

Consultation on AEMC guide to applying the emissions component of the national energy objectives

We are consulting on a draft guide to applying the emissions component of the objectives

Energy Ministers have approved an update to the national energy objectives which embeds emissions reduction as part of the long-term interests of energy consumers.¹ This will be a significant change for us, as the objectives guide all our work on rule changes and reviews. To support our work, we have developed the attached draft guide on applying the updated objectives.

We would like your feedback on this guidance. Submissions are due by **18 August 2023**.

This document sets out:

- Purpose of the guide
- Questions and how to provide feedback
- Next steps on the guide
- Background and context:
 - Background on changes to the national energy objectives
 - Information on concurrent consultations and upcoming related publications
- Appendix: Text of the guide

The guide will help us apply the updated energy objectives

We will use this guide when applying the emissions reduction component of the updated national energy objectives, alongside the other considerations in the objectives, in our rule-making process and when making recommendations in reviews.

We have also developed it to help stakeholders understand what the changes to the objectives will mean for new and existing rule change and review projects.

Questions for stakeholders and how to provide feedback

We would like stakeholder feedback on the attached guide. In particular:

- Do stakeholders have any feedback on the approach we're proposing to take in applying the updated objectives?
- Does the guide clearly explain how the Commission will consider the new emissions reduction component in its work?
- Would further guidance on any aspects of the Commission's approach to the updated objectives be helpful?

The guide aims to help the Commission follow these principles of good regulatory practice in applying the emissions objectives in its rule change and review work:

¹ For further information, please see the Department's webpage [Incorporating an emissions reduction objective into the national energy objectives](#). The changes to the national energy objectives are set out in the [Statutes Amendment \(National Energy Laws\) \(Emissions Reduction Objectives\) Bill 2023](#).

- Predictability and stability
- Simplicity and transparency
- Consideration of the broader direction of reforms.

Please consider these principles when providing your feedback on the guide.

Submissions are due by 18 August 2023. You can lodge a submission online via the Commission's website, www.aemc.gov.au, using the "[lodge a submission](#)" function under the "Contact Us" tab, and selecting the project reference code CRP0159.²

We publish submissions on our website. However, we will not publish materials that we agree are confidential, or that we consider inappropriate (for example offensive or defamatory content, or content that is likely to infringe intellectual property rights).

Next steps

Taking into account your feedback, we will finalise and publish the guide shortly after the changes to the objectives take effect. This is currently expected to occur later this year.

We may revise this guidance as necessary in the future.

Background on changes to the national energy objectives

In 2022 Energy Ministers agreed to update the national energy objectives to refer to emission reductions. The wording of the updated objectives was agreed in May 2023, and the [Emissions Reduction Objectives Bill](#) was introduced into South Australian Parliament in June. The Bill is expected to pass this year.

The Bill amends the national electricity, gas and retail energy objectives to include:

"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."

Incorporating emissions reduction into the national energy objectives means energy market bodies, including the Commission, will need to balance emissions reduction with the existing considerations of price, quality, safety, reliability and security in applying the objectives.

Context: Concurrent consultations and upcoming related publications

Below is an overview of other consultations underway and upcoming publications on the implementation of the new objectives.

Value of emissions reduction

The law changes to include an emissions reduction component in the national energy objectives will create a need for a value of emissions reduction as a tool for use in processes such as regulatory investment tests and investment planning frameworks. The Commonwealth Government will lead work on developing a value, or method for determining one, in close consultation with market bodies, states and territories. The value or approach is expected to be available by November 2023.

² Tips for making submissions are available on our website, at <https://www.aemc.gov.au/our-work/changing-energy-rules-unique-process/making-rule-change-request/submission-tips>

Australian Energy Regulator (AER) consultation

The AER is also consulting on guidance on how it will consider whether to apply the amended energy objectives to processes underway, along with how it will operationalise those objectives in the current round of electricity network determinations. Its consultation paper was published on 24 July, and can be found on the [AER's website](#).

Reliability Panel consultation

The Reliability Panel is consulting on its guide on how it will apply the updated objectives to its determinations and reviews under the National Electricity Rules. Its consultation paper was published on 24 July, and can be found on the [AEMC website](#). Submissions close on 18 August 2023.

Harmonising rule changes

The Commission is also currently consulting on two rule change requests seeking to harmonise key provisions of the national energy rules with the updated objectives.

Energy senior officials on behalf of the Ministerial Council on Energy (as constituted by the Energy Ministers Sub-group) submitted the rule change requests on 4 July 2023. The requests cover three categories of priority amendments to give effect to the updated objectives and provide clarity on the treatment of emissions reductions:

1. Rules for network/pipeline expenditure proposals and assessment ([rule change 1](#))
2. Rules for electricity network planning and investment frameworks ([rule change 2](#))
3. Rules to enable a streamlined process for updating AER statutory guidelines, guidance documents and instruments to reflect the updated energy objectives ([rule change 2](#)).

The consultation paper covering both rule changes was published on 20 July, and can be found on our [website](#). Submissions are due by 17 August.

Targets statement

The Emission Reduction Objectives Bill requires the Commission to develop a targets statement that lists government emission reduction targets the market bodies, including the Commission, should consider when applying the updated objectives.

The targets statement will cover two key types of targets in accordance with the provisions of the Bill:

- Targets for reducing Australia's greenhouse gas emissions
- Targets likely to contribute to reducing Australia's greenhouse gas emissions. (These may include targets relating to renewable energy and electrification, for example.)

The Commission intends to publish the initial targets statement, alongside this guidance, when the changes to the objectives take effect. It will be updated as required. Energy ministers can direct the Commission to include a target in, or remove a target from, the targets statement.

Appendix: AEMC guide to applying the emissions component of the national energy objectives – consultation draft

The AEMC supports the changes to the national energy objectives to refer to government emission reduction targets. This will be a significant change for us, as the objectives guide all our work on rule changes and reviews. As an independent rule-maker, we will make rules that promote efficient energy services for the long term interests of consumers with respect to achieving the emission reduction targets, alongside our existing considerations including price, quality and reliability of energy supply.

Our current guide [How the National Energy Objectives Shape Our Decisions](#), published in October 2022, provides information on how we consider the existing components of the energy objectives. We will update that guide when the objectives are changed, and may combine these two documents.

1. What are the changes to the objectives?

The national electricity, gas and retail energy objectives (NEO, NGO, NERO) currently refer to the long term interests of energy consumers with respect to price, quality, safety, reliability and security of supply of energy, within an economic efficiency framework.³

An upcoming law change will extend this list of components in the NEO, NGO and NERO to include the achievement of targets set by a participating jurisdiction (including the Commonwealth, States and Territories):

- for reducing Australia's greenhouse gas emissions, or
- that are likely to contribute to reducing Australia's greenhouse gas emissions. (This may include targets relating to renewable energy and electrification.)

Note: This is based on the [version of the Emission Reduction Objectives Bill introduced into South Australian Parliament on 14 June 2023](#). We will update this guidance if there are any changes when the Act is passed.

2. Governments set strategic policy for energy and emission reduction targets

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

After emissions are included in the energy objectives, the AEMC (and other market bodies) will take these targets into account when applying the energy objectives.

The AEMC will be required to publish a list of the relevant targets, reflecting government input.

³ More information on this efficiency framework can be found in our guide [How the National Energy Objectives Shape Our Decisions](#). The national energy objectives are set out in these sections of the energy laws: National Electricity Law section 7; National Gas Law section 23; National Energy Retail Law section 13.

3. How our approach to emissions will change with the updated objectives

Currently, we take emissions into account as one of the elements shaping the big picture within which the AEMC makes rules. Our [strategic plan](#) recognises that decarbonisation is a significant focus for the energy sector, affecting decisions by governments, investors and energy sector participants.

When the objectives change, emissions reduction will no longer be part of the external context for our decision making, but one of the central considerations in determining if changes are in the long-term interest of consumers. Essentially, our decisions will shift to internalising the emissions impacts rather than treating them as an external factor.

In addition, when the energy objectives change the AEMC will be 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 currently 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 will not affect how we do this.

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

Consistent with the current approach to applying the objectives, the emissions reduction component will be one of a number of components (alongside price, quality, safety, reliability and security of supply) that the AEMC will be obliged to consider and will have discretion to balance in making its decisions.⁴

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.⁵ We will consider and balance the emissions reduction component alongside the existing 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.

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

⁴ 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).

⁵ National Electricity Law section 88; National Gas Law section 291; National Energy Retail Law section 236.

implementation and principles of good regulatory practice. The full list of criteria we choose from is set out in our [guide to our decision making](#) (page iii).

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 section 2 above).

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 will be:

to assess whether the proposed reforms are likely to efficiently contribute to the achievement of government targets for reducing Australia's greenhouse gas emissions.

This emission reduction criterion will replace the current decarbonisation criterion in our guide to decision-making (*to assess whether proposed reforms will lead to a more coordinated, efficient approach to consumer, investor and policy decisions to decarbonise the energy sector*).

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. Sections 6-7 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 last year on [retailer protections for customers experiencing family violence](#).

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.

Some rule changes warrant a quantitative CBA because the potential costs of the change are high or the benefit-cost ratio is unclear. In those cases, if emissions reduction is one of the assessment criteria, we would quantify emission reduction benefits as part of the analysis, to help assess whether the rule change is in the interests of consumers overall.

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.

7. How we will assess emission reduction impacts when quantitative assessment is needed

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

The Commonwealth Government will lead work on developing a value, or method for determining one, in close consultation with market bodies, states and territories. The value or approach is expected to be available by November 2023. When it becomes available, we will apply it in our decision making when we are undertaking quantitative assessment.

In addition, for projects using quantitative assessment, we will need to estimate the impact of the rule change in question on the ability to meet emission reduction targets, in terms of the number of tonnes of greenhouse gas emissions likely to be abated.

In discussion with governments, we are undertaking work on how to estimate the volume of emission reductions for rule changes, including on the scopes of emissions and sectors that should be considered, and how to consider emission reductions that would have occurred in the absence of the proposed rule. We will publish further guidance on our approach to these issues later this year.

Once we publish this further guidance on emissions quantification, we will apply it in our decision-making. We may reassess this guidance periodically or as required, eg due to changes in government policies.

8. How we will apply the new objectives to existing projects

When the objectives are changed, we will consider the updated objectives for each of our projects in the way described above – both existing and new projects.

This will not necessarily mean a change of direction for all existing projects, as we currently take 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.