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Review of the cost benefit analysis guidelines and RIT application guidelines – Consultation Paper – 24 April 2024

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

We appreciate the opportunity to comment on the AER's guidelines review in light of several recent developments. At this point, our interest is in the recently introduced value of emissions reduction (VER).

As noted in the AER's consultation paper, AEMO develops its Integrated System Plan (ISP) using a volumetric carbon budget for the National Electricity Market. These budgets are developed via multi-sectoral modelling and in line with power system needs under clause 5.22.3 of the National Electricity Rules, which now include the explicit emissions reductions targets set out by relevant jurisdictional governments. We support retaining this approach. As highlighted by the AER, it produces an implicit value of emissions reduction across different ISP scenarios and sensitivities. However this merely an artefact of AEMO's modelling and we agree with the AER that this does not conflict with the separate quantification of emissions reduction as a new class of market benefit.

We agree with the AER's preliminary position that emissions reduction be quantified in terms of the impact of candidate investments, measured against 'without investment' counterfactuals. This measured change in emissions would be multiplied by the prescribed VER to derive the value of market benefit.

The alternative approach identified by the AER, whereby the VER is assumed to be an input cost for emitting generators, would substantially depart from AEMO's existing method. As we noted in consultation on the associated rule change proposals¹, a VER applied in such a way would need to be carefully calibrated (or 'back-solved') if it is intended to result in emissions trajectories in line with government targets. It is not

¹ [Emissions in the national energy objectives - harmonisation rule change proposal \(energyaustralia.com.au\)](https://www.energyaustralia.com.au)

clear the VER has been developed in such a manner. Hence this alternative approach would lead to divergent outcomes and ultimately network investments that are inconsistent with government policy. There may also be a risk of double counting emissions effects if the VER were applied as an assumed input cost, in the presence of carbon budgets that already act as a modelling constraint. In any case, moving away from a carbon budget approach would require amendments to clause 5.22.3 as well as potentially provisions in the national energy laws on how targets statements are accommodated in regulatory decision-making. The AER should also seek guidance from the AEMC and energy ministers on the policy intent of introducing targets statements as well as the VER, and their expectations of how these should interact.

The AER asks further questions on the scope of emissions to be quantified. In principle, all emissions impacts arising from candidate investments should be counted. To inform whether and how this is treated in the AER's guidelines, the AER should engage with AEMO to conduct illustrative analyses on the materiality of capturing different emissions sources. This would also highlight other issues relating to data and methods. Data on the direct emissions of thermal generators should be readily available from the Clean Energy Regulator and could be adopted without much controversy. Moving beyond this to capture other data sources or estimating upstream fuel emissions, as well as those in the production of materials like steel and cement, seems likely to involve considerable effort but without much impact on overall net benefits. Even the emissions from the direct combustion of gas and coal should have declining significance on regulatory investment cases as coal and gas generators retire. If emissions embodied in construction materials were included, this would affect all forms of generation, storage and network infrastructure, including in counterfactual scenarios. Again our expectation is that this would involve considerable administrative effort without affecting the outcomes of net benefit assessments.

On the question of discounting emissions benefits, the guidelines already provide AEMO and proponents discretion to how discount rates are set. We recommend the AER continue to not prescribe this element.

Finally, the AER should be mindful that its guidelines for the ISP and Regulatory Investment Tests may set a general precedent for regulated network service providers. The extent of anticipated changes to other guidelines dealing with expenditure assessments (including under the National Gas Rules) should be clarified in the next round of AER consultation materials.

If you would like to discuss this submission, please contact me on 03 9060 0612 or Lawrence.irlam@energyaustralia.com.au.

Regards

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