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Energy Security Board  
Email submission to: [info@esb.org.au](mailto:info@esb.org.au)

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Dear Sir/Madam

**Re: National Energy Guarantee – Reliability Requirement Pre-condition Options**

Rio Tinto welcomes the opportunity to make a submission to the Energy Security Board (“the ESB”) on the National Energy Guarantee Reliability Requirement Pre-condition Options (the “Reliability Options Paper”) which outlines several alternative approaches for triggering the Reliability Requirement to that proposed by the ESB in the final detailed design of the National Energy Guarantee (“the Guarantee”). As outlined below, we have a strong preference for retention of the current design approach for triggering the Reliability Requirement rather than any of the three alternative options presented.

Our responses in this submission are specific only to the question set out in the Reliability Options Paper regarding the Guarantee design. These responses should be considered alongside the feedback on detailed design that we have already given to the ESB Secretariat. We do not address potential changes in the broader Guarantee design that have recently been canvassed publically by members of the Council of Australian Government’s (‘COAG’) Energy Council, except to note that from a process perspective the current Guarantee design has been developed as a complete and co-ordinated package. Accordingly should the ESB or the COAG Energy Council decide on any material change to the design of the Guarantee, there will need to be an appropriate reset and additional consultation for any changed design to ensure that the modified design elements are fit-for-purpose to minimise the risk of unintended consequences.

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. 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”). We support an integrated approach to energy and climate change that delivers a sustainable and durable investment framework. Rio Tinto sees the role of government, both Federal and State, as creating the right long-term targets and policy to ensure a functioning and effective NEM, one that secures reliable, predictable and internationally competitively-priced energy supplies consistent with Australia’s emissions obligations.

The current approach of the final detailed design of the Guarantee has as a pre-condition to the reliability obligation being activated that the Australian Energy Regulator (‘AER’) must make a determination three years out (T-3) that a reliability gap forecast by the Australian Energy Market Operator (‘AEMO’) is ‘material’ based on the Electricity Statement of Opportunities (‘ESOO’) (or any within-year update to the ESOO triggered by a material change in circumstances). The AER must make another determination one year out (T-1) that the forecast material gap remains, which then requires liable entities to submit their net contract positions to the AER. In addition to this current approach, the Reliability Options Paper puts forward an additional three options.

- Alternative 1: Add a T-5 determination: This alternative adds an additional determination five years out if justified by the AEMO forecasts.
- Alternative 2: Remove T-3 determination: This alternative removes the T-3 determination meaning that a T-1 determination (and requirement to submit contract positions) could be triggered without the T-3 warning.

- Alternative 3: Remove T-3 determination at state discretion: This sub-alternative allows a jurisdiction's (State) Minister to activate the T-1 reliability obligation for their State at their discretion (again, triggered without the T-3 warning and the requirement to submit contract positions).

Rio Tinto considers that Alternative 2 as proposed above (and as put forward at COAG by South Australia) results in a fundamental redesign not just of the operation of the Reliability Requirement but of the operation of contracting in the NEM more generally. The Reliability Requirement of the Guarantee has been designed so that it will not directly modify contracting behaviour unless there is a need to do so to preserve reliability. Having no T-3 trigger (under either Alternative 2 or 3) will mean that liable entities will have to assume the Reliability Requirement is "always on" and contract accordingly at greater cost. This is because, if the liability were to be triggered at T-1 with only three months warning, there is not enough time in which liable entities can adjust their positions for the purposes of compliance. Further while there is nothing to prevent liable entities acting in advance even without the requirement for the T-3 year trigger, the requirement to formally provide at least 3 years' notice places greater emphasis on ensuring that the T-3 forecast is robust and accurate. To the extent that this Alternative 2 is considered at all, it should be on a state by state basis i.e. Alternative 3 is in our view clearly preferable to Alternative 2. However the current approach is strongly preferred to both Alternative 2 and Alternative 3.

With regard to Alternative 1, a five year trigger, rather than three years, three years is a minimum lead time for many projects that would bring additional capacity into the market or remove load through positive demand management. There is a strong argument for a T-5 determination to allow all possible technology options an opportunity to be part of the mix to close the reliability gap. However there needs to be recognition of the balance between closing the reliability gap and the disruption associated with the Reliability Requirement being triggered. There also needs to be recognition of the proposed 3 year notice period for generator closure put forward in the Finkel review and currently being consulted on as a draft change to the National Electricity Rules. A shorter period than three years would reduce the number of options available for liable entities to consider and may be more likely to result in negative demand management (production curtailment). With an opportunity to re-evaluate the forecast within-year in response to a material change in circumstances, Rio Tinto's strong preference is retention of the provision of a three year notice period (current approach) for the Reliability Requirement.

If other elements of the Guarantee change substantially beside those set out in the Reliability Options Paper, it will be important for the ESB to consult with materially impacted parties before the revised design is again presented to COAG for formal consideration. We would welcome the opportunity to discuss this submission or other design elements of the Guarantee further with you. If you have any questions in the interim, please contact Daniel Woodfield (Daniel.Woodfield@riotinto.com).

Yours sincerely



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