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Energy Policy WA
Locked Bag 11
Cloisters Square WA 6850

Submitted via email by graham.pearson@energycouncil.com.au to EPWA-info@dmirs.wa.gov.au

State Electricity Objective

The Australian Energy Council (the “**AEC**”) welcomes the opportunity to make a submission on the information paper (“**Information Paper**”) relating to the proposed State Electricity Objective (“**SEO**”) published by Energy Policy WA (“**EPWA**”).¹

The AEC is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. Our members collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to millions of homes and businesses, and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 percent emissions reduction target by 2035, and is part of the Australian Climate Roundtable promoting climate ambition.

The Western Australian Government has approved the drafting of an objective to be included within the *Electricity Industry Act 2004* as part of the changes being progressed under the Energy and Governance Legislation Reforms. Clause 1 of the proposed SEO says:

- 1) The objective of this Act is to promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers of electricity in relation to –
 - a. the quality, safety and reliability of supply of electricity; and
 - b. the price of electricity; and
 - c. the environment, including reducing greenhouse gas emissions.

The AEC notes that the proposed SEO is similar to existing National Energy Objectives (“**NEO**”) with three key differences:

- The NEO includes a reference to “security” while this is omitted in the SEO;
- Australian Energy Market Operator (“**AEMO**”) must have regard to the NEO in carrying out its functions but there is no mention of AEMO in the SEO; and
- The proposed SEO has an environmental and greenhouse gas emission objective.²

¹ See [Information Paper on the proposed State Electricity Objective](#)

² The AEC notes that the NEO is currently under review. The AEC’s submission on the proposed NEO amendments can be found [here](#).

The AEC will address each of these items, and raise some other matters for consideration, in this submission.

Security of supply

There was discussion during the TDOWG meeting on 28 February 2023 about including “security” in the SEO. EPWA suggested that security is implied because it is part of reliability. The AEC considers security and reliability to be two distinct issues: reliability relates to consumer expectations regarding the dependability of their supply whereas “security requires the system to continue operating within defined technical limits even if a major element like a generator or large consumer disconnects from the system.”³ Reliability and security are also measured differently.

The AEC requests that security is explicitly included in clause 1a of the SEO because it is:

1. Critical to the long-term interests of consumers;
2. Heavily regulated under the wholesale market (WEM) rules; and
3. Specifically mentioned in the NEO.

Environment objective

The proposed SEO includes an objective in relation to “the environment, including reducing greenhouse gas emissions.”⁴ The AEC is concerned about the inclusion of this objective and its consequences. It seemingly offers the Minister, the Authority, the Coordinator and the Board a direct role in prioritising how electricity is generated and supplied, potentially threatening new investment opportunities for market participants at a time when there is a forecast capacity shortfall. The AEC’s position is that environment regulation is best governed through the already robust, independent environmental approval process in Western Australia that all new generators need to satisfy. The SEO should not be prioritising investment in generating assets on environmental grounds, and thereby distorting the market, when all new projects already need to go through a rigorous process to obtain formal environmental approval.

The bodies mentioned in clauses 2 and 3 already take into account the environment and decarbonisation when making decisions, and given the dramatic reductions in carbon emissions in the energy sector, there does not appear to be a clear case for specifically requiring these bodies to have regard to the environment and greenhouse gas emissions as part of the SEO.

In Australia, there are numerous, well-funded organisations which frequently challenge decisions on the basis that they do not have sufficient regard to climate change and other environmental risks. The challenges, although mostly unsuccessful, create considerable delay and expense for energy projects, when the energy transition can ill-afford further delays and even higher expenses.

If the environment and emissions reduction is included in the SEO, then it will be mandatory for the Minister, the Authority, the Coordinator and the Board to have regard to the environment and emissions reduction policies when exercising their powers. An alleged failure to have regard to these factors, or an allegedly 'unreasonable' decision in light of these factors, might become the basis for an application for judicial review of the decision.

³ See p vi, [How the National Energy Objectives Shape our Decisions](#)

⁴ See [Information Paper on the proposed State Electricity Objective](#)

If, notwithstanding these risks, EPWA does decide to include the environment and emissions reduction in the SEO, the AEC requests that:

1. The SEO is amended so that it is permissible, rather than mandatory, for the Minister, the Authority, the Coordinator and the Board to have regard to the environment and greenhouse gas emissions; and
2. The Minister, the Authority, the Coordinator and the Board issue a guidance paper on how they intend to interpret this objective. This is particularly important because clause 2 of the proposed SEO allows each body to interpret the SEO differently and weight the objectives how they see fit. It will permit the Minister, the Authority, the Coordinator and the Board to each use the objectives to suit their position at any given time and this has the potential to cause unintended consequences for the market, investors and consumers.

Clause 2 and 3 – AEMO

The AEC notes that clause 2 and 3 of the proposed SEO does not mention AEMO. AEMO plays a significant role in the energy market and is already required to have regard to the NEO in carrying out its functions. The AEC asks that the SEO objective applies to AEMO given their considerable role in the WEM.

Sustainable investment

The AEC considers that the SEO should balance the long-term interests of consumers with the interests of market participants. After all, it's not in the interests of consumers to have the safety, reliability and price of electricity adversely impacted by market participants exiting the market or choosing not to enter. This is particularly important with the Economic Regulation Authority's *Triennial Review of the Effectiveness of the Wholesale Electricity Market 2022* saying there is inadequate revenue for generators⁵ and that "revenue for renewables and storage will not be sufficient to drive investments required to meet decarbonisation goals."⁶ To this end, the AEC requests that "promote efficient investment in" be replaced with "promote efficient and sustainable investment" so that the Minister, the Authority, the Coordinator and the Board must consider the need to encourage investment in the sector.

Competition

The AEC considers that competition is the cornerstone of an efficient market that responds to changes and promotes optimal outcomes for consumers. Government should provide direction and facilitate outcomes, but the scale of the energy transition currently underway, and the amount of investment required, means that competition and the entry of new competitors is necessary. The AEC suggests that the SEO should include an objective to 'encourage competition among generators and retailers in the SWIS, including by facilitating efficient entry of new competitors.'

Including stand-alone-power systems and battery storage in the SEO

The AEC is not clear whether the SEO applies to stand-alone power systems and battery storage. These services have increasing importance and the AEC suggests that they are explicitly referenced in clause 4.

⁵ See [Triennial review of the effectiveness of the Wholesale Electricity Market 2022: Discussion paper](#)

⁶ See [ERA correspondence to EPWA dated 10 October 2022](#)

Conclusion

The AEC appreciates this opportunity to provide feedback on the proposed SEO and encourages EPWA to consider the issues raised above.

Please do not hesitate to contact Graham Pearson, Western Australia Policy Manager by email on graham.pearson@energycouncil.com.au or by telephone on 0466 631 776 should you wish to discuss this further.

Yours sincerely,

Graham Pearson
Policy Manager, Western Australia
Australian Energy Council