

Energy Security Board

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Commercial in Confidence - Submission on the National Energy Guarantee Draft Design Consultation Paper

Moly-Cop thanks the Energy Security Board for the opportunity to make this submission.

Moly-Cop Waratah is the Australian entity of a global business that is a leader in the supply of products that are critical to businesses undertaking minerals processing activities within the global mining industry. The Moly-Cop business supplies steel consumables, primarily grinding media to the copper/gold mineral processing sector generating ~\$1.5B in revenue and employing more than 1700 direct employees across North and South America and Australasia, 500 of which are in Australia. Our Australian operation produces its products solely from recycled scrap steel sources via Electric Arc Furnace technology and in addition to the supply of grinding media, also manufacture approximately 90% of all the rail wheels used in Australia.

Our business takes place within a highly competitive international trading market, so competitively priced electricity and a secure electricity system is critical to our business. The recent increases in electricity prices have placed enormous stress on our business.

In response, Moly-Cop has chosen to take full exposure to the wholesale electricity market and manage some of its price risk by load shedding during times of high prices - a strategy that also disrupts and imposes costs on the business. In 2017, demand response - when activated, delivered an average reduction in demand of over 80 per cent. However, there is little capacity to continue absorbing further increases in wholesale electricity prices without compromising the integrity of our manufacturing operations.

Moly-Cop supports the core premises underpinning the National Energy Guarantee (NEG) - in particular the intention to integrate energy and climate policy, lower electricity prices, ensure reliability and provide a long term policy framework that can be adapted to meet our international emissions commitments. However, we have concerns with several aspect of the proposed design which collectively could compromise the achievement of the desired outcomes. We summarise these below, and propose solutions to address them.

Contracting arrangements and scheme complexity

- A design based on non standard bilateral physical contracting is fundamentally at odds with the NEM's financial contracting arrangements. It will reduce liquidity and price discovery within the relevant emissions and dispatchable capacity markets and potentially disrupt NEM's primary financial markets. The complexity of such arrangements will introduce a new level of administrative burden on the industry. They will also disadvantage smaller and/or non vertically integrated retailers, lowering competition in the NEM and placing upward pressure on electricity prices.
- Contracting arrangements for both the reliability and emissions requirements must support liquid and transparent markets based on standardised instruments and must not disrupt existing contract markets. They must also facilitate active competition in the retail space between large vertically integrated incumbents and smaller retailers with limited or no generation capacity.

Reliability Requirement

- Given the cost effectiveness of demand side measures, the reliability requirement must maximise the use of demand response capacity within the NEM. The key to this is ensuring that (a) providers of demand response have a high level of certainty on when their capacity must be available, (b) reductions in demand can be measured, and (c) contracting arrangements meet the requirements above.
- The focus on a capacity gap rather than the total capacity requirement suggests that measures that are implemented in a particular year would not be eligible in future years (as they would be incorporated in updated forecasts) - which is particularly relevant to demand response. It also does not provide a long term investment signal, and is likely to introduce complications when assessing the eligibility of existing capacity.
- Moly-Cop is able to assume a reliability obligation provided that it is able to capture the full value of its demand response, and subject to the following:
 - The ability to automatically take on - or elect to take on, its share of the reliability obligation
 - Clear definition and advance notification of the periods when the reliability obligation would bind
 - An administratively manageable way of measuring the quantity of demand response
 - Not being disadvantaged for historical demand response
 - The ability to efficiently unlock the value of all demand response over and above its reliability obligation, when it binds.

Emissions Requirement

- An exemption from the emissions obligation for our EITE facility is essential to our business competitiveness.
- To minimise administrative complexity, the business processes supporting the emissions obligation should, as far as practical, be aligned with those for the Renewable Energy Target. The most important in this respect is the utilisation of data and audit processes used for determining EITE electricity use. The main exception to this is the adoption of a financial Year (rather than a calendar year) obligation which would significantly streamline our compliance management processes.
- Moly-Cop - like other major industrial electricity users, is exploring the merits of corporate renewable energy power purchase agreements to secure greater certainty over its electricity costs. The ability to secure the emissions benefits that would accrue from such arrangements is essential if they are to contribute towards improving our electricity cost outcomes.

Moly-Cop Australia values the opportunity to contribute to the design of the National Energy Guarantee. To follow up any of the matters raised in our submission, please feel free to contact me directly.

Kind regards

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