

18 August 2023

Australian Energy Market Commission (AEMC)
Lodged via the AEMC website

Reference:

- **CRP0159: Consultation on AEMC guide to applying the emissions component of the national energy objectives**
- **ERC0362: Harmonising the electricity network planning and investment rules and AER guidelines with the updated energy objectives (electricity)**
- **ERC0376: Harmonising the network and pipeline expenditure rules with the updated energy objectives (electricity)**
- **REL0089: Reliability Panel guide to applying the emissions component of the National Electricity Objective**

Dear AEMC,

Hydro Tasmania welcomes the opportunity to respond to the consultations on applying the emissions component of the National Energy Objective (NEO). Hydro Tasmania supports the inclusion of an emissions component in the NEO and has engaged directly and through our industry associations to positively contribute to the consideration and implementation of this. As we understand:

“Consistent with the current approach to applying the objectives, the emissions reduction component will be one of a number of components (alongside price, quality, safety, reliability and security of supply) that the AEMC will be obliged to consider and will have discretion to balance in making its decisions.”

In addition, we strongly support utilising principles of good regulatory practice such as predictability, stability, simplicity, and transparency for all stakeholders in the application of this change. As noted, the Emissions Reduction Objectives Bill:

The Bill amends the national electricity, gas and retail energy objectives to include:

“the achievement of targets set by a participating jurisdiction –

- for reducing Australia’s greenhouse gas emissions; or
- that are likely to contribute to reducing Australia’s greenhouse gas emissions.”

Incorporating emissions reduction into the national energy objectives means energy market bodies, including the Commission, will need to balance emissions reduction with the existing considerations of price, quality, safety, reliability and security in applying the objectives.

Hydro Tasmania supports the proposal that the Commonwealth lead work on developing a value of emission reductions. The application of emissions reduction in the NEO will not be workable without an agreed value that can be referenced and used in quantitative and qualitative analysis:

“For projects where quantitative analysis of costs and benefits relating to emissions reduction is required, we will need to understand the value of emission reductions, in the context of the current emission reduction targets, and the volume of emissions the project is likely to reduce. The Commonwealth Government will lead work on developing a value, or method for determining one, in close consultation with market bodies, states and territories.”

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

Hydro Tasmania is supportive of the development of the AEMC guide and the open and clear communication of its contents. In previous submissions relating to the incorporation of the emissions component in the objectives, Hydro Tasmania has emphasised the importance of explaining how market bodies will implement the change(s) and which key regulatory processes will be directly affected. The proposed guide is a sound response to the key considerations, however, there are some important key elements (as noted in the draft guide itself) that still await further development and further communication.

Given our overarching support for the draft guide and the proposed application of an emissions objective across the AEMC’s work, this submission focussed only on some key questions. Hydro Tasmania is a member of the Clean Energy Council and the Australian Energy Council and have contributed to the development of their submissions.

Governments set strategic policy for energy and emission reduction targets:

Targets statement

The Emission Reduction Objectives Bill requires the Commission to develop a targets statement that lists government emission reduction targets the market bodies, including the Commission, should consider when applying the updated objectives.

The targets statement will cover two key types of targets in accordance with the provisions of the Bill:

- Targets for reducing Australia’s greenhouse gas emissions
- Targets likely to contribute to reducing Australia’s greenhouse gas emissions. (These may include targets relating to renewable energy and electrification, for example.)

It is appropriate that the AEMC *“publish a list of the relevant targets, reflecting government input.”* By itself, this does not fully explain how policies and targets will be embedded in the rule-making framework or whether, for instance, Federal targets are weighted equally with State/Territory targets. While it is understood that the Commonwealth will lead *“work on developing a value [of emissions reduction] or method for determining one”* the presence of

differentiated state targets (some representing a higher level of ambition) may complicate the rule changes that apply across all NEM jurisdictions.

Hydro Tasmania supports further communication from the AEMC on emission and renewable energy targets and consideration of how these will support the transition of the sector.

ERC0362: Harmonising the electricity network planning and investment rules and AER guidelines with the updated energy objectives (electricity)

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ERC0376: Harmonising the network and pipeline expenditure rules with the updated energy objectives (electricity)

Amending network planning and investment rules to provide clarity around the treatment of emissions

Emission reductions should be included as part of the market benefits test for RIT-T and RIT-D applications. Specifically this will give increased clarity and certainty to proponents including through the Integrated System Plan (ISP) and ISP future development. This is essential to provide markets the information they need to function efficiently, as well as for investors making capital allocation decisions.

The value of emission reductions should be consistently and transparently applied (and regularly updated) across both electricity and gas sectors. This can ensure that costs and benefits for consumers are transparently assessed, including through forward ISP scenarios.

Consultation questions

(Question 1) Hydro Tasmania agrees that the rules should explicitly apply the new emissions reduction component of the NEO to network and pipeline expenditure proposals and assessments.

(Question 7) Hydro Tasmania supports the use of an *“omnibus update process for all relevant [AER] guidelines”*.

REL0089: Reliability Panel guide to applying the emissions component of the National Electricity Objective

Hydro Tasmania supports the approach put forward in the paper. It is important that the Reliability Panel is able to consider the goal of emissions reduction in its key processes.

The fundamental (NEM) market design and its price settings must be conducive to a low/zero emissions generation mix. Without this there is an increased likelihood of further policy interventions which could adversely affect the functioning of NEM price signals and investment.

The *'Review of the form of the reliability standard'* is one example where it is relevant to consider the longer-term goal of decarbonisation. Some technologies, essential to the efficient transition of the energy sector (such as long-duration energy storage) are particularly affected by the form and level of market price settings. Securing investment in these technologies in a timely manner will support emission reductions in parallel to the established National Electricity Objectives.

Hydro Tasmania looks forward to ongoing engagement with the AEMC as this important work progresses. If you wish to discuss any aspect of this submission, please contact me ((03) 8612 6443 or colin.wain@hydro.com.au).

Yours sincerely,



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