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Thursday, 7 December 2023

Ms Anna Collyer
Chair
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Dear Ms Collyer

Updated national energy objectives harmonising rule changes

Transgrid welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) '*Updated national energy objectives harmonising rule changes*' draft determination (**draft determination**) published on 26 October 2023.

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 the NSW and ACT Governments net-zero emissions reduction targets, by connecting geographically and technologically diverse low-cost renewable generation.

The draft determination follows Energy Ministers approving an update to the national energy objectives which embeds emissions reduction as part of the long-term interests of energy consumers. We support this change which is consistent with the unanimous commitment from Australian governments to achieve net zero emissions, by 2050 or earlier.

We also support the intent of the draft determination to ensure the emissions reduction objective flows through to the National Electricity Rules (or rules) effectively to allow market bodies and participants to fully contribute to the achievement of emission reduction targets. This would facilitate more effective coordination across the energy industry to support achievement of government net zero targets and secure social licence through the transition.

These changes provide clarity on the consideration of the emissions reduction objective for revenue proposals and network planning and investment frameworks. Our feedback to the AEMC's draft determination is outlined in the attached submission. We would welcome the opportunity to discuss further. Feel free to contact me, or Sam Martin at Sam.Martin@Transgrid.com.au, to discuss.

Yours faithfully



Maryanne Graham
Executive General Manger
Corporate & Stakeholder Affairs

Transgrid submission to the AEMC's draft determination

1. Network expenditure proposals and assessment

The AEMC's draft determination proposes to amend the NER to enable NSPs to include capital and operating expenditure in their revenue proposals that would contribute to achieving Australia's greenhouse gas emissions reduction targets, limited to proposed expenditure related to regulated services. The draft determination notes that this change allows for consideration of emissions reduction that occurs across Australia's economy and is not limited to electricity sector related emissions.

Transgrid supports these changes as it provides certainty that emissions reduction can be considered in revenue proposals and is consistent with the Energy Ministers update to the national energy objectives.

To ensure smooth implementation we recommend the AEMC make clear in its final determination that operational expenditure step changes are allowed in the next regulatory determinations for NSPs. Without this clarity there is a risk that base year operational expenditure is assumed to already include the full expenditure requirements to meet the updated energy objectives.

We also recommend that the AEMC's final determination include transitional arrangements allowing for NSPs to submit cost pass through applications beyond the allowed 90 business days of a change event, allowing for applications as required until the NSPs next regulatory determination.

2. Electricity network planning and investment frameworks

The draft determination includes amendments to the Integrated System Plan (ISP), Regulatory Investment Test (RIT) and other network planning and investment framework rules to reflect the emissions reduction objective. Transgrid's feedback on this part of the draft determination is included below.

Emissions reduction as a class of market benefit

Transgrid supports the draft determination amendments to the market benefits clauses in provisions relating to the ISP and RIT processes to expressly include emissions reduction as a new class of market benefit. This provides certainty that the emissions reduction objective will apply to these processes. This change ensures that each market benefit listed in the rules has a clear link to a component of the updated objectives.

Net economic benefits

Transgrid supports the draft determination amendments to clarify that in an assessment of net economic benefits required by the rules:

- Changes to emissions (positive or negative) are a relevant consideration.
- The benefits of emissions reduction (and the costs of increased emissions) can be considered beyond those who produce, consume or transport electricity. This change ensures that the benefits and costs of emissions reduction which accrue to a broad range of parties beyond the electricity sector within Australia, can be adequately considered.

We consider that this approach in the rules aligns with the intention of the updated objectives to effectively allow market bodies and participants to fully contribute to the achievement of each Australian jurisdictions' emission reduction targets. This is appropriate where the emissions reduction targets are economy wide not sector specific.

We strongly encourage the AEMC to consider whether there is value in additional guidance on the boundaries and appropriate inclusions for economic assessments of emissions reduction under the NER. This is particularly important given the Energy Minister's interim approach to valuing emissions reductions in regulatory economic assessments, originally expected to be published in November, has not yet been released.

This guidance would assist industry participants and consumer groups as well as guide any upcoming updates from the AER to its guidelines. In particular, high-level guidance on how to calculate emissions reduction benefits outside the electricity sector would be beneficial given this is a material change from existing practices.

Transitional provisions

The draft determination included RIT transitional provisions for RIT projects underway to align the application of the updated energy objectives with the application of the new rules for specific projects. This results in the updated objectives and new rules applying to any RIT-T project that has not published a project assessment draft report (PADR) before 21 November 2023. We encourage the AEMC to clarify how this transitional applies for RIT-T projects that have been initiated already with no requirement to publish a PADR (under clause 5.16.4(z1) of the rules).

We also encourage the AEMC to:

- Provide transitional provisions allowing delayed implementation of the new rules definition of 'net economic benefit' to transmission annual planning reviews. This will practically allow time for consideration of the AEMC's and AER's guidance prior to incorporation into annual planning reports.
- Clarify in its final determination which version of the rules would apply to any process, considered underway at the time the updated energy objectives take effect (i.e. 21 November 2023), to which the AER subsequently decides to apply the updated energy objectives.

We would welcome discussions on each of these transitional issues to ensure the rule is implemented in a workable manner.

3. Enabling a streamlined process for updating AER guidelines

We support the draft determinations approach to allowing the AER to carry out streamlined and consolidated consultation processes to update its guidelines following this rule change. This allows for a:

- single consolidated consultation approach for minor guideline updates, whilst allowing the AER to carry out a standard consultation process for any other updates that are not considered minor.
- consolidated consultation process on five key network planning guidelines and instruments in time for the 2026 ISP.

We support this approach as streamlined processes will reduce the administrative burden on the AER and market participants.

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