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Incorporating an emissions reduction objective into the national energy objectives

AGL Energy (AGL) welcomes the opportunity to contribute to the proposed legislative package to give effect to an emissions reduction objective in the National Electricity Law, the National Gas Law, and the National Energy Retail Law (Consultation Paper).

AGL is a leading integrated essential service provider, with a proud 185-year history of innovation and a passionate belief in progress – human and technological. We deliver 4.2 million gas, electricity, and telecommunications services to our residential, small, and large business, and wholesale customers across Australia. We operate Australia’s largest electricity generation portfolio, with an operated generation capacity of 11,208 MW across the National Electricity Market (NEM). We have the largest renewables and storage portfolio of any ASX-listed company, having invested \$4.8 billion over two decades in renewable and firming generation.

The emissions reduction imperative

By 2050, AGL considers that Australia has the opportunity to be carbon neutral and an energy superpower. Over the next three decades, substantial amounts of new large-scale renewable generation and distributed solar generation are forecast to be connected to the NEM. Ageing thermal generation will be replaced by a range of variable and flexible generation technologies with lower emissions intensity to decarbonise Australia’s energy sector. Gas networks will be decarbonised through switching to renewable electricity and zero-emissions fuels.

Although the transition to a low-emissions economy brings significant challenges, with well-designed policies there is potential to promote a more productive, inclusive economy with healthy, connected communities, underpinned by affordable energy.

AGL is therefore supportive of the commitment taken by energy ministers to align emissions reduction and energy policy objectives—for several years, climate and energy policy in Australia has been poorly integrated, and steps to align Australia’s climate ambition with policy action in the energy sector are well overdue. However, in addition to simply amending the energy objectives, alignment of energy and climate policy in Australia would be best achieved by energy ministers continuing to work together to develop clear, coordinated, and nationally consistent policy approaches to reducing emissions in the energy sector, with a long-term objective of reaching Australia’s net-zero ambition.

While the recent steps taken by the energy ministers to reach alignment on certain energy issues are welcome, there remain very significant differences in policy approaches across Australia, including with



regard to different renewable targets and generation investment programs. This current patchwork of Australian energy and climate policies, especially state policies that are not necessarily subject to the national energy objectives, may continue to create significant challenges for the market bodies, resulting in a challenging operating environment for market participants and investors, and sub-optimal outcomes for energy customers.

Accordingly, simply changing the decision-making paradigm for market bodies to consider emissions, in the absence of additional policy coordination from respective governments to support this ambition, may in fact serve as a detriment to the long-term interests of energy customers for reasons set out in this submission.

Fragmentation of climate and energy policy

Energy and climate policy in Australia is fragmented, with both state and federal governments having implemented several policies over the last two decades to incentivise new generation but also keep the energy system reliable, secure, and affordable.

In recent years, governments have implemented specific renewable energy investment programs, most notably the Commonwealth Large-scale Renewable Energy Target (LRET). Recent state and federal government policies aimed at meeting emissions reduction targets and climate commitments will further accelerate the uptake of variable renewable generation. In NSW, the Electricity Infrastructure Roadmap will see contracting with 12 GW of new variable renewable generation prior to 2030, and in Victoria, the Renewable Energy Target (VRET) to achieve 50% generation from renewable sources by 2030 is being achieved through reverse auctions. The Australian Government has also announced an ambition to rapidly accelerate the delivery of renewable generation through a \$20 billion investment program to deliver new transmission infrastructure.

The contribution of several renewable programs has seen emissions from the electricity sector reduce significantly over the past decade as higher-cost emissions-intensive generation has exited the market. This has resulted in a relatively rapid transition from a system characterised by synchronous thermal generation to meet increasing operational demand, to one that is increasingly variable and distributed, with new operational challenges to meet system security and reliability at the lowest cost.

With regard to gas markets, and the east coast gas market in particular, several reviews and inquiries have considered gas supply and pricing in the context of recent changes in wholesale gas market dynamics: significant increases in exported natural gas, declines in some local production basins, and international events impacting domestic gas prices. This has occurred in the context of governments considering how to decarbonise gas networks over time while also taking steps to subsidise and support the development of a domestic green hydrogen economy.

Delivering government policies

Over the last few years, the number of Rule Changes, guidelines and procedures, inquiries, consultations, and reviews conducted by the market bodies has increased significantly. In large part, this reflects the very dynamic market transformation that is underway, but also the fragmentation of policy approaches and a lack of policy direction from governments on key issues.



Within this rapidly-changing operating environment, the existing national energy objectives have provided useful a guidepost for the market bodies to navigate a period of unprecedented complexity while still meeting the policy objectives of state and federal governments.

During this period, the market bodies have been required to make determinations on a range of complex and contentious matters, often needing to strike an appropriate balance between short-term and long-term benefits, or trade-offs between competing elements of the energy objectives, most notably regarding reliability, security, and price. This has occurred within an economic-efficiency framework as described in the consultation paper.

In making their determinations under the energy objectives, market bodies have also had due regard to how their decisions also support other policy objectives, including with regard to climate. Indeed, it is a feature of determinations made by the market bodies that they are constrained by government policies, and therefore decisions are made with respect to all existing government policies, including emissions reduction targets, as well as policies pertaining to the reliability, security, and price of energy.

In recent years, deliberation on several issues considered by the market bodies has been hampered by a lack of clarity with respect to desired outcomes for national energy market reform, in particular regarding the appropriate policies to address climate change. Notably, market bodies have struggled to balance the long-term benefits of reducing emissions with shorter term costs of transition and potential impacts on reliability and security. This is a challenge that is well known in relation assessing the impacts of climate change on energy markets.

An emissions objective alone may not achieve the right outcomes

The introduction of an emissions component to the energy objectives is not a new concept, and has been considered several times since the energy objectives were first legislated.

Of note in recent years, consultation on this change occurred during the consultation for the Finkel Report, which considered the lack of reference to an emissions objective in the national energy objectives, finding that:

The absence of any reference to emissions reduction does not mean that such issues cannot be taken into account by market bodies. Rather, they can only be taken into account if they are consistent with or contribute to the achievement of the NEO. The non-inclusion of any environmental or emissions reduction objectives in the NEO has been a point of contention since its formulation.¹

In submissions to the Finkel Review, the AER, AEMO and the AEMC also argued *against* the inclusion of any reference to environmental considerations in the energy objectives. They argued the inclusion of such considerations would create multiple, potentially competing objectives, which they would be required to reconcile in their decision making with little practical guidance. The AEMC argued that

¹ [Independent Review into the Future Security of the National Electricity Market: Blueprint for the Future](#), Commonwealth of Australia 2017, p175-6



keeping the energy objectives focussed on an economic objective would enable market bodies to focus on the efficient operation of the market in the long-term interests of consumers.

The market bodies further stated that this would contribute to greater predictability and transparency of the rule-making process, which in turn would support the delivery of the energy objectives.

Accordingly, the broader issue at hand is not that market bodies have been unable to consider emissions policies as a component of the energy objectives, but rather that the external policy environment within which their decisions have been made has not provided a clear and consistent framework within which to deliver those objectives in the long-term interests of customers.

As a result, claims that the decisions made by market bodies have resulted in emissions not being considered by the market bodies are unfounded—instead, it is more accurate to say that decisions made by the market bodies have sought to deliver government policies with regard to the energy market, including the government climate and emissions reductions policies—but that these policies have often been inconsistent and unclear, and lacking appropriate detail to enable administrators to support their implementation.

More so than amending the energy objectives, it is therefore much more critical that Australian energy policy provide a more consistent foundation for the market bodies through clear and nationally coordinated climate policies. This would be much more impactful than simply embedding a new paradigm into the decision-making process for market bodies, which may not necessarily assist in meeting the long-term nature of the energy objectives and the ambition to meet Australia's net zero target.

A lack of coordination in Australian climate and energy policy

For several years, there has been a lack of agreement between governments on the appropriate positions to take both with regard to energy markets and with action to reduce emissions in the energy sector.

Since 2000, attempts to integrate a carbon policy with energy market have included: the proposed Carbon Pollution Reduction Scheme (CPRS), the introduction and subsequent repeal of the Clean Energy Act 2011 to establish an emissions trading scheme following a period of carbon pricing, an Emissions Reduction Fund (ERF) that has also changed direction over several years, and proposals for an Emissions Intensity Scheme (EIS).

In 2017, Australia's Chief Scientist Dr Alan Finkel delivered a Blueprint for the Future Security of the National Electricity Market, outlining a plan to maintain security and reliability in the NEM in light of the significant transition underway, including due to rapid technological change. This was an attempt to re-establish the governance of energy markets in the context of several years on inconsistent government approaches on climate and energy.

Subsequently to the report, the Australian Government chose not to implement one of the key recommendations outlined in the Blueprint, a Clean Energy Target (CET), which was aimed at resolving the ongoing energy market uncertainty that undermines investor confidence, which in turn undermines



the reliable supply of electricity and increases costs to consumers. Instead, the government proposed a National Energy Guarantee (NEG) and Retailer Reliability Obligation (RRO), the emissions obligation component of which was not implemented.

In response to this ongoing lack of climate and energy policy integration at a national level, state governments have in recent years made a series of major climate and energy announcements, including: commitments to net zero by 2050 as well as ambitious interim emissions targets, specific renewable electricity and hydrogen targets, and developing programs to incentivise renewable generation such as the Victorian RET, the NSW Electricity Infrastructure Roadmap, and the Queensland Energy and Jobs Plan.

There have also been several other policies that have been announced alongside these larger ambitions: incentives for batteries and distributed energy resources (DER), subsidies for transmission and Renewable Energy Zone (REZ), and funding for specific projects and new technologies such as hydrogen and offshore wind.

Only recently, with the election of the current Australian Government, does there appear to be an emerging consensus on the steps that will be required to reduce emissions in the electricity sector. Regardless, energy policy remains broadly fractured across Australian governments, with a piecemeal program of Commonwealth funding supporting a broad range of state policies with different objectives and ambition.

The Australian Government's mandate to act on climate change

We recognise that the policy decision to implement an emissions objective into the national energy objectives comes on a strong mandate from the Australian Government and other state governments to act on climate change following recent elections, and agreement from energy ministers to proceed with this change. The decision to amend the energy objectives has already been endorsed by energy ministers, with the present consultation largely focused on how the emissions objective should be implemented, rather than the merits of including it at all.

Given the long history in Australia of a lack of integration between energy and climate policy, this ambition is welcome.

However, we note that inserting an emissions objective into the energy objectives without also setting long-term, nationally consistent and coordinated policies, may continue to lead to difficulties in the exercise of the market bodies' functions to deliver the best long-term outcomes for customers.

While the discussion in the consultation paper on the different approaches that could be taken to interpret an emissions objective are important, it is preferable that trade-offs on outcomes are not made by administrative bodies under decision-making frameworks, but rather by elected governments who are representative and whose decisions are subject to the adjudication by the electorate.

Governments, delivering their mandate to act with more determination on the issue of climate change, should develop more comprehensive policies in the energy sector that are underpinned by careful policy deliberation and thoughtful analysis and modelling. They should also provide guidelines to the



market bodies on how Australia's long-term emissions objectives will be achieved. In order to drive lowest-cost outcomes, these guidelines should direct market bodies to be neutral with regard to technologies and location of projects, to support ease of decision making to support overall energy market objectives.

Further policies could include additional information such as interim emissions targets including sectoral targets, further modelling on expectations of policy announcements on the energy sector, and commitment to deliver nationally coordinated and consistent policies.

We would therefore also support market bodies developing and updating guidance material to assist market participants in understanding how decisions have been made, and how the proposed revised national energy objectives have been interpreted.

This process would support the development of clear guideposts for the market bodies to exercise their functions, which in turn will assist market participants and capital providers to make investment decisions, and contribute to the long-term interests of energy customers by ensuring that efficient decisions are made with clear targets in mind and on a long-term trajectory.

This is particularly important given the nature of the energy transition, which will occur over several decades and will need to accelerate in years to come, requiring the deployment of several tens of billions of dollars from both the public and private sector. This scale of investment will require effective institutions that are capable of supporting a supportive operating environment to transition Australia to a renewable superpower.

If you would like to discuss this submission further, please contact Aleks Smits (Senior Manager Policy) at asmits@agl.com.au.

Yours sincerely,

Chris Streets

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