

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

We have consulted on a draft guide to applying the emissions component of the objectives

The national energy objectives have recently been updated to include emissions reduction as part of the long-term interests of energy consumers.¹ This is a significant change for us, as the objectives guide all our work on rule changes and reviews.

To provide clarity on what this change will mean for the AEMC's work, we developed a draft guide on applying the updated objectives (the emissions guide). We consulted with stakeholders on the emissions guide from 24 July – 18 August 2023.²

The emissions guide now forms an Appendix to our guide on [How the National Energy Objectives shape our decisions](#).

We have added further information to the emissions guide

Based on stakeholder comments, we have made some adjustments to the emissions guide.

Assessment and quantification

Stakeholders commented that:

- We should add more detailed information (approach and principles) on when and how we will use quantitative v qualitative analysis for emissions, including hypothetical examples.
- Modelling emissions will be extremely complex, particularly considering the need for multi-sectoral and intertemporal modelling. This could lead to perverse or unexpected outcomes. We should err on the side of making qualitative assessments, especially for smaller decisions.

We have clarified in the guide that:

- We will quantify direct impacts of the rule on emissions and, where it is informative, indirect impacts of the rule on emissions.
- In deciding an assessment approach for emissions, we will consider whether the emissions component is likely to materially affect the overall assessment of the proposed rule, and whether the cost of undertaking the analysis would be reasonable in light of the potential benefits of the proposed rule.

Targets statement

Stakeholders requested we clarify that the targets statement identifies a minimum set of emission reduction targets market bodies must consider when having regard to the energy objective, and that market bodies are not limited to considering only those targets and may consider other targets of jurisdictions. We clarified this in the guide, for consistency with the national energy laws.

¹ The changes to the national energy objectives are set out in the [Statutes Amendment \(National Energy Laws\) \(Emissions Reduction Objectives\) Bill 2023](#).

² To see the consultation paper and submissions, please see [the project page](#).

Offsets

A stakeholder recommended that the AEMC should prioritise emissions avoidance (i.e. zero-emissions) over minimisation (i.e. selecting the lowest emissions solutions), which in turn should be more valuable than offsetting.

We have clarified in the guide that we do not currently see a need to consider offsets in our rule changes.

We are also taking other steps in response to stakeholder comments

Change to guide on how we apply the energy objectives

A stakeholder stated that technology neutrality should no longer be a priority, and instead the AEMC should prioritise delivering security and reliability through zero-carbon technologies. In light of this, it recommended the AEMC reconsider the market design principles set out in the NER and state that we will prioritise zero carbon tech over higher emissions tech.

We have removed the reference to being “technology agnostic” in our guide *How the National Energy Objectives shape our decisions* and clarified that we aim to create regulatory frameworks that reward innovation and enable consumers and market participants to choose what is best for them, in light of a range of factors including price, reliability and emissions.

Future expansion of guidance

Stakeholders recommended that we:

- Provide further guidance (including examples) on our methodology for estimating volume of reductions of emissions and how it will affect our decision-making. This includes adding detail on the scopes of emissions and sectors that will be considered.
- Clarify if federal and state/territory targets will be equally weighted.

We will consider expanding our emissions guide to address these issues after the Commonwealth has published guidance on the value of emissions reduction (VER), as the Commonwealth guidance may have a bearing on these issues.

Information on updates to the targets statement

Stakeholders requested further information on the AEMC’s process for updating the statement.

We provided information on this proposed process when we published the targets statement – [available here](#).

Provide comments on emissions value to DCCEEW

Stakeholders provided comments on the Commonwealth’s development of the VER in their submissions on the draft emissions guide.

We have informed DCCEEW of all stakeholder comments on the VER.

Responses to other stakeholder comments

The table below sets out our responses to other comments raised in submissions.

Appendix: Responses to other comments raised in submissions

| Stakeholder comments | AEMC response |
|--|---|
| <i>Balancing with other components of the objectives</i> | |
| <p>We should prioritise emissions reduction (as long as it is consistent with reliable and secure operation). This includes strongly prioritising emissions reduction over lower prices.</p> | <p>The AEMC will decide how to weight each component of the relevant energy objective on a case-by-case basis, as we do currently, with regard to the key issue the rule change seeks to address and the key impacts of the rule change.</p> |
| <p>Support emissions sitting alongside existing objectives and not being prioritised above them.</p> | |
| <p>Further guidance needed on how the AEMC will balance/weigh the different objectives, potentially including:</p> <ul style="list-style-type: none"> - a set of guiding principles (that we consult on) - examples - explanation on how we would balance a qualitative benefit (e.g. increased social licence) with a quantifiable increased cost. | |
| <i>Emissions assessment criterion</i> | |
| <p>We should provide more clarity on how the 'likelihood' or 'efficiency' of a reform's contribution to achieving targets (as referenced in the assessment criterion) will be assessed.</p> | <p>Each of our rule change consultation papers and determinations explain how we propose to assess the impacts of the reform.</p> <p>The word "likely" is used in the provisions of the national energy laws relating to the objectives (see eg NEL s 88), and takes its usual meaning.</p> <p>We explain efficiency in our broader guide on how the energy objectives shape our decisions (to which the emissions guide is now attached), and in relation to emissions, will assess efficiency with regard to the VER.</p> |
| <p>Provide more clarity or specific criteria for when we will use the emissions assessment criterion.</p> | <p>This is explained in section 5 of the guide. In general, we choose criteria for a rule change with regard to the key issue the rule change seeks to address and the key impacts of the rule change. More</p> |

| Stakeholder comments | AEMC response |
|---|--|
| | specific information on the choice of assessment criteria for a particular project is included in the consultation paper for that project. |
| <i>Quantitative vs qualitative methodology</i> | |
| When doing quantitative analyses, monetary value of emissions reductions isn't sufficient for identifying LTIE, including emissions reduction. We should also apply a qualitative lens to any CBA, to fully consider the risks/likelihoods of policy or consumer behaviour changes, or the likelihood of a new technology being successfully deployed at scale. | We already consider qualitative issues in all of our rule changes. These broader issues are considered in our assessment criteria on implementation considerations and innovation and flexibility (see our guide on how the energy objectives shape our decisions). |
| <i>Quantification – feedback on calculating volume or applying value</i> | |
| The AEMC should clarify that it won't "double count" actual emissions reduction achieved by projects, and instead just the marginal benefits (e.g. emissions reduction from new transmission allowing new RE projects to connect). Another example is when delivering a government policy where emissions benefits were already priced into policies. | Noted – we will keep this in mind when assessing rule changes, although we don't anticipate this to be a significant issue as we do not approve individual projects. |
| Assess each jurisdictional policy based on \$/tCO ₂ cost of abatement for each policy, to consider comparative impacts between policies. | We will use the VER, when it is available, and may use a sensitivity analysis or qualitative analysis to consider the impacts of higher state targets. |
| The AEMC should develop a methodology to apportion an appropriate level of the total emissions reductions facilitated by a project to the project itself. | This may not be necessary as we do not approve individual projects. |
| <i>Targets statement</i> | |
| Provide detail on process and scope for making the targets statement, including criteria to include or exclude a target or policy statement and the AEMC's level of discretion. | The published targets statement includes a brief description of the types of targets in each of the two categories set out in the law, as well as the list of specific targets. |
| Clarify types of assets and infrastructure that could be included (eg – EV enabling infrastructure). | Governments will direct us to include or remove targets from time to time. |

| Stakeholder comments | AEMC response |
|--|--|
| Clarify that the targets list will include non-legislated targets (as this will support certainty for investors), or conversely, only consider policies that are legislated or provide a specific policy direction. | We note that EV targets are included. |
| Provide clarity on how the targets will be incorporated until the targets list is published. | We have now published the targets statement . |
| Include "both base and aspirational targets" - clarifying how they should be applied in scenario planning for base and higher reduction ambition scenarios. | This appears to be more relevant for work done by the AER and AEMO. |
| Consult on the targets statement when it is published, so Energy Ministers can consider when deciding which targets should be included or if providing additional detail in the statement | The AEMC has consulted with jurisdictions on the targets statement and will ask jurisdictions if there are any updates periodically. Stakeholders may choose to discuss targets with their energy ministers. |
| <i>Other topics</i> | |
| The AEMC should adopt a proactive role in identifying rules that have prevented AER from adopting network tariffs designed to facilitate the rollout of EV charging. | We will provide this comment to any AEMC projects looking at network tariffs, and rule changes on this issue can be proposed to us. |
| The AEMC should seek government clarification of the scope of acceptable changes given ministerial intentions "not to require AEMO to consider emissions reduction in its administration of wholesale energy markets, including real-time dispatch." | We will consider our rule-making power when we receive rule change requests. |