

Amended National Energy Objectives (Emissions Reduction) – Guidance Note

Explanatory Statement

September 2023

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1 Introduction

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a safe, secure, reliable and affordable energy future for Australia as it transitions to net zero emissions.

On 12 August 2022, Energy Ministers agreed to fast track the introduction of an emissions reduction objective into the national energy objectives, consisting of the National Electricity Objective, National Gas Objective and National Energy Retail Objective. On 21 September 2023, the *Statutes Amendment (National Energy Laws) (Emissions Reductions Objectives) Act 2023* (the Act)¹ received Royal Assent.

We support clarity around the changes to the national energy objectives to refer to government emissions reduction targets and their application to AER decisions. As the independent regulator, the national energy objectives guide our work to promote the long-term interests of consumers with respect to achieving emissions reduction targets, alongside our existing considerations including price, quality, safety, reliability and security of energy supply.

1.1. About this document

This Explanatory Statement accompanies the AER's Guidance on the amended national energy objectives published on 28 September 2023 (the final guidance note).

The final guidance note sets out:

1. the matters the AER is likely to have regard to in considering whether to apply the amended energy objectives to processes which are underway at the time the amendments take effect.²
2. how we may operationalise the amended electricity objective that applies to Ausgrid, Endeavour Energy, Essential Energy, Evoenergy, TasNetworks Distribution, TasNetworks Transmission and Power and Water Corporation (Northern Territory) (network service providers) for the 2024–29 regulatory determinations.³

1.2. Consultation Process

We published a draft guidance note in July 2023 and received 11 submissions in response⁴ from:

¹ *Statutes Amendment (National Energy Laws) (Emissions Reductions Objectives) Act 2023*. The amended national energy objectives therefore take effect from 21 November 2023.

² We have a statutory obligation to publish guidance on applying the amended national energy objectives within 45 days from commencement of the Act.

³ We included this guidance to provide the network service providers with early insight to our proposed approach to operationalise the amended national energy objectives for the 2024–29 regulatory determinations.

⁴ See: [Submissions to AER draft guidance on amended national energy objectives](#).

- Ausgrid
- AusNet
- Clean Energy Investment Group
- Energy Networks Australia
- Energy Queensland
- Energy Users Association of Australia
- Evie Networks
- Evoenergy
- Public Interest Advocacy Centre
- TasNetworks
- Transgrid.

A summary of the submissions received on the draft guide, and our responses, are set out chapter 2 of this Explanatory Statement. We also indicate where we have amended our final guidance note to address stakeholder feedback.

2 AER response to submissions on draft guidance note

The AER’s consideration of issues raised in stakeholders’ submissions to the draft guidance note are set out in the table below.

All submissions broadly welcomed and supported the reform of the national energy objectives to include the emissions reduction objective and the principles adopted in our draft guidance note.

	Submission	Comments	AER response
1	Ausgrid	<p>Ausgrid submitted that:</p> <ol style="list-style-type: none"> 1. We provide early guidance on the value of emissions reduction prior to its November 2023 release. 2. Transitional provisions that make clear that the amended national electricity objective apply to Ausgrid’s 2024–29 regulatory proposal ‘without any qualification’. 3. We provide guidance on our interpretation of total net emissions of an investment including the role of low emission materials like green steel and carbon offsets. 4. We should set out the factors we will have regard to when considering the AEMC’s targets statement, including targets for infrastructure that are likely to reduce emissions, like community batteries. This is particularly important if the AEMC does not finalise its targets statement before we make our final 2024–29 determinations. 5. We set out how we intend to apply the amended national electricity objective to investments that support ‘climate resilience.’ 	<ol style="list-style-type: none"> 1. The AER is unable to provide early guidance on the interim value of emissions reduction. A Ministerial Council on Energy (MCE) statement, expected to be released in November 2023, will contain the interim value of emissions reduction and potentially further guidance. Any further guidance we provide on the value of emissions reduction must be consistent with that MCE statement. 2. The AER is required under the Act to apply the amended national electricity objective to Ausgrid’s (and other affected network service providers) 2024–29 regulatory proposal. The AER will meet these legislative requirements. Section 1.3 of the final guidance sets out our intent to balance the emissions reduction objective alongside the other existing objectives, in a way that maximises the achievement of the overall energy objective in the long-term interest of consumers. 3. Our final guidance note is a non-exhaustive list of high-level principles to which we are likely to have regard to in making a decision. We intend issuing further guidance consistent with the MCE statement expected in November 2023. In section 3 of our guidance, we have indicated aspects of a regulatory proposal where we might expect to see a value of emissions reduction applied. In around May 2024 we will also commence a review of our Expenditure Forecast Assessment Guideline in accordance with the relevant consultation requirements under the National Electricity Rules. This review may be a more appropriate time to consider the ‘total net emissions from an investment.’ By this time, the

	Submission	Comments	AER response
			<p>AEMC’s final decision on harmonising the electricity network planning and investment rules and AER guidelines rule change⁵ will be complete.</p> <p>4. We note that the AEMC published its targets statement on 22 September 2023.⁶ For the purposes of this guidance note, we have not had sufficient time to consider and consult on factors we might have regard to in considering the targets statement. This may form part of our further guidance. However, we intend to apply the interim (and subsequent ongoing value of emissions reductions) quantitatively in our regulatory decisions where, in the AER’s regulatory judgment, it is appropriate to do so. It may be appropriate to consider case studies, as suggested by Ausgrid, when undertaking our review of the Expenditure Forecast Assessment Guideline in 2024.</p> <p>5. Please refer to our response at item 3 (above). Similarly, we consider that ‘climate resilience’ be considered as part of the review of our Expenditure Forecast Assessment Guideline. There are significant complexities involved in the issues Ausgrid raised at items 3 and 5 that warrant full consultation, rather than adding them into our final guidance without providing stakeholders an opportunity to comment.</p>
2	AusNet	<ol style="list-style-type: none"> AusNet noted the Victorian Government’s recently legislated emissions reduction targets set a pathway to net zero by 2045. This is more ambitious than the Commonwealth’s target of net zero by 2050. AusNet requested further clarification on how we will apply the amended national electricity objective to ‘ensure efficient investment to deliver government policy targets.’ Otherwise, AusNet submitted that regulatory decisions will be misaligned with policy, creating uncertainty for network businesses. AusNet outlined its current modelling work to quantify the emissions reduction to possibly augment portions of its network to increase the capacity for large scale renewable generation to connect. AusNet submitted that it would like to work with us to better understand how we intend to balance the ‘overall’ national electricity objective and given Victoria’s ambitious targets. AusNet also reflected that such customer 	<p>We understand that some jurisdictions may set more ambitious emissions reduction targets than that of the Commonwealth. The AEMC has published its targets statement, which market bodies must consider when applying the emissions reduction component of the national energy objectives. The issue of how to consider targets (where state targets differ greatly from Commonwealth targets) will need to be further considered in consultation with the Commonwealth.</p> <p>We intend providing further guidance on how we will apply the amended national electricity objective once the MCE Statement is released, as any further guidance we provide must be consistent with that statement.</p> <p>However, we intend to apply the interim (and subsequent ongoing value of emissions reductions) quantitatively in our regulatory decisions where, in the AER’s regulatory judgment, it is appropriate to do so. We intend updating our Better Resets Handbook during 2024 to reflect both the amended national</p>

⁵ See: [AEMC rule change - Harmonising electricity network planning and investment rules and AER guidelines update](#).

⁶ See: [AEMC Targets statement for greenhouse gas emissions](#).

	Submission	Comments	AER response
		and stakeholder feedback (on areas like emissions reduction) to drive outcomes and therefore understanding how AER intends to implement the amended national electricity objective is even more important.	energy objectives and other changes like social licence, so that stakeholders can have clearer guidance on how the AER intends to balance the new emissions reductions objective with the existing objectives on price, quality, safety, reliability and security of supply.
3	Clean Energy Investment Group (CEIG)⁷	CEIG submitted that development of a value of emissions reduction (or methodology) should be considered through public consultation. CEIG also submitted that guidance would be more useful if energy market bodies provided specific criteria for when it is reasonable to include a value of emissions reduction in the cost benefit analysis framework.	Section 2.2 of our final guidance notes that decisions to consult on determining the value of emissions reduction (or methodology) rest with Energy Ministers. Our final guidance note is intended as a non-exhaustive list of high-level principles to which we are likely to have regard in making decisions. However, we intend issuing further guidance consistent with the MCE Statement expected in November 2023. In May 2024 we will also commence a review of our Expenditure Forecast Assessment Guideline in accordance with the relevant consultation requirements under the National Electricity Rules. This review may be a more appropriate time to consider and consult on the usefulness of specific criteria. By this time, the AEMC's harmonising the electricity network planning and investment rules and AER guidelines rule change ⁸ process will be complete.
4	Energy Network Australia (ENA)	ENA submitted that we apply the amended national energy objectives to processes underway where possible. If we decide not to apply the amended national energy objectives, we should justify why it is not being applied to a specific process. Given timing considerations, the ENA submitted that we closely consult with: <ol style="list-style-type: none"> 1. network service providers on the integration of any value of emissions reduction for the 2024–29 regulatory control period. 2. Regulatory Investment Test (RIT) proponents where guidance on the value of emissions reduction is expected shortly before a RIT proponent publishes the project assessment draft to mitigate the risk of impacting 	We agree with the ENA's (and PIAC's submission at line 9 below) that our default position should be to apply the amended national energy objectives when considering whether to apply it to any processes which are underway at the time the amended national energy objectives take effect. The (non-exhaustive) list of matters to which we will have regard remain unchanged and we would provide reasons if we proposed to apply a national energy objective that does not include the new emissions objective. We have updated our final guidance accordingly at chapter 2. We will continue to consult with all network service providers with either current or upcoming regulatory resets or RIT processes. However, we are

⁷ Clean Energy Investment Group provided a combined response to our draft guidance note , the AEMC's guidance to applying the emissions component of the national energy objectives, both published on 24 July 2023, and the AEMC's consultation paper on harmonising the electricity network planning and investment rules and AER guidelines with the updated energy objectives (electricity) published on 20 July 2023.

⁸ See: [AEMC rule change - Harmonising electricity network planning and investment rules and AER guidelines update](#).

	Submission	Comments	AER response
		project timelines by having to later incorporate the value of emissions reduction.	constrained by the timing of the release of the MCE statement and that any guidance we provide must be consistent with that statement. In the interim, we have advised possible RIT-T proponents who have contacted us to select a possible value of emissions reduction and conduct sensitivity analysis with a reasonable margin to understand the potential impact specific values of emissions reduction may have on their application of the RIT-T.
5	Energy Queensland	Energy Queensland submitted that there would be benefit in the AER providing further details on the measurement and qualitative assessment of consumer energy resources as an alternative to network solutions.	We agree that we must revisit our approach to assessing consumer energy resources. We intend commencing a consultative review of our Distributed energy resources integration expenditure guidance note ⁹ in early 2024. This allows the MCE statement to be released and the AEMC to conclude its harmonisation rule change process.
6	Energy Users Association of Australia (EUAA)	The EUAA submitted that we develop a methodology to be used in the cost benefit analysis to apportion an appropriate level of the total emissions reductions facilitated by a project to the project itself. That is, network projects that facilitate the installation of renewable energy generation do not reduce emissions themselves, but rather facilitate renewable generators to reduce emissions. This mitigates the risk of 'double counting' emissions reductions.	While we have not amended our final guidance on cost benefit analysis to respond to the EUAA's submission, this is a matter we are alert to and will consider further and consult on when updating relevant AER Guidelines throughout 2024.
7	Evie Networks	Evie Networks submitted that the draft guidance does not achieve the intent of Energy Ministers' as set out in the Information paper (May 2023). ¹⁰ As such the guidance should be revised to include detailed advice on how we will apply the amended national electricity objective to 'tariff determinations', specifically, electric vehicle charging infrastructure. Further, until the guidance is revised, we should 'pause' current regulatory determinations until the guidance is updated as proposed by Evie Networks and then apply it to the draft determinations. Evie Networks also submitted that the AER reject the NSW electricity distribution network service providers' tariff structure statements, stating that	Our final guidance is a non-exhaustive list of high-level principles. We may provide further guidance following release of the MCE statement and commence reviews of relevant AER Guidelines throughout 2024. However, our position remains that the application of the emissions reduction objective to network planning and expenditure is designed to allow the balancing of emissions reduction with the existing limbs of the national energy objectives. This recognises that there is a benefit associated with meeting emissions reduction targets which necessitates the ability to consider how these benefits are balanced with their impact on price, quality, safety, reliability and security of energy supply.

⁹ AER, [Distributed energy resources integration expenditure guidance note](#), June 2022. Note: the AER has since changed its references to distributed energy resources to consumer energy resources.

¹⁰ See: [Incorporating an emissions reduction objective into the national energy objectives - Information paper - May 2023](#).

	Submission	Comments	AER response
		<p>the proposed tariff structure statements are inconsistent with the application of the amended national energy objectives and Energy Ministers' intent.</p>	<p>We consider the National Electricity Rules' pricing principles are already fit-for-purpose for the change in the national electricity objective. The pricing principles are based on recovering network costs, but more importantly signalling the cost reflectivity of network tariffs to encourage more efficient use of the network and mitigate need for further network investment. To the extent the emissions reduction objective impacts network expenditure, the pricing principles ensure that network tariffs are designed to apportion these expenditures so that they include this price signalling. As such, we consider additional guidance on network tariffs is not required currently.</p> <p>For these reasons, we intend releasing our draft determinations for the network service providers for the 2024–29 regulatory control period in accordance with the requirements of the National Electricity Rules.</p> <p>We refer Evie Networks to our draft determinations on the tariff structure statements of the respective network service providers, including reasons for our decisions, released on 28 September 2023.¹¹</p>
8	Evoenergy	<p>Evoenergy foreshadows proposing increased capital expenditure in its revised proposal for the 2024–29 revenue determinations owing to the ACT's rapid uptake of Zero Emissions Vehicles. This includes attributing, where possible, a monetised value of emissions reduction, which may need to be updated to reflect the MCE statement on the interim value of emissions reduction when it becomes available.</p>	<p>The amended national electricity objective applies to Evoenergy for the 2024–29 regulatory control period. We note Evoenergy's intention to attribute a monetised value to emissions reductions. We will consider Evoenergy's revised proposal following its submission to us in late November 2023 together with the expected MCE statement setting out an interim value of emissions reduction, and any further guidance we publish. Any further guidance we publish must be consistent with the MCE Statement as detailed in section 2.2 of our final guidance.</p>
9	Public Interest Advocacy Centre (PIAC)	<p>PIAC submitted that our default position should be to apply the amended national electricity objective to all processes underway. Should we decide not to apply the amended objectives we should demonstrate why it is 'reasonable' to do so. PIAC also specifically called for the amended national electricity objective to apply to the 2024–29 regulatory determinations.</p> <p>PIAC is concerned that the Commonwealth has not commenced a (public) consultation process. It submitted that a process to consult on and determine the form of the value of emissions reduction must be initiated as soon as possible.</p>	<p>As noted at line 4 above, we agree with PIAC's (and the ENA's submission that our default position should be to apply the amended national electricity objective when considering whether to apply it to any processes which are underway at the time the amended national electricity objective takes effect (21 November 2023). We have updated our final guidance accordingly at chapter 2.</p> <p>As detailed in section 2.2 of our final guidance, the Commonwealth is leading the development of both an interim and ongoing value of emissions reduction.</p> <p>An MCE statement, containing an interim value of emissions reduction is expected in November 2023. We therefore do not consider that there is</p>

¹¹ See AER website for draft determinations: [Ausgrid](#), [Endeavour Energy](#), [Essential Energy](#), [Evoenergy](#), [Power and Water Corporation](#), [TasNetworks](#).

	Submission	Comments	AER response
		<p>PIAC submitted the possibility of us creating a method or metric to determine a value of emissions reduction while waiting for the MCE statement containing an interim value.</p> <p>PIAC sought an indication on whether we intend to provide 'transitional' guidance on how to estimate the emissions reduction resulting from service providers' investments.</p>	<p>adequate time for the AER to develop and consult on a method or metric to determine a value of emissions reduction. Further, the Act provides that any further guidance we provide must be consistent with the MCE statement (which may include a value and other guidance). To pre-empt the MCE Statement may not advantage network service providers or us.</p> <p>We intend providing further guidance following release of the MCE statement to ensure the requisite consistency. We intend consulting on our further guidance.</p>
10	TasNetworks	<p>TasNetworks submitted that it only canvassed emissions reductions as part of its engagement activities to support its current regulatory proposals. Hence, it has not explored with stakeholders the possible trade-offs association with its capital or operating expenditure proposals.</p> <p>However, TasNetworks submitted that emissions reduction is not a material contributor to its proposals and do not anticipate updating its revised proposals. This is, in part, because it will have insufficient time to meaningfully engage with stakeholders on the application of the amended national electricity objective. Hence, TasNetworks submitted that the application of the amended national electricity objective is unlikely to make a material difference to the AER's final determinations for the 2024–29 regulatory control period.</p> <p>TasNetworks also submitted that the amended national electricity objective should only be applied to regulatory investment tests that have not completed draft reports 'by the time the value of emissions reduction is released,' not when the Act commences. If the MCE statement setting the interim value of emissions reduction is delayed, network service providers will need to develop their own values of emissions reduction, to avoid complexities of different methodologies.</p> <p>TasNetworks requested guidance on the way we may reflect expenditure on emissions reduction in our economic benchmarking of network service providers.</p>	<p>We note TasNetworks' comments on its 2024–29 regulatory proposals with respect to emissions reduction. We will consider its revised regulatory proposals once submitted to us in late November 2023.</p> <p>TasNetworks' observations on timing issues that may arise for regulatory investment test proponents are accurate. At this time, we understand that the MCE statement setting an interim value of emissions reduction and guidance will be released in November 2023. We intend to provide further guidance under section 42 of the Act that will be consistent with the MCE statement. Once we issue our further guidance, the AER and RIT proponents will be required to comply with the interim value of emissions reduction in relation to a RIT project. If network service providers have upcoming regulatory investment test proposals, we recommend they contact the AER to discuss.</p> <p>Throughout 2024 we will review AER Guidelines, including our Expenditure Forecast Assessment Guideline. As part of our ongoing benchmarking development work, we expect to consider and consult on how expenditure on emissions reduction may be reflected in our benchmarking of network service providers. This may include if/how emissions reductions are/should be captured in the benchmarking models, particularly on the input side, but also on the output side, including any interdependencies with consumer energy resources hosting capacity (distribution). This would follow on from our 2023 review of how to best incorporate export services into our benchmarking, noting that in this review we considered a further review by 2027, or earlier if sufficient data becomes available, would be required.</p>

	Submission	Comments	AER response
11	Transgrid	<p>Transgrid requested further guidance on how the AER will apply discretion in balancing emissions reductions with the existing components of the national electricity objective.</p> <p>Transgrid specifically submitted that we:</p> <ol style="list-style-type: none"> 1. proactively communicate with network service providers before using our discretion to apply the amended national electricity objective to processes underway. 2. include in our final guidance <i>how</i> a value of emissions reduction be incorporated into RIT-Ts. 3. include in our final guidance details of the scopes of emissions to be considered within a RIT-T. 4. provide guidance on valuing emissions reductions for Transgrid's system strength RIT-T. 	<p>We intend on communicating with stakeholders before using our discretion to apply the amended national electricity objective to processes underway. While our final guidance provides that our default position should be to apply the amended national electricity objective when considering whether to apply it to any processes which are underway, our willingness to engage with stakeholders does not change.</p> <p>An MCE statement is expected to be published in November 2023. While we are permitted and intend to provide and consult on further guidance on <i>how</i> the value of emissions reduction be incorporated into regulatory information tests, any such guidance must be consistent with the MCE statement. Therefore, providing further guidance ahead of the MCE statement on any of items 2, 3 and 4 of Transgrid's submission may be counterproductive. Subject to the MCE statement, we may provide further guidance on the 'scopes of emissions.' Alternatively, this may be better suited to our review of AER Guidelines throughout 2024 under the relevant consultation procedures.</p>