



Commonwealth-South Australia Bilateral Energy and Emissions Reduction Agreement

Memorandum of Understanding

Date 18 April 2021

This Memorandum of Understanding is dated

Parties

This Memorandum of Understanding is made between the following Parties:

- The Commonwealth of Australia (**the Commonwealth**)
- The State of South Australia (**the State**)

Context

- A. This Memorandum of Understanding (**MoU**) sets out the objectives and actions that will be delivered through a collaborative partnership between the Commonwealth and the State in relation to boosting South Australia's interconnection with the National Electricity Market (NEM), improving energy security, reliability and affordability, and achieving cost-effective emissions reduction.
- B. Many of these actions will support economic recovery from the impacts of the COVID-19 pandemic, as they will contribute to lower costs for consumers and business. Actions will be designed to reinforce these objectives, where relevant.
- C. This MoU has been drafted to achieve the objectives of:
 - 1. Improving the NEM framework to encourage more investment in dispatchable generation;
 - 2. Increasing electricity and gas supply in South Australia;
 - 3. Reducing energy costs by supporting investment in new transmission, improving competition and helping users to improve their energy efficiency;
 - 4. Supporting industry transition for energy intensive, trade exposed industries, and encourage low emissions export opportunities;
 - 5. Pursuing the development of innovative, low-emission technology, including hydrogen; and
 - 6. Achieving emissions reductions by working collaboratively on emissions reduction actions.
- D. The purpose of this MoU is to record the Parties' agreement on the objectives and actions that will be achieved through this arrangement.

1. Interpretation

- 1.1 This MoU is not intended to be, and is not, a legally binding or enforceable document.
- 1.2 The Commonwealth and the State will act and cooperate in good faith in accordance with the terms of this MoU and consistent with its spirit and intention.

2. Term

- 2.1 Unless ended by either Party in accordance with clause 2.2, this MoU commences on the date on which it is signed by both Parties and will continue until 2030, or when Parties agree in writing that all objectives and actions outlined in this MoU have been completed, or by any other mutual agreement.
- 2.2 The Parties may end the arrangements in this MoU by written agreement.
 - a. Either Party may notify its intention to end the arrangements in this MoU by giving written notice to the other Party.
 - b. If notice is given under clause 2.2.a, the end date of the arrangements in this MoU will be negotiated between the Parties within a period of 14 calendar days or as otherwise agreed between the Parties.

3. Agreement

- 3.1 The Parties acknowledge that this MoU records their expectations, understanding and responsibilities as at the date of the MoU, but does not give rise to legally enforceable obligations.
- 3.2 Each Party will:
 - a. Do all things necessary or desirable to give full effect to the arrangements contained or implied in the Implementation Schedules to this MoU;
 - b. Promptly advise the other of any issue or circumstance that arises that may impact on the Party's ability to implement the actions set out in the Implementation Schedules to this MoU; and
 - c. Promptly disclose to the other, any interest (other than as a Party to this MoU) it has or acquires, which is or may be different to the interest of the other Party in connection with this MoU.
- 3.3 The MoU is not intended to affect:
 - a. Any existing Federation Funding Agreements between the State and the Commonwealth; or
 - b. Any other existing arrangement between South Australia and the Commonwealth.
- 3.4 Nothing in this MoU places any obligations on the Commonwealth or State if those obligations would not be supported by constitutional or legislative authority.

4. Implementation Schedules

- 4.1 The Implementation Schedules will specify the objectives, actions and, where applicable, timeframes that both Parties agree to pursue to give effect to the overarching objectives (clause C on page 1) of this MoU.
- 4.2 The following Implementation Schedules have been included in this MoU:

- a. Schedule A: Governance of this MoU;
- b. Schedule B: Funding, project summary and reporting;
- c. Schedule C: Interconnection;
- d. Schedule D: Gas;
- e. Schedule E: Emissions reduction;
- f. Schedule F: Generation and Storage; and
- g. Schedule G: National regulatory and policy governance.

5. The Parties' Responsibilities

- 5.1 The Parties will:
- a. Work together to achieve the objectives and actions outlined in the Implementation Schedules;
 - b. The State will be responsible for the procurement, selection and performance of any consultants or any other contracts or arrangements required to implement actions identified as the State's responsibility outlined in Implementation Schedules;
 - c. Regularly share progress and updates on implementing actions identified in Implementation Schedules;
 - d. Invite each other to attend meetings in relation to implementing the actions identified in Implementation Schedules, as required; and
 - e. Use all reasonable endeavours to respond promptly to any reasonable enquiries.

6. Funding

- 6.1 Unless otherwise stated in this MoU, or otherwise agreed by the Parties, anything a Party will do under this MoU will be done at that Party's cost.

7. Variation

- 7.1 Any variation to this MoU will be in writing and signed by both Parties.

8. Notices

- 8.1 The Parties agree they will reduce to writing all formal communications between them in relation to their responsibilities and obligations under this MoU.

- 8.2 Unless notified otherwise, the Commonwealth's address for notices is:

Physical Address: Department of Industry, Science, Energy and Resources
51 Allara Street, Canberra. ACT, 2601
Postal Address: GPO Box, Canberra, ACT 2601
Phone number: 02 6213 6000

- 8.3 Unless notified otherwise, the State's address for notices is:

Physical Address: Department for Energy and Mining
Postal Address: 11 Waymouth St, Adelaide, SA 5000
Phone number: (08) 8463 3000



Signatures

SIGNED for and on behalf of the)
Commonwealth of Australia by the)
Prime Minister:)

18 April 2021

The Honourable Scott Morrison MP
Prime Minister of the Commonwealth
of Australia

Date

SIGNED for and on behalf of the)
State of South Australia by the)
Premier:)

18 April 2021

The Honourable Steven Marshall MP
Premier of South Australia

Date

Schedule A: Governance of this MoU

1. Agenda

- 1.1 The Commonwealth and the State (the Governments) will work cooperatively and in good faith to implement the terms of this MoU.

2. Actions

- 2.1 The Commonwealth will lead implementation of an appropriate governance structure to support the objectives of this MoU.
- 2.2 The Governments will appoint an Agreement Implementation Committee ('Implementation Committee'), which will be responsible for implementing this MoU.
- 2.3 The Implementation Committee will consist of representatives from both Governments.
- 2.4 The Implementation Committee will establish a Terms of Reference, which will guide, inter alia, the frequency of meetings, communications protocols, roles and responsibilities and reporting to Ministers.
- 2.5 The Committee will report to the responsible Ministers from each Government, and the relevant Government officials will be of equal number from each Government.
- 2.6 Each Government will appoint a co-chair of the Committee.
- 2.7 The Governments agree to a review of the MoU at the end of Q2 2022, and in the second half of 2024, unless otherwise varied by agreement between both Parties.

Schedule B: Funding, Project Summary and Reporting

1. Agenda

- 1.1 The Commonwealth and the State (the Governments) will provide funding as outlined in this Schedule.
- 1.2 Commonwealth investment will be sourced from existing funding mechanisms including Clean Energy Finance Corporation (CEFC), Australian Renewable Energy Agency (ARENA), Emissions Reduction Fund (ERF) and the Climate Solutions Fund (CSF). Where a project is unable to be supported through existing Commonwealth mechanisms but will deliver on the objectives of the MoU and contribute to post COVID-19 recovery, the Commonwealth may consider alternative sources of funding.
- 1.3 Projects submitted to Commonwealth agencies will be assessed according to the guidelines, policies, legislation and any other criteria guiding those mechanisms.
- 1.4 Consideration of projects will include the potential for any adverse environmental, social or economic impact, and contribute to Australia's emissions reduction targets and align with the Technology Investment Roadmap.
- 1.5 The Commonwealth contribution to emissions reduction projects funded through the MoU will achieve low cost and cost effective abatement. All abatement counts towards Australia's Paris target and all projects funded in South Australia through the CEFC, ARENA, CSF, ERF and any other sources of direct investment count towards the Commonwealth's contribution from commencement of this MoU.
- 1.6 The Governments will work together to address barriers to success for eligible proponents in South Australia.

2. Actions

Commonwealth Contribution

- 2.1 The Commonwealth will allocate \$300 million to South Australian emissions reduction and energy activities to be funded from the CSF, ERF and where appropriate ARENA, consistent with the legislation underpinning those mechanisms. In addition, the Commonwealth will target a further \$100 million from the CEFC or ARENA (with a preference for the latter) for projects that align with priorities identified by both Governments.
- 2.2 Any projects with verifiable emissions reduction funded through these mechanisms will be included in the Commonwealth's contribution. Ministers will agree yearly priorities and the chair responsible for each mechanism will report on how they are meeting these objectives.
- 2.3 The Commonwealth has included \$100 million for the Strzelecki Track upgrade as part of the Federal 2020-21 Budget.
- 2.4 In addition, the Commonwealth agrees to retain its previous Budget commitment of up to \$110 million of concessional finance support for a solar thermal project at Port Augusta. The Commonwealth will work with the State to identify and consider appropriate solar thermal and other energy storage projects in South Australia.

South Australian Contribution

- 2.5 The State will allocate \$300 million to support emissions reduction activities in South Australia, and use best endeavours to secure additional private sector investment in projects.
- 2.6 The State will set a target to inject at least an additional 50PJ of gas each year into the east coast market by the end of 2023, with a stretch goal of an additional 80PJ per year by 2030.
- 2.7 The State will provide \$35 million towards the sealing of the Strzelecki Track (as per Schedule D).
- 2.8 The State will provide \$37 million to upgrade export infrastructure at Port Bonython in anticipation of it becoming a hydrogen export hub (as per schedule E).

Joint contributions

- 2.9 The Governments will (as per Schedule C), on a 50/50 basis, jointly underwrite appropriate early works already underway and those required to be undertaken to ensure the Project EnergyConnect project can continue to progress towards energization of Stage 1 by Q4 2022, at the earliest. The maximum amount of Commonwealth liability will not exceed \$50 million.
- 2.10 The Governments will collaborate on further seismic studies in the Otway Basin to better define gas resource potential.

Reporting

- 2.11 The Governments will work together to develop a suitable Reporting Framework, which includes public facing communications.
- 2.12 Successful projects will be subject to progress tracking and reporting against the funding targets outlined at Schedule B of this MoU. A quarterly project progress report to the Commonwealth Minister for Energy and Emissions Reduction and the South Australian Minister for Energy and Mining will be coordinated by the Commonwealth.

Schedule C: Interconnection

1. Agenda

- 1.1 The Commonwealth and the State (the Governments) jointly recognise the importance of a strong cost-benefit analysis for proposed network upgrades to ensure that any costs passed onto consumers are necessary and proportionate.
- 1.2 The Governments note the benefits of Project EnergyConnect for energy affordability, reliability and security in South Australia.
- 1.3 The Governments will work together to make sure relevant Integrated System Plan projects are delivered within Australian Energy Market Operator's (AEMO) recommended timeframes.

2. Actions

- 2.1 The Governments will work together to ensure the transmission planning and approvals process remains fit for purpose, balancing the need for rigorous cost benefit analysis while considering all benefits and without being unnecessarily onerous, and is able to deliver strong investment and consumer outcomes. This includes using best endeavours to appropriately integrate the AEMO Integrated System Plan with the Regulatory Investment Test for Transmission (RIT-T) process.
- 2.2 The Commonwealth will provide underwriting to support the delivery of Project EnergyConnect, as described at clauses 2.3 and 2.4 of this Schedule.
- 2.3 The Governments will, on a 50/50 basis, jointly underwrite appropriate early works already underway and those required to be undertaken by TransGrid and ElectraNet to ensure the project can continue to progress towards energization of Stage 1 by Q4 2022 at the earliest while TransGrid and ElectraNet seek final regulatory approval and financial investment decisions, whilst maximising local benefits.
- 2.4 The maximum amount of the Commonwealth's underwriting support will not exceed \$50 million.
- 2.5 The Governments agree that any underwriting agreement for Project EnergyConnect will contain appropriate governance arrangements, including regular reporting requirements on the project.
- 2.6 The Governments commit to establishing a key Project EnergyConnect working group that will enable ongoing collaboration through the projects development.
- 2.7 The State commits to the delivery of Project EnergyConnect.
- 2.8 The Governments will use best endeavours to ensure that relevant priority transmission projects, such as Project EnergyConnect, are delivered in accordance with the AEMO Integrated System Plan.

Schedule D: Gas

1. Agenda

- 1.1 National energy security is about ensuring Australians have the energy services needed to meet their social, economic and environmental objectives. The Commonwealth is committed to providing a reliable and affordable supply of gas to Australians.
- 1.2 The Commonwealth and the State (the Governments) will work together ensure that South Australia contributes to more abundant and low cost gas for domestic users to help support economic recovery from COVID-19 and lower power prices, whilst helping reduce fugitive emissions from gas production.
- 1.3 The Commonwealth Government has announced a \$52.9 million Gas Fired Recovery package as part of the Federal 2020-21 Budget which focuses on three key areas across the gas supply chain: unlocking supply; delivering efficient transportation; and empowering consumers.

2. Actions

General provisions

- 2.1 The State will set a target to inject at least an additional 50PJ of gas each year into the east coast market by the end of 2023, with a stretch goal of an additional 80PJ per year by 2030.
- 2.2 The State will continue to facilitate, within its established rules and limitations, investment opportunities for any new gas infrastructure needed to reach the agreed gas target, including through Project EnergyConnect.
- 2.3 The State has announced guaranteed work programs worth \$59 million in new exploration area releases in the Cooper and Otway Basins.

Regulatory

- 2.4 The State commits to continuous improvement of its framework for oil and gas, and will report to the Commonwealth by Q4 2021 on actions taken, including options to reduce fugitive emissions from production in South Australia.
- 2.5 The Governments agree to continually improve regulatory settings to support new gas exploration and development.
- 2.6 The State commits to undertaking a review and identify opportunities to reduce red tape for regulatory assessments and more effectively implement 'use it or lose it' provisions in its onshore retention lease (or equivalent) regulatory regime and processes.
- 2.7 The Governments agree to work together to enhance gas pipeline regulation and gas market transparency through the Energy National Cabinet Reform Committee.

Projects in the Cooper Basin

- 2.8 The Governments will work with producers in the Cooper Basin and across South Australia to target sustained production at \$30 per barrel and below.
- 2.9 The State has committed \$35 million towards the sealing of the Strzelecki Track to support improved production and lower cost in the Cooper Basin.
- 2.10 The Commonwealth has included \$100 million for the Strzelecki Track upgrade as part of the Federal 2020-21 Budget.

Projects in the Otway Basin

- 2.11 The Governments will work with producers in the Otway Basin to support private sector aspirations to achieve a step-change in conventional gas production in the Otway. The Governments to collaborate on seismic testing in the Otway Basin to better define gas resource potential.
- 2.12 The Governments will subsequently consider a private sector business case for additional compression in the Otway Basin.

Gas Market Review

- 2.13 If the projects outlined in this schedule do not proceed, or are not tracking to inject at least an additional 50 PJs of gas into the east coast market per year by the end of 2023, the Governments will, in Q2 2022, review the agreement together to identify:
 - a. Any barriers to bringing on new gas supply; and
 - b. Any additional actions or projects required to achieve the supply target.

Schedule E: Emissions Reduction

1. Agenda

- 1.1 The Commonwealth is committed to the global goals of the Paris Agreement, and to achieving our emissions reduction targets. The Commonwealth's policies and measures support the adoption of transformational low-emission technologies and drive economic growth.
- 1.2 The Commonwealth's \$1.9 billion investment package announced in the 2020-21 Budget will back new and emerging technologies to lower emissions.
- 1.3 These measures build on the Commonwealth's policies to reduce emissions including the Emissions Reduction Fund and the Climate Solutions Package.
- 1.4 The Climate Solutions Fund will be deployed to continue purchasing low cost abatement through the Emissions Reduction Fund and support the adoption of new and emerging low emissions technologies.
- 1.5 The Commonwealth's Technology Investment Roadmap brings a strategic and system wide view to future investments in low emissions technologies. The Low Emissions Technology Statement and Technology Investment Roadmap will be a cornerstone of Australia's Long Term Emissions Reduction Strategy to be delivered ahead of COP26.
- 1.6 The State is aiming for more than 50 per cent reduction in emissions by 2030 from 2005 levels and net-zero emissions by 2050. The State is also aspiring to reach net 100 per cent renewables by 2030.
- 1.7 The Commonwealth has announced a Future Fuels Package to support businesses to adopt new vehicle technologies. The State released an Electric Vehicle Action Plan in 2020.
- 1.8 The Governments will jointly recognise the National Hydrogen Strategy and the State's Hydrogen Action Plan as the vehicles to implement national and state objectives for developing new hydrogen opportunities. Hydrogen activities will be advanced consistent with agreed Strategy actions.
- 1.9 The Governments will provide funding for projects that can achieve the following objectives:
 - a. Capturing the jobs, economic growth and cost of living benefits from emissions reduction activities over the next decade;
 - b. Maximising the emissions abatement delivered by those investments to meet Australia's commitments under the Paris Agreement; and
 - c. Investing in innovative technologies and services needed to reduce emissions beyond 2030.

2. Actions

- 2.1 The Governments will work together to enable technology-based investments for the State.
- 2.2 The Commonwealth will consider a range of technology initiatives to support, including:
 - a. A focus by the Commonwealth on projects that align with the Low-Emissions Technology Statements; and
 - b. A focus by the State on renewable electricity, electric transport and hydrogen projects in particular.

- 2.3 The Governments have identified the following priority areas of investment for consideration in accordance with the Commonwealth's \$400 million funding contribution outlined in Schedule B, noting this clause does not limit the type of projects that the State could put forward for consideration under the CSF, ERF, ARENA and/or CEFC:
- a. Carbon capture and storage;
 - b. Electric vehicle and other transport projects;
 - c. Hydrogen projects;
 - d. Negative emissions technologies and low emissions agriculture;
 - e. Increased waste reduction, reuse and recycling to reduce waste emissions
 - f. Low emissions infrastructure and construction, including materials, technologies and processes; and
 - g. Other projects.

Carbon Capture and Storage

- 2.4 The Governments will support lower emissions, including:
- a. Fugitive emissions monitoring and reduction, including carbon capture and storage; and
 - b. Low-emissions mining and industry, including low carbon materials and technologies.
- 2.5 The State will undertake regulatory reform to make the State "CCS-ready" and ensure that private sector carbon capture and storage projects are able to occur in the State in 2021.
- 2.6 The State will also use best endeavours to remove regulatory barriers to carbon capture and storage projects.

Electric Vehicle projects

- 2.7 The Governments will collaborate on key electricity grid integration initiatives that could reduce barriers to electric vehicle uptake and reduce electricity costs.
- 2.8 The Commonwealth will work with the State through the ARENA, CEFC and other relevant Commonwealth bodies to identify opportunities to consider support for South Australian-based projects that contribute to the State's development of a comprehensive electric vehicle charging network and increase the use of new vehicle technology, including:
- a. Bringing forward a state wide public charging network;
 - b. Catalysing uptake of new vehicle technology including in fleets and public transport in South Australia; and
 - c. Supporting smart charging technology.

Hydrogen projects

- 2.9 The Governments will work together on enabling technology-based investments and opportunities to unlock and incentivise available abatement, particularly the development of hydrogen hubs and new emerging low emissions technology to underpin new export and domestic opportunities.
- 2.10 The Commonwealth will support eligible South Australia-based hydrogen projects through existing funding mechanisms, including through ARENA and CEFC.
- 2.11 The Commonwealth will ensure there are no unreasonable barriers to the success of eligible South Australian projects through these bodies.

- 2.12 The Governments will work together to advance opportunities for hydrogen and its derivatives (such as ammonia) at identified potential hydrogen hubs in South Australia, consistent with the National Hydrogen Strategy and South Australian Hydrogen Action Plan.
- 2.13 The Commonwealth will work together with South Australia to develop international export opportunities for hydrogen and its derivatives (such as ammonia) made in South Australia, consistent with the National Hydrogen Strategy.
- 2.14 The State has committed \$37 million to upgrade export infrastructure at Port Bonython in anticipation of it becoming a hydrogen export hub.
- 2.15 The Governments will look at options for further assessment, collaboration and streamlining of regulatory processes for faster adoption of emerging hydrogen technologies, while remaining consistent with regulatory related actions agreed under the National Hydrogen Strategy.

Other projects

- 2.16 The Governments will work together to reduce emissions and increase participation in the ERF, including:
 - a. Potential development of new methodologies subject to eligibility;
 - b. Potential demonstration projects to support the development of new methodologies, such as Blue Carbon, and
 - c. Using innovative approaches, including in measurement and accounting, and promoting the development of low and negative emissions technologies that support sustainable agricultural practices and reduce emissions.
- 2.17 The State will propose projects that enhance South Australia's capacity to contribute to national emissions reduction targets in line with priority areas. This may involve innovative approaches which provide verifiable abatement and demonstrate opportunities to continually improve and expand participation in the ERF.

Schedule F: Generation and Storage

1. Agenda

- 1.1 The Commonwealth is committed to lowering electricity prices and increasing reliability and security in the energy system.
- 1.2 The Commonwealth will establish a \$1 billion Grid Reliability Fund (GRF) to be administered by the CEFC, which will focus on increasing the affordability, reliability and security of electricity supply. Its actions may include funding transmission projects.
- 1.3 The Commonwealth and the State (the Governments) will work with ARENA and CEFC to consider a range of energy security initiatives to support, including:
 - a. Integration of distributed energy resources;
 - b. Further development of home and grid storage;
 - c. Smart technology and standards;
 - d. Development of a smart electrified transport sector;
 - e. Storage projects; and
 - f. Pumped hydro projects.

2. Actions

- 2.1 The Commonwealth previously committed up to \$110 million to a solar thermal project at Port Augusta, which subsequently did not continue. In accordance with Schedule B, the Commonwealth agrees to reserve this previously committed financing, and will jointly with the State identify and consider solar thermal and other storage projects in South Australia.
- 2.2 The Governments will seek to support a pumped hydro energy project where feasible in South Australia. This may include support through other mechanisms listed in this MoU such as finance for energy storage and through the Underwriting New Generation Investments (UNGI) program where feasible and appropriate.
- 2.3 The Commonwealth will prioritise engagement with reliable generation projects through its UNGI program and will ensure all South Australian projects shortlisted under phase one are assessed in a timely manner.
- 2.4 South Australian projects will be considered for GRF funding, subject to CEFC funding criteria. The fund will focus on projects where there is State or Territory policy alignment or financial support for this objective, and for delivery of the Commonwealth's energy policy objectives and targets.

Schedule G: National Regulatory and Policy Governance

1. Agenda

- 1.1 The Governments agree to work co-operatively through existing national governance frameworks to achieve national policy objectives in energy affordability, energy security and emissions reduction.
- 1.2 Energy Ministers are already working to progress reforms to the NEM, to secure Australia's energy security and affordability as the market transitions.
- 1.3 A nationally consistent approach to policy governance and regulation is preferred to ensure energy affordability, energy security and emissions reduction policies work together to achieve results.
- 1.4 Unlocking abatement across the economy is critical for Australia to reduce emissions and continue to meet and beat its emissions reduction targets, including its 2030 Paris commitments – there is potential to unlock abatement above and beyond our 2030 emissions reduction target, but all abatement must be accurately calculated and reported through a nationally consistent framework.
- 1.5 The Parties agree the Commonwealth is solely responsible for setting national emissions reduction targets, and that the State is solely responsible for setting state emission reduction targets.

2. Actions

- 2.1 The Commonwealth has established a Deregulation Taskforce to examine and address regulatory barriers to investment. The State has agreed to work collaboratively with the Commonwealth to identify regulations and administrative processes that have the highest regulatory burdens on key sectors of the economy.
- 2.2 The Governments will use best endeavours to improve the connection process for new generators in the NEM.
- 2.3 The Governments will use best endeavours to expedite recommendations 8.3-8.5 of the *Report of the Expert Panel examining additional sources of low cost abatement* ("the King Review" as available on www.industry.gov.au from time to time) through Energy Ministers.
- 2.4 The Commonwealth will provide detailed annual data for the South Australia electricity sector by the end of November each year from Australia's official National Greenhouse Accounts, incorporating the latest data from the National Greenhouse and Energy Reporting Scheme.
- 2.5 The State will ensure existing and future state-based emissions reductions projects, programs and initiatives assist the Commonwealth to demonstrate Australia's progress under the Paris Agreement.
- 2.6 The State will work with the Commonwealth and other jurisdictions to develop nationally consistent emissions accounting and reporting practices.
- 2.7 The Governments will work together to ensure that voluntary emissions reduction programs and certifications deliver additional abatement and are appropriately accounted for following national and international emissions accounting best practice.