

7 December 2023

Ms Anna Collyer  
Mr Tim Jordan  
Ms Sally McMahon  
Mr Charles Popple

Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

Lodged electronically: [www.aemc.gov.au](http://www.aemc.gov.au) (ERC0362)

Dear Commissioners



**EnergyAustralia**

LIGHT THE WAY

EnergyAustralia Pty Ltd  
ABN 99 086 014 968

Level 19  
Two Melbourne Quarter  
697 Collins Street  
Docklands Victoria 3008

Phone +61 3 8628 1000  
Facsimile +61 3 8628 1050

[enq@energyaustralia.com.au](mailto:enq@energyaustralia.com.au)  
[energyaustralia.com.au](http://energyaustralia.com.au)

### **Harmonising network expenditure and planning rules with updated national energy objectives – Draft rule determination – 26 October 2023**

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

Overall we support the various amendments the Commission has drafted to harmonise the energy rules with the new law objectives. These draft changes are primarily directed at cost benefit assessments for gas and electricity networks, in that such assessments must:

- have regard to 'emissions reduction targets', including those now defined in the AEMC's Target's Statement<sup>1</sup>
- consider changes to Australia's greenhouse gas emissions, measured on an economy-wide basis.

As raised in our previous submission, the 'value of emissions reduction' (VER) or method of working out the VER, provided for under the amended laws, will be critical in applying this new framework. The Commission's draft rule amendments do not refer to the VER, leaving this to be covered in subordinate AER guidelines. Part of the Commission's reasoning is to provide flexibility in accommodating methodological developments over time. Its position also appears to presume that administrative guidance around the VER, expected to be issued soon by the Commonwealth, will explain in sufficient detail how it relates to the separate obligation to consider the targets statement, and potentially other requirements around cost benefit assessments being drafted into the rules. In the absence of knowing the content of any VER guidance, it is not possible to comment on whether the rules should be silent on it.

---

<sup>1</sup> Targets statement for greenhouse gas emissions | AEMC

The Commission noted its intent that decision making processes would continue to balance the different components of the national energy objectives, rather than give primacy to emissions reduction.<sup>2</sup> We consider that once a VER is quantified, it will become a deterministic factor in cost benefit assessments. As noted in our previous submission, the VER is in addition to the insertion of an emissions limb into law objectives. The transitional law amendments state that the VER value or method “must be complied with” by the relevant decision maker. This contrasts, for example, in the quantification of parameters for reliability. That is, the ‘value of customer reliability’ is used as a primary input in reviews of the NEM’s reliability settings, however the Reliability Panel is only required to “have regard to” this value<sup>3</sup>, and so is free to balance reliability and price outcomes for customers. If the VER is applied in a deterministic sense, it would likely produce material impacts on price by altering the cost benefit assessments of many hundreds of individual projects that form part of each network price determination. If the Commission’s intent is that market bodies can genuinely balance emissions against price and other elements of the objectives, this effectively means departing from the VER, which does not seem permissible given the new law requirements.

The Commission’s draft rule would extend emissions reduction considerations to the procurement and dispatch of network support and control ancillary services (NSCAS). While we do not oppose this, it appears to be inconsistent with ministerial intent of the law amendments, namely that they would not affect “the Australian Energy Market Operator’s operation of wholesale markets, including its role in managing real-time activities that includes dispatch and scheduling.”<sup>4</sup> The Commission’s justification regarding NSCAS includes that “using emissions-intensive generators to relieve constraints may not contribute to the updated NEO.”<sup>5</sup> We recommend the Commission seek explicit guidance from ministers on this element of its draft determination. At present, the inclusion of NSCAS in these changes appears mostly to be a consequence of amending the definition of ‘net economic benefit’. The Commission’s generalised reasoning, however, can be extended to any of AEMO’s wholesale market operations. If so extended, requirements to comply with a VER or similar constraint in AEMO’s procurement and dispatch decisions could have significant effects on price, reliability and emissions outcomes. Our expectation is that the minister’s reference to AEMO’s wholesale market operations reflects concerns about effectively introducing a price on carbon, which may be politicised. Uncertainty about the scope of future rule changes in this regard could therefore negatively affect investment decisions and be detrimental for the transition. Hence rule changes beyond network planning and expenditure assessments should be subject to a commensurate policy review under explicit government direction, rather than introduced unintentionally as part of ‘harmonisation’ changes.

We also reiterate some of our previous comments about the risk of network businesses proposing expenditures in line with the new objectives, in a way that does not accord with efficient decarbonisation pathways. The Commission has partially addressed this concern by stating that network businesses will only be able to apply emission reduction considerations in the context of fully regulated (standard control, prescribed and

---

<sup>2</sup> AEMC, *Harmonising the rules with the updated objectives - Draft rule determination*, 26 October 2023, p. 4.

<sup>3</sup> National Electricity Rules clause 3.9.3A

<sup>4</sup> *Hansard Daily: House of Assembly - Wednesday, June 14 2023* ([parliament.sa.gov.au](http://parliament.sa.gov.au))

<sup>5</sup> AEMC, p. 22.

pipeline) services.<sup>6</sup> This statement was in response to the suggestion from Energy Networks Australia that eligible spending be broader than this, which illustrates the intent of network businesses, and our concern. In spite of service classification, ring-fencing and other restrictions, we expect network businesses to continue to pursue environmentally-focused activities<sup>7</sup> that do not strictly relate to the transfer of energy but ultimately result in business cases to maintain or expand network assets. A deterministic application of VER could see, for example, gas networks seeking to facilitate renewable gas fuel substitution, with no obligation to assess alternative electrification pathways in their business cases. Consideration of economy-wide emissions may help ensure a proper consideration of such cross-sectoral impacts, but will open up various complexities in developing credible counterfactual cases and scenarios that run over sufficiently long time horizons. We invite the Commission to consider these types of implications and provide clear statements of intention around this in its final rule determination. Such statements might instruct stakeholders during the AER's guideline revision processes and indicate key areas for guideline scrutiny and development.

If you would like to discuss this submission, please contact me on 03 9060 0612 or [Lawrence.irlam@energyaustralia.com.au](mailto:Lawrence.irlam@energyaustralia.com.au).

Regards

**Lawrence Irlam**  
Regulatory Affairs Lead

---

<sup>6</sup> *ibid.*, p. 31

<sup>7</sup> For example: [Biomethane: Jemena deepens push into renewable gas with Optimal | The Australian](#)