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Monday, 21 August 2023

Dr Kris Funston  
Executive General Manager  
Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601

Dear Dr Funston

### **Consultation on draft AER guidance on amended national energy objectives**

Transgrid welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**) draft '*AER guidance on national energy objectives*' (**draft guidance**) published on 24 July 2023. The draft guidance follows Energy Ministers approving an update to the national energy objectives to embed emissions reduction as part of the long-term interests of energy consumers.

Transgrid operates and manages the high voltage electricity transmission network in NSW and the ACT, connecting generators, distributors and major end users. Our transmission network is at the heart of the National Electricity Market and is vital to achieving NSW and ACT net-zero emissions targets, by connecting geographically and technologically diverse low-cost renewable generation.

We support an emissions reduction objective in the national energy objectives, which is consistent with the unanimous commitment from Australian governments to achieve net zero emissions, by 2050 or earlier. We consider this change will facilitate more effective coordination across the energy industry to support achievement of government net zero targets and secure social licence through the transition.

The AER notes in the draft guidance that once the emissions reduction objective applies, it will shift to internalising emission reductions considerations in its economic regulatory decision making. Transgrid supports this shift and encourages further efforts from the AER to communicate how it will apply discretion in balancing emission reductions considerations with the other existing energy objectives. This guidance will aid stakeholders, including consumer advocates, in understanding the impact of these changes.

Clear, transparent and timely guidance on how the AER will operationalise the emissions reduction objective and apply any discretion is necessary to promote investor certainty and confidence. Importantly, a lack of regulatory certainty places transmission investments and the associated consumer benefits at risk.

We provide feedback on the following key areas:

1. AER discretion to applying to underway projects.
2. Valuing emissions reductions guidance to RIT proponents.
3. Valuing emissions reductions for Transgrid's System Strength RIT-T.

## 1. AER discretion to apply emissions reduction objective to ‘underway’ processes

We support the AER’s proposed approach and matters it is likely to have regard to in considering whether to apply the amended energy objectives to any processes which are ‘underway’ when the emissions reduction objective takes effect, expected to be November 2023 for the AER.<sup>1</sup> We encourage the AER to proactively communicate with network service providers before utilising its discretion to apply the emissions reduction objective to any ‘underway’ processes. This will ensure it is applied in a transparent and practicable manner and does not become a source of regulatory uncertainty that hampers investment.

## 2. Valuing emissions reductions guidance to RIT proponents

We understand that the Commonwealth is expected in November to publish a value of emission reductions which the AER will be required to comply with when applying the emissions reduction objective. Transgrid supports this prescribed approach to valuing emissions within the regulatory investment tests for transmission (RIT-T) and other regulatory processes, as it provides practical direction to enable TNSPs to enact the intended changes in a manner that is clear and transparent for all stakeholders.

In addition, the legislative package included a transitional provision which requires RIT-T proponents to comply with any guidance the AER issues on this matter. We encourage the AER to provide its guidance on this as soon as possible to allow Transgrid to appropriately incorporate a value of emission reductions in our relevant RIT-Ts. Market modelling for our RITs can be a long and detailed process, taking multiple months. Timely guidance would provide the required regulatory certainty needed to avoid unnecessary delays and costs for projects that are currently starting this modelling process.

To provide clarity and certainty to our projects we would like the AER’s final guidance to include:

- How the Commonwealth’s value of emissions reductions, should be incorporated into our RIT-Ts.
- Appropriate detail on the scopes of emissions to be considered within a RIT-T.

## 3. Valuing emissions reductions for Transgrid’s system strength RIT-T

Importantly, the emissions reduction objective will apply to our ‘Meeting system strength requirements in NSW’ (**System Strength**) RIT-T (for which a PSCR was published in December 2022). This is important because:

- Different solutions for system strength may have very different emissions profiles and implications for emissions from the energy market overall (for example, contracting with existing fossil-fuel generation as a non-network solution, vs developing new synchronous condensers that would unlock additional renewable generation). The application (or otherwise) of an emissions valuation, and the manner it is applied, could therefore materially shift the RIT-T conclusions.
- To meet our obligations to deliver system strength services commencing 1 July 2025, it is essential that we progress market modelling immediately to allow the Project Assessment Draft Report to be published in early 2024. Given this, it is not feasible to wait until the Commonwealth’s November update on valuing emissions reduction, or any subsequent AER guidance.

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<sup>1</sup> The emissions reduction objectives legislation defines an ‘underway’ process as when a revenue proposal has been submitted and a project assessment draft report has already been published.

To ensure the emission reduction objective is appropriately accounted for in this project, without any delays, we are proposing an interim approach - based on the best available information and consideration of existing government approaches to valuing emissions for cost benefit analysis. We would welcome engagement with the AER (and other stakeholders as appropriate) on this approach to ensure the emissions reduction objective is adequately incorporated into the System Strength RIT-T without any unnecessary delay.

### **Closing**

We encourage the AER to provide transparency on its program to update the necessary instruments and guidelines to operationalise the emissions reduction objective. In particular, we look forward to engaging with the AER on its process to update the "RIT-T application guidelines" and "Industry practice application note for asset replacement planning" to assist planning for our next revenue reset.

We would welcome the opportunity to further discuss the AER's draft guidance. If you have any questions on this letter, please feel free to contact me or Sam Martin at [REDACTED]

Yours faithfully

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Maryanne Graham,

Executive General Manager, Corporate & Stakeholder affairs