

Implementing the updated energy objectives

AEMC

Harmonising the rules with the updated objectives

AEMC guide to applying the updated objectives

Virtual public forum

7 August 2023



ACKNOWLEDGEMENT OF COUNTRY

The AEMC acknowledges and shows respect for the traditional custodians of the many different lands across Australia on which we all live and work. We pay respect to all Elders past and present and the continuing connection of Aboriginal and Torres Strait Islander peoples to Country. The AEMC office is located on the land traditionally owned by the Gadigal people of the Eora nation.



Danielle Beinart - EGM

AEMC

Introduction and welcome

COMPETITION PROTOCOL

KEY PRINCIPLES



The AEMC is committed to complying with all applicable laws, including the ***Competition and Consumer Act 2010*** (CCA), during this forum. Breaching the CCA can lead to serious penalties for individuals involved in any breach (including large financial penalties and imprisonment for key individuals involved). This protocol governs the way in which discussions will proceed at this forum, and each attendee agrees to adhere to this protocol in order to comply with the CCA.

Each attendee must make an independent and unilateral decision about their commercial positions and approach in relation to the matters under discussion in this forum.

Attendees must not discuss, or reach or give effect to any agreement or understanding which relates to:

- **pricing** for the products and/or services that any attendee supplies or will supply, or the terms on which those products and/or services will be supplied (including discounts, rebates, price methodologies etc)
- **targeting (or not targeting) customers** of a particular kind, or in particular areas
- **tender processes** and whether (or how) they will participate
- any decision by attendees:
 - about the purchase or supply of any products or services that other attendees also buy or sell
 - to not engage with persons or the terms upon which they will engage with such persons (i.e. boycotting); or
 - to deny any person's access to any products, services or inputs they require
- **sharing competitively sensitive information** such as non-publicly available pricing or strategic information including details of customers, suppliers (or the terms on which they do business), volumes, future capacity etc
- **breaching confidentiality obligations** that each attendee owes to third parties.

COMPETITION PROTOCOL

COMMUNICATION AND
MEETING GUIDELINES



Attendees must ensure that all communications (including emails and verbal discussions) adhere to the ***Key Principles***.

This forum will be conducted in accordance with the following rules:

- The agenda for this forum does not include anything that could contravene the Key Principles set out in this protocol.
- We will read and minute the below *competition health warning*:
 - Attendees at this forum must not enter into any discussion, activity or conduct that may infringe, on their part or on the part of other attendees, any applicable competition laws. For example, attendees must not discuss, communicate or exchange any commercially sensitive information, including information relating to prices, marketing and advertising strategy, costs and revenues, terms and conditions with third parties, terms of supply or access.
 - Participating in this forum is subject to you having read and understood the protocol including the Key Principles.
- We will keep accurate minutes of the forum, including details of attendees.
- If something comes up during the forum that could risk contravening any competition laws, attendees should:
 - Object immediately and ask for the discussion to be stopped.
 - Ensure the minutes record that the discussion was objected to and stopped.
 - Raise concerns about anything that occurred in the forum with their respective legal counsel immediately afterwards.
- All attendees understand that any competitively sensitive matters must be subject to legal review before any commitment/agreement can be given.
- Any decision about whether, and on what terms, to engage with customers and suppliers is an independent and unilateral decision of each attendee.

Purpose of today's public forum



AEMC staff will provide an overview of the harmonisation rule change requests and issues raised in our consultation paper



Stakeholders who provided input into the harmonisation rule change requests will provide their perspectives



AEMC staff will provide an overview of our draft guide on how we will apply the emissions component of the energy objectives in our work, and issues raised in our consultation paper



Forum participants will be invited to ask questions in dedicated Q&A sessions

Housekeeping

- All participants are currently in 'listen-only' mode
 - Moderators can switch your mic/video on if you request it.
- Asking questions
 - Use the Q&A button on the bottom of your screen.
 - If your name and/or organisation are not clear from your login details please include them in your question.
 - Questions will be answered at dedicated Q&A sessions.
 - We will try to answer all questions, but will prioritise questions with most 'upvotes' first.
 - You may be asked to speak to the questions you have submitted via the Q&A button in the dedicated Q&A sessions.

Tim Jordan - Commissioner

AEMC

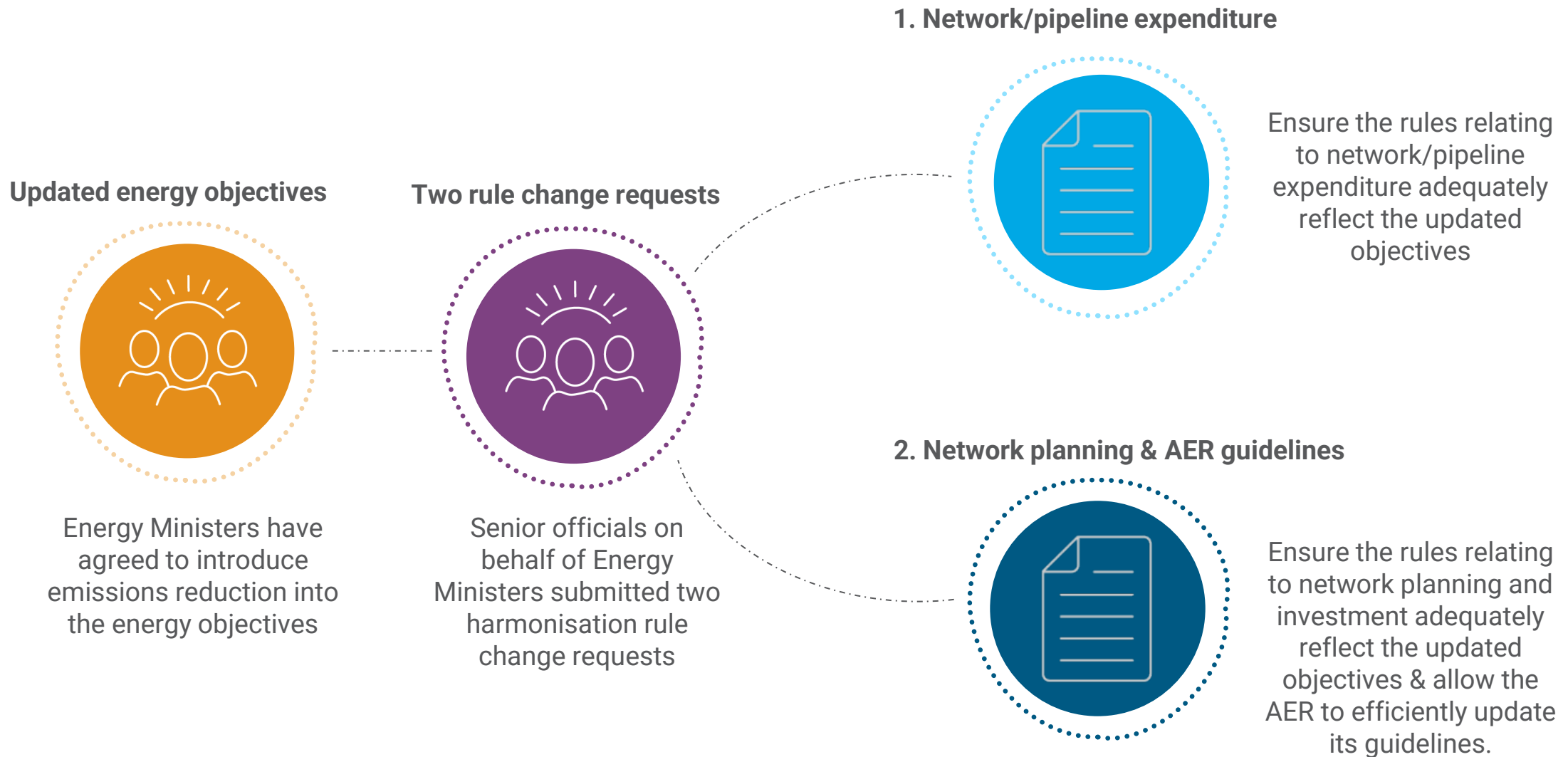
Introductory remarks

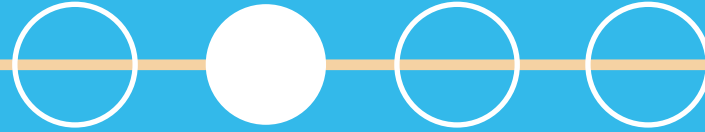
Alisa Toomey - Project Sponsor

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Part 1: Harmonising the rules with the updated energy objectives

Overview of rule change requests





Network/pipeline expenditure (rule change request one)

James King – Project Leader

Harmonising network and pipeline expenditure provisions

Rules that relate to network and pipeline expenditure don't include emissions reduction

Rules explicitly relate to the existing limbs of the energy objectives, so the updated objectives won't flow through in these cases.

Common issue across all sections

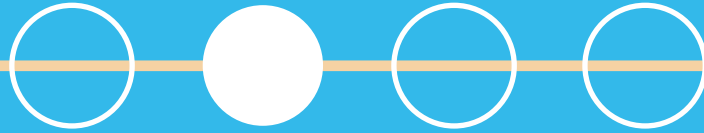
Expenditure provisions	Relevant rules
Electricity distribution - opex	NER cl 6.5.6(a)
Electricity distribution - capex	NER cl 6.5.7(a)
Electricity transmission - opex	NER cl 6A.6.6(a)
Electricity transmission - capex	NER cl 6A.6.7(a)
Regulated gas pipelines - opex	NGR r91(1)
Regulated gas pipelines - capex	NGR r79(2)

Example: Electricity distribution – operating expenditure rules (NER cl 6.5.6(a))

A building block proposal must include the total forecast operating expenditure for the relevant regulatory control period which the Distribution Network Service Provider considers is required in order to achieve each of the following (the operating expenditure objectives):

1. meet or manage the **expected demand** for standard control services over that period;
2. comply with all applicable regulatory obligations or requirements associated with the provision of standard control services;
3. to the extent that there is no applicable regulatory obligation or requirement [...] to the relevant extent:
 - iii. maintain the **quality, reliability and security** of supply of standard control services; and
 - iv. maintain the **reliability and security** of the distribution system through the supply of standard control services; and
4. maintain the **safety** of the distribution system through the supply of standard control services.

[Expenditure related to emissions reduction not explicitly provided for]



Network planning and investment, and AER guidelines (rule change request two)

Harmonising network planning and investment rules

1

Emissions reduction as a class of market benefit

Should emissions reduction be included as a class of market benefit to be considered in the **ISP**, **RIT-T** and **RIT-D**?

2

Definition of 'power system needs' for ISP

Should the definition of power system needs be amended to include emissions reduction?

Should the public policies clause be amended to reflect policies captured under the energy objectives?

3

References to the 'long term interests of consumers'

Should references to the long term interests of consumers be clarified by referring to the objectives directly?

4

Cost benefit analysis guidelines and general principles for RIT-T/Ds

Should the rules that relate to the cost benefit analysis guidelines and general principles for RIT-T/Ds be updated to clarify emissions reduction are relevant considerations?

Harmonising network planning and investment rules

1

Emissions reduction as a class of market benefit

Should emissions reduction be included as a class of market benefit to be considered in the **ISP**, **RIT-T** and **RIT-D**?

Relevant benefits are the same for RIT-Ts and similar for RIT-Ds. They do not explicitly include consideration of emissions reduction benefits.

ISP market benefits (NER cl 5.22.10(c) - abbreviated)

1. *changes in fuel consumption arising through different patterns of generation dispatch*
2. *changes in voluntary load curtailment*
3. *changes in involuntary load shedding*
4. *changes in costs for parties due to differences in: timing of new plant, capital costs, operating and maintenance costs*
5. *differences in the timing of expenditure*
6. *changes in network losses*
7. *changes in ancillary services costs*
8. *competition benefits*
9. *any additional option value, and*
10. *other classes of market benefits that are deemed relevant by AEMO and agreed by the AER or specified in the Cost Benefit Analysis Guidelines*

Harmonising network planning and investment rules

2

Definition of 'power system needs' for ISP and public policy clause

Should the definition of power system needs (para (a)) be amended to include emissions reduction?

Should the public policies clause (para (b)) be amended to reflect policies captured under the energy objectives?

Emissions reduction policies captured by the emissions reduction component of the energy objectives may be broader than the 'public policies clause' (cl 5.22.3(b)) as currently drafted.

ISP power system needs (NER cl 5.22.3 - abbreviated)

(a) *The power system needs are:*

1. *the reliability standard;*
2. *power system security;*
3. *system standards; and*
4. *standards or technical requirements...*

(b) *In determining power system needs... AEMO may consider a current environmental or energy policy where... at least one of the following is satisfied:*

1. *a commitment has been made in an international agreement...*
2. *that policy has been enacted in legislation*
3. *there is a regulatory obligation...*
4. *there is material funding allocated to that policy... or*
5. *the MCE has advised AEMO to incorporate the policy.*

Harmonising network planning and investment rules

Purpose of the ISP (NER cl 5.22.2)

*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**.*

3

References to the 'long term interests of consumers'

Should references to the long term interests of consumers be clarified by referring to the objectives directly?

Cost benefit analysis guidelines (NER cl 5.22.5)

Consideration of benefits related to emissions reduction are not explicitly included.

4

Cost benefit analysis guidelines and general principles for RIT-T/Ds

General principles for RIT-T/Ds (NER cl 5.15A.1(c) and cl 5.17.1(b))

*The purpose of the RIT-T/D... is to identify the credible option that **maximises the present value of the net economic benefit** to all those who...*

Should the rules that relate to the cost benefit analysis guidelines and general principles for RIT-T/Ds be updated to clarify emissions reduction are relevant considerations?

Process for AER to update its guidelines to reflect emissions reduction considerations

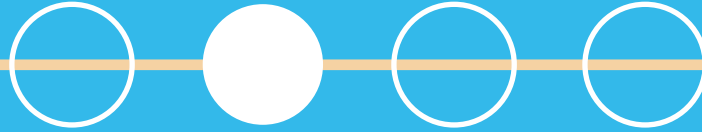


Many AER guidelines will need updating

AER guidelines will need to be updated to reflect the emissions reduction component of the energy objectives. There are multiple guideline consultation procedures that apply, with different consultation requirements.

Guideline consultation procedure	Consultation requirements	Estimated # of guidelines
Rules consultation procedures (NER rule 8.9)	Two rounds of consultation	16
Standard consultative procedure (NGR rule 8)	Two rounds of consultation	1
Distribution consultation procedures	One round of consultation	7*
Transmission consultation procedures	One round of consultation	9*
Retail consultation procedure	One round of consultation	10

*An additional 5 guidelines relate to both the transmission and distribution procedures



Stakeholder perspectives

Lucy Moon - Energy Networks Australia
Chris Ridings - Australian Energy Regulator

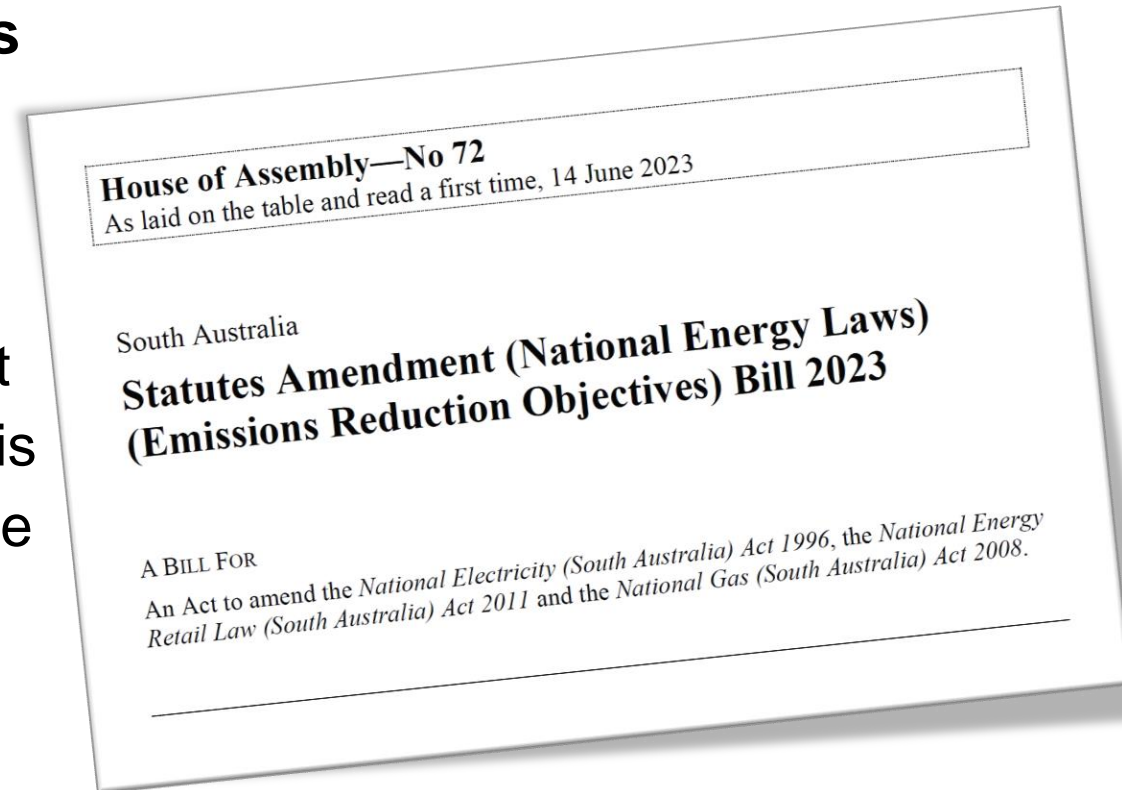
Emissions reform – consequential rule changes *ENA initial perspectives*

AEMC Public Forum

7 August 2023

Networks strongly support integration of emissions reduction

- » Through DCCEE's prior consultation, **networks strongly supported the introduction of an emissions reduction component** into the national energy objectives
- » Incorporating the emissions reduction component into the existing 'economic efficiency' framework is an effective way of integrating the concept into the decision making of energy market bodies
- » However, **consequential rule changes are needed to ensure that market bodies are able to fully reflect the proposed policy intent of legislative reform** when making regulatory decisions



Changes to expenditure rules needed to give effect to policy intent

- » Existing capex and opex guidance (electricity and gas) closely builds on and presupposes the existing 'old' NEO/NGO, but *does not explicitly reference* the NEO/NGO
- » **Without changes to the NER/NGR, opex and capex directed at meeting emissions reduction may not be able to satisfy opex and capex objectives in the Rules** (unless it is, for example, otherwise required to meet demand or satisfy a regulatory obligation)
- » Proposed rule changes **promote certainty and transparency** for networks & stakeholders when preparing revenue proposals → specify that the new emissions reduction objective must be considered
- » Amending the Rules to insert reference to the new emissions reduction objective of the NEO/NGO would also ensure that the objective is factored into the AER's assessment of expenditure proposals

Changes to investment & planning rules needed to give effect to policy intent

- » Current classes of market benefits reflect the existing components of the NEO as they largely relate to price, quality, safety, reliability and security
- » Second Reading Speech for the Bill makes clear that the legislative intent is for the reduction of greenhouse gas emissions to be “*a new category of market benefit to be assessed in market body decisions*” → **emissions reduction as a new class of market benefit under ISP & RIT frameworks** will give effect to the policy intent of changes to NEO
- » Power system needs for the ISP should also be revised to align with the amended NEO

Further considerations

- » Role of transitionals to ensure changes are incorporated into process underway that are under the amended objectives e.g., resets
- » Role and scope of AER proposed Omnibus Guideline – types of changes suitable for inclusion
 - changes that are directly consequential on the rule changes, vs.
 - material or substantive changes to the guidelines

Operationalising the emissions reduction objective

AER actions to operationalise the NEOs

- Issued draft guidance note on how we would assess whether to apply the new NEOs to processes underway, and how we will operationalise
 - Submissions by 18 August, final guidance due September
- As per the Bill, may issue guidance on a value of emissions reduction (VER)
 - This would bind the AER and RIT proponents in which value to use, and how to use it
- Updating “Network planning guidelines” (RIT-T and RIT-D guidelines & instruments, and Cost Benefit Assessment Guideline)
 - This is required for AEMO to incorporate emissions reduction in the 2026 ISP Draft Inputs, Scenarios and Assumptions Report (Due December 2024)
- Updates to Expenditure Forecast Assessment Guideline
- “Omnibus” guidelines update
 - A streamlined process to update the ~ **40-50** guidelines requiring “less material” amendments in a single consultation process

AER Guideline update process

- Amendments to the RIT-T and RIT-D instruments and guidelines, as well as the Cost Benefit Assessment Guideline are required for AEMO to incorporate the emissions objective in the 2026 ISP
 - In order to complete these updates by October 2024, we will need to commence consultation before the final harmonisation rule is made. We will need to assess the likelihood of changes to the draft rule such that we have sufficient certainty our consultation will closely represent final rules.
 - The Cost Benefit Assessment Guideline will also require updates at a similar time to incorporate changes arising from the Transmission Planning Investment Review (e.g. social licence, feedback loop). We are looking at ways of streamlining these processes to avoid duplicative consultation.
- Updates to guidelines relating to network expenditure will commence April 2024 (aim to be finalised by end 2024)
- “Omnibus” guideline update process for guidelines requiring less substantive changes to commence start of 2024. (Also all updated guidelines on AER website ASAP after “omnibus” process concludes)

AER Guideline update process – indicative timeline

Workstream	Deliverable	2023						2024						2025													
		Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July
First AER guidance	Guidance note on whether... within 45 days of Bill assent																										
Second AER guidance	Guidance note on whether...no later than NSW/ACT/TAS/NT reset draft determinations - Sept 2023																										
Network planning guidelines review (RIT-T & RIT-D)	A. Cost benefit assessment (CBA) Guidelines B. RIT-T application guidelines for actionable ISP projects (housed within the CBA guidelines) C. RIT-T application guidelines for non-actionable ISP projects D. RIT-D application guidelines E. RIT-T instrument F. RIT-D instrument																										
Expenditure Forecast Assessment Guideline (capex and opex criteria)	A. Expenditure forecast and assessment Guideline B. Asset replacement industry note C. Information and Communication Technologies guidance note D. Regulation of actionable intergrated system plan projects guidance note E. AER outline of the replacement expenditure (repex) model F. Guidance note on distributed energy resources integration expenditure																										
Significant Guideline changes/reviews	A. Better Resets Handbook (reflect First Nations, Social Licence, resilience as well as NEOs) B. Potentially 1 to 5 other guidelines may require significant updates/review. Would plan to run coordinated review & consultation																										
"Omnibus process" for less substantive Guideline changes	Approximlately 48 to 52 AER guidelines																										

AER may be able to commence internal work on network planning guideline reviews early, subject to certainty of AEMC rule change and Cth's progress on developing value or methodology for emissions

NSW/ACT/TAS/NT final det

AEMO draft ISAR

VIC electricity distribution revenue proposals due

Next steps

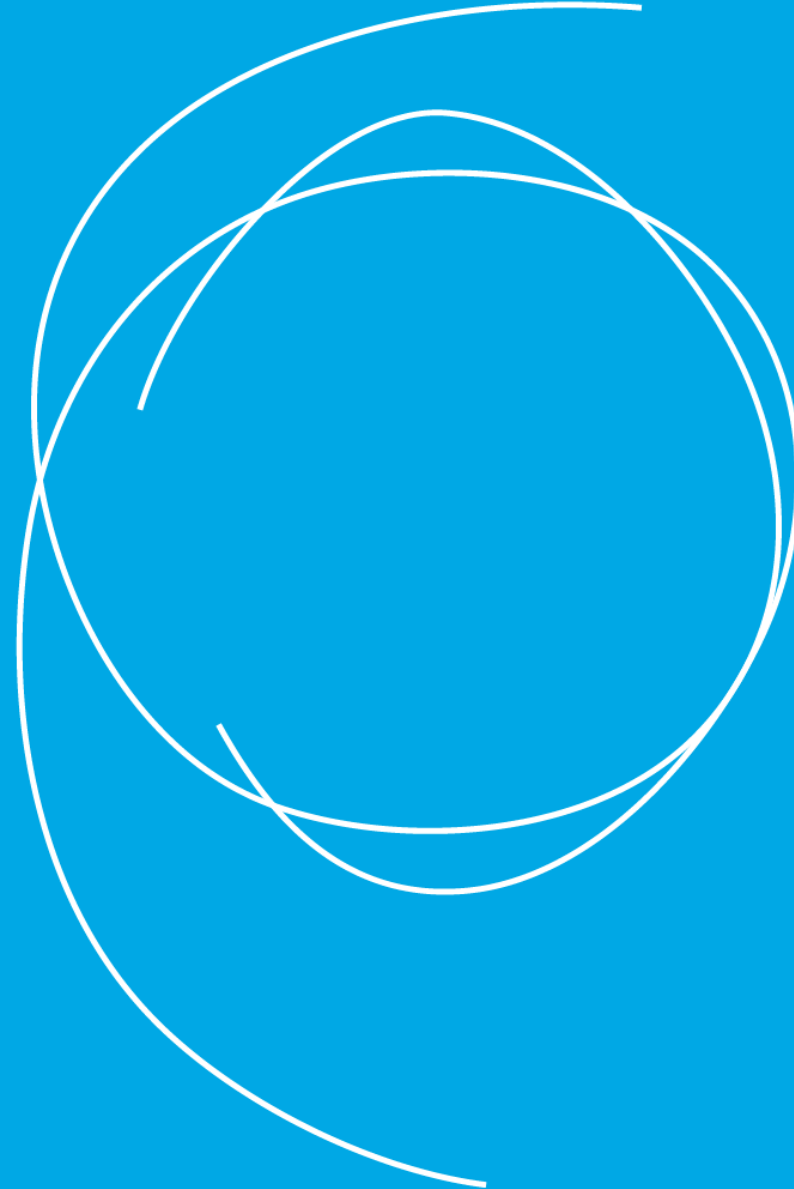


Q&A

Danielle Beinart– EGM Networks and Technical

AEMC

Harmonising the rules



Lily Mitchell – Project leader

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Part 2: AEMC guide on applying the updated objectives in our work

Our draft guide addresses these issues



- It is the role of governments to set strategic policy for energy and to set emission reduction targets
- How our approach to emissions will change with the new objective: internalising what used to be considered as part of the external context



- The new emissions component of the energy objectives is one of several considerations the Commission will take into account, alongside the existing components such as price and reliability



- For each project, we will consider the impact of the proposed reform on the ability to meet emissions reduction targets – a new assessment criterion



- There are a number of ways we could assess the impacts of a reform on the ability to meet emission reduction targets – we may use quantitative or qualitative methods



- When government guidance on emissions value becomes available, we will use that guidance in our quantitative assessments



- We will provide further guidance later this year on how we will estimate the volume of emission reductions associated with our rule changes



- We will apply the new objectives to existing projects, and will consult where impacts may be material

We are seeking stakeholder feedback on the draft guide

- Do stakeholders have any feedback on the approach we're proposing to take in applying the updated objectives?
- Does the guide clearly explain how the Commission will consider the new emissions reduction component in its work?
- Would further guidance on any aspects of the Commission's approach to the updated objectives be helpful?



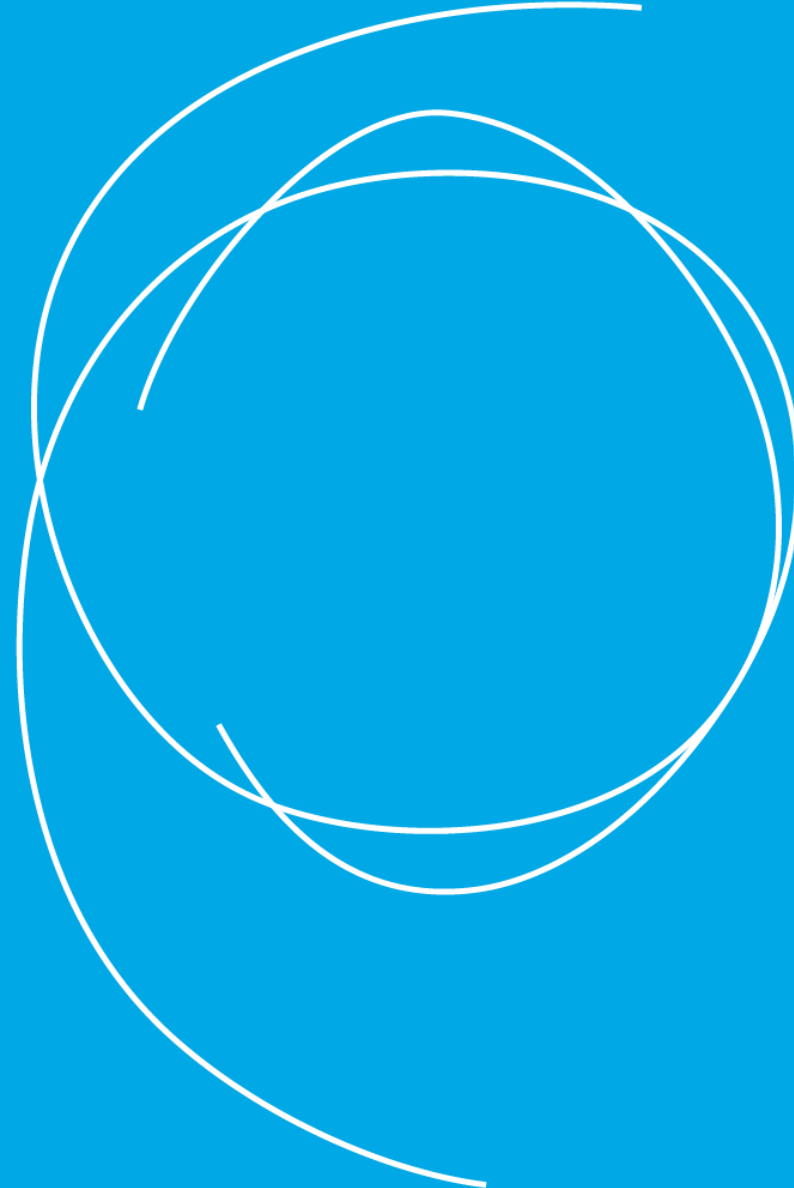
Next steps for the draft guide



Q&A

Lily Mitchell – Project leader

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AEMC Guide

Tim Jordan - Commissioner

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Closing remarks

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