18 April 2024

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Via email: NEOreforms@aer.gov.au

Re: Valuing emissions reduction

CitiPower, Powercor and United Energy welcome the opportunity to respond to the Australian Energy Regulator's (AER) draft guidance on *valuing emissions reduction*. We commend the AER and Australia's Energy Ministers (the MCE) for progressing this crucial work of valuing emissions reductions, assisting to facilitate a pathway toward decarbonising Australia's energy sector.

Our networks place great importance on our role in both decarbonising our own operations and facilitating the decarbonisation of our customers energy supply. Our networks have set net-zero commitments, with a target date of 2050. These commitments build on our previous commitments of 30% reductions on 2019 baselines by 2030 where United Energy has surpassed this target, and Powercor and CitiPower are on track.

We support the proposed methodology for determining the value of emissions reduction (VER) and are supportive of the inclusion of Table 1 (chapter 2) in the final guidance on valuing emissions reduction.

To provide further clarity and ensure the avoidance of doubt for the application of the prescribed methodology, we recommend the AER also consider the following in their final guidance.

Market modelling is crucial to allow for the practical application of the VER for generation displaced by consumer energy resources

The AER has indicated that electricity generation forecasts and associated emissions intensity factors will be updated in July 2024, as part of its annual customer export curtailment value update. We are strongly supportive of this initiative as the emissions of marginal generators are crucial inputs to allow for an accurate and consistent application of the VER.

We note the timing of this analysis is important, as any delay to the release of this market modelling would present a barrier to ensuring customer value is delivered via consistent modelling across networks.

Whole of economy benefits of emissions reduction accruing to participants outside of the energy sector should be considered in the AER's assessments in order to accelerate Australia's transition to net-zero

We are in a once-in-a-generation energy transition to decarbonise local, national, and global economies in response to a rapidly changing climate. The VER has been established due to the growing consensus of stakeholders, customers, and governments across Australian jurisdictions, that emissions reduction is a key policy objective—both in the energy sector, and across the economy more broadly.

We have conducted extensive customer and stakeholder engagement in recent years, and have repeatedly heard that the energy transition, and distributors playing their role to facilitate decarbonisation, is a key concern. Throughout our engagement, customers expressed an expectation that distribution businesses commit to emissions reduction (including from our own operations) and net-zero.

Moreover, our business customers have showed heightened environmental consciousness and willingness to invest in sustainability, including to support their needs to decarbonise their supply chains to remain competitive.

The MCE statement (attachment A in the draft guidance) observes that 'decisions on the extent to which emissions reduction achieved outside of the energy sector should be considered will be at the discretion of the relevant regulatory entity.'

To the extent that investments made by networks result in emissions reduction outside of the energy sector, we consider that these benefits should be included in the AER's assessments, as these benefits deliver value to customers and communities beyond the energy sector.

For example, investment proposals which enable more electric vehicle (EV) charging load for customers would displace the emissions of petrol vehicles. The emissions resulting from customers' petrol vehicle usage are outside of the energy sector – however, without investment to enable increased EV load, there will be a ceiling on the enablement of EV uptake and usage. Therefore, the avoided emissions of petrol vehicles in the enablement of EV charging load are outcomes resulting from distribution network investment and should be considered as within the scope of the VER application.

Scope 3 emissions should be considered within scope of the VER to ensure consideration is being given to the full extent of associated benefits

The draft guidance does not make reference to scope 1, 2 or 3 emissions, however, we encourage the AER to explicitly allow for all emissions to be considered in the scope of the VER application.

Scope 3 emissions are the result of activities from assets that are not in the control or ownership of the reporting organisation. It encompasses all emissions in a company's value chain which are not counted as scope 1 or 2. For example, the emissions resulting from the production of a concrete pole are included as scope 3 for distribution networks. We recommend scope 3 emissions to be included within the scope of the VER to ensure investment decisions are considering the full extent of associated benefits.

Should you have any queries, please contact Bel Matthews on 0499 925 253 or bematthews@powercor.com.au.

Yours sincerely,

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