

3 February 2023

The Hon Chris Bowen MP
Minister for Climate Change and Energy
National Energy Transformation Partnership

Lodged by email to: netp@industry.gov.au

Dear Minister Bowen,

Response to Incorporating an Emissions Reduction Objective into the National Energy Objective (Consultation paper)

The Clean Energy Investor Group (CEIG) welcomes the opportunity to provide feedback to the National Energy Transformation Partnership (NETP) on the *Incorporating an Emissions Reduction Objective into the National Energy Objective (Consultation paper)* published on 20 December 2022.

CEIG represents domestic and global renewable energy developers and investors, with more than 16GW of renewable energy capacity in the NEM across more than 76 power stations and a combined portfolio value of more than \$38 billion. CEIG members' project pipeline is estimated to be more than 46GW across Australia. CEIG strongly advocates for an efficient transition to a clean energy system from the perspective of the stakeholders who will provide the low-cost capital needed to achieve it.

Our submission is based on the [Clean Energy Investor Principles](#) (Investor Principles) that CEIG published in August 2021. The research commissioned for the Investor Principles found that improving certainty for investors will reduce the risk premium for new generation in the NEM and could deliver savings for consumers of up to \$7 billion out to 2042.

KEY POINTS

- CEIG strongly supports the addition of an emission reduction objective in the National Energy Objective (NEO) as it will provide consistency with the Paris climate Agreement and the integration of transformation and security within the three energy market bodies.
- CEIG welcomes the inclusion of a decarbonisation objective within the Australian

Energy Market Commission's (AEMC) updated guidelines and looks forward to updated guidelines from the three market bodies on how to interpret the NEO.

- CEIG supports the inclusion of other government targets that are 'likely to contribute to' reducing Australia's greenhouse gas emissions.
 - This brings forward the inclusion of policy commitments for the three energy market bodies consideration before the lengthy process of legislation occurs and therefore supports investors with longer term policy certainty than would have been the case where only legislated targets are considered.
 - Furthermore, the inclusion of state and territory targets beyond the Commonwealth Government targets future proofs against a single government having lesser ambition in the future.
- CEIG understands that social equity, cost and affordability are outside the scope of the current process and could be reviewed at a later date. CEIG's position is that adding an emissions reduction objective into the NEO is a priority.
- CEIG believes consideration should be given to the social cost of carbon when the three energy market bodies are assessing decisions as this is in line with the long-term interest of consumers.
- CEIG calls for further analysis into the unintended consequences resulting from a decision to change the terms before committing to any change in terms 'consumers of electricity/gas'.
 - CEIG is concerned that the change could lead to the market bodies making rules that disadvantage renewable energy generation (including energy storage projects) in favour of gas peaking plants at a critical time when clean energy investment needs to be encouraged.
- CEIG proposes that market bodies take into account the amended NEO for existing processes already underway however, understands that this could cause material delays for some processes (e.g. if it required new modelling). For these processes, market bodies could publicly apply for an exemption to use the old NEO.

CEIG strongly supports the addition of an emission reduction objective in the NEO as the first act of the newly formed NETP. Furthermore, CEIG welcomes the work of the NETP to identify the appropriate consequential revisions to the assessment criteria market bodies use to inform policy and regulatory, including investment test decisions.

Why CEIG supports adding an emissions reduction objective in the NEO

CEIG has been a strong advocate for the implementation of an environmental objective in the NEO and is in line with the CEIG Investor Principles (Investor Principle 2: Redesign governance for transformation).

Furthermore, the CEIG Investor Principles call for consistency with the Paris climate Agreement and the integration of transformation and security to cascade down through the work programs of the three market bodies in the pursuit of efficient investment in, and operation, of electricity services. This will require an environmental objective to be added to the NEO to recognise the need to reduce carbon emission.

From a network planning perspective, while the Australian Energy Market Operator (AEMO) is identifying an infrastructure planning trajectory which is consistent with steep decarbonisation of the NEM, the market bodies still do not have a mandate to make decisions with decarbonisation as an objective. This introduced a risk that decision making for the NEM is inconsistent with the planning framework, resulting in inefficiencies.

For example, under the existing NEO, an assessment into the benefits of a renewable microgrid proposed for the mining town of Broken Hill were undervalued as the full economic and environmental benefits were not considered¹. Without considering the full economic and environmental impacts, sub-optimal outcomes for consumers may be realised, in favour of emissions intensive generation.

Updated guidelines on how market bodies will interpret the NEO can improve investment certainty

Following the Energy Ministers' decision to include an emissions reduction objective within the NEO, CEIG welcomed the AEMC's decision in October 2022 to add decarbonisation into their assessment criteria for assessing decisions against the national energy objective. This means that the AEMC must now consider decarbonisation, technology change, stakeholder behaviour, jurisdictional policy trends and increased uncertainty in their actions towards a decarbonising, affordable and reliable energy.²

This is important for investors as it provides long-term policy certainty leading to an improved investment environment. Policy certainty reduces risk for investors leading to a lower cost of capital, ultimately lowering the cost to consumers

CEIG welcomes the AEMC's updated guidelines and looks forward to further updates from the AEMC, as well as updates from the relevant guidelines for decision making of AEMO and the AER mentioned within Section 4 of the Consultation paper.

Energy market bodies should be planning for 1.5 degree compliance

Under the Paris Agreement, Australia has committed to pursue efforts to limit temperature increase to 1.5 degrees³. Although there have recently been several important energy and emission policy announcements from federal, state and territory governments, these policy announcements are currently insufficient to meet 1.5 degrees.

For example, Table 6 from the Draft IASR⁴ shows how although the Victorian

¹ <https://reneweconomy.com.au/regulatory-madness-promotes-dirty-diesel-over-renewable-mini-grid-at-broken-hill>

² [AEMC: How the National Energy Objectives shape our decisions](#)

³ <https://www.dcceew.gov.au/climate-change/international-commitments>

⁴ [AEMO 2023: Inputs Assumptions and Scenarios Consultation](#)

Government's pre-election commitments are more ambitious than a 1.8 degree aligned scenario, they fall short of the ambition required.

Table 6 Victorian emission reduction outcomes from multisectoral modelling compared to Government targets

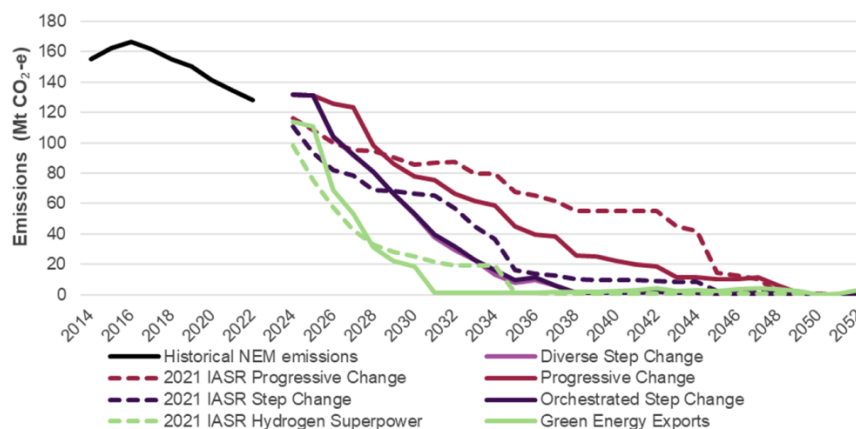
	Status	1.8°C Orchestrated Step Change	Victoria targets	1.5°C Green Energy Exports
2025	Legislated	-	28-33%	-
2030	Legislated	47%	45-50%	66%
2035	Announced*	66%	75-80%	84%
2045	Announced*	80%	100% (Net zero)	95%

*These targets were announced as a pre-election commitment by the Victorian Government in October 2022.

Source: Draft IASR (AEMO)

Furthermore, Figure 4 from the Draft IASR shows that only the 1.5°C Green Energy Exports scenario is consistent with 1.5 degrees despite all scenarios including current policy such as the Queensland Renewable Energy Target of 80 per cent renewables by 2035, the Victorian Renewable Energy Target of 95 per cent by 2035 and Tasmania and NSW gigawatt targets. 1.5 degrees is only achieved within the Green Energy Exports scenario due to increased levels of key demand drivers, technological improvements and other key parameters.

Figure 4 NEM emission trajectories from multi-sectoral modelling



Source: Draft IASR (AEMO)

Investors consider both existing and announced policy when assessing the revenue potential of future assets. As such, CEIG welcomes the inclusion within s 7(a) under the NEL and equivalent sections under NERL and NGL of other government targets that are 'likely to contribute to' reducing Australia's greenhouse gas emissions, as has been seen within AEMO's 2022 Integrated System Plan.

This brings forward the inclusion of policy commitments for the three energy market bodies consideration before the lengthy process of legislation occurs and therefore supports investors with longer term policy certainty than other would have been the case where only legislated targets are considered.

Furthermore, the inclusion of state and territory targets beyond the Commonwealth Government targets future proofs against a single government having lesser ambition in the future.

However, investors are increasingly considering the impact of current and future investments on an energy system that is 1.5 degree compliant. CEIG therefore believes that market bodies should be given limited discretion when considering targets that are not legislated, in the pursuit of an energy market that is aligned with limiting temperature increase to 1.5 degrees.

It is anticipated that governments are likely to continue increasing their ambition and develop policy that aligns with 1.5 degree compliance. For example, as highlighted in Table 6 above, the recently announced Victorian Government targets sit between a 1.8 degree and 1.5 degree aligned scenario. AEMO has stated that the breadth of scenarios with the IASR are sufficient to cover the intent of such legislated schemes.⁵

Consideration of the social cost of carbon is key to the long-term interests of consumers

As highlighted within the Consultation paper, the legislative premise of the term ‘efficient’ assumes the long-term interest of consumers. CEIG has formed a position that Australia should set targets for net zero by 2035 for the electricity generation sector and no later than 2040 for the rest of the economy. As such, the time horizon for long-term interest of consumers should be considered in line with achieving these outcomes.

CEIG understands that social equity, cost and affordability are outside the scope of the current process and could be reviewed at a later date. CEIG’s position is that adding an emissions reduction objective into the NEO is a priority.

However, CEIG believes consideration should be given to the social cost of carbon when the three energy market bodies are assessing decisions as this is in line with the long-term interest of consumers. This could be included as updates within market bodies guidance materials.

Gas is no longer viewed as a transition fuel

The Consultation paper refers to gas in the context as a transition fuel however, jurisdictional policy trends, stakeholder behaviour and technology change are increasingly diminishing the role of gas in the future energy system.

A recent quote from Federal Climate and Energy Minister Chris Bowen supports this claim where he stated that:

“The one thing about gas is I don’t regard it as a transition fuel, I don’t regard it as low emissions fuel, but I do regard it as flexible.”⁶

CEIG is concerned there may be unintended consequences from linking the gas and electricity markets and systems together through the changing of terms ‘consumers of electricity/gas’ to ‘consumers of energy’ as well as changing the terms ‘supply of

⁵ <https://aemo.com.au/consultations/current-and-closed-consultations/2023-inputs-assumptions-and-scenarios-consultation>

⁶ <https://reneweconomy.com.au/chris-bowen-gas-is-neither-a-transition-fuel-nor-low-emissions-but-at-least-its-flexible>

electricity/gas' to 'supply of energy.

Although it is difficult to predict the unintended consequences from the change in terms, CEIG is concerned that this could lead to the market bodies making rules that disadvantage renewable energy generation (including energy storage projects) in favour of gas peaking plants at a critical time when investment needs to be encouraged.

Furthermore, decisions that result in gas generation displacing renewable energy generation may then impact the delivery of emission reduction policies as well as other policies that aim to decarbonise the energy system such as the Victorian Government's Gas Substitution Roadmap, the Commonwealth Government's Safeguard Mechanism and Powering the Regions Fund.

CEIG is also uncertain as to how gas will be considered within the RIT-T process in the future if the change in terms is adopted. This is a concern for investors and as such requires further clarification from the NETP.

Therefore, without further consideration of the unintended consequences resulting from a decision to change the terms 'consumers of electricity/gas' to 'consumers of energy', as well as changing the terms 'supply of electricity/gas' to 'supply of energy, CEIG calls for further analysis before committing to any change in terms.

Commencement and transitional arrangements

The Draft Bill currently reflects Officials' initial position that:

- the amended objectives will only apply to new processes commenced after the commencement of the amendments;
- decision processes under the law and rules that are underway at the time the amendments commence will be continued and finalised as if the changes to the objectives were not in place when the decision was finalised
- however, energy market bodies could be given a broad discretion to apply the amended objective where they consider it is appropriate/feasible.

Contrary to the internal position of Officials', CEIG proposes that market bodies should by default take into account the new NEO three months after being legislated for rule changes/RIT-Ts/etc. that are already underway. However, CEIG understands that some processes may be well advanced and may suffer material delays (e.g. if it required new modelling to comply with the updated NEO).

CEIG's position is that the implementation of the NEO should not delay the energy transition and impact achieving emission reductions in the NEM. As such, CEIG proposes that for these cases, the AEMC or other body could be allowed to publicly apply to the AER for an exemption to use the old NEO.

CEIG thanks the NETP for the opportunity to provide feedback on the Consultation Paper and looks forward to continued engagement. Our Policy Director Ms. Marilyne Crestias



can be contacted at marilyne.crestias@ceig.org.au if you would like to further discuss any elements of this submission.

Yours sincerely,

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