantly in regional Australia. The integrated industry contributes around \$18 B to Australia's GDP. Global aluminium markets are becoming increasingly competitive and contested, and decisions made now on energy and industrial policy will shape Australia's position in these markets for decades to come.

Aluminium Industry and the National Electricity Market

Australia's aluminium smelting and alumina refining industry is a strategically vital national asset. It supports grid stability and energy security, sustains significant regional employment and economic activity, contributes to export earnings and underpins the industrial capability needed for transport, infrastructure, manufacturing, defence and emerging technologies.

As Australia's electricity system transitions toward decarbonisation, new and emerging electricity-intensive sectors, including data centres, hydrogen production, and critical minerals processing, are driving increased competition for renewable and firmed electricity supply. How Australia's electricity market allocates that energy, and the value framework governing those decisions, will shape the nation's industrial base for decades to come.

Australia's aluminium smelters are already a large electricity consumer, with the four smelters using around 2,600 MW or ~12% of the electricity consumed in the NEM. Providing electricity is supplied consistently, with firm power, and at internationally competitive prices, aluminium smelting can be run on renewable electricity. As smelters are already largely electrified, no technological conversion is required to take advantage of the rapid decarbonisation of the Australian grid, with this increased penetration of variable renewables.

The Council recently commissioned Rennie Advisoryⁱⁱⁱ to undertake a socio-economic analysis of the value of aluminium smelters (and future electrified alumina refineries) as large industrial users of electricity. The study compares the contribution of the aluminium sector with alternative current and future electricity users, assessing how socio-economic value should be considered in energy allocation and planning decisions that extend across all energy-intensive industries. The report confirms that Australia's integrated aluminium sector plays a critical role in regional communities and for Australia's electricity grid, as the grid's largest and most sophisticated demand-side asset delivering the highest socio-economic return per unit of electricity of any large industrial load. This reinforces the need for energy planning and market design to recognise not only the volume of electricity consumed by large industrial loads, but the broader economic, regional and system value they return.

The report outlines four market and policy failures and reforms which deliver a path to support all energy intensive sectors:

1. **Valuing System Level Benefits** - Reform market mechanisms to recognise and remunerate the full system value of system level benefits;
2. **System Planning** - Shift the systems planning paradigm to better value the demand-side and incorporate socio-economic value and place-based delivery into transmission planning;
3. **Cost of Capital** - Establish a concessional debt facility to bridge strategically significant industry through the energy transition, supporting generators supplying to strategically significant regional industry; and
4. **Transmission & Grid Access** - Require new large price-insensitive loads to invest in supply and implement tariff structures for strategic, price sensitive loads.

Treatment of Long-Term Contracts Under ESEM

The ESEM seeks to address an investment or “tenor” gap which arises because of the long-term contracts needed by developers to finance capital-intensive generation assets (often 10 to 30 years), and the shorter-term contracting often preferred by buyers (typically three to seven years). While this may be true of the market as a generalisation, aluminium smelters and other large industrial loads^{iv} tend to contract for longer terms, as electricity supply certainty underpins investment certainty in the industrial assets themselves. For example, recent power purchase agreements (PPAs) have had terms of up to 25 years^v.

The Paper outlines that the ESEM will operate on a not-for-profit basis with costs recovered from Market Customers in participating jurisdictions. To preserve incentives for long-term contracting outside the ESEM, Market Customers would be able to receive cost relief in proportion to long-term contracts they enter into to support new investment that the ESEM would have otherwise been required to procure.

The Council strongly supports the principle that the ESEM should preserve market incentives for bilateral long-term contracting. The ESEM should not create incentives for customers to rely on centrally procured investment rather than undertake long-term contracting themselves, nor disadvantage customers that have already entered into long-term arrangements that support investment in the electricity system.

The cost relief framework should also accommodate the range of commercial structures used by large industrial customers, including physical and financial PPAs, with eligibility based on the substantive contribution of an arrangement to qualifying investment rather than its contractual form. Greater clarity is also required on how the amount of cost relief will be calculated. The methodology should provide a transparent relationship between qualifying contracted volumes, the investment supported by those contracts and the ESEM costs avoided as a consequence.

Cost recovery will be integrated into the weekly NEM settlement cycle, which will minimise working capital costs. The Paper outlines that a National Electricity Law (NEL) amendment includes a requirement for the ESEM Administrator (ESEMA) to administer a cost relief mechanism. The initial National Electricity Rules (NER) drafting attached to the package with the Paper includes an early draft of cost relief content in NER Section 4AA.C.34 /NEL Section 118AAX. The Paper outlines that ESEM costs will be estimated and set for the year ahead, with any under- or over-recovery reflected and adjusted for in subsequent years. This allows for ESEM costs or rebates to be known in advance.

For large industrial customers, including future alumina refineries, ESEM cost recovery could create a material and potentially difficult to hedge exposure. Aluminium smelters consume very large volumes of electricity, meaning relatively small changes in charges on a \$/MWh basis can have material financial consequences. Unlike wholesale electricity price exposure, there may be limited ability for industrial customers to independently manage changes in ESEM costs arising from the performance of the ESEM contract portfolio. *The Council therefore requests greater transparency on expected ESEM charges and their potential variability, including treatment of over- and under-recovery and the allocation of costs between Market Customers. The cost recovery methodology should also consider the circumstances of large industrial customers with substantial existing long-term contracted positions.*

The development and maintenance of the ESEM (Cost Relief) Guidelines will be of paramount importance to the aluminium industry to ensure the implementation is timely, flexible and the eligibility criteria are fit for purpose for Australia’s industrial future. The Council considers that transitional arrangements should provide customers with sufficient certainty regarding eligibility before material ESEM costs are incurred.

The draft NER indicates that a cost relief mechanism must be in place within 12 months of the ESEM’s commencement. The Council notes that the Paper indicates that this is “highly provisional” noting that a later date might be more appropriate given the financial value of cost relief will be realised after ESEM Contracts settle.

The Council also seeks greater clarity on how settlement, collateral and liquidity requirements associated with the ESEM contract portfolio will be managed and how any associated costs will be treated in determining costs recovered from Market Customers.

Other Matters of Concern

Long-term demand forecasts will be critical in determining the volume of investment supported through the ESEM. Given inherent uncertainty regarding electrification, new large loads and the future of existing industrial demand, the framework should provide for regular reassessment of procurement requirements and appropriate safeguards against both over- and under-procurement. Over-procurement would unnecessarily increase costs borne by consumers, while under-procurement could undermine the investment objective of the ESEM.

There has been some discussion during the public consultation process of the potential to use Renewable Energy Guarantee of Origin (REGO) certificates as part of the ESEM acquittal process. The Council and its Members do not support the use of REGOs as a proxy for eligibility or acquittal under the ESEM. REGOs certify attributes associated with electricity generation, whereas the ESEM is intended to address an investment and contracting tenor gap. Any cost relief test should therefore assess the substantive contribution of a customer's contractual arrangement to qualifying investment rather than relying on ownership or surrender of environmental certificates.

Conclusion

Securing Australia's position in global aluminium markets will require reliable energy, long-term investment and policy settings that recognise bauxite, alumina and aluminium as an integrated, strategically vital national asset.

The Council continues to support the objective of addressing the investment tenor gap in the NEM. However, further development of the ESEM cost relief and cost recovery arrangements is required to provide sufficient certainty for large industrial customers, particularly regarding eligibility of existing and future long-term contracts, transitional arrangements, the quantum of cost relief and the level and variability of ESEM charges.

The Council and its Members would welcome the opportunity for targeted discussions during the development of the Guidelines and transitional arrangements.

Given the importance of energy supply across Australia's integrated mine to market aluminium supply chain, 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 this policy.

Kind regards,



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About Us

The Australian Aluminium Council is the peak industry association representing Australia's integrated bauxite, alumina and aluminium industry. The Council provides a unified voice across the value chain, working with governments, industry and communities to support a resilient, competitive and sustainable sector that underpins Australia's economic strength, industrial capability and energy transition.

References

ⁱ AEMO is consulting on this issue in parallel and the Council intends to make a submission on this matter -

<https://www.aemo.com.au/consultations/current-and-closed-consultations/market-visibility-framework-consultation>

ⁱⁱ <https://www.industry.gov.au/sites/default/files/2026-07/resources-and-energy-quarterly-june-2026.pdf>

ⁱⁱⁱ <https://aluminium.org.au/wp-content/uploads/2026/06/2606-Smelting-Point.pdf>

^{iv} The alumina industry also consumes around 220 PJ of energy, currently as gas and coal in the refineries. This energy use may convert to electricity requirements of 3-5GW firm in the NEM and the SWIS depending on the technology applied in digestion and calcination.

^v <https://www.alcoa.com/australia/en/news/releases?id=2024/09/portland-aluminium-secures-new-energy-contract>, <https://www.riotinto.com/en/news/releases/2026/rio-tinto-queensland-and-commonwealth-secure-long-term-future-for-boyne-aluminium-smelter-at-gladstone>, <https://www.tomago.com.au/tomago-aluminium-welcomes-agreement-to-secure-smelters-long-term-future/>; <https://www.riotinto.com/en/news/releases/2026/rio-tinto-tasmanian-government-and-commonwealth-government-secure-the-future-of-bell-bay-aluminium-until-2031>