

Updated national energy objectives – harmonising rule changes

ENA supplementary paper on including emissions reduction as a class of market benefit

31 August 2023

Purpose

ENA made a formal submission¹ to the Australian Energy Market Commission's (AEMC) Consultation Paper on the Energy Senior Official's rule change requests seeking harmonisation of the National Electricity Rules (NER) and National Gas Rules (NGR) with the updated national energy objectives².

In our response, we indicated strong support for including emissions reduction as a class of market benefits under the Integrated System Plan (ISP) and Regulatory Investment Test (RIT) frameworks, and highlighted that ENA was considering recommended legal drafting to give effect to this position and would provide it to the AEMC separately.

This supplementary paper provides our recommended updates to clauses 5.15A.2(b)(4), 5.17.1(c)(4) and 5.22.10(c)(1) of the NER to ensure that the achievement of emissions reduction targets is included as a new class of market benefit in the ISP and RIT frameworks.

ENA position

As outlined in our formal submission, ENA supports amendments to Chapter 5 of the NER to ensure that emissions reduction is included as a class of market benefit in the ISP and RIT frameworks.

In preparing an ISP, the Australian Energy Market Operator (AEMO) is required to consider specified classes of market benefits that could be delivered by the projects included in the ISP that together address power system needs. The current classes of market benefits reflect the existing components of the NEO as they largely relate to price, quality, safety, reliability and security. Similar classes of market benefits must be considered as part of a RIT for transmission (RIT-T) or distribution (RIT-D).

The Second Reading Speech for the Bill makes clear that the legislative intent is for the reduction of greenhouse gas emissions to be *"a new category of market benefit to be assessed in market body decisions."*³ In this regard, amending the market benefits clauses in provisions relating to the ISP and RIT processes to expressly include emissions reduction as a new class of market benefit will give effect to the intent behind the changes to the NEO.

¹ ENA, Updated national energy objectives – harmonising rule changes: Response to AEMC Consultation Paper, 17 August 2023.

² AEMC, Updated national energy objectives harmonising rule changes, Consultation paper, 20 July 2023.

³ The Hon A Koutsantonis, Second Reading Speech for the Statutes Amendment (National Energy Laws) (Emissions Reduction Objectives) Bill, 14 June 2023.

We therefore recommend amending the following clauses to include emissions reduction as a class of market benefits under the ISP and RIT frameworks:

- » clause 5.15A.2(b)(4) of the NER, which requires that the RIT-T must require a proponent to consider certain market benefits that could be delivered by a credible option,
- » clause 5.17.1(c)(4) of the NER, which requires that the RIT-D must require a proponent to consider certain market benefits that could be delivered by a credible option, and
- » clause 5.22.10(c)(1) of the NER, which requires AEMO, when preparing the ISP, to consider a list of classes of market benefits that could be delivered by the development path.

ENA recommends that the description of market benefits for the RIT and ISP frameworks in the NER be *'changes in greenhouse gas emissions'*.

Importantly, the granularity of this proposed drafting is consistent with the other market benefit classes currently in the NER, such as 'changes in network losses', 'changes in voluntary load curtailment', and 'differences in capital costs'.

The proposed drafting will ensure that change in greenhouse gas emissions (either positive or negative) can be quantified in a relatively objective way by reference to published value of emissions reduction (**VER**). This in turn reduces the risk of debate or dispute about how any particular project is contributing to the achievement of particular targets, and enables a consistent, transparent quantification of the benefit.