



# INFORMATION

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## Harmonising the energy rules with the updated energy objectives

### The AEMC has made more preferable draft rules to harmonise the rules with the objectives

The Commission has made more preferable draft rules that align the national energy rules with the updated national energy objectives, which now include consideration of greenhouse gas emissions. Our draft determination is in response to two rule change requests submitted by energy senior officials on behalf of the Ministerial Council on Energy (as constituted by the Energy Ministers Sub-group).

The draft rules would ensure changes to the energy objectives apply through the rules in a clear and consistent way. They add 'changes in Australia's greenhouse gas emissions' as a class of market benefits to be considered in processes such as the Integrated System Plan (ISP) and the Regulatory Investment Test (RIT). They enable network and pipeline operators to include expenditure that contributes to achieving emissions reduction targets in their revenue proposals and access arrangement proposals.

The draft rules provide the AER with two processes to streamline consultation on its guidelines that require updating as a result of the change to the energy objectives:

- The AER would be able to undertake a single, consolidated consultation process using the distribution consultation procedures for minor updates required as a result of the change to the energy objectives.
- The AER would also be able to undertake a consolidated consultation process on five network planning guidelines and instruments using the standard rules consultation procedures, in time for the 2026 ISP.

### The draft rules would support the incorporation of emissions reduction in the energy regulatory framework

The national energy laws have been amended to incorporate emissions reduction into the national energy objectives. This change brings the achievement of emissions reduction targets set by jurisdictions for reducing Australia's greenhouse gas emissions (or other jurisdictional targets that would contribute to reducing emissions) within scope of the national energy framework. It means emissions reduction is now a relevant consideration in market bodies' decision-making, as well as certain activities of market participants regulated under the national energy rules.

The draft rules seek to ensure consistent application of the updated objectives throughout the national energy rules. In a number of instances the existing rules do not refer to the national energy objectives but instead refer to particular components of the objectives. As a result, a change to the objectives will not automatically flow through to these provisions in the rules. The draft rules aim to remove these inconsistencies between the current rules and updated energy objectives to ensure the changes to the objectives take full effect.

## Our more preferable draft rules contribute to achieving the energy objectives

The more preferable draft rules would contribute to achieving the national energy objectives by:

- **Contributing to achieving government targets for reducing Australia's greenhouse gas emissions:** The draft rules would support emissions reduction to a greater extent than no change because they clarify how emissions reduction is expected to be factored into decision-making processes established under the national energy rules such as the RIT and the revenue determination and access arrangement decision processes for network service providers and for gas pipeline operators.
- **Promoting principles of market efficiency:** The draft rules would improve transparency and clarity in how the updated energy objectives apply to decision-making processes established under the national energy rules. Improved clarity would have a number of efficiency benefits, including:
  - improving allocative efficiency for emissions reduction activities over a planning/investment timeframe
  - sharpening incentives for market participants to contribute to the achievement of emissions reduction targets
  - improving information transparency and removing information asymmetries.
- **Achieving successful and balanced implementation:** The draft rules would balance the need for timely reform driven by the broader regulatory context with the impact of the change on processes underway. Timely reform is required to resolve potential inconsistencies between the national energy rules and the updated national energy objectives.
- **Promoting good regulatory practice:** The draft rules would promote predictability, stability and transparency in the application of the updated energy objectives throughout the national energy rules. The draft rules would ensure the treatment of emissions reduction in processes such as the RIT and expenditure proposals is transparent and replicable.

## We are seeking stakeholder feedback

We are seeking stakeholder feedback on our draft determination. Written submissions responding to this draft determination and draft rules must be lodged with the Commission by **7 December 2023**.

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