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Barry Sterland and Martin Stokie
Commissioners
Productivity Commission
https://engage.pc.gov.au/surveys/secure_form/survey/make-your-submission

Dear Commissioners

Re: Interim report – Investing in cheaper, cleaner energy and the net zero transformation

Thank for the opportunity to provide feedback on the interim report on "Investing in cheaper, cleaner energy and the net zero transformation" as part of the Federal Government's productivity growth agenda.

We are conscious that the energy sector has been subject to considerable scrutiny and the pathway for transition to net zero remains uncertain. Given the volume of reviews and planning across state and federal levels, a consistent framework is essential to avoid conflicting recommendations that could delay investment and create market uncertainty. ATCO welcomes the principles-based approach adopted in the interim report.

Our feedback on the interim report highlights the need to:

- Support cost effectiveness assessments of emission reduction policies
- Adopt a whole of energy system approach and consider interactions between all energy sources to deliver safe, reliable, and affordable energy
- Ensure emission savings from Safeguard Mechanism threshold reductions justify the additional regulatory and reporting burden imposed on affected facilities.

Cost effectiveness assessments

ATCO supports the report's recommendation that all major emissions reduction policies be accompanied by cost-effectiveness assessments. The report's observation that only 3% of Australia's emissions come from residential and commercial gas use suggests limited benefit from targeting this sector. There has been a tendency for ideological views on gas use to drive policy change. Greater impact can be achieved by accelerating the phase-out of coal-fired power and developing pathways to decarbonise industrial processes. The current review of wholesale market settings, chaired by Dr Tim Nelson, is considering the reasons for delays in investment needed to support the closure of coal generation.

The introduction of renewable gases will assist in decarbonisation of the energy sector and reduce transition costs. Existing infrastructure and appliances can be adapted with minimal disruption, demonstrating cost savings and the feasibility of renewable gas solutions. Work undertaken by networks to assess potential cost pathways using a Renewable Gas Target has shown its value in contributing to abatement objectives while satisfying underlying energy demand from gas users.[1]

[1] Renewable Gas Target, delivering lower cost decarbonisation for gas customers and the Australian economy, February 2024, Acil Allen, https://apga.org.au/renewable-gas-target

Whole of energy system approach

The transition to net zero is an uncertain pathway and continuing to extract value from existing gas assets to provide customers with choice in their energy options will keep transition costs low. Customers will require the ongoing supply of natural gas in the short to medium term, transitioning to a cleaner option (once readily available) in the long term. The need for costly investment in new equipment may be negated if existing equipment can be repurposed during the energy transition and reliability maintained. ATCO has over 800,000 residents and businesses already connected to the gas network in WA, including $1.5B invested in pipeline infrastructure and interests in two gas fired power stations with combined available energy capacity of 266MW. The utilisation of existing gas infrastructure to meet demand for energy, could potentially avoid unnecessary investment in additional electricity generation, transmission and storage.

The use of gas needs to be considered in an integrated whole of system approach to deliver energy to end users and reflected in impact analysis estimates of emission reduction policies to direct investment of greatest carbon impact. Interactions between all energy sources can be utilised to balance outcomes across energy infrastructure to deliver efficiencies for the energy system. Finding ways to efficiently leverage existing gas infrastructure to create an integrated whole of energy system approach will help ensure consumers continue to receive a safe, reliable, affordable, and sustainable energy source in the net zero transition.

Safeguard Mechanism threshold reductions

Non-safeguard facilities are incentivised to reduce emissions through customer expectations, corporate commitments and potentially a desire to avoid regulatory pressures of the Safeguard Mechanism. Since 2022, ATCO itself has set global environmental, social and governance targets to be met by 2030.

Lowering the threshold from 100,000 to 25,000 tonnes per annum should be subject to cost effectiveness assessments, as suggested by the interim report for emission reduction policies, to ensure that the resulting emissions savings justify the additional regulatory and reporting burden imposed on affected facilities. ATCO supports the report’s recommendation for advance notice should the government consider this change post the 2026/27 review.

About ATCO

ATCO is a global integrated energy, housing, transportation, and infrastructure company and has been operating in Australia since 1961. Our Australian footprint includes the ownership and operation of Western Australia’s largest natural gas distribution network, power stations in Karratha, WA and Osborne, SA. We have a long history of partnering with communities and Indigenous groups, energising industries, and delivering customer-focused infrastructure solutions.

Should you have any queries or would like to discuss any of these issues further, please contact Kiran Ranbir, Manager Policy Advocacy on [redacted]

Yours sincerely

[redacted]

Hugh Smith
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