HOW THE NATIONAL ENERGY OBJECTIVES SHAPE OUR DECISIONS

SEPTEMBER 2023
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 HOW THE NATIONAL ENERGY OBJECTIVES SHAPE OUR DECISIONS

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 will shape the way we make our decisions going forward. This is a significant change for the sector.

Please see the attached guide on how we will 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

- Assess options to deliver outcomes for consumers
- Apply the energy objectives
- Account for the bigger picture

Source: AEMC.
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 includes an initiative to refine our decision-making framework for rule changes, reviews and advice. As part of this initiative, we have developed our assessment criteria for assessing our decisions against the national energy objectives, which focus on seven key areas.

Figure 2.1: Assessment criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
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<tbody>
<tr>
<td>Outcomes for consumers</td>
<td>to ensure we ultimately deliver for consumers, including providing choice, clear information and, where appropriate, consumer protections.</td>
</tr>
<tr>
<td>Safety, security and reliability</td>
<td>to assess incentives for efficient system service capability to deliver these outcomes, as well as the grid’s resilience to the impacts of climate change.</td>
</tr>
<tr>
<td>Emissions reduction</td>
<td>to assess whether the proposed reforms would efficiently contribute to achieving government targets for reducing, or that are likely to reduce, Australia’s greenhouse gas emissions.</td>
</tr>
<tr>
<td>Principles of market efficiency</td>
<td>to assess how we can best use competition, transparency, incentives and risk allocation to deliver more efficient outcomes for consumer benefits.</td>
</tr>
<tr>
<td>Innovation and flexibility</td>
<td>to assess whether proposed reforms support innovation and can adapt to market, technological, policy and other changes which support efficiency over time.</td>
</tr>
<tr>
<td>Implementation considerations</td>
<td>to assess cost and complexity, timing and uncertainty, and the ability of the approach to apply across jurisdictions to achieve consumer benefits.</td>
</tr>
<tr>
<td>Principles of good regulatory practice</td>
<td>to assess whether the proposed reforms would better balance trade-offs between regulatory considerations like the predictability of prescriptive rules and the flexibility and future-proofing of adopting simple, principles-based rules.</td>
</tr>
</tbody>
</table>

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 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, natural gas services for the long term interests of consumers of natural gas with respect to —

(a) price, quality, safety, reliability and security of supply of natural gas; and

(b) the achievement of targets set by a participating jurisdiction —

¹ Section 7 of the NEL.
² Section 13 of the NERL.
³ Section 23 of the NGL.
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.

Source: AEMC.

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, natural gas 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 (i) for reducing Australia’s greenhouse gas emissions; or (ii) that are likely to contribute to reducing Australia’s greenhouse gas emissions.
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 the consumers’ perspective 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 blend of hydrogen and renewable gas 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 its 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, attached to this guide, for further information on how we consider emissions targets.

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.

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 cost to implement, administer and enforce regulation is proportionate to, and effectively addresses, the relevant 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 and 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.

We will consider how our rules can support these fundamental shifts and help to achieve government emission reduction targets. See our emissions guide (attached) 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 adjusting 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.
4.2 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 in person 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

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<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AEMC</td>
<td>Australian Energy Market Commission</td>
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<td>AEMO</td>
<td>Australian Energy Market Operator</td>
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<td>AER</td>
<td>Australian Energy Regulator</td>
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<tr>
<td>Commission</td>
<td>See AEMC</td>
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<tr>
<td>NEL</td>
<td>National Electricity Law</td>
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<tr>
<td>NEO</td>
<td>National electricity objective</td>
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<td>NERL</td>
<td>National Energy Retail Law</td>
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<tr>
<td>NERO</td>
<td>National energy retail objective</td>
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<tr>
<td>NGL</td>
<td>National Gas Law</td>
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<tr>
<td>NGO</td>
<td>National gas objective</td>
</tr>
<tr>
<td>PV</td>
<td>Solar photovoltaic</td>
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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 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 guide How the national energy objectives shape our decisions, updated in September 2023, 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 guide provides more detailed information on how the AEMC will apply 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 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 targets likely to reduce emissions, and update them from time to time.

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5 More information on this efficiency framework can be found in the main 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) Bill 2023 (SA).
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.\(^8\)

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

Our strategic plan already 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 (e.g. 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.

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\(^7\) The targets statement is available on our website at https://www.aemc.gov.au/regulation/targets-statement-emissions. 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.

\(^9\) 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.
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 our guide to the energy objectives (page 3).

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 A.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 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.

This emission reduction criterion replaces the decarbonisation criterion in the previous version of our guide to the energy objectives (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 A.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 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, it is important to quantify some or all of the costs and benefits, 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.

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 an assessment approach for emissions, we will consider whether the emissions component is likely to materially affect the overall assessment of the proposed rule, and whether the cost of undertaking the analysis would be reasonable in light of the potential benefits of the proposed rule.

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 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 is leading work on developing a value, or method for determining one, in close consultation with market bodies, states and territories. The value guidance is expected to be available later this year. 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 avoided or emitted as a result of the rule change (noting we do not currently see a need to include offsets in this calculation).

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 quantify emission reductions arising from a rule change when there are other emission reduction measures in place.
We will expand this guide to include guidance on our approach to these issues after government guidance on an emissions value is published.

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.

A.8 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 existing and new projects.

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.