



APA submission

Incorporating an emissions reduction objective into the national energy objectives

7 February 2023



Energy Senior Officials
Department of Climate Change, Energy, the Environment and Water

Lodged via email:netp@industry.gov.au

7 February 2023

RE: APA Submission to emissions reduction objective in the national energy objectives consultation process

Dear Ms Evans and Mr Duggan,

Thank you for the opportunity to comment on the proposed legislative package to give effect to an emissions reduction objective in the National Electricity Law (NEL), the National Gas Law (NGL) and the National Energy Retail Law (NERL).

APA is an ASX listed owner, operator, and developer of energy infrastructure assets across Australia. As well as an extensive network of natural gas pipelines, we own or have interests in gas storage and generation facilities, electricity transmission networks, and over 593 MW of renewable generation infrastructure, including 88 MW under construction .

We support the transition to a lower carbon future and actively support the energy transition taking place across Australia. In August 2022 we published our inaugural Climate Transition Plan which outlines APA's pathway to net zero operations emissions by 2050.

Industry faces many hurdles in its efforts to decarbonise. The regulatory regime that covers electricity and gas infrastructure should incentivise decarbonisation efforts through the most efficient means possible. For this reason, we support legislative reform that allows the benefits of decarbonisation projects, including reduced carbon emissions, to be recognised. The introduction of an emissions objective in the national energy objectives should be a positive first step in allowing this to happen.

Our submission below provides views on the proposed legislative package and the accompanying Consultation Paper. If you have any questions about our submission, please contact our Policy Manager, John Skinner, on 02 9693 0009 or john.skinner2@apa.com.au.

Regards



Darren Rogers
Group Executive
Strategy and Commercial

1 Executive Summary

Key points

- APA supports the pathway to net zero. In August 2022 we published our inaugural Climate Transition Plan which outlines APA's pathway to net zero operations emissions by 2050.
- Gas infrastructure has an essential role to play in helping meet net zero targets. As recent experience has shown, gas infrastructure plays a critical role in helping maintain system security and will help unlock low-cost renewable generation capacity.
- If decarbonisation initiatives are to be successful, the regulatory regime that covers regulated electricity and gas infrastructure needs to be amended such that the benefits of such investment, including reduced carbon emissions, can be recognised.
- Clarity on how any new energy objectives will be implemented by the market bodies will create an investment environment that supports the decarbonisation of Australia's energy infrastructure.

APA is a leading Australian Securities Exchange (ASX) listed energy infrastructure business. Consistent with our purpose to strengthen communities through responsible energy, our diverse portfolio of energy infrastructure delivers energy to customers in every state and territory on mainland Australia.

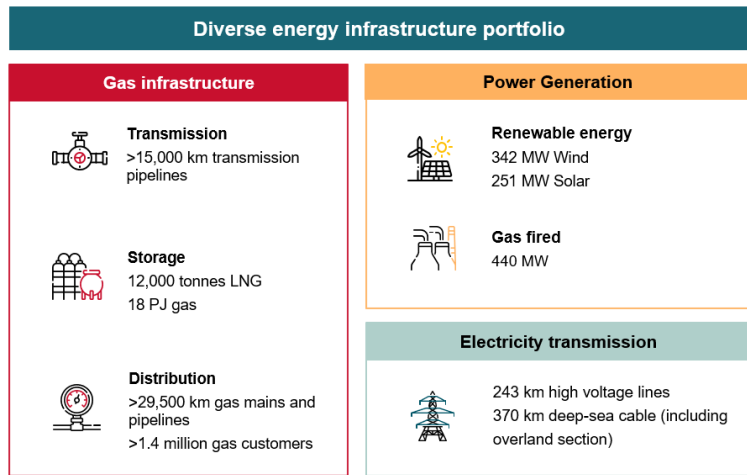
Figure 1

Our 15,000 kilometres of natural gas pipelines connect sources of supply and markets across mainland Australia. We operate and maintain networks connecting 1.4 million Australian homes and businesses to the benefits of natural gas. And we own or have interests in gas storage facilities, gas-fired power stations.

We operate and have interests in 593 MW of renewable generation infrastructure,

including 88 MW under construction. Our asset portfolio also includes high voltage electricity transmission which connects Victoria with South Australia and New South Wales with Queensland.

Most recently, we completed the acquisition of Basslink Pty Ltd, which owns and operates the 370km high voltage direct current electricity interconnector between Victoria and Tasmania. The acquisition adds a third electricity interconnector to APA's energy infrastructure portfolio and is consistent with our strategy to play a leading role in the energy transition.



APA actively supports the transition to a lower carbon future. In August 2022, we published our inaugural Climate Transition Plan which outlines our commitments to support Australia's energy transition and pathway to achieve net zero operations emissions by 2050.

Gas infrastructure has an essential role to play in helping Australia meet its net zero ambitions targets. As the penetration of variable renewable energy sources, such as wind and solar, increase, and aging coal power stations retire, gas powered generation (GPG) will play a critical role in meeting electricity demand and maintaining the security of the system.

APA's customers and capital markets are overwhelmingly factoring in net zero commitments. Our 16 largest customers all have net zero or carbon neutral targets, and 10 of them have an interim decarbonisation target. The regulatory regime that covers electricity and gas infrastructure should incentivise decarbonisation efforts through the most efficient means possible, consistent with the functioning of efficient capital markets.

One of the biggest hurdles for both regulated gas and electricity networks is that the National Gas Objective (NGO) and National Electricity Objective (NEO) have been interpreted in such a way that businesses have been unable to capture the benefits of emissions reduction or decarbonisation. This directly impacts the ability of regulated gas and electricity businesses to decarbonise their assets. If decarbonisation initiatives are to be successful, the regulatory regime needs to be amended such that the benefits of such investment, including reduced carbon emissions, can be recognised in our investment decisions.

For this reason, we support legislative reform that allows the benefits of decarbonisation projects to be recognised. The introduction of an emissions reduction objective in the national energy objectives is a positive step in allowing this to happen.

The Consultation Paper also recognises that the continuing use or repurposing of gas infrastructure could be important for both gas and electricity users. This makes sense, given many industrial applications will need to continue to rely on natural gas for its heating and feedstock properties.¹ Furthermore, repurposing gas pipelines to transport hydrogen as energy is likely to be more cost-efficient and resilient compared to developing the necessary electricity transmission infrastructure.²

While the inclusion of an emissions reduction component to the energy objectives is a positive step in recognising the benefits to consumers of decarbonisation, we have identified a number of areas where the proposed legislative package could create uncertainty for industry:

- **How the new objectives will be exercised:** recognising emissions reduction in the national energy objectives will change the way the market bodies carry out their functions. We recommend that the final legislative package requires the market bodies to consult with stakeholders on how the proposed changes will be applied.
- **Interaction between gas and electricity markets:** the Consultation Paper recognises that gas is likely to play an important role in the energy transition, and that there will be increasing interaction between gas and electricity markets. It is unclear how far Energy Ministers want market bodies to go in considering this interaction.

¹ Energy Ministers Consultation Paper, *December 2022*, p11

² Australian Pipelines & Gas Association, *Pipelines vs Powerlines: A Technoeconomic Analysis in the Australian Context* (Final Report, 24 August 2021); Amber Grid et al, *European Hydrogen Backbone* (Report, April 2022).



- **Transitional arrangements:** Energy Ministers propose that market bodies have broad discretion to apply the new objectives where they consider it appropriate. This does not provide industry with the certainty necessary to plan and undertake investment.

Our submission below responds to the issues raised in the Consultation Paper and provides recommendations for how the issues above can be addressed in the final legislative package.

2 PART A: Submission

2.1 APA supports the pathway to net zero

APA fully supports the energy transition and pathway to net zero. Governments across Australia have set net zero emissions targets and gas infrastructure will play a key role in the decarbonisation of the economy. Businesses like APA wish to invest in energy projects that support this transition to net zero.

In August 2022 APA published its inaugural Climate Transition Plan (Plan) outlining our commitments to support the transition. The Plan includes a target to reduce operational emissions in APA's gas infrastructure portfolio by 30 percent by 2030 with a goal for net zero by 2050.

The Plan is focused on reducing emissions that we have direct control over. Our main source of non-power generation gas infrastructure greenhouse gas emissions is due to the transportation and processing of natural gas. The combustion of natural gas within our compressors and fugitive emissions, which are a result of these activities, account for the majority of these emissions.

We have identified a number of key focus areas to support emissions reduction:

- **Compressor efficiency:** this involves managing the operation of compressors to ensure more efficiency whilst still meeting market demand for gas.
- **Compressor electrification:** retrofitting gas turbine or reciprocating gas engines with electric motor drives (EMD) in brownfield compressor stations can support emissions reduction when combined with appropriate electricity procurement strategies. Selecting EMDs in greenfield facilities will assist with avoiding emissions.
- **Fugitive emissions:** fugitive emissions occur as a result of loss of natural gas from equipment as part of normal operation, venting and flaring. Fugitive emission reduction can be reduced through for example leak detection and repair and investments into equipment such as low methane loss valves.
- **Carbon credits (offsets):** the use of offsets can play a supporting role to direct emissions reduction where the technology is either not viable or cost prohibitive.

Whilst some emission reductions can be achieved through operational measures at modest cost, many require significant investment. The current regulatory framework that covers natural gas infrastructure does not provide a supportive environment for investment in emission reductions technology. This is primarily because the existing NGO has had a narrow interpretation that does not allow businesses to capture the benefits of emissions reduction or decarbonisation. This directly impacts on APA's capacity to decarbonise its assets.

For this reason, we fully support legislative amendments that will support investment in decarbonisation projects. Recognising the emission reduction benefits will be the primary means through which this can be achieved.

2.2 Gas is essential for energy security during the energy market transition

In navigating the energy market transition, gas infrastructure has an essential role to play in helping Australia meet its net zero ambition targets. The transition Australia faces in displacing aging thermal generation with large volumes of renewable energy is not without its challenges.

Recent experience has demonstrated the role that gas plays in supporting renewables and providing a critical backup when large renewable generation and storage (such as batteries and pumped hydro) is not available. As the penetration of renewable energy sources increases, and aging coal power stations retire, GPG will be critical in meeting electricity demand and maintaining the security of the system. This role will become critical if there are delays in building the necessary transmission and storage investment which supports renewable energy projects.

It is also essential that we continue to invest in, and maintain, our gas infrastructure. This will ensure that consumers continue to receive both reliable gas and electricity as the energy market transitions.

Events in Queensland and Victoria in mid-2021 demonstrated the flexibility and security offered by gas pipelines:

- On 25 May 2021 a failure of one of the generation units at Callide Power Station in Queensland caused 477,000 customers to lose power.
- In mid-June 2021, Yallourn Power Station in Victoria reduced electricity generation to approximately 20% capacity due to the threat of floodwater from the Morwell River. This was the second time Yallourn experienced a significant flooding event, with the Power Station shutting in 2012 when floodwaters entered the adjoining mine.

Following both these events, GPG stepped up to help provide crucial electricity generation in both Queensland and Victoria. GPG doubled its output while not increasing overall emissions. The ability of gas turbines to quickly ramp up and provide long term dispatchable generation shows they will be a critical part of the energy system for many years to come.

2.3 A supportive investment environment is essential

The legislative amendments proposed by Energy Ministers are intended to send a clear signal to industry, market participants, investors and the public, of the government's commitment to achieve a decarbonised, modern and reliable grid.³

To achieve this objective, it is essential that any legislative amendments create an investment environment that supports projects which lead to the decarbonisation of both the electricity and gas systems. While the inclusion of an emissions reduction component to the energy objectives is a positive first step, we have identified a number of areas where the proposed legislative package could create uncertainty for industry participants. These issues, along with suggested solutions, are outlined below.

2.3.1 Manner in which the new provisions will be exercised

When exercising their regulatory powers, the market bodies (AEMC, AER and AEMO) are afforded regulatory discretion to consider all the energy objectives and determine which of the

³ Energy Ministers Consultation Paper, *December 2022*, p1

objectives are most relevant to a decision. The introduction of a new objective will impact the way in which each of the market bodies undertake their existing functions.

The role of the objectives differs depending on the type of decision and the market body involved. For this reason, any change to the gas and electricity objectives could have an immediate impact in some areas, and a more delayed impact in others. For example:

- The AEMC, when determining new rules in the NER and NGR, must ensure that any new rule it makes will, or is likely to, contribute to the achievement of the NEO and NGO. The AEMC has a wide discretion in its rule making, and therefore the inclusion of an emissions reduction objective is likely to have an immediate impact on the AEMC's role.
- AEMO, similarly to the AEMC, must have regard to the NEO and NGO when performing any of its functions under the NEL and NGL. Therefore, the inclusion of an emissions reduction component is likely to have an immediate effect.
- The AER has a wide range of functions, many of which are dictated by prescribed rules (such as the capital expenditure and operating expenditure rules in the NGR and NER). In contrast to the AEMC and AEMO, the AER must apply the NEO and NGO when exercising its economic regulatory functions and powers, rather than having a broad discretion. The prescription in the rules of many of the AER's functions and powers means that the inclusion of an emissions reduction component in the energy objectives may be more muted. That said, it is difficult to see how a change to the energy objectives will *not* influence in some way the way the AER undertakes its functions, including when undertaking capex and opex assessments.

Recommendation

As outlined above, any change to the energy objectives will impact the way the market bodies undertake their functions. Given the existing objectives have been in place for around two decades, and the way they are implemented is relatively well understood, the proposed changes introduce some uncertainty for industry. We therefore recommend that the final legislative package requires the market bodies to consult with stakeholders on how any new NGO or NEO will be applied in decision making. For the AER this could include consulting on a revised Expenditure Forecast Assessment Guideline, which has not been reviewed since 2013.⁴

2.3.2 Managing the interaction between electricity and gas markets

The Consultation Paper recognises that gas is likely to play an important role in the energy transition, and that there will be increasing interaction between gas and electricity markets.⁵ We therefore agree with the view posed in the Consultation Paper that market bodies will need to consider how decisions in one market affect outcomes in the other, and vice versa.

Investment in gas infrastructure to promote the security of the electricity system is likely to be a key area where market bodies need to consider the interaction between electricity and gas markets. As outlined in Section 2.2, GPG will play a critical role in supporting renewables and

⁴ AER, *Expenditure Forecast Assessment Guideline*, November 2013

⁵ Energy Ministers Consultation Paper, *December 2022*, p11

maintaining the security of the electricity system. Investment in new gas infrastructure, such as compressors and new pipeline infrastructure, will be needed to support this role. It is important that Energy Ministers recognise this important linkage when finalising the legislative package.

Energy Ministers consider that a more holistic consideration of the interrelated impacts of market bodies' decisions will be facilitated by replacing the current references to 'consumers of electricity' and 'consumers of natural gas' with 'consumers of energy'. The term 'energy' will be defined through a standalone provision where 'energy' means 'electricity or gas or both'.

While we agree that market bodies need to consider how decisions in one market affect outcomes in the other, the proposed drafting is not clear as to whether the interests of energy consumers extend beyond the achievement of the emissions reduction targets. This is because the price, quality, safety, reliability and security limbs of the proposed NEO and NGO, for example, relate to the supply of electricity and gas respectively, rather than the supply of energy. In other words, promoting the long term interests of consumers of energy has not been extended to the price, quality, safety, reliability and security of the alternative fuel.

While we support consideration of how emission reduction initiatives in either the electricity or gas sector will impact the other, the proposed drafting risks creating unintended consequences from mixing reference to 'energy' and either 'electricity' or 'gas' in the objectives.

It is essential that we avoid the situation where market bodies, when exercising their powers, have to balance the long term interests of electricity and gas customers. This could lead to a market body having to prioritise the interests of one group of customers over another, and, in effect, being placed in the position of having to pick a winner.

Recommendation

To avoid any unintended consequences in the interpretation of the proposed NGO, NEO and NERO, we suggest that Energy Ministers' policy intent be made clear. That is, do Energy Ministers intend for the long term interests of energy consumers to extend beyond emissions to the price, quality, safety, reliability and security of supply of the alternative fuel? Should that be the case, Energy Ministers should carefully review the drafting of the proposed legislation to ensure it meets that intent.

2.3.3 Policy commitments as the trigger

The Consultation Paper proposes that emissions reduction objectives are identified by reference to a 'public commitment' relating to an emissions reduction target made by the Commonwealth, or a state or territory.

In contrast to the term 'regulatory obligation' which is well understood and used elsewhere in the NER and NGR, the term 'public commitment' is potentially very broad. Without additional guidance, it will be very difficult for market bodies to determine whether a statement from a government official is a 'public commitment' for the purposes of the NGO and NEO. It will also be very difficult for businesses to invest with certainty, given the difficulty in determining what constitutes a public commitment.

Recommendation

It is essential that market bodies provide further guidance on what constitutes a 'public commitment' for the purposes of the NGO and NEO. The questions that need to be answered include:

- **What constitutes a 'public commitment'?** To be workable, a public commitment will need to be more formal than verbal public statements made by government officials. It will be very difficult for industry to determine what constitutes government policy if a verbal statement made in response to an interview question could constitute a policy commitment as defined in the legislation. To ensure that regulated businesses have certainty over how the new provisions will be interpreted, we suggest that the legislation defines 'public commitment' as regulatory and legal obligations, more closely aligning with the existing concept of 'regulatory obligation'.
- **How should conflicting or overlapping public commitments be resolved?** It is likely that public commitments will conflict, both within and between jurisdictions, given the Commonwealth and State/Territory governments are proceeding at different speeds towards net zero. Similarly, given the national electricity grid and national gas grids cover a large geographic area across the east coast of Australia, investment to support decarbonisation policy may end up being needed in a different jurisdiction to where the policy commitment was made. For example, a policy commitment:
 - at the Commonwealth level will inevitably need to be undertaken in one of the states or territories.
 - in one state or territory might lead to required investment in another state or territory. This could occur, for example, if further investment in APA's east coast gas grid is required to support greater use of GPG when brown and black coal retire in NSW and Victoria.

Guidance on how such conflicts or overlaps will be resolved will need to be provided, given the possibility that a commitment in one jurisdiction might actually undermine a commitment in another.

2.3.4 *Transitional provisions*

The Consultation Paper proposes that the amended objectives will commence six months after passage through the SA parliament and that the new objectives will only apply to processes progressed after the commencement of the amendments.

In our view, this proposal does not recognise two key factors:

- the urgency with which decarbonisation needs to occur, and the very rapid changes taking place in the policy landscape
- the fact that energy businesses invest in very long lived assets, and regulatory processes such as five year revenue proposals and RIT-Ts/RIT-Ds take a long time to complete, often over many years.

In our view, the proposal that energy market bodies have broad discretion to apply the new objectives where they consider it appropriate does not provide industry with the certainty necessary to plan and undertake investment decisions.

Recommendation

To provide stakeholders, including both industry and customers, with greater certainty over how the new NGO and NEO will be applied to existing processes, policy makers should explicitly include a new power for market bodies to make transitional provisions for the NGR and NER. This includes all decisions made relating to capex, opex, pricing and reliability under:

- the rules in place at the time of the decision
- the transitional period in which a process is already ‘underway’
- the new objectives after the draft bill comes into effect.

In our view, it should also be made clear in the final legislation that the new NGO and NEO are forward looking and cannot be used to amend regulatory decisions made in the past. The draft bill is currently silent on this matter.

2.4 The repurposing of existing gas infrastructure for renewable gases

Energy Ministers recognise that gas will play a crucial role in the energy transition, and that the continuing use or repurposing of gas infrastructure could therefore be important for both gas and electricity users.⁶

Gas infrastructure has an essential role to play in helping Australia achieve least cost gas decarbonisation. Repurposing natural gas pipelines to transport hydrogen as energy is considered to have significant advantages:

- Converting existing gas networks is more cost-efficient in comparison to constructing new, dedicated hydrogen pipelines.⁷
- Gas pipeline networks are already available and socially accepted (routes, including rights of way and use).⁸
- Technologies for converting the natural gas infrastructure to hydrogen operation are already being developed.

Regardless of which renewable gas proves most effective, renewable gas providers can utilise pre-existing gas infrastructure like distribution networks, pipelines, metering equipment, and human expertise. An Oakley Greenwood report recently commissioned by the Tasmanian government in the development of their gas strategy supports this approach.⁹

Frontier Economics has also investigated the potential for gas infrastructure to decarbonise the economy. In its September 2020 report, Frontier concluded that making continued use of

⁶ Energy Ministers Consultation Paper, *December 2022*, p8

⁷ Ibid, Amber Grid et al, *European Hydrogen Backbone* (Report, April 2022).

⁸ European Union Agency for the Cooperation of Energy Regulators, *Transporting Pure Hydrogen by Repurposing Existing Gas Infrastructure: Overview of existing studies and reflections on the conditions for repurposing* (16 July 2021) p.6.

⁹ Oakley Greenwood, *Tasmanian Gas Strategy: Background research, analysis and suggest next steps* (Report, October 2021) p.16.

existing gas assets wherever possible, including for the transport of hydrogen or biogas, can help avoid the material costs of investing in new assets to deliver energy.¹⁰

The main reason Frontier came to this conclusion was due to the significant cost of the electrification pathway, particularly for industrial energy load. Frontier also recognised that gaseous fuels are essential as industrial feedstock, and if gaseous fuels are not available, the industries that rely on this feedstock will not be viable.

2.4.1 Australian and overseas experience repurposing gas infrastructure

In Phase One of APA's Parmelia Gas Pipeline (PGP) Conversion Project in WA, 43km of the gas transmission pipeline was assessed as suitable for 100 per cent hydrogen service without any requirement to reduce operating pressure of the pipeline. Phase Two testing, supported by a \$300,000 grant under the Renewable Hydrogen Fund (WA), is underway and involves testing the pipeline material in a gaseous hydrogen environment. Preliminary findings are positive and validate Phase 1 results.

While Australia has only recently begun the journey of decarbonising its gas infrastructure, other countries around the world, particularly in Europe, are further ahead. An increasing number of projects around the world are demonstrating the potential for re-use of gas infrastructure to transport renewable gases.

For example, studies carried out as part of the European Hydrogen Backbone initiative found that repurposing gas pipelines for hydrogen would equate to ~10-15 per cent of the costs involved for constructing new hydrogen pipelines (including decommissioning natural gas operation, water pressure tests, dismantling of connections etc.). The capital cost per km of repurposed hydrogen pipelines is still substantially lower, at ~33 per cent of the cost of building new hydrogen pipelines.¹¹

In the Netherlands, the Gasunie hydrogen pipeline has been transporting hydrogen along a modified natural gas pipeline since 2018. In June 2021 Gasunie announced a significant expansion of the Dutch hydrogen transmission network, with 85% of the new network reusing existing natural gas pipelines (see case study below).

¹⁰ Frontier Economics, *The Benefits of Gas Infrastructure to Decarbonise Australia*, (Report, 17 September 2020) p.9.

¹¹ Amber Grid et al, *European Hydrogen Backbone* (Report, April 2022) 17-8.

Case study: Gasunie repurposing transmission pipelines in the Netherlands

In November 2018, Gasunie, the Netherlands' gas transmission operator, started transporting hydrogen along a 12km long stretch of repurposed natural gas pipeline. The pipeline will transport more than 4,000 tons of hydrogen per year for industrial purposes, saving over 10,000 tons of carbon emissions each year.¹²

On 30 June 2021 the Netherlands Ministry of Economic Affairs and Climate Policy announced that it will commission Gasunie to develop the national infrastructure for the transport of hydrogen.¹³ The project, with an estimated investment of €1.5 billion, is scheduled for completion in 2027. Most importantly, the new national hydrogen network will consist of 85% reused natural gas pipelines, resulting in costs four times lower than if entirely new pipelines were laid.

Figure 8: Gasunie's hydrogen transmission pipeline



¹² <https://www.gasunie.nl/en/news/gasunie-hydrogen-pipeline-from-dow-to-yara-brought-into-operation>, accessed 11 August 2021

¹³ <https://www.gasunie.nl/en/news/dutch-german-cooperation-secures-european-future-of-hydrogen>, accessed 11 August 2021

3 PART B: Responses to questions for stakeholders

Question	APA response
<p>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?</p>	<ul style="list-style-type: none"> • We support legislative reform that allows the benefits of decarbonisation projects to be recognised. The introduction of an emissions reduction objective in the national energy objectives is a positive step in allowing this to happen.
<p>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?</p>	<ul style="list-style-type: none"> • See Section 2.3 of our submission. • It is essential that any legislative amendments create an investment environment that supports projects which lead to the decarbonisation of both the electricity and gas systems. The inclusion of an emissions reduction component to the energy objectives is a positive first step in allowing this to happen.
<p>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?</p> <p>a) What are these instances/processes and what sort of content would you want to be included in this guidance?</p>	<ul style="list-style-type: none"> • Any change to the energy objectives will impact the way the market bodies undertake their functions. Given the existing objectives have been in place for around two decades, and the way they are implemented is relatively well understood, the proposed changes introduce some uncertainty for industry.
<p>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.</p>	<ul style="list-style-type: none"> • We therefore recommend that the final legislative package requires the market bodies to consult with stakeholders on how any new NGO or NEO will be applied in decision making. For the AER this could include consulting on a revised Expenditure Forecast Assessment Guideline, which has not been reviewed since 2013.
<p>5. Does the inclusion of 'public commitments' including 'publicly as a matter of policy,' as well as legislated targets, provide</p>	<ul style="list-style-type: none"> • See Section 2.3.3 of our submission.



sufficient certainty for effective consideration of an emissions objective by market bodies?

- The term ‘public commitment’ is very broad.
- It is essential that market bodies provide guidance on what constitutes a ‘public commitment’ for the purposes of the NGO and NEO. To ensure that regulated businesses have certainty over how the new provisions will be interpreted, we suggest that the legislation define ‘public commitment’ as regulatory and legal obligations, more closely aligning with the existing concept of ‘regulatory obligation’.

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?

- See Section 2.3.2 of our submission.
- We agree with Energy Ministers that there is the possibility of unintended consequences from amending the energy objectives.

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

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

- The Consultation Paper recognises that gas is likely to play an important role in the energy transition, and that there will be increasing interaction between gas and electricity markets. It is unclear how far Energy Ministers want market bodies to go in considering this interaction.

8. Do you consider the additional change to ‘supply of energy’ is necessary given the reasons above?

- By mixing references to ‘energy’ and ‘electricity’ and ‘gas’, there is a risk that the market bodies, when exercising their powers, have to balance the long term interests of electricity and gas customers. This could lead to a market body having to prioritise the interests of one group of customers over another, and, in effect, being placed in the position of having to pick a winner.

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?

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

11. Do you have views on other consequential changes that might be required for the national energy laws as part of implementing the emissions reduction component?

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.

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.

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?

- To avoid any unintended consequences in the interpretation of the proposed NGO, NEO and NERO, we suggest that Energy Ministers' policy intent be made clear. That is, do Energy Ministers intend for the long term interests of energy consumers to extend beyond emissions to the price, quality, safety, reliability and security of supply of the alternative fuel?
- From APA's perspective, the consequential changes to the rules relating to the AER's assessment of capex and opex proposals for both gas and electricity service providers will be key to determining the effectiveness of any changes to the energy objectives.
- Following publication of its Climate Transition Plan, APA is now embedding consideration of carbon emissions in all its investment plans. The rules that cover the AER's assessment of capex and opex, however, are consistent with the existing energy objectives and make no reference to reducing carbon emissions. In relation to capex for example:
 - Rule 79 of the NGR is focused on identifying whether capex has a positive economic value or is necessary to maintain the safety, integrity or reliability of supply
 - Under clause 6.5.7 of the NER, the AER can only accept capex proposals that meets the capex objectives, which broadly align with the existing electricity objective.
- We support Energy Officials' current preference to make any subsequent rule amendments through a consultation process led by the AEMC.

15. Do you agree with the proposed commencement date being six months after passage through the South Australian Parliament?

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?

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

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)?

a) Should business-initiated processes such as RIT-Ts and RIT-Ds¹³ be captured, rather than just market body processes?

18. Should market bodies be afforded a broad discretion to decide when to apply the amended objective to a process that is 'underway'?

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

- See Section 2.3.4 of our submission.
- In our view, the proposal that energy market bodies have broad discretion to apply the new objectives where they consider it appropriate does not provide industry with the certainty necessary to plan and undertake investment decisions.
- To provide stakeholders, including both industry and customers, with greater certainty over how the new NGO and NEO will be applied to existing processes, policy makers should explicitly include a new power for market bodies to make transitional provisions for the NGR and NER that would allow a faster commencement of the new provisions.
- It should also be made clear in the final legislation that the new NGO and NEO are forward looking and cannot be used to amend regulatory decisions made in the past. The draft bill is currently silent on this matter.
- As outlined in Section 2.3.4 of our submission, energy businesses invest in very long lived assets.



emissions reduction objective should or should not be able to be applied?

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?

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?

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?

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?

- For this reason, we are of the view that RIT-Ts and RIT-Ds currently on foot should have any new energy objectives applied to their processes and decisions.
- This will allow any emissions reductions to be considered as a 'market benefit' and incorporated in the credible options established through the decision making process.
- Similarly, we consider that an electricity or gas revenue determination/access arrangement is 'underway' when the revenue proposal has been lodged.



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