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7 February 2023

Simon Duggan  
Deputy Secretary  
Department of Climate Change, Energy, the Environment and Water  
Submitted via email

Email: [netp@industry.gov.au](mailto:netp@industry.gov.au)

**Consultation on proposed legislative changes to incorporate an emissions reduction objective into the national energy objectives**

Dear Simon

Energy Consumers Australia appreciates the opportunity to provide feedback on the *'Incorporating an emissions reduction objective into the national energy objectives'* Consultation Paper (Consultation Paper). We are pleased Energy Ministers are taking action to provide clarity to the energy market bodies to explicitly consider emissions reduction in how they undertake their respective powers and functions.

As you know, Energy Consumers Australia is the national voice of residential and small business energy consumers. Consumers tell us that emissions reduction in the Australian energy system is important to them. In our December 2022 Consumer Sentiment Survey, 26% of households see a rapid transition to renewable energy sources as one of the most important challenges ahead, while 30% see replacing old coal and old gas plants with new, more efficient technology as a priority issue.<sup>1</sup> These were valued only behind affordability (67%) and energy resilience (38%) and are comparable to small business sentiment.<sup>2</sup> Further, some 37% of households<sup>3</sup> and 41% of small businesses<sup>4</sup> support an energy transition by 2030 or earlier.

While our submission responds to the proposed introduction of an emissions reduction objective into the national energy objectives (energy objectives), we note that ourselves and our advocate colleagues see that there is a broader need to ensure that the energy policy framework delivers social as well as economic and environmental outcomes, particularly through the energy transition. We recognise this is outside the scope of this current process. However, we ask that Energy Ministers come to collective agreement on an overarching purpose or principles that can guide future energy policy decision-making, which should include an inclusion or equity objective.

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<sup>1</sup> <https://ecss.energyconsumersaustralia.com.au/sentiment-survey-dec-2022/featured-content-household-sentiment-dec-2022/>

<sup>2</sup> <https://ecss.energyconsumersaustralia.com.au/sentiment-survey-dec-2022/featured-content-small-business-sentiment-dec-2022/>

<sup>3</sup> <https://ecss.energyconsumersaustralia.com.au/sentiment-survey-dec-2022/featured-content-household-sentiment-dec-2022/>

<sup>4</sup> <https://ecss.energyconsumersaustralia.com.au/sentiment-survey-dec-2022/featured-content-small-business-sentiment-dec-2022/>

From its inception in 2004, the Australian Energy Market Agreement has played an important role in providing the foundational principles for the legislative and regulatory framework for Australia's energy markets.<sup>5</sup> All governments are signatories.

In our view, we need a new, more contemporary agreement, to be made between the Commonwealth, States and Territories, and potentially also local government, that contains the principles to support the energy transformation, and informs the community of the social, economic, and environmental objectives that they are committed to. Further these principles will inform the legislative and regulatory frameworks that support energy market design and should include the role and purpose of the objectives as they relate to market body decision making.

Our response to the matters raised in the Consultation Paper are provided in the following sections.

#### [Reference to Australia's greenhouse gas emissions reduction targets](#)

The scope of the emissions reduction objective is quite broad, framed by reference to 'achieving targets for reducing Australia's Greenhouse gas emissions', and including:

- targets where the Commonwealth, state or territory has made a public commitment under a law, an international agreement, or as a matter of policy; and
- other government targets that are 'likely to contribute to' reducing Australia's greenhouse gas emissions, even if they are not purposely called out as an emissions reduction target (e.g., a renewable energy target).

We support the intent to give market bodies discretion and flexibility when making decisions in line with the new emissions reduction objective. However, we consider that further guidance should be provided to the market bodies. The market bodies may need guidance in how to meet the objective, such as how to reconcile competing outcomes. When making decisions in line with the new objective, market bodies may be faced with multiple jurisdictional policies that are relevant but have differing targets and dates to deliver their commitments. For example, the Commonwealth has committed to reducing emissions in Australia by 43% below 2005 levels by 2030,<sup>6</sup> while Victoria's interim target for the period 2021–2025 is for emissions to reduce 28–33% below 2005 levels by the end of 2025.<sup>7</sup>

#### [Amendments to acknowledge interactions between electricity and gas markets and enable management of energy transition impacts](#)

As the Consultation Paper notes, the gas and electricity markets are increasingly intertwined and interdependent. Certainly, consumers routinely consider gas and electricity services together when making decisions about their needs for power in their homes and businesses. As such, there is value in ensuring market bodies can consider how decisions in one market affect outcomes in another. We agree that the proposed change to "consumers of energy" from "consumers of electricity" and "consumers of gas" (in the national energy objective and national gas objective, respectively) is appropriate and necessary.

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<sup>5</sup> <https://www.energy.gov.au/government-priorities/energy-ministers/energy-ministers-publications/australian-energy-market-agreement-amended-december-2013>

<sup>6</sup> <https://www.dcceew.gov.au/sites/default/files/documents/australias-emissions-projections-2022.pdf>

<sup>7</sup> <https://www.climatechange.vic.gov.au/climate-action-targets>

More generally, we note that the discussion on the interactions between electricity and gas in the Consultation Paper focuses primarily on the importance of natural gas in providing peaking generation for electricity markets. It fails to consider the more impactful change for consumers, that of the degree to which electrification of end-use energy services will impact the natural gas market, particularly the recovery cost of the gas network from households and small businesses as more of the network becomes redundant. There are two implications of this risk.

Firstly, currently the economic regulation of energy assets assumes that the costs of investments should be fully borne by consumers. However, the AER, in their Information Paper – *Regulating gas pipelines under uncertainty*, noted that:

*“The rules dealing with depreciation in the NGR and the pricing and revenue principles in the NGL may not always promote consumers’ interests in a world of declining gas demand. The regulatory framework provides scope for regulated prices to be adjusted to provide regulated businesses with a reasonable opportunity to recover their incurred efficient costs. This may mean raising regulated prices even in circumstances where a gas network service enters into a terminal decline.”<sup>8</sup>*

Clearly, the change in the objectives to incorporate emissions reduction targets and to consider the interaction between electricity and gas markets, will impact the asset lives of gas pipelines as consumers choose to electrify their homes and businesses. We recommend that Ministers provide guidance to the market bodies on how to address the allocation of risk of assets being stranded as a result of decarbonisation policies, to avoid unfairly penalising consumers who are not able to manage this risk.

Secondly, there are equity issues. If poorly managed, or not managed at all, this transition will leave gas network pricing significantly increasing, for a decreasing base of consumers, who will primarily be those facing serious barriers to electrification, including renters, occupants of shared premises (apartments, commercial properties) and low income households. Avoiding a significant widening of the energy divide should be a priority for Energy Ministers and market bodies, and any changes should seriously contemplate how doing so would make that transition issue easier or more difficult to manage.

### Defining consumers in the new energy system

Considering the proposed change to “consumers of energy” in the national energy objectives, we emphasise the importance of interpreting “consumers” in the broadest sense given the changing role of households and small businesses in the energy system.

Within traditional energy policy and regulatory frameworks consumers were simply “end users” at the end of a supply chain from distant large-scale generation through to the connection point. The uptake of new technologies such as solar, batteries and smart charging electric vehicles are turning many “passive consumers” into active producers of energy (that can be made available for other “users” in the connected system). For example, the aggregate power produced on consumers’ rooftops is now the largest generator in the electricity system.<sup>9</sup> In our own regular survey, 32% of households<sup>10</sup> and 24% of small businesses now have a solar PV system installed.<sup>11</sup>

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<sup>8</sup> <https://www.aer.gov.au/system/files/AER%20Information%20Paper%20-%20Regulating%20gas%20pipelines%20under%20uncertainty%20-%2015%20November%202021.pdf> p.59.

<sup>9</sup> <https://www.aemo.com.au/-/media/Files/Electricity/NEM/National-Electricity-Market-Fact-Sheet.pdf>

<sup>10</sup> <https://ecss.energyconsumersaustralia.com.au/sentiment-survey-dec-2022/featured-content-household-sentiment-dec-2022/>

<sup>11</sup> <https://ecss.energyconsumersaustralia.com.au/sentiment-survey-dec-2022/featured-content-small-business-sentiment-dec-2022/>

And, as the National Energy Performance Strategy anticipates,<sup>12</sup> increasingly consumers will be called upon to manage their energy use, particularly at times of scarcity of generation, and to manage their own generation at periods of low demand from other users. This means that most consumers will need to be empowered to be participants in the energy system, in a fair and equitable manner.

To be more specific, consumer segmentation that differentiates consumers as “passive” or “active”; and “users” or “producers + consumers = prosumers”, are not fit-for-purpose for informing system and market design. These binaries are intended to divide consumers into market participants and the rest, being simply users, from the viewpoint of system design. Consumers will participate in a range of ways in which they can adapt their use and making electricity available through solar, batteries, and electric vehicles, to benefit themselves and the community. We address this issue in further detail in our submission to the National Energy Performance Strategy Consultation Paper.

#### [Alignment between the object of Energy Consumers Australia and the national energy objectives](#)

On consideration of the Consultation Paper and the intention of the changes, we see it would be appropriate that these are reflected in Energy Consumers Australia’s governing document, our Constitution.

Within the Constitution, the wording of the object of Energy Consumers Australia is:

*To promote the long term interests of Consumers of Energy with respect to the price, quality, safety, reliability and security of supply of Energy services by providing and enabling strong, coordinated, collegiate evidence based consumer advocacy on National Energy Market matters of strategic importance or material consequence for Energy Consumers, in particular for Residential Customers and Small Business Customers.*

Despite the wording not being a direct match, it is clearly underpinned by the national energy objectives. As such, we note that the Energy Ministers may wish to amend Energy Consumers Australia’s Constitution to reflect the incorporation of an emissions reduction objective into the national energy objectives.

It could do this either by amending the words in our Constitution, or alternatively, referring to the national energy objectives within the relevant legislation. It may also be appropriate to consider how the object should also reflect our broader purpose in promoting consumer participation (the demand side) as well as the industry and system design issues (the supply side). We would be pleased to work with officials on appropriate drafting, in consultation with Minister Bowen and Minister McAllister.

Should you have any questions or require clarification, please contact Isabella Darin at [isabella.darin@energyconsumersaustralia.com.au](mailto:isabella.darin@energyconsumersaustralia.com.au).

Yours sincerely,



Lynne Gallagher  
Chief Executive Officer

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<sup>12</sup> <https://www.energy.gov.au/government-priorities/australias-energy-strategies-and-frameworks/national-energy-performance-strategy>