



RESPONSE TO INTERIM REPORT ON INVESTING IN CHEAPER, CLEANER ENERGY AND THE NET ZERO TRANSFORMATION

We thank you for the opportunity to provide a submission for the Productivity Commission's Interim report on *Investing in cheaper, cleaner energy and the net zero transformation*.

The Smart Energy Council (SEC) is the peak independent body for Australia's smart energy industry, representing over 700 residential, commercial, and large-scale renewable generation and storage companies, smart transport, manufacturing and stewardship organisations, as well as the renewable hydrogen and ammonia industry.

In summary we broadly support the Productivity Commission's draft recommendations and commend you on your work. We provide our specific comments on the draft recommendations below.

1.1 Reducing emissions in the electricity sector after 2030

We support this draft recommendation.

The recommendations from the draft report of the Nelson Review into the National Electricity Market (NEM), especially the creation of an Electricity Services Entry Mechanism (ESEM), are well founded and should work to achieve this recommendation.

The phase-out of any incentives for the electricity sector should be very carefully examined before progressing to avoid Australia damaging investor confidence in the large scale sector, which would in turn damage our ability to meet 2030, 2035 and 2050 targets of emission reductions and renewable energy in our systems.

THE INDEPENDENT BODY FOR THE SMART ENERGY INDUSTRY IN AUSTRALIA

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1.2 The Safeguard Mechanism should cover more industrial facilities and carbon leakage provisions should be improved

We support this recommendation.

We believe there are other changes that could be made to the Safeguard Mechanism. We have extracted our organisation's position on the Safeguard mechanism at Appendix A – this is an excerpt of the Smart Energy Council's submission to the Climate Change Authority's Annual Progress Report.

1.3 Introduce an emissions-reduction incentive for heavy vehicles and phase-out policy overlaps for light vehicles

We cautiously support this recommendation, noting that if financial incentives for light vehicle purchase are reduced without the introduction of any countervailing non-financial incentives it might penalise electric vehicle uptake.

Electric Vehicles are central to Australia's decarbonisation strategy. The Climate Change Authority (CCA) has reinforced this direction by recommending that, to achieve net zero emissions by 2050, all new light vehicle sales should be electric by around 2040. Given the slow turnover of Australia's vehicle fleet, this target underscores the need to accelerate adoption now rather than create barriers.

Any change to existing incentives must be paired with other measures so as not to reduce the uptake of electric vehicles which are necessary to meet the goal set out by the CCA. This means, for example, ongoing investment in charging infrastructure. Australian governments should commit to national consistency and simplicity in any reform with one scheme and one set of rules. There needs to be hypothecated revenue from any changes to road user charges with a proper investment in road maintenance and EV charging infrastructure.

Any reforms to heavy vehicle infrastructure must address the use of diesel fuel, which is responsible for 17 per cent of Australia's emissions. As it stands, the fuel tax credit scheme incentivises ongoing diesel consumption. It returns off road users 51.6 cents per litre, which works out at \$191 per tonne of CO₂-e compared with the current price of an ACCU at around \$37. The incentive to keep using diesel is five times the size of the incentive to decarbonise. This means that early movers are being penalised by the impact on the IRR of decarbonisation investments.

This should be addressed as soon as possible. We support cap-and-reinvest' model proposed by Climate Energy Finance. Under this model, any rebate above a cap of \$50m per annum per consolidated entity is retained by the entity as conditional Investment Tax Incentive, however only if the funds are reinvested into diesel displacement. The cap would leave farmers, road transport operators, small and medium businesses, and sole traders completely unaffected.

Based on FY24 figures, this 'cap-and-reinvest' model would have mobilised \$2.2 billion for clean capital investment by FTC recipients in a single year. If introduced in FY26, over \$13.6bn could be mobilised into clean investment by FY30 – without impacting the federal budget.

1.4 Apply frameworks to achieve emissions targets at least cost and improve transparency

We broadly support this recommendation.

2.1 Reform national environment laws

The Smart Energy Council strongly supports the federal government's ambitions to reform the Environmental Protection and Biodiversity Conservation (EPBC) Act to expedite the approvals process for renewable energy projects. We support the measures proposed by the Productivity Commission.

We suggest that the Australian government may wish to consider specific arrangements for renewable energy projects, given their significance to the future of energy and our attempts to battle dangerous climate change. This could include, for example, the roll out of template adaptive management frameworks that would allow rapid approval of projects with confidence that a monitoring and compliance regime was in place that would continue to protect nature.

2.2 Set up a specialist 'strike team' for priority projects

We support this recommendation, although note that it is the impacts of nature that is important for the department to assess not the project itself. A wind farm in Western Australia will have very different impacts to one in Victoria. What is needed is expertise in the bio-region as well as understanding of the characteristics of wind farms. We suggest that the Commission hold further discussions with the department to explore whether there would be any actual benefit.

2.3 Establish a Coordinator-General for priority projects

The Smart Energy Council cautiously supports this recommendation but would like further detail of how it would function from the department. It would need to truly achieve the intention of making the process more efficient and not add extra costs or delays. A Coordinator-General with no decision-making authority potentially adds no additional efficiency to the process and merely acts as a messenger passing a concern through to the department or Minister. We suggest that the Commission hold further discussions with the department to explore whether there would be any actual benefit.

2.4 Consider the energy transition in approval decisions

The Smart Energy Council strongly supports this recommendation and encourages the Australian Government to consider this in the ongoing EPBC Act reform due before 2026. The Minister should be able to explicitly weigh this as a factor in his or her decision, including on evidential requirements.

Recommendations 3.1 to 3.4

We broadly support these recommendations, noting they fall outside our area of expertise.

Should you wish to discuss any of this submission further, please contact:

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Appendix A - Excerpt of the Smart Energy Council's submission to the CCA's Annual Progress Report 2025

6. *What changes could the Australian Government make to the mechanism to help achieve Australia's emissions reductions targets, considering for example:*

- ***coverage***

Expand coverage to include additional high-emitting facilities currently under the threshold, while avoiding loopholes for new entrants or facility expansions. As recommended by the Productivity Commission in their interim report "Investing in cheaper, cleaner energy and the net zero transformation" this should start from the premise of reducing the threshold from 100,000 tonnes to 25,000 tonnes of carbon dioxide equivalent per year.

Calculating the emissions produced by facilities under the Safeguard Mechanism is an area requiring development. The current theoretical method for emissions should be improved upon and made more scientific. A dedicated program should be established to define carbon and equivalent emissions from facilities with a higher degree of accuracy, with external audits undertaken

- ***baseline settings***

Move towards absolute facility-level baselines, with flexibility for sectoral ceilings. Current intensity-based approaches allow total emissions growth in key sectors.

- ***decline rates***

Accelerate decline rates to align with Australia's legislated 43% reduction by 2030, recognising the carbon budget constraints. WA industrial facilities in particular require sharper decline rates to displace fossil gas.

- ***flexibility mechanisms***

Introduce state-based pilots that integrate Safeguard obligations with industrial infrastructure investment, so that compliance can drive shared grid and transmission upgrades.

- **rules on ACCU use?**

There should be some tightening of ACCU's so that they are reserved for the hardest to abate sectors.

7. What additional incentives could help drive on-site emissions reductions?

- **Mandatory demand aggregation:** Require Safeguard facilities to contract renewable PPAs or equivalent offtake as proposed by the NEM review under long-term derivatives contracts, anchoring large-scale clean energy investment. In WA, this could unlock the 14 GW of renewables needed to displace industrial gas.
- **Infrastructure Credit Mechanism:** Establish new compliance units (e.g. **Safeguard Infrastructure Credits**) that reward facilities for co-investing in grid upgrades, renewable precincts, or hydrogen infrastructure.
- **Financial penalties with teeth:** Introduce a meaningful non-compliance levy and consider a floor price for Safeguard Mechanism Credits (SMCs) to provide certainty to investors and prevent “pay-to-delay” behaviours.
- **First-mover recognition:** Provide compliance credits or reduced liability for facilities that decarbonise faster than required, particularly those developing green iron, hydrogen, or precinct-scale solutions.

8. How can reporting on the Safeguard Mechanism be enhanced to build community confidence and enable better oversight?

- **Transparency:** Publish facility-level emissions, compliance choices (on-site abatement vs. offsets), and contribution to renewable offtake.
- **Audit standards:** Require independent verification of ACCU use and emissions reporting, addressing long-standing integrity concerns.

- **Infrastructure linkage:** Report on how Safeguard compliance is contributing to grid upgrades, renewable precincts, or hydrogen adoption, not just tonnes of CO₂-e reduced on paper.
- **Community dashboards:** Develop plain-English, publicly accessible dashboards showing each facility's performance against baselines, compliance strategy, and contribution to national emissions reduction targets.
This would significantly improve social licence and public confidence that the mechanism is driving real change rather than creative accounting.

9. How could the Authority improve its approach to assessing the performance of the Safeguard Mechanism? (For example, the approach to estimating emissions from new and expanding facilities.)

- **Beyond accounting:** Move beyond a narrow focus on emissions accounting to assess whether the mechanism is catalysing industrial transformation and infrastructure investment.
- **New and expanding facilities:** Apply rigorous, forward-looking baselines that assume best available technology (BAT) standards for new entrants, ensuring expansions do not lock in additional emissions.
- **Scenario modelling:** Incorporate economy-wide modelling of baseline tightening and offset limits to assess alignment with Australia's carbon budget.
- **Independent reviews:** Mandate regular, independent reviews of ACCU integrity, facility compliance pathways, and infrastructure impacts, with findings made public.
- **WA pilot integration:** Trial region-specific assessment methods that measure the Safeguard's role in displacing fossil gas and supporting grid-scale renewables.