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Tuesday, 7 February 2023

Mr David Fredericks
Secretary
Department of Climate Change, Energy, Environment and Water
Industry House, 10 Binara Street, Canberra

Lodged via email: netp@industry.gov.au

Dear David,

Incorporating an emissions reduction objective into the national energy objectives

Transgrid welcomes the opportunity to respond to the Draft Bill and consultation paper '*Incorporating an emissions reduction objective into the national energy objectives*' (**Consultation Paper**) published by the Department of Climate Change, Energy, Environment and Water (DCCEEW) on 20 December 2022.

The stated purpose of the Draft Bill is to integrate emissions reduction and energy policy in the national energy laws, and provide greater clarity to Australia's energy market bodies, to consider emissions reduction when undertaking their respective powers and functions. The energy market bodies contemplated by the Draft Bill are the Australian Energy Market Commission (AEMC), the Australian Energy Market Operator (AEMO) and the Australian Energy Regulator (AER). The Draft Bill reflects an agreement by Energy Ministers on 12 August 2022, to fast track the introduction of an emissions reduction objective into the national energy objectives.

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 NSW and ACT's net-zero emissions targets, by connecting geographically and technologically diverse, low-cost generation to deliver renewable energy to customers. We have also set several ambitious targets to cut emissions and decarbonise our business. These include:

- Reducing Scope 1 and 2 emissions by 60 per cent by 2030, compared with a base year of 2021 and net zero by 2040.
- Reducing Scope 3 emissions from Purchased Goods and Services, and Capital Goods by 48 per cent for every million dollars that we spend on these two categories by 2030, compared with a base year of 2021 and net zero by 2050.

We support an emissions reduction objective in the national energy objectives, which is consistent with the unanimous commitment from Australian governments to achieve net zero emissions by 2050 and Australia's commitment under the Paris Agreement.

Our submission addresses the following matters:

- implications for the AERs regulatory guidelines
- implications for the AER's 2023-28 Revenue Determination

- developing a carbon price
- commencement date
- other amendments and consequential changes.

Each of these matters is discussed below. We have also provided responses to each of the questions raised in the consultation paper at Attachment A.

Transgrid also endorses the Energy Networks Australia (ENA) submission on the Draft Bill and Consultation Paper, which provides a more detailed explanation of potential improvements, including drafting clarity and certainty around interpretation in relation to the Draft Bill.

Implications for AER's regulatory guidelines

Each market body will play a pivotal role in ensuring the smooth and timely implementation of changes to the national energy objectives. Guidance on how each market body will approach this change will ensure stakeholder confidence is maintained and avoid delays in market reform and investment. In particular, we would welcome clarification from the AER as to how it intends to reflect this change in the relevant guidelines including the:

- regulatory investment test for transmission (RIT-T) application guidelines
- cost benefit analysis guidelines.

This is important to promote consistency between the Integrated System Plan (ISP) and the RIT-T. It will also provide important guidance for RIT-Ts relating to the energy transition that are currently underway, such as the RIT-T for ['meeting system strength requirements in NSW'](#) (system strength RIT-T).¹

The system strength RIT-T is exploring options to address compliance with new system strength requirements under the National Electricity Rules (NER), which require us to provide efficient levels of system strength services to meet standards set by AEMO. Consideration of the new emissions reduction objective will be important to identify the preferred solution and support the NSW and ACT's net-zero emissions targets.

Given the urgency of the energy transition we encourage the AER to fast-track the publication of its updated RIT-T guidelines to provide certainty to all stakeholders on resultant changes to the RIT-T analysis. We also suggest that the NER be amended to recognise 'emissions benefits' as a class of market benefits in the RIT-T.

We welcome the opportunity to engage with DCCEEW, the AER and the AEMC on this matter.

Implications for AER's 2023-28 Revenue Determination

On 2 December 2022 we submitted our Revised Revenue Proposal for the 2023-28 regulatory period to the AER. The AER is expected to publish its 2023-28 Revenue Determination by 30 April 2023. As explained in our Revised Revenue Proposal, a key customer priority for the 2023-28 regulatory period is investment that lowers emissions and supports the energy transition. This includes:

- Our System Security Roadmap project to upgrade our control rooms and operations, planning and asset management functions in light of the increasing levels of renewables.
- Installation of Phasor Measurement Unit (PMU) real-time monitoring devices to enable us and AEMO to better understand system conditions and maintain power system security.

¹ We published the Project Specification Consultation Report (PSCR) for [Meeting system strength requirements in NSW](#) on 16 December 2022.

In the 2023-28 period, we also propose to strengthen our network resilience by replacing ageing assets with climate-adaptive alternatives, where the opportunity arises. This is driven by the increase in the number and severity of extreme weather events and natural disasters in Australia over the last 50 years. Ensuring network resilience in the context of more frequent, intense and longer climate-driven extreme weather events is an important consideration in the context of changes to the national energy objectives.

We welcome clarification from the AER on how it intends to consider the emission reduction objective when assessing the expenditure in our 2023-28 Revised Revenue Proposal and how this will be reflected in its 2023-28 Revenue Determination.

Development of a carbon price

We encourage Energy Ministers and market bodies to work with industry to develop a carbon price for use in decision making as well as a clear methodology, based on international best practice, to regularly update it.

Commencement date

We support a commencement date earlier than the proposed six months after passage through the South Australian Parliament. A longer than necessary commencement date may delay key market body and industry processes, which in turn would increase the risk of interim emissions reduction objectives not being achieved.

Other amendments and consequential changes

We support the objective of changes from 'consumers of electricity' to 'consumers of energy' in allowing market bodies to consider the interactions of both electricity and gas markets in respective decision making to ensure that the emissions implications of electricity and gas can be co-optimised to maximise benefit to consumers. Additionally, we consider that the amendment of 'supply of energy' could further support this optimisation. However, we note that unintended consequences should be considered before progressing with this additional change, including where this would increase cost, complexity and timeliness of market body decision making.

We support the market bodies, including specifically the AEMC through its Stage 3 Transmission Planning and Investment Review, considering if further consequential changes are needed. We encourage DCCEEW to consider complementary changes, discussed above, to ensure the energy market is preparing for appropriate adaptation to a changing climate. We support a coordinated approach between governments, energy market bodies and industry to ensure appropriate planning and investment with increased climate resilience.

Next steps

We look forward to continuing to work with DCCEEW to address the matters set out in this letter. If you have any questions on this letter, please contact me or Sam Martin, Policy Manager, at Sam.Martin@transgrid.com.au.

Yours faithfully

A handwritten signature in black ink, appearing to read "Maryanne", written in a cursive style.

Maryanne Graham
Executive General Manager
Corporate & Stakeholder Affairs

Attachment A: Transgrid’s responses to questions raised in the consultation paper

Commonwealth questions	Transgrid’s response
Chapter 3: Approach to incorporating an emissions reduction objective	
<p>1. Do you consider incorporating the emissions reduction objective into the existing ‘economic efficiency’ framework is an effective way of integrating the concept into the decision making of energy market bodies?</p>	<p>Yes, this is an effective way of integrating the emissions reduction objective into the decision making of market bodies. The existing ‘economic efficiency’ framework is well understood by the energy market which will facilitate a smoother implementation of this important reform compared to use of an alternative approach.</p>
<p>2. Is the current level of discretion afforded through an ‘economic efficiency’ framework appropriate for balancing an emissions reduction component against existing components of the energy objectives?</p>	<p>Yes, the current approach of allowing market bodies to balance different components of the energy objectives against each other is appropriate.</p>
<p>3. Do you consider that, for certain instances/processes, market bodies should develop/update guidance material to assist market participants in understanding how market bodies will interpret the proposed revised national energy objectives?</p> <p>a. What are these instances/processes and what sort of content would you want to be included in this guidance?</p>	<p>Yes, we strongly support market bodies developing and updating guidance material to assist market participants in understanding the impact of this change on how market body decisions will be made.</p> <p>Principally, we are interested in certainty on how this change will impact relevant AER guidelines.</p> <p>We encourage Energy Ministers and market bodies to work together with industry to identify the appropriate party to develop a price on carbon for use across market body decision making. The appropriate party should develop and regularly update guidance on carbon pricing in a consultative manner with a clear methodology aligned with international best practice. This process could be considered equivalent to the AER’s development of the Value of Customer Reliability (VCR) which is used across planning and economic evaluations by the market bodies.</p>
Section 3.3 Reference to Australia’s greenhouse gas emissions reduction targets	

<p>4. Does this approach give an appropriate level of clarity as well as discretion to market bodies to consider relevant targets in their decision making? If not, detail your reasons and suggested solutions.</p>	<p>Yes, we consider that reference to ‘achieving targets for reducing Australia’s greenhouse gas emissions’ gives an appropriate level of clarity as well as discretion to market bodies to consider relevant targets in their decision making.</p>
<p>5. Does the inclusion of ‘public commitments’ including ‘publicly as a matter of policy,’ as well as legislated targets, provide sufficient certainty for effective consideration of an emissions objective by market bodies?</p>	<p>We support the inclusion of ‘public commitments’ in the amended energy objectives however note that further guidance to clarify the application of this would reduce uncertainty.</p> <p>For example, there should be consideration to ensuring unlegislated public commitments are only included in ISP under specific circumstances. Additionally, only public commitments included in the latest ISP should be used as assumptions in a RIT-T to avoid situations where an unlegislated commitment inappropriately impacts an underway RIT-T process.</p>
<p>Section 3.4 Amendments to acknowledge interactions between electricity and gas markets and enable management of transition impact</p>	
<p>6. Do you agree that the proposed change to ‘consumers of energy’ is necessary and appropriate to recognise the interconnections between the two energy markets and to enable future decisions to consider the implications for the energy system as a whole?</p>	<p>Yes, Transgrid supports the objective of this change to ensure efficient decision making by market bodies as the electricity and gas markets become increasing intertwined through the energy transition. Changing to ‘consumers of energy’ will support the efficient co-optimisation of electricity and gas markets in achieving optimal emissions reduction outcomes.</p>
<p>7. What impacts (positive and/or negative) would the proposed change have on your organisation or your stakeholders/customers?</p> <p>a. Do you foresee any unintended adverse consequences coming from such a change, especially for market participants or consumers?</p>	<p>We consider this will have a positive impact for consumers where the optimisation across electricity and gas markets facilitates recognition of increased benefits of transmission for the energy sector, where they exist.</p> <p>However, we note the importance of accelerating efforts to deliver the energy transition. Given this, strong consideration should be given to ensuring the implementation of this change does not increase cost, complexity, and time of</p>

	important processes such as the ISP or RIT-T's.
8. Do you consider the additional change to 'supply of energy' is necessary given the reasons above?	Transgrid supports the objective of this change to ensure efficient decision making, however notes, as above, that consideration should be given to the risk of increasing cost, complexity and time to existing processes.
9. Do you agree that the market bodies, when making a decision under the NEL/NER should be empowered to consider the implications for price, reliability, security etc. in the gas market and vice versa? If not, what are other ways of managing the potential implications of the transition on all energy consumers?	Yes, Transgrid supports market bodies considering implications for all consumers of energy. However, market bodies should consider the risk of increasing cost, complexity and time in making a decision.
10. Do you foresee any unintended adverse consequences coming from such a change, especially for market participants or consumers?	One potential unintended adverse consequence would be if this change resulted in new requirements for TNSPs to assess gas consumer or gas market outcomes in the RIT-T process. This would be an inefficient responsibility given TNSPs typically have a lack of gas market expertise.
Section 3.5 Consequential changes	
11. Do you have views on other consequential changes that might be required for the NEL, NGL or NERL as part of implementing the emissions reduction component?	Transgrid does not have any views on consequential changes at this stage. We will seek to continue engagement with DCCEEW and market bodies on any required consequential changes.
12. Are there existing rules or regulations under the national energy laws that may require consideration of consequential changes? If so, please provide details including why consequential changes are envisaged as necessary or appropriate.	Transgrid has not identified any existing rules or regulations that require consideration of consequential changes. We will seek to continue engagement with DCCEEW and market bodies.
13. Do you have views on any rules that would benefit from a concurrent change within the current Bill process? If so, please provide details of the changes and the reasons why they would benefit from a concurrent change.	No, the change to the energy objectives will provide enough discretion to market bodies to follow the desired objectives without need for immediate rule changes in the interim.

<p>14. Do you have views on/are you aware of any rules that might benefit from more explicit reference to the objectives as a whole, or specifically the emissions reduction component?</p>	<p>We suggest that the NER be changed to clarify that emissions reductions benefits would be considered as a market benefit in the RIT-T.</p>
<p>Section 3.6 Commencement and transitional arrangements</p>	
<p>15. Do you agree with the proposed Proclamation date being six months after passage through the South Australian Parliament?</p>	<p>Consideration should be given to a shorter time frame. Proclamation date should be made as soon as possible to avoid delays in implementing this important reform.</p>
<p>16. What are your views on the proposed transitional arrangements in the Draft Bill?</p> <p>a. Are there particular processes that should be subject to different transitional arrangements?</p> <p>b. How or where should arrangements for these specific processes be prescribed – in the primary legislation or through a subordinate instrument?</p>	<p>Each market body will play a pivotal role in ensuring the smooth and timely implementation of changes to the national energy objectives. Guidance on how each market body will approach this change will ensure stakeholder confidence is maintained and avoid delays in market reform and investment.</p> <p>In particular, we would welcome clarification from the AER as to how it intends to reflect this change in the relevant guidelines including the:</p> <ul style="list-style-type: none"> • the regulatory investment test for transmission (RIT-T) application guidelines, and • cost benefit analysis guidelines. <p>This is important to promote consistency between the Integrated System Plan (ISP) and the RIT-T. It will also provide important guidance for RIT-Ts relating to the energy transition that are currently underway, such as the RIT-T for 'meeting system strength requirements in NSW' (system strength RIT-T).</p>
<p>17. What already-commenced regulatory processes under the energy laws or rules might benefit from transitional arrangements that provide for the emissions reduction component to apply (i.e. automatically and not be subject to market body discretion)?</p> <p>a. Should business-initiated processes such as RIT-Ts and RIT-Ds be captured, rather</p>	<p>Yes, we have recently started a system strength RIT-T through publication of a Project Specification Consultation Report (PSCR).</p> <p>The system strength RIT-T is exploring options to address compliance with new system strength requirements under the National Electricity Rules (NER), which require us to provide efficient levels of system strength services to meet standards set by AEMO. Consideration of the new</p>

<p>than just market body processes?</p>	<p>emissions reduction objective will be important to identify the preferred solution and support the NSW and ACT's net-zero emissions targets.</p> <p>Given the urgency of the energy transition we encourage the AER to fast-track the publication of its updated RIT-T application guidelines to provide certainty to all stakeholders on resultant changes to the RIT-T analysis. We also suggest that the NER be amended to recognise 'emissions benefits' as a class of market benefits in the RIT-T.</p> <p>We welcome the opportunity to engage with DCCEEW, the AER and the AEMC on this matter to identify appropriate arrangements for this RIT-T.</p> <p>Additionally, on 2 December 2022 we submitted our Revised Revenue Proposal for the 2023-28 regulatory period to the AER. The AER is expected to published its 2023-28 Revenue Determination by 30 April 2023. As explained in our Revised Revenue Proposal, a key customer priority for the 2023-28 regulatory period is investment that lowers emissions and supports the energy transition.</p> <p>We welcome clarification from the AER on how it intends to consider the emission reduction objective when assessing the expenditure in our 2023-28 Revised Revenue Proposal and how this will be reflected in its 2023-28 Revenue Determination.</p>
<p>18. Should market bodies be afforded a broad discretion to decide when to apply the amended objective to a process that is 'underway'?</p>	<p>Market bodies should be afforded flexibility on this during a transition period however clarity should be provided from market bodies on how they plan to use this discretion.</p>
<p>19. Are there logical points in multi-stage and/or multi-year processes (e.g. RIT-T and RIT-D assessment processes and revenue determination processes/resets) after which the emissions reduction component should or should not be able to be applied?</p>	<p>a. A RIT-T should be considered 'underway' when a PSCR is published, however this should not be considered the point at which the emissions reduction objective cannot be applied. A later stage would be more appropriate.</p>

<ul style="list-style-type: none"> a. Should a RIT-T process be considered 'underway' when a project specification consultation report has been made available (clause 5.16.4(c)), or at a different stage? b. Should a RIT-D process be considered 'underway' when an options screening report or determination has been published (clause 5.17.4(b)) and (c), or at a different stage? c. Electricity – should a revenue determination/reset be considered 'underway' when the network service provider has submitted its initial revenue proposal (clause 6A.10.1 for transmission and clause 6.8.2 for distribution), or at a different stage? d. Gas – should a gas access arrangement process be considered 'underway' when an access arrangement proposal is lodged with the AER under rule 46(1A) in the NGR, or at a different stage? 	<ul style="list-style-type: none"> b. N/A c. A revenue determination/reset should be considered 'underway' when an initial revenue proposal has been submitted. d. N/A
<p>Chapter 4: Application by market bodies of the proposed changes</p>	
<p>20. Do you agree with the characterisation of how market bodies' decision processes might be impacted or changed as a result of inclusion of an emissions reduction component in the energy objectives?</p>	<p>Yes, we agree with the characterisation.</p>
<p>21. Do you have any concerns with regards to the impact an emissions reduction component in the energy objectives may have in broadening the scope of the AEMC's rule making power or the decision-making powers of the other market bodies under the laws and rules?</p>	<p>We are comfortable with the extension in scope for the AEMC.</p>