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Mr Arek Gulbenkoglu
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Australian Energy Regulator
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Dear Arek,

Draft Decision Paper - Amended National Energy Objectives: The AER's Expenditure Forecast Assessment Guidelines Review

Essential Energy welcomes the opportunity to respond to the Australian Energy Regulator (AER) on the above draft decision paper, which includes two separate parts: proposed amendments to the Expenditure Forecast Assessment Guidelines (EFA Guidelines) and proposed approach to develop an emissions reduction guidance note. We support the efforts of the AER to clarify the treatment of the emissions reduction objective, which now forms another component of the national energy objectives (NEO) to be considered in expenditure forecast assessments. We have set out our feedback in line with the two-part structure of the draft decision paper (the paper).

Proposed amendments to the EFA Guidelines for Electricity Distribution

Section 2.2.2 on page 14 of the EFA Guideline for Electricity Distribution, which outlines the AER's proposed approach to assessing emissions reduction expenditure, notes that included in the factors to be considered are the "quality and veracity of data sources and assumptions, including the basis for input values, accounting methodologies and emission factors". Essential Energy is concerned that as this is a new and emerging area, this wording does not give sufficient consideration to the challenges inherent in developing modelling which will satisfy these criteria. The wording could be enhanced by recognising these challenges and noting that the AER will allow distribution businesses some flexibility in their methodology, underlying inputs and assumptions as long as it is on a reasonable basis. Although prudency and efficiency of expenditure are key elements to be considered by the AER, there is a fine balance to be achieved with the critically important objective of emissions reduction and the targets legislated by the various jurisdictions.

Proposed approach to developing an emissions reduction guidance note

The areas proposed by the AER for inclusion in an emissions guidance note represent a good starting point for the consultation process. Given how new this area is for businesses, it will be important to have clear guidance on how operating and capital expenditure for the emissions reduction objective will be assessed, especially considering items such as emissions reductions targets and the scope of emissions to be included. However, it is important that the guidance note is not overly prescriptive complements the several other AER guidance notes which presently exist for other specific network expenditures including CER, REPEX, resilience and ICT.

We have set out below, some feedback to the specific issues and questions raised in the paper.

1. *Regulated services and expenditure that contributes to meeting emissions reduction targets*

The electricity sector is currently undergoing a significant and unprecedented transformation, with momentum expected to increase in the near future both in a technology and regulatory sense. As a result, the operating landscape for when Essential Energy's 2024-29 determinations will be concluding will look vastly different from what it does today, driven largely by customer demand. As such, it is worth considering wholistically how this change will be managed in relation to new services which continue to emerge e.g., distribution level renewable energy projects, electric vehicle charging infrastructure, or distribution led network batteries with third party use of excess capacity. These are areas which are not classified for distribution network service providers (DNSPs), and for which under today's rules would need to be provided under a waiver. As such, we would encourage the AER to give some thought as to how the guidelines could be revised frequently to align with the evolving methods by which DNSPs provide services to customers.

2. *What emissions reductions are included*

We agree that aligning expenditure with jurisdictional targets ensures consistency with broader objectives and leverages existing frameworks for emissions reduction.

3. *Emissions accounting*

We note our reference above, that the EFA guidelines should allow flexibility on the basis of reasonableness of the network's proposed methodology. We also note that several different emissions accounting and reporting practises currently exist with which both the AER and industry are familiar with, for instance the National Greenhouse Emissions Reporting Scheme. Further, consideration of accounting standards required by jurisdictions need to be considered.

4. *Emissions scopes*

Essential Energy recommends including both direct and indirect emissions to capture the full impact of network operations and investments on emissions reduction.

5. *Incentive schemes and policies*

We support, in principle, incentives existing for emissions reduction investments. There is the existing voluntary Export Services Incentive Scheme (ESIS), which could potentially interact with the emissions reduction objective. If a new incentive scheme specifically for emissions reduction were to be developed by the AER, it would need to be clear what exactly it would measure. Also, the interaction of such a scheme with other any other schemes that we are already being marked against for emissions, should be considered, so as to avoid any potential duplication.

Although not an incentive scheme, it is worth noting that NSW Treasury has mandated that Essential Energy must complete climate-related financial disclosures based on the draft Australian Sustainability Reporting Standards. These standards require organisations to set emissions reduction targets and create transition plans to reduce emissions.

6. *Tariff structure*

Tariff structures can incentivise behaviours that support emissions reduction, such as peak load shifting and increased utilisation of renewable energy sources at certain times of the day. We agree that it would be beneficial for this to be included in the AER's guidance.

7. *Do you consider that guidance on the above principles would be useful for formulating regulatory proposals for emissions reduction-related expenditure?*

Yes, guidance would be useful in helping to formulate robust and compliant regulatory proposals. Although it shouldn't be overly prescriptive, the provision of specific examples would be useful, noting, that there needs to be consistency of any emissions expenditure guidance note with the EFA guidelines.

8. *What other key principles should be included in the emissions reduction guidance note? (For example, are there issues relating to demand forecasting that might be relevant*?)

We would also encourage the AER to consider the issue of equity as a principle when applying the NEO, both in regard to past and future customers and how costs are allocated between them.

9. *What are some of the key information that should be included in the emissions reduction guidance note to support the submission of prudent and efficient emissions reduction expenditure proposals?*

Similar to our response to question 7, some examples could be provided of proposed projects and their expected emissions reductions outcomes. This could also include the types of cost-benefit analysis undertaken, and how this aligns with jurisdictional targets. The provision of these types of high level examples could greatly assist DNSPs in their expenditure proposals.

10. *What are some examples of potential emissions reduction expenditure or investments that stakeholders envisage to be included in proposals?*

At a high level, we consider that any type of investment in network infrastructure upgrades that is undertaken to support higher penetration of renewable energy, energy efficiency programs, and advanced smart metering infrastructure to enable better demand management could be relevant. Specific examples could include investments in dynamic operating envelopes, network batteries, real-time network monitoring, EV charging infrastructure – anything that can facilitate the uptake of consumer energy resources (CER), and other activities that can reduce emissions on a broader scale and that are supported by customers. Investments to reduce operational emissions from fleet and SF6 should also be considered.

If you have any queries regarding this submission, please contact our Regulatory Strategy Manager, Anders Sangkuhl via [redacted]

Yours sincerely

[redacted]

Hilary Priest
Head of Regulatory Affairs