Justice and Equity Centre

23 June 2025

ISP Team
Australian Energy Market Operator
By email: ISP@aemo.com.au

Dear ISP Team,

Draft Gas Infrastructure Options Report

The Justice and Equity Centre (JEC) welcomes the opportunity to respond to the Australian Energy Market Operator's (AEMO) Draft Gas Infrastructure Options Report (the draft GIOR).

We highlight two main aspects to be addressed in the finalised GIOR:

- Emissions must be included as a cost associated with options analysed in the GIOR. Excluding emissions is inappropriate as it artificially inflates the attractiveness of gas options relative to less emissions intensive alternatives that also fulfil a given need.

- The practice of applying a single set of cost escalation indices for gas infrastructure components across all ISP scenarios is acceptable, with some potential qualifications.

Carbon emissions

Carbon emissions must appear as an element of project costs. These should be derived from an assessment of the expected emissions impacts of the project over its life when run as expected, or required to viably fulfil its function. This should be converted into a cost using the Value of Emissions Reduction. Failure to include emissions in the costs artificially inflates the attractiveness of gas options relative to alternatives.

Emission reduction is an explicit aspect of the National Electricity and Gas Objectives (NEO/NGO). We question how AEMO can possibly fulfil its commitment to balancing all five elements of the NEO in operational and planning functions without having adequate regard to emissions in this case.

We do note the regulatory regime tends to prioritise emissions reductions (relative emissions), rather than consider emissions themselves. This is based on the assumption that the transition is from high-emitting to low/zero-emitting technologies. Unfortunately, while the general trend of the system is towards less emissions, when it comes to specific investments, it is quite possible that there will be instances where a new investment replaces an equal or lower emitting solution. Indeed, it is also possible, or even likely, that new investments will occur that:

(a) do not replace anything specifically and

Justice and Equity Centre
ABN 77 002 773 524
www.jec.org.au

Gadigal Country
Level 5, 175 Liverpool St
Sydney NSW 2000

Phone 61 2 8898 6500
Fax 61 2 8898 6555

(b) have an emission impact greater than zero.

In these scenarios it is necessary to consider the potential emissions (and related costs) themselves. Each potential investment must be fully considered for its ‘absolute’ impact on emissions. It is not in keeping with the intent of the NEO to treat the emissions implications of these potential new investments as already ‘baked into the system’ and having no cost relative to an assumed starting point.

Cost escalation indices

The JEC supports applying a single set of cost escalation indices for gas infrastructure components across all ISP scenarios. Anticipating the implications of different and often interrelating eventualities in the scenarios for gas infrastructure input costs is extremely fraught. The likely impact of selecting alternative cost escalation indices would be to increase the degree of inaccuracy of the ISP forecasting overall.

It may be appropriate to use different cost escalation indices in different scenarios in cases where there is a very specific assumption in the scenario with material implications for a gas infrastructure cost element. However, in general, we support the proposed approach.

We welcome the opportunity to meet with AEMO to discuss these issues in more depth. Please contact Michael Lynch at mlynch@jec.org.au regarding any further follow up.

Yours sincerely,

Michael Lynch, PhD
Senior policy officer
mlynch@jec.org.au