



Rio Tinto Limited
Level 7
360 Collins St
Melbourne VIC 3000
Australia
T +61 (3) 9283 3333

Energy Security Board
Email submission to: info@esb.org.au

13 July 2018

Dear Sir/Madam

Re: National Energy Guarantee – Draft Detailed Design Consultation Paper

Rio Tinto welcomes the opportunity to make a submission to the Energy Security Board (“the ESB”) on the *National Energy Guarantee Draft Detailed Design Consultation Paper* and associated *Technical Working Group Papers* (together the “Draft ESB Papers”).

Rio Tinto has interests in three aluminium smelters and two alumina refineries that together use around 10 per cent of the electricity consumed in the National Electricity Market (“NEM”). As an inherently energy-intensive business, Rio Tinto seeks to produce minerals and metals in the most efficient way possible to both reduce its environmental impact and lower its operating costs. In joining with businesses across the world in signing the Paris Pledge for Action, Rio Tinto supported the outcome agreed by 195 governments at the international climate negotiations at COP21. Since 2008 we have reduced our greenhouse emissions intensity by 27 per cent and our absolute emissions by 35 per cent.

Rio Tinto sees the role of government, both Federal and State, as creating the right long-term targets and policy to meet the requirements of secure and reliable electricity supply at an internationally competitive price consistent with national environmental and climate change objectives. We support an integrated approach to energy and climate change that delivers a sustainable and durable investment framework.

The Draft ESB Papers outline the proposed design approach by the ESB to the National Energy Guarantee (“the Guarantee”), the centrepiece of a national policy to improve the operation of the NEM. A functioning and effective NEM is very important to Rio Tinto and the particular policy approach of the Guarantee has been customised specifically to ensure this outcome. With operations across Australia our assessment is the Guarantee is fit-for-purpose to address the issues of the NEM. We do not see a need for the Guarantee to be extended beyond the NEM to either Western Australia or the Northern Territory.

Rio Tinto strongly supports the principles of the Guarantee including governments in Australia agreeing to a framework that integrates energy and climate change policies for the NEM. We welcome the focus of the Guarantee policy design on securing reliable, predictable and internationally competitive energy supplies consistent with Australia’s emissions obligations.

The technology neutral approach of the Guarantee is very important. With current capital and operating cost structures, there is no single technology that provides all of the answers to meeting reliability/security, emissions and cost objectives for the NEM.

Recognising the rapid pace of the design process for the Guarantee, we continue to be actively engaged with the ESB, the Department of Environment and Energy and other stakeholders on the design of the Guarantee and its interaction with other energy policy measures. From a process perspective, with a number of elements of

the Guarantee still potentially changing we think it will be important for the ESB to provide materially impacted parties an opportunity to see the “near final” design package before the final design is sent to COAG in late July.

Our responses in this submission are specific only to the ESB elements of the Guarantee design. These responses should be considered alongside the feedback on detailed design that we have already given to the ESB Secretariat. Where necessary we discuss the policy elements put forward by the Commonwealth as these must fit seamlessly with the policy elements and legislation put forward by the ESB for the Guarantee to function.

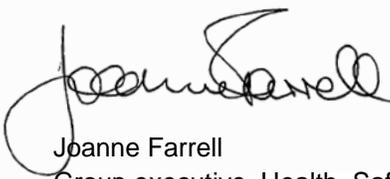
Rio Tinto’s detailed response is set out in Attachment 1. In summary, we:

- support the proposed high level approach to the Emissions Requirement applying on a whole-of-NEM basis. To reduce the overall cost of the Emissions Requirement, we recommend that the administrative requirement for generators to allocate all generation is removed. We also recommend all generation “emissions intensity” be automatically allocated to retailers via a shared pool in those years where the NEM is forecast to be ahead of the target emissions intensity. For those years when the Emissions Requirement will have work to do, we recommend lowering costs by limiting the ability of historical generation from being allocated directly by generators to retailers ensuring the focus is on investment in new generation.
- have recommended particular drafting and policy measures to be put in place to ensure the policy intent of a full exemption for EITE activities is achieved by the design of the Guarantee. This is to ensure that differences in the Guarantee design when compared to the RET do not prevent the EITE exemption certificate providing a full exemption, as is the clear policy intent. For example, we have recommended some relatively simple changes in the sequence and operation of scaling factors, noting that although the scaling factor approach is part of the ESB design of the Guarantee, the proposed changes also have implications for the Commonwealth design elements.
- support the proposed high level approach to the Reliability Guarantee on a NEM regional basis and have put forward recommendations to make the Reliability Guarantee more practical for large electricity users including a shift to an “opt-in” model. We support measures put forward, including the Market Liquidity Obligation, which seek to ensure that there will be contracts available when the market is short.
- support elements of the approach to the treatment of qualifying contracts, particularly the grandfathering of pre-existing long term contracts, including retail contracts, without additional firmness testing.

There are elements of our response that are relevant to commercially sensitive issues affecting our operations and our confidential and long term contractual arrangements. Accordingly Attachment 1, which sets out our technical comments on the above issues, is submitted on a confidential basis and is not for public disclosure. However, this letter contains Rio Tinto’s public submission, reflecting its support for the Guarantee.

We would welcome the opportunity to discuss this further with you. If you have any questions in the interim, please contact Daniel Woodfield (Daniel.Woodfield@riotinto.com).

Yours sincerely



Joanne Farrell
Group executive, Health, Safety & Environment;
MD Australia