Tomago's meltdown has nothing to do with renewables

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Opinion article

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Rio Tinto’s haggling with governments over the future of its Tomago aluminium smelter makes for a highwire drama that’s thrilling for politicians and the media but agonising for its workforce.

Somehow, though, the plotline about the endangered potlines has become distorted by critics who are ill-informed – by choice or ignorance – about the causes behind Tomago’s woes.

A narrative that blames renewable energy as the culprit for higher energy prices undermining the smelter’s viability is at odds with both history and the present.

So let’s correct the energy myths and lay out a few realities.

As a former energy minister and treasurer of New South Wales, I had a clear line of sight Tomago’s value. Australia’s biggest aluminium smelter is an important regional employer supporting several thousand direct and indirect jobs, a source of stable demand for the electricity grid, and a plant that regularly exports almost all its $2 billion a year output.

But I was just as aware the clock was ticking on its viability, and that it wouldn’t be long before policymakers and the company itself would have to make some tough calls.

As with some other aluminium smelters in the country, such as Portland’s in Victoria, Tomago’s genesis was closely entwined with the construction of coal-fired power stations.

Back in the 1980s, Tomago was twinned to the nearby Bayswater power plant in the Hunter Valley. Bayswater, then state-owned, sourced cheap coal from – you guessed it – a state-owned coal mine.

That symbiosis began to fray with the privatisation of coal mines and power stations. Coal contracts were repriced closer to global levels, and Tomago has long known its sweetheart power deal with Bayswater – now owned by AGL – had a sunset clause set for 2028.

In other words, even if Australia didn’t boast a single solar panel or wind turbine, Tomago’s bills were going to climb.

That we should now be having the current wrangling over the plant’s future should also not be a surprise.

The potlines and infrastructure that runs 24/7, 365 days a year need regular maintenance. It’s no accident that Rio Tinto indicated, back in 2022, that they could stop replacing key infrastructure and reducing production capacity, given their current electricity contract with AGL expires in 2028.

AGL is in no place to offer long-term low-cost power from Bayswater.

That plant is of a similar vintage to Tomago’s, and is slated to close by 2033 if not sooner. Old facilities, much like an old Holden, get more expensive to run as they age.

Unlike AGL, though, Tomago also must compete on international markets. Its annual output of 590,000 tonnes of aluminium may also be big by Australian standards – accounting for 37% of the national total – but is dwarfed by China's fleet.

In sum, they host the equivalent of 70-plus Tomagos. More to the point, most are much newer and are more efficient.

Still, we've seen that Rio can line up power deals attractive enough in Queensland to keep the firm's Boyne aluminium smelter – Australia's second-largest – operating out to 2040.

Most of Boyne's electricity will come from renewable energy in a region where sunshine is more plentiful than the lower Hunter. The Queensland government also controls the bulk of the state's grid and that factor probably helped sweeten the deal.

Any industry that is energy intensive is ultimately more likely to be viable where it can access low-cost power. And aluminium is dubbed "solid electricity" for a reason.

As it happens, the Australian Energy Market Operator just this week, reported record levels of renewable energy for the September quarter that helped drive down wholesale spot prices even as power demand rose.

For NSW, spot prices averaged $90/megawatt-hour, or 25% less than a year earlier. In Queensland, they averaged $72/MWh, a 28 percent year-on-year reduction in a quarter where dispatch prices had zero or negative prices for a record 25.9% of the time.

It will ultimately be up to the Minns government in NSW and its federal counterpart to decide how much they're willing to pay for a Tomago lifeline. It could be a lot.

Whatever the outcome, though, if Australia seeks to retain and increase power-hungry industries it's going to need a lot more of the lowest-cost generation it can build.

And that means more – not less – renewable energy.