Australian Government
Department of Climate Change, Energy, the Environment and Water

Ms Anna Collyer
Chair
Australian Energy Market Commission
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Dear Ms Collyer

Tranche 1 rule change request: network/pipeline expenditure proposals and assessment

Tranche 2 rule change request: network investment planning frameworks and the Australian Energy Regulator regulatory instruments revisions

As you would be aware, on 19 May 2023 Energy Ministers agreed to the final bill to incorporate an emissions reduction objective into the national energy objectives. At the same time, Energy Ministers agreed to expedite priority consequential rule changes that are needed to operationalise the amended energy objectives.

On behalf of Energy Senior Officials, I am submitting two rule change requests (see attached). I understand officials have been working closely with the AEMC to develop the rule change requests and would like to thank the AEMC for the close, cooperative relationship. I endorse these rule change requests and ask the AEMC to progress with their initiation.

Yours sincerely

Simon Duggan
Deputy Secretary, Department of Climate Change, Energy, Environment and Water

Chair of the Energy Senior Officials Group

3 July 2023

Rule change request

Priority rule changes to support the incorporation of an emissions reduction component into the National Energy Objectives - Network Investment Planning Frameworks and the Australian Energy Regulator Regulatory Instrument Revisions

Name of rule change proponent

Energy Senior Officials on behalf of the Ministerial Council on Energy

Address of rule change proponent

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Introduction – priority rule changes

On 12 August 2022, Energy Ministers (**Ministers**) (acting as the Ministerial Council on Energy (**MCE**)) agreed to fast track the introduction of an emissions reduction component into the National Energy Objectives (**energy objectives**), as a first action under the National Energy Transformation Partnership.

Box1: Revised wording of the National Energy Objectives

The National Electricity Objective revised wording will be:

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:

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

The National Gas Objective revised wording will be:

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

- price, quality, safety, reliability and security of supply of natural gas.
- the achievement of targets set by a participating jurisdiction—
    - for reducing Australia's greenhouse gas emissions; or
    - that are likely to contribute to reducing Australia's greenhouse gas emissions.

The National Energy Retail Objective revised wording will be:

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

- price, quality, safety, reliability and security of supply of energy; and
- the achievement of targets set by a participating jurisdiction—
    - for reducing Australia's greenhouse gas emissions; or
    - that are likely to contribute to reducing Australia's greenhouse gas emissions.

This decision recognised the need to integrate emissions reduction and energy policy in the national energy laws (see Box 1), and enable Australia's energy market bodies – the Australian Energy Market Commission (**AEMC**), the Australian Energy Market Operator (**AEMO**) the Australian Energy Regulator (**AER**) and the Economic Regulation Authority in Western Australia (**ERA**)[1] to explicitly consider emissions reduction in how they undertake their respective powers and functions. Also, market participants and other entities regulated under the national energy laws that are required to take into account the energy objectives will

[1] The *National Gas Access (WA) Act 2009* confers the functions of the AER to the ERA in Western Australia. From here on, any reference to the AER should be read as the ERA in a Western Australian context.

now also need to consider emissions reduction, where relevant. For the avoidance of doubt, the purpose of amending the energy objectives was not to require AEMO to consider emissions reduction in its administration of wholesale energy markets, including real-time dispatch. Ministers recognised that to do so could have had unintended consequences that could negatively impact secure and reliable market operations.

While the amendments to the energy objectives will allow for the consideration of emissions reduction in various NEM processes, it is necessary to make the corresponding amendments to the Rules in order for the new emissions reduction component of the energy objectives to be fully operationalised and reduce regulatory uncertainty.

Public consultation[2] on the draft *National Energy Laws Amendment (Emissions Reduction Objectives) Bill 2023* (**the Bill**) was undertaken between 20 December 2022 and 7 February 2023, with over 50 submissions received.

On 19 May Energy Ministers agreed to the final draft Bill[3] for introduction into the South Australian Parliament.

On 6 June 2023, an information paper summarising refinements to the draft Bill and package was published, outlining how stakeholder views had been taken into account in the final Bill.[4]

On 14 June 2023, the final Bill was introduced into South Australian Parliament (note that it was introduced as the *Statutes Amendment (National Energy Laws) (Emissions Reduction Objectives) Bill 2023*).

On 27 June 2023, the Bill was read for a second time. In his second reading speech, the Hon A. Koutsantonis – Minister for Energy and Mining – noted:

> "To ensure the emissions component effectively operationalises the functions, powers and obligations assigned to the market bodies, a number of priority rule changes have been identified. To facilitate this, the Bill contains provisions for the Australian Energy Market Commission to take early actions on relevant rule change requests by Energy Ministers ahead of commencement of the Act."[5]

Statement of the nature and scope of the issues to be addressed

When the national energy laws, prior to amendment by the *Statutes Amendment (National Energy Laws) (Emissions Reduction Objectives) Bill 2023*, were developed between 2005 and 2012, a unitary energy objective formed a key component of their design, guiding the actions of the energy market bodies according to the common format emphasising "economic

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[2] https://www.energy.gov.au/government-priorities/energy-and-climate-change-ministerial-council/priorities/national-energy-transformation-partnership/consultation-proposed-legislative-changes-incorporate-emissions-reduction-objective-national-energy-objectives

[3] https://www.legislation.sa.gov.au/__legislation/lz/b/current/statutes%20amendment%20(national%20energy%20laws)%20(emissions%20reduction%20objectives)%20bill%202023/b_as%20introduced%20in%20ha/statutes%20reduction%20objectives%20bill%202023.un.pdf

[4] Incorporating an emissions reduction objective into the national energy objectives - Information Paper.pdf

[5] https://hansardsearch.parliament.sa.gov.au/daily/lh/2023-06-14/38?sid=68968ae9a2ec4e84aa

efficiency … in the long term interests of consumers".[6] This unitary form, with distinct considerations to be weighed up by energy market bodies, is retained by the Bill adding to them the consideration of emissions reduction targets.

The energy objectives therefore play an integral guiding role in applying the national energy laws. They not only guide interpretation of the laws themselves, but also guide the AEMC in developing and modifying the rules which give effect to those laws through delegated statutory authority. They further guide the AER, which must apply those rules through its economic regulatory powers and functions, to regulate electricity and gas networks, and in clarifying the way it may exercise its regulatory discretion in a number of areas through issuing regulatory guidelines, documents and instruments. They also guide AEMO in its role as national transmission planner, which develops the ISP which drives investment in the national transmission grid.

The present rules were developed – both initially by the MCE and subsequently by the AEMC – to align with the existing objectives of the energy laws. Now that the objectives are to change, there is a need to make consequential changes to the Rules to maintain that alignment. This rule change's purpose is to give effect to that re-alignment of the Rules in respect of AEMO's national transmission planner function and in respect of a range of areas of AER regulatory discretion.

Bearing this in mind, senior officials have previously identified that upon passage of the Bill, the National Electricity Rules (**NER**), National Gas Rules (**NGR**) and National Energy Retail Rules (**NERR**) may need to be changed to ensure that the intent of the new emissions objective is properly reflected in the application of the Rules.

Supporting this, a number of stakeholder submissions on the draft Bill, including from the Australian Energy Regulator and the Australian Energy Market Operator, considered changes to aspects of the NER and NGR would likely be required to fully give effect to an emissions component in the energy objectives in some situations. Energy Networks Australia noted 'there are likely to be some decision types where the impact of the proposed changes to the objectives may be muted, or at least delayed until there are consequential rule changes. This issue is likely to arise in two cases. First, where decisions are governed by prescriptive rules that do not directly reference the objectives, and secondly, where the contents of these rules are modelled on the existing objectives'.

For example, the AEMC has also previously recognised the need for Rule changes to reflect the new energy objectives. In its final report for the Transmission Planning and Investment Review (**TPIR**), the AEMC recommended a rule change process to harmonise the NER with the imminent inclusion of emissions reduction in the national energy objectives.[7]

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[6] This followed extensive review and revision to the preceding National Electricity Code and National Third Party Access Code for Natural Gas Pipeline Systems. See for example the Productivity Commission's 2004 *Review of the Gas Access Regime* which recommended "sharpening the specification of the objectives of the regime by inserting an overarching objects clause with a focus on promoting efficiency and by removing inappropriate and conflicting objectives scattered through the regime" (p. xxii).

[7] *Australian Energy Market Commission*, TPIR stage 3 Final Report, 4 May 2023, p. 27 – https://www.aemc.gov.au/sites/default/files/2023-05/stage_3_final_report_transmission_planning_and_investment_review.pdf

Explanation of priority rule changes

The public consultation process for the Bill and the TPIR identified a number of priority rule changes required to give effect to the new emissions reduction objective. The rules fall under three categories:

1. **Rules for network/pipeline expenditure proposals and assessment** *(i.e. revenue determinations/resets)* – including capital and operating expenditure assessment criteria and capital and operating expenditure objectives, where references to the separate components of the previous energy objectives are stated in rules.
2. **Rules for electricity investment planning frameworks** – including the Regulatory Investment Test (**RIT**) frameworks and the Integrated System Plan (**ISP**), and rules on classes of market benefits, which do not currently reflect emissions reduction in the consideration of the energy objectives.
3. **Rules to enable a streamlined process for the AER to update its regulatory guidelines, guidance documents and instruments** to reflect the inclusion of the emission reduction component in the energy objectives – including consultation procedures to update those guidelines.

The Bill provides both for initial Rules to be made as needs be by the South Australian Minister, and also for early changes to be made through a standard AEMC rule change process. Energy Ministers consider the best option to progress these priority rule changes would be the standard AEMC rule change process given the complexity of the matters involved and need for public comment and participation.

The AEMC has noted "a consultative rule change process will help to ensure that incorporating the revised national electricity objective into the NER occurs transparently and leads to clear and predictable rules. Emissions reduction will be a pertinent consideration in many areas of the NER – such as the economic assessment and revenue determination processes – and a consistent approach to considering emissions reduction will be important to reduce administrative burden."[8]

Energy Senior Officials believe such a process would also be desirable for the provisions of the NGR identified in this request as necessary to be changed.

This rule change request addresses the second and third of the categories above – electricity transmission planning frameworks and alignment of regulatory guidelines, documents and instruments.

The rule changes will need to be completed in early 2024, to enable the emissions reduction component to be fully considered in major processes such as the 2026 AEMO **ISP** and to ensure the AER has sufficient time to update relevant guidelines, guidance documents and instruments (collectively, guidelines) following the rule change process. To help meet this timeframe, MCE have tasked Energy Senior Officials to prepare and submit the priority rule change requests on their behalf to the AEMC.

[8] ibid. p.9

The Energy Senior Officials are submitting two separate tranches of rule change requests to the AEMC based on the three categories of rules set out above.

Submitting the rule change proposals in two separate tranches will provide the AEMC with some flexibility regarding the timeframes required for its rule change process.

How the rule change contributes to the national energy objectives

This rule change relates firstly to a range of rules concerning national transmission planning functions of AEMO and other rules that govern the planning, expansion and replacement of transmission and distribution networks and their components.

Transmission networks are planned in a tiered planning system. At the highest level AEMO, as national transmission planner, issues the biennial ISP which sets out an optimal development path for the transmission network across national flowpaths. It draws from this a number of 'actionable ISP projects' which can be expedited through electricity regulatory and planning processes to deliver maximal benefits to the market and energy consumers.

The broad ISP is expected to be reflected in the planning undertaken by the regional transmission network service providers (**TNSPs**) which are responsible for developing their own networks. TNSPs must issue annual planning reports which outline their own plans to expand their networks and replace assets, and they are also expected to conduct joint planning with distribution network service providers to meet the needs of distribution level customers.

Ultimately, major upgrades and expansions of the transmission network are assessed through a Regulatory Investment Test for Transmission (**RIT-T**) which examines the identified need and credible options to meet it, with substantial consultation and market and system modelling as inputs. The aim of the process is to maximise market benefits while maintaining the reliability of the system. The various factors referred to in the electricity objectives – price, quality, security, reliability and now emissions targets – are all relevant considerations in this complex benefit-cost assessment.

At the distribution network level, the formality of planning is not so structured, and there is a greater reliance on regulatory incentives to ensure that DNSPs plan their networks efficiently. However, there is a corresponding Regulatory Investment Test for Distribution (**RIT-D**) which provides for the evaluation of major distribution projects, and a variety of other planning provisions and frameworks which aim to ensure that these networks are developing according to the national electricity objective.

This multi-layered planning framework should be joined by a common logic informed by the national electricity objective. Planning decisions at the highest level need to be matched by detailed assessment at the individual project level to ensure that the planning framework is coherent and delivers benefits to the market and consumers. This rule change ensures that the transmission planning rules and transmission and distribution investment rules can be updated as appropriate to ensure this coherence, and appropriately considers the achievement of emissions targets as an explicit factor in its workings.

Secondly, this rule change addresses a wide range of areas where the AER has regulatory discretion in its approach to its various functions under the NEL, NGL and NERL. The rules allocate discretion to the AER through a number of instruments – predominantly guidelines

but there are other documents and instruments where the AER may set out the way it will execute a regulatory duty conferred on it under the rules.

Each of these documents has been developed by the AER having regard to the relevant energy objective as it stands prior to the changes made by the Bill. As a consequence, these guidelines, documents and instruments need to be updated and revised by the AER in light of the new objectives.

As such, the proposed rule change contributes to the amended energy objectives by facilitating the timely operationalisation of the new emissions reduction component of the energy objectives. It should also contribute to the energy objectives by reducing costs and resource burdens on stakeholders that would have otherwise occurred with multiple consultation processes.

Description of proposed rule

Investment planning frameworks

The second tranche of priority rule changes relates to the electricity planning frameworks in Chapter 5 of the NER and in particular rules that address the ISP and the RIT processes for electricity distribution and transmission planning.

The frameworks and processes for the ISP and RIT are governed by prescriptive rules that are focussed mainly on maximising the present value of the net economic benefit and which, in some cases, do not directly reference the energy objectives. Changes to RIT principles and frameworks may need to be considered to incorporate consideration of the emissions component of the objective, including allowing a value of emissions reduction (VER) to be applied.

For example, the rules setting out the principles for the RIT for Transmission for projects that are not actionable ISP Projects set out the classes of 'market benefits' listed below that could be delivered by a credible option. RIT proponents are required to consider these under the relevant RIT published by the AER. However, changes in emissions are not listed as a market benefit.

Currently, the classes of market benefits include (among others):

- Changes in fuel consumption arising through different patterns of generation dispatch
- Changes in voluntary load curtailment
- Changes in involuntary load shedding
- Changes in network losses
- Changes in ancillary services costs.

The AEMC's Transmission Planning and Investment Review (**TPIR**) Stage 2 final report considered the inclusion of emissions reduction for the investment planning frameworks, alongside the existing considerations of price, quality, safety, reliability and security.

In its report, the AEMC recommended a rule change process to harmonise the NER with the revised energy objectives, once emissions reduction is included in the objectives. This rule change process would include considering changes to the transmission planning framework to reflect the emissions reduction component of the amended energy objectives.

The AEMC considered the rule change would further help to ensure that transmission investment decisions transparently balance emissions, price, quality, safety, reliability and security, supporting the energy transition to net zero.[9]

The report also noted stakeholders broadly supported more explicit incorporation of emissions reduction into the regulatory framework for transmission planning and sought clarity around changes which may be required to support the emissions reduction component of the amended energy objectives.

Providing support to this proposal, the South Australian Minister for Energy and Mining stated in his reading speech in support of the Bill that:

> "Introducing an emissions reduction component implies that the reduction of greenhouse gas emissions is a new category of market benefit to be assessed in market body decisions and processes where appropriate. To operationalise the emissions reduction component under an economic efficiency framework, a methodology for valuing emissions reduction for the purposes of regulatory decision-making is required."[10]

This rule change allows the AEMC to complete its work in this area and undertake a rule change process in respect of the transmission and distribution investment planning frameworks as highlighted in its report.

In summary, Energy Ministers seek consideration of changes to relevant rules under the NER for electricity planning which apply to AEMO and regulated electricity distribution and transmission providers, to ensure they would not be prevented from including, and potentially identifying as the preferred option, investments that would be likely to contribute to emissions reduction targets; recognising this should be subject to the emissions outcomes being balanced with consideration of other components of the energy objectives, and the overall goal of economically efficient investment in, operation and use of energy services for the long-term interests of consumers.

Transitional arrangements may be required in relation to these rule changes, noting that the Bill also contains transitional provisions for specified multi-stage processes, such RIT processes.

The priority rule changes relating to electricity planning under the second tranche of rule change requests are identified in table 1. The list of rules in table 1 is not exhaustive. The final rule changes will be subject to the AEMC's rule change process. The specific clauses identified in this request have been provided to assist the AEMC in understanding the key areas of the rules where the priority rule changes sit, and which processes they relate to. MCE would welcome AEMC's consideration of additional or consequential rule changes to support the implementation of the emissions component of the objectives. Any rules which should be changed as a priority should be identified as part of the AEMC's rule change process, which it is recognised will be informed by stakeholder consultation processes.

[9] ibid. p. iv
[10] https://hansardsearch.parliament.sa.gov.au/daily/lh/2023-06-14/38?sid=68968ae9a2ec4e84aa

Rule changes to enable a streamlined process for updating AER guidelines and other documents

Rule changes stemming from this request and the Tranche 1 request are expected to require the AER to amend various statutory guidelines, guidance documents and instruments under the NER, NGR or NERR that it administers (collectively, guidelines) to incorporate the amended energy objectives.

While the existing consultation procedures are broadly fit for purpose, the AER estimates approximately 65 Guidelines will require amendments which creates the situation whereby the AER will need to undertake separate consultations to amend guidelines because of different consultation requirements. For example, in the NER there are three different consultation processes: the transmission consultation procedures, distribution consultation procedures, and Rules consultation procedures.

The AEMC is requested to consider appropriate rule changes to the NER, the NGR and the NERR, noting the AER's preference is to undertake an omnibus guideline update to allow for a single consultation process to amend various AER Guidelines. It is considered suitable rules could allow the AER to run a single consultation process to make changes to two or more guidelines in order to take account of amendments to the energy objectives.

The amending Rules could cover the following key points:

1. The AER be allowed to run a single consultation process to make changes to two or more guidelines in order to take account of amendments to the energy objectives made by the *Statutes Amendment (National Energy Laws) (Emissions Reduction Objectives) Bill 2023*. The consultation process to be followed would be the distribution consultation procedures set out in the National Electricity Rules.
2. This would not limit the ability of the AER to otherwise amend any Guidelines as per the Rules.

The AER has proposed that the consultation process to be followed for this Omnibus guidance should be the distribution consultation procedures set out in the NER. This reflects that some of the revisions would be material ones, unsuited to the expedited consultation process. The distribution consultation procedures (Rule 6.16) provide for a single consultation process, allowing a suitable balance between consultation and speed. It is also the case that a large number of the affected documents would be subject to the distribution or similar transmission (Rule 6A.20) consultation procedures in any case. The standard rules consultation procedure (Rule 8.9.2) provides for two consultation stages which would only be appropriate for complex or material changes.

These amendments would be made to each of the NER, the NGR and the NERR, with the effect that the NER distribution consultation procedures would apply to the amendment of Guidelines made under NGR and NERR (as well under the NER).

The AEMC is requested to consider the appropriate process to balance both the AER's requirements and those of stakeholders in the guideline change process.

It is proposed any rule changes should not limit the ability of the AER to otherwise amend any Guidelines as per the Rules.

Scope of Issue

While the existing consultation procedures are broadly fit for purpose, the unprecedented nature of the task of parallel updates to such a large number of guidelines necessitates an approach which reduces the administrative complexity and streamlines the consultation process.

Conducting dedicated processes for amendments to such a large number of guidelines would be contrary to facilitating appropriate engagement. In particular, conducting multiple dedicated processes may lead to confusion and place undue resource pressure on stakeholders at a time when there are other significant reform processes also underway that require stakeholder input. Further, minimising the number of processes would allow for more timely updates to the Guidelines themselves to give effect to the new emissions objective. Undertaking a single process would provide a single point of engagement for stakeholders for multiple guidelines, reducing consultation complexity and ambiguity, as well as facilitating timely updates and avoid placing undue resource pressure on stakeholders.

The Guideline amendments to be covered by the omnibus process would encompass changes that have a less substantial effect on how someone complies with or applies the Guideline (i.e. changing the party's obligations, or necessitating or encouraging a change of analysis, change in system, or change in practice or process). Nevertheless, the AER considers there will be some Guidelines for which a single dedicated consultation process will still be required (per Guideline) due to the nature and substance of proposed amendments. These would likely include for example *the Expenditure Forecast Assessment Guideline 2013*. The AER has noted it would not use the omnibus process to update this guideline due to the complex substantive issues which are likely to be raised.

The AER has noted there may be other minor amendments required, such as updating clause references with no changes to the actual wording of a provision; and these types of changes are administrative in nature and might not require consultation under the existing rules.

To enable the AER to efficiently reflect the energy objectives in their Guidelines, including transitional rules ratifying consultation the AER commenced prior to the AEMC making the final rule in this process, the AEMC may need to consider whether additional rules might be needed to reduce the administrative complexity and streamline the consultation process to enable the AER to amend the Guidelines in an efficient and timely way.

While the amendments to the energy objectives will allow for the consideration of emissions reduction component in various NEM processes, it is necessary to make the corresponding amendments to subordinate guidelines in order for emissions reduction to be fully operationalised and reduce regulatory uncertainty.

Potential impacts of proposed changes to rules

Benefits

The proposed priority rule changes for the electricity planning rules frameworks in this request will harmonise the NER to the NEL, and the NGR to the NGL respectively, with the amended energy objective and provide clarity for their application for market bodies and participants.

Any discord between the energy laws and the rules could create administrative costs for the market bodies and industry in applying the rules, and potentially create a legal risk by leaving

the market bodies' decisions open to challenge. It also poses the risk of creating unintended consequences that do not align with the policy intent in the application of the Rules in the areas of transmission planning.

The risk of such discord is difficult to quantify, both in probability and consequence. However, given the development of transmission network projects under the ISP which are estimated to cost $12.7 billion[11], any risk of challenge or untoward outcome should be regarded as material.

The rule changes may also support regulated electricity distribution and transmission providers considering and potentially undertaking investments which under the unamended energy objectives would not be considered economically efficient, but which with the recognition of emissions reduction benefits may be supported under the updated framework. However, the electricity system accounts for about 33 per cent of national emissions, and there is now broad agreement on the likelihood of high costs to Australians from the effects of climate change. Overall therefore, it is considered there will be net benefits to energy consumers over the long term from a rules framework that supports electricity planning that could contribute to reduced emissions, while delivering on the other components of the objectives.

The proposed rule on omnibus consultation by the AER on guideline changes will reduce the administrative burden and complexity for the AER to performing a large-scale guideline update and to undertake appropriate stakeholder consultation. This would reduce costs that would have otherwise been incurred by stakeholders in engaging with multiple consultation processes on similar issues.

The proposed rule changes to allow for a single process to update AER guidelines, will ultimately reduce the cost to both the AER and industry stakeholders from managing and responding to multiple change processes in a short period of time. Using only one consultation process will also provide greater clarity to stakeholders as to which framework is being adhered to.

The AER considers conducting dedicated processes for amendments to a large number of Guidelines would be contrary to facilitating appropriate engagement. In particular, conducting multiple dedicated processes may lead to confusion and place undue resource pressure on stakeholders at a time when there are other significant reform processes also underway that require stakeholder input. Further, minimising the number of processes would allow for more timely consideration and decision making.

There is also a risk that without appropriate changes, the practical application of the rules in those frameworks would not support the achievement of the amended objectives. The proposed rule changes will maximise the potential for decisions under the energy laws to contribute to greater emissions reductions for the long term interests of energy consumers by aligning the rules with the amended energy objectives. The amendments will benefit market

[11] AEMO Integrated System Plan 2022.

participants by supporting them in making decisions considering emissions reduction, in balance with the other elements of the energy objectives.

Costs

The proposed rule changes may initially increase the cost of regulatory decision making processes due to the need to revise guidance materials and approaches to include emissions in the factors that need to be taken into account when preparing Regulatory Investment Tests and the ISP.

The rule change should also reduce costs that would have otherwise been incurred by stakeholders in engaging with multiple consultation processes on similar issues.

This rule change request has been submitted by Energy Senior Officials on behalf of theMCE. It has been prepared by a cross jurisdictional working group. The individual jurisdictions will remain engaged throughout the rule change process conducted by the AEMC and participate when required.

Table 1 – Investment planning frameworks

Rule reference & description	Current rule	Reason for rule change
National Electricity Rules		
RIT-T		
General principles and application (for projects which are either *are not* actionable ISP projects, or *are* actionable ISP projects) • 5.15A.1(c)	(c) The purpose of the regulatory investment test for transmission in respect of its application to both types of projects is to identify the credible option that maximises the present value of net economic benefit to all those who produce, consume and transport electricity in the market (the preferred option). For the avoidance of doubt, a preferred option may, in the relevant circumstances, have a negative net economic benefit (that is, a net economic cost) to the extent the identified need is for reliability corrective action or the provision of inertia network services required under clause 5.20B.4.	The general principles for the RIT-T are focussed mainly on maximising the present value of the net economic benefit to all those who produce, consume and transport electricity in the market. The benefits of emissions reduction are not mentioned. Changes to this rule for RIT principles and frameworks may need to be considered to incorporate consideration of the emissions component of the objective, including allowing a Value of Emissions Reduction (VER) to be applied. The AEMC should also consider whether any additional changes are required, for example, to clarify beneficiaries of the emissions reduction may be wider than those who produce, consume and transport electricity in the market.
Principles for projects which *are not* actionable ISP projects • 5.15A.2(b)	(b) The regulatory investment test for transmission must: 1) be based on a cost-benefit analysis that is to include an assessment of reasonable scenarios of future supply and demand if each credible option were implemented compared to the situation where no option is implemented; 2) not require a level of analysis that is disproportionate to the scale and likely impact of each of the credible options being considered; 3) be capable of being applied in a predictable, transparent and consistent manner; 4) require the RIT-T proponent to consider the following classes of market benefits that could be delivered by the credible option: i. changes in fuel consumption arising through different patterns of generation dispatch; ii. changes in voluntary load curtailment; iii. changes in involuntary load shedding, with the market benefit to be considered using a reasonable forecast of the value of electricity to consumers; iv. changes in costs for parties, other than the RIT-T proponent, due to: (A) differences in the timing of new plant;	In the more specific principles which are applied to the RIT-T, consideration of benefits arising from emissions reduction are not included. Changes to this rule for RIT principles and frameworks may need to be considered to incorporate consideration of the emissions component of the objective, including allowing a VER to be applied. Specifically, it is suggested consideration be given to updating the market benefit classes in sub-section (b)(4) to include changes in the level of greenhouse gas emissions from the energy system/emissions reduction benefits. Including emissions reductions as a class of market benefits would ensure that emissions reductions are explicitly balanced against the other limbs of the NEO in the economic assessment processes.

Rule reference & description	Current rule	Reason for rule change
	(B) differences in capital costs; and (C) differences in the operating and maintenance costs; v. differences in the timing of expenditure; vi. changes in network losses; vii. changes in ancillary services costs; viii. competition benefits; ix. any additional option value (where this value has not already been included in the other classes of market benefits) gained or foregone from implementing that credible option with respect to the likely future investment needs of the market; and x. other classes of market benefits that are: (A) determined to be relevant by the RIT-T proponent and agreed to by the AER in writing before the date the relevant project specification consultation report is made available to other parties under clause 5.16.4; or (B) specified as a class of market benefit in the regulatory investment test for transmission; 5) require a RIT-T proponent to include a quantification of all classes of market benefits which are determined to be material in the RIT-T proponent's reasonable opinion; 6) require a RIT-T proponent to consider all classes of market benefits as material unless it can, in the project assessment draft report, or in respect of a proposed preferred option which is subject to the exemption contained in clause 5.16.4(z1), in the project specification consultation report, provide reasons why: i. a particular class of market benefit is likely not to affect materially the outcome of the assessment of the credible options under the regulatory investment test for transmission; or ii. the estimated cost of undertaking the analysis to quantify the market benefit is likely to be disproportionate to the scale, size and potential benefits of each credible option being considered in the report; 7) with respect to the classes of market benefits set out in subparagraphs (4)(ii) and (iii), ensure that, if the credible option is for reliability corrective action, the quantification assessment required by paragraph (5) will only apply insofar as the market benefit delivered by the credible option exceeds the minimum standard required for reliability corrective action; 8) require the RIT-T proponent to quantify the following classes of costs: i. costs incurred in constructing or providing the credible option; ii. operating and maintenance costs in respect of the credible option; iii. the cost of complying with laws, regulations and applicable administrative requirements in relation to the construction and operation of the credible option; and	Adding emissions reductions as a standard class of market benefit via a rule change may help drive a consistent approach to valuing emissions reduction across network service providers and projects. The AEMC should consider whether any additional changes are required. For example, changes to sub-section (b)(9) may also need to be considered, to reflect the broader benefits of emission reductions, however, the emissions reduction component is not intended to sit above, or be prioritised over, the existing components within the energy objectives. Rather it should be considered and balanced alongside the other existing components, in a way that maximises the overall objectives, in the long-term interests of consumers.

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Rule reference & description	Current rule	Reason for rule change
	iv. any other class of costs that are: A. determined to be relevant by the RIT-T proponent and agreed to by the AER in writing before the date the relevant project specification consultation report is made available to other parties under clause 5.16.4; or B. specified as a class of cost in the regulatory investment test for transmission; 9) provide that any cost or market benefit which cannot be measured as a cost or market benefit to Generators, Distribution Network Service Providers, Transmission Network Service Providers or consumers of electricity may not be included in any analysis under the regulatory investment test for transmission; 10) specify: i. the method or methods permitted for estimating the magnitude of the different classes of market benefits; ii. the method or methods permitted for estimating the magnitude of the different classes of costs; iii. the method or methods permitted for estimating market benefits which may occur outside the region in which the networks affected by the RIT-T project are located; and the appropriate method and value for specific inputs, where relevant, for determining the discount rate or rates to be applied; 11) specify that a sensitivity analysis is required of any modelling relating to the cost-benefit analysis; and 12) reflect that the credible option that maximises the present value of net economic benefit to all those who produce, consume or transport electricity in the market may, in some circumstances, have a negative net economic benefit (that is, a net economic cost) where the identified need is for reliability corrective action.	
Principles for projects which *are* actionable ISP projects • 5.15A.3(b)	(b) The regulatory investment test for transmission must: 1) assess the costs and benefits of future supply and demand if each credible option were implemented compared to the case where that option is not implemented; 2) not require a level of analysis that is disproportionate to the scale and likely impact of each of the credible options being considered; 3) be capable of being applied in a predictable, transparent and consistent manner; 4) require a RIT-T proponent to include a quantification of all classes of market benefits identified in the relevant Integrated System Plan, and may include consideration of other classes of market benefits, in accordance with the Cost Benefit Analysis Guidelines; 5) with respect to the classes of market benefits set out in subparagraph (4), ensure that, if the credible option is for reliability corrective action, the quantification assessment required by	In the more specific principles which are applied to the RIT-T, consideration of benefits arising from emissions reduction are not included. The AEMC should consider whether any additional changes are required. Changes to the RIT principles and frameworks may need to be considered to incorporate consideration of the emissions component of the objective, including allowing a VER to be applied.

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Rule reference & description	Current rule	Reason for rule change
	subparagraph (4) will only apply insofar as the market benefit delivered by the credible option exceeds the minimum standard required for reliability corrective action; 6) require the RIT-T proponent to quantify the following classes of costs: i. costs incurred in constructing or providing each credible option; ii. operating and maintenance costs in respect of each credible option; iii. the cost of complying with laws, regulations and applicable administrative requirements in relation to the construction and operation of each credible option; and iv. any other class of costs that are: A. determined to be relevant by the RIT-T proponent and agreed to by the AER in writing before the date the relevant project assessment draft report is made available to other parties under clause 5.16A.4; or B. specified as a class of cost in the regulatory investment test for transmission; 7) specify that the RIT-T proponent must: i. comply with the Cost Benefit Analysis Guidelines; ii. adopt the identified need set out in the Integrated System Plan relevant to the actionable ISP project; iii. consider the following credible options: A. the ISP candidate option or ISP candidate options, which may include refinements of an ISP candidate option; B. non-network options identified in the Integrated System Plan as being reasonably likely to meet the relevant identified need, in accordance with clause 5.22.12(e)(1); and C. any new credible options that were not previously considered in the Integrated System Plan that meet the identified need (including any non-network options submitted to AEMO in accordance with clause 5.22.14(c)(1)); iv. (iv) adopt the most recent ISP parameters, or if the RIT-T proponent decides to vary or omit an ISP parameter, or add a new parameter, then the RIT-T proponent must specify the ISP parameter which is new, omitted or has been varied and provide demonstrable reasons why the addition or variation is necessary; v. (v) assess the market benefits with and without each credible option; and vi. (vi) in so far as practicable, adopt the market modelling from the Integrated System Plan; 8) specify that the RIT-T proponent is not required to: i. consider any credible option that was previously considered in the Integrated System Plan, but does not form part of the optimal development path;	

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Rule reference & description	Current rule	Reason for rule change
	ii. consider any non-network options identified in the Integrated System Plan as not meeting the relevant identified need, in accordance with clause 5.22.12(e)(2); or iii. request submissions for non-network options, or otherwise seek to identify non-network options in addition to those assessed in the Integrated System Plan under clause 5.22.12(d) or submitted to AEMO in accordance with clause 5.22.14(c)(1); and 9) specify the RIT-T proponent may, but is not required to, consider credible options already considered and not included in the optimal development path in the Integrated System Plan.	
RIT-D		
General principles and application for projects • 5.17.1(b)	(b) The purpose of the regulatory investment test for distribution is to identify the credible option that maximises the present value of the net economic benefit to all those who produce, consume and transport electricity in the NEM (the preferred option). For the avoidance of doubt, a preferred option may, in the relevant circumstances, have a negative net economic benefit (that is, a net economic cost) where the identified need is for reliability corrective action.	The general principles for the RIT-D are focussed mainly on maximising the present value of the net economic benefit to all those who produce, consume and transport electricity in the market. The benefits of emissions reduction are not mentioned. The AEMC should consider whether any additional changes are required as part of their rule change process. Changes to RIT principles and frameworks may need to be considered to incorporate consideration of the emissions component of the objective, including allowing a VER to be applied.
Market benefits and costs analysis for projects • 5.17.1(c)	(c) The regulatory investment test for distribution must: 1) be based on a cost-benefit analysis that must include an assessment of reasonable scenarios of future supply and demand; 2) not require a level of analysis that is disproportionate to the scale and likely impact of each of the credible options being considered; 3) be capable of being applied in a predictable, transparent and consistent manner; 4) require the RIT-D proponent to consider whether each credible option could deliver the following classes of market benefits: i. changes in voluntary load curtailment; ii. changes in involuntary load shedding and customer interruptions caused by network outages, using a reasonable forecast of the value of electricity to customers; iii. changes in costs for parties, other than the RIT-D proponent, due to differences in: A. the timing of new plant; B. capital costs; and C. the operating and maintenance costs;	The rules for the analysis for market benefits or costs and credible option for projects maximises economic benefit. The benefits of emissions reduction are not mentioned. Changes to RIT principles and frameworks may need to be considered to incorporate consideration of the emissions objective, including allowing a VER to be applied. Including emissions reductions as a class of market benefits would ensure that emissions reductions are explicitly balanced against the other limbs of the NEO in the economic assessment processes. Adding emissions reductions as a standard class of market benefit via a rule change may help drive a consistent approach to valuing emissions reduction across network service providers and projects. The AEMC should consider whether any additional changes are required. For example, consideration may need to be given to updating the market benefit classes in sub-section (c)(4) to include changes in the level of GHG emissions from the energy system/emissions reduction benefits.

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	iv. differences in the timing of expenditure; v. changes in load transfer capacity and the capacity of embedded generating units to take up load; vi. any additional option value (where this value has not already been included in the other classes of market benefits) gained or foregone from implementing the credible option with respect to the likely future investment needs of the NEM; vii. changes in electrical energy losses; and viii. any other class of market benefit determined to be relevant by the AER. 5) with respect to the classes of market benefits set out in subparagraphs (4)(i) and (ii), ensure that, if a credible option is for reliability corrective action, the consideration and any quantification assessment of these classes of market benefits will only apply insofar as the market benefit delivered by that credible option exceeds the minimum standard required for reliability corrective action; 6) require the RIT-D proponent to consider whether the following classes of costs would be associated with each credible option and, if so, quantify the: i. financial costs incurred in constructing or providing the credible option; ii. operating and maintenance costs over the operating life of the credible option; iii. cost of complying with laws, regulations and applicable administrative requirements in relation to the construction and operation of the credible option; and iv. any other financial costs determined to be relevant by the AER. 7) require a RIT-D proponent, in exercising judgement as to whether a particular class of market benefit or cost applies to each credible option, to have regard to any submissions received on the non-network options report and/or draft project assessment report where relevant; 8) provide that any market benefit or cost which cannot be measured as a market benefit or cost to persons in their capacity as Generators, Distribution Network Service Providers, Transmission Network Service Providers or consumers of electricity must not be included in any analysis under the regulatory investment test for distribution; and 9) specify: i. the method or methods permitted for estimating the magnitude of the different classes of market benefits; ii. the method or methods permitted for estimating the magnitude of the different classes of costs; iii. the appropriate method and value for specific inputs, where relevant, for determining the discount rate or rates to be applied;	Changes to sub-section (c)(8) may also need to be considered, to reflect the broader benefits of emission reductions.

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Rule reference & description	Current rule	Reason for rule change
	iv. that a sensitivity analysis is required for modelling the cost-benefit analysis; and v. that the credible option that maximises the present value of net economic benefit to all those who produce, consume or transport electricity in the NEM may, in some circumstances, be a negative net economic benefit (that is, a net economic cost) where the identified need is for reliability corrective action.	
Integrated system plan		
Purpose of the ISP • 5.22.2	Purpose of the ISP The purpose of the Integrated System Plan is to establish a whole of system plan for the efficient development of the power system that achieves power system needs for a planning horizon of at least 20 years for the long term interests of the consumers of electricity.	The purpose of the ISP relates to the long term interests of the consumers of electricity. Consideration should be given to any need to adjust the purpose to the extent required to reflect that the ISP should be conducted in a manner consistent with the amended energy objective when appropriate. The AEMC should consider whether any changes are required as part of the rule change process.
The power system needs which the ISP is intended to achieve • 5.22.3	Power system needs a) The power system needs are: 1) the reliability standard; 2) power system security; 3) system standards; and 4) standards or technical requirements in Schedule 5.1 or in an applicable regulatory instrument. a) In determining power system needs, as it relates to a NEM participating jurisdiction, AEMO may consider a current environmental or energy policy of that participating jurisdiction where that policy has been sufficiently developed to enable AEMO to identify the impacts of it on the power system and at least one of the following is satisfied: 1) a commitment has been made in an international agreement to implement that policy; 2) that policy has been enacted in legislation; 3) there is a regulatory obligation in relation to that policy; 4) there is material funding allocated to that policy in a budget of the relevant participating jurisdiction; or 5) the MCE has advised AEMO to incorporate the policy.	The power system needs relate to reliability, security, standards, and technical requirements. In order for these rules to reflect the updated energy objectives, this rule may need to be changed to include emissions reduction (consistent with targets in the Targets Statement) as a power system need. It is important that any change does not suggest conflict with the Targets Statement. This would also provide a clearer link to the environmental/ energy policies mentioned in paragraph (b) – the avenue by which AEMO incorporates emissions budgets in its ISP. The AEMC should consider whether any changes are required as part of the rule change process. As part of this, consideration should be given to any unintended consequences to the power system needs, and to whether the policies listed in paragraph(b) need to include policies included in the proposed Targets Statement.
Guidelines relevant to the ISP • 5.22.5	Cost Benefit Analysis Guidelines Definitions (a0) In this clause 5.22.5:	In the guidelines relevant to the ISP, consideration of benefits arising from emissions reduction are not included.

Rule reference & description	Current rule	Reason for rule change
	current application has the meaning given to it by clause 5.22.5(g). (a) The AER must make, publish and may amend the Cost Benefit Analysis Guidelines in accordance with the Rules consultation procedures. (b) The Cost Benefit Analysis Guidelines are to be used: 1) by AEMO to prepare an Integrated System Plan; and 2) by Transmission Network Service Providers in applying the regulatory investment test for transmission to actionable ISP projects. (c) The AER may specify the relevant parts of the Cost Benefit Analysis Guidelines that are binding on AEMO and RIT-proponents. Application of Cost Benefit Analysis Guidelines to AEMO for the ISP (d) The Cost Benefit Analysis Guidelines must in relation to the preparation of an Integrated System Plan by AEMO: 1) be consistent with the purposes of the Integrated System Plan referred to in clause 5.22.2; 2) require AEMO to test the robustness of alternative development paths to future uncertainties through the use of scenarios and sensitivities; 3) be capable of being applied in a predictable, transparent and consistent manner; 4) describe the objective that AEMO should seek to achieve when: (i) developing the counterfactual development path; and (ii) selecting a set of development paths for assessment; 5) describe the framework used to select the optimal development path, including the assessment of the costs and benefits of various development paths across different scenarios; and 6) set out how AEMO describes the identified need relating to an actionable ISP project.	Consideration should be given to whether the rules for the Cost Benefit Analysis Guidelines may need to be changed to the extent required to incorporate consideration of the emissions component of the objective, including allowing a Value of Emissions Reduction to be applied, when appropriate. The AEMC should consider whether any additional changes are required as part of the rule change process and if other amendments included in this table are made, it may be that this provision does not need to be amended.
Classes of market benefits that could be delivered by the development path that AEMO must consider in preparing the ISP • 5.22.10(c)	Market benefits b) In preparing an Integrated System Plan, AEMO must: 1) consider the following classes of market benefits that could be delivered by the development path: i. changes in fuel consumption arising through different patterns of generation dispatch; ii. changes in voluntary load curtailment; iii. changes in involuntary load shedding, with the market benefit to be considered using a reasonable forecast of the value of electricity to consumers; iv. changes in costs for parties due to:	There are a number of classes of market benefits that could be delivered by the development path that AEMO must consider in preparing the ISP. As currently drafted, there is no market benefit relating to emissions reduction. In order for these rules to reflect the updated energy objectives, this rule may need to be changed to the extent required to also allow for the consideration of emissions reduction when appropriate. The AEMC should consider whether any changes are required as part of the rule change process. For example, consideration

Rule reference & description	Current rule	Reason for rule change
	A. differences in the timing of new plant; B. differences in capital costs; and C. differences in the operating and maintenance costs; v. differences in the timing of expenditure; vi. changes in network losses; vii. changes in ancillary services costs; viii. competition benefits; ix. any additional option value (where this value has not already been included in the other classes of market benefits) gained or foregone from implementing that development path with respect to the likely future investment needs of the market; and x. other classes of market benefits that are: A. determined to be relevant by AEMO and agreed to by the AER in writing before the publication of the draft Integrated System Plan; or B. specified as a class of market benefit in the Cost Benefit Analysis Guidelines; 2) include a quantification of all classes of market benefits which are determined to be material to the optimal development path in AEMO's reasonable opinion; and 3) consider all classes of market benefits as material unless it can provide reasons why: i. a particular class of market benefit is likely not to materially affect the outcome of the assessment of the development path; or ii. the estimated cost of undertaking the analysis to quantify the market benefit is likely to be disproportionate given the level of uncertainty regarding future outcomes.	may need to be given to updating the market benefit classes to include an emissions reduction class, including allowing a Value of Emissions Reduction to be applied, when appropriate or include changes in the level of GHG emissions from the energy system/emissions reduction benefits. Including emissions reductions as a class of market benefits would ensure that emissions reductions are explicitly balanced against the other limbs of the NEO in the economic assessment processes. Adding emissions reductions as a standard class of market benefit via a rule change may help drive a consistent approach to valuing emissions reduction across network service providers and projects.
ISP consumer panel • 5.22.7(d)(2)	(d) The ISP consumer panel: 2) must, in preparing the consumer panel report have regard to the long term interests of consumers; and	The rule for the ISP consumer panel relates to the long term interests of the consumers of electricity. The AEMC should consider whether any changes are required. Consideration should be given to whether this rule should be changed, to the extent required given the addition of an emissions component to the objective.

Note: The list of clauses in table 2 is not exhaustive. The AEMC has advised the final rule changes will be subject to its rule change process. The clauses above have been provided to assist the AEMC in understanding the areas of the rules where the priority rule changes sit, and which processes they relate to. Any rules which should be changed as a priority should be identified as part of the AEMC rule change process and stakeholders including market bodies, the jurisdictions, and market participants will be provided the opportunity to provide input to that process.

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