Australian Energy Market Commission
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Harmonising the electricity network planning and investment rules and AER guidelines with the updated energy objectives (electricity) – Consultation paper

The Australian Energy Council welcomes the opportunity to make a submission to Harmonising the electricity network planning and investment rules and AER guidelines with the updated energy objectives (electricity) – Consultation paper (Consultation paper).

The Australian Energy Council (AEC) is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

The AEC (and its predecessor the Energy Supply Association of Australia), have consistently supported the introduction of a price on carbon and opposed the repeal of the Clean Energy Act. As the process of implementing an emissions objective in the NEO progresses it is becoming increasingly apparent that the policy is an attempt to introduce a price on carbon without explicitly legislating it. This approach adds unnecessary complications, creates contradictions, increases the administrative burden on both participants and market bodies as well as being devoid of rigorous and transparent assessment. However, in the absence of an explicit carbon price the electricity sector is the only sector that has and continues to dramatically reduce its emissions due to both market conditions and numerous government policies.

This AEC submission focuses on the questions in chapters three and four.

Harmonising the electricity network planning and investment framework
A market benefit as defined by the AER is:

A market benefit must be a benefit to those who consume, produce and/or transport electricity in the market, that is, the change in producer plus consumer surplus.[1]

[1] https://www.aer.gov.au/system/files/AER%20-20Regulatory%20investment%20test%20for%20transmission%20-%2025%20August%202020.pdf

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If emissions are included in RIT-T assessments, then the cost benefit assessments of some ISP projects may be adversely affected. For example, one of the current market benefits is "changes in fuel consumption arising through different patterns of generation". If a project is expected to displace expensive gas-powered generation (GPG) with cheaper coal-fired generation, then it would be a market benefit. However, from an emissions/MWh perspective coal is far more emissions intensive than GPG and if emissions reductions are a market benefit the cost benefit outcome of this project would be impaired. Even though the project is also expected to create more scope for renewable generation through less VRE spill and more VRE output and capacity.

The above example illustrates how including emissions reductions as a market benefit could potentially create unexpected outcomes. Another important factor to consider is the NEM's current position in the transition pathway. While the NEM has been steadily reducing its emissions, eliminating some degree of dependence on coal is some years into the future. Hence, if the negative impact of increased emissions in the early years of an ISP project are included in the cost benefit analysis NPV calculation. This is because NPV calculations place the greatest weight on values in year one and this steadily decreases over the years because of discounting. This could possibly devalue a project that over time is going to increase VRE output and ultimately displace coal over the long term.

Should the provision on power system needs for the ISP be revised to align with the updated objective?
The current rules represent a rational and practical approach for AEMO to include an emissions policy when considering power system needs. And as a matter of principle the AEC believes they should not be loosened to align with the new emissions objective. Nevertheless, in the interests of consistency the AEC does not object to this alignment being implemented.

Should references to the long-term interests of consumers in ISP provisions be updated?
The AEC considers changing the rules to refer to the NEO in ISP provisions to be a logical change.

Should the rules enable the AER to carry out an omnibus consultation on including emissions in its documentation?
The AEC supports streamlined consultation processes.

What are the costs and benefits of the proposed solutions?
The costs are readily identifiable as demonstrated by this and the other processes that are running concurrently. In the longer term it is likely there will be further administrative costs for participants and market bodies because of increased complexity and other potential unintended consequences.

What implementation issues might there be?
While not pointing to specific issues, the AEC considers it likely that many issues will emerge over time.

Can the problems be resolved in a better way?

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One opportunity to improve outcomes would be for the AEMC to undertake rigorous assessments of each jurisdictional policy that it is required to consider. The key output of these assessments would be the \$/tonne/CO_2e cost of abatement for each policy. Once these costs are known, they will provide the AEMC with a useful tool for their decision making when considering rule changes that may impact two or more emissions policies. For example, if there is a rule change request that could adversely affect a policy with an abatement cost of \$50/tonne CO_2e and benefit a project with a cost of \$1,000/tonne CO_2e the knowledge of these costs would enable the AEMC to make a better informed decision on this hypothetical rule change.

Estimating the abatement costs of each policy (where possible) would be beneficial for the transition as it would help guide market bodies to facilitate the best productive, allocational and dynamic efficiency outcomes when making decisions. The transition is an enormous and expensive task and focus on the allocation of scarce resources will be critical to ensuring timely delivery at least cost to ensure the long-term interests of consumers are protected.

Assessment framework

The AEC supports the four assessment criteria on p24 of the Consultation paper and assumes they will be rigorously adhered to and this is demonstrated in subsequent AEMC papers.

Any questions about this submission should be addressed to me directly, by email to peter.brook@energycouncil.com.au or by telephone on 03 9206 3103.

Yours sincerely,

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