

ABN 70 250 995 390

**180 Thomas Street, Sydney**  
PO Box A1000 Sydney South  
NSW 1235 Australia  
T (02) 9284 3000  
F (02) 9284 3456

Monday, 21 August 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*' consultation paper (**Consultation Paper**) published on 20 July 2023. The consultation paper commences the AEMC's consideration of two rule change requests submitted by Energy Senior Officials on behalf of Energy Ministers.

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 targets, by connecting geographically and technologically diverse low-cost renewable generation.

The consultation paper 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 rule changes to ensure the emissions reduction objective flows through to the rules effectively and allows 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 would provide transparency and certainty on the consideration of the emissions reduction objective for revenue proposals and network planning and investment frameworks. Our feedback to the AEMC's consultation paper is outlined in the attached submission which we would welcome the opportunity to discuss further. Feel free to contact me, or Sam Martin at [Sam.Martin@Transgrid.com.au](mailto:Sam.Martin@Transgrid.com.au), to discuss.

Yours faithfully



Maryanne Graham

Executive General Manager, Corporate & Stakeholder affairs

## Transgrid submission the AEMC's consultation paper

---

The harmonising rule change requests cover three priority amendments:

1. Updates to the network capital and operational expenditure objectives to ensure that the updated objectives can be considered and balanced by the AER in its assessment of revenue proposals.
2. Updates to the electricity network planning and investment frameworks to clarify how emissions reduction should be considered.
3. Rules to enable a streamlined process for updating an estimated 65 AER statutory guidelines, guidance documents and instruments to reflect the updated energy objectives.

We broadly support the proposed amendments and provide specific feedback to each change below.

### **1. Network expenditure proposals and assessment**

The proposed network expenditure changes relate to revenue determinations, particularly rules for electricity distribution and transmission businesses operators that address the operating and capital:

- expenditure objectives which network operators are required to consider when forecasting expenditure in revenue proposals
- criteria which the AER must use when assessing forecast expenditure in revenue proposals.

#### **Transgrid response on network expenditure proposals and assessment**

Transgrid supports changes to allow emissions reduction to be considered as one of the expenditure objectives relevant to the assessment of transmission network capital and operating expenditure proposals. We encourage the AEMC to ensure that the expenditure objectives make clear reference to the achievement of emissions reduction targets, including those set out in the AEMC's 'Targets Statement'.

We encourage the AEMC to consider whether the proposed change to the expenditure criteria, to add reference to the emissions reduction objective, is necessary. The amendment to the expenditure objectives should flow through to the expenditure criteria automatically as expenditure forecasts would naturally need to encompass prudent and efficient expenditure required to meet the broader objectives.

### **2. Electricity network planning and investment frameworks**

The rule change request proposes amendments to the Integrated System Plan (ISP) and Regulatory Investment Test (RIT) frameworks in Chapter 5 of the NER to reflect the emissions reduction objective.

These proposed changes build on the AEMC's recommendation in its Transmission Planning and Investment Review Stage 3 final report to harmonise network investment and planning frameworks with the new emissions component of the energy objectives.

The proposed changes include:

- Emissions reductions being included as a class of market benefit to be considered in the ISP and RITs, to ensure the transparent consideration and balancing of emissions with the other objectives.
- Changes to the definition of power systems needs and the range of policies AEMO considers in the ISP to ensure alignment with the updated national electricity objectives.
- References to the ‘long term interests of consumers’ in ISP provisions changed to refer to the national electricity objective, to clarify that all components of the objective are to be considered.
- Updates to the rules relating to the Cost Benefit Analysis Guidelines and rules relating to the general principles for RIT projects to allow for cost-benefit analysis of emissions reductions.

### **Emissions reduction as a class of market benefit**

We consider that amending 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 provides certainty that the emissions reduction objective will apply to these processes. This change will ensure that each market benefit listed in the rules has a clear link to a component of the updated NEO.

We agree with the AEMC that it is desirable to have a consistent approach to accounting for emissions reductions across the ISP, RIT-T and other economic assessment processes for network investments.

### **Power system needs for the ISP**

We support amendments to the rule references to power system needs for the ISP to include the achievement of emissions reduction targets. We consider this aligns with elements of the existing listed ‘power system needs’, including reliability standards, as externally set objectives that guide the development of the power system.

To complement this change, we encourage the AEMC to consider appropriate amendments to ensure that all government targets included in the ‘Targets Statement’ are mandatory considerations in determining power system needs for the purposes of the ISP.

We also encourage the AEMC to consider where else in the rules it may be appropriate to refer to the ‘Targets Statement’ to ensure that there is certainty that government policies are considered throughout the network planning and investment frameworks. This would align with the Energy Minister’s intent of appropriately harmonising the rules with the amended objectives.

Importantly we consider that there would be value in the ‘Targets Statement’ including, where possible, both base and aspirational targets. This would provide certainty on the inputs to include for base and sensitivity analysis in market modelling that supports network planning and investment.

### **References to the ‘long term interest of consumers’ in ISP provisions**

The rule change suggests that ISP provisions in the rules that reference the ‘long term interests of consumers’ be amended to refer to the NEO instead, to ensure the emissions reduction objective is considered alongside the existing components of the NEO. This includes rule clauses that link to the ISP’s statement of purpose and consumer panel.

We support the suggested changes to ensure that ISP clauses reference the updated NEO as a whole rather than the narrower ‘long term interests of consumers’. This would ensure that the emissions reduction objective flows through into the rules as intended by Energy Ministers.

### **Cost Benefit Analysis Guidelines**

The rule change request suggested the AEMC consider whether changes are required to ensure that the AER’s Cost Benefit Analysis (CBA) Guidelines are aligned with the emissions reduction objective. We consider that given the other changes proposed there may be no need for an additional amendment to the rules relating to the AER’s CBA Guidelines. Specifically, this may not be needed if, as suggested, the ISP’s statement of purpose in the rules is amended to include a reference to the emissions reduction objective.

### **General principles for RIT projects**

The rule change request also suggested the AEMC consider whether changes are required to ensure that the general principles for RIT projects in the rules are aligned with the emissions reduction objective. The current RIT-T principle is focused on maximising the “present value of the net economic benefit to all those who produce, consume and transport electricity in the market”.

We support amendments to the general RIT-T principles in the rules to:

- incorporate consideration of achievement of emissions reduction targets
- expand the categories of relevant beneficiaries for the purposes of assessing economic benefits related to achieving emissions reduction targets.

We consider that expanding the scope of relevant beneficiaries to be wider than the current definition recognises that the beneficiaries of emissions reduction may not be limited to those who produce, consume and transport electricity in the market. This would be aligned with the intent of the Energy Ministers rule change request to incorporate and align the rules with the emissions reduction objective.

## **3. Enabling a streamlined process for updating AER guidelines**

The rule change request also identifies an opportunity to reduce the administrative burden on the AER and market participants of implementing the updated energy objectives by allowing the AER to undertake a single consultation to update relevant guidelines. The rule change request notes the AER may need to update approximately 65 guidelines and guidance documents to ensure emissions reduction is explicitly referenced where appropriate. The rule change request notes that the AER has indicated that it will retain dedicated single consultation processes for material or complex updates.

We support allowing directly consequential changes to AER guidelines to be consulted on in an omnibus update process and material changes to having a dedicated process. This will reduce the administrative burden on stakeholders whilst allowing appropriate consideration of guideline changes where appropriate.

We encourage the AEMC to consider how to best provide transparency on the approach for the AER to update the necessary guidelines.