

Harmonising the rules with the updated energy objectives

AEMC

Draft determination

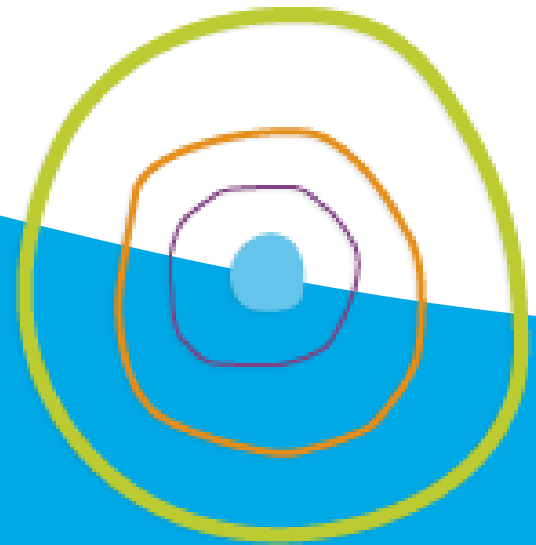
Virtual public forum

21 November 2023



ACKNOWLEDGEMENT OF COUNTRY

The AEMC acknowledges and shows respect for the traditional custodians of the many different lands across Australia on which we all live and work. We pay respect to all Elders past and present and the continuing connection of Aboriginal and Torres Strait Islander peoples to Country. The AEMC office is located on the land traditionally owned by the Gadigal people of the Eora nation.



Tim Jordan - Commissioner

AEMC

Introduction and welcome

Agenda

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|----|--|--------------------------------|
| 1. | Introduction & welcome | Tim Jordan – Commissioner |
| 2. | Context & overview | Alisa Toomey – Project sponsor |
| 3. | Harmonising network planning and investment rules | Marcel Lima – Project member |
| 4. | Harmonising network and pipeline expenditure rules | James King – Project leader |
| 5. | Introducing omnibus processes to update AER guidelines | James King – Project leader |
| 6. | Next steps and final determination | James King – Project leader |
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Purpose of today's public forum



AEMC staff will provide an overview of the draft determination and proposed draft rules to harmonise the rules with the updated national energy objectives



Forum participants and stakeholders will have the opportunity to ask questions and share feedback in Q&A sessions



AEMC staff will provide information about the next steps for this rule change and the final determination

COMPETITION PROTOCOL

KEY PRINCIPLES



The AEMC is committed to complying with all applicable laws, including the ***Competition and Consumer Act 2010*** (CCA), during this forum. Breaching the CCA can lead to serious penalties for individuals involved in any breach (including large financial penalties and imprisonment for key individuals involved). This protocol governs the way in which discussions will proceed at this forum, and each attendee agrees to adhere to this protocol in order to comply with the CCA.

Each attendee must make an independent and unilateral decision about their commercial positions and approach in relation to the matters under discussion in this forum.

Attendees must not discuss, or reach or give effect to any agreement or understanding which relates to:

- **pricing** for the products and/or services that any attendee supplies or will supply, or the terms on which those products and/or services will be supplied (including discounts, rebates, price methodologies etc)
- **targeting (or not targeting) customers** of a particular kind, or in particular areas
- **tender processes** and whether (or how) they will participate
- any decision by attendees:
 - about the purchase or supply of any products or services that other attendees also buy or sell
 - to not engage with persons or the terms upon which they will engage with such persons (i.e. boycotting); or
 - to deny any person's access to any products, services or inputs they require
- **sharing competitively sensitive information** such as non-publicly available pricing or strategic information including details of customers, suppliers (or the terms on which they do business), volumes, future capacity etc
- **breaching confidentiality obligations** that each attendee owes to third parties.

COMPETITION PROTOCOL

COMMUNICATION AND
MEETING GUIDELINES



Attendees must ensure that all communications (including emails and verbal discussions) adhere to the ***Key Principles***.

This forum will be conducted in accordance with the following rules:

- The agenda for this forum does not include anything that could contravene the Key Principles set out in this protocol.
- We will read and minute the below *competition health warning*:
 - Attendees at this forum must not enter into any discussion, activity or conduct that may infringe, on their part or on the part of other attendees, any applicable competition laws. For example, attendees must not discuss, communicate or exchange any commercially sensitive information, including information relating to prices, marketing and advertising strategy, costs and revenues, terms and conditions with third parties, terms of supply or access.
 - Participating in this forum is subject to you having read and understood the protocol including the Key Principles.
- We will keep accurate minutes of the forum, including details of attendees.
- If something comes up during the forum that could risk contravening any competition laws, attendees should:
 - Object immediately and ask for the discussion to be stopped.
 - Ensure the minutes record that the discussion was objected to and stopped.
 - Raise concerns about anything that occurred in the forum with their respective legal counsel immediately afterwards.
- All attendees understand that any competitively sensitive matters must be subject to legal review before any commitment/agreement can be given.
- Any decision about whether, and on what terms, to engage with customers and suppliers is an independent and unilateral decision of each attendee.

Housekeeping

- All participants are currently in 'listen-only' mode
 - Moderators can switch your mic/video on if you request it.
- Asking questions
 - Use the Q&A button on the bottom of your screen.
 - If your name and/or organisation are not clear from your login details please include them in your question.
 - Questions will be answered at dedicated Q&A sessions.
 - We will try to answer all questions but will prioritise questions with most 'upvotes' first.
 - You may be asked to speak to the questions you have submitted via the Q&A button in the dedicated Q&A sessions.

Alisa Toomey - Director

AEMC

Context and overview

Changes to harmonise rules with updated national energy objectives

July 2023

Energy senior officials submitted two rule change requests proposing to harmonise the national energy rules with the updated energy objectives.

21 Sep 2023

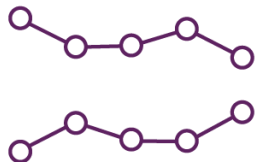
The *Emissions Reduction Objectives Act* (2023) added an **emissions reduction component** to the national energy objectives

26 Oct 2023

We published a **draft determination** with draft rule changes in three areas:

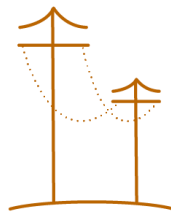
Part 1: Network Planning

Include emissions reduction as a class of market benefit for the ISP, RIT-T and RIT-D



Part 2: Network Expenditure

Allow electricity networks and pipeline operators to propose expenditure to reduce emissions



Part 3: AER Guidelines

Enable AER to update its guidelines through two consolidated processes



Marcel Lima – Project member

AEMC

Harmonising the network planning and investment rules

Emissions reduction would become a class of market benefits

- When AEMO prepares the ISP and when network service providers prepare a RIT-T or RIT-D, they must have regard to all **classes of market benefits (see right)**.
- Our draft rules add “**changes in Australia’s greenhouse gas emissions**” as a new class of market benefit.
- This change would ensure that the updated objective is clearly reflected through the ISP and RIT processes.
- The draft rule provides for both **decreases and increases** in greenhouse gas emissions to be considered.



See **Chapter 3, pp. 13 – 16** of our draft determination for more information on these proposed changes

Classes of market benefits

- changes in fuel consumption arising through different patterns of generation dispatch
- changes in voluntary load curtailment
- changes in involuntary load shedding
- changes in costs for parties due to:
 - differences in the timing of new plant
 - differences in capital costs
 - differences in operating and maintenance costs
- differences in the timing of expenditure
- changes in network losses
- changes in ancillary service costs
- **changes in Australia’s greenhouse gas emissions**
- competition benefits
- any additional option value gained or foregone from implementing a credible option
- other classes of market benefits that are agreed to by the AER in writing.

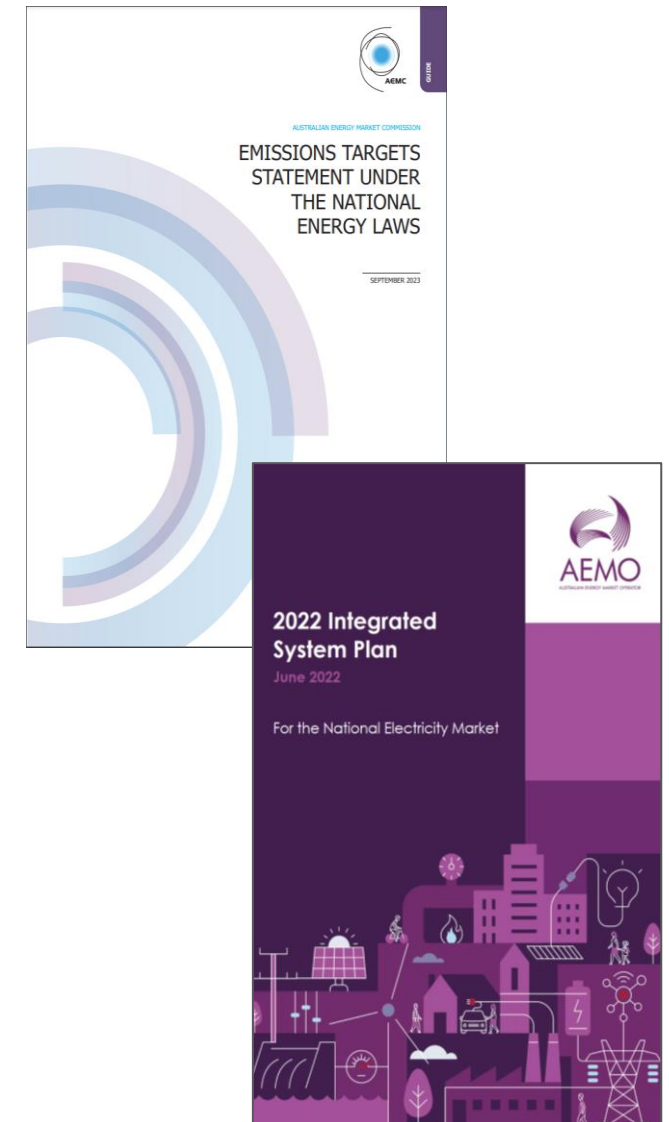
Emissions reduction targets would be included in ISP clauses

- The **public policy clause** (NER clause 5.22.3(b)) outlines the criteria that a public policy must satisfy for AEMO to consider it in the ISP.
- Our draft rules clarify that when preparing the ISP, AEMO:
 - **must** consider **emissions reduction targets** stated in the targets statement, and
 - **may** consider other environmental or energy policies, or emissions reduction targets not on the targets statement, subject to the existing criteria.
- We have also clarified that the purpose of the ISP is to:

establish a whole of system plan for the efficient development of the power system that achieves power system needs for a planning horizon of at least 20 years **to contribute to achieving the *national electricity objective*.**



See **Chapter 3, pp. 17 – 20** of our draft determination for more information on these proposed changes



Clarifying ‘net economic benefits’ includes emissions reduction and other supporting changes

- There are many instances in the NER where market participants are required to assess “net economic benefits” (and in the case of the NGR assess “overall economic value”) in relation to particular proposals.
- Our draft rules clarify that:
 - “net economic benefits” and “overall economic value” includes emissions reduction, and
 - the benefits of emissions reduction can be considered beyond those that accrue to those within the electricity or gas sectors.
- We have included transitional arrangements for RIT-T and RIT-D projects underway to align the application of the NER with the application of the updated NEO.
 - The updated rules should apply to the same RIT-T and RIT-D projects to which the updated NEO applies.
- We also determined that updates to the AER’s cost benefit analysis guidelines to include emissions are best addressed in transitional rules (discussed later in this presentation).
 - This is because the existing rules in NER chapter 5 are sufficient for the AER to provide guidance to AEMO and RIT proponents on how to value emissions reductions benefits.



See **Chapter 3, pp. 20 – 26** of our draft determination for more information on these draft changes

Danielle Beinart - EGM

AEMC

Q&A

Harmonising the network planning and investment rules



James King – Project leader

AEMC

Harmonising the network and pipeline expenditure rules

NSPs & pipeline operators will be able to propose expenditure to reduce emissions

- The draft determination and draft rules would enable NSPs and gas pipeline operators to propose expenditure to contribute to meeting emissions targets.
- Expenditure must be towards **regulated services** and be considered prudent and efficient. This is consistent with the current approach for other classes of expenditure.
 - Eg expenditure must be towards standard control services, prescribed transmission services or pipeline services.
- Emissions reduction across the **wider Australian economy** would be considered (e.g., electrification of transport), in line with the updated objectives.

Relevant expenditure clauses

Expenditure provisions	Relevant rules
Electricity distribution - opex	NER cl 6.5.6(a)
Electricity distribution - capex	NER cl 6.5.7(a)
Electricity transmission - opex	NER cl 6A.6.6(a)
Electricity transmission - capex	NER cl 6A.6.7(a)
Regulated gas pipelines - opex	NGR r 91(1)
Regulated gas pipelines - capex	NGR r 79(2)



See **Chapter 4, pp. 27-35** of our draft determination for more information on these proposed changes

Danielle Beinart - EGM

AEMC

Q&A

Harmonising the network and pipeline expenditure rules



James King – Project leader

AEMC

Introducing omnibus processes for updating AER guidelines

Enable the AER to carry out combined guideline updates

- The AER identified 40-50 guidelines that need to be updated due to the updated energy objectives
- There are several different consultation processes and timings for these guidelines specified in the NER, NGR and NERR
- Our draft rules allow for two processes that streamline consultation and reduce administrative burden for participants:

One-round consultation process for minor emission related updates

- Most AER guidelines would be updated using this process
- It would follow the **distribution consultation procedures**
- The AER must commence this process before **1 July 2024**

Two-round consultation process for network planning guidelines updates

- The following AER guidelines would be updated using this process:
 - Cost benefit analysis guidelines
 - RIT-T instrument and application guidelines
 - RIT-D instrument and application guidelines
- It would follow the standard **rules consultation procedure**
- The AER must conclude this process **prior to 31 December 2024**, in time for the 2026 ISP



See **Chapter 5, pp. 36 – 44** of our draft determination for more information on these proposed processes

Danielle Beinart - EGM

AEMC

Q&A

Introducing omnibus processes for updating AER guidelines



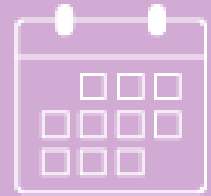
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James King – Project leader

Next steps

We will publish our final determination and rules on **1 February 2024**

- Submissions to the draft determination are due by **7 December 2023**.
- The project team plans to publish the final determination and final rules on **1 February 2024**.
- The rules will take effect on the day of publication.



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December 2023

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February 2024

Tim Jordan - Commissioner

AEMC

Closing remarks

AEMC

ABN: 49 236 270 144

Office address

Level 15, 60 Castlereagh Street
Sydney NSW 2000

T +61 2 8296 7800

