



7 February 2022
Energy Senior Officials
Department of Climate Change, Energy, the Environment and Water
By email: netp@industry.gov.au

Dear Energy Senior Officials

Consultation - Incorporating an emissions reduction objective into the national energy objectives

CitiPower, Powercor and United Energy welcome the opportunity to provide a submission on the *Incorporating an emissions reduction objective into the national energy objectives* consultation paper and associated draft Bill.

Our business prides itself on delivering a safe and reliable supply of electricity to 1.9 million households and businesses in Victoria. In line with the priorities and preferences identified by our customers, we seek to support increased renewable supplies and contribute to achieving emissions reduction policies in Victoria and Australia.

We strongly support the Energy Ministers' objective to embed emissions reductions within the national energy laws. The draft Bill and rationale presented in the consultation paper predominately achieves this objective and reflects a prudent approach to incorporating emissions reduction within the existing regulatory framework.

We consider retaining the primary principle of achieving economic efficiency, with reference to price, quality, reliability, security of supply, and now emissions reduction, is the most effective approach for integrating emissions reductions policy objectives into the regulatory framework. We agree with the rationale presented in the consultation paper for not considering other approaches which would move away from, or materially alter, the economic-efficiency framework.

Our submission promotes opportunities to ensure Australia's emission reduction policies are achieved in a timely manner, including

- ensuring the national energy rules which govern the Australian Energy Regulator's (AER) decision framework are amended without delay to mirror the new emissions reduction objective
- the transitional provisions should place more emphasis on market bodies to apply the new emissions reduction objectives as soon as reasonably practicable
- retaining the provision for public policy statements to be considered commitments toward the achievement of emissions reductions and therefore factored into decision making by market bodies and participants
- prioritising the development of a commonly agreed value for emissions reductions through a thorough public consultation and ensuring the value energy customers place on emissions reductions is taken into account.

The following sections explain the above recommendations.

If you have any queries regarding our submission, please contact me on rvogt@powercor.com.au

Yours sincerely,

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CitiPower, Powercor and United Energy

Corresponding changes to the national energy rules are necessary and should be expedited

Given the pressing need to act promptly to achieve Federal, State and Territory emissions reductions objectives, we encourage Energy Ministers to consider how the draft Bill can bring the new emissions reduction objectives into practical effect as soon as possible.

In particular, the AER is only required to have regard to the relevant national energy objectives but is required to fulfill its obligations under the relevant national energy rules. There is currently no reference to emissions reductions within the national energy rules. Therefore, without corresponding amendments to national energy rules to mirror the new emissions reduction objectives, there will be a discord between the two, with the rules having greater influence over the scope of the AERs decision powers.

We therefore recommend the draft Bill require the Australian Energy Market Commission (AEMC) to make immediate amendments to the corresponding national energy rules which govern the decisions of the AER. Specially, clauses 6.5.6 and 6.5.7 of the National Electricity Rules, relating to the capital and operating expenditure objectives, should be directly amended to mirror the new emissions reduction objective, alongside reliability, quality and security of supply.

While there is an alternative to instruct the Australian Energy Market Commission (AEMC) to undertake a fulsome rule change review, or wait for another party to request a rule change, this will create unavoidable delays in the full effectiveness of policy intent to promote efficient investment in emission reductions.

Transitional provisions should promote implementation as soon as reasonably practicable

We recommend the transitional provisions in the draft Bill are rephrased to ensure market bodies implement the new emissions reduction objectives as soon as reasonably practicable. This would incorporate the new emissions reduction objective into both new processes, as well as processes underway where practicable. The majority of energy market body processes are necessarily of long duration, particularly regulatory reviews and substantive rule changes. There is a risk that allowing market bodies discretion to wait until new processes commence will have a significant dampening effect on the timeliness of emissions reductions objectives being fully incorporated in the efficient operation of, and investment in, the energy market.

We also equally consider market participants should factor emissions reductions benefits into both new process and those underway where reasonably practicable, for example in relation to Regulatory Investment Tests.

Public policy statements should be considered public commitments and taken into account

We support the current provisions in the draft Bill to allow publicly announced policies to be taken into account, as per clause 7(1)(c)(ii)(C) in the draft amendments to the National Electricity Objective. This clause is important for ensuring the achievement of Australian emission reductions objectives are not hindered by the necessary lengthy processes for turning government policies into legislation. Without an explicit provision to account for public policies in the national energy objectives there would be a risk that only legislated targets are taken into account and emissions reductions opportunities are delayed or missed.

Prioritising the value of emissions reductions is imperative and should account for energy customer values

To give effect to the policy intent of including emissions reductions in the national energy objectives it is imperative that energy market bodies collaborate with market participants, energy consumers and stakeholders to develop a commonly agreed market value of emissions reductions.

The financial value of emissions reductions is core to the assessment of the efficient level of investment in emissions reduction. It is therefore essential that development of this value is a priority for the energy sector. Emissions reductions value should also be developed taking into account the value to energy consumers through willingness to pay analysis.

We would caution however that the development of a common emissions reduction value should not delay the inclusion of emission reductions benefits in energy market processes and investment decisions.