

Australian Government
Department of Climate Change, Energy, Environment and Water
Liquid Fuel Transition Team

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Securing Australia's Cleaner Fuels Industry: Consultation paper on a demand mechanism

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the Department of Climate Change, Energy, Environment and Water's (the 'Department' or 'DCCEEW') consultation on a *Low Carbon Liquid Fuels (LCLF) Demand Mechanism*.

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.

The Net Zero Plan "CLEAN" priorities encourage electrification and efficiency improvements where possible and the expansion of clean fuel use in the alternative. As a result, low carbon liquid fuels (LCLF) are expected to play a narrow but important role in Australia's energy transition by decarbonising hard-to-abate sectors. These sectors, which mostly cover heavy industry and heavy transport operations, face commercial and / or technological barriers to electrification and therefore value low emissions alternatives to support onsite abatement where possible and reduce their reliance on offsets.

Current reforms, like the ECMC's implementation of the NEM Wholesale Market Settings Review, are designed to improve the reliable supply and delivery of electricity to meet increase forecasted demand from things like electrification. These reforms build on decades of policies to bolster electricity infrastructure to enable the decarbonisation of electricity grids.

It is now appropriate to consider complementary policies to accelerate the development of nascent technologies, markets and regulations to ensure LCLF is also well placed to meet expected future demand. The creation of a demand mechanism is a constructive policy step to realise the long-term maturity of LCLFs.

The Department should seek to maintain as broad production incentives as possible to reward fuels that can demonstrate a high-value use case. Where possible, policy mechanisms should be technology neutral. The LCLF industry is still very nascent and restricting which fuels can participate will inhibit innovation and the dynamic efficiency of alternative products.

It is also important to recognise that there are fuel options (such as bioLPG) that can be co-processed or a by-product of LCLF production if the industry has appropriate incentives to optimise outputs from each batch. While mandates are not appropriate for these fuels, it may still be helpful to consider certification of these fuels and / or a reduction in broader compliance obligations consistent with the NSW Renewable Fuel Scheme's approach.

The Department should align the design of the demand mechanism with the Net Zero Plan and supporting sector plans. For example, the transport sector plan expects most light vehicles to be electrified, which could reduce the value of including petrol under this scheme. At the same time, the Net Zero Plan and Treasury's [modelling](#) of the least cost economy-wide pathway to net-zero both signal a critical need to accelerate abatement opportunities for other sub-sectors, such as long-haul and aviation, to ensure all industries contribute to net-zero. The policy design should consider how the demand mechanism can be effectively implemented in this context.

It is appropriate for the Clean Energy Regulator (CER) to administer the LCLF scheme, enabling greater alignment and coordination with the other schemes under its oversight, such as NGERS and the Safeguard Mechanism. However, the AEC would not support adopting Product Guarantee of Origin (PGO) certificates under the Guarantee of Origin scheme given the challenges it will bring to these nascent industries, such as prohibitive administrative burden and the inability to trade the certificate separately from the commodity.

Finally, the Department should seek to harmonise and simplify the regulatory architecture around Australia's renewable fuel policy. The Department should continue to work with state jurisdictions, especially New South Wales which is currently considering whether to evolve its Renewable Fuels Scheme to include low carbon liquid fuels, to encourage use of a single national scheme. States could continue to provide policy support through other means like competitive grants or innovation funds.

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Yours sincerely,

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