

# Harmonising energy rules with the amended national energy objectives

17 August 2023

Public Interest Advocacy Centre  
**ABN** 77 002 773 524  
[www.piac.asn.au](http://www.piac.asn.au)

Gadigal Country  
Level 5, 175 Liverpool St  
Sydney NSW 2000  
**Phone** +61 2 8898 6500  
**Fax** +61 2 8898 6555

## **About the Public Interest Advocacy Centre**

The Public Interest Advocacy Centre (PIAC) is leading social justice law and policy centre. Established in 1982, we are an independent, non-profit organisation that works with people and communities who are marginalised and facing disadvantage.

PIAC builds a fairer, stronger society by helping to change laws, policies and practices that cause injustice and inequality. Our work combines:

- legal advice and representation, specialising in test cases and strategic casework;
- research, analysis and policy development; and
- advocacy for systems change and public interest outcomes.

## **Energy and Water Consumers' Advocacy Program**

The Energy and Water Consumers' Advocacy Program works for better regulatory and policy outcomes so people's needs are met by clean, resilient and efficient energy and water systems. We ensure consumer protections and assistance limit disadvantage, and people can make meaningful choices in effective markets without experiencing detriment if they cannot participate. PIAC receives input from a community-based reference group whose members include:

- Affiliated Residential Park Residents Association NSW;
- Anglicare;
- Combined Pensioners and Superannuants Association of NSW;
- Energy and Water Ombudsman NSW;
- Ethnic Communities Council NSW;
- Financial Counsellors Association of NSW;
- NSW Council of Social Service;
- Physical Disability Council of NSW;
- St Vincent de Paul Society of NSW;
- Salvation Army;
- Tenants Union NSW; and
- The Sydney Alliance.

## **Contact**

Michael Lynch  
Public Interest Advocacy Centre  
Level 5, 175 Liverpool St  
Sydney NSW 2000  
E: [mlynch@piac.asn.au](mailto:mlynch@piac.asn.au)

Website: [www.piac.asn.au](http://www.piac.asn.au)



Public Interest Advocacy Centre



@PIACnews

The Public Interest Advocacy Centre office is located on the land of the Gadigal of the Eora Nation.

# Contents

<b>1. Introduction .....</b>	<b>1</b>
<b>2. Background .....</b>	<b>1</b>
<b>3. Challenges of operationalising the new emissions reduction objective .....</b>	<b>2</b>
3.1 The importance of decision makers having all credible options before them .....	2
Examples of the risks of not considering all credible options .....	3
The risk of inflating project benefits and so causing inefficient investment .....	3
Strengthening the requirements to consider all credible options .....	4
3.2 Cost benefit analyses – use of both a VER and qualitative analysis .....	5
<b>4. Response to consultation questions .....</b>	<b>5</b>
Q1. How should emissions reduction be treated in network and pipeline expenditure proposals? .....	5
Q2. Will the proposed solution ensure that the emissions reduction component of the energy objectives is considered in network and pipeline expenditure proposals? .....	5
Q3. What are your views on the costs and benefits of including emissions reduction in the network/pipeline operating and capital expenditure rules? .....	7
Q4. Are there important implementation considerations for the network/pipeline expenditure rules? .....	7
Q5. Are there alternative solutions to those proposed in rule change request one (network/pipeline expenditure) that would be preferable? .....	7
Q6. Should the rules relating to network planning and investment be updated? ..	7
Q7. Should there be a streamlined process for updating AER guidance to incorporate emissions reduction? .....	10
Q8. What are your views on the costs and benefits of the proposed solutions in rule change request two? .....	10
Q9. Are there important implementation considerations for the rule changes proposed in rule change request two? .....	10
Q10. Are there alternative solutions that would be preferable to the solutions proposed in rule change request two? .....	11

# 1. Introduction

PIAC welcomes this opportunity to respond to consequential rule changes being considered by the AEMC following the adoption of the emissions reduction consideration in the national energy objectives.

PIAC supports prioritising consequential rule changes concerning network planning, infrastructure spending and revenue determinations in the National Electricity Rules (NER) and National Gas Rules (NGR). We welcome the requirement to consider emissions reduction, alongside existing aspects of the long-term interests of consumers.

We support the use of an appropriately robust value of emissions reduction (VER) in cost benefit analyses when considering competing options for meeting identified energy needs. This VER must be sufficient to drive meaningful emissions reduction in line with what is required to achieve targets. It should be revised annually to ensure it remains sufficient as the emissions reduction requirements change. Further, the application of the VER in cost benefit analyses (CBA) should be weighted to account for the greater impact and benefit of achieving emissions reduction in earlier years. The weighting should also recognise the greater value of achieving enduring emissions reductions in the energy system, over the use of offsets.

The use of a monetary value of emissions reduction in CBAs is not sufficient to identify the most efficient means of ensuring the long-term interests of consumers, including emissions reductions. There must also be scope to apply a qualitative lens to any quantitative cost benefit analysis.

In this submission we propose additional consequential rule change proposals to strengthen the processes for considering and assessing the credible options available. We consider these necessary to assist system planners, proponents and regulators to better assess the most efficient means of promoting the long-term interests of consumers, including considerations of emissions reductions.

In part 3, we summarise the challenges in operationalising the emissions reduction objective. In part 4, we provide submissions in response to the specific questions in the consultation paper.

## 2. Background

The addition of a greenhouse gas (GHG) emission reduction element to the long-term interests of consumers in the national energy objectives is necessary to ensure that the energy system plays its full role in helping to meet Commonwealth and State emissions reduction targets. It is crucial in enabling Australia to meet its international climate commitments. Australia's Paris Agreement nationally determined contributions (NDCs) include achieving a 43% reduction in greenhouse gas (GHG) emissions by 2030. They allow Australia to emit an associated maximum of 4381 CO<sub>2</sub> equivalent emissions between 2021 and 2030. Further, they reaffirm Australia's commitment to achieve net-zero by 2050. These commitments have been legislated in the *Climate Change Act 2022* (Cth).<sup>1</sup>

---

<sup>1</sup> *Climate Change Act 2022* (Cth), s 10(1)(a), The Australian Government, [Australia's Nationally Determined Contributions, Communication 2022](#), 2022, p.7, (Australia's NDCs).

The targets for emissions reduction and related total emissions budgets in the Australian NDCs specify the achievement of set aims by 2030. This timeline is extremely urgent given the need to avoid the worst impacts of climate change by limiting global warming to 1.5C. This timeline is very short given the extended time it takes to plan, build and deploy energy infrastructure.

The decision to prioritise as consequential rule changes, making changes to rules concerning network planning, infrastructure spending and revenue determinations reflects the urgency of the task. This prioritisation will help to ensure that emissions reduction can be achieved and that longer term spending decisions will not lock in continued emissions unnecessarily.

### **3. Challenges of operationalising the new emissions reduction objective**

Energy system planners, network providers and market bodies must be able to make meaningful assessments of competing options to meet projected energy needs to promote the long-term interests of consumers. Until recently the ‘long term interests of consumers’ have only been considered in respect of price, quality, safety and reliability and security of supply of electricity. The updated national energy objectives will require equal consideration of emissions reduction.

Traditionally, the electricity system has been premised on using utility scale solutions, including poles and wires, to deliver energy from large generators to homes and businesses. The NEM is transforming to become a more decentralised, dynamic, bidirectional system, based on renewable generation. The NEM increasingly relies not only utility-scale renewable generation, but also distributed energy resources and more flexible use of loads. The supply of space and water heating in homes, and energy for cooking can now be more efficiently and affordably provided by electricity (often supported by solar and batteries), where gas has been preferred in the past. The range of potential solutions that meet needs and promote the long-term interests of consumers is expanding beyond traditional network options, and this provides greater potential to drive down energy emissions and consumer prices.

#### **3.1 The importance of decision makers having all credible options before them**

To make efficient planning, investment and investment approval decisions, regulators and proponents must be required to consider all credible options which promote the long-term interests of consumers. This must include traditional transmission and distribution network solutions as well as non-network options, which include demand side options, such as improvements to energy consumption efficiency, demand response, and distributed energy resources (DER). Each option under consideration must not only include accurate cost estimations, but also robust estimations of the associated emissions reduction (or emissions increase).

Requiring decision makers to assess the full set of reasonably achievable potential solutions to meet energy needs, with detailed emissions reduction information, will ensure the most efficient solution to be chosen in terms of emissions reduction, price, reliability and other long-term interests of consumers.

## **Examples of the risks of not considering all credible options**

The following are some examples of how failure to consider all options may result in inefficient decision making.

- When meeting the energy needs of a city – only considering a large transmission interconnector linking the area to another NEM region, while not considering the option of strengthened distributions connections to local utility scale renewable generation, or updates to the distribution network to allow for increased use of distributed energy resources.
- When supplying the energy needs of a small number of consumers on the fringe of the grid – only considering long poles and wires solutions without considering the non-network solution of a stand-alone power supply.
- When supplying electricity to meet the peak demand of a town during extreme heat events – only considering a poles and wires network solution, without considering the possibility that local industrial consumers engage in demand response during such periods.
- When supplying an urban area with energy to meet the winter space heating needs of households and businesses – only considering the possibility of the repair/expansion of a gas network, without considering the enduring economic and emission reductions benefits of electrification and staged retirement of parts of a gas network.

The first example above shows the importance of more comprehensive planning when preparing the Integrated System Plan (ISP), and importance of requiring AEMO to consider demand side solutions. The second and third examples demonstrate the importance of proponents putting forward solutions which go beyond traditional network solutions in RIT-T and RIT-D processes and revenue determinations. The final example underlines the problem of considering the proposals of gas network providers in network proposals and revenue determinations in isolation from possible use of other forms of energy, including electrification, to derive the response that is in the best interests of consumers.

## **The risk of inflating project benefits and so causing inefficient investment**

PIAC supports the addition of a VER to CBAs. Nonetheless, adding emissions reductions as a class of market benefit and leaving other regulatory settings broadly unchanged risks artificially inflating the benefits of network solutions.

If the emissions reduction objective is applied in RITs as they currently stand – requiring the proponent to show that there is a net benefit from the perspective of consumers – it can be expected that the number of network solutions that pass the test will increase. Some marginal projects that would be considered inefficient under an unamended NEO would be considered efficient under an amended NEO. However, there may be non-network options which would be cheaper and provide emissions reductions outcomes that are greater in volume or cost-efficiency. Instead of establishing net benefit alone, the proponent should need to demonstrate that the preferred option provides the greatest net benefit to consumers, when compared to all credible options, and that this net benefit is positive.

Currently, planning and regulatory processes implicitly privilege network options. AEMO has limited capacity and powers to conduct holistic orchestration (that is, co-ordination of the transformations of both the supply and demand sides of the energy system) or assess decisions that may promote it. Project proponents (transmission and distribution service providers) are experts in network solutions and lack the expertise or strong incentive to adequately examine non-network options. In any case, project proponents are often not positioned to deliver non-

network solutions and particularly demand-side solutions. Together, these result in a strong implicit bias towards network options.

More robust requirements for the assessment and justification of solutions on relative bases must accompany the addition of emissions reductions to the NEO to avoid the amended NEO leading to inefficient network build decisions.

### **Strengthening the requirements to consider all credible options**

The requirement to consider all credible options, including non-network options, in the various CBA stages must be strengthened.

Assessing all credible options must happen at both the planning and project proposal/approval levels.

Most pertinently for proponents, this involves strengthening the Regulated Investment Tests (RITs) to require more robust relative assessment of alternative credible solutions and assessment of the anticipated emissions reductions impact of each option. In particular, the requirement to ‘consider’<sup>3</sup> alternative solutions must be made more meaningful. The requirement should be for the proponent to analyse all viable solutions. This analysis must include the requirements to:

- Include all credible solutions to an identified need, including non-network options and including options that the proponent may not be able to provide;
- Estimate the impact on emissions reduction from each solution using the guidance developed by the Commonwealth Government and AEMC; and
- Provide CBAs of all credible solutions, employing in these the VER developed by the Commonwealth Government.

For the AER, there will be additional requirements when reviewing RIT proposals and processes. Specifically, it will need to assess that the proponent has considered all credible solutions, and that the applications of the two new pieces of guidance referred to above are correct.

For the planner, AEMO, this implies a greater role for orchestration, extending beyond the current task of transmission planning. Alongside their consideration of transmission and distribution network solutions (for example, poles and wires, transformers, or utility scale condensers), AEMO must undertake a robust consideration of options promoting energy efficiency, utilising non-network solutions or demand side management, or increased access to distributed energy resources.

Strengthening the consideration of other credible options and more comprehensively coordinated network planning should also be replicated in relation to gas network investments. Decisions in relation to gas networks will continue to be ineffective in promoting emissions reductions promoting the long-term interests of consumers as long as:

- there is continued provision in the rules for the expansion of the gas networks;
- there is no scope for planning the efficient retreat of gas networks; and

---

<sup>3</sup> Clauses 5.15.2(c) and 5.15.2(b) NER.

- decisions on meeting the needs of gas energy users consider gas-network options only, in isolation from consideration of other credible options such as electrification and energy efficiency measures.

### **3.2 Cost benefit analyses – use of both a VER and qualitative analysis**

The VER must be sufficient high to drive meaningful emissions reduction in line with the requirements set by our emissions reduction targets and commitments. It will also need to be revised on a regular basis to ensure it adjusts to progress (or lack of progress) in emissions reduction, such that we are able to meet emission reductions targets within required timeframes.

The VER should also be weighted. This weighting should account for the substantially greater beneficial impact of earlier emissions reductions. It should also reflect the value of enduring emissions reductions over the use of offsets. Practically, this would mean emissions reductions taking the form of avoidance (i.e. zero-emissions) would be more valuable than those taking the form of minimisation (i.e. selecting the lowest emissions solutions), which would in turn be more valuable than those taking the form of offsetting. Any solution which requires 100% offsets should not be seen as a credible starting premise for the emissions reductions and achievement of the 2030 targets or the 2050 goal of net-zero.

There must also be scope to apply a qualitative lens to any quantitative cost benefit analysis so that there is a way to consider fully the risks and likelihoods of policy or consumer behaviour changes, or the likelihood of a new technology being successfully deployed at scale.

## **4. Response to consultation questions**

### **Q1. How should emissions reduction be treated in network and pipeline expenditure proposals?**

PIAC agrees the rules should explicitly apply the new emissions reduction component of the national energy objectives to network and pipeline expenditure proposals. This includes the need to use the updated rules in the ongoing proposals as set out in part 2.2.1 of the consultation paper.

### **Q2. Will the proposed solution ensure that the emissions reduction component of the energy objectives is considered in network and pipeline expenditure proposals?**

PIAC agrees with the rule change proposal on network and pipeline expenditure and that there is a need to add emissions reduction as a criterion to:

- Clauses 6.5.6, 6.5.7, 6A.6.6, and 6A.6.7 NER; and
- Rules 79, and 91 NGR.

We set out our detailed observations below.

#### **Electricity revenue determinations**

The capital expenditure objectives in clauses 6.5.7(a) and 6A.6.7(a) NER should be amended to explicitly reference emissions reduction.



In addition, any material impacts on emissions of capital expenditure related to other legitimate objectives, including meeting anticipated consumer demand, should be assessed and included in revenue determinations.

For capital expenditure already subject to a RIT-T or RIT-D, this can be achieved through amendments to those processes as outlined below. However, the AEMC should consider changes to the capital expenditure rules to require capital expenditure that fall below the RIT-T or RIT-D thresholds to be assessed in terms of the impact on emissions. This could involve an additional mechanism in rules 6.5.7 and 6A.6.7 to require the TNSP or DNSP to, in some cases, consider all credible options to meet energy needs and assess the emissions reduction benefits of each option. This may also be achieved through other mechanisms, such as lowering the thresholds for the RIT-T and RIT-D.

Clauses 6.5.7(c) and 6A.6.7(c) NER (the capital expenditure criteria) should be amended to require the AER to be satisfied that the capital expenditure will achieve efficient emission reductions.

Emissions reduction should also be explicitly incorporated into the rules in respect of operational expenditure in clauses 6.5.6(a)(3), 6.5.6(c), 6A.6.6(a)(3), and 6A.6.6(c) NER.

### **Gas expenditure**

The rules in respect of capital expenditure in rule 79(1) should be amended to explicitly reference emissions reduction. This rule and associated AER guidelines should require proponents to demonstrate that the capital expenditure will contribute to the achievement of emissions reductions targets in the most efficient way. This necessarily requires an assessment of whether the energy needs that may be met by the pipeline (on which capital is being expended) could be met through another, more emissions effective, means. This is particularly important as capital expenditure on gas pipelines is likely to maintain or increase emissions rather than reduce them, given that both the transport and end use are both emissions-producing. There should therefore be a mechanism in these capital expenditure rules to provide for an assessment of the emissions impact of the proposed capital expenditure. This should include a comparison against other credible options to meet the needs of the relevant consumers, which may include options other than servicing those consumers with reticulated gas.

PIAC considers this could be achieved through amendment to rule 79(1)(a) NGR, or by adding an additional criterion to rule 79(1) that incorporates the objective of achieving emissions reduction as described above.

Rule 79(3) should also be amended to enable the consideration of economic value of emissions reduction to energy consumers.

In respect of gas operating expenditure, rule 91(1) should be amended to add a requirement that operating expenses are those which a prudent operator would incur in reducing emissions, in addition to achieving the lowest sustainable costs.

**Q3. What are your views on the costs and benefits of including emissions reduction in the network/pipeline operating and capital expenditure rules?**

The cost benefit analysis provided by the proponent as summarised by the AEMC in the consultation paper appear reasonable.

**Q4. Are there important implementation considerations for the network/pipeline expenditure rules?**

PIAC agrees that transitional arrangements should be in place for the ongoing proposals identified in part 2.2.1 of the consultation paper.

It is important to ensure AER guidance related to the proposed rule changes is updated, including the potential need for provisional guidance to the proponents of the ongoing proposals.

PIAC is concerned with the following related issues:

- The AEMC must strike the correct balance and ensure that sufficient detail is placed in the rules to embed the requirement to consider emissions reduction and create binding obligations on proponents of network and pipeline expenditure and market bodies responsible for reviewing the expenditure.
- The AER must, when updating its guidance materials, adopt a far faster timetable for implementation than was set out in its comments at the forum on the proposed rule changes held on 7 August 2023.

**Q5. Are there alternative solutions to those proposed in rule change request one (network/pipeline expenditure) that would be preferable?**

We provide our comments on the proposed rule change in questions 1-4 above, including additional or preferable changes that should be considered.

In addition to those comments, we suggest further amendments to the NGR:

- Any rules which incentivise network expansion, increasing connections, or increasing demand for pipeline services should be reviewed to consider whether these are consistent with emissions reduction objectives. For example, this could include the definition of operating expenditure, which explicitly includes expenditure relating to increasing the long-term demand for pipeline services.
- Further rules could be added to enable the estimate of the emissions impacts of additions to the gas infrastructure. For example, estimations of expected changes could be included in the Gas Statement of Opportunities.

**Q6. Should the rules relating to network planning and investment be updated?**

PIAC agrees with the rule change proposal on network planning and investment rules, and that there is a need to add emissions reduction as a criteria to:

- RIT-T assessments, clauses 5.15A.1(c), 5.15A.2(b), and 5.15A.3(b) NER;
- RIT-D assessments, clauses 5.17.1(b), and 5.17.1(c) NER; and
- ISP planning, clauses 5.22.2, 5.22.3, 5.22.5, 5.22.10(c), and 5.22.7(d)(2) NER.

In addition, it is important to amend clause 5.15.2 NER which defines credible options.

We set out our detailed observations below.

### **Should emissions reduction be included as a class of market benefit?**

We agree with the addition of emissions reduction as a class of market benefit and the need to amend clauses 5.15A.2(b), 5.15A.3(b), 5.17.1(c) and 5.22.10(c) of the NER accordingly.

However, including emissions reductions as a class of market benefit in the cost benefit analysis stage of the RITs will not necessarily reduce emissions rapidly enough to achieve the various government targets as stipulated by the energy objectives. As noted above, absent any other changes it also risks inflating the benefits of network options, which may lead to inefficient approval of network projects.

The proposed change must be accompanied by:

- A well-designed VER which:
  - Is set high enough to create meaningful emissions reductions. The VER must be set following close examination of the emissions reduction pathway required by the energy sector. It must not only be able to achieve a percentage of emissions reduction by 2030, but also to ensure the total number of emissions between now and 2030 does not exceed the Australian NDC commitment to a maximum number of 4381 CO<sub>2</sub> equivalent emissions in the period 2021 to 2030;
  - Includes a weighting of emissions reductions such that avoidance and reduction are preferred over the use of offsets;
  - Weights emissions reductions according to when they occur. That is, the greater value of earlier emissions should be recognised, and the rate of discount should be substantial; and
  - Is annually revised and adjusted to ensure that the emissions pathway remains viable to meet the total allowable maximum emissions.
- Clear and robust guidance on how to estimate the emissions impacts of investments;
- A requirement for proponents of new projects to estimate emissions impacts of their proposed projects as well as estimate the emissions impacts of alternative options considered in their proposals;
- A requirement for project proponents to include all credible options in their proposals, whether these are network or non-network, and regardless of whether the proponent is able to directly deliver the alternative options themselves;
- A requirement that AEMO considers all credible options for meeting the needs of energy consumers, networks, and/or the energy system. This must include non-network solutions (demand response, demand management, DER, Stand Alone Power Systems (SAPS) and other solutions.); and
- The related ability of the decision maker and regulator (AEMO for ISP and AER for RIT-T/RIT-Ds) to use a qualitative assessment and/or additional level of assessment (for example sensitivities) of the proposal. This must provide scope to assess the risks of selecting a preferred option based on its likelihood of being realised as intended/assumed, including within the projected timeline. Decision-makers should have scope to consider material matters which cannot be captured using a purely mathematical model; for example, the possibility of government policy incentivising EV uptake.

**Should the provision on power system needs for the ISP be revised to align with the updated objective?**

PIAC agrees with amendment of clause 5.22.3 NER to explicitly include emissions reduction within the definition of power system needs as provided in clause 5.22.3(a) NER. This will ensure the operationalisation of the amendments to the NEO, and the achievement of emissions reduction targets.

**Should reference to the long-term interests of consumers in ISP provisions be updated?**

Clause 5.22.2 NER does not need to be amended to explicitly add emission reduction if emission reduction is added to the definition of the power system needs in clause 5.22.3(a) NER.

**Is there a need to update the rules for the Cost Benefit Analysis Guideline or the rules relating to the general principles for RIT-Ts and RIT-Ds?**

**Cost Benefit Analysis Guidelines**

The rules governing the guidelines should be clarified to explicitly require reference to emissions reduction. Further they should be amended to ensure more robust consideration of credible options including non-network solutions by proponents.

The guidelines themselves should then be amended by the AER to incorporate necessary changes following amendment to the rules.

**General principles – including consideration of credible options**

Incorporation of emissions reductions as a class of market benefit means there is no need to amend clauses 5.15A.1(c), 5.15A.2(b) and 5.17.1(b) NER. Emissions reduction will already be considered when undertaking cost benefit analyses to identify the credible option which maximises net economic benefit.

As discussed in part 3 in detail, and referenced in part 4.6 above in relation to the discussion on cost benefit analysis, PIAC contends the point at which credible options are first considered (prior to the cost benefit analysis step) is a critical step in ensuring the incorporation of meaningful emissions reductions.

Credible options are defined in clause 5.15.2 NER. The assessment of credible options is a part of undertaking ISP planning (see clause 5.22.10(a)(5)(iv) NER), undertaking RITs (see clauses 5.15A.1, 5.15A.2, 5.15A.3, 5.17.1 NER), and when preparing project assessments.

The requirement for all proponents and AEMO to consider all credible options, including network and non-network options (including demand response, use of DER, energy efficiency measures) must be strengthened. Notwithstanding the current requirements in clause 5.15.2 NER, consideration of non-traditional network solutions/non-network solutions is woefully inadequate in current RIT processes and the ISP. Planners, proponents, and regulators must do far better in their consideration and deployment of non-network solutions to ensure efficient investment in, and efficient operation and use of electricity services for the long-term interests of consumers.

This is particularly the case given the short timeframes in which the emissions reductions targets must be achieved. Strengthening the AER guidelines on RIT processes would be insufficient alone to effect the required changes within these timeframes.

**Q7. Should there be a streamlined process for updating AER guidance to incorporate emissions reduction?**

Consolidated consultation on updates to the AER guidance to incorporate emissions reduction is warranted. This will allow for the expedited implementation of the amended national energy objectives and incorporation of the emission reduction criteria.

PIAC does not fully agree with the proposal made in the consultation paper. We consider it important to prioritise amendment of guidelines which relate to the current consequential rule change proposals concerning network planning and investment, and network and pipeline capital and operating expenditure decisions. For example, changes to the Cost Benefit Assessment Guidelines should be prioritised. This will allow the current rule change amendments, which the energy ministers have identified as priority amendments, to be effectively implemented as soon as possible.

The consolidated guideline consultation should begin as soon as possible.

**Q8. What are your views on the costs and benefits of the proposed solutions in rule change request two?**

The analysis of benefits provided by the proponent and as summarised by the AEMC in the consultation paper appear broadly reasonable.

We note, however, that the proponent claims there is an overall benefit to consumers from the rule changes, notwithstanding the risk of the possible approval of marginal projects and added consumer expense once a VER is incorporated into assessments.<sup>4</sup>

There is a risk of projects that would not be considered efficient under the unamended objectives being undertaken. However, rather than dismissing this as a concern by noting the high cost of climate change to Australians, the pertinent question is ‘what alternative investments do these projects come at the expense of?’

The planning and regulatory systems implicitly privilege network options. AEMO has limited capacity and powers to conduct holistic assessment and planning (that is, co-ordination of the transformations of both the supply and demand sides of the energy system). Project proponents (transmission and distribution service providers) are experts in network solutions and lack the capacity to adequately examine or deliver non-network options. These existing weaknesses need to be recognised and addressed.

**Q9. Are there important implementation considerations for the rule changes proposed in rule change request two?**

**Implementation of the proposed changes to the network investment and planning rules.**

---

<sup>4</sup> Rule change request two (planning and AER guidance) p. 10.

The AEMC must strike the correct balance and ensure sufficient detail is placed in the rules to embed the requirement to consider emissions reduction. It must create binding obligations on system planners, proponents of capital expenditure and market bodies responsible for reviewing proposals. Leaving some of the detail for AER guidance documents may not give sufficient certainty to stakeholders or provide a sufficiently robust means of operationalising the new emissions reduction criteria.

### **Implementation of the proposed changes to the AER Guidance updates.**

It is important to ensure AER guidance related to the proposed rule changes is updated.

PIAC is nonetheless concerned:

- That the AER adopts a more accelerated timetable for updating guidance materials, than the timetable set out in its comments at the forum on the proposed rule changes held on 7 August 2023; and
- That an accelerated timeframe is particularly important in relation to the guidance on the current rule change proposals. Delaying amendments to this guidance, to compile and complete a single omnibus consultation, will be detrimental to ensuring the amended NEO requirement are quickly operationalised in priority areas of network planning and investment, and network and pipeline capital and operating expenditure.

### **Q10. Are there alternative solutions that would be preferable to the solutions proposed in rule change request two?**

We provide our comments on the proposed rule change in questions 6-9 above, including additional or preferable changes that should be considered.

In addition, there should be greater coordination between states and the commonwealth, and within governments. This includes:

- Greater planning coordination for the transition of the electricity system;
- Coordinated planning for the retreat of domestic gas networks and electrification of energy needs where appropriate; and
- Better consideration of demand side solutions in all decision making.

## **5. Continued engagement**

We welcome the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth. Please contact Michael Lynch at [mlynch@piac.asn.au](mailto:mlynch@piac.asn.au) regarding any further follow up.