

17 August 2023

Ms Anna Collyer
Chair
Australian Energy Market Commission
Sydney South NSW 1235

By online submission: ERC0362

Dear Ms. Collyer,

Harmonising the network and pipeline expenditure rules with the updated energy objectives (electricity and gas) rule change and harmonising the electricity network planning and investment Rules and AER Guidelines with the updated energy objectives (electricity, gas and retail) Rule Change

The Australian Energy Market Operator (AEMO) welcomes the opportunity to comment on the proposal by energy senior officials, on behalf of the Ministerial Council on Energy (as constituted by the Energy Ministers Sub-Group) to harmonise the National Electricity Rules (NER) with the amended national energy objectives.

AEMO has worked closely with Governments and Market Bodies throughout the development of the Bill which proposes to amend the National Electricity Objective (NEO) to explicitly incorporate an emissions component, and are supportive of efforts to harmonise the NER to ensure they appropriately reflect the intent of the amendments.

We have provided some perspectives on the questions asked in Appendix 1 below. Our comments focus on the second and third components of the consultation paper, which relate to harmonising key network planning and investment rules across the NER as well as facilitating a single omnibus guideline update process for relevant AER guidelines. We look forward to working with the AEMC through the Rule Change process.

If you would like to discuss anything further, please contact Kevin Ly, AEMO Group Manager – Reform Development & Insights (kevin.ly@aemo.com.au).

Yours sincerely,



Violette Mouchaileh
Executive General Manager – Reform Delivery

APPENDIX 1: AEMO'S VIEWS AND INSIGHTS ON THE CONSULTATION PAPER

This section discusses AEMO's views and insights related to specific questions posed or where views are sought throughout the Consultation Paper.

6. Should the rules relating to network planning and investment be updated?

a) Do you agree that the change to the NEO means it is appropriate to consider consequential or harmonising changes to the network planning and investment rules, for clarity and to give effect to the updated NEO?

i. Should emissions reductions be included as a class of market benefit to be considered in the Integrated System Plan (ISP), regulatory investment test for transmission (RIT-T) and regulatory investment test for distribution (RIT-D), to ensure the transparent consideration and balancing of the emissions component of the national electricity objective with the other components?

AEMO supports the inclusion of emissions reductions in the ISP as an additional benefit class to the existing list of market benefit classes in NER 5.22.10(c). The level of granularity should be consistent with the other market benefit classes.

If the market benefits classes include an emissions reduction class, with an appropriate Value of Emissions Reduction (VER), this can then complement our existing approach to capture carbon emissions reduction settings within the policies (which do not define market benefits but do constrain emissions outcomes per scenario).

We also consider that emissions reduction should be included as a class of market benefits for RIT-Ts, as per the proponent's suggestion, which will enable quantification in the event it is deemed as material to outcome.

ii. Should any changes be made to the definition of power systems needs and the range of policies AEMO takes into account in the ISP to ensure alignment with the updated national electricity objectives?

iii. Should references to the 'long term interests of consumers' in ISP provisions be changed to refer to the national electricity objective, to clarify that all components of the objective are to be considered?

In relation to NER 5.22.2 (purpose of the ISP), our view is that no change is required here, given the current wording "efficient development of the power system" already covers emissions. An alternative approach could be to simply replace 'for the long-term interests of the consumers of electricity' with 'in a manner consistent with the national electricity objective', as proposed by the proponent.

In relation to NER 5.22.3 (the power system needs which the ISP is intended to achieve):

- 5.22.3(a) - Emissions reduction of itself should not be considered a power system need. We are of the view that 5.22.2 covers emissions. Therefore, it is not necessary to explicitly include this. Emissions reduction of itself should not be considered a power system need (any more than the price of energy supply). We are of the view that the current wording of 5.22.2, allows us to consider emission reduction targets, specifically through the "*efficient development of the power system*".
- 5.22.3(b) – Our view is an additional limb should be added to the clause to Include the AEMC Targets Statement, which will be introduced in accordance with *the Statutes Amendment (National Energy Laws) (Emissions Reduction Objectives) Bill 2023* (Bill) as an eligible policy, and the ISP may then consider all policies that meet any of the requirements, to identify power system needs.

In relation to NER 5.22.7(d)(2), which currently reads “the ISP consumer panel must, in preparing the consumer panel report have regard to the long term interests of consumers”, our view is that no change is required here, however we support the alternative of replacing “have regard to the long term interests of consumers” with “in a manner consistent with the national energy objectives” in the event that this change is made to 5.22.2 (as per above).

iv. Should the rules relating to the CBA Guidelines for ISP projects be updated to allow for cost-benefit analysis of emissions reductions? Is there a need to update the rules for the CBA Guideline or the rules relating to the general principles for RIT-Ts and RIT-Ds?

AEMO agrees that the rules relating to the AER’s general principles for RIT-Ts and RIT-Ds and the rules for the ISP preparation should be updated to allow for cost-benefit analysis of emissions reductions.

Additionally, AEMO believes the Rules need to explicitly acknowledge that beneficiaries of the emissions reduction may be wider than those who produce, consume and transport electricity in the market, and allow for this to be valued as a market benefit class for ISPs, RIT-Ts and RIT-Ds. This is consistent with the intent of the amendments to the national energy objectives.

b) Do you agree with the areas in the investment and planning framework identified for harmonisation? Are there any areas that should not be considered further? Are there any additional areas that should be considered?

As discussed above, AEMO broadly agrees with the areas in the investment and planning framework identified for harmonisation.

7. Should there be a streamlined process for updating AER guidance to incorporate emissions reduction?

AEMO supports the rules being amended to enable the AER to streamline the consultation process for amendments relating to the emissions component, and that the AER be allowed to undertake a single consultation to update relevant guidelines to incorporate consideration of emissions reduction. We note that for material or complex updates, the AER will retain dedicated single consultation processes to ensure stakeholders have the opportunity to provide input to significant updates to its instruments.

a) Do you agree that an omnibus update process for all relevant guidelines would reduce the administrative burden for stakeholders and the AER?

AEMO supports the AER using an omnibus update process for all relevant guidelines and agrees this would reduce the administrative burden for stakeholders and the AER.

b) If so, do you agree that distribution consultation procedures are the most appropriate consultation procedures to follow?

We consider that distribution consultation procedures are appropriate.

c) Should there be restrictions on the types of changes or types of guidelines included in the omnibus consultation? Should more significant changes be subject to two rounds of consultation, or individual consultation processes?

AEMO does not consider there should be restrictions on the types of changes or types of guidelines included in the omnibus consultation.

d) Should the rules exempt the AER from consulting on any emissions-related updates that are minor or administrative in nature and do not impact or change requirements for participants?

AEMO considers the rules should exempt the AER from consulting on any emissions-related updates that are minor or administrative in nature and do not impact or change requirements for participants. We consider this would likely help achieve one of the main objectives of the AEMC's Transmission Planning and Investment Review's (TPIR) – to support efficient investment in and timely delivery of major transmission projects.

8. What are your views on the costs and benefits of the proposed solutions in rule change request two?

a) What do you consider will be the benefits and costs of the proposed rule changes (as distinct from the benefits and costs of the change to the NEO itself)?

Any change to NER 5.22.3(b) (the ISP public policy clause) may result in some costs for AEMO in changing our methodology in preparing the ISP, depending on the nature of the changes. If the only change is the addition of the AEMC Target Statement, as we have proposed, AEMO will consider the targets contained in that list when preparing the ISP as part of our current process. We do not consider this would add material costs to the current process of preparing the ISP.

We agree that the benefits of the proposed rule change include harmonisation of the NER to the NEL, provision of clarity to market bodies and participants in the application of the emissions reduction objective, providing net benefits to energy consumers over the long term, and supporting the intent of law change to achieve Australia's emissions reduction targets.

b) If there are costs, will these be one-off or ongoing?

AEMO would prefer that the only change to NER 5.22.3(b) is the possible addition of the AEMC Target Statement, as we have proposed. AEMO will consider the targets contained in that list when preparing the ISP as part of our current process. We do not consider this would add material costs to the current process of preparing the ISP, however given the ISP is an ongoing function, it may add some ongoing, additional cost.

AEMO notes that the *National Energy Laws Amendment (Emissions Reduction Objectives) Bill 2022* will insert section 32A in the *National Electricity Law*. Section 32A(5) provides that, in having regard to the national electricity objective under the NEL, with respect to the new emissions reduction objective, AEMO must consider, as a minimum, the targets stated in the AEMC's targets statement.¹ The changes proposed above to 5.22.3(b) ensure alignment between the NEL and NER.

c) Is there anything the Commission could do in designing the rule that would help to minimise the costs and maximise the benefits?

We have no specific suggestions on this.

¹ *Statutes Amendment (National Energy Laws) (Emissions Reduction Objectives) Bill 2023* Section 32A(5).

9. Are there important implementation considerations for the rule changes proposed in Rule Change Request Two?

- a) *Are there any implementation issues we should consider for either the changes to the planning and investment rules or in relation to a streamlined process for updating AER guidance?*
- b) *Could the proposed rule changes take effect as soon as they are made (early 2024)? If not, what implementation timing and transitional rules would be appropriate?*

If a VER is provided to AEMO by mid-October 2023, including a way to project the VER over time, and the Rules are amended in early 2024 as suggested, AEMO will include the VER as a market benefit class in the final 2024 ISP to be published by end June 2024. The timing will not facilitate it being included in the draft 2024 ISP which will be published in December 2023.

Provided there are no impediments to the application of a VER, we consider it achievable for the 2026 ISP to reflect the VER as a market benefit class.

10. Are there alternative solutions that would be preferable to the solutions proposed in Rule Change Request Two?

- a) *Are there any alternative solutions to incorporating emissions reduction into the network planning and investment framework that you think would be preferable and more aligned with the long-term interests of consumers?*

AEMO considers the proposed rule changes are the best way to harmonise the emissions reduction component of the national energy components with the NER. The existing mechanism contained in the Rules may not be sufficiently certain to effectively incorporate emissions reductions as a benefit class in the ISP. For example, whilst clause 5.22.10(c)(1)(x) of the NER provides for AEMO to include classes of relevant market benefits not included in the Rules, these benefit classes must be agreed to by the AER in writing before the publication of the draft ISP or specified as a class of market benefit in the CBA Guidelines.

If the current rule change does not result in the inclusion of emissions reduction (a VER) as a market benefit class in the CBA Guidelines or in the Rules, AEMO would need to seek the AER's written permission to include emissions reductions as a market benefit class every time we prepared an ISP (every two years). In addition, a value would need to be determined, which is not appropriate for AEMO to do.

There would be significantly less certainty for stakeholders in whether emissions reductions would be considered in every ISP, and the AER would need to consider each AEMO's request every two years, meaning ongoing resourcing demands on the AER. A similar situation would apply for RIT-Ts, which increased the risk of misalignment between ISPs and RIT-Ts going forward.

Therefore, we consider the proposed changes to include the VER as a market benefit class to be the most efficient course of action.

- b) *Are there alternative solutions to updating AER guidance than the solution proposed in the rule change request?*

AEMO supports the AER's proposal to undertake an omnibus guideline update to allow for a single consultation process to amend various AER Guidelines.

11. Assessment framework

Do you agree with the proposed assessment framework? Are there additional principles that the Commission should take into account or principles included here that are not relevant?

AEMO broadly supports the proposed investment planning framework and in particular the inclusion of emissions reductions as a VER incorporated in the NER as a market benefits class. As discussed above, we have some reservations about changing the provisions in the NER relating to the purpose of the ISP and power system needs.