

INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

Thank you for the opportunity to make a submission to the Incorporating an Emissions Objective into the National Energy Objectives Consultation Paper (Consultation Paper).

After reading the AEMC's "How the National Energy Objectives Shape Our Decisions", the inclusion of emission reduction objectives in the national energy laws would appear to have little-to-no impact, as state and federal emissions reduction and climate policies are already considered in all decisions. However, further analysis shows that the most likely impacts for the inclusion of emissions reduction objectives are on the RIT-T and RIT-D processes. This change to the national energy laws comes at a time when there is significant community backlash to the personal impact of the transition to a highly distributed energy system. While this backlash is particularly prevalent around transmission projects, including the Western Renewables Link, VNI West and Humelink we can't assume that any future transmission on VRE project will be immune. Regarding network impacts of the proposed additions to the NEO, we have several concerns regarding the implications to the RIT-T and RIT-D process in the current draft amendments.

After engagement with our interested member companies on the questions in the Consultation Paper, it has become clear that there are some key themes that are further addressed in our response to the Consultation Questions below. These themes include:

- A general lack of clarity in the draft amendments that pave the way for different interpretations and applications
- Provision of discretions to the market bodies that allow for interpretations and applications outside of the intent of the amendments
- The requirement for all market participants to deliver on all aspects of the NEO, not just the bits that suit them

CONSULTATION QUESTIONS

Approach to incorporating an emissions reduction objective

Question 1: *Do you consider incorporating the emissions reduction objective into the existing 'economic-efficiency' framework is an effective way of integrating the concept into the decision making of energy market bodies?*

Feedback 1: The concept of emissions reduction is already integrated into the decision making of market bodies, evidenced through the Integrated System Plan, Renewable Energy Zones and the current penetration of renewable energy and batteries into the NEM. The EUAA considers that incorporation into the existing 'economic-efficiency'

framework is not required. However, the EUAA understands that the Ministerial Council on Energy has decided to include emissions reduction into the national energy objectives and the proposed method of including the new objective into the 'economic-efficiency' framework is an appropriate approach.

Question 2: *Is the current level of discretion afforded through an 'economic efficiency' framework appropriate for balancing an emissions reduction component against existing components of the energy objectives?*

Feedback 2: EUAA considers that the amendment to the national energy laws needs to make clear that the national energy objectives are to be treated equally in market body decisions. There is a risk that market bodies will use their discretion to elevate one objective over others, or interpret one objective as equal to the others combined. In particular, as written, the draft amendment can be interpreted such that emissions reductions are equal to the combined weight of price, quality, safety, reliability, security of supply etc. We disagree with this as all objectives are of equal importance which is consistent with our approach that we should seek to achieve net zero at least cost, not at any cost.

Question 3: *Do you consider that, for certain instances/processes, market bodies should develop/update guidance material to assist market participants in understanding how market bodies will interpret the proposed revised national energy objectives?*

- a) *What are these instances/processes and what sort of content would you want to be included in this guidance?*

Feedback 3: Market Bodies should develop and update all guidance material to assist market participants. In particular, we consider that AEMC's guide on How the National Energy Objectives Shape our Decisions, RIT-T and RIT-D guidance material and wholesale market guidance material should form the first of these to be develop/update.

It is EUAA's position that consultation with affected industry must occur during the development or updating of these documents.

We would also add that market participants can't pick and choose what objects they comply with. For example, just as fossil fuel generators are rapidly exiting the market due to various existing government policies (the extent to which adding emissions reduction may therefore have limited additional impact), new forms of generation must comply with all objectives such as reliability and security of supply. It is the market participants responsibility under the NEO to deliver on all objectives rather than either ignoring them or seeking to transfer this risk and responsibility to consumers.

Reference to Australia's greenhouse gas emissions reduction targets

Question 4: *Does this approach give an appropriate level of clarity as well as discretion to market bodies to consider relevant targets in their decision making? If not, detail your reasons and suggested solutions.*

Feedback 4:

In Section 7(c)(i) The drafting of the amendment includes specific legislation (e.g. the *Climate Change Act 2022*), which is made redundant under Section 7(c)(ii)(A) which is a 'catch all' statement. This presents the effect that should the Commonwealth create further emissions reduction legislation in the future, Section 7(c)(i) may be interpreted as elevating the *Climate Change Act 2022* as the priority.

We suggest deletion of Section 7(c)(i)

Question 5: *Does the inclusion of ‘public commitments’ including ‘publicly as a matter of policy,’ as well as legislated targets, provide sufficient certainty for effective consideration of an emissions objective by market bodies?*

Feedback 5: The inclusion of ‘public commitments’ in the emissions reduction commitments of the national energy objectives is fraught with danger. At the extreme, this creates a market environment where political commitments are implemented prior to robust debate and agreement by respective Parliaments and may be inconsistent with aspects of the NEO.

We suggest deletion of Section 7(c)(ii)(C)

Amendments to acknowledge interactions between electricity and gas markets and enable management of transition impact

Questions on ‘consumers of energy’

Question 6: *Do you agree that the proposed change to ‘consumers of energy’ is necessary and appropriate to recognise the interconnections between the two energy markets and to enable future decisions to consider the implications for the energy system as a whole?*

Feedback 6: The EUAA fully supports the proposed change to ‘consumers of energy’. This change is very pleasing to see. In a practical sense, this means projects need to consider the impact to the whole energy system and all users, rather than the current isolated approach. For example the impact of a gas project on electricity consumers and vice versa.

Question 7: *What impacts (positive and/or negative) would the proposed change have on your organisation or your stakeholders/customers?*

- a) *What are these instances/processes and what sort of content would you want to be included in this guidance?*
- b) *Do you foresee any unintended adverse consequences coming from such a change, especially for market participants or consumers?*

Feedback 7: EUAA considers that linking the electricity and gas consumers in decision making will lead to better planning, reliability and pricing of both utilities in the medium to long term. As noted in the Consultation Paper:

“...the gas and electricity markets are increasingly intertwined and interdependent.”

Questions on ‘supply of energy’

Question 8: *Do you consider the additional change to ‘supply of energy’ is necessary given the reasons above?*

Feedback 8: The EUAA considers that the additional change to ‘supply of energy’ (from ‘supply of electricity in the NEL and ‘supply of gas’ in the NGL) is unnecessary given that the amendment to ‘consumers of energy’ requires the consideration of all national energy objectives when making a gas- or electricity-based decision.

Question 9: *Do you agree that the market bodies, when making a decision under the NEL/NER should be empowered to consider the implications for price, reliability, security etc. in the gas market and vice versa? If not, what are other ways of managing the potential implications of the transition on all energy consumers?*

Feedback 9: The EUAA agrees. As stated previously, all aspects of the NEO should be treated equally if we are to reach net zero at least cost.

Question 10: *Do you foresee any unintended adverse consequences coming from such a change, especially for market participants or consumers?*

Feedback 10: The EUAA does not.

Consequential changes

Question 11: *Do you have views on other consequential changes that might be required for the NEL, NGL or NERL as part of implementing the emissions reduction component?*

Feedback 11: The AEMC provided a comprehensive list of clauses that make explicit reference to the national energy objectives in the national energy laws, however did not provide a list of implicit references in the national energy rules. It is therefore difficult to have a view on necessary consequential changes to the rules.

Question 12: *Are there existing rules or regulations under the national energy laws that may require consideration of consequential changes? If so, please provide details including why consequential changes are envisaged as necessary or appropriate.*

Feedback 12: The Consultation Paper states that the proposed emissions reduction objective of the national energy objectives is not intended to impact the wholesale markets, however there are no specified exemptions and thus, the current drafting may result in emissions reduction being taken into account in the wholesale electricity market. In the short term this could impact the selection and/or dispatch of certain types of generation. This is likely to put upward pressure on wholesale prices.

We strongly recommend the removal of this unintended discretionary decision making power of AEMO by explicitly stating that the environment objective in the national energy laws is not to be considered in the generation matrix in the wholesale market.

Question 13: *Do you have views on any rules that would benefit from a concurrent change within the current Bill process? If so, please provide details of the changes and the reasons why they would benefit from a concurrent change.*

Feedback 13: As above, the EUAA strongly recommends a clause be inserted concurrently regarding AEMO and the wholesale electricity market.

Question 14: *Do you have views on/are you aware of any rules that might benefit from more explicit reference to the objectives as a whole, or specifically the emissions reduction component?*

Feedback 14: The EUAA is unaware of further rules that would benefit from explicit reference to the objectives as a whole.

Commencement and transitional arrangements

Question 15: *Do you agree with the proposed Proclamation date being six months after passage through the South Australian Parliament?*

Feedback 15: The EUAA agrees with the proposed Proclamation date.

Question 16: *What are your views on the proposed transitional arrangements in the Draft Bill?*

- a) *Are there particular processes that should be subject to different transitional arrangements?*
- b) *How or where should arrangements for these specific processes be prescribed – in the primary legislation or through a subordinate instrument?*

Feedback 16: Aside from the issues below, the EUAA agrees with the proposed transitional arrangements.

Question 17: *What already-commenced regulatory processes under the energy laws or rules might benefit from transitional arrangements that provide for the emissions reduction component to apply (i.e. automatically and not be subject to market body discretion)?*

- a) *Should business-initiated processes such as RIT-Ts and RIT-Ds be captured, rather than just market body processes?*

Feedback 17: The EUAA considers that the addition of the emissions reduction objectives in the national energy laws should not be retrospective and should not apply to any processes already commenced under the energy laws or rules.

Question 18: *Should market bodies be afforded a broad discretion to decide when to apply the amended objective to a process that is 'underway'?*

Feedback 18: The EUAA and its members consider that the amendments should not provide discretion for market bodies to retrospectively incorporate the revised objectives into existing processes. Doing so increases risks and uncertainty to the market which will flow through to the financial contracts market and increase prices to consumers.

Question 19: *Are there logical points in multi-stage and/or multi-year processes (e.g. RIT-T and RIT-D assessment processes and revenue determination processes/resets) after which the emissions reduction component should or should not be able to be applied?*

- a) *Should a RIT-T process be considered 'underway' when a project specification consultation report has been made available (clause 5.16.4(c)), or at a different stage?*

- b) *Should a RIT-D process be considered 'underway' when an options screening report or determination has been published (clause 5.17.4(b)) and (c), or at a different stage?*
- c) *Electricity – should a revenue determination/reset be considered 'underway' when the network service provider has submitted its initial revenue proposal (clause 6A.10.1 for transmission and clause 6.8.2 for distribution), or at a different stage?*
- d) *Gas – should a gas access arrangement process be considered 'underway' when an access arrangement proposal is lodged with the AER under rule 46(1A) in the NGR, or at a different stage?*

Feedback 19: The EUAA considers it appropriate that the emissions objective of the national energy laws be incorporated into all projects that are not 'underway' at the Proclamation date. The definition of 'underway' should be when the first document is published, i.e. we agree with the list above. To be clear, any existing project assessment or revenue determination underway at the time should not be covered. Retrospectively adding 'benefits' to a project or revenue determination to back-fill net benefits or other justification is unacceptable.

Application by market bodies of the proposed changes

Question 20: *Do you agree with the characterisation of how market bodies' decision processes might be impacted or changed as a result of inclusion of an emissions reduction component in the energy objectives?*

Feedback 20: As stated above, a clause needs to be added to the amendment to ensure that the intent of the amendment is not undermined. i.e. that AEMO does not change the functioning wholesale electricity market.

Question 21: *Do you have any concerns with regards to the impact an emissions reduction component in the energy objectives may have in broadening the scope of the AEMC's rule making power or the decision-making powers of the other market bodies under the laws and rules?*

Feedback 21: We have two concerns regarding the broadening of the scope of the market bodies power under this amendment:

- AEMO and the potential impact to the wholesale electricity market
- Emissions reductions are already factored into RIT-T, RIT-D and the ISP in terms of the choice of generation forecast to be built to meet the emissions reduction targets through use of allocated carbon budgets. Market bodies need to ensure that emissions benefits are not then double counted through a carbon price benefit as well as forced selection of generation type to meet reduction targets.

Once again, thank you for the opportunity to make a submission to the Incorporating an Emissions Objective into the National Energy Objectives consultation paper

Do not hesitate to be in contact should you have any questions.



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