

7 August 2024

Mr Arek Gulbenkoglu
General Manager, Network Expenditure
Australian Energy Regulator

Expenditure Forecast Assessment Guidelines Review – Draft Decision

Dear Mr Gulbenkoglu,

SA Power Networks welcomes the opportunity to comment on the *'Draft Decision: Amended National Energy Objectives: Expenditure Forecast Assessment Guidelines (EFA Guideline) Review'* (the Draft Decision).

We welcome the Draft Decision's guidance on how the regulatory framework will give effect to the National Energy Objectives in the context of network expenditure assessments. We broadly support the Draft Decision's direction. The key issues that we identify are as follows:

- while the EFA Guideline should apply to regulated services, we urge against further prescription in the Guideline that might create barriers to innovation at this early stage, with more specific considerations instead being deferred to service classification decisions;
- we disagree with specifying a materiality threshold in the EFA Guideline as safeguards already exist to ensure that any proposed actions to contribute to jurisdictional targets are efficient, and that materiality is already inherent in cost benefit analyses;
- the Greenhouse Gas Protocol (GHG Protocol) appears appropriate for emissions accounting, and would align to incoming mandatory climate-related reporting under the International Sustainability Standards Board's (ISSB) S2, thereby minimising administrative burden;
- scope 1 and 2 emissions appear most relevant in guiding the efficient choice of action / solution to network service needs, but clarity is needed on how the AER may interpret some potential network solutions that are capable of influencing consumption behaviour;
- existing reputational incentives from networks' (currently voluntary, soon mandatory) sustainability reporting appear sufficient to mitigate any theoretical incentive for lower cost but higher emissions activities – if still insufficient, specific incentives for emissions reduction could be considered; and
- considering emissions in network tariff structure design appears an unnecessary and complex distraction from what should remain the sole focus, being to drive efficient consumer behaviour and long-term investment decisions having regard to the costs of network services.

Should you have any queries on the matters raised in this letter, please contact Bruno Coelho, Manager Regulatory Strategy on [REDACTED] or [REDACTED]

Yours sincerely

[REDACTED]
Jessica Morris
Chief Customer and Strategy Officer

Linking regulated services and expenditure to emissions reduction targets

Where a network proposes expenditure in its Regulatory Proposal to contribute to emissions reduction targets, it is appropriate for this expenditure to be that which is required to provide a regulated service, as these Proposals only apply to regulated services. However, outside of this specification, we generally urge the AER to not introduce further prescription in the EFA Guideline. This is given the pace of energy sector transformation, and that networks are in the early stages of considering their potential contributions to emissions reduction. Some further considerations that the AER should take into account are that:

- while the main application of the emissions reduction objectives will be to Standard Control Services (SCS) expenditure, actions that can contribute to emissions reduction may also present in relation to other Direct Control Services, namely Alternative Control Services (ACS). For example, the efficient cost build-up for delivery of an ACS such as public lighting, could reflect actions / practices, such as in choice of vehicles, that efficiently seek to contribute to emissions reduction;¹
- with respect to SCS, we envisage that:
 - there is a likely need for nuance on what the identified need of the expenditure being proposed pertains to, where there are multiple benefit streams (e.g. a network benefit associated with demand management and avoided capacity upgrades, and an emissions reduction benefit), and particularly where the emissions benefit predominates in a cost benefit analysis;
 - in cases with multiple benefit streams, the efficient and prudent option that best meets the capex and opex objectives including the new NEO, should be the option that maximises the total net benefit; and
- to avoid the EFA Guideline unduly restricting innovation in this space, the Guideline should avoid being prescriptive, and instead defer considerations of the nature of the emissions reduction action to the service classification decisions for each network.

Thresholds for applicable emissions reduction actions

While we agree that it is important to establish the link between / contribution of, an emissions reduction action and a jurisdictional reduction target, we consider that the materiality of that contributing action should not be a limiting factor on the basis that:

- the key safeguard that will and should apply is to ensure that the expenditure on the emissions reduction action is prudent and efficient, and maximises net benefits to consumers;
- in arriving at the preferred option that maximises net benefits, the AER's Value of Emissions Reduction will in effect guide considerations toward meaningful actions / projects, given that if the contribution to emissions reduction targets is small, the emissions benefit may be insufficient for the action / project to be considered efficient; and
- while individual programs by a network may produce a small reduction in carbon accounts, a network might be able to develop multiple projects that amount to more significant reductions over the course of a multi-year timeframe.

Best practice for emissions accounting

SA Power Networks has, through its Environmental Social and Governance (ESG) reporting developed experience in employing multiple emissions reporting / accounting frameworks - we have been guided by the National Greenhouse and Energy Reporting Scheme (NGERS), and also the Global Greenhouse Gas Protocol (GHG Protocol). As our practices have developed, we are now more closely guided by the GHG

¹ While the capex and opex objectives only apply to SCS, the NEO also applies to ACS, and there is nothing in the NER limiting the application of the principles of the capex and opex objectives, factors, and criteria to the cost build-up of ACS.



Protocol given its transparent and widely adopted methodology, and specifically because it is the prescribed methodology of the ISSB. While both accounting standards are robust and sufficient to guide emissions accounting in expenditure forecasting, we prefer the GHG protocol as it achieves alignment with our ESG reporting requirements and thereby also minimise administrative burden.

Emissions scope

While the EFA Guideline should generally avoid overprescription on the potential actions by networks that could contribute to emissions reduction targets, greater clarity on the scope and interpretation of applicable emissions categories would aid in consistent application of the regulatory framework. In our view and in the context of network expenditure proposals:

- scope 1 and 2 emissions are both relevant and viable to model by networks – networks currently have the capability to report on and model these emissions scopes;
- while we currently report our scope 3 emissions, the inclusion of scope 3 emissions in network expenditure assessments does not appear to be warranted nor reasonable noting that:
 - this would introduce an unnecessarily high level of complexity into Regulatory Determinations, given the complexity of trying to consider emissions embodied in materials that we purchase, and in obtaining quality data from third parties;
 - the consideration of measures to reduce emissions in raw and primary manufactured materials would be best directed to enterprises involved in those industries; and
- clarity is needed on the classification of emissions in other sectors that are influenced / changed as a result of the choice of investment / practice option employed by a network in delivering its services which may include for example:²
 - affecting the energy use and patterns of consumers connected to the distribution network and therefore the generation mix of the wholesale National Electricity Market, such as via the enablement of Customer Energy Resources (CER) on the distribution network, demand management and load shifting solutions, or broader energy efficiency measures; and
 - network actions that may provide incentives for customers to abolish their gas connections.

Managing the interplay between incentives schemes

We note the AER's point on the theoretical potential for the CESS to drive networks to pursue lower cost rather than higher emissions reduction options during the Regulatory Control Period. However, in our view:

- this is unlikely to be a material concern, particularly given that there are reputational incentives created by the level of public reporting on emissions that networks are having to undertake as part of their sustainability reports and the expectations of networks established via these mechanisms with their investors and stakeholders; and
- should the AER consider that these reputational incentives are insufficient to mitigate any theoretical concern, it could consider developing a specific incentive scheme applying to emissions reduction, whereby networks could be rewarded or penalised for material differences in expected performance.

The consideration of emissions in network tariff structure design

We are continuing to develop time varying distribution network tariff structures to send price signals to encourage efficient consumer behaviour and efficient long term investment decisions, having regard to the costs of delivering distribution network services. This key goal of distribution network tariffs, reflected in

² We expect that the inclusion of these example activities is not considered controversial, particularly noting that the AER has already published emissions intensity profiles to use in conjunction with the Customer Export Curtailment Value (CECV) for the specific purpose of allowing consideration of emissions reduction arising from CER enablement on the distribution network.



the Network Pricing Objective in the NER, should remain the focus of network tariff structure design. In our view, including consideration of emissions in the choice of tariff design and weighting these considerations against cost reflectivity appears to us to be an unnecessary level of complexity on the basis that:

- the role for price signals to influence the use of and mix of generation in the NEM appears best directed at participants generating into the NEM; and
- to attempt to apply a value of carbon to distribution network tariff proposals would also appear to double count other economic incentives in upstream generation, such as large-scale generation certificates and the safeguard mechanism.

We would welcome the opportunity to work further with the AER on how the considerations we have raised in our submission can be addressed in the Final Decision, to ensure that the EFA Guideline is an effective tool providing for a low cost, efficient renewables transition.

