17 August 2023

Australian Energy Market Commission
Anna Collyer, Chair
Reference: ERC0362

Lodged via the AEMC website

Dear Ms Collyer,

ERC0362: 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

CRP0159: Consultation on AEMC guide to applying the emissions component of the national energy objectives

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia, representing over 1,000 of the leading businesses operating in renewable energy, energy storage and renewable hydrogen. The CEC is committed to accelerating the decarbonisation of Australia's energy system as rapidly as possible while maintaining a secure and reliable supply of electricity for customers.

We welcome the opportunity to comment on the rule change to harmonise the NER, NERR and NGR with the updated energy objectives, as well as the AEMC's consultation on its guide to applying the emissions component of the national energy objectives.

The CEC supports the proposed rule changes on the basis they will provide increased clarity and certainty for clean energy investors. The AEMC has taken a pragmatic approach to assessment of the rule change requests, reflecting the clear instruction from Ministers to account for the value of emissions reduction in the national energy regulatory frameworks.

The CEC considers the direction by Ministers to account for emissions reduction in the objectives, and the AEMC's efforts to implement these instructions, as key to reducing investment uncertainty.

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SPECIFIC INPUT

As stated above, CEC supports the AEMC's efforts and its approach.

Generally we have answered 'yes' to all of the questions posed by the AEMC, or are supportive of the direction taken in the rule change and as described in the consultation paper. We also offer the following specific input, and have identified some gap areas for the AEMC to consider.

Question 1: How should emissions reductions be treated in network and pipeline expenditure proposals and assessments?

In regards to the matters laid out in Chapter two of the Consultation paper, the CEC generally considers the AEMC has identified the correct issues, as this relates to the consideration of network and pipeline expenditure. However, given the degree of substitutability between gas and electricity for energy provision, it follows the AEMC may want to consider whether and how emissions reductions can be considered across investments in both electricity and gas networks, with a view to reducing emissions.

For example, is it possible for the NER to enable the AER to assess whether approval of additional capex in electricity networks might defer or eliminate the need for investment in gas networks? Such an assessment would be weighted by reference not only by cost reductions for consumers through electrification, but also the extent to which it contributed to overall emissions reduction.

For the AER this may be particularly pertinent in distribution networks, where there is a substantial degree of substitution of gas enabled through electrification of households. For AEMO, this may be relevant when assessing projections of gas vs renewable generation in the ISP.

Question 3: Costs and benefits

The CEC expects the costs associated with implementing the new rule would include formulating or revising decision-making processes and preparing cost-benefit analyses. This is a relatively minor adjustment in regulatory and economic decision making processes, the cost of which will be markedly outweighed by the benefits associated with reducing emissions.

These will flow from more effective quantitative estimates of the benefits in relation to costs. This will reduce costs by reducing investment uncertainty, which reduces capital costs associated with transmission and generation investment.

Question 5

The CEC expects that having the AER and ERA consider emissions reductions on a case-by-case basis would almost certainly generate uncertainty for stakeholders, thus increasing costs and leading to less efficient outcomes.

It follows that a standardised approach, as identified by the AEMC, represents the preferable way forward.

Question 6: Amending network planning and investment rules to provide clarity around the treatment of emissions.

As identified, the CEC strongly supports explicit accounting for emissions reduction in the network planning and economic regulatory frameworks.

We are generally supportive of the proposed policy positions of inclusion of emissions reduction in the list of market benefits, power system needs, in the ISP provisions and in the CBA guidelines – noting the below comments that may influence the form and content of the CBA guidelines and RIT-T / D principles.

The AEMC has focussed its consideration of incorporation of the value of emissions reduction through means such as the definition of market benefits and the ISP processes.

The CEC considers this analysis could be expanded to consider whether and how the expanded NEO might be factored into the consideration of reliability corrective actions.

The definition of a reliability corrective action is set out in clause 5.10.2 and expanded later in Chapter 5 relating to the planning processes. Reliability corrective actions enable a network to progress projects to meet its various service standards, including the standards set out in schedule 5.1 and jurisdictional reliability requirements, even if the project (preferred option to meet an identified need) has a net negative economic benefit (net negative cost).

We recommend the AEMC consider whether the concept of 'net economic benefit', or the magnitude of a 'net negative economic benefit' allowed for a reliability corrective action, should be reassessed in light of maintaining reliability in the context of adapting to the effects of climate change.

As the effects of climate change worsen we can expect to see transmission networks subject to increasingly severe threats, such as more severe weather events and bushfires. Resilience to these effects will increase the probability of maintaining a reliable supply of electricity for consumers, however increasing this resilience comes at a cost – such as building stronger transmission tower footings and installing system integrity protection schemes.

On this basis, we consider that the approach taken to assessing proposed reliability corrective actions, and the appropriate cost of network infrastructure build to adapt to the effects of climate change, should actively account for the value of resilience to the effects of climate change. In practice, this could include allowing greater 'net negative' amounts to accrue for a preferred option, if it can be demonstrated that the project contributes to increased resilience to the effects of climate change. At a more fundamental level, it could entail changes to the way that a net economic benefit is assessed, by explicitly including a value for adaptive resilience to climate change.

The CEC recognises this falls partly outside the remit of the AEMC. At the highest level, governments should include the benefits of avoided climate change impacts in their assessment of the value of emissions reduction. Similarly, the AER will also play

a key role in guiding how these kinds of benefits can be accounted for through the CBA guidelines and other instruments that guide NSPs.

However, we suggest the AEMC begin this process, by exploring how the NER frameworks might be amended to better enable the valuation of resilience measures to adapt to climate change. This should include assessing the NER clauses that shape the AER's processes, as well as the general planning requirements imposed on TNSPs and AEMO in Chapter 5, particularly the definitions and processes surrounding reliability corrective actions.

Finally, we note that work has stalled on defining an accurate and effective metric to assess the probability weighted cost of High Impact Low Probability events – this work should be restarted as soon as possible, in order to better measure the benefits of resilience to climate change.

Potential implementation issues

A key question raised by some CEC members relates to how the new NEO emissions reduction frameworks will be applied, once the relevant rule changes have been made and the guidelines adapted. CEC members have expressed some concern that the first projects assessed under the new frameworks may face delays, as regulators 'learn by doing' when applying the new frameworks.

For example, it may be that accounting for emissions reduction increases the complexity for the first round of TNSP applications of the RIT-T under the new framework. Any such delays would be problematic, especially given the significant complexities already associated with renewable investment in the NEM.

While some delays are likely unavoidable as the new frameworks are adopted, we recommend the AEMC build in flexibility for the AER, AEMO, generators and NSPs when they begin to apply these frameworks.

Consultation on AEMC guide to applying the emissions component of the national energy objectives

The draft application guideline is a good starting point for setting out how the AEMC will apply the amended objectives to future rule changes. We recognise the constraints the AEMC operates within, and that its decision making must be consistent with directives from government, including the value of emissions reduction when it is finalised in November.

Having said that, the AEMC also has significant discretion to weigh and prioritise the various 'limbs' of the objectives. On that basis, we strongly recommend the AEMC prioritise the objective of emissions reduction - whether explicitly defined in targets or implicitly included in RET type mechanisms – wherever this is consistent with reliable and secure operation of the power system.

For example, when assessing a rule change request against the dual limbs of *price* and *emissions reduction*, we suggest the AEMC strongly weight achievement of emissions reduction over achievement of lower prices. Achieving lower prices should never come at the cost of breaching emissions reductions targets. We consider that

while emissions reduction should be achieved at the lowest possible cost to consumers, it should not be made subject to minimisation of long run costs.[1]

We appreciate that other limbs such as *security* - and possibly *reliability* - may need to be weighted differently against *emissions reduction*. Put simply, keeping the lights on will always take precedence. However, the AEMC can still account for a reasonable weighting of *emissions reduction* here, by making rules that prioritise delivery of *security* and *reliability* through zero carbon technologies.

As per our point below on the market design principles, the concept of technological neutrality is in many ways no longer consistent with the physical needs of the power system. It follows that system security and reliability should be enabled in a manner consistent with reducing emissions, by prioritising zero carbon technologies to meet these system requirements.

We therefore recommend the AEMC consider the extent to which the market design principles are consistent with the expanded NEO. These provisions are set out in the beginning of Chapter 3 of the NER and include the following requirement:

> 3.1.4 Market design principles (a) This Chapter is intended to give effect to the following market design principles: …
>
> (3) avoidance of any special treatment in respect of different technologies used by Market Participants;

This clause is the basis of the principle of 'technological neutrality' which the AEMC applies across its various processes, particularly in terms of how it assesses rule change requests. In theory, this concept of technological neutrality has merits, however its application in the context of the transition may no longer be appropriate.

The most obvious example of this relates to the treatment of carbon emitting vs zero carbon technologies. Ignoring this fundamental technological difference, in adherence to 'technological neutrality', is obviously contrary to the expanded NEO.

The CEC recommends the AEMC clearly state that it will purposefully prioritise zero carbon technologies over higher emissions technologies when it makes rules and undertakes its other processes.

The CEC welcomes further opportunities to work with the AEMC to progress this important reform. Further queries can be directed to czuur@cleanenergycouncil.org.au.

Kind regards

Christiaan Zuur
Director, Energy Transformation

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[1] The CEC appreciates that in theory, meeting the price element of the NEO is about achieving efficient long run pricing – ie, where long run marginal cost equals long run marginal price. In practice however, the AEMC will likely face significant pressure from industry end user groups and other parties to drive energy prices as low as possible. This push for lowest possible prices must not come at the expense of meaningful actions to mitigate climate change.