

7 February 2023

Department of Climate Change, Energy, the Environment and Water
GPO Box 3090
Canberra ACT 2601

By online submission

Dear Ms Halstead,

Incorporating an emissions reduction objective into the national energy objectives

AEMO welcomes the opportunity to comment on the National Energy Laws Amendment (Emissions Reduction Objectives) Draft Bill 2023 and Consultation Paper. AEMO applauds this initiative of the National Energy Transformation Partnership to incorporate emissions reductions into the energy objectives.

The national energy objectives underpin many of AEMO's powers and functions. Incorporating emissions reductions into these objectives will empower AEMO and the other market bodies to facilitate the rapid delivery of the energy transition while balancing safety, reliability and affordability. AEMO considers that the recommendations summarised below, and expanded on in Attachment 1, provide an effective approach to incorporating the emissions component into the national energy objectives:

- **Incorporating the emissions reduction objective into the existing 'economic efficiency' framework is an effective way of integrating emissions reductions into the decision making of energy market bodies.**
 - AEMO is accustomed to applying the current framing of the national electricity objective (NEO) and national gas objective (NGO) in our decision-making. We consider incorporating the emissions reduction objective into the existing 'economic efficiency' framework will enable flexible, balanced consideration of the 'limbs' in the NEO and NGO.
- **The reference to emissions should have a consistent level of granularity with the other components of the energy objectives.**
 - AEMO believes the granularity of the wording of the emissions reduction component in each of the national electricity objectives should be consistent with the existing wording. In line with current practice, detailed provisions reflecting the application of the objectives in the exercise of particular functions and powers can be articulated in the National Electricity Rules (NER), or the appropriate Guidelines and Procedures. By adopting this approach, the intent of the amendments can be realised most effectively over the long term, as the concept of emissions reductions in the energy objectives evolves.
- **It is not essential to amend the wording in the NEO and NGO to refer to 'consumers of energy' or 'supply of energy' to fully realise and operationalise the policy intent of these reforms.**
 - AEMO is confident we can deliver all our current powers and functions within the existing framework, whereby the NEO and NGO consider the best interests of consumers of electricity and natural gas respectively. If the gas and electricity sectors are co-optimised, there may be scope for AEMO to collaborate with the Commonwealth on aligning aspects of the gas and



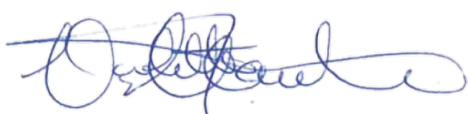
electricity frameworks. However, this would not necessitate a change to ‘consumers of energy’ or ‘supply of energy’.

- **The 2024 *Integrated System Plan (ISP)* work has already considered how to operationalise amendments to the NEO. Further guidance would be required to be rapidly implemented for AEMO to fully operationalise these amendments in the 2024 ISP. Concurrent with this, Rules and Guidelines changes are required to ensure operationalising the amendments in future ISP and RIT-Ts is consistent and durable.**
 - On 12 August 2022, Energy Ministers agreed to introduce an emissions reduction objective to the NEO. Since that time, there are a number of ways (particularly through scenario planning) in which AEMO has already considered how to operationalise the intent behind the proposed amendments to the NEO for the 2024 ISP. To incorporate a Value of Carbon Emissions (VCE) into the 2024 ISP, a Guidance Note from the Australian Energy Regulator (AER) would be required as soon as possible which explains the methodology AEMO would need to use. Further rule changes and changes to the CBA Guidelines will likely be required to ensure we are able to consistently and fully operationalise the proposed amendments, including in future ISPs.
- **AEMO supports the proposed transitional arrangements in the Draft Bill.**
 - During the period between the passage of the Bill through the South Australian Parliament and the amendments taking effect, the emissions reduction component should be applied at the discretion of the market bodies. Market bodies are best placed to understand where the application (or non-application) of the emissions reductions component would cause delays or otherwise compromise the policy intent. Market bodies are also uniquely placed to understand where the amended NEO and/or NGO could be applied to accelerate emissions reductions during the transitional period.
- **AEMO’s administration and operation of the markets and dispatch must continue to function as normal.**
 - Emissions reductions can and will be delivered without any change to AEMO’s current administration and operation of the markets and dispatch. This market operation is guided by Rules and supporting Procedures. AEMO will operate within the Rules and Guidelines in place at the time. The Second Reading speech or another publicly available, Government-authored document should clearly state that the legislation does not require AEMO to consider emissions reduction in its administration of wholesale energy markets, including real-time dispatch. This will prevent unintended consequences that could negatively impact secure and reliable market operation.

AEMO continues to support the policy intent and the acceleration of emissions reductions to achieve Australia’s emissions reductions targets and looks forward to working with governments, market bodies and other stakeholders to apply the amended energy objectives, which will enable the transition to a net zero economy.

Thank you again for the opportunity to provide comments and we look forward to engaging further on this important initiative.

Yours sincerely,



Violette Mouchaileh

Executive General Manager – Reform Delivery

Attachment 1

Incorporating an emissions reduction objective into the national energy objectives – AEMO Comments

Chapter 3: Approach to incorporating an emissions reduction objective

Question 1: Do you consider incorporating the emissions reduction objective into the existing ‘economic efficiency’ framework is an effective way of integrating the concept into the decision making of energy market bodies?

National Electricity Objective (NEO)

AEMO is accustomed to applying the current NEO and its framing into our decision-making. Including a third ‘limb’ to the current NEO would require AEMO to have regard to emissions reductions considerations, as well as the existing two limbs of (a) price, quality, safety, reliability and security of supply of electricity; and (b) the reliability, safety and security of the national electricity system. We will continue to use our discretion to balance these ‘limbs’ in an appropriate way in any given circumstances.

National Gas Objective (NGO)

The Draft Bill also includes an amendment to the NGO such that AEMO would consider two limbs:

- (a) price, quality, safety, reliability and security of supply of natural gas; and
- (b) the achievement of targets for reducing Australia’s greenhouse gas emissions (etc).

Overall, AEMO considers incorporating the emissions reduction objective into the existing ‘economic efficiency’ framework is a balanced and effective way of integrating the concept into our decision making.

Question 2: Is the current level of discretion afforded through an ‘economic efficiency’ framework appropriate for balancing an emissions reduction component against existing components of the energy objectives?

AEMO is satisfied with the current level of discretion afforded through this ‘economic efficiency’ framework. AEMO needs to retain flexibility in balancing the three limbs of the proposed NEO, and the two limbs of the proposed NGO, to ensure we can continue to carry out our functions in the most effective way possible.

Question 3: Do you consider that, for certain instances/processes, market bodies should develop/update guidance material to assist market participants in understanding how market bodies will interpret the proposed revised national energy objectives?

Further guidance material is required to assist market participants in understanding how the proposed revised national energy objectives will be interpreted. The policy landscape is dynamic, and our application of the emissions component may change over time as a result of Commonwealth or jurisdictional policies, as well as a wide and unpredictable variety of other factors.

This would present challenges in keeping any guidance document/s up to date, especially given the breadth of AEMO's functions. Specifically, if it was deemed desirable for AEMO to incorporate a VCE into the 2024 ISP, this would require a Guidance Note from the AER to be published as soon as possible (our answer to Question 15 provides more discussions on this).

What are these instances/processes and what sort of content would you want to be included in this guidance?

N/A

Section 3.3 Reference to Australia's greenhouse gas emissions reduction targets

Question 4: Does this approach give an appropriate level of clarity as well as discretion to market bodies to consider relevant targets in their decision making? If not, detail your reasons and suggested solutions.

We are of the view that the proposed wording in the revised national energy objectives is not the optimal method to operationalise the intent of the amendments over the longer term. The wording of the existing energy objectives is relatively high level, which then enables market bodies to consider the intent whilst applying appropriate discretion when operationalising across functions. It is unclear why the emissions component being added to the energy objectives should be more detailed than the other two subsections. For example, the current NEO references 'reliability' as the high-level concept without referencing the specific targets for reliability (such as the Reliability Standard and the Interim Reliability Measure).

The proposed level of detail and specificity may mean this legislation may need to be revisited more frequently over the long term to update based on future policies of governments, something which is a significant undertaking.

AEMO would be more comfortable with a consistent level of granularity with the current two limbs, with more granular references to emissions reductions targets to be contained in the NER or regulated guidelines as appropriate. For example, AEMO currently has regard to the NEO for the ISP, but NER 5.22.3(b) prescribes specifically which current environmental or energy policies AEMO may consider in determining power system needs. This would also ensure consistency with how other elements of the national energy objectives are operationalised, and by doing this through Rules and/or Guidelines, any further revisions over time would be far less burdensome.

Given the above, our preferred wording for the NEO (which would be similarly applied to other national energy objectives) would be (amendments in ***bold and italics***):

"The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—

- (a) price, quality, safety, reliability and security of supply of electricity;
- (b) the reliability, safety and security of the national electricity system; and
- (c) ***the reduction of Australia's greenhouse gas emissions.***"

Incorporating a high-level reference to emissions reduction can capture (and be consistent with) all current and future emissions reductions targets, given that all targets share the common intent of reducing emissions.

Question 5: Does the inclusion of ‘public commitments’ including ‘publicly as a matter of policy,’ as well as legislated targets, provide sufficient certainty for effective consideration of an emissions objective by market bodies?

As mentioned in our response to Question 4, our first preference is to limit the wording to “the reduction of Australia’s greenhouse gas emissions”, as this would be a consistent level of detail with the rest of the clause, and would allow this to be operationalised through the Rules and/or Guidelines in the way that the other clauses currently are (e.g. reliability). It also means the clause will be more durable, as the Rules/Guidelines can be amended more easily relative to the National Electricity Law (NEL) when changes are required.

Our second preference would be to amend the wording to:

- “(c) the achievement of targets for reducing Australia’s greenhouse gas emissions, including
- (i) Australia’s greenhouse gas emissions reduction targets provided for under the Climate Change Act 2022 of the Commonwealth; and
 - (ii) other targets for reducing, or that are likely to contribute to reducing, Australia’s greenhouse gas emissions—
 - (A) stated in a law of the Commonwealth, a State or a Territory; or
 - (B) stated in, or made under, an international agreement to which the Commonwealth, a State or a Territory is a party.”

This would remove the open-endedness of the term “stated publicly as a matter of policy”, the inclusion of which has a much higher risk of not becoming a reality relative to sub-clauses (A) and (B). However, in this instance clarity would still be required either through the Rules and/or Guidelines.

If the Commonwealth decides to use the proposed wording currently in the Draft Bill, jurisdictional guidance on ‘public commitments’ for market bodies to use in our decision-making would be useful provided that is durable over the long term, and flexible enough to change over time. Constant changes to this guidance material would make it challenging for AEMO to factor in all current public commitments in our decision making due to the considerable amount of analysis, modelling and consultation involved and the time that takes. Changes to the NER and Australian Energy Market Commission (AEMC) Guidelines may also be helpful for the market bodies to apply jurisdictional public commitments to their decision-making effectively. Even with this guidance however, AEMO may face challenges in practically applying matters of “public commitments” as implementation may, in some instances, be a matter of interpretation and may potentially leave market bodies legally exposed. Questions of interpretation can create unpredictability and uncertainty for the market, and in turn potential legal exposure for market bodies seeking to apply the guidance.

Section 3.4 Amendments to acknowledge interactions between electricity and gas markets and enable management of transition impact

Questions on ‘consumers of energy’

Question 6: Do you agree that the proposed change to ‘consumers of energy’ is necessary and appropriate to recognise the interconnections between the two energy markets and to enable future decisions to consider the implications for the energy system as a whole?

We do not consider it essential to amend the wording in the NEO and NGO to refer to ‘consumers of energy’ to fully realise and operationalise the policy intent of these reforms.

Question 7: What impacts (positive and/or negative) would the proposed change have on your organisation or your stakeholders/customers?

- a) **What are these instances/processes and what sort of content would you want to be included in this guidance?**
- b) **Do you foresee any unintended adverse consequences coming from such a change, especially for market participants or consumers?**

Whilst we feel this change would convey the appropriate direction of long-term transmission planning, specifically in enabling the objective of “supercharging” the ISP, given the increasing interactions between the gas and electricity markets, we also consider there is potential for unintended consequences in decision making and believe that the provision of specific guidance (for example in a ministerial statement of policy principles) is necessary if this change is to be made.

Potential benefit of the ‘consumers of energy’ amendment in the NEO and NGO

The proposed amendment to use the term “consumers of energy” rather than “electricity” and “gas” in the NEO and NGO respectively could support greater co-development of electricity and gas systems. As part of the National Energy Transformation Partnership (NETP), the ISP may broaden to become a ‘supercharged ISP’ in the coming years, thereby planning efficient investments in both electricity and gas systems. This amendment therefore could help to guide the necessary rule changes and guidelines to facilitate greater co-optimisation of planning and investment across electricity and gas.

Potential unintended consequences of the ‘consumers of energy’ amendment

Currently, the NEO and NGO are aimed at achieving efficient outcomes in the long-term interests of consumers of electricity and gas, respectively; that is, those at the end of the supply chain for the form of energy that is regulated by that framework. This means that decisions and functions that affect any part of the supply chain should work for the overall benefit of those at the end of it. In contrast, if ‘consumers of electricity’ in the NEO and ‘consumers of natural gas’ in the NGL are replaced with ‘consumers of energy’ the objectives of each legislative framework expand to include the direct interests of a broader range of stakeholders. This is most evident for the NEO, where the amendment would require market bodies to consider consumers of gas who are also producers of electricity.

With increasing electrification and fuel-switching from other forms of energy to electricity, as well as the potential development of hydrogen as a new alternative form of energy that is itself a consumer of electricity, a requirement to consider the interests of a producer of electricity from gas generation as well as end users of electricity could present an additional conflict compared with the current definition. This requires closer consideration of who should be considered a ‘consumer’ and is a

potential future issue even within the current NEO in relation to large-scale storage providers who are technically both consumers and producers of electricity.

Consideration should be given to the impact the amendment will have on cost recovery mechanisms of electricity and gas investments across broader 'energy consumers'. It could allow investment efficiency tests to consider combined investment efficiency across electricity and gas consumers, resulting in lower energy consumer costs (but potentially higher electricity consumer costs and lower gas consumer costs, or vice versa).

Given this, we would consider it necessary for additional guidance to be provided to clarify the relative priority of types of 'consumers of energy' so as to guide market bodies in their application of the NEO/NGO. Alternatively, consideration could be given to defining consumers for the purpose of the objectives.

Questions on 'supply of energy'

Question 8: Do you consider the additional change to 'supply of energy' is necessary given the reasons above?

We do not consider the additional change to 'supply of energy' necessary for the same reasons given above.

Question 9: Do you agree that the market bodies, when making a decision under the NEL/NER, should be empowered to consider the implications for price, reliability, security etc. in the gas market and vice versa? If not, what are other ways of managing the potential implications of the transition on all energy consumers?

We agree that the market bodies, when making a decision under the NEL/NER, should be empowered to consider the implications for the gas market and vice versa. AEMO's operations across gas and electricity are becoming increasingly aligned and these cross-sector considerations are likely to increase. It is also increasingly important to consider sector coupling considerations in planning the investments required to enable an effective and efficient energy transition.

However, it is important to note that the electricity and gas frameworks are asymmetrical and the impacts of a change to 'consumers of energy' and 'supply of energy' on each sector may be quite different. AEMO has different roles in the electricity and gas sectors, and there are materially different planning frameworks. While the National Electricity Market has clear reliability guidelines and settings, the concept of a reliability standard for gas does not exist, and planning requirements to maintain reliability are therefore inconsistent.

Currently, the means of considering the impacts of the long-term reliability, security and/or efficiency of gas market developments under the current electricity planning framework is unclear, particularly if in considering gas market impacts this introduces material costs to electricity consumers to bear. In planning the electricity system, we must consider the likely electrification of gas loads (and other fuel sources). However, the consequence of these actions on the gas system are not simultaneously investigated.

We also do not have the same planning role for gas networks as we do for electricity, partly since large amounts of gas infrastructure investment is commercial in nature. Currently there is no mechanism for any AEMO recommended investment in the gas system (for example, from the ISP) to become actionable.

We note that the upcoming NETP ISP Review may expand AEMO's role in co-optimising investments across the two sectors. However, asymmetries may persist, even if the ISP is 'supercharged', given the differences between the sectors. This is why it is challenging to anticipate unintended consequences, while the process of aligning the frameworks is premature. AEMO would recommend as part of the NETP ISP Review that AEMO and the Commonwealth develop the co-optimisation of the two frameworks collaboratively, including with relevant bodies within the gas system. This will help ensure that when AEMO makes a decision under the NEL/NER we will be adequately empowered and equipped to consider the implications for price, reliability, security and emissions reductions in the gas market and vice versa. Furthermore, it can be done with lower risk of unintended consequences that a change to 'consumers of energy' and 'supply of energy' entails.

Question 10: Do you foresee any unintended adverse consequences coming from such a change, especially for market participants or consumers?

Given our answer to Question 9, we do not consider that the change to "consumers of energy" and "supply of energy" will immediately lead to consistent outcomes to consumers of both sectors. In order to reduce the risks of unintended consequences to both forms of energy consumers, the Commonwealth and relevant planning bodies for electricity and gas investments, including AEMO, should collaborate towards coordinating the two sectors' planning frameworks, particularly in the context of the 'supercharged ISP'. Without these considerations, these amendments may lead to unintended consequences, which are difficult to predict accurately, or lesser impacts in delivering the intended co-optimised and economically efficient transition.

Section 3.5 Consequential changes

Question 11: Do you have views on other consequential changes that might be required for the NEL, NGL or NERL as part of implementing the emissions reduction component?

We are not aware of any consequential changes required for the above legislation as part of implementing the emissions reduction component.

Question 12: Are there existing rules or regulations under the national energy laws that may require consideration of consequential changes? If so, please provide details including why consequential changes are envisaged as necessary or appropriate.

N/A

Question 13: Do you have views on any rules that would benefit from a concurrent change within the current Bill process? If so, please provide details of the changes and the reasons why they would benefit from a concurrent change.

AEMO has proposed a Value of Carbon Emissions (VCE) market benefits class as part of the AEMC's Transmission Planning and Investment Review (TPIR)¹. The VCE would enable investments to demonstrate their value in reducing carbon emissions beyond the scenario parameters. Carbon emissions could therefore be explicitly quantified as a category of market benefit in the regulatory investment test for transmission (RIT-T) and ISP process, which is more appropriate for ambitious emissions reductions.

To implement the VCE in future ISPs and RIT-Ts, it is possible that rule changes and/or amendments to the Cost Benefit Analysis Guidelines are required (although not absolutely necessary). These consequential changes would enable AEMO to implement the policy intent as part of the ISP beyond its current consideration of legislated emissions targets (pursuant to NER 5.22.3). These rule changes could be made concurrently with the changes within the current Bill process to ensure implementing the emissions reduction component is done as swiftly as possible.

Question 14: Do you have views on/are you aware of any rules that might benefit from more explicit reference to the objectives as a whole, or specifically the emissions reduction component?

AEMO is satisfied with the existing references to the energy objectives in the NER/NGR.

Section 3.6 Commencement and transitional arrangements

Question 15: Do you agree with the proposed Proclamation date being six months after passage through the South Australian Parliament?

AEMO understands that the intent of the transitional period outlined is to provide some level of discretion for market bodies to apply the changed objectives to processes that are underway, and that processes that span multiple years or which are multi-staged processes could potentially benefit from the market body having discretion to apply the amended objective.

AEMO also understands that Governments consider the transitional period could also be an appropriate timeframe to allow market bodies time to make any necessary rule change or to undertake consultations to amend guidelines in order to operationalise the proposed amendments to the national energy objectives. In practice, it is likely it would take longer than six months for all of these processes to be completed, but less than six months for some of these to be completed. Each market body may prefer different transition periods according to their functions and powers. It may also depend on which processes should be prioritised for application of the emissions component. To illustrate what could be achieved within six months, we would like to provide two examples of how the emissions reduction component could be integrated into the ISP and RIT-T processes.

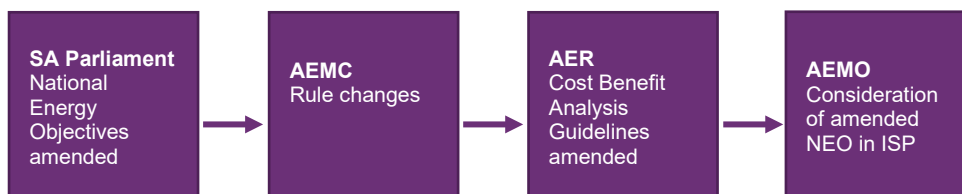
Method 1: AEMC rule change to include VCE benefit class

For the emissions reduction component to be considered in the ISP, a rule change to include an additional benefit class for the VCE into the existing list of market benefit classes in 5.22.10(c) is

¹ AEMO submission to AEMC's Transmission Planning and Investment Review, at <https://www.aemc.gov.au/market-reviews-advice/transmission-planning-and-investment-review>.

one method. Subsequently, the Cost Benefit Analysis Guidelines would need to be amended to provide further detail on the appropriate methodology to calculate the VCE. Figure 1 provides an indicative illustration of the steps in this method.

Figure 1: Indicative steps to consider the amended NEO in the ISP



Method 2: Use of existing NER and addition of VCE benefit class to Cost Benefit Analysis Guidelines

2(a): The NER provide that, in preparing an ISP, AEMO must consider the classes of market benefits that could be delivered by the development path, including “other classes of market benefits that are specified as a class of market benefit in the Cost Benefit Analysis Guidelines”. Therefore, it is possible that a rule change process could be avoided if appropriate amendments were made to the CBA Guidelines. Whilst this would lead to an asymmetric approach to that taken for other market benefit classes (given other benefit classes are explicit in the NER), this may expedite the process relative to Method 1.

2(b): Similarly, the NER also provides that, in preparing an ISP, AEMO must consider the classes of market benefits that could be delivered by the development path, including “other classes of market benefits that are determined to be relevant by AEMO and agreed to by the AER in writing before the publication of the draft Integrated System Plan”.² Operationalising through this way would likely be the fastest method, but AEMO would need to repeat these actions for every ISP going forward. In contrast, Method 1 would be a more permanent change to the ISP process.

There may be merit in the jurisdictions or the Commonwealth indicating to the market bodies which processes should be fast tracked – for example, whether there is an expectation that the 2024 ISP consider the new emissions component – and that market bodies are empowered to start considering the emissions component as soon as possible.

For the amended NEO to be considered in the 2024 ISP, we are of the view that the only viable option from those discussed above would be 2(b). To enable this, a methodology for the calculation of a VCE would need to be determined (this could be done by the Commonwealth, jurisdictions or the AER) and the AER could then issue a Guidance Note clarifying how AEMO could apply this in the 2024 ISP.

Question 16: What are your views on the proposed transitional arrangements in the Draft Bill?

- a) Are there particular processes that should be subject to different transitional arrangements?

² See NER 5.22.10 (c)(1)(x)(A).

b) How or where should arrangements for these specific processes be prescribed – in the primary legislation or through a subordinate instrument?

AEMO considers that processes subject to the proposed transitional arrangements should not be prescribed, as market bodies will require flexibility in applying the emissions component in a way that delivers the greatest emissions reduction benefits. Prescribing these processes risks omitting some processes which may not have been anticipated but could deliver benefits if the emissions component were applied to them before the amendments take effect.

Question 17: What already-commenced regulatory processes under the energy laws or rules might benefit from transitional arrangements that provide for the emissions reduction component to apply (i.e. automatically and not be subject to market body discretion)?

As discussed, AEMO considers that processes subject to transitional provisions should not be prescribed and that market bodies should have flexibility and discretion in applying the emissions component. From an AEMO perspective, all ISP-related processes should be captured in any transitional arrangements to enable the most accelerated greenhouse gas emissions possible. This could prevent any unintended consequences, such as delays, as we consider that market bodies are best placed to understand where the emissions reductions component may be applied appropriately.

Question 18: Should market bodies be afforded a broad discretion to decide when to apply the amended objective to a process that is ‘underway’?

AEMO supports allowing market bodies full flexibility in deciding if they should consider the emissions objective. It would not be conducive to the energy transition if AEMO were obliged to formally liaise with the AEMC or the AER to determine which objectives will apply in AEMO’s decisions, as this may potentially delay the process. AEMO will continue to work constructively with the other market bodies to deliver the outcome that best aligns with the policy intent of reducing emissions.

Question 19: Are there logical points in multi-stage and/or multi-year processes (e.g. RIT-T and RIT-D assessment processes and revenue determination processes/resets) after which the emissions reduction component should or should not be able to be applied?

Broadly, AEMO considers there should be flexibility for market bodies to acknowledge the change for any processes on foot at the time of the commencement of the amendment if it is possible that it could be accommodated or that the outcomes are materially affected. Market bodies should have the discretion to determine whether a process is considered ‘underway’ for its own processes, although market bodies may wish to consult with each other where market body alignment is required for a given process.

a) Should a RIT-T process be considered ‘underway’ when a project specification consultation report has been made available (clause 5.16.4(c)), or at a different stage?

AEMO considers that a RIT-T process should be considered ‘underway’ from the release of the Project Specification Consultation Report (PSCR) until the Project Assessment Conclusions Report (PACR) and dispute period are finalised. The RIT-T process should be considered completed (that

is, no longer 'underway') following the PACR and dispute period. AEMO considers that the amendments to incorporate emissions into the national energy objectives should not be considered a material change where the PACR has been published and the dispute period has ended.

b) Should a RIT-D process be considered 'underway' when an options screening report or determination has been published (clause 5.17.4(b)) and (c), or at a different stage?

AEMO considers that a RIT-D process should be considered 'underway' from when an options screening report or determination has been published. AEMO considers that the amendments to incorporate emissions into the national energy objectives should not be considered a material change in circumstances for distribution projects where the Final Project Assessment Report has been published and the dispute period has ended.

c) Electricity – should a revenue determination/reset be considered 'underway' when the network service provider has submitted its initial revenue proposal (clause 6A.10.1 for transmission and clause 6.8.2 for distribution), or at a different stage?

N/A

d) Gas – should a gas access arrangement process be considered 'underway' when an access arrangement proposal is lodged with the AER under rule 46(1A) in the NGR, or at a different stage?

N/A

Chapter 4: Application by market bodies of the proposed changes

Question 20: Do you agree with the characterisation of how market bodies' decision processes might be impacted or changed as a result of inclusion of an emissions reduction component in the energy objectives?

The Consultation Paper states, "If an emissions reduction objective is inserted into the NEO, this would be expected to allow treatment of emissions reduction as a new category of market benefit that AEMO can acknowledge and apply in its development of the ISP". Whilst we agree with this, as noted earlier on in our submission there are several steps necessary before AEMO can consider emissions reductions in the ISP as a new category of market benefit (see answer to Question 15).

The Consultation Paper also states, "It is not intended that the insertion of an emissions reduction objective will materially impact AEMO's statutory function of the administration and operation of the wholesale exchange, including their functions with regards to real-time dispatch". The Draft Bill does not address AEMO's operational decisions in relation to the emissions component in the NEO and NGO. It is important to note that it is imperative that AEMO's administration and operation of the markets and dispatch continue to function as normal. A clear statement from the Commonwealth in the public realm would be appropriate, outlining that the legislation does not require AEMO to consider emissions reduction objectives in its operation of the wholesale energy markets, including real-time dispatch. For example, this statement could be included in the Second Reading speech in Parliament and/or in a publicly available Commonwealth Government document. This would protect market operations from any unintended consequences, which could have negative impacts on security or reliability of the energy system.

Question 21: Do you have any concerns with regards to the impact an emissions reduction component in the energy objectives may have in broadening the scope of the AEMC's rule making power or the decision making powers of the other market bodies under the laws and rules?

AEMO has no concerns on this matter.