

8 February 2022

Jo Evans PSM and Simon Duggan
Chairs, Energy Senior Officials
Deputy Secretaries for Climate and Energy
Department of Climate Change, Energy, the Environment and Water
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Dear Ms Evans and Mr Duggan

Ausgrid response to Consultation Paper on Incorporating an emissions reduction objective into the national energy objectives (NEOs)

Ausgrid welcomes the opportunity to respond to Department of Climate Change, Energy, the Environment and Water's (**DCCEEW**) Consultation Paper on Incorporating an emissions reduction objective into the NEOs dated 20 December 2022 (**Consultation Paper**). We strongly support introducing an emissions reduction component to the NEOs and consider it suitable to be incorporated into the existing 'economic efficiency' decision-making framework used by market bodies and stakeholders.

Ausgrid operates a shared electricity network that powers the homes and businesses of more than 4 million Australians living and working in an area that covers over 22,000 square kilometres from the Sydney CBD to the Upper Hunter. We are committed to reducing emissions and have targeted an 8% reduction in our own emissions by 2023-24, 50% by 2030 and net zero by 2050. So far, we are ahead of our plan with a 13% reduction – aligning our own targets with the community's net zero ambition.

We support the proposed amendments to the NEOs and make the following recommendations regarding implementation:

- **Guidance materials:** The Energy Senior Officials' guidance materials should clearly address the issues raised in Energy Networks Australia's (**ENA**) submission on matters such as guidance on the scope of 'public commitments', cross-fuel considerations and assessment of forecast expenditure. We understand that these guidance materials would include the second reading speech and any explanatory statements or guidelines on how the emissions reduction component should be interpreted by market bodies or stakeholders.
- **Coordinating implementation:** The Australian Energy Market Commission (**AEMC**) should become the market body with overall responsibility for coordinating the translation of the revised NEOs into practice. We recommend that the Australian Energy Regulator (**AER**) and the Australian Energy Market Operator (**AEMO**) then be required to prepare their respective guidance documents in a manner consistent with the AEMC's overarching guidance.¹ This will ensure consistency in interpretation and approaches.

¹ For example, market bodies could be directed to use the AEMC's October 2022 [How the national energy objectives shape our decisions](#) as it emphasises the importance of considering decarbonisation when shaping the big picture for AEMC's decisions. AEMC could update this guide as an interim measure to expressly reflect the introduction of the emissions reduction component to the national energy objective amendments and state its interpretation of key terms that will be introduced to the objectives.

- **Consult on integration:** Market bodies, such as the AER, should be required to consult on how they will incorporate the revised NEOs into their existing Guidelines and Guidance Notes. Should a market body take a narrow interpretation of the Bill, then it would diminish its intended policy intent. Energy Senior Officials should introduce governance arrangements in the explanatory materials that require consultation on integration so that the market bodies apply the revised NEOs in a consistent and transparent manner.
- **Cost of carbon:** Energy Senior Officials should, as soon as possible, provide clear instructions to market bodies on consistent quantification and accounting of the 'cost of carbon'. This will allow energy businesses like Ausgrid to quantify and account for carbon abatement in our regulatory proposals in a way that can be reported consistently to the satisfaction of the market bodies.
- **Consequential rule changes:** There should be an expedited process for consequential AEMC rule changes so that rules can commence on, or close to the date that the revised NEOs come into effect. This would be in the long term interests of consumers of energy as it would require market bodies to take emissions reductions into consideration sooner than normal processes might allow, as traditional 'fast tracked' rule changes can take at least 2 years. This could occur by including a principle in the guidance materials requiring prioritisation of consequential rule changes.
- **Transitional arrangements:** The guidance materials should provide sufficient transitional arrangements for the energy industry so that regulated energy businesses can account for the revised NEOs as early as possible in regulatory reset cycles. The guidance materials should clarify that the AER must consider its revenue determination process for energy businesses like Ausgrid to be 'underway' from the point an initial regulatory proposal is submitted so that any emissions reduction benefits included in proposals are considered by the AER for the purposes of it making a Regulatory Determination.

Ausgrid's recently submitted regulatory proposal for the forthcoming 1 July 2024 to 30 June 2029 regulatory control period includes emissions reduction in our cost-benefit analyses for some forecasts (such as for fleet investments and integrating customer energy resources into our network). These forecasts are based on a key assumption that emissions reduction would soon be included in the NEOs. Ausgrid would not be able to account for emissions reduction benefits until FY2030 if the AER rejects these elements of our proposal on the basis that emissions reduction is not currently provided for in the NEOs and the AER do not yet have guidance on the implementation of these reforms. This would result in Ausgrid being unable to realise valuable opportunities for our customers over the forthcoming regulatory period by, for example, unlocking the full environmental benefits of customer energy resources.

This would lead to a long-term detriment for energy consumers in NSW, the Australian Capital Territory, the Northern Territory and Tasmania, relative to consumers in Queensland, South Australia and Victoria because their DNSP would have time to account for these emissions-related benefits in their expenditure proposals.

We consider our submission to be consistent with the ENA's and the Clean Energy Council's submissions and support their submissions as a member of their respective organisations. If you wish to discuss any of the matters raised in this response further, please contact Naomi Wynn, Manager, Regulatory Policy at naomi.wynn@ausgrid.com.au.

Regards,



Rob Amphlett Lewis
Chief Customer Officer