MCE statement about the interim value of greenhouse gas emissions reduction

Issued for the purpose of:

National Electricity Law (NEL), Schedule 3, clause 42(6)

National Gas Law (NGL), Schedule 3, clause 137(4)

National Energy Retail Law (NERL), Schedule 1, clause 11(4)

Description

This statement is issued by the group of ministers responsible for energy matters at a national level, comprising the ministers from the Commonwealth, states and territories – collectively referred to as the MCE.

This instrument states the interim value of greenhouse gas emissions reduction (VER) that is to be used by a government or regulatory entity[1] in considering or applying the national energy objectives,[2] as amended by the *Statutes Amendment (National Energy Laws) (Emissions Reduction Objectives) Act 2023* (the amended objectives). It is intended that this interim value will be replaced by a permanent value prior to the expiry of this statement on 30 June 2026.

This statement is not a MCE statement of policy principles.

Background

The amended objectives apply in relation to a thing required or permitted to be done by the Australian Energy Market Commission (AEMC), or by a person or body in relation to particular revenue determinations and access arrangements, from the commencement of the *Statutes Amendment (National Energy Laws) (Emissions Reduction Objectives) Act 2023* on 21 September 2023. Otherwise, they apply in relation to a thing required or permitted to be done under the national energy laws[3] by a person or body (other than the AEMC) two months after the commencement of that Act.[4]

A government or regulatory entity may issue administrative guidance about considering or applying the amended objectives. If that guidance includes the VER, or a method of working out the value, and the guidance is consistent with this MCE statement, then the entity must comply with the value or method when considering or applying the amended objective.[5] If the guidance is issued by the

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[1] The Australian Energy Market Commission, the Reliability Panel, the Australian Energy Regulator, the MCE, the Energy Security Board, another government entity, or the Australian Energy Market Operator (other than to the extent it is exercising a power or performing a function as a network service provider for a declared transmission system or a declared transmission system operator): clause 38 of Schedule 3 to the National Electricity Law (NEL), clause 133 of Schedule 3 to the National Gas Law (NGL), clause 7 of Schedule 1 to the National Energy Retail Law (NERL).

[2] The national electricity objective set out in section 7 of the NEL, the national gas objective set out in section 23 of the NGL and the national energy retail objective set out in section 13 of the NERL.

[3] The NEL, the NGL and the NERL.

[4] Clause 39 of Schedule 3 to the NEL, clause 134 of Schedule 3 to the NGL and clause 8 of Schedule 1 to the NERL.

[5] Clause 42(2) of Schedule 3 to the NEL, clause 137(2) of Schedule 3 to the NGL, clause 11(2) of Schedule 1 to the NERL.

Australian Energy Regulator (AER), then the AER and any regulatory investment test (RIT) proponent must comply with the guidance in relation to the RIT project.[6] However, any such guidance is only binding on the entity or proponent pending the making of a Regulation or Rule dealing with the value, or the method for working out the value.[7]

The VER measures the dollar value per tonne of avoided greenhouse gas emissions in order to operationalise emissions reduction as a component of the national energy objectives, as agreed by the MCE. This component is to be considered alongside the other components of the amended objectives and does not take priority over them.

The key processes that require a VER are those that incorporate quantitative analysis, including in considering the various components of the amended objectives – price, quality, safety, reliability and security of the supply of electricity and gas, the reliability, safety and security of the national electricity system, and the achievement of targets set by a participating jurisdiction for reducing (or that are likely to contribute to reducing) Australia's greenhouse gas emissions.

Key affected processes include changes to the Rules under the national energy laws, the Integrated System Plan, RITs, revenue determinations/resets and gas access arrangements.

VER

Methodology

The VER is the 2022-23 average of the generic Australian Carbon Credit Unit spot price (AUD$33/tonne CO_2-e) with a growth rate of 10% p.a. averaged with a linear interpolation of:

1. From 2024-2029: the IPCC Fifth Assessment Report Representative Concentration Pathway 2.6 (commonly referred to as RCP2.6) scenario, median marginal cost of abatement figures,[8] converted into 2023 AUD dollars.
2. From 2030-2050: the IPCC Sixth Assessment Report Category 2 (commonly referred to as C2) emissions scenario median marginal cost of abatement figures[9], converted into 2023 AUD dollars.

Beyond 2050, the 2050 value should apply.

Sensitivity analysis

Sensitivity analysis tests the results of quantitative analysis by varying key assumptions to reflect risks and uncertainties. Where a regulatory entity considers that a sensitivity analysis is appropriate in relation to the interim VER, it is recommended that sensitivity testing be undertaken with upper and

[6] Clause 42(4) of Schedule 3 to the NEL.
[7] Clause 42(5) of Schedule 3 to the NEL, clause 137(3) of Schedule 3 to the NGL, clause 11(3) of Schedule 1 to the NERL.
[8] IPCC Fifth Assessment WGIII Final Report, Figure 6.21a (https://www.ipcc.ch/report/ar5/wg3/) The IPCC figures are expressed in USD 2010 dollars and converted into 2023 AUD dollars using the 2010 12-month average of the RBA's official monthly exchange rates (F11 EXCHANGE RATES) (https://www.rba.gov.au/statistics/historical-data.html#exchange-rates), and inflated to 2023 AUD dollars using the 2023 average to September of RBA/ABS's official quarterly CPI Index (G1 CONSUMER PRICE INFLATION) (https://www.rba.gov.au/inflation/measures-cpi.html#year_ended).
[9] IPCC Sixth Assessment WGIII Final Report, Figure 3.32 (https://www.ipcc.ch/report/ar6/wg3/). The IPCC figures are expressed in USD 2015 dollars and converted into 2023 AUD dollars using the 2015 12-month average of the RBA's official monthly exchange rates (F11 EXCHANGE RATES) (https://www.rba.gov.au/statistics/historical-data.html#exchange-rates), and inflated to 2023 AUD dollars using the 2023 average to September of RBA/ABS's official quarterly CPI Index (G1 CONSUMER PRICE INFLATION) (https://www.rba.gov.au/inflation/measures-cpi.html#year_ended).

lower bounds 25% above/below the VER value. The decision on whether to undertake a sensitivity analysis will be at the discretion of the regulatory entity.

Scope of emissions reduction

The amended objectives encompass emissions reduction targets that apply to the whole of the Australian economy. As such, emissions reduction that is achieved in any sector of the Australian economy is potentially within the scope of the amended objectives. Within the regulatory framework and requirements established by the NEL, the NGL and the NERL, decisions on the extent to which emissions reduction achieved outside of the energy sector should be considered will be at the discretion of the relevant regulatory entity. Regulatory entities may issue further guidance on this matter.

Emissions reduction for government or regulatory entity actions interacting with the Safeguard Mechanism

Governments or regulatory entities' actions in applying the VER may have impacts on emissions from covered facilities under the Safeguard Mechanism. The relevant government or regulatory entity should account for the impacts of its actions on emissions from covered facilities under the Safeguard Mechanism. Any emissions reductions achieved under the amended objectives should be considered as complementary to the incentives provided by the Safeguard Mechanism.

The calculation of emissions reduction will depend on the nature and extent of the interactions with the Safeguard Mechanism and should be assessed by the government or regulatory entity on a case-by-case basis. However, discretion is to be used to ensure that the costs and benefits of emissions reduction are distributed in accordance with the long-term interests of energy consumers.

Period of effect

This instrument commences on the day it is issued and remains in force until 30 June 2026 or until it is superseded by an updated instrument, rule, or regulation, whichever is earlier.

Issued on 19 July 2024