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AUSTRALIAN ALUMINIUM COUNCIL RESPONSE TO RELIABILITY OBLIGATION POLICY OPTIONS

Thank you for the opportunity to provide a submission on the consultation paper: *National Energy Guarantee, Reliability Requirement, Pre-condition Options*. This submission is made on behalf of Australia's aluminium industry. Alumina refining and aluminium smelting account for more than 12% of electricity consumed in the National Electricity Market (NEM).

The paper outlines three further alternative pre-conditions for activating the reliability obligation, in addition to the initial proposal in the design of the National Energy Guarantee (NEG). If the reliability obligation is activated, liable entities must submit their net contract positions to the Australian Energy Regulator (AER).

The aluminium industry has a strong preference for the retention of the design previously consulted on – that is, the pre-conditions to trigger the reliability component would be a determination by the Australian Energy Regulator (AER) three years out (T-3) that a material reliability gap exists, and another determination one year out (T-1) that the gap persists.

Of the other options presented, we indicate our preference as the following order, including the reasons why we deem them to be inferior to the initial design:

1. *Option 1 – Addition of a T-5 determination.* While this may seem to be an added 'safety net', it will also add costs if triggered, with perhaps little or no benefit given forecasts are to be provided over ten year timeframes. It may also fail to integrate with the intention to impose a 3-year notice of closure requirement on electricity generators.
2. *Option 3 – Ministerial powers to activate reliability obligation.* Any removal (or ability to supersede) the T-3 requirement means that liable entities must assume that the reliability obligation can be triggered at short notice. This would force liable entities to behave – at all times – as if there is a material reliability gap imminent and would distort the contracting market, leading to higher costs. Any constraint on this

- such as being done at a State/NEM-region level - is better than the complete removal of the T-3 determination, hence this option being better than Option 2.

3. *Option 2 – Removal of T-3 determination.* As noted above, this would lead to distortions in the contract market and higher costs; and is the least preferred option.

Finally, we note that this proposal has come mid-way through the design process for the NEG and may not be the only late change in the design. We encourage the COAG Energy Council and the Energy Security Board to retain the integrated nature of the NEG design (one of its strengths) and ensure there is full consultation with impacted parties on any further changes.

Thank you again for the opportunity to comment on *National Energy Guarantee, Reliability Requirement, Pre-condition Options*. I am happy to provide further information on any of the issues raised in this letter.

Yours sincerely



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