

19 December 2013

Essential Services Commission
Level 37 / 2 Lonsdale Street
Melbourne 3000

Dear Essential Services Commission,

Re: Alcoa electricity generation licence application

Environment Victoria welcomes the opportunity to make a submission on the issue of Alcoa's application for an electricity generation licence for its Anglesea Power Station.

About Environment Victoria

Environment Victoria is one of Australia's leading independent environment groups. With over 80 member groups and tens of thousands of individual supporters, we've been representing Victorian communities on environmental matters for over 40 years.

We have been working on climate change for over 15 years, with specific focus on addressing the contribution of our electricity generation to greenhouse gas emissions.

Environment Victoria has a number of concerns regarding the current application by Alcoa, outlined below in the context of the objectives of the Essential Services Commission (ESC).

Inconsistency in Alcoa's application

In its comments on Objective 1 of the ESC, Alcoa makes claims that failure by the ESC to grant the generation licence for its power station will force the smelter to obtain electricity from other generators. The argument is that this would be bad for reliability of supply in Victoria. This obviously presumes the smelter remains open.

In contrast, in its comments on Objective 5 of the ESC, Alcoa asserts that its power station will deliver over 1 million MWhs per annum to the NEM. This presumes that the smelter will close – otherwise, the generation capacity of the Anglesea Power Station would be entirely consumed by the smelter.

These arguments cannot both be accepted by the ESC as supporting the application for a generation licence.

Electricity to the smelter is currently subsidised by the State Government, though this subsidy is ending in mid-2014. This is expected to force the closure of the smelter.



Aspects of the application relevant to the objectives of the ESC

Efficiency in regulated industries and the incentive for long-term investment – s.8A(a)

Contrary to many expectations in the industry, electricity demand in Victoria has fallen over the past few years. Forecasts for future demand in Victoria are for only very slow growth (approximately 1%).¹ Nationally, this has led the Australian Energy Market Operator to find that there may soon be an **over-supply** of up to 4000 MW of electricity generation capacity.²

Because of the Renewable Energy Target, it is anticipated that most, if not all, of the projected growth in demand will need to be met by renewable energy, meaning there is a need to identify coal-fired generation capacity that is no longer needed.

By granting the generation licence to the Anglesea Power Station, in the event of smelter closure, the ESC would be contributing further to the over-supply of electricity, and thus not acting in the interests of an efficient electricity system.

Financial viability of Alcoa – s.8A(b)

In its application for the generation licence, Alcoa declares that its profits were in excess of \$100 million. It should be noted that a significant proportion, if not all, of this is as a result of the subsidy given by the Victorian Government through electricity price contracts.³ With that subsidy ending in mid-2014, the financial viability of Alcoa's Australian operations will be significantly reduced.

Further, a recent review of ambient air quality by the National Environment Protection Council⁴ produced recommendations that will establish more stringent air quality standards than are currently the case, including for sulphur dioxide (SO₂), which can cause severe respiratory problems.

The coal at Anglesea has certain properties that mean much more SO₂ is generated during the process of electricity generation, compared to coal reserves elsewhere in Victoria such as the Latrobe Valley. While the Anglesea Power Station meets existing targets, it is thought that new targets will not be able to be met without additional scrubbing technology. In 2012, Alcoa declared that the known 2007 cost of the necessary SO₂ scrubbing technology was \$165 million.⁵

Therefore, it is likely that, in the near future, operations at Anglesea Power Station will become financially unviable as a result of expenses needed to meet incoming air quality standards.

¹ Australian Energy Market Operator (2013), *National Electricity Forecasting Report*, p.6-2

² Australian Energy Market Operator (2013), *National Transmission Network Development Plan*, p.iii

³ H Turton, *The Aluminium Smelting Industry: Structure, market power, subsidies and greenhouse gas emissions*, Discussion Paper 44, The Australia Institute (2002), pp12-13.

⁴ National Environment Protection Council (2011), *National Environment Protection (Ambient Air Quality) Measure Review*.

⁵ Minutes from Alcoa Anglesea Power Station Community Consultation Network, meeting of 3 December 2012.



The likelihood of meeting these incoming air quality standards must also be considered by the ESC under s.8A(1)(d) of the ESC Act 2008.

Long term interests of Victorian consumers – s.8(1)

Section 8(1) of the Essential Services Commission Act requires the ESC to act to “promote the long term interests of Victorian consumers”. We would like to make three additional points relevant to this objective in Alcoa’s application:

- Alcoa is currently exempted from the scrutiny of Freedom of Information requests in its dealings with the state government, meaning there is limited scope for public oversight of a coal-fired power station that is in very close proximity to a residential population (including a primary school) – endorsing the continuing of this arrangement is not in the long term interests of consumers.
- By **not** granting this generation licence, ESC could be contributing, in the medium to long term, to lower electricity prices for Victorian consumers: renewable energy is cheaper to supply than coal-fired energy, and with greater levels of renewables in the network (ie. by not granting licences to what is in effect an additional coal power station), the merit order effect puts downward pressure on wholesale electricity prices in the short term.⁶ This will ultimately flow through to savings to consumers.
- Since the power station is not needed for maintaining a reliable electricity supply, there is no advantage to Victorian consumers by keeping it running. Indeed, the emission of greenhouse gases, particulate matter and other air pollutants are actively *against* the long term interests of Victorian consumers, with links to exacerbated climate change and respiratory disease.

Summary

Environment Victoria believes the granting of a generation licence to Alcoa for its Anglesea Power Station is: (1) unnecessary on the grounds that there is no need for additional generation capacity, (2) likely to result in a less efficient electricity system because of existing over-supply, and (3) not in the long term interests of Victorian consumers on a number of fronts.

Yours sincerely

Dr Nicholas Aberle
Safe Climate Campaign Manager
Environment Victoria

⁶ “Retrospective modeling of the merit-order effect on wholesale electricity prices from distributed photovoltaic generation in the Australian National Electricity Market”, Dylan McConnell, Patrick Hearps, Dominic Eales, Mike Sandiford, Rebecca Dunn, Matthew Wright, Lachlan Bateman (2013) *Energy Policy* vol 58, pp.17-27.

