

Australian Energy Market Commission
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Lodged online: www.aemc.gov.au

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Consultation on AEMC guide to applying the emissions component of the national energy objectives

The Australian Energy Council welcomes the opportunity to make a submission to the Consultation on AEMC guide to applying the emissions component of the national energy objectives (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 is broadly supportive of the approach the AEMC is proposing in the Consultation paper. However, we believe some additional guidance may be beneficial for the successful application of the NEO.

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/CO₂e 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 CO₂e and benefit a project with a cost of \$1,000/tonne CO₂e 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.

How the AEMC will assess emission reduction impacts when quantitative assessment is needed

The Consultation paper notes that there will be projects that will require the AEMC to be able to place a value on emissions reductions. However, this value is to be developed by the Commonwealth with close consultation with market bodies and the jurisdictions.

The AEC supports a formal process to develop an estimate of the value of emission reductions or viewed another way the cost of emissions. The Stern Review was a seminal piece of work that estimated the cost of emissions and hence the value of reductions.¹ The key determinant of Stern's results was the discount rate. The average discount rate (social-welfare equivalent discount rate) used to calculate climate change costs was 1.4 per cent and the social rate of time preference component of this value this value was deemed to be 0.1 per cent. However, it is worth noting there was considerable debate particularly regarding the social rate of time preference where some argued it should be higher.²

While it is not in the AEMC's scope to control, the AEC is hopeful that the Commonwealth *et al* will apply the same rigor and transparency as the Stern Review.

The energy transition is an enormous and expensive undertaking. Therefore, it is important that scarce resources (ie, capital and labour) need to be allocated in the most efficient manner. Failure to do this will:

- Slow the transition;
- Make the transition more expensive;
- Reduce Australia's productivity relative to our competitors;
- Further impair Australia's fiscal position and add an unnecessary debt burden for future Australians; and
- Reduce the funds available for climate change adaptation investment and the increasing costs of climate impacts.

Clearly these are undesirable outcomes and need to be avoided, especially the last two because they have impacts that will last for decades. With this in mind, the AEC supports the AEMC in its efforts to incorporate the emissions objective into its decision making and maintaining its adherence to economic principles.

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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¹ http://mudancasclimaticas.cptec.inpe.br/~rmclima/pdfs/destaques/sternreview_report_complete.pdf

² https://www.nber.org/system/files/working_papers/w18301/w18301.pdf