

## ***Incorporating an emissions reduction objective into the national energy objectives – stakeholder feedback template***

This template has been developed to assist stakeholders in providing feedback on the *National Energy Laws Amendment (Emissions Reduction Objectives) Bill 2022* (Draft Bill).

### **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:*

Yes, to the extent it is considered alongside existing components of the national energy objectives. Further, we consider that emissions reduction should not have a separate framework for investment assessment than the existing components. In our view, the proposed approach will ensure due consideration is given to the costs and benefits associated with the decarbonisation of electricity supply.

#### **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:*

Yes. Energy Queensland agrees the current level of discretion afforded through an 'economic efficiency' framework is appropriate for balancing an emissions reduction component against existing components of the national energy objectives, so long as:

- this new component is considered equally with the other components; and
- the economic value of emissions reduction can be transparently applied.

#### **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:*

Yes, Energy Queensland considers that market bodies should prepare guidance material for all participants to address instances where the new emissions objective interacts with existing obligations. For example, AER material relevant to DNSP expenditure would need to be updated to provide guidance and transparency on how expenditure related to this new component of the national energy objectives will be assessed. In addition, the Regulatory Impact Test for Distribution (RIT-D) Application Guidelines and the Expenditure Forecast Assessment Guideline for Electricity Distribution will need to explain how a new category of market benefit will be included.

Determining the value of emissions reduction in the context of cost-benefit analysis will be an important consideration, in lieu of a specific price on carbon through either federal or state mechanisms. While a compliance cost, the fixed price cap in the cost containment provision in the Safeguard Mechanism Reforms Position Paper is currently the only reference point visible to the market.<sup>1</sup>

### 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:*

Only to the extent a clear method for determining an efficient means to achieve the emissions reduction targets is established for the various market participants. We consider it would likely be problematic to determine whether any individual investment proposal is the most efficient way of achieving the overall reduction target, other than to value carbon. For instance, it would be difficult to prove that enabling an extra two megawatts of rooftop solar in one jurisdiction is the most efficient means of achieving a national target, without knowing the incremental cost of a large scale solar/battery installation in other jurisdictions. A simpler approach is to put a price on carbon and include it in the cost-benefit value stack used to underpin an investment decision. However, it will be important to ensure the framework is consistently applied and Australian organisations are required to adhere to it for their financial and statutory reporting purposes (also refer to Question 21's response for carbon accounting considerations).

**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:*

No. In our view it is necessary to clarify what is meant by "publicly as a matter of policy", given the range of communications through which Governments and Ministers can set out what might be perceived as policy positions or relevant targets. Only legislated targets and targets that are nominated or declared as relevant by a jurisdiction should be included. Where targets are not legislated, there should be a process to

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<sup>1</sup> DCCEEW, *Safeguard Mechanism Reforms Position Paper, January 2023*, p. 4

nominate or declare a target by a jurisdiction, providing all parties with clarity about what will be considered in long-term decision making.

### **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:*

It is not clear that this change in terminology will be sufficient to deliver the intent outlined in the policy paper. As such, we seek further clarification from DCCEWW.

**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:* Noting the need for further clarity on key elements of the proposal, the positive impact will be that emissions reductions are considered in investment decisions. This would better reflect the intent of state and federal governments to achieve net zero emissions and support an economically efficient transition to clean energy across the economy.

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:* Energy Queensland provides no response.

**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:* Energy Queensland provides no response.

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

*Feedback 10:* Energy Queensland provides no response.

### 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:* Energy Queensland provides no response.

**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:*

Our responses to other questions indicate some of the regulatory provisions that will require change.

**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:* Energy Queensland provides no response.

**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:* Energy Queensland provides no response.

### 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:*

While we support the fast-track approach of amending the National Electricity Objective, we are concerned that little detail has been provided regarding consequential rule changes that will be required to support an amended objective.

The consultation paper indicates Officials' initial position that the amended objectives will only apply to new processes commenced after the amendments. However, there is a proposal for energy market bodies to have broad discretion in its early application. Energy Queensland refers to our response in Question 18 as we have concerns on this proposal.

Registered participants require certainty on the application of an amended National Electricity Objective and how it will be reflected in the supporting Rules. We therefore seek further advice from DCCEEW on the intended timeframes and consultation processes to change the supporting Rules.

**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:* Energy Queensland provides no response.

**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:*

RIT-Ds are subject to criteria and objectives that do not specifically include emissions reduction targets. Therefore, changes to relevant provisions and guidance for DNSPs will be required to implement an amendment to the national energy objectives in terms of applying RIT-D requirements. Without these changes to the relevant provisions and guidance, it is difficult to see how the AER could apply an amended National Electricity Objective to a DNSP's RIT-D process when it is underway, regardless of the degree of discretion afforded the AER.

**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:*

While we acknowledge it may be appropriate to allow market bodies some discretion to apply the amended objective, we do not consider this discretion should be broad or able to be applied to major regulatory processes underway, for example, the development of a DNSP's proposal for the next five-year regulatory control period.

To support the application of discretion, there would be value in market bodies being required to develop and publish guidance on how they intend to apply this discretion. There should also be an option for a registered participant to challenge an early application of the amended objective, with the relevant market body being required to respond in writing.

Further, we consider that subsequent rule changes will be required to implement an amendment to the national energy objectives. For example, assessment of forecast capital and operating expenditure for DNSPs is subject to proscriptive rules that reflect the existing National Electricity Objective, and therefore exclude emissions reduction considerations. Under clause 6.5.7(c) of the NER, the AER must accept a DNSP's forecast capital expenditure if it is satisfied the forecast reasonably reflects:

- the efficient costs of achieving the capital expenditure objectives;
- the costs that a prudent operator would require to achieve those objectives; and
- a realistic expectation of the demand forecast and cost inputs required.

Also, under NER clause 6.5.7(d), if the AER is not satisfied the forecast reasonably reflects the requirements referred to in paragraph (c), it must not accept the forecast capex. Clause 6.5.6(c) and (d) apply the same approach to forecast operational expenditure.

Without amendments to the rules and updates to relevant guidelines, it is difficult to see how the AER could apply an amended National Electricity Objective to a DNSP's regulatory proposal during the formal regulatory process, regardless of the degree of discretion afforded the AER.

**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:*

b) In Ergon Energy Network's and Energex's view, a RIT-D project should be considered underway at the publication of a Notice or Notice of No Non-Network Options.

c) Energy Queensland refers you to our response in Question 18. However, we also consider that 'underway' would be viewed differently by DNSPs. The preparation of a regulatory proposal commences well ahead of lodging a regulatory proposal, with most DNSPs commencing preparation at least two years before a proposal is due to be lodged.

## 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:* Energy Queensland provides no response.

**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:*

Energy Queensland notes the discussion paper refers to the AER considering “current international standards on carbon pricing” and other industry standards when assessing the monetarised value of the emissions. Moving forward, the International Sustainability Standards Board’s (ISSB’s) accounting standards as applicable to Australian reporting entities should serve as the basis of these assessments. This would clarify and provide consistency for energy market participants on how to treat their emissions for financial and statutory reporting purposes. The ISSB accounting standards are expected to follow a more investment-orientated approach and once in place, regulators and the market will take these standards into account.