

10 February 2023

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

Lodged via email netp@industry.gov.au

Dear Sir/Madam

Re: Incorporating an emissions reduction objective into the national energy objective

Thank you for the opportunity to provide feedback on the draft Bill and consultation paper to introduce an emissions reduction objective to the national energy objectives.

ATCO welcomes this important change to the objectives and the impact it will have on decision makers to balance emissions reduction with other objectives across the energy sector. Overall, ATCO considers the draft Bill and approach to be an effective way of incorporating emissions reduction into decision making in the sector.

In January 2022, ATCO announced a set of global environment, social and governance targets to be met by 2030. These targets include reducing ATCO's operational and customer emissions, growing its renewable energy footprint and enabling the use of hydrogen and renewable gases.

As a participant in Australia's energy market, the change to the national energy objectives reflect the commercial reality that we face. Emissions reduction is a consideration in our future plans to meet targets for 2030 and 2050. A cross energy sector approach to emissions reduction will meet the objectives of energy security, emissions reduction and cost, whilst still providing consumers with a choice of energy options and a reliable energy supply.

Emissions reductions in gas networks needs the same priority and level of supportive policies as renewable electricity generation and storage technologies. While the carbon impact of natural gas is currently lower than grid supplied electricity in WA due to the proportion of coal generation, emissions reductions in the gas network is not afforded the opportunity to progress through regulatory supported investment in research and cost recovery of lower carbon gas solutions, such as hydrogen or renewable gases. The ongoing utilisation of existing gas network assets that are already connected to the majority of properties will lower the overall costs on customers of the energy transition. Whilst it is an important step to integrate emissions reduction into the decision making of energy market bodies, its effect could be magnified through the development of a renewable gas target.

Our response to questions from the consultation paper focuses on:

- Integrated energy system approach that links interactions between electricity and gas markets and supports changes in terminology to consumers of energy to assist adoption of this view in decision making
- Opportunity for consideration of public commitments by governments is welcomed but needs additional clarity on the precedence and potentially conflicting public commitments
- Guidance by market bodies on the application of emissions reduction in decisions, particularly to ensure the consideration flows to capital and operational expenditure allowances within regulated businesses
- Clarity in transitional arrangements to ensure emissions reduction is considered in upcoming decisions by regulators that will have a medium to long term impact

About ATCO

Established in Canada in 1947 and now a \$22 billion global company, ATCO has a long history of partnering with communities and Indigenous groups, energising industries, and delivering customer focussed infrastructure solutions.

With over 60 years' experience in Australia – having entered the market in 1961 – ATCO understands the Australian environment and is a trusted, long-term partner of many large and respected Australian companies.

Leveraging a legacy of power generation, transmission and distribution networks operation and maintenance in Canada, ATCO has been providing gas-fired power generation in Australia for more than 20 years and is actively investigating investments across the entire energy value chain, including renewable generation, transmission, distribution and storage infrastructure for the national electricity market. ATCO is eager to apply its international expertise and experience in electricity, natural gas, hydrogen, water, storage and structures to its continued operations across Australia.

Experienced in building, owning and operating pipeline infrastructure globally, ATCO has successfully managed the Western Australian natural gas distribution network since 2011.

ATCO has invested in alternative and renewable energy solutions for 30 years. ATCO will continue to respond to disruption in the energy sector through investing in a range of projects that utilise new technologies and business models to provide energy solutions for a low carbon future. Activities in this area include renewable generation, microgrids, storage and hydrogen.

ATCO is a global leader in providing modular solutions to the community; from regional mining developments through to urban infrastructure development and provides a diverse range of services and products throughout various markets in Australia.

If you have any questions or would like to discuss any of these issues, please contact Kiran Ranbir, Manager Energy Policy and Government Strategy on 0432 158 656.

Yours sincerely



J.D. Patrick Creaghan
Country Chair, Australia

Incorporating an emissions reduction objective into the national energy objectives – ATCO stakeholder feedback

This template has been developed to assist stakeholders in providing feedback on the *National Energy Laws Amendment (Emissions Reduction Objectives) Bill 2022* (Draft Bill).

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?

Feedback 1

ATCO supports the approach to incorporate the emissions reduction objective within the economic efficiency framework. This allows a greater range of factors to be considered by decision makers, while still retaining the economic efficiency focus, rather than only limited or no consideration of emissions reduction under the current objective.

It is important for gas to remain a competitive option relative to other energy sources in the transition to net zero. Incorporating the emissions reduction objective in the National Gas Objective may assist in the transition to renewable gases or the use of carbon offsets. Emissions reduction in gas networks needs the same priority and supportive policies as renewable electricity generation and energy storage technologies. This is an important step to integrate the concept into the decision-making of energy market bodies.

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?

Feedback 2

ATCO considers that the discretion allowed by including the emissions reduction objective within the existing economic efficiency framework, alongside the existing components of price, quality, safety, reliability and security of supply [of gas/electricity] is appropriate.

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?

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

Feedback 3

ATCO supports additional guidance to provide greater certainty in the regulatory environment and assist market participants to understand the application of the national energy objective. For example, ATCO would like to see the Economic Regulation Authority (WA) and the Australian Economic Regulator incorporate the emissions consideration into their Access Arrangement Guidelines.

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.

Feedback 4

The current drafting of the National Gas Objective for part (b) appears complicated and could be simplified.

It is unclear why there is specific reference to targets under the Climate Change Act 2022, when reduction activities may be required under other legislation, for example Safeguard Mechanism requirements. Drafting that is less specific and allows for regulatory emission reductions generally, may assist in future proofing the objective.

ATCO welcomes the ability for early consideration of a public commitment in the objective, but it does create a level of uncertainty and the potential for conflicting commitments. The order of precedence of public commitments made by various levels of government and different types of public commitments could create uncertainty in the regulatory environment.

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?

Feedback 5

ATCO considers that greater clarity needs to be incorporated into the interpretation of 'public commitments' to provide certainty on how market bodies will take into account various public commitments and deal with any conflicting public commitments including whether priority would be given to one type of public commitment over another.

Given the ability for different levels of government to make policy impacting on emissions, greater clarity is needed on the nature of public commitments that will be considered. It is suggested that the term "public commitment" could be defined in the Bill and/or guidance on how "public commitment" will be interpreted, including any order of precedence or how conflicting public commitments may be dealt with be included as a minimum.

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?

Feedback 6

ATCO supports the proposed change to “consumers of energy” to bring together relationships between the electricity and gas markets. Consideration of interactions between all energy sources will ensure pressures on energy infrastructure is balanced across the system. A system wide approach could potentially lead to a whole of energy solution that improves overall performance and efficiency for all energy assets at a lower cost to the end consumer.

As highlighted in the paper, the regulatory framework for gas and electricity were designed separately. The need for networks to be considered in an integrated approach would be assisted by connecting both markets by their impact on consumers. As the mix of energy sources change, further work is needed to optimise our current energy assets to deliver the reliability outcomes consumers expect in an affordable manner, given the way the use of most energy assets will evolve over the course of the transition.

Question 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?

Feedback 7

ATCO considers that the proposed change will have a positive impact on customers and help to maintain consumer choice for their energy options. It will assist with gas remaining a competitive option relative to other energy sources in the transition to net zero. Incorporating the emissions reduction objective in the National Gas Objective may also assist in the transition to renewable gases.

Emissions reduction in gas networks needs the same priority and supportive policies as renewable electricity generation and energy storage technologies. Whilst it is an important step to integrate emissions reduction into the decision making of energy market bodies, its effect could be magnified through the development of a renewable gas target.

A renewable gas target, similar to the existing renewable energy target for electricity, can work with these proposed changes to underpin investment in renewable methane and hydrogen and support the market creation of renewable gases. A recently completed analysis of emission reduction opportunities from gas networks found that moderate supportive policies can achieve a 16 to 30 per cent reduction in emissions from domestic natural gas use by 2030 while stronger settings may achieve up to a 50 per cent reduction.

As discussed below, ATCO also notes that the impact of the inclusion of the national gas objective will vary depending on the decision type. For example, decisions regarding the approval of capital and operating expenditure are governed by prescriptive rules which do not directly reference the proposed objectives. As such, there will be limited practical impact on, and limited ability for decision makers to take the national gas objective into account when making, these decisions. ATCO considers complementary rule amendments should be made in parallel to ensure the policy intent is achieved.

Questions on 'supply of energy'

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

Feedback 8

ATCO does not consider that the additional change to "supply of energy" is necessary or desirable and considers there may be unforeseen consequences and practical difficulties arising as a result of such a change.

ATCO notes the proposed drafting to reference "consumers of energy", whilst otherwise retaining "supply of natural gas" in (a), provides for cross-fuel consideration only in respect of the achievement of emissions reductions targets. It is clear that the achievement of emissions reductions targets is to be considered with regard to energy consumers.

It is acknowledged that there is a close linkage between the supply of natural gas to create electricity and therefore impacts on price, quality, safety, reliability and security of that energy source. However, ATCO considers that changing supply of natural gas (in (a)) to "supply of energy", fundamentally changes the purpose of the National Gas Law which was designed to regulate natural gas (and its renewable gas substitutes) infrastructure and that such a change could have unforeseen consequences. ATCO considers there is a level of uncertainty as to what extent these matters in (a) could be considered in respect of supply of electricity or energy consumers more generally (and vice versa with natural gas). ATCO's view is that these factors should be taken into account for the relevant fuel source and not with respect to energy (as defined) more generally.

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?

Feedback 9

ATCO considers that gas market bodies should not be empowered to consider the implications for price, reliability, security etc. in the electricity market (and vice versa). Cross-fuel consideration should be limited to interests of consumers of energy.

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

Feedback 10

ATCO considers there may be unforeseen consequences from such a change and these changes are unknown at this time.

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?

Feedback 11

No response.

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.

Feedback 12

ATCO considers the rules regarding approval of capital (NGR 79) and operating (NGR 91) expenditure should be subject to a concurrent change within this process. Given the prescriptive nature of these rules, a decision maker will have very limited, if any, ability to take the new objectives and specifically the emissions reduction component into account when making such a decision. For example, it seems a decision maker would have no greater ability to approve expenditure required to support emissions reduction initiatives than it currently does under the existing objective.

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.

Feedback 13

ATCO considers the rules regarding the approval of capital and operating expenditure should be subject to a concurrent change within this process to directly refer to, or reflect, the proposed objectives and unambiguously require decision makers to take into account the new objectives when approving or refusing to approve such expenditure.

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?

Feedback 14

ATCO considers the rules regarding the approval of capital and operating expenditure should directly reference the new objectives and particularly the emissions reduction component.

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?

Feedback 15

ATCO supports a proclamation date of 6 months or earlier after passage through the SA Parliament.

ATCO commences its next access arrangement review process for the gas distribution network in WA in September 2023. We would like the emissions reduction objective to be incorporated into the decision making of the Economic Regulation Authority for their review process. Given the timing of legislative processes, ATCO would like for the transitional arrangement to provide clarity that the emissions reduction objective can be considered on that basis and early signalling that this will be the case. This will enable the preparation of the access arrangement submission with certainty on the treatment of the emission reduction objective.

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

Feedback 16

ATCO have set out its preference for the treatment of its upcoming access arrangement review process that commences on 1 September 2023 in the response to question 15.

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)?

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

Feedback 17

No response

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

Feedback 18

In the context of ATCO's upcoming access arrangement review, we are seeking clarity that the emission reduction objective will be incorporated into the decision making by the Economic Regulation Authority. It is considered counterproductive to all stakeholders for the Economic Regulation Authority to have broad discretion to decide not to apply the amended objective.

ATCO considers the amended objective to be important to the achievement of targets for 43% emission reductions by 2030 and net zero by 2050. Any discretion afforded to market bodies not to apply the amended objective should be limited to processes with short term outcomes and not impact on achievement of these medium to long term targets.

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?

- 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?

Feedback 19

In respect to part d of this question, ATCO considers that its access arrangement process is underway when its first lodged with the Economic Regulation Authority on 1 September 2023.

The emissions reduction objective should be incorporated into the decision making of the Economic Regulation Authority for their review process. Given the timing of legislative processes, the transitional arrangements should provide clarity that the emissions reduction objective will be considered on that basis and early signalling that this will be the case. This will enable the preparation of the access arrangement submission with certainty on the treatment of the emission reduction objective.

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?

Feedback 20

No response

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?

Feedback 21

No response.