

7 December 2023

Ms Anna Collyer
Chair
Australian Energy Market AEMC
Sydney South NSW 1235

By online submission

Dear Ms. Collyer,

Harmonising the national energy rules with the updated national energy objectives (electricity)

The Australian Energy Market Operator (AEMO) welcomes the opportunity to comment on the draft determination for Harmonising the national energy rules with the updated national energy objectives (electricity).

AEMO has long supported the addition of a class of market benefits which values emissions, so we are pleased to see its inclusion in this draft rule change. However, we note the current timeline in the Commonwealth's release of the Value of Emissions Reduction (VER) and consider a transitional rule applying in relation to the 2024 ISP may be required. We propose that the transitional rule have the effect that AEMO is only required to consider the new class of market benefit in preparing the 2024 ISP if the Commonwealth Government makes guidance on a VER available to AEMO in sufficient time for it to be considered in preparing that ISP.

We have also suggested minor wording changes to the proposed change to clause 5.22.3(b) to avoid the potential for mis-interpretation. Aside from this suggestion, AEMO is comfortable with the changes to the ISP provisions relating to the purpose of the ISP and power system needs.

We have provided further perspectives on the questions asked in Appendix 1 below.

If you would like to discuss anything further, please contact Kevin Ly, AEMO Group Manager – Reform Development & Insights (kevin.ly@aemo.com.au).

Yours sincerely,



Violette Mouchaileh
Executive General Manager – Reform Delivery

APPENDIX 1: AEMO'S VIEWS AND INSIGHTS ON THE CONSULTATION PAPER

QUESTION 1: IS EMISSIONS REDUCTION INCLUDED AS A CLASS OF MARKET BENEFITS APPROPRIATELY? Do stakeholders consider the drafting in the draft electricity rule appropriately includes emissions reduction as a class of market benefit for the purposes of the ISP and RITs?

AEMO supports the inclusion of emissions reductions in the ISP as an additional benefit class to the existing list of market benefit classes in NER 5.22.10(c). AEMO also supports the inclusion of emissions reductions as market benefits in the RIT-Ts and RIT-Ds through the proposed changes to NER 5.15A.2(b)(4) and 5.17.1(c)(4) respectively.

We are comfortable with the proposed wording for the market benefit (“changes in Australia's greenhouse gas emissions”).

Given the uncertainty surrounding the timing of the release of the Value of Emissions Reduction, AEMO considers that there should be a transitional rule included that has the effect that AEMO is only required to consider the new class of market benefit in preparing an ISP if Commonwealth Government guidance on a value has been made available to AEMO. No such transitional rule would be needed if a VER is made available to AEMO prior to the final determination.

QUESTION 2: ARE THE PROPOSED CHANGES TO ISP PROVISIONS APPROPRIATE? Do stakeholders consider the proposed changes to ISP provisions appropriate? Are there other changes the Commission should consider?

Whilst we did not see a need for a change to 5.22.2, as we feel that the current wording already captures emissions, the proposed wording arguably provides more clarity. The proposed wording in 5.22.3(b) should be amended as per the below suggestion:

- “(b) *In determining power system needs and in determining how the Integrated System Plan would contribute to achieving the national electricity objective, in relation to a participating jurisdictions, AEMO:*
- (1) must consider the emissions reduction targets of ~~that~~ participating jurisdictions stated in the targets statement; and*
 - (2) may consider ~~a~~ current environmental or energy ~~policies~~ **policy** of ~~that~~ participating jurisdictions, including emissions reduction targets which are not set out in the targets statement, where **those policies have that policy has** been sufficiently developed to enable AEMO to identify the impacts of **those policies** # on the power system and at least one of the following is satisfied...”*

We feel the proposed wording (which maintains the current wording relevant to this point) might be mis-interpreted as requiring AEMO to take a jurisdiction-by-jurisdiction planning approach in the ISP (i.e. considering only the jurisdictional policies of the jurisdiction being assessed) rather than an integrated approach across the NEM. This is not the intent of the change, but because wording has been inserted mid-sentence into the existing wording, we believe the potential for mis-interpretation exists. The proposed alternative above should mitigate this risk.

QUESTION 3: IS THE DRAFT APPROACH FOR ‘NET ECONOMIC BENEFITS’ AND ‘OVERALL ECONOMIC VALUE’ APPROPRIATE? Do stakeholders consider the draft definition of net economic benefit in the NER and the draft changes to the provisions on overall economic value in the NGR to be appropriate?

AEMO agrees with the general approach for the definitions of *net economic benefit* and *overall economic value*. However, we think a more appropriate definition for *net economic benefit* would be:

“The net economic benefit to all those who produce, consume or transport electricity in the NEM, ~~however also including~~ and the net benefit of changes to Australia’s greenhouse gas emissions regardless of whether or not that net benefit is to those who produce, consume or transport electricity in the NEM.”

AEMO considers this more appropriately captures the fact that the definition contains additive (rather than subsidiary) elements covering:

- two separate classes of benefit with different characteristics – net economic benefits to ‘those who produce, consume or transport electricity’, and net benefit of changes to emissions; and
- potentially two groups of recipients of benefits – those who produce, consume or transport electricity’, and those who benefit from changes to emissions ‘regardless of whether or not that net benefit is to those who produce, consume or transport electricity in the NEM’.

The same approach holds for the definition of *overall economic value*.

QUESTION 4: ARE THE PROPOSED TRANSITIONAL ARRANGEMENTS FOR RITS APPROPRIATE? Are the draft RIT transitional arrangements appropriate and are there other implementation issues the Commission should consider?

AEMO agrees that the proposed transitional arrangements for RITs are appropriate as it aligns with the changes to the NEL and NGL. However, we propose preferred drafting to more accurately reflect the obligations that must be met under the relevant clauses referred to for the new test to apply. NER 11.XXX.2(a):

“If a project assessment draft report for a RIT-T project was not made available by a RIT-T proponent ~~under~~ in accordance with clause 5.16.4(j) or clause 5.16A.4(c) by the law start date, then new clauses 5.15A.1 and 5.15A.2 apply for the purposes of applying the regulatory investment test for transmission to the RIT-T project.”

Similar substitutions can be applied to NER 11.XXX.2(b), 11.XXX.3(a) and (b).

QUESTION 5: IS THE LEVEL OF DETAIL IN THE OPERATING AND CAPITAL EXPENDITURE PROVISIONS APPROPRIATE? We are interested in stakeholders’ views on the level of detail proposed in the draft rules for the operating and capital expenditure provisions for DNSPs, TNSPs and gas pipeline operators. Are the links to emissions reduction targets and regulated services appropriate? Are there additional factors the Commission should consider?

AEMO does not have any comments for this question.

QUESTION 6: DO STAKEHOLDERS AGREE NO TRANSITIONALS ARE REQUIRED FOR REVENUE PROPOSALS AND ACCESS ARRANGEMENTS UNDERWAY? We are interested in whether stakeholders agree no transitional arrangements for revenue proposals and access arrangements are required. Are there factors the Commission should consider further?

AEMO does not have any comments for this question.

Other drafting comments

Amendments [5]-[8], [13]-[14], [21]-[24] all insert new items into a numbered list and then have made consequential changes to the numbering of subsequent provisions in that paragraph. This approach could be confusing for industry as NER clauses are often referenced by their number as shorthand, including in publications, and this approach would create an old and new version of a provision bearing the same number but providing for different content. It is also different from previous drafting approaches where the new item is given a new sequential reference (using a combination of numerals and alphabet letters where necessary) in the appropriate place, e.g. NER 5.22.10(a)(viA). E.g. the new provision inserted by [5] could instead be numbered “(via)”.