GUIDE

AUSTRALIAN ENERGY MARKET COMMISSION

How the national energy objectives shape our decisions

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Inquiries

Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

E aemc@aemc.gov.au
T (02) 8296 7800

Reference: CRP0159

About the AEMC

The AEMC reports to the energy ministers. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the energy ministers.

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.

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1 Introduction

The Australian Energy Market Commission (AEMC) makes and amends the energy rules, undertakes reviews of the national energy frameworks, and provides advice to energy ministers.

The national energy frameworks must adapt to manage the unprecedented uncertainty and complexity of change occurring in the sector and harness the potential opportunities for consumers.

In maintaining these frameworks, we must grapple with the uncertainties and opportunities of decarbonising markets, active participation by consumers and technological innovation to address the issues of today and prepare for an evolving future.

This guide helps you understand how the national energy objectives govern our decisions on electricity, gas and energy retail rule changes and reviews. This will help you contribute to our decisions — for example, by assisting with preparing effective rule change requests and submissions. We value your contributions as key inputs into our decisions.

The three national energy objectives are part of the legislative frameworks that govern the national electricity, gas and related retail markets. There are separate objectives for the electricity, gas and energy retail laws, but all three objectives focus on promoting the long-term interests of consumers through efficient investment, operation, and use of energy services.

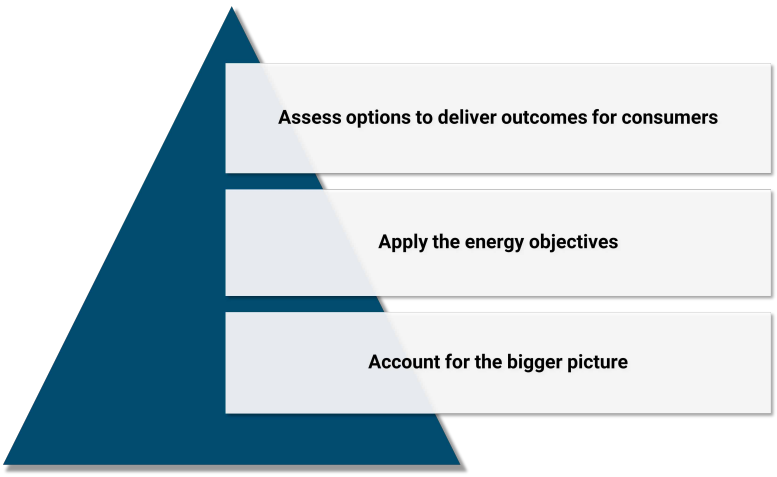
Box 1: Emissions reduction in our decision-making

The recent change to the energy laws to explicitly include an emissions reduction component in the national energy objectives is shaping the way we make our decisions. This is a significant change for the sector. We have made initial amendments to the energy rules to harmonise with this change to the national energy objectives.

Appendix A contains guidance on how we apply the emissions component of the energy objectives in our decision-making.

This guide has been structured to help you understand our decision-making process.

Figure 1.1: Our decision-making



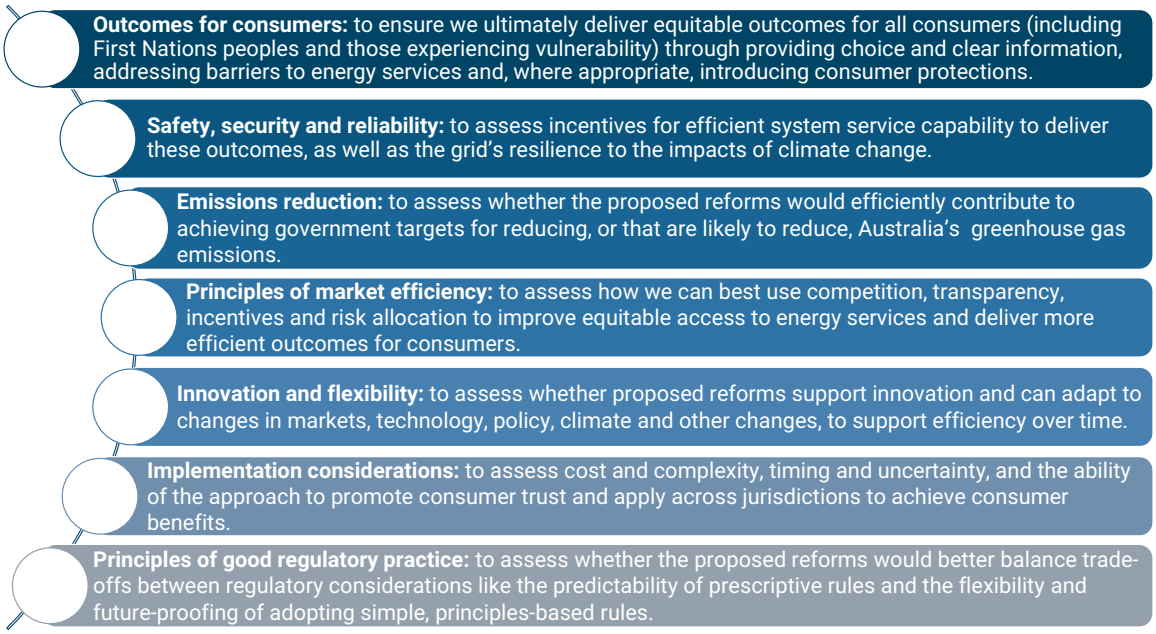
2 Our decision-making framework

The AEMC can only make and amend the electricity, gas and energy retail rules, or recommend changes to the national energy framework in reviews, if doing so will contribute to the relevant energy objective. The energy objectives refer to several components of the long-term interests of consumers.

In considering the objectives in the context of a particular rule change, the AEMC has the discretion to weight each of these components as we consider appropriate in the circumstances.

Our 2021 strategic plan included an initiative to refine our decision-making framework for rule changes, reviews and advice. As part of this initiative, we developed assessment criteria for assessing our decisions against the national energy objectives. The assessment criteria focus on seven key areas, outlined below.

Figure 2.1: Outline of our assessment criteria



We develop assessment criteria from this list for all of our reviews and rule changes to ensure you have a clear and consistent framework to engage with our decisions. These criteria have also fed into our in-house initiative to improve the accessibility and effectiveness of the AEMC's communications through more concise and accessible documents. You will see the relevant criteria reflected in each of our documents.

3 The meaning of the national energy objectives

The national energy objectives are set out in national energy legislation. These three objectives contain key terms that are important to understand to be able to engage with our decision-making process. The national energy objectives are set out below with emphasis added for the key terms.

The National Electricity Objective (NEO) is:[1]

> to promote **efficient** investment in, and efficient operation and use of, electricity **services** for the long term interests of **consumers** of electricity with respect to —
>
> (a) **price**, **quality**, **safety**, **reliability** and **security** of supply of electricity; and
>
> (b) the **reliability**, **safety** and **security** of the national electricity system; and
>
> (c) the achievement of **targets set by a participating jurisdiction** —
>
> (i) for reducing Australia's greenhouse gas emissions; or
>
> (ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.

The National Energy Retail Objective (NERO) is:[2]

> to promote **efficient** investment in, and efficient operation and use of, energy **services** for the long term interests of **consumers** of energy with respect to —
>
> (a) **price, quality, safety, reliability** and **security** of supply of energy; and
>
> (b) the achievement of **targets set by a participating jurisdiction** —
>
> (i) for reducing Australia's greenhouse gas emissions; or
>
> (ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.

The National Gas Objective (NGO) is:[3]

> to promote **efficient** investment in, and efficient operation and use of, **covered gas services** for the long term interests of **consumers** of covered gas with respect to —
>
> (a) **price, quality, safety, reliability** and **security** of supply of covered gas; and
>
> (b) the achievement of **targets set by a participating jurisdiction** —
>
> (i) for reducing Australia's greenhouse gas emissions; or
>
> (ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.

1 Section 7 of the NEL.

2 Section 13 of the NERL.

3 Section 23 of the NGL. The NGL was amended on 7 March 2024 when the *Statutes Amendment (National Energy Laws) (Other Gases) Act 2023* commenced (other than for Western Australia), changing 'natural gas' to 'covered gas' in the NGO. See section 3.1.10.

3.1 Key terms explained

3.1.1 Efficient

Efficiency is a vital consideration in our work as all three national energy objectives require efficient investment in, and operation and use of, each component of the service.

As outlined in Box 2, we generally refer to three types of efficiency. When we balance all three types, market participants have incentives to invest, operate and use energy services to provide the best outcome for consumers, now and in the future.

Box 2: Three types of efficiency

- *Productive* — providing services at the lowest cost, e.g. our rule change to ensure the cheapest electricity generation available is dispatched to meet consumer needs in the NEM by providing more granular signals.
- *Allocative* — allocating services to those who value them most, e.g. our rule change to explicitly provide export services for consumers who want to supply their excess solar power to the grid.
- *Dynamic* — adapting to changing circumstances to maintain these efficiencies in the long term, e.g. our review into how to extend the regulatory frameworks to include low-level hydrogen blends and renewable gases to encourage investment and innovation.

3.1.2 Services

This term covers everything from the services to generate, transport and sell energy, to the supporting services that enable this to occur efficiently, securely and reliably.

As the sector continues to transition, new types of services are emerging such as the aggregation of energy services to provide consumers with access to energy and ancillary services markets.

The best outcomes for consumers are only possible when every part of the chain delivers its contribution well and there are seamless interactions between them.

3.1.3 Consumers

Consumers of electricity, covered gas (see section 3.1.10) and related services take many different forms.

For instance, households and small businesses (end users) consume retail energy products that package different energy related services together. Others may only consume a subset of the energy services, such as generators using the network services that transport their energy to market.

It is important that all relevant consumers are considered in our decisions, as well as interactions with any relevant protections for those consumers.

3.1.4 Price

Prices, and choosing to respond to price, are at the very heart of our economic system. Prices create incentives for participants to act efficiently by reflecting the consumer's marginal benefit and/or supplier's marginal cost. The price we're willing to pay reflects how much we value the service, while the price we're willing to sell for should reflect the cost of providing that service.

The AEMC wants to make sure consumers can see the full benefits and cost of their choices through prices, so they can make informed choices. We consider consumers' perspectives and know that the broader context can affect how consumers see and respond to these prices.

3.1.5 Quality

Quality can mean different things depending on the context. For example:

- the technical quality of energy, such as variations to frequency and voltage magnitude (eg, harmonics) and imperfections in the voltage waveform
- the calorific value or emissions intensity of the blend of covered gases flowing through the pipes
- the quality of service that retail consumers receive from retailers and distribution businesses.

3.1.6 Safety

Gas and electricity can be dangerous products and it's part of our role to consider their safe supply.

There are a variety of requirements for safety under the national energy frameworks that apply to electricity, gas and related energy services. There are also various state and territory laws, regulations and bodies that govern safety, including the safe supply of energy and broader safety requirements associated with energy use in households and businesses.

These requirements make sure everyone in the supply chain invests, operates and uses their assets in a way that provides for safe supply.

3.1.7 Reliability

Reliability is associated with consumer expectations regarding the dependability of their supply. Reliability requires:

- an adequate supply of capacity to meet demand (including a buffer to respond to shocks)
- a reliable transmission and distribution network
- the system to be in a secure state.

This means consumers' needs can be met, in a range of circumstances, with electricity generation or gas supply. It also means the networks can transport energy to consumers and that the system operates smoothly.

3.1.8 Security

Security is part of the technical resilience of the system. Security requires the system to continue operating within defined technical limits even if a major element like a generator or large consumer disconnects from the system. System services, technical standards and capabilities can be used to provide this security.

For instance, inertia, frequency control and system strength all help keep the power system secure and survive major elements disconnecting for a range of reasons, like mechanical failures. This allows consumers to have confidence in their electricity and gas supply.

3.1.9 Targets for reducing, or that are likely to contribute to reducing, greenhouse gas emissions

The relevant targets are set out in our Targets Statement. Please see our guide on applying the emissions component of the national energy objectives in appendix A for further information on how we consider emissions targets.

3.1.10 Covered gases

The NGO now refers to covered gas rather than natural gas. A covered gas is a primary gas or a blend of primary gases, where a primary gas includes:

- natural gas
- hydrogen
- biomethane
- synthetic methane
- other substances prescribed by the Regulations or a participating jurisdiction.

This change was made by the *Statutes Amendment (National Energy Laws) (Other Gases) Act 2023,* which commenced on 7 March 2024.[4] This reform package expanded the scope of the national gas regulatory framework to cover hydrogen and other renewable gases.

3.2 Regulating for efficiency

The national energy objectives refer to the long-term interests of consumers in the context of efficient investment, operation and use of energy services.

Market-based solutions that drive competition are often the most effective and efficient way to achieve these efficiencies and deliver the best outcomes for consumers.

However, regulatory intervention may be needed to replicate these market forces in certain cases such as the operation of natural monopolies (e.g. network businesses), where it is more efficient to have a single supplier.

While we are guided by the concept of perfectly competitive markets, in practice there are always deviations to be accounted for. You may see these scenarios referred to in our decisions as 'market failures' or opportunities to improve the regulatory framework.

As the sector transitions, the nature of these market failures and opportunities to improve the regulatory framework will change. There will be times when practical considerations may require a different approach to market-based solutions in order to help the sector through the transition.

3.2.1 Addressing market failures

Imperfect information is an example of market failure because not everyone has access to the same information or understanding of the significance of that information.

The complexity of the NEM and the gas markets means some differences in understanding are unavoidable, but we sometimes make rules to ensure everyone has access to information that materially impacts their participation in the market.

For example, we work with AEMO, AER and stakeholders to ensure clear, consistent and timely communication of generator availability.

4 This reform applies in the eastern jurisdictions of Australia but has not yet been adopted in Western Australia.

Another example of a market failure is when barriers stop consumers and suppliers from entering and exiting the market. However, it is important to also consider whether the costs of removing those barriers outweigh the benefits. For example, the cost of complying with consumer protections may be a material and potentially prohibitive expense for some businesses but is in the long-term interest of consumers.

3.2.2 Continually refining the regulatory framework

Regulating to address market failures has its own costs and challenges. We need to continually review our approach to ensure the regulation effectively addresses the relevant issues, and that the cost to implement, administer and enforce the regulation is proportionate to those issues.

This is demonstrated, for example, by our rule change that balances greater flexibility for AEMO to manage new and unexpected threats to power system security from a rapidly changing sector and climate change with increased transparency for stakeholders.

We can also improve the regulatory framework by encouraging innovation and strengthening incentives, particularly when they interact with broader market forces and jurisdictional polices.

For example, our rule change to support more responsive and adaptable regulation of gas and electricity bills by replacing previous billing provisions with a mandatory AER guideline that takes into account changes in the market and consumer preferences.

3.2.3 Making practical decisions

Our decisions also need to account for practical considerations, such as whether the desired outcome can be achieved within the required time, noting the scale of the problem and the level of uncertainty. The need to allow time for markets to mature and for technology to develop may also inform our decisions.

For example, in the *DWGM interim LNG storage measures* rule change the interim nature of the rule change was taken into consideration. The final rule was designed to minimise the costs and impacts required to address the immediate issues identified without limiting the options available for long-term security of supply and reliability reforms.

4 The big picture: decision-making in a transitioning sector

We are responsible for rule-making and providing expert advice as the Australian energy sector undergoes fundamental change in how energy is produced, delivered, sold, stored, and used.

When making decisions, we cannot lose sight of the bigger picture, the depth and breadth of the reforms that are occurring and the need to manage the unprecedented challenges facing the sector. Nor can we ignore that the pace of change is accelerating as we navigate through the uncertainty this rapid transition brings.

As AEMC decisions guide action towards a decarbonising, affordable and reliable energy system, we must consider the broader changes occurring in technologies, stakeholder behaviour and jurisdictional policies (including emissions targets).

Practical rules also require us to grapple with the increased uncertainty around these elements. This ensures our decisions drive innovation and greater efficiency in the focus and timing of investments, operational decisions and use of energy.

4.1 Elements shaping the big picture

4.1.1 Decarbonisation

Decarbonisation in response to climate change is a significant focus for the energy sector.

Commonwealth, state and territory governments have committed to net zero by 2050 or earlier, and adopted a range of policy initiatives to meet this objective.

Investors increasingly consider decarbonisation in the context of environmental, social and governance criteria. Household investment in consumer energy resources such as rooftop solar and batteries reflects concerns about the environment.

Climate change itself also affects the security and reliability of our energy system. Climate change is making extreme abnormal conditions increasingly frequent and impacting weather-dependent generation technologies. As a result, unforeseen and unexpected threats to the power system are emerging. An example of our work in this space is our rule on *Including distribution network resilience in the National Electricity Rules*.

We are considering how our rules can support these fundamental shifts and help to achieve government emission reduction targets. See our emissions guide in appendix A for more information on how we will do this.

4.1.2 Technological change

The new capacity arising from renewable sources, such as wind, solar and hydrogen, and the retirement of the old generator fleet, partly reflects the shift to decarbonisation. But the rapid technological change occurring in the energy sector also reflects other advances, such as digitisation. These trends are also blurring the lines between sectors and market participants' roles within those sectors.

For example, while electric vehicles are a decarbonised form of transport, they can also effectively become household or business batteries on wheels should the consumer desire.

The AEMC aims to create regulatory frameworks that reward innovation and enable consumers and market participants to choose what is best for them, in light of a range of factors including price, reliability and emissions.

4.1.3 Stakeholder behaviour

Investors, industry and consumers are also changing their behaviour in ways that affect the transition. Within the energy sector, we are seeing the decentralisation of energy and the rise of the 'prosumer'. There is also increasing diversity in behaviours driven by external factors affecting energy use.

For example, greater variety in working patterns following the global pandemic, evolving digital-service sectors, the internet of things, and even mining for cryptocurrencies. These all change the way people use electricity and gas and interact with energy services.

Our decisions need to account for the impact of these trends on incentives in the energy sector, as well as the potential change in behaviours and roles that result.

4.1.4 Jurisdictional policy trends

Commonwealth, state and territory policies shape the electricity, gas and energy retail sectors, as well as our role in them. We consider how our decisions interact with these policies to ensure the regulatory framework operates as effectively and efficiently as possible.

For example, government subsidies to encourage investment in rooftop PV and batteries can change consumer behaviours and, with the right incentives, help support the transitioning sector. Jurisdictional policies on the pathway to net zero include reducing the role of traditional thermal generation and the evolution of gas networks.

Our decisions must be flexible enough to help to achieve these policies, while promoting the long-term interests of consumers.

4.1.5 Increased uncertainty

The energy sector is facing significant challenges at the moment. In response to this, we regularly consider whether our decision-making approach and framework remain fit-for-purpose with the pace, speed and uncertainty of the world we are in.

Our decision-making process must look ahead to deliver timely, effective and enduring reforms when they are needed.

To manage the uncertainties facing the sector, we will often consider a range of scenarios to test the likelihood of success, expected timings of benefits and costs, and how robust our approach to implementation is. This helps us have confidence that our decisions will leave consumers better off.

4.1.6 Equitable energy outcomes for consumers

The energy transition is changing the way consumers interact with and experience the energy system. While many consumers are experiencing benefits such as lower bills through participating in the transition to net zero, many other consumers face barriers to participation. Consumers who experience vulnerability likely make up a disproportionate share of this latter group. These consumers may face greater difficulty protecting or representing their interests and engaging effectively.

Achieving equitable energy outcomes for all consumers, including the most vulnerable, is a key challenge and opportunity for the AEMC and the energy sector as a whole. It will be essential for building and maintaining the social license that is necessary to enable a timely and least-cost energy transition.

To promote consumer trust in the energy sector, our decisions need to:

- account for the diversity of consumer needs, experiences and preferences
- address structural barriers to participation
- avoid creating or exacerbating vulnerability.

This includes considering the unique circumstances of First Nations peoples and how our decision-making can support First Nations peoples' equitable access to affordable, reliable and sustainable energy.

In many cases, improving equity will help us better achieve the national energy objectives. In other cases, it may be possible for us to make rules that meet the national energy objectives and are more equitable than alternatives. Where equitable outcomes do not align with efficient outcomes, our increased awareness of equity implications could help us design rules that ease consumer impacts.

4.2 Get involved

You can be part of our decisions by responding to rule change projects or reviews when they affect you or your organisation. You can share your views on the assessment of the proposed regulatory change against our assessment criteria in a written submission or by joining our public forums.

We value stakeholder feedback to help us better understand trends in the market and the key areas of stakeholder concerns, to be forward thinking and to make good decisions. The best way to stay in touch with the rule change projects and reviews is to subscribe to our newsletter. You can also contact us if you have any questions.

Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Commission	See AEMC
MCE	Ministerial Council on Energy, the term used in the national energy laws to refer to the group of Commonwealth, state and territory ministers responsible for energy matters at a national level
NEL	National Electricity Law
NEO	National electricity objective
NERL	National Energy Retail Law
NERO	National energy retail objective
NGL	National Gas Law
NGO	National gas objective
VER	Value of emissions reduction - see appendix A.7

A Applying the emissions component of the national energy objectives

The AEMC supports the changes to the national energy objectives to refer to government emission reduction targets. This is a significant change for us, as the objectives guide all our work on rule changes and reviews.

As an independent rule-maker, we make rules that promote efficient energy services for the long term interests of consumers with respect to achieving the emission reduction targets, alongside the other specified considerations including price, quality and reliability of energy supply.

The body of this guide *How the national energy objectives shape our decisions* provides general information on how we consider the national energy objectives in our decision-making, including guidance on our decision-making framework and how we consider the broader context.

This appendix provides more detailed information on how the AEMC applies the emissions component of the national energy objectives, given this component is new in the energy regulatory framework.

A.1 What is the emissions component of the objectives?

The national electricity, gas and retail energy objectives (NEO, NGO, NERO) refer to the long term interests of energy consumers with respect to specified matters, within an economic efficiency framework.[5]

In September 2023, the list of matters forming part of the long term interests of energy consumers in the NEO, NGO and NERO was updated to include:[6]

> the achievement of targets set by a participating jurisdiction -
>
> (i) for reducing Australia's greenhouse gas emissions; or
>
> (ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.

A.2 Governments set strategic policy for energy and emissions reduction targets

Governments, via energy ministers, have responsibility for the strategic direction of energy markets in Australia. Governments also set emission reduction targets, and targets likely to reduce emissions, and update them from time to time.

The AEMC has published and will maintain a list of the relevant targets, reflecting government input – the targets statement.[7] In having regard to the emissions component of the national energy objectives as set out above, the AEMC and other relevant entities must consider, as a minimum, the targets in the targets statement, and may consider other relevant government targets.[8]

5 More information on this efficiency framework can be found in the body of this guide. The national energy objectives are set out in these sections of the energy laws: section 7 of the NEL; section 23 of the NGL; section 13 of the NERL.

6 Section 7(c) of the NEL; section 23(b) of the NGL; section 13(b) of the NERL, as inserted by the *Statutes Amendment (National Energy Laws) (Emissions Reduction Objectives) Act 2023 (SA)*.

7 This is a requirement of section 32A(1) of the NEL, section 72A(1) of the NGL and section 224A(1) of the NERL.

8 The minimum requirement is set out in section 32A(5) of the NEL, section 72A(5) of the NGL and section 224A(5) of the NERL.

A.3 How our approach to emissions has changed with the updated objectives

Our strategic plan recognises that decarbonisation is a significant focus for the energy sector, affecting decisions by governments, investors and energy sector participants. As such, prior to the change to the objectives to include emissions, we took emissions into account as one of the elements shaping the big picture within which the AEMC makes rules.

As the objectives have now changed, emissions reduction is no longer considered only as part of the external context for our decision-making, but as one of the central considerations in determining if changes are in the long-term interest of consumers. Essentially, we are internalising the emissions impacts rather than treating them as an external factor.

In addition, due to the change to the energy objectives, the AEMC is able to consider a wider range of rule change requests. Rule change requests must specify how the proposed change will contribute to the energy objectives, and new requests may refer to the emissions component in addition to the existing components.

We already consider how climate change impacts the energy sector itself (eg in rule changes on system settings that recognise the increasing frequency and severity of extreme weather events, which affect both energy demand and energy supply). The change to the objectives does not affect how we do this.

A.4 The new emissions component of the energy objectives is one of several considerations the Commission is required to balance

The emissions reduction component is one of a number of components (alongside price, quality, safety, reliability and security of supply) that the AEMC is obliged to consider and has discretion to balance in making its decisions.[9]

Existing provisions in the energy laws provide that, in applying the objectives for a rule change, we can weight each component of the objectives as we consider appropriate in the circumstances.[10] We will consider and balance the emissions reduction component alongside the other components, in a way that promotes the long-term interests of consumers overall.

The following sections discuss how we will do this, as part of our regulatory impact analysis for each rule change and review project.

A.5 For each project, we will consider the impact of the proposed reform on the ability to meet emissions reduction targets

At the start of each project, we consider how to determine whether the proposed reform will contribute to the long term interests of energy consumers. We focus our assessment on the relevant components of the energy objectives, as well as considering issues such as implementation and principles of good regulatory practice. An outline of the criteria we choose from is set out in chapter 2.

As part of this process, for each project we will consider the impact of the proposed reform on the ability to meet the relevant emission reduction targets (identified in accordance with appendix A.2 above).

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9 This approach is explained in the second reading speech for the Bill and in the Commonwealth's consultation paper on the draft Bill (*Incorporating an emissions reduction objective into the national energy objectives*, Consultation paper, 20 December 2022, page 2).

10 Section 88 of the NEL, section 291 of the NGL and section 236 of the NERL.

If the proposed reform is likely to have an impact, we will include emission reduction impacts as one of the assessment criteria to use throughout the project. This criterion reflects the emissions component of the energy objectives:

> to assess whether the proposed reforms are likely to efficiently contribute to achieving government targets for reducing, or that are likely to reduce, Australia's greenhouse gas emissions.

Our consultation papers and decision documents for each project will discuss how we have chosen and applied the assessment criteria, including the emission reduction criterion where it is part of the assessment framework for the project. Appendix A.6 to appendix A.9 below discuss how we will assess emission reduction impacts.

If a proposed reform would not affect progress towards emission reduction targets, and therefore emissions reduction is not a core component of the assessment framework for that project, we may still discuss emission reduction policies as part of the context for the project.

For a small minority of projects, it will be clear from the outset that the proposed reform will have no impact on the ability to meet emission reduction targets, and nor will emissions be relevant as part of the context for the reform. An example of such a rule change is the rule we made in 2022 on retailer protections for customers experiencing family violence.

A.6 There are a number of ways we could assess the impacts of a reform on the ability to meet emission reduction targets

In assessing proposed rule changes and weighing up policy options, we use a variety of techniques to examine the benefits and costs of the change, and specifically whether the changes meet the assessment criteria and would therefore contribute to the long term interests of consumers.

These techniques range from qualitative assessment through to quantitative cost benefit analysis, depending on the likely impacts, complexity and nature of the proposed change.

For some rule changes, the quantification of costs and benefits is both possible and relatively valuable (eg because the benefit-cost ratio is initially unclear). In those cases, if emissions reduction is one of the assessment criteria, we would quantify emission reduction benefits as part of the analysis. This will help us to assess whether the rule change is in the interests of consumers overall.

We will quantify direct impacts of the rule on emissions and, where the analysis would be informative, indirect impacts of the rule on emissions. In deciding whether to use a qualitative or quantitative assessment approach for emissions, we will consider whether the emissions component is likely to materially affect the overall assessment of the proposed rule, and if so whether the cost of undertaking the analysis would be reasonable.

For other rule changes, a quantitative assessment of emissions impacts may not be possible or may not be necessary, eg, because there are no significant costs associated with the rule or it is otherwise clear that the benefits outweigh the costs. In those cases, a qualitative analysis of the impacts of the proposed rule on the ability to meet emissions reduction targets (ie, whether or not the proposed rule would assist in reducing emissions) may be appropriate.

A.7 When quantitative assessment is needed, we will use the value of emissions reduction agreed by energy ministers

For projects where quantitative analysis of costs and benefits relating to emissions reduction is required, we will need to understand the value of emissions reduction, in the context of the current emissions reduction targets, and the volume of emissions the project is likely to reduce.

Energy ministers have agreed an interim methodology to determine a value of emissions reduction (VER), in dollars per tonne. This has been issued to the market bodies for their use when applying the emissions component of the objectives, and remains in force until 30 June 2026 or until it is superseded by an updated instrument. The methodology is contained in an MCE statement about the interim value of greenhouse gas emissions reduction, available here.

The MCE statement notes (p. 2) that:

> 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 list of interim VERs developed by applying this methodology is in appendix A.11. We will apply these values in our decision-making when we are undertaking quantitative assessment.[11] We may also undertake sensitivity analysis using values up to 25% higher or lower than the VER, where appropriate for particular projects. For example, sensitivity analysis using a higher value may be appropriate where a state or territory target in the targets statement is of particular relevance for a proposed rule, and that target is higher than the Commonwealth target.

When an ongoing methodology for determining a value of emissions reduction becomes available, we will adopt that value.

A.8 We will consider the impacts of our rules on emissions across sectors in Australia

For projects using quantitative assessment, we need to estimate the emissions impact of the rule change in question, in terms of the number of tonnes of emissions likely to be avoided or emitted as a result of the rule change. (We do not currently see a need to include offsets in this calculation, but will consider this on a case by case basis.) This is the number we will multiply by the VER, to produce a total emissions dollar amount to factor into the cost benefit assessment, alongside the other costs and benefits of the rule change.

In estimating the emissions impacts of a proposed rule change, we consider all material emissions reductions or increases in Australia that would be likely to result from the rule change (directly or indirectly). This includes emissions impacts across the economy. A rule change may affect transport sector emissions (eg due to impacts on electric vehicle charging), industrial or household emissions (eg due to impacts on the use of zero-emissions gases), as well as emissions from energy generation. The MCE statement notes (p. 3):

> 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.

11 This is a requirement of clause 42(2) of Schedule 3 to the NEL, clause 137(2) of Schedule 3 to the NGL and clause 11(2) of Schedule 1 to the NERL.

We do not consider impacts on emissions that occur outside Australia - this is because the energy objectives refer to 'reducing Australia's greenhouse gas emissions'.

A.9 We will take into account interactions with government policies

In some cases, the impact of a proposed rule on emissions reduction may be difficult to quantify where binding government emissions reduction policies such as the Safeguard Mechanism also apply. The MCE statement (p. 3) indicates that emissions reductions from our rule changes can be considered complementary to government emissions reduction incentives, but interactions should be considered on a case-by-case basis:

> 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.

In particular projects, stakeholders may provide evidence indicating that we should not value certain emissions reductions because those emissions would have been reduced or avoided due to binding government policies whether or not we made the rule in question. (That is, those emissions reductions are not additional.) We will consider any such evidence as part of the regulatory impact analysis for the project.

In developing the positions set out in this section and the section above, we have considered the MCE statement as well as a report prepared by the Brattle Group, which we engaged to provide detailed advice on methods for quantifying emissions impacts under the national energy objectives. For further information, see the Brattle report, available here. The Brattle report is provided for background only and does not take priority over the MCE statement or this guide.

We may reassess this guidance periodically or as required, eg, due to changes in government policies.

A.10 How we are applying the new objectives to existing projects

We are applying the updated objectives for each of our projects in the way described above — both new projects and those that were on foot when the energy objectives were changed.

This does not necessarily mean a change of direction for all existing projects, as we previously took emissions reductions into account as an external factor, where relevant (as discussed above).

If there are any existing rule change projects where emissions considerations would be likely to have a material impact on our final decision, we will consult on that impact before making our final decision.

A.11 List of interim values of emissions reduction, by year

The following VERs were developed by applying the methodology in the MCE statement.

Table A.1: Interim values of emissions reduction

Year	VER (AUD 2023)
2024	70
2025	75
2026	80
2027	84
2028	89
2029	95
2030	105
2031	114
2032	124
2033	135
2034	146
2035	157
2036	169
2037	181
2038	194
2039	207
2040	221
2041	236
2042	252
2043	268
2044	286
2045	305
2046	325
2047	346
2048	369
2049	393
2050	420
Post 2050	420