Climate Change Authority

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2026 Annual Progress Advice Consultation Paper

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the Climate Change Authority's ('CCA') consultation on its *2026 Annual Progress Advice*.

The Australian Energy Council is the peak body for energy retailers and generators operating in competitive markets. Our members generate and sell energy to over 10 million homes and businesses and are committed to delivering a reliable, affordable and decarbonised energy system for consumers. The AEC supports net zero by 2050 and recognises the electricity sector's role in reducing Australia's emissions. Our members are major investors in renewables, firming and storage technologies that are critical to ensuring customers continue to receive reliable and sustainable energy supply as we navigate the energy transition.

As the AEC noted in its submission to the Evidence Platform, Australia's economy-wide emissions targets and policies should be the primary focus of the CCA's advice. The Commonwealth's emissions policies establish an economy-wide framework for all sectors to contribute to as this is more efficient than having fragmented sector-specific targets.

The AEC appreciates that the CCA has sought to caveat its advice with clarifications that it is not suggesting that sector-specific targets be introduced. The Consultation Paper rightly spells out that, in considering the introduction of the proposed Reference Pathways, it is important to recognise decarbonisation will not be linear.

Notwithstanding these caveats, the AEC has concerns that these pathways may lead to deviation from the established economy-wide foundation of Australia's emissions policies. Instead of trying to determine where abatement should occur, the CCA's advice should remain neutral and allow markets signals to price discover where abatement is cheapest.

These issues are discussed further below, drawing on the electricity sector's experience with reference targets evolving to policy mandates and impacting the broader policy and regulatory environment in the context of the 82 per cent renewable electricity target.

Consistent with supporting market-based signals, the "potential adjustments" to the Safeguard Mechanism reforms should avoid picking where abatement occurs. Allowing captured facilities, operating within the intended design features of the scheme, to identify abatement opportunities will lead to lower cost emissions reductions overall.

CCA proposal for Reference Pathways

Reference Pathways may inadvertently become proxy targets

The evolution of the "82 percent renewable electricity" framing provides useful insights into the risks of proposing non-binding pathways and targets. As chronicled here, the origins of 82 per cent was as an output of an economic modelling exercise the Federal Government commissioned on its Rewiring the Nation transmission policy. It was intended to show what would happen if the Federal Government's policy was successfully implemented, not set the objectives for policy.

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Despite this, over time it has evolved to become a national target that underpins the work of the three energy market bodies, including the optimal development pathway for planning in the National Electricity Market (NEM) via AEMO's Integrated System Plan (ISP). While it can be said this created ambition, this seemingly occurred without robust evidence that it represents the lowest-cost abatement path.

The AEC cautions there may be a similar risk associated with the CCA's proposed Reference Pathways that could potentially lock in sector-specific metrics or unofficial targets regardless of the caveats attached to the associated advice. This is especially the case for the electricity sector Reference Pathway where the absence of any range suggests its end state of 20 Mt CO2-e in 2035 is invariable.

To ensure the pathways support an economy-wide framework, the CCA should consider establishing metrics to track carbon values and indicate where the lowest marginal cost of abatement is. This would help mitigate any risk that the CCA's advice is misrepresented in such a way that it is not aligned with a least-cost, economy-wide decarbonisation approach.

It may be more appropriate to consolidate existing pathways

There are already several pathways implied through Australia's Nationally Determined Contribution (NDC), the Commonwealth's Net Zero Plan, Treasury modelling, and previous CCA advice in conjunction with the CSIRO. Rather than introduce another series of pathways it may be more appropriate to consider how the existing pathways can be better aligned and key metrics or milestones identified.

In this context it is worth considering the advice from the Productivity Commission and NEM Review Expert Panel regarding the need to better align and coordinate planning documents across the energy sector. The most prominent roadmap in the electricity sector is AEMO's ISP which identifies optimal development decarbonisation pathways for generation, storage and network investments to meet net-zero by 2050. Sitting behind the ISP are many other roadmaps across state and commonwealth agencies, as well as technical analysis (such as AEMO's Electricity Statement of Opportunities) focused on delivering the different priorities under the National Energy Objective.

The CCA should consider how it can add value to the existing analysis and data across climate and energy policy frameworks. It will be important to differentiate between projected optimal outcomes (like the ISP) and projections of expected outcomes to ensure commentary focuses on where there may be gaps, and policy solutions to address them.

One way to help consolidate these pathways is to clarify the economy-wide cost to abate curve or carbon value underpinning the different pathways and activities, as well as inform understanding of where further abatement activities may be most efficient. The Productivity Commission illustrated how Target-Consistent Carbon Values (TCCV) can influence policymaking in its Five Pillars report last year.

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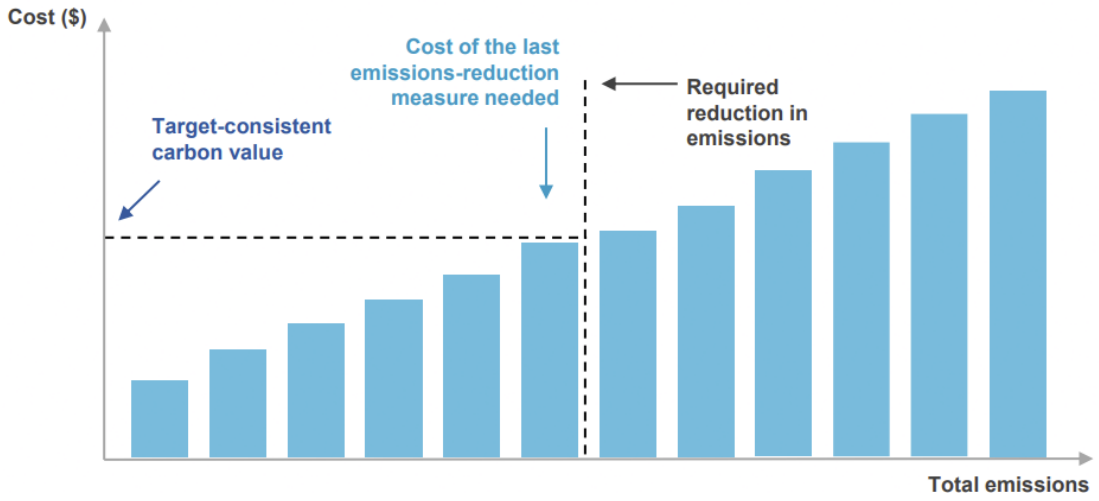
Figure 1: Hypothetical intersection of an emissions target and a marginal abatement cost curve



Source: Productivity Commission, Investing in cheaper, cleaner energy and the net zero transformation, p31.

There may also be value in consolidating certificate schemes

Given the CCA's unique role as advisor on emissions policy, it is well placed to identify opportunities to harmonise the growing number of energy-related certificate programs. For example, in addition to the home and appliance energy rating schemes overseen by the Commonwealth, most states have separate schemes for promoting energy performance through greater efficiency, fuel-switching (particularly electrification) and demand flexibility. The AEC commissioned research last year which estimated the abatement costs of these schemes, illustrated in the table below.

Figure 2: Indicate abatement costs of energy efficiency RCSs

Scheme	Cost $/MWh	tCO2e avoided	Cost $/CO2e
ACT EEIS	23.97	0.61	39.30
NSW ESS	14.00	0.61	22.95
South Australia REPS	49.86	0.237	210.38
LGC	46.23	Varies	
SRES	40	Varies	
South Australia REPS (gas)	13.85 ($/GJ)	0.5153	26.88
Victoria	57.87 (implied)[23]	1	108.50

Source: Newgrange Consulting, Stocktake of Certificate Schemes, p20.

While acknowledging the policy intentions of these schemes, a harmonised, technology-neutral policy approach across jurisdictions would improve the coordination and efficacy of meeting them.

For example, while NSW has progressed legislation to commence its Renewable Fuel Scheme to support the development of hydrogen and methane, Victoria has delayed its jurisdiction specific initiative to await the outcomes of collaboration with other energy ministers through the ECMC.

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However, despite committing to developing a national renewable gas policy in March 2025, the only publicly available information is the August 2025 ECMC Communique which stated that Ministers have endorsed "options for a National Renewable Gas policy".

The CCA could advocate for this policy solution to be progressed through public consultation as renewable fuels are an important part of decarbonising hard-to-abate industries, some of which are captured under the Safeguard Mechanism.

Decarbonisation pathways cannot be considered in isolation from other policy priorities

Decarbonisation is an important part of the energy transition, but it cannot be pursued at the expense of electricity reliability, security or affordability. The NEM Review recommendations clearly outlined the critical need to consider the efficient mix of services required to transition the grid, as well as the risks of pursuing one service in isolation of the others. AEMO repeatedly reports the need to direct gas generation to support system security and reliability (for example, in Q2 2026 gas generation was dispatched to provide voltage support in almost 50 per cent dispatch intervals).

Looking forward, AEMO's ISP identifies 17 GW of flexible gas capacity is needed to support reliable, secure and least-cost system operation in a high renewables grid. If the CCA does proceed with its Reference Pathways, it should consider what type of technology mix is supporting the end state of 20 Mt CO2-e in 2035.

For comparison, DCCEEW's 2025 Emissions Projections forecast electricity emissions to be 46 Mt CO2-e in 2035, which includes 8 GW of coal capacity and 22 GW of gas capacity remaining across all grid-connected electricity systems. It is important that the CCA's advice is not developed in isolation of these other policy priorities and any recommended policy or regulatory reforms support coherent and coordinated policy frameworks across governments.

Figure 3: Installed capacity by technology in Australia, GW

Technology	2020	2025	2030	2035	2040
Coal	25	22	13	8	5
Gas	19	22	22	22	24
Hydro	6	6	7	7	7
Wind	7	14	37	44	50
Large-scale solar	3	11	35	43	45
Rooftop PV	12	26	42	56	69
Other	4	5	5	5	5
Pumped hydro	2	2	3	5	5
Battery storage	<1	5	34	41	49
Total electricity sector	**78**	**114**	**199**	**232**	**259**

Note: totals may not sum due to rounding.

Source: DCCEEW, 2025 Emissions Projections, p43.

CCA proposal for Safeguard Mechanism reforms

As mentioned above, the AEC prefers a policy framework that enables all greenhouse gas emissions, activities and sectors under the Safeguard Mechanism to be treated consistently. This includes retaining access to offsets for flexibility and to help smooth costs while abatement

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technology scales. A consistent framework is more likely to encourage lower cost abatement and give industry the certainty it needs to invest in decarbonisation technologies.

Facilities should not be treated differently

The Consultation Paper seeks views on whether to "apply steeper decline rates to coal and gas sectors". The AEC does not support this proposal:

- Singling out specific facilities is contrary to the design of the Safeguard Mechanism which is to encourage facilities to price discover lowest-cost abatement based on similar rules, as well as the Productivity Commission's advice for a standardised technology-neutral market-based approach.
- If certain facilities are to be treated differently, there should be stronger reasons for why they are singled out beyond a facility having stationary source/s which are considered an administratively easy target.
- At present, the availability of commercially or technologically mature technologies to meet steeper decline rates is extremely limited.
- In the absence of feasible technologies, steeper decline would increase reliance on offsets, impacting offset availability and prices to other facilities.
- Coal and gas generation continues to play a critical role in maintaining system security in the NEM. Gas also remains a vital direct input to many industrial processes which underpin the Australian economy. Steeper decline rates could impact the cost and availability of coal and gas for generation facilities and place further cost pressures on large loads like manufacturing.

Offsets are important while abatement technologies scale and mature

The Consultation Paper seeks views on multiple adjustments to compel Safeguard facilities to pursue onsite abatement over using offsets. While onsite abatement is the preferred end state for many Safeguard facilities, it was understood during the scheme's redesign that it would be a non-linear process as many industrial decarbonisation projects require major capital investment with long lead times.

Commonwealth emissions policy also clearly identifies that it is targeting net zero emissions (not absolute zero) recognising that in 2050 there will still be activities and sectors without technology available or commercial to fully abate their activities. Offsets have played the expected and intended role of providing these facilities with flexibility in how they meet their baselines as decarbonisation projects mature.

The AEC therefore supports retaining access to offsets, further noting:

- Industries need time, and regulatory certainty to plan, secure project approvals and financing to implement improvements that require plant changes. Changing the rules again within a short timeframe creates unnecessary uncertainty.
- There is significant administrative complexity in trying to ascribe something as onsite abatement. For example, knowing the amount of scope 2 energy consumed to then understand how much of the abatement is attributable to fuel switching compared to improvements in the carbon efficiency of the activity. Qualitative information about production and supply challenges or measures being planned or implemented to directly abate emissions on site should not be overlooked as this can often provide the most meaningful insights into key drivers of emissions abatement.

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Electricity should not be included in the Safeguard Mechanism

While acknowledging that the Consultation Paper states scheme coverage is out of scope, any potential adjustments to the scheme are ultimately influenced by determinations of coverage. Given there has been some recent commentary about whether to include electricity in the Safeguard Mechanism, the AEC has sought to set out why this is a flawed idea. The reasons for this mostly relate to the legal peculiarities and essential service components of the electricity system.

In terms of legal architecture, the absence of electricity being mentioned in the Commonwealth Constitution means it is a de-facto state responsibility. On that front, Victoria and New South Wales have entered bilateral arrangements to extend coal-fired generation, while in Queensland the continued operation of coal capacity is an explicit state government policy position.

These agreements reflect the reality that coal-fired generators can only close once state governments, and AEMO, are confident reliability and system security will not be compromised. In the case of reliability, this means building sufficient new renewable generation and storage to replace coal's output. While economic incentives are one part of this, there are currently many supply-side constraints including regulatory uncertainty, environmental planning and social licence slowing down renewable deployment. Adding electricity into the Safeguard will not resolve these constraints but it will increase the costs of running the current generation mix in the meantime.

In terms of scheme design, placing individual baselines on electricity generators is unsuited for a sector where generation output is centrally coordinated by a market operator, AEMO, to meet 24/7 demand and system security needs in real time. This could result in a range of perversities if high-emitting power stations are directed to stay on for system security but in doing so, they risk breaching Safeguard baselines.

The AEC and its members would welcome the opportunity to further engage with the Climate Change Authority as it develops its Annual Progress Advice.

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