

17 August 2023

Dr Kris Funston, Executive General Manager, Australian Energy Regulator
Ms Lily Mitchell, Project Leader, Australian Energy Market Commission
Mr James King, Project Leader, Australian Energy Market Commission

Lodged by email to: aerinquiry@aer.gov.au and on the AEMC website

Dear Dr Funston, Ms Mitchell and Mr King,

Response to three papers on integrating an emission reduction objective in the National Energy Objective

Clean Energy Investor Group (CEIG) welcomes the opportunity to provide feedback to:

- the Australian Energy Regulator (AER) on the *Guidance on amended National Energy Objectives (AER Guidance Consultation paper)* published on 24 July 2023;
- the Australian Energy Market Commission (AEMC) on its *guide to applying the emissions component of the national energy objectives (AEMC Guidance Consultation paper)* published on 24 July 2023; and
- the AEMC on the *Harmonising the electricity network planning and investment rules and AER guidelines with the updated energy objectives (electricity) (AEMC Harmonising Consultation paper)* published on 20 July 2023.

CEIG represents domestic and global renewable energy developers and investors, with more than 16GW of renewable energy capacity in the NEM across more than 76 power stations and a combined portfolio value of more than \$38 billion. CEIG members' project pipeline is estimated to be more than 46GW across Australia. CEIG strongly advocates for an efficient transition to a clean energy system from the perspective of the stakeholders who will provide the low-cost capital needed to achieve it.

Our submission is based on the [Clean Energy Investor Principles](#) (Investor Principles) that CEIG published in August 2021. The research commissioned for the Investor Principles found that improving certainty for investors will reduce the risk premium for new generation in the NEM and could deliver savings for consumers of up to \$7 billion out to 2042.

KEY POINTS

- CEIG strongly welcomes Energy Ministers' approval of an update to the NEO which embeds emissions reduction as part of the long-term interests of energy consumers and commends the effort of energy market bodies in responding to this directive through the current consultation process.
- CEIG supports valuing emissions within the cost benefit analysis framework. The development of an emission reductions value (or methodology) should be considered through a public consultation process.
- CEIG suggests that it would be useful for energy market bodies to provide more clarity or specific criteria for when it is reasonable to include the value of emissions.
- CEIG welcomes 'rule change request two (planning and AER guidelines)' to be considered a priority so that emissions reductions can be included in the 2026 integrated system plan (ISP) and regulatory investment tests (RITs).
- Furthermore, CEIG welcomes in-principle opportunities to reduce the administrative burden on the AER and market participants of implementing the updated energy objectives.
- CEIG recognises the need for the AEMC to make harmonising changes that capture the policy intent of including emission reductions into the NEO where existing rules do not refer to the national energy objectives but instead refer to particular components of the objectives.
As such, CEIG supports in-principle;
 - emissions reductions being included as a class of market benefit;
 - updating rules for the Cost Benefit Analysis Guideline or the rules relating to the general principles for RIT-Ts and RIT-Ds to incorporate consideration of the emissions component;
 - the inclusion of other government targets that are 'likely to contribute to' reducing Australia's greenhouse gas emissions;
 - reference to the NEO as a whole when referencing the "long term interests of consumers" to ensure emissions reduction is considered;
 - including emissions reductions into the assessment framework.
- Finally, where the guidance and rule changes specify the inclusion of other government targets that are 'likely to contribute to' reducing Australia's greenhouse gas emissions, CEIG would also like clarification that there will be an inclusion of those that may not be legislated as this will support investors with longer term policy certainty and provide clarity to the market.

CEIG has been a strong advocate for the implementation of an emissions reduction objective in the NEO which is in line with the CEIG Investor Principles (Investor Principle 2: Redesign governance for transformation).

Furthermore, the CEIG Investor Principles call for consistency with the Paris climate Agreement and the integration of transformation and security to cascade down through the work programs of the three market bodies in the pursuit of efficient investment in, and operation, of electricity services. This will require an emissions reduction objective to be added to the NEO to recognise the need to reduce carbon emissions.

As such, CEIG strongly welcomes Energy Ministers' approval of an update to the NEO which embeds emissions reduction as part of the long-term interests of energy consumers and commends the effort of energy market bodies in responding to this directive through the current consultation process.

Response to the AEMC's and AER's guidance papers on amended National Energy Objectives

CEIG welcomes the opportunity to support both the AEMC and AER in the development of a guide to applying the emissions component of the NEO.

Furthermore, CEIG welcomes both the AEMC's and AER's support of changes to incorporate government emission reduction targets into the NEO, leading to the internalisation of emissions impacts rather than treating them as an external factor.

CEIG supports valuing emissions within the cost benefit analysis framework

As highlighted in both guidance consultation papers, the Commonwealth Government proposes to lead work on developing a value, or methodology for determining one, in close consultation with market bodies, states and territories.

CEIG supports in-principle the Commonwealth Government leading this work however, we would like clarification that this process will also include a public consultation process. This would ensure the analysis of costs and benefits relating to emissions reductions is robust and accurate so that the long-term interests of consumers are considered, including specific climate change risks faced within Australia.

CEIG notes that there is some ambiguity as to when emission reductions will be taken into account. See page 11 of the AER Guidance Consultation paper which states:

"If emission reduction is a material source of costs or benefits associated with an investment, the calculation of emission reductions associated with a proposed project or program should take account of the change in energy market emissions with and without the investment."

To make the guidance more effective and less ambiguous, it would be useful for energy market bodies to provide more clarity or specific criteria for when it is reasonable to include the value of emissions in the cost benefit analysis framework. This will ensure that all stakeholders have a common understanding and can make informed decisions based on consistent criteria.

Response to the AEMC's *Harmonising the electricity network planning and investment rules and AER guidelines with the updated energy objectives (electricity)* paper.

CEIG recognises that from a network planning perspective, while the Australian Energy Market Operator (AEMO) is identifying an infrastructure planning trajectory which is

consistent with steep decarbonisation of the NEM, embedding emissions reduction into the NEO will provide market bodies with a mandate to make decisions with decarbonisation as an objective. This reduces the risk that decision making for the NEM is inconsistent with the planning framework, resulting in inefficiencies.

For example, under the existing NEO, an assessment of a renewable microgrid proposed for the mining town of Broken Hill undervalued its benefits as the full economic and emissions reduction benefits were not considered. Without considering the full economic and environmental impacts, sub-optimal outcomes for consumers may be realised, in favour of emissions-intensive generation.

Considering this, and the urgent need to accelerate the transition, CEIG welcomes ‘rule change request two (planning and AER guidelines)’ to be considered a priority so that emissions reductions can be included in the 2026 Integrated System Plan (ISP) and Regulatory Investment Tests (RITs). Furthermore, CEIG welcomes in-principle opportunities to reduce the administrative burden on the AER and market participants of implementing the updated energy objectives.

CEIG recognises the need for the AEMC to make harmonising changes that capture the policy intent of including emission reductions into the NEO where existing rules do not refer to the NEO but instead refer to particular components of the objectives.

As such, CEIG supports in-principle;

- emissions reductions being included as a class of market benefit;
- updating rules for the Cost Benefit Analysis Guideline or the rules relating to the general principles for RIT-Ts and RIT-Ds to incorporate consideration of the emissions component;
- the inclusion of other government targets that are ‘likely to contribute to’ reducing Australia’s greenhouse gas emissions;
- reference to the NEO as a whole when referencing the “long term interests of consumers” to ensure emissions reduction is considered;
- including emissions reductions into the assessment framework

Including policy commitments that may not be legislated supports investors with longer term policy certainty

In our previous submission on incorporating an emissions reduction objective in the NEO,¹ CEIG provided support for the inclusion of other government targets that are ‘likely to contribute to’ reducing Australia’s greenhouse gas emissions, including those that may not be legislated.

We would like to note that the consultation paper on incorporating an emissions reduction objective into the NEO² included the text “...this could include emissions reduction or renewable energy targets of participating jurisdictions that are not legislated” however, this is not included within the current consultation paper.

¹ [CEIG response: NETP NEO](#)

² [Consultation paper: Incorporating an emissions reduction objective in the national energy objectives](#)

CEIG would like to note the importance of including targets that may not be legislated as this brings forward the inclusion of policy commitments for the three energy market bodies consideration before the lengthy process of legislation occurs and therefore supports investors with longer term policy certainty than would have been the case where only legislated targets are considered.

Furthermore, this may include the inclusion of state and territory targets beyond the Commonwealth Government targets, future proofing against a single government having lesser ambition in the future. As such, CEIG would like to see this text included in the guidance and within the rule changes to provide clarity to the market.

CEIG thanks both the AEMC and AER for the opportunity to provide feedback on the Consultation papers and looks forward to continued engagement. You can contact Ms Marilyne Crestias if you would like to discuss any elements of this submission further.

Yours sincerely,



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