



AUSTRALIAN  
ALUMINIUM  
COUNCIL LTD

Energy Security Board (ESB)

Via [info@esb.org.au](mailto:info@esb.org.au)

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Dear Chair

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### ***Australian Aluminium Council Response to Project Initiation Paper on Congestion Management Model***

The Australian Aluminium Council (the Council) represents Australia's bauxite mining, alumina refining, aluminium smelting and downstream processing industries. The aluminium industry has been operating in Australia since 1955, and over the decades has been a significant contributor to the nation's economy. It includes five large (>10 Mt per annum) bauxite mines plus several smaller mines which collectively produce over 100 Mt per annum making Australia the world's largest producer of bauxite. Australia is the world's largest exporter of alumina with six alumina refineries producing around 20 Mt per annum of alumina. Australia is the sixth largest producer of aluminium, with four aluminium smelters and additional downstream processing industries including more than 20 extrusion presses. Aluminium is Australia's highest earning manufacturing export. The industry directly employs more than 17,000 people, including 4,000 full time equivalent contractors. It also indirectly supports around 60,000 families predominantly in regional Australia.

The Council welcomes the opportunity to provide feedback to the ESB on a congestion management model (CMM), particularly focused on renewable energy zones (REZ). The ESB has been asked to progress detailed design work on the CMM and to bring back a proposed rule change to Energy Ministers by the end of 2022. The Council is pleased to note that the design should take into consideration value for money, an issue of key importance of consumers.

#### **Aluminium industry and the National Electricity Market**

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. Electricity typically accounts for around 30-40% of aluminium smelters' cost base, and therefore 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. For the aluminium industry, it is the delivered cost (including transmission) of electricity which drives international competitiveness.

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;
- an ability to secure electricity supply under long-term contractual arrangements; and
- an ability to be compensated adequately for system services which smelters and refineries provide for the network and its stakeholders.

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

#### **Need for Transmission Access Reform**

The Council welcomes the recognition from the ESB that the energy transition can be delivered more cheaply and quickly if new renewable generators connect in places where the system can get the most benefit. Currently, some generators are connecting in locations where they are not adding new renewable energy to

the power system; instead displacing the renewable generators that were already there. This is resulting in overall system costs being unnecessarily high: unnecessary capital expenditure in generators which are too poorly located to be dispatched, additional transmission expenditure to accommodate these poorly located generators, and storage not being incentivised to locate where it can most add value. Under the current model it is consumers which pay for these more expensive combinations of generation and storage being used in real time to meet demand than is necessary.

The NEM currently has an open access regime; that is, parties may connect to the grid at any point subject to meeting technical requirements and funding only the cost of the assets required to connect to the shared grid. Generators are not required to contribute towards the cost of the shared transmission or distribution network, and they receive no assurance that the network will be capable of transporting their output to load centres. The Council shares the concerns raised in the ESB's Scope of Work and Forward Project Plan<sup>1</sup> that there is an imbalance between those who benefit from, and those who pay for, the transmission network. As the Plan notes, it is ultimately, customers bear additional costs if investing in the NEM is riskier than it needs to be, particularly if poor generator location decisions result in transmission investment that would not be needed if the generators had located elsewhere. The Council supports a CMM design which is focussed designing a market that encourages market participants to connect to the grid and utilise the system in a way that minimises total system costs.

As a representative of major energy users, the Council is not currently working on any alternative models, and believes that the ESB has, at this stage, adequately recognised the concerns of consumers in its assessment criteria. The Council urges the ESB to continue to maintain this mindset as it evaluates any proposed alternate models.

### **Conclusion**

The Council appreciates the publication of an indicative timeframe for consultation to continue through 2022. While noting that this is only indicative, it is very useful in order to be able to appropriately plan for resourcing the Council's engagement in this important topic.

The Council seeks a national climate and energy policy framework which is transparent, stable and predictable, while maintaining the economic health of the nation including vital import and export competing industries. The ongoing P2025 electricity industry reforms, focused on the total system cost is of critical importance to the Council and its members. The Council is happy to provide further information on any of the issues raised in this submission.

Kind regards,



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<sup>1</sup> <https://www.datocms-assets.com/32572/1637195419-transmission-access-reform-scope-of-work-and-forward-project-plan.pdf>