Australian Government
Productivity Commission

Submitted via email: 5pillars@pc.gov.au

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5 Pillars Consultation – Interim Report

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the Productivity Commission's consultation on *Pillar 5: Investing in Cheaper, Cleaner Energy and the Net Zero Transformation – Interim Report* ('Interim Report').

The Australian Energy Council is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

Some transition technologies will need support

The AEC supports the overarching direction of the Interim Report to establish enduring, broad-based market settings in the electricity sector. The AEC and its members are hopeful the NEM Wholesale Market Settings Review will give effect to this direction, noting however, that some fuel types critical to the energy transition may not be valued through this review and will require government support – such as Long Duration Energy Storage (LDES) and gas firming.

- LDES - this technology has very long build times and high capital expenditure, which combined make it a difficult proposition for private capital to invest in alone. These factors mean that policy mechanisms for investment must be put in place now for such projects to be up and running in the next decade to support higher integration of renewables.
- Gas firming – despite AEMO's 2024 Integrated System Plan making it clear that gas firming is needed both as a backup fuel source to support renewable variability and to provide essential system services critical to grid security, there is currently no federal mechanism to support gas firming investment and the states only have a patchwork framework. Any new gas firming capacity is likely to take years to build due to equipment waitlists, environmental assessments, and other supply-chain constraints, which means unless action is taken now, there is a real risk it will not be ready in time to enable meeting the high renewable penetration scenarios that sit behind Australia's 2030 and likely 2035 emissions targets.

Support is also likely to be required in other areas of the energy sector, for example low carbon liquid fuels (LCLF). While the Commonwealth's Net Zero Plan is expected to reaffirm the government's commitment to electrification, it is not always technically, economically or logistically possible to electrify, especially in hard to abate sectors. Markets for other low carbon and clean energy alternatives are less developed than renewable generation and storage so are likely to require support to progress towards competition with conventional alternatives. A least cost transition requires a coordinated, coherent approach to decarbonising the whole energy sector.

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Greater attention should be given to the productivity of network build

The AEC considers the Productivity Commission should give greater attention to the productivity and affordability of network build options. AEMO's Electricity Network Options report highlighted cost blowouts for major transmission projects, which will flow into customer bills. TNSPs are also increasingly being given responsibility for essential system security services, which in practice will involve procuring expensive synchronous condensers. Separately, DNSPs are increasingly seeking to provide competitive services (such as community batteries and EV charging) via growing their regulatory asset base.

The AEC believes there is an opportunity for a comprehensive review of network-based incentives and regulations to support a least-cost energy transition, and that this inquiry could lay the groundwork for that. The Productivity Commission is well positioned to comment on and consider issues like:

- Incentives for least cost deployment and greater network utilization.
- Whether late delivery of projects should carry some risk to network companies.
- Role of networks vs competitive sector in the energy transition, especially in the delivery of essential system security services (e.g. the efficiency of synchronous condensers compared to market-based options).
- Measures to address the current capex bias.

Consistent national policies, signals and information sources enable a least cost transition

The AEC supports the adoption of a coordinated economy-wide approach to delivering net zero, supported by a consistent value of carbon for regulatory and policy reforms and access to high integrity Australian Carbon Credit Units (ACCUs) for hard to abate sectors.

The proposal to develop a national database on climate risks will also build consistent industry knowledge and complement the National Climate Risk Assessment. This is particularly important for improving the accuracy and robustness of corporate reporting of physical climate risks under Treasury's climate-related financial disclosure regime.

Streamlining environmental assessments is important, but more is not always the answer

The AEC supports the intent to reform national environment laws to expedite project approval. The report's recommendations are focused on building the capability of the federal arm of environmental assessment, which while supported in-principle, should be mindful of not inadvertently confusing decision-making responsibilities or centralising decision-making above the states.

In addition to greater resourcing, the other barrier project proponents face is unclear expectations and contradictory communication about what is expected in the planning processes. In this respect, state environmental regulators have an important role to play because they tend to be closer to key development projects and have local knowledge of the area (while more broadly, state governments are not going to relinquish their oversight of key economic development projects).

This means recommendations like that to set up a specialist "strike team" for priority projects (recommendation 2.2) need to ensure they improve coordination between federal and state environmental regulators, rather than just give more authority to federal departments. This might involve, for example, locating the strike teams in each jurisdiction, which is noted in the Interim Report: *Out-posting officers to state and territory offices can strengthen cooperation and build an understanding of each other's processes*.

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With respect to considering the "energy transition" in environmental approvals (recommendation 2.4), further detail is required about how it would work:

- What would be the reference point for determining the needs of the energy transition (e.g. AEMO's Integrated System Plan?)
- Would it capture technologies other than renewable generation (e.g. batteries and gas)?
- How would trade-offs be assessed between the energy transition and environmental impact?

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Yours sincerely,

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