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Electricity and Energy Sector Plan Taskforce

Department of Climate Change, Energy, the Environment and Water



Submitted via email: EnergyandElectricitySectorPlan@dcceew.gov.au

Electricity and Energy Sector Plan– Discussion Paper

The Australian Financial Markets Association (AFMA) is pleased to respond to the Department of Climate Change, Energy, the Environment and Water’s (DCCEEW) Electricity and Energy Sector Plan.

AFMA is the leading financial markets industry association promoting efficiency, integrity and professionalism in Australia’s financial markets, including the capital, credit, derivatives, foreign exchange, energy, carbon, and other specialist markets. Our membership base is comprised of over 125 of Australia’s leading financial market participants, including many energy firms who are in scope entities, major participants in the energy market and some of the key investors in the energy transition.

Key Points

- **Current policy settings are leading to rapid decarbonisation of the energy sector.**
 - **This sector plan should look to coordinate existing policy activity.**
 - **Financial markets can be a key enabler of the net-zero transition that can maximise economic benefits and reduce costs to taxpayers and energy users.**
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1. Energy market decarbonisation

The energy sector not only remains vital to the Australian economy, creates jobs, and supports both households and businesses, but also has a central role to play in our transition to net zero.

Decarbonisation remains an active issue for the sector as it pursues a range of emissions reduction activities.

The energy sector is rapidly decarbonising under existing policy settings. In November, DCCEEW projected that of all sectors “the strongest emissions declines are projected in the electricity sector” between now and 2035.¹ Their projections noted that:

From 2023 to 2030, electricity emissions are projected to decline by nearly half (46%) due to the replacement of fossil fuel generation by renewables.

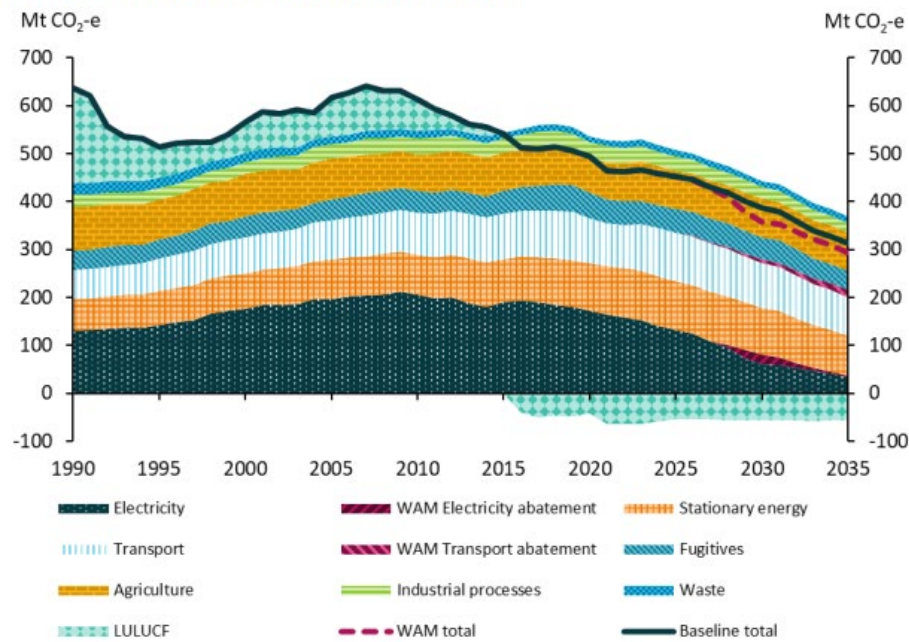
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[and] Between 2023 and 2035, electricity emissions in the baseline [scenario] decline by 85% in the National Electricity Market (NEM), and by 75% nationally,

They also note that under the Additional Measures Scenario, which includes currently contemplated but not yet implemented policy interventions, “electricity emissions decline by 87% in the NEM, and by 79% nationally.”

¹ [DCCEEW: Australia’s emissions projections 2023](#)

Figure 4 Australia's emissions projections in the baseline and the 'with additional measures' (WAM) scenario, 1990 to 2035, Mt CO₂-e



There are a number of meaningful reforms taking place across the sector which will collectively contribute to the path to net-zero, in particular;

- Safeguard Mechanism provides emissions reduction targets for the largest emitters.
- The Guarantee of Origin Scheme will certify renewable products, providing market transparency and integrity.
- The Capacity Investment Scheme will boost investment in renewable energy.
- There are a number of policy initiatives and investment schemes aiming to provide transmission infrastructure that is fit for our net-zero future.

Similarly, the following reviews are looking at what reforms are necessary to allow the energy sector to support the net-zero transition;

- The National Electricity Market 2030 review will appropriately evolve our wholesale electricity market design
- The Future Gas Strategy will address and plan for the role of gas during the transition.

AFMA considers the Electricity and Energy Sector Plan can perform a useful role coordinating the existing decarbonisation efforts. But wants to note that significant reform is already taking place and the plan should seek to compliment and coordinate the ongoing work, rather than add to it. AFMA views this plan as part of a suite of six sectoral decarbonisation plans that should be developed in conjunction and with consideration of each other given the collective target they aim to achieve.

AFMA Recommendations

- i. The Electricity and Energy Sector Plan should look to coordinate existing policy initiatives rather than develop new ones.

2. The importance of markets to the net-zero transition

Last year, the Climate Change Authority's Issues Paper identified markets as one of six enablers of a prosperous, resilient net-zero Australia.² AFMA regards financial markets as having the capability to support the transition by providing the necessary capital to build the next generation of assets and develop technologies; but also, to allocate that capital in the most efficient manner possible. Market mechanisms, such as the Renewable Energy Target, at both a state and federal level, have been successful in boosting investment and directing it to the most efficient projects and we think they will play an important role in the net-zero transition.

AFMA also wants to draw attention to the impact of the contracts market on the energy market and the net-zero transition. The traded volume of contracted energy significantly exceeds the volume in the underlying physical market and the contracts market is where long-term price discovery occurs and is the basis upon which investment decisions in new generation are made.

2. Role of gas in the transition

AEMO's 2024 Gas Statement of Opportunities report found that:

During Australia's transition to a net zero emissions future, gas will continue to be used by Australian households, businesses and industry, and support the reliability and security of the electricity sector. The 2024 GSOU continues to forecast risks of shortfalls on extreme peak demand days from 2025 and the potential for small seasonal supply gaps from 2026, predominantly in southern Australia, ahead of annual supply gaps that will require new sources of supply from 2028. Gas consumption by residential, commercial and industrial consumers is forecast to decline, but production in the south is forecast to decline faster.³

As AFMA expressed in its submission to the Future Gas Strategy,⁴ the role of gas in Australia and the region's net-zero transition is complicated as natural gas is both a major source of Australia's carbon emissions and a contributor to the decarbonisation of the electricity market in Australia and overseas, by providing flexible firming capacity to support the deployment of variable renewable energy generation, alongside other technologies such as long-duration energy storage. In this regard however, de-risking investment in gas-powered generation and LDES remains a key issue. Additionally, replacing natural gas as an input in a number of critical industrial processes is likely to be challenging.

AFMA considers that developing clear policies about the future role of gas in; the electricity sector, as a fuel source for residential and commercial users, an input for industrial processes and an export product will be critical to allow the market to make investment decisions and to allocate gas efficiently between users. In AFMA's view appropriate carbon and gas price signals markets will be the most efficient way to determine; where reducing gas usage is the lowest cost way to reduce emissions, which technologies are best suited to help reduce emissions and to ensure that gas is allocated to sectors where it is most needed and most difficult to replace. We therefore consider that the Future Gas Strategy is the most appropriate place to consider and address these issues.

AFMA Recommendations

² [Climate Change Authority: Setting, tracking and achieving Australia's emissions reduction targets](#)

³ [AEMO: 2024 Gas Statement of Opportunities](#)

⁴ [AFMA submission: Future Gas Strategy](#)

- ii. Gas will play an important role in the net-zero transition and the Future Gas Strategy is the appropriate mechanism to consider the role of gas.

3. Renewable gases

AFMA agrees that renewable gases will play an important role in the energy transition and supports market-based schemes to facilitate the roll out of renewable gases to consumers who value it. But we are concerned that currently renewable gas policy is fragmented without consistent national standards for hydrogen and other renewable gases. As a result, jurisdictions are looking to introduce their own schemes with potentially conflicting standards, which we consider is likely to limit the development of renewable gases and increase costs for consumers.

As part of this plan, AFMA thinks there is an important role for DCCEEW to lead coordination of renewable gas policy across Australia to safeguard investment and ensure schemes' intended contribution to the emissions reduction of the sector. Paramount to this, AFMA would urge DCCEEW to implement prioritise developing national certifications for hydrogen and other renewable gases under the GO scheme.

AFMA Recommendations

- iii. DCCEEW should look to coordinate existing renewable fuels policy development.
- iv. GO scheme certification for hydrogen and other renewable fuels should be expedited.

AFMA would welcome the opportunity to discuss this submission further and would be pleased to provide further information or clarity as required. Please contact me via myoung@afma.com.au or 02 9776 7917.

Yours sincerely,



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