

Consultation on Reliability Panel guide to applying the emissions component of the national electricity objective

We are consulting on a draft guide to applying the emissions component of the NEO

Energy Ministers have approved an update to the National Electricity Objective (NEO) which embeds emissions reduction as part of the long-term interests of electricity consumers.¹ This will affect the Reliability Panel (Panel), as the Panel can decide or is otherwise required to consider the NEO in undertaking its work. To support the Panel's work, the Panel has developed the attached draft guide on applying the updated objective.

The Panel would like your feedback on this draft guide. Submissions are due by **18 August 2023**.

This document sets out:

- Purpose of the guide
- Questions and how to provide feedback
- Next steps on the guide
- Background and context:
 - Background on changes to the NEO
 - Information on concurrent consultations and upcoming related publications
- Appendix: Text of the guide

The guide will help the Panel apply the updated NEO

The Panel will use this guide when applying the emissions reduction component of the updated NEO, alongside the other considerations in the NEO, to the Panel's determination and review processes.

The Panel also developed this guide to help stakeholders understand what the changes to the NEO will mean for the Panel's new and existing projects.

Questions for stakeholders and how to provide feedback

We would like stakeholder feedback on the attached guide. In particular:

- Does the guide clearly explain how the Panel will consider the new emissions reduction component in its work?
- Would further guidance on any aspects of the Panel's approach to the updated NEO be helpful?
- Are there any additional factors that are unique to the Panel, which should be taken into account when applying the NEO and the AEMC's guidance on emissions to specific Panel determination and review projects?

¹ For further information, please see the Department's webpage [Incorporating an emissions reduction objective into the national energy objectives](#). The changes to the NEO are set out in the [Statutes Amendment \(National Energy Laws\) \(Emissions Reduction Objectives\) Bill 2023](#).

The guide aims to help the Panel follow these principles of good regulatory practice in applying the emissions objectives in its determination and review work:

- Predictability and stability
- Simplicity and transparency
- Consideration of the broader direction of reforms

Please consider these principles when providing your feedback on the guide.

Submissions are due by 18 August 2023. You can lodge a submission online via the AEMC's website, www.aemc.gov.au, using the "lodge a submission" function under the "Contact Us" tab, and selecting the project reference code REL0089.² Alternatively, you can include comments on the Panel guide in your submission on the AEMC guide, under project reference code CRP0159.

The Panel will publish submissions on the AEMC website. However, the Panel will not publish materials that are confidential or inappropriate (for example offensive or defamatory content, or content that is likely to infringe intellectual property rights).

Next steps

Taking into account your feedback, the Panel will finalise and publish the guide shortly after the law amending the NEO is passed. This is expected to occur later this year.

The Panel may revise this guidance as necessary in the future.

Background on changes to the NEO

In 2022 Energy Ministers agreed to update the NEO (as well as the national gas and energy retail objectives) to refer to emission reductions. The wording of the updated objectives was agreed upon in May 2023, and the [Emissions Reduction Objectives Bill](#) was introduced into South Australian Parliament in June. The Bill is expected to pass later this year.

The Bill amends the NEO to include:

"the achievement of targets set by a participating jurisdiction –

- i. for reducing Australia's greenhouse gas emissions; or
- ii. that are likely to contribute to reducing Australia's greenhouse gas emissions."

Incorporating emissions reduction into the NEO means energy market bodies, including the Panel, will need to balance emissions reduction with the existing considerations of price, quality, safety, reliability and security in applying the NEO.

Context: Concurrent consultations and upcoming related publications

Below is an overview of other consultations underway and upcoming publications on the implementation of the new objectives.

[The AEMC guide to applying the emissions component of the national energy objectives](#)

The AEMC is consulting on its guide on how it will apply the emissions component of the national energy objectives to its work on rule changes and reviews. The AEMC's consultation

² Tips for making submissions are available on our website, at <https://www.aemc.gov.au/our-work/changing-energy-rules-unique-process/making-rule-change-request/submission-tips>

paper was published on 24 July and can be found on the [AEMC's website](#). Submissions to the AEMC's consultation paper will close on 18 August.

Value of emissions reduction

The law changes to include an emissions reduction component in the national energy objectives will create a need for a value of emissions reduction as a tool for use in processes such as regulatory investment tests and investment planning frameworks. The Commonwealth Government will lead work on developing a value, or method for determining one, in close consultation with market bodies, states and territories. The value or approach is expected to be available by November 2023.

Australian Energy Regulator (AER) consultation

The AER is also consulting on guidance on how it will consider whether to apply the amended energy objectives to processes underway, along with how it will operationalise those objectives in the current round of electricity network determinations. Its consultation paper was published on 24 July, and can be found on the AER's website.

Harmonising rule changes

The AEMC is also currently consulting on two rule change requests seeking to harmonise key provisions of the national energy rules with the updated objectives.

Energy senior officials on behalf of the Ministerial Council on Energy (as constituted by the Energy Ministers Sub-group) submitted the rule change requests on 4 July 2023, which cover three categories of priority amendments to give effect to the updated objectives and provide clarity on the treatment of emissions reductions:

1. Rules for network/pipeline expenditure proposals and assessment (rule change 1)
2. Rules for electricity network planning and investment frameworks (rule change 2)
3. Rules to enable a streamlined process for updating AER statutory guidelines, guidance documents and instruments to reflect the updated energy objectives (rule change 2).

The consultation paper covering both rule changes was published on 20 July, and can be found on the AEMC website. Submissions are due by 17 August.

Targets statement

The Emissions Reduction Objectives Bill requires the AEMC to develop a targets statement that lists government emission reduction targets the market bodies, including the Panel, should consider when applying the updated objectives.

The targets statement will cover two key types of target in accordance with the provisions of the Bill:

- Targets for reducing Australia's greenhouse gas emissions
- Targets likely to contribute to reducing Australia's greenhouse gas emissions. (These may include targets relating to renewable energy and electrification, for example.)

The AEMC intends to publish the initial targets statement when the changes to the objectives take effect. It will be updated as required. Energy ministers can direct the AEMC to include a target in, or remove a target from, the targets statement.

Appendix: Reliability Panel guide to applying the emissions component of the NEO – consultation draft

The Reliability Panel (Panel) forms part of Australian Energy Market Commission's (AEMC) institutional arrangements and has detailed functions and powers conferred on it within the National Electricity Law (NEL). It is the responsibility of the Panel to monitor, review and report on the safety, security, and reliability of the national electricity system and perform any other functions or powers given to it under the NEL or National Electricity Rules (NER).

The Panel is comprised of members who represent a range of participants in the National Electricity Market, including small and large consumers, generators, network businesses, retailers, and AEMO.

The Panel applies the national electricity objective (NEO) in its work in accordance with the NER and as specified in terms of reference from the AEMC.³ This includes the Panel's work on the [reliability standard and settings](#), the [frequency operating standards](#), and the system restart standard, among other projects.

The Panel supports the upcoming change to the NEO to include government emission reduction targets. This document sets out how the Panel proposes to apply the emissions component to its work.

1. What are the changes to the NEO?

A new emissions component (shown in italics below) will be added to the existing NEO:

"The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to –

- (a) price, quality, safety and reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system; *and*
- (c) *the achievement of targets set by a participating jurisdiction—*
 - i. *for reducing Australia's greenhouse gas emissions; or*
 - ii. *that are likely to contribute to reducing Australia's greenhouse gas emissions."*

Note: This is based on the [version of the Emission Reduction Objectives Bill introduced into South Australian Parliament on 14 June 2023](#). We will update this guidance if there are any changes when the Act is passed.

Participating jurisdictions include the Commonwealth and all States and Territories other than Western Australia.

The AEMC will publish a list of relevant government targets, which may include targets relating to renewable energy and electrification as well as direct emission reduction targets.

Energy ministers [agreed the change to the NEO in May 2023](#) and the law change is expected to be passed later this year. The new NEO will take effect for the Panel two

³ The AEMC may give the Panel terms of reference in relation to specific Panel determinations and reviews under clause 8.8.3 of the National Electricity Rules (NER). Terms of reference outline the scope of the Panel's determination or review, and commonly include a requirement to consider the NEO. In addition, the NER specify that the Panel must have regard to the NEO in relation to specific tasks, eg clause 8.8.3 in relation to the system restart standard and clause 8.8.4 in relation to protected event declarations.

months later, towards the end of 2023.⁴

2. The new emissions component of the NEO is one of several considerations the Panel will balance

The emissions reduction component will become one of a number of components (alongside price, quality, safety, reliability, and security of supply) that the Panel will consider and will have the discretion to balance in making its decisions.

The Panel will consider and balance the emissions reduction component alongside the existing components of the NEO, in a way that promotes the long-term interests of electricity consumers overall.

3. Where relevant, the Panel will consider the impact of its recommendation or determination on the ability to meet emissions reduction targets

Where the Panel has decided or is otherwise required to consider the NEO in making a recommendation or determination, the Panel will consider impacts on emissions reduction targets with reference to any government guidance and AEMC guidance. The AEMC will publish its [guide to applying the emissions objective](#) after the changes to the NEO take effect and may also publish further materials on estimating emission reduction volumes.

This approach is consistent with the NER, which requires that, in undertaking any review and preparing any report and recommendation, the Panel must take into consideration the policy statements, directions, or guidelines published by the AEMC from time to time (clause 8.8.3).

However, the Panel will retain the flexibility to determine how to apply the AEMC's guidance on emissions to specific Panel reviews and determinations. The Panel may use a range of qualitative and quantitative techniques to assess the likely emissions reduction benefits and costs of its recommendations and determinations.

4. Discretion to apply the emissions objective to existing projects

The Panel can choose whether to apply the updated NEO to existing projects.⁵

The Panel has decided to consider the updated NEO for each relevant Panel project – both existing and new – from the time the change to the NEO takes effect for the Panel.

This will not necessarily mean a change of direction for the one or two Panel projects that may be on foot when the NEO change takes effect – the [Review of the form of the reliability standard and](#) potentially AEMO's application to [revoke the Protected Event declaration in South Australia](#). We will consult on the impact of the emissions considerations as part of our normal consultation processes for these projects.⁶

⁴ [Statutes Amendment \(National Energy Laws\) \(Emissions Reduction Objective\) Bill 2023](#) section 8.

⁵ [Statutes Amendment \(National Energy Laws\) \(Emissions Reduction Objective\) Bill 2023](#) section 8.

⁶ For the Review of the form of the reliability standard, the Panel will publish a Directions Paper in August 2023. For the Protected Event declaration, the Panel may complete its final determination in October, before the change to the NEO takes effect for the Panel.