

19 April 2024

Stephanie Jolly
Executive General Manager, Consumers, Policy and Markets
Australian Energy Regulator

Submitted via email: NEOReforms@aer.gov.au

Valuing emissions reduction – AER draft guidance

Dear Ms Jolly,

Energy Networks Australia (**ENA**) appreciates the opportunity to respond to the Australian Energy Regulator's (**AER**) draft guidance on valuing emissions reduction.¹

ENA is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

Network service providers are essential partners in supporting government commitments to achieve a decarbonised, modern and reliable grid, and strongly supported the introduction of an emissions reduction component into the national energy objectives. Valuing emissions reduction is a key component to implementing this important reform.

Publication of values

ENA supports the AER including the interim values of emissions reduction, derived from the Ministerial Council of Energy methodology², in its final guidance, ensuring transparency for all stakeholders. ENA, however, recommends that the final guidance clarify what period the interim value for each year applies to (financial year or calendar year).

Application of values

ENA understands that the AER will shortly begin a consultation process on updating its Cost Benefit Analysis (**CBA**), Regulatory Investment Test for Transmission (**RIT-T**) and Regulatory Investment Test for Distribution (**RIT-D**) Guidelines, which is expected to result in more specific guidance on how the new benefit category of 'changes in greenhouse gas emissions' should be assessed in the Integrated System Plan (**ISP**), RIT-Ts and RIT-Ds.

Under the updated National Electricity Rules, however, this new benefit category must now be considered in new RIT-T and RIT-D applications. We therefore support the AER's final guidance providing

¹ AER, [Valuing emissions reduction: AER draft guidance](#), March 2024.

² Table 1 from the draft guidance.

meaningful advice to networks on how they should assess this benefit category in RIT applications prior to the update to the Guidelines.

Alignment with the Integrated System Plan

The draft guidance currently states that ‘RIT-Ts should be undertaken using a consistent approach to that taken in the ISP, unless there is a strong reason not to do so’. Notwithstanding that the Australian Energy Market Operator (AEMO) will now consider emissions reduction as a class of market benefit in the final 2024 ISP, there is currently a lack of publicly available detail on how AEMO will apply the interim VER to the final 2024 ISP. ENA therefore supports the AER’s final guidance providing further detail on AEMO’s final 2024 ISP approach via an appendix, which could then cease to apply once the Guideline updates are completed.

The draft guidance also states that ‘should RIT-D proponents decide to estimate the benefit of emissions reduction in their assessments, they should wherever possible take a consistent approach to that taken in the ISP’. ENA understands that for the 2024 ISP, AEMO is only estimating emissions changes associated with electricity generation. However, some RIT-D assessments (as well as some RIT-T assessments) could result in changes in greenhouse gas emissions outside of those which AEMO considers are material for the ISP – for example, the replacement of substation assets may reduce SF6 emissions.

ENA therefore recommends that the final guidance allows for changes in greenhouse gas emissions to be included in RIT-D (and RIT-T) assessments where they relate to emissions changes which are material for that assessment, even where they may not be covered in the methodology adopted in the final 2024 ISP.

Review

We look forward to engaging with the AER on its upcoming update of the CBA and RIT Guidelines, and recommend that, once that update is complete, the final AER guidance is also reviewed to ensure that there are no inconsistencies given that this guidance is intended to have primacy over the Guideline updates.

If you wish to discuss any of the matters raised in this letter further, please contact Lucy Moon, Head of Regulation and Strategy, on lucymoon@energynetworks.com.au.

Yours sincerely,



Garth Crawford
General Manager, Economic Regulation