

Australian Sustainable Finance Institute

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Submission to Australian Sustainable Finance Taxonomy V0.1 – Consultation paper

The Australian Energy Council welcomes the opportunity to make a submission to the Australian Sustainable Finance institute's ('ASFI'), Australian Sustainable Finance Taxonomy V0.1 – Consultation paper (Consultation Paper).

The Australian Energy Council (AEC) 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.

Chapter 4 Section C

Do you agree with the proposal to provide the market with system-level advice for energy utilities or portfolios of assets that contain gas firming facilities? If so, please provide feedback on what issues should be covered in the advice. If not, please elaborate.¹

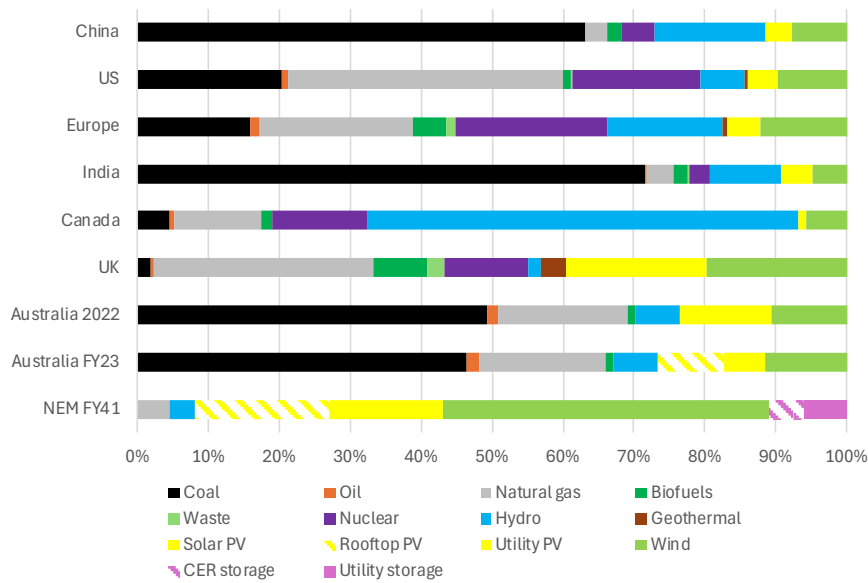
The AEC has highlighted [previously](#) that Australia has unique domestic conditions with respect to electricity, and will require a decarbonisation transition that will be different to other major economies.

Unlike other continents, Australia has lower levels of hydropower generation and does not have nuclear power generation (which is currently illegal in every jurisdiction). Approximately six per cent of Australia's electricity is supplied from hydro generation - which itself will face future inflow risks because of climate change. However, hydropower's future value will likely be through its provision of flexible capacity and firming services and less as a source of bulk or baseload energy generation. This is why many Australian hydropower operators and developers are focussing on pumped-hydro opportunities or on increasing the flexibility and capacity of existing hydropower assets.

Figure 1 illustrates how Australia compares with other significant countries and the European Union. Australia's generation by fuel is shown for 2022, FY2023 and AEMO's forecast for the National Electricity Market in its Draft 2024 Integrated System Plan. The other countries are either 2021 or 2022. As can be seen, Australia is most comparable with India and China due to its heavy reliance on coal. The major point of difference with the other countries, is Australia's lack of nuclear in its mix and the relatively small contribution from hydro.

¹ Consultation paper, p.25.

Figure 1: Electricity generation by fuel type.



Sources: IEA, AEMO Draft 2024 ISP and energy.gov.au. Note “other”, tidal and solar thermal have been excluded from the IEA data as they are trivial. For NEM FY41 gas includes gas-powered generation as well as *potential* hydrogen and biomass capacity.

The Consultation paper acknowledges the role of GPG in firming Australia’s electricity system as it transitions to increasingly high levels of variable renewable energy (VRE) and coal plant retires. However, it then classifies GPG in the “phase out” category. This seems to go against the intent to consider Australia’s context, with the Australian Energy Market Operator (AEMO) outlining a clear firming role for GPG through the energy transition. The 2024 Integrated System Plan says Australia’s electricity system is “forecast to need 15 GW of gas-powered generation to ensure the NEM remains resilient under a range of power system and extreme weather events”.

Furthermore, the Consultation paper does not suggest any other firming options, other than “alternative firming technologies such as batteries are scaled up.” This ignores a characteristic of GPG for firming, it is a non-weather dependent electricity source that is largely energy unlimited. This is critical for ensuring a reliable electricity system that can withstand extended VRE droughts (ie, low solar irradiation and minimal wind).

While there are different views on the amount of GPG needed, the firming role for GPG is well-understood within the energy market and both Federal and State Governments have envisaged such a role in their respective future energy planning (see, for example, the Future Gas Strategy and QLD Energy Roadmap). It is doubtful then that classifying GPG in the transitional category would create confusion or uncertainty for investors, as seems to be suggested. To the contrary, its exclusion and subsequent inconsistency with all authoritative Australian energy modelling planning has confused stakeholders.

Nonetheless, if ASFI does maintain that gas-firming must be treated separately, then the AEC would support taking system-level advice as the second-best approach. Consideration should be given to how the investment aligns with government or market planning, ability of new gas firming to displace higher emitting electricity (i.e. coal) and/or allow more renewables to come online, and efforts taken to abate the emissions from GPG (e.g. hydrogen blending).

While the taxonomy might be voluntary in the initial phase, there is an intent to consider how to embed into the regulatory framework in future. Any decision made then will have consequences for investment in the energy sector. The AEC encourages ASFI to ensure there are future opportunities for industry to provide input into the guidance once it is more developed.

Questions can be addressed by email to peter.brook@energycouncil.com.au or by telephone on (03) 9205 3103 or email to rhys.thomas@energycouncil.com.au.

Yours sincerely,

Peter Brook
Wholesale Policy Manager
Australian Energy Council

Rhys Thomas
Sustainability Policy Manager
Australian Energy Council