Australian Gas Infrastructure Group

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Mr James King
The Australian Energy Market Commission

Via online submission

Harmonising the network and pipeline expenditure rules with the updated energy objectives

Dear Mr King,

Australian Gas Infrastructure Group (AGIG) welcomes the opportunity to respond to the AEMC's review considering updating the network and pipeline expenditure rules to account for forthcoming changes to the national energy objectives.

AGIG is the largest gas distribution business in Australia, serving more than two million customers through our networks in Victoria, Queensland, South Australia, and several regional networks in New South Wales and the Northern Territory. Our storage facility and transmission pipelines including the significant Dampier to Bunbury Pipeline in Western Australia serve a range of industrial, mining and power generation customers.

Overall, we support the intention to incorporate consideration of emissions targets into the National Energy Laws and National Energy Objectives. This submission will address two of three issues outlined in the consultation paper:

1. Incorporating the consideration of emissions issues into capital and operating expenditure criteria in the National Gas Rules (NGR); and
2. Incorporating consideration of emission issues into electricity network planning and investment frameworks.[1]

On both issues we believe there would be a strong benefit to explicitly incorporating consideration of emissions targets and explain our reasons in more detail below.

Incorporating the consideration of emissions issues into capital and operating expenditure criteria in the NGR

We support the proposal to include specific reference to emissions considerations in the criteria for capital and operating expenditure, provided this criteria does not have primacy over other criteria in the expenditure rules. Specifically, we support reference to those targets included in the "targets statement" that have been formally adopted by a relevant jurisdiction. We support the inclusion because there are instances where expenditures could make a contribution to one or more emissions targets but would not be allowed under the current rules.

[1] The submission does not address the third issue outlined in the consultation paper regarding AER processes for the issuance of guidelines etc.

Up to now, emissions have influenced expenditure decisions but primarily in the form of specific regulatory requirements or where capital expenditure can deliver operating expenditure savings.[2]

The AER have recently allowed the recovery of expenditure to comply with the Safeguard Mechanism within the existing Rules – including purchasing carbon credits for compliance.[3] The existing rules also encourage pipelines to minimise and reduce emissions from UAFG and SUG where "the overall economic value" of proposed capital expenditure is positive in the form of reduced opex[4] – this has formed at least part of the justification for investment in mains replacement to date.

Nonetheless, we believe there are potential instances where it is unclear if expenditure would be allowed under the current rules. These include proposals for capital investment (e.g. for capital equipment required to deliver low and zero emissions gases to customers) and instances where the value of emissions might justify not incurring expenditure. Including reference to emissions targets included in the proposed "targets statement" in both the capital and operating expenditure rules will allow these issues to be balanced against other considerations.

It is important to emphasise, that there will be instances where required activities and expenditure results in emissions. For example where emissions are a necessary and unavoidable outcome of safety measures. The proposed emissions considerations must be balanced appropriately against other factors and should never be assumed to have primacy.

Further, we note that the targets referred to in the forthcoming National Gas Objective (NGO)[5] and likely to be included in the "targets statement" prepared and maintained by the AEMC,[6] could reasonably include targets which relate to scope 1, 2 and 3 emissions. The targets therefore may affect pipelines both directly in the form of targets relating to scope 1 and scope 2 emissions, and indirectly in the form of targets relating to scope 3 emissions. The changes may require pipelines and the Australian Energy Regulator (or ERA) to balance targets in overlapping jurisdictions (State/Territory and Commonwealth), and across the different emissions scopes, while also balancing the other elements of the NGO.[7]

Incorporating consideration of emission issues into electricity network planning and investment frameworks

When considering the incorporation of emissions issues into electricity network planning and investment frameworks, we believe it is important to allow for broader system wide solutions that reduce emissions. The optimal development pathway and specific cost benefit analyses should not simply compare different pathways using electricity network infrastructure (e.g. different pathways for transmission lines), but should engage in a detailed consideration of alternatives including alternative forms of energy, transport and storage that can achieve the same or similar emissions outcomes.

At present the National Electricity Law (NEL) and Rules (NER), do not allow for all alternative pathways to delivering zero emissions to customers. This creates a bias towards particular pathways that locks in electricity transmission investment without due consideration for alternatives. We therefore, encourage

[2] For capital expenditure NGR 79(2)(c)(iii) includes a criterion allowing for expenditure "to comply with a regulatory obligation or requirement", while for operating expenditure under NGR 91 a "prudent service provider" acting "in accordance with good industry practice" can incur expenditure to comply with regulatory requirements.

[3] See the AER's Final Decision for Victorian distribution networks, for example AGN Victoria https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/australian-gas-networks-victoria-and-albury-access-arrangement-2023%E2%80%9328

[4] NGR 79(2)(a)

[5] Proposed s 23(b)

[6] Proposed s 72A

[7] Retained in the proposed amendments as s 23(a)

the AEMC to consider rule changes that allow comparison across different forms of energy, not simply different electrification pathways.

For example, hydrogen produced close to renewable generation and delivered to industry and other customers via pipelines may in many instances offer more efficient and cost-competitive means of delivering energy (relative to electricity transmission) but is completely outside the scope of the network planning and investment frameworks.

In adding emissions considerations to the relevant components of the NEL and NER we encourage the AEMC to investigate options that allow for broader consideration of pathways to achieving the emissions targets of relevant jurisdictions.

If you wish to discuss the points we have raised in our submission, please contact Jenny Thai, Senior Policy Advisor at Jenny.Thai@agig.com.au.

Yours sincerely,

Roxanne Smith
Executive General Manager Corporate and Regulation