

# Updating the NEO to account for climate change is part of a coordinated transition

Last week the nation's energy ministers agreed to fast track an emissions objective into the national energy objectives to "ensure that the transformation to net zero is delivered in the long-term interests of consumers (LTIC), guided by affordability". Most commentators appear to support this announcement as long overdue.

The NEO already considers multiple factors (e.g. price, quality, safety) that must be traded off when decisions are made in the LTIC. Some may say that arresting the impacts on the climate is in the LTIC however we don't currently have a mechanism to trade off price vs climate / greenhouse gas (GHG) emissions, like we do price vs. reliability. Explicitly including emissions reduction in the NEO, will likely mean that frameworks will need to be established to enable decision making around the trade-offs in the decarbonisation of the energy system.

The misalignment between energy and climate objectives in Australia are playing out in the current market challenges. If we are going to have a debate on the redrafting the NEO, consideration could also be given to changing the words 'price' to 'affordability' to ensure we are also including equity in the objective across the supply chain.

## Benefits

- Supports a need for coordination as \$bn of transition investment is required over the coming decades
- Begins to aligns the electricity market (Australia's highest emitting industry) with state and federal carbon reduction policies.
- Reduces ambiguity in strategic planning, future reforms and decisions between governments, market bodies, industry and customers.
- Has flow on impacts for additional frameworks, guidelines and trade-off assumptions to be developed to enable regulators and industry to assess impact.

## Challenges

- What are baseline and projected emissions reduction targets for the sector? National Paris targets have not been clearly delineated at a sectoral level, and without clear direction the level of emissions reduction is open to interpretation.
- What is the cost on carbon abatement that will inform future cost benefit analysis? Also, how will this impact the Gas Objective and Retail Objective?
- Market bodies aren't equipped to set interim targets and the onus should be on government to clarify this and industry to prove they have considered the impact on the climate

## Global Trends – the NEM isn't the first to do this...

### USA

Many states require the electricity sector to take into account GHG emissions as part of resource planning, with energy strategies closely aligned with climate policies and targets.

### UNITED KINGDOM

The UK Electricity Act 1989 requires decisions to be made to protect future consumers, including its first priority, which is to reduce GHG emissions from electricity supply.

### WESTERN AUSTRALIA

Included "environmental consequences" in its Electricity Network Access Code Objective, in **September 2020**.

Beyond the principle of this reform, considering all the dimensions of the transition requires more customer consultation, data insights and a technical/economic understanding.

Reach out if you would like to meet our climate and energy advisors.

