



Department of Climate Change, Energy, the Environment
and Water

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To whom it may concern,

**Incorporating an emissions reduction objective into the National Energy Objectives –
Consultation Paper**

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Department of Climate Change, Energy, the Environment and Water (“the Department”) in response to the consultation paper on Incorporating an emissions reduction objective into the National Energy Objectives (“the Consultation Paper”).

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also owns Simply Energy which provides electricity and gas to customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

The proposed additional objective is superfluous and carries risks

ENGIE notes that many stakeholders have long advocated for inserting an environmental objective into the national energy objectives. ENGIE considers that this largely reflects frustration with the challenges in obtaining a consensus at national level and between national and jurisdictional governments on enduring emissions reduction policy (whereby were some form of emissions abatement and trading this issue would be of limited interest).

We note that these challenges appear to have largely subsided with the Commonwealth and all jurisdictional governments having set out a target of net zero emissions by 2050 or sooner. Not all governments have legislated their targets but there now appears to be sufficient consensus to enable the development of an effective and efficient emissions reduction policy for the electricity sector and economy wide (to the extent the Safeguard Mechanism does not already represent that policy for many sectors). This would be preferable to attempting to shoehorn another objective into existing energy objectives.

The stability of targets is also reflected in the clear signals from the market bodies that they are operating in an environment of great change to the energy sector and that this must be taken into account in their

decision making. Much of AEMO's and the AEMC's focus, for example, in recent years has been on reforms necessary to reflect the shifting mix of generation away from dispatchable fossil fuelled synchronous generators that can inherently provide several essential system services and towards inverter-based intermittent generation that does not inherently provide these additional system services.

Similarly, the AER is already grappling with the regulatory implications for gas networks of declining demand and/or a potential switch to hydrogen and for electricity networks of the rise in consumer energy resources such as rooftop solar and electric vehicles.

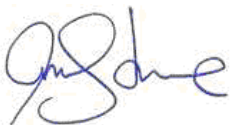
Long-range planning exercises such as the integrated system plan already reflect emissions reduction policies and the likely impact on energy systems.

ENGIE considers that not enough consideration has been given to the challenges and risks of operationalising an emissions reduction objective in market body decision making. Specifically, the fact that it is not energy market bodies' role to put a *value* on a unit of emissions reduction, but it is hard to see how they can take emission reduction into proper account without this value. This ambiguity opens the door for legal challenges and activism that will only serve as a drag on the pace of market reform.

We expand on these concerns further in the attachment, based on the Department's recommend feedback template.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 0477 299 827.

Yours sincerely,



Jamie Lowe

Head of Regulation,
Compliance and Sustainability

Appendix 1: Incorporating an emissions reduction objective into the national energy objectives – stakeholder feedback template

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:

ENGIE considers that the proposed objective is not an effective way of integrating the concept into the decision making of energy market bodies. Firstly, it is evident from their public statements on the way they carry out their work that energy market bodies have already integrated emissions reduction into their decision-making. For example, AEMO's key planning document, the Integrated System Plan (ISP), is based on scenarios all of which assume significant emissions reduction over the next few decades. The ISP takes current government policies as an input, which explicitly accounts for emissions reduction.

The AEMC's mission statement is "to work for Australia's future productivity and living standards by contributing to a **decarbonising**, affordable and reliable energy system for all consumers¹" [emphasis added].

Secondly, the interaction of emissions reduction with the existing components of the objectives cannot effectively be handled in the same way as their interactions with each other. Whilst some stakeholders may assume that decision-making balances each of price, quality, safety, reliability and security of supply, this is not how it works in practice. For the most part, the trade-offs involve taking all of the components other than price as a fixed constraint, and then solving for price, by applying an economic efficiency framework. Security of supply is a prerequisite for a functioning electricity grid. Safety is determined by safety regulators and treated as absolute requirement. Quality is a loose term, but many quality standards are set by governments and so are simply an input to market bodies' decision making. Reliability in the electricity sector is determined and periodically reviewed by the Reliability Panel, who consider cost implications of varying the reliability standards and settings, but once these settings are confirmed, they are taken as a given in other decisions.

By contrast an environmental objective typically requires a trade-off against cost. More emissions reduction costs more and less reduction costs less. While there are clear long-term economy-wide targets, in the short term it may be more or less efficient to achieve a certain level of emissions reduction. Simply adding an objective does not resolve how that trade-off is to be made. ENGIE's view is that this type of trade-off is and should be the preserve of elected governments and we note below in Feedback 4 some mechanisms that can be used to give effect to these trade-offs.

¹ <https://www.aemc.gov.au/about-us/mission-and-values>

Some stakeholders argue that emissions reduction is actually congruent with lower prices. Of course, if this is true, then not only is there no trade-off, but the price component of the existing objectives is sufficient to justify decisions that efficiently deliver emissions reduction.

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:

ENGIE considers that an economic efficiency framework is the best framework for adhering to the objectives. However, for the reasons set out above, we do not consider it allows for “balancing” an emissions reduction component. A qualitative assessment is unduly subjective, and a quantitative assessment requires explicitly valuing a unit of emissions reduction.

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:

Notwithstanding our concerns about the insertion of the objective, it is so high level that market bodies would need to develop guidance material to explain how they would incorporate it into their decision-making.

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:

This approach does neither. As noted above, it doesn't inform the appropriate trade-off between cost and emissions reduction. This is best achieved through a national government scheme. The safeguard mechanism provides this outside the electricity sector. Within the electricity sector, numerous schemes have been canvassed over the years, typically of the cap and trade or baseline and credit variety, but since the repeal of the Carbon Pollution Reduction Scheme (CPRS), it has not been possible to find sufficient political consensus to implement an enduring scheme. ENGIE recognises the frustration this has caused to many stakeholders, but it is no solution to attempt to devolve this decision to energy market bodies.

In other words, this is not the type of discretion that should be afforded to energy market bodies. There are already concerns amongst stakeholders regarding subjectivity in decision making and this will only heighten those concerns. Any decision by energy market bodies in this context will leave some stakeholders unhappy that it does not drive emissions reductions hard enough and others that it prioritises emissions over costs or other factors too much. Some will fixate on whether the decision supposedly “favours” some types of plant

over others. We have seen examples of this already in reform processes. The five-minute settlement rule change, which was deeply contested, but ultimately decided on the grounds of economic efficiency, was twisted by some stakeholders into a question of battery storage deployment (on the assumption that batteries' ability to charge and discharge very quickly would be a greater advantage under a shorter settlement period) and became a *cause celebre*. A complex and costly market reform was reduced to being pro- or anti- battery storage. More recently pragmatic decisions about the merits of a separate capacity payment to dispatchable generation became badged "Coalkeeper" even though the design criteria were always intended to be technology neutral and the problems it attempted to resolve now remain.

The introduction of an environmental objective will lead to more such campaigning on the presumed impact on one technology type or another, rather than whether it makes the market work more efficiently. In turn it will inexorably increase the risk of legal challenge and activism, predicated on claims that the emissions reduction objective has not been sufficiently taken into account in decision making. This risk will need to be managed, otherwise it will cause significant delays to energy market reforms just at the point at which timely reform is ever more important.

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:

How firm the targets are, e.g. legislated targets versus policy statements is not the only issue, as explained in Feedback 4. Both legislation and policy positions may change although the former are more stable and thus provide a much firmer foundation for decision-making if market bodies are specifically required to demonstrate alignment with targets.

Given change is not only possible but likely, an excessive focus on the specific current set of targets would constrain effective processes such as the ISP, which benefits from being able to consider a range of plausible future states.

In any case, the key targets are for emissions reduction overall and not for one specific sector. This is sensible, given that some activity may move between sectors. For example, transport emissions can already be reduced by switching to electric vehicles (EVs), and the progressive decarbonisation of the electricity sector will only increase the emissions advantage of EVs. So at an economy-wide level, policies to support the integration of EVs into the electricity grid will support decarbonisation. But by adding demand to the system, they will temporarily, and other things being equal, increase electricity sector emissions. So the risk of perverse outcomes by focussing unduly on sectoral emissions must be avoided.

At the extreme end, a government could set an arbitrary target for sectoral emissions reduction and then not trouble itself with the implications or what supporting policies would best help achieve the target, because it could just argue that the responsibility for achieving the target now rests with the energy market bodies. This undermines the governance arrangements for emissions reduction policies in which governments should be accountable for the implications of the targets they set.

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:

Interconnection between gas and energy markets have been a concern for market bodies for at least a decade. Indeed, this was initially triggered by expectations that emissions reduction policies would trigger a large increase in gas-powered generation (GPG). Given that didn’t eventuate, integration of these markets became a lower priority. In general, the key linkage is still via use of GPG, and ENGIE (an owner and operator of GPG) considers that meeting the NGO as currently worded is the best way to ensure GPG can access gas fuel and participate efficiently in the NEM.

The other question in the proposed change is whether in changing from “natural gas” and “electricity” to “energy” other energy vectors are implicitly brought under the objectives and what consequences that may have. It may be preferable to be specific about which energy vectors are being referenced and to explicitly add new vectors (e.g. hydrogen) as appropriate.

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:

While we don’t consider the change necessary, we do not consider it likely on its own to have material adverse consequences.

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:

ENGIE considers the same logic applies here as to question 6, and so we do not consider it a necessary change.

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: ENGIE is not aware of any electricity sector decisions that specifically undermined the national gas objectives (NGO), and so it is not clear that this is a problem that requires fixing.

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

Feedback 10:

No

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:

As a safeguard against the risks of legal activism that may arise if emissions reduction is put on the same footing as the existing components of the objectives, there are two alternative approaches that merit consideration:

- Allowing regulators and decision makers to include emissions in their considerations should be permitted but not mandatory.
- Making clear that reliability, security and cost should have priority over emissions given the many policies already dealing with emissions

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:

No

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:

N/a

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, given that emissions reduction is already factored into decision-making processes in a broad sense.

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:

The timing of implementation of any change to the objectives is not our primary issue. However, rushing through a change of this magnitude makes it more likely that adverse consequences will arise.

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:

ENGIE agrees that processes already under way when the amendments commence should not be affected.

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:

The same logic should apply to processes such as RIT-T/Ds. The modelling for such processes is typically intended to be predicated on expected changes in the system due to decarbonisation and other factors. So, there is an implicit recognition of emissions reduction in such processes.

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:

In general, it should be clear enough when a process is under way – i.e. an issues or consultation paper has been published to initiate the process. For network access arrangements and revenue determinations, the process may be initiated by the lodging of a business plan by the network.

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:

See previous responses above.

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:

The characterisations set out in the consultation paper neatly illustrate the issues ENGIE has raised above. For example, in the case of the AEMC’s rule-making it’s suggested that:

“being able to consider the benefits of emission reductions could result in changes to the preferred option, either as a whole or in relation to a specific design question or the timing of implementation, because those benefits are material in light of all the other costs and benefits of the proposed rule or recommendation”²

To assess the benefits of emissions reduction as material, the AEMC has to do one of two things

1. to make a qualitative assessment of the benefits and how they stack up against the other costs and benefits, which adds to the subjectivity of the decision, and appears evidently susceptible to challenge.
2. To carry out a quantitative cost benefit analysis, which entails both estimating the emissions reduction (or increase) caused by the rule and putting a value on each unit of emissions. As argued above, this is not an appropriate task for the market bodies.

² Consultation Paper, p17

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:

Yes, as explained above it could broaden the scope of market bodies' powers inappropriately, because it may oblige them to make a decision about the value of a unit of emissions reduction that ENGIE considers is properly the preserve of governments to make. In doing so it fundamentally changes the governance responsibility.