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Lily Mitchell
Legal Director
Australian Energy Market Commission

Dear Ms. Mitchell

SUBMISSION ON THE AEMC'S GUIDE TO APPLYING THE EMISSIONS COMPONENT OF THE NATIONAL ENERGY OBJECTIVES

Pollination is a highly respected climate investment and advisory firm, dedicated to accelerating the transition to a net zero, nature positive future. Launched in Australia 2019, Pollination has a presence in 13 countries across the Americas, EMEA, and the Asia-Pacific. Our climate change and clean energy experts work across the project and capital value chains to create transition strategies for asset owners, financial institutions and corporates to position our clients and investors for leadership on climate change and nature. We have strong insight into the challenges and opportunities associated with decarbonising Australia's power system as a consequence of our work across the energy value chain, including direct experience in clean energy project development.

Integration of emissions targets with energy policy and market frameworks is critical to decarbonising Australia's economy in line with our international commitments.

The failure of governments to include emissions reduction in the National Energy Objectives ("NEO") to date, especially after the legislation of the Mandated Renewable Energy Target ("MRET") in 2000, has been deleterious to Australia's efforts to reduce its emissions from power generation fast enough to ensure we can now meet our Paris Commitments. Multiple examples exist of AEMC rule decisions over the past decade which extended the operational lives of fossil fuel generation, increased our emissions with no net economic benefit and made the cost of compliance with the MRET higher than it otherwise needed to be for energy consumers. A good example of this includes the ADANI / MLF decision in January 2020 which was overwhelmingly supported by the energy and renewable energy industry, but the AEMC, using the NEO as justification, disallowed the rule change request. Nothing in that decision has improved price, quality or reliability of supply. If "emissions reductions" had been included in the NEO, the AEMC would have been required to make the correct decision for the industry and planet.

Pollination therefore strongly supports the decision by the Energy Ministers to update the NEO to embed emissions reduction as part of the long-term interests of energy consumers. Consideration of the emissions impacts of rule changes, alongside existing consideration of implications for the price, quality and reliability of energy supply, will support coordinated and efficient decarbonisation of the National Electricity Market. Transparency regarding how changes to the National Energy Rules will reflect and support Australian governments'



commitment to achieving a decarbonised, modern and reliable grid will in turn support the other components of the national energy objectives by providing the confidence to investors, consumers and market participants that is critical to underpin an orderly transition of the power the system.

There are a number of key considerations that should be prioritised in this context.

Pollination considers it important that the Australian Energy Market Commission's (AEMC) guide to applying the emissions component of the national energy objectives, along with parallel processes being progressed in coordination with Federal and State governments, addresses the following issues:

- The consultation paper suggests that the assessment criteria used for proposed reforms that are likely to have an impact on the ability to meet relevant emissions reduction targets will be *"to assess whether the proposed reforms are likely to efficiently contribute to the achievement of government targets for reducing Australia's greenhouse gas emissions"*. The AEMC's guidance should provide as much clarity as possible to industry on how "efficiency" or "likelihood" will be assessed in this context. This is a broad framing that is open to interpretation and has the potential to introduce ambiguity as to how this criteria will be applied in practice (including whether the wording relates solely to economic efficiency). While we appreciate the need for appropriate framing of this criteria, the effect of that framing must be clear to market participants and policymakers and should ensure that this change to the national energy objectives can drive meaningful and tangible alignment between the energy sector and government emissions targets.
- The methodology being developed by the AEMC for quantifying the volume of emissions likely to be abated by a rule change will be an important and complex input to decisions where quantitative assessment of emissions reductions impacts is needed. Given the materiality of this methodology to policy decisions affecting market participants, investors and consumers, these stakeholders should have the opportunity to provide input on the methodology via a formal consultation process prior to it being finalised and applied by the AEMC in rule change processes.
- Similarly, it will be important that transparency is provided to investors and market participants with respect to the method for determining the "value" of emissions reductions (acknowledging that this process is being led by the Federal government). There are a number of approaches that could be taken to this exercise and limited information appears to be publicly available on the preferred method, despite suggestions that this process will be finalised by November 2023. Stakeholders should have sufficient visibility of the process and to understand how the method is likely to impact on potential commercial and investment decisions, as well as the opportunity to provide input as the method is being developed.

The integration of emissions reduction targets into the national energy objectives has the potential to be a significant step towards coordinated policymaking that supports the decarbonisation of Australia's power system. Addressing the climate crisis through such reforms is critical. However, the energy transition also directly intersects with issues relating to biodiversity loss and ecosystem collapse, as well as the empowerment of First Nations peoples with respect to development occurring on their land. Pollination therefore recommends that all rule change processes and decisions also explicitly acknowledge interactions with legislated principles relating to environmental protection and free prior and informed consent (FPIC), as governed by other legislation and regulatory frameworks.



We look forward to continuing to engage with the AEMC on this reform.

Yours sincerely



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