

3 February 2023

**Re: Energy Efficiency Council response to
Incorporating an emissions reduction objective into the national energy
objectives consultation paper**

The Energy Efficiency Council welcomes the opportunity to provide a response to the consultation paper on incorporating an emissions reduction objective into the national energy objectives. The Energy Efficiency Council is Australia's peak body for energy efficiency and management, with a membership of businesses, universities and governments working to guide Australia on the path to an efficient, prosperous net zero economy.

The EEC is strongly supportive of including an emissions reduction objective into the national energy objectives in the three national energy laws. Broadly, the objectives as proposed are soundly constituted, although further refinement could facilitate emissions reduction at least cost within the energy system.

The EEC's feedback on this matter consists of three main items:

1. The emissions reduction objective must also operate as a constraint

Incorporating the emissions reduction objective into the decision-making framework of energy market bodies is an important step to allow those bodies to determine what energy system rules and investments will contribute to the long-term interests of consumers in transitioning the energy system to net zero emissions. This can help facilitate cost-effective measures to reduce energy system emissions, and provide additional levers for energy market bodies to help facilitate and coordinate the energy system's transition.

However, while some discretion in making decisions is useful, the placing of emissions reduction into the economic efficiency framework as proposed also comes with risks of trading off emissions reduction against economic concerns. While this will happen to a certain extent, it must be clear that achievement of Australia's legislated emissions reduction targets cannot be 'traded away'. There is a significant role for energy market bodies to help determine the most cost effective and efficient paths for achieving those targets, but market body discretion must operate within a constraint of achieving those targets (particularly net zero by 2050) at minimum. The EEC therefore makes a recommendation in this submission that an addition is made to the Bills to make it clear that nothing done under the National Energy Laws may be inconsistent with achieving the emissions reduction targets. (See Feedback 1).

2. Emissions reduction will be best facilitated by incorporating the demand side

As the electricity system transitions to one with high proportions of variable

renewable generation, matching energy demand to energy supply becomes a critical component of operating the system at least cost to consumers and achieving a transition to zero emissions at least cost. Integrating energy demand into energy market governance is crucial to ensuring that an optimal level of investment is made – preserving reliability and security while reducing emissions, at the lowest possible cost to the energy consumer.

The objectives do not provide a sufficiently authorising environment for energy market settings to properly encourage, facilitate or value demand-side participation in the energy market. By focussing on the ‘supply’ of energy, rather than considering the demand for, and supply of, energy services, regulatory attention is directed towards supply-side interventions, rather than considering how to progress an optimal mix of supply-side and demand-side investments to facilitate the transition to a zero emissions energy system, which the emissions reduction objective will require.

There is a large potential resource of low-cost emissions reduction activities available in the demand side of the energy system, which require coordination, facilitation and proper valuing to harness. Without proper integration of the demand-side into the national energy objectives, it is likely that much of this opportunity will be overlooked, and consumers will be required to pay for supply-side infrastructure that may have been avoidable. The EEC recommends in this submission that further work in integrating the demand-side into the national energy objectives commence without delay.

3. The objectives require further work to address outstanding issues

Although this consultation paper is focussed on the emissions reduction objective, there is a pressing need to further reform the objectives to better focus regulatory market on demand-side inclusion. The EEC remains concerned that the NEO’s lens for affordability is focussed on the ‘price’ of energy, which is often interpreted through metrics like ‘cents per kilowatt hour’, rather than minimising the *overall cost of the system to consumers*. A focus on price – being the vehicle by which costs are recovered (and the distribution of that cost recovery) – risks missing opportunities to drive down the *cost* of the system.

For further information please contact me at alex.stjohn@eec.org.au or on 0413 698 181.

Yours sincerely



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energy efficiency
COUNCIL

**EEC responses to consultation paper on
incorporating an emissions reduction
objective into the national energy objectives**

3 February 2023

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:

Partially. While the economic efficiency framework is a reasonable method to determine long-term efficient investment, the achievement of Australia's emissions reduction targets must also act as a constraint that economic decisions must operate within. Over the long term, it is not acceptable for achievement of Australia's emissions reduction targets to be traded off against short or long-term economic gain.

Emissions reduction should be an objective within the economic efficiency framework which can inform decisions – determining efficient actions to achieve emissions reduction within the energy system is facilitated by incorporating emissions reduction into an economic efficiency frameworks. However, these decisions must be bounded by the constraint of achieving net zero by 2050 at the latest, and achieving such interim emissions reduction targets as are determined by governments.

The Energy Efficiency Council recommends that the reforms to the National Energy Objectives be complemented by an additional section, such as the following (written with application to the National Electricity Law):

7AA Actions not to be inconsistent with emissions reduction targets.

- (1) Anything done or any decision, Rules or Regulations made under this Law must not be inconsistent with achieving emissions reduction targets referred to in section 7(c).
- (2) Anything done or any decision, Rules or Regulations made under this Law must not be inconsistent with achieving net zero emissions within Australia by:
 - (i) 2050, or
 - (ii) if the emissions reduction targets specified in 7(c) specify an earlier date – that date.

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:

As per the response to (1), there should be a limited level of discretion applying to the emissions reduction objective. Weighing economic efficiency and emissions reduction may be validly done, only in so far as all courses of action are consistent with achieving Australia's emissions reduction targets.

However, it would also be beneficial to establish a presumption of action in favour of emissions reduction, and that market rules and settings should seek to encourage greater ambition in emissions reduction wherever possible. Climate impacts are already having significant impacts on the community, and the long-term interests of

the community – including energy system participants – are best served by limiting the *cumulative* emissions that the energy system generates as far as possible. Cumulative emissions will be the principal determinant of the extent of climate impacts, and therefore be the largest factor in the level of economic expenditure on adaptation, resilience and other measures to deal with climate change impacts. Minimising expenditure on these measures should therefore also be a strong consideration in energy market processes.

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:

Guidance to market participants should be updated, however there should be a robust and transparent consultation process to inform the guidance that regulatory bodies will provide. Regulatory guidance is an important part of setting market and policy expectations, and influences how market participants will seek to comply with legislation. It is appropriate that that guidance is therefore subject to genuine consultation with both energy market participants and the broader community.

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:

See response to question (1)

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:

Yes. It is appropriate that energy market bodies take into account clear policy positions of relevant governments – particularly where governments have provided the means for achieving those commitments. For example, the Victorian Gas Substitution Roadmap will have an important effect on energy markets, although it is unlikely that the final policy is legislated in its entirety. Allowing energy markets and rules to take into account such policies is an important enabler in holistic market consideration.

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:

Agree.

Question 7: *What impacts (positive and/or negative) would the proposed change have on your organisation or your stakeholders/customers?*

- a) What are these instances/processes and what sort of content would you want to be included in this guidance?
- b) Do you foresee any unintended adverse consequences coming from such a change, especially for market participants or consumers?

Feedback 7:

Agree. As the transition to a zero emissions energy system approaches, a range of fuels may be brought into the energy system, and ensuring that energy system changes and decisions may be evaluated against all users of energy, whose actions may affect others, is important for holistic energy system planning and regulation.

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:

While ensuring that energy market decisions can examine a wide range of impacts on energy use, the change remains unnecessarily constrictive. The National Energy Objectives are unnecessarily focussed on the supply side of the energy market, and do not consider how the use of energy – the demand side – are an equally important part of optimising investments for the long-term interests of consumers.

Indeed, the introduction of the emissions reduction objective will be better served through integrated consideration of the demand side of the energy system at all times, and in all decisions. Efficient energy markets have strong integration of supply and demand as principal characteristics of policy, and the NEO needlessly focusses market rules and settings on supply side participation.

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:

Yes, see (7).

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

Feedback 10:

No comment.

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:

For decades, the objectives have all but ignored the demand side of the energy market. As the transition to net zero occurs over the next few decades, close integration of energy demand and energy supply is essential to avoid overbuilding costly network and storage energy assets. The current objectives give limited scope to create market rules to encourage demand-side participation to reduce the overall costs of operating energy systems, or to effectively reduce emissions in the energy system.

The use of “supply of electricity” in paragraph 7(1) of the NEO, and “supply of gas” and “supply of energy” in the other objectives have the effect of focusing attention and regulation in energy markets on supply. However, to achieve emissions reduction at least cost, equal emphasis must be placed “use of energy” – particularly making rules that encourage the energy use that is efficient from both an economic and emissions perspective.

Further changes to the NEO will be required to elevate the demand side of the energy system as an equal consideration to energy supply. Neglecting energy demand in consideration of optimal energy system investment will inevitably lead to suboptimal decisions and outcomes.

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:

Consequent to q.11, changes to the regulatory investment tests will need to be made to ensure that regulated network investments are both economically efficient, as well

as emissions efficient. Better integration of the demand side into regulatory investment tests will yield low-cost, rapid emissions reduction opportunities which will contribute to achievement of emissions reduction targets, as well as ensure that only the minimum necessary investments to transition the energy system to zero emissions are made.

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:

No comment.

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:

No comment

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:

Given the Government's intention to undertake an ambitious program of network investment to facilitate greater low-emissions energy generation, there is a need to promulgate the new objective as fast as possible. A shorter transition period to enable emissions to be taken into account would be desirable, with existing processes able to be grandfathered for a short time.

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:

No comment.

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 comment.

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:

No comment.

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:

No comment.

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:

Not entirely. As per q.1, the decision making processes of the AEMC and other market bodies must be bound by emissions reduction targets as a constraint, and market bodies should not have the discretion to make rules or decisions that are inconsistent with emissions reduction targets. The foreshadowed changes by the market bodies also do not adequately characterise how they will improve consideration of the demand side, which is the greatest source of low-cost emissions reduction opportunities in the energy system. Supply-side interventions to reduce emissions are necessary but expensive, so improved demand-side integration into the NEL, NGL and NERL is critical to improve the economic efficiency of reducing emissions.

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:

The inadequacy of the current system of energy market law has been demonstrated by the need for member jurisdictions to derogate the national energy laws to facilitate significant energy system decarbonisation projects. The current regulatory system was not built with transformational change of the energy system in mind, and has not so far been up to the task of coordinating and facilitating a transition to zero emissions at least cost.

Ensuring that energy market governance achieves emissions reduction targets at least cost is important but ensuring that the country achieves its emissions reduction target is even more important. It is therefore important that energy market rules and settings operate within an emissions reduction constraint, rather than just an objective.

Further, emissions reduction will be best achieved through integrated consideration of demand-side and supply-side interventions in the energy system. Additional work is required to ensure that the National Energy Objectives properly encourage, facilitate and value demand-side participation that can deliver cost and emissions reductions in the energy system, providing clear benefits to the long-term interests of consumers.

Further changes to the Objectives to better incorporate the demand side should be progressed without further delay. The next decade is likely to see the substantial transformation of the energy system, and without adequate frameworks to integrate energy demand and energy supply – critical to reducing cost in a system characterised by high levels of variable renewable energy – consumers are like pay more than is necessary, and opportunities for emissions reduction could be missed.

The Energy Efficiency Council recommends that further reforms to the National Energy Objectives to better incorporate the demand side of the energy system into energy market rules and processes be commenced without delay.