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Dear Chair

***Re – Discussion Paper: Moving to a Two-Sided Market***

The Australian Aluminium Council (the Council) represents Australia’s bauxite mining, alumina refining and aluminium smelting industries. The Australian aluminium industry has been operating in Australia since 1955, and over the decades has been a significant contributor to the Australian economy. Alongside many decades of economic contribution, the industry is globally comparatively young and well maintained. The industry includes five bauxite mines (>10 Mt per annum), six alumina refineries and four aluminium smelters. Australia is the world’s largest producer of bauxite and the world’s largest exporter of alumina, and the sixth largest producer of aluminium. The industry directly employs around 14,500 people, including 4,000 full time equivalent contractors. The industry also indirectly supports around 40,000 families in regional Australia.

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. Aluminium smelters are particularly exposed to electricity costs and 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. 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; and
- an ability to secure electricity supply under long-term contractual arrangements.

These outcomes need to be delivered within the framework of Australia’s Paris Agreement emission targets.

While the focus of this submission is in the context of a Post 2025 NEM, it is important to recognise that Australia’s electricity intense manufacturing sector is facing intense challenges, the urgency of which means they will need to be addressed within the construct of the current NEM. These challenges have been exacerbated by the collapse in commodity prices, because of COVID-19, and the longer-term future of industry will depend on the rate of recovery of the global manufacturing sector and the impact this has on international demand. Equally, the COVID-19 pandemic has underscored the importance of electricity intense manufacturing domestically, both in terms of economic and employment contribution but also in underpinning the stable operation of the NEM. Australia’s ability to ensure its world class energy resources are translated into internationally competitive, low emissions, reliable energy to ensure industrial production, emissions and jobs are not exported to other countries will be central in ensuring the electricity intense manufacturing sector, such as aluminium, is still in existence when the Post 2025 reforms to the NEM are implemented.

The Council welcomes the opportunity to provide feedback to the April 2020 Energy Security Board (ESB) discussion paper “Moving to a Two-Sided Market” (the Paper), as part of the Post 2025 Market Design consultation. In considering its response to the Paper, the Council has considered how the Paper contributes towards meeting the needs of both the aluminium industry and the design principles for a future NEM. Council members have very long-term electricity contracts, some to 2029, which span the duration of the proposed period of reform under consideration by the ESB. As each smelter and refinery has unique electricity arrangements, the Council will reserve its comments on the Paper to a high level.

As outlined in the Paper, the NEM was developed twenty years ago and placed a greater emphasis on the regulatory framework for the supply side, where generation could be dispatched to meet demand. This has provided the supply side with twenty years of learnings on the operation of the NEM both physically and commercially. Even very large energy consumers, such as aluminium smelters, do not have the depth of knowledge held by the supply side in the operation of the current NEM and its associated market structures. This limits the ability of the demand side to comment with the same depth as the supply side on the proposed market reforms. The Council, therefore, believes that in considering the reforms proposed to the NEM, it is important to allow the demand side market to continue to evolve over time. Therefore, at a high-level, the Council would support rapid evolution, rather than revolution in NEM reform processes.

While Council’s members would best be described using the descriptions in the Paper as “traders at a connection point”, i.e. large commercial users who are sophisticated enough to manage the trading arrangements; the procurement of electricity in the NEM is an input into the production of alumina and aluminium; rather than being the core process for the business itself (unlike demand side businesses). As such, to the extent that a two-sided market was considered necessary, the Council would support the use of a transitional and voluntary approach to support the move to a two-sided market, such as exploring different approaches to scheduling demand side participants through the Wholesale demand response mechanism rule change, to enable energy users to better understand the degree to which they want to participate in such a market and how to do so without adopting overly complex systems or taking on significant additional costs and changes to business focus. The Council is concerned that the mandatory implementation of complex demand side requirements will drive the need for yet more intermediaries in the market with an associated increase in costs.

The Council’s members already provide a range of services into the NEM such as Frequency Control Ancillary Services (FCAS) and Reliability and Emergency Reserve Trader (RERT). The industry has increasingly been called upon to provide these, to support grid stability and reliability, particularly in recent summers. The current system provides a limited range of mechanisms to value these services, and the Council supports greater options which appropriately value the capacity large energy users provide in the system. The Council welcomes market design which efficiency values all aspects of what is required for the NEM to meet the National Electricity Objective.

The aluminium industry, is by its nature, well positioned to be able to schedule load extremely reliably over minutes, days and months ahead. The industry has to date, largely maintained a flat demand profile similar to that when the NEM was originally designed. It generally has the technical requirements in terms of real time measurement of consumption. However, organisationally it does not have the trading functions built into current operations, and nor are these core businesses for operations. Implementing, this functionality would increase the cost and complexity of operation. Given this, the Council supports voluntary participation where consumers opt in, subject to their own assessment of the risks and benefits of such a decision.

The Council, in principle supports the operation of a two-sided market in that it should, if well designed increase competition and allow customers to participate where they wish to. The Council supports the recommendation that the ESB continue to develop a framework for two-sided markets, particularly focussed on the transitional pathway which ensures that consumers can participate if they wish to and in the way they wish to (directly or via a third party). For major electricity users such as smelters, where the use of electricity

is intrinsically integrated into production processes and there is a high process stability cost associated with modulation; outsourcing to a third party is unlikely to be a viable option.

The Paper notes that the development of this two sided market includes interdependencies on a number of other existing rule changes and projects; including an ahead market, however it is not clear how these interactions will be unwound by the end of 2020, given some projects and rule changes will still be ongoing at this time.

The Council is happy to provide further information on any of the issues raised in this letter and look forward to continuing to work further with the Energy Security Board on these matters.

Kind regards,



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