
7 February 2023

Department of Climate Change, Energy, the Environment and Water (DCCEEW)

Re: Submission on incorporating an emissions reduction objective into the National Energy Objectives 

Dear Sir/Madam

The Australian Conservation Foundation (ACF) is delighted to see the Australian Energy Ministers proposed legislative package to give effect to an emissions reduction objective in National Energy Objectives (NEO)¹. ACF understands that Australia cannot fully decarbonise unless the NEO explicitly encompasses the emission reduction policy objectives set by governments. This will ensure the NEO is fit for purpose, and will send a strong signal to and raise confidence of clean energy investors. Emission reductions should have been included from the start of the National Energy Market (NEM) (and not removed from the initial market design). Including an emission reduction objective is a significant, welcome and long overdue step for the NEM.

It is the opinion of ACF that any decisions relating to structure and design of the NEM must be framed by the longer-term goal of achieving net zero emissions in the electricity sector to enable net zero emissions from the entire energy sector well before 2050. In its current form, the National Electricity Objective (NEO) 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:

- Price, quality, safety, reliability, and security of supply of electricity; and
- The reliability, safety, and security of the national electricity system.

The National Gas Objective (NGO) and the National Energy Retail Objective (NERO) have similar worded objectives, and are used to direct Australia's three energy market bodies (and other decision makers) on how to undertake their respective powers and functions – the Australian Energy Market Commission (AEMC), the Australian Energy Market Operator (AEMO), and the Australian Energy Regulator (AER).

Without including emission reductions, such reductions will remain under-valued and not considered in approval or reform processes, and disconnected from climate and energy policy. It will remain difficult

¹ In this submission, unless otherwise stated, "the NEO" should be taken to refer National Electricity Objective (NEO), the National Gas Objective (NGO) and the National Energy Retail Objective (NERO).



to enable these regulatory bodies to transform and decarbonise the Australian energy system rapidly to shift from fossil fuels towards 100 per cent renewables sooner and achieve our emission reduction targets.

As we electrify our homes, businesses and industry, reducing emissions from the energy sector will support the decarbonisation of other high-emitting sectors, including transportation and industrial processes. *ACF recommends linking the NEO's emissions reduction objectives to targets, including 43% by 2030, net zero before 2050, the 82% renewable energy by 2030, jurisdictional targets and commitments (legislated or not), international agreements, and any future updated emission reduction, net zero and renewable energy targets.* We do not, however, support the emission reductions being framed in narrow economic terms (see below), especially if left to the discretion of regulators, as it does not specify who the price or other objectives are in relation to (notwithstanding the sometimes vague notion of the long-term interests of consumers), and may externalise economic costs. If the NEO is framed as a purely economic objective, then it should also recognise climate change as a fundamentally economic issue, with long-term economic costs to consumers and communities.

The market bodies must balance sometimes conflicting objectives, and sometimes make trade-offs. Failing to include emission reduction has created a bias towards pricing and security rather than a balanced approach, whereas including emission reductions ensures emissions, price, quality, safety, reliability, and security of supply are all considered, optimised and integrated. We recommend that market bodies consult with a wide range of stakeholders and update guidance material² to assist market participants in understanding how market bodies will interpret, integrate, and optimise the proposed revised NEO. An example could be guidance on using technology for emission reduction, energy security and reliability (as well as affordability) (i.e. Dynamic efficiency), that in principle emission reduction objectives are maintained if jurisdictional targets are weakened, or that the long-term interests of consumers include mitigation and climate resilience, noting numerous major economic studies of climate change mitigation have concluded that the cost is lower the sooner action is taken.

Equity Objective

We note the second reading includes the statement “*The long-term interests of consumers of electricity requires the economic welfare of consumers, over the long-term, to be maximised*”, and that the intention is to include emission reductions within the same ‘economic-efficiency’ framework. Similar to emission

² AEMC 2019, Applying the energy market objectives. https://www.aemc.gov.au/sites/default/files/2019-07/Applying%20the%20energy%20market%20objectives_4.pdf



reductions, the absence of social equity and affordability being specified in the NEO means that “*economic welfare of consumers*” in the context of social equity and affordability is not achieved. Having “price” in the NEO as opposed to “cost to consumers”, as evidenced by high bills, unequal distribution of energy market costs, and inadequate consumer protections.³ That is, the NEO in its current form and ‘economic-efficiency’ framework is failing many small businesses, households and First Nations communities, all made vulnerable by current economic, social and energy systems. While noting that including social equity and affordability has been excluded from this consultation, ACF strongly supports including them in the NEO. To not delay progress on emission reductions however, we believe this should occur in a separate process. ***We recommend that Australian Energy Ministers commit to integrating social equity into the NEO in the near term, such as the next Energy Ministers Meeting⁴ in a similar process to this consultation.***

There are nonetheless options to support regulators implementing the NEO to include social equity and affordability now, including through the guidance previously mentioned. This could include implement the NEO to reduce unnecessary transmission build and poor cost recovery processes, or the development of poor business models by market participants not directly affected by the NEO, such as some solar business models that may cost renters more.⁵ Having emission reduction, social equity and affordability integrated and implemented up front may also reduce delays through lack of social licence through Rewiring the Nation (RTN) and the Integrated System Plan (ISP).

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³ <https://www.acoss.org.au/wp-content/uploads/2020/12/ACOSS-Health-of-the-NEM-report-2020.pdf>

⁴ <https://www.energy.gov.au/government-priorities/energy-ministers/meetings-and-communicues>

⁵ <https://www.solarquotes.com.au/blog/agl-off-site-solar-review/>

