

Australian Government
Department of Climate Change, Energy, Environment and Water
Safeguard Mechanism Taskforce

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2026-27 Safeguard Mechanism Review

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 the *2026-27 Safeguard Mechanism Review*.

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 Safeguard Mechanism Review is a good opportunity to ensure the scheme is appropriately calibrated to support Australia's emissions reduction targets. The reforms in 2023 established an enduring framework designed to make sure Australia's largest industrial emitters have long-term incentives to decarbonise their facilities.

The reforms recognised that industry undertaking structural decarbonisation requires large capital investment that has long lead times. It appropriately allowed offset use, among other flexibility mechanisms, so captured facilities can smoothly manage their baseline declines. The Safeguard's in-built flexibility mechanisms are a deliberate design feature to enable price discovery: rather than policymaker prescription, the scheme allows captured facilities to identify where abatement is most cost-efficient.

At the time of these reforms, the Department retained the sectoral baseline for the National Electricity Market (NEM) and other electricity grids due to existing policies already driving decarbonisation.¹ The AEC supports retaining a sectoral baseline approach as it is central for maintaining an orderly electricity transition.

Since the 2023 Safeguard Mechanism reforms, the electricity policy framework has continued to evolve and last year the sector undertook its National Electricity Market Wholesale Market Settings Review ("NEM Review"). This Review convened an Expert Panel to prepare recommendations to create a long-term investment architecture for firmed renewable generation and storage capacity.

The Expert Panel extensively engaged with industry, energy market bodies, and other key stakeholders throughout 2025. Its primary recommendation, to establish the Electricity Services Entry Mechanism ("ESEM"), is now in the design and implementation phase, with the Exposure Draft out for consultation.

¹ There are [five](#) grid-connected electricity generators. Off-grid generation is managed at the facility level via the Safeguard Mechanism where the emissions threshold has been exceeded.

While long-term policy settings like the Safeguard Mechanism and ESEM take time to materialise, they are critical to delivering Australia's net-zero transition at least cost. Stable and durable policy frameworks are needed for investors and industry to have confidence when making long-term capital investment decisions in abatement technologies and enabling infrastructure.

Safeguard proposals floated by some stakeholders to adjust the grid-connected electricity sectoral baseline or introduce a coal closure proposal do not consider the essential system-wide services of maintaining reliable and secure electricity supply.

While the intent of these proposals is to improve certainty around coal exit timeframes, inclusion of these assets in the Safeguard misunderstands the physical risks of thermal generation exiting before replacement capacity and/or system security requirements have been sufficiently addressed. In these circumstances, thermal assets could not be retired from the system without significant reliability impacts and inclusion in the Safeguard would merely result in higher prices without achieving the desired emissions reductions.

The optimal approach for addressing the timely exit of thermal generation is multi-faceted, addressing both the physical and financial pre-conditions required to successfully transition. The elements of an orderly transition are contained in the AEC's [Energy 2050](#) vision and involve:

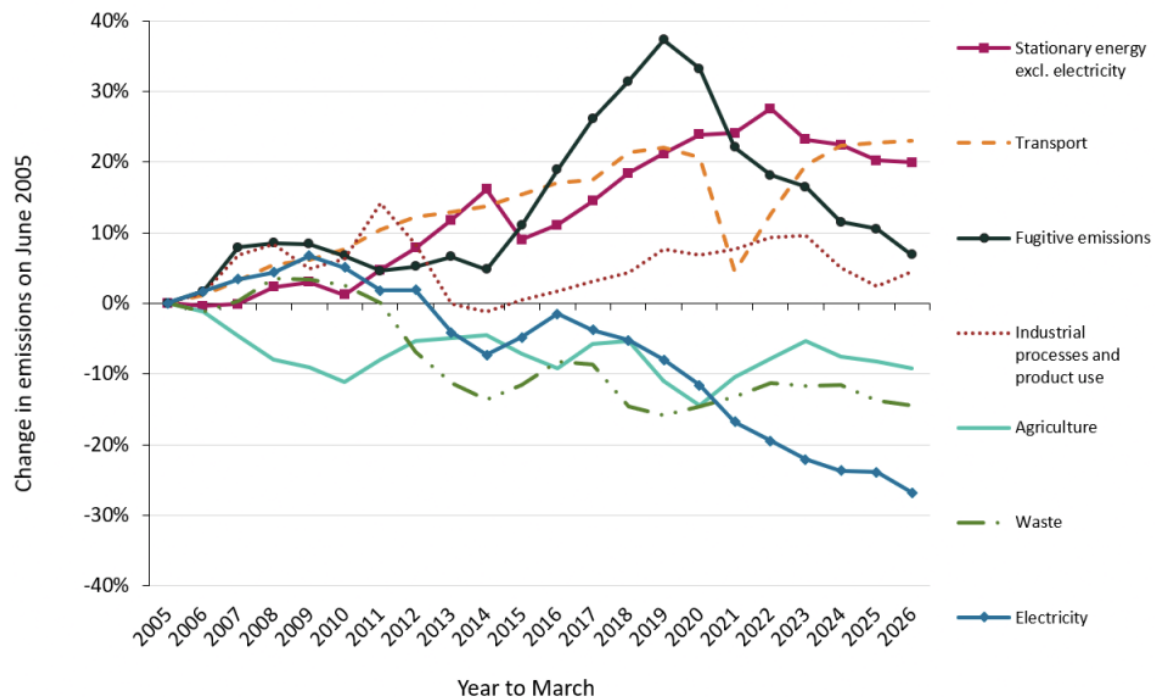
- Encourage renewable investment through predictable and durable market signals – as is being progressed through implementation of the NEM Review's recommendations.
- Competitive procurement of system security – the AEC is proactively leading work in this space and has [submitted](#) rule changes to the AEMC, which are now in progress, to resolve the essential system services challenges needed for orderly coal closures.
- Supporting reliable gas supply – continued progression of the domestic gas reservation scheme and implementing policies to commercially mature renewable fuels and gases. AEC members are also leading efforts to drive electrification so gas can be used only where it is most needed.
- Unlocking the value of Consumer Energy Resources (CER) – AEC retailers are bringing in new products and services to enable customers to maximise the value from their CER technologies, such as solar and batteries, and decarbonise their electricity use in the process.

The electricity sector is helping Safeguard facilities decarbonise

The Consultation Paper asks whether there are important areas outside the Safeguard Mechanism that may be impacting on-site abatement. Grid-connected electricity generation should be considered in this context as it is enabling electrification to structurally reduce on-site emissions (Scope 1) for facilities covered by the Safeguard Mechanism.

The electricity sector is currently doing most of the heavy lifting to push Australia towards its interim emissions reduction targets. Since the baseline year of 2005, the electricity sector has steadily reduced its emissions. The sustained downward trajectory of electricity emissions compared to all other sectors is represented in Figure 1 below.

Figure 1: Percentage change in emissions, by sector, since June 2005 (excluding LULUCF)

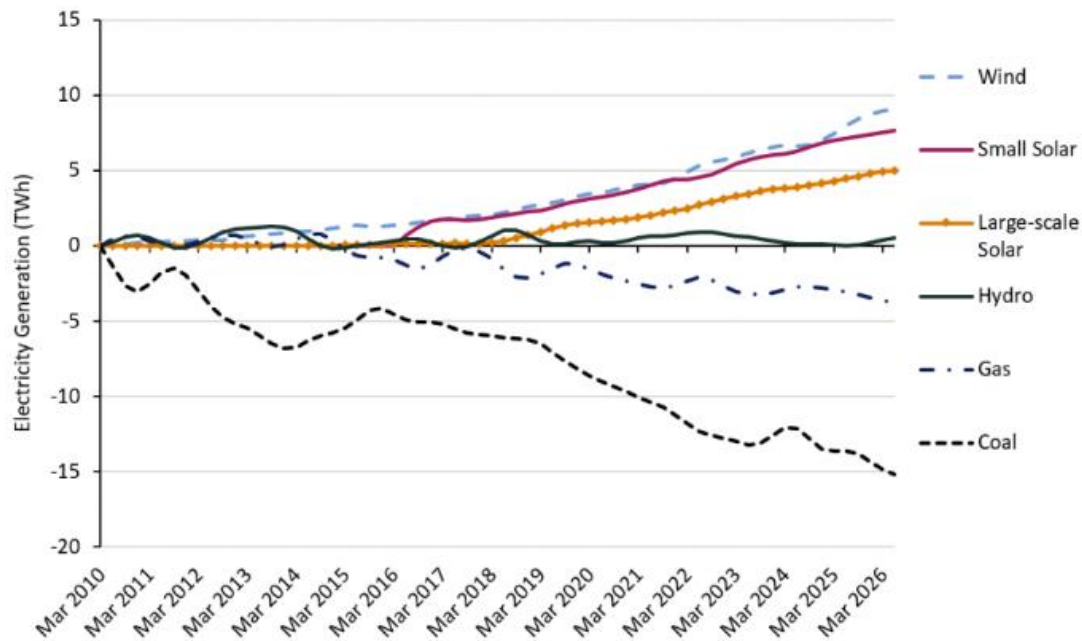


Source: DCCEEW, [National Greenhouse Gas Inventory Quarterly Update: March 2026](#), p12.

The decline in electricity sector emissions represents a structural change in the technology mix rather than mere fluctuations in production. More renewable energy is entering the system every year and now supplies nearly 45 per cent of generation in the NEM and continues to set new seasonal records.² Figure 2 below encapsulates the structural shift in Australia's electricity technology mix as coal-fired generation retires and is replaced by renewable generation firmed with storage and backed by gas.

Figure 2: Cumulative change in electricity generation in the NEM, trend, by fuel, by quarter since 2010

² Clean Energy Regulator, '[Renewable Energy Target: Administrative Report](#)', June 2026; AEMO, '[Quarterly Energy Dynamics Q2 2026](#)', July 2026.



Source: DCCEEW, [National Greenhouse Gas Inventory Quarterly Update: March 2026](#), p16.

Federal and state governments have policy mechanisms in place to continue driving renewables deployment in pursuit of interim targets, while the recently completed NEM Wholesale Market Settings Review has developed recommendations to provide a long-term investment architecture for firmed renewable generation and storage capacity.

Its core recommendation, to establish the Electricity Services Entry Mechanism (ESEM), is currently being progressed through the Department and Energy and Climate Change Ministerial Council (ECMC). It is intended for implementation in late 2027, following the winding down of the Capacity Investment Scheme (CIS), and has industry support.

Supplementary policies are in force to unlock supply-chain barriers slowing down renewable uptake. The Federal Government has now developed its Developer Rating Scheme, to ensure renewables are built with social licence, while the reformed Environment Protection and Biodiversity Conservation Act will help streamline planning approvals. Reforms to streamline planning and environmental approvals should also benefit Safeguard facilities seeking to undertake on-site abatement.

Simultaneously the energy market bodies are progressing policy options to improve procurement and delivery of essential system security services. This work is critical to enabling orderly coal closure. AEMO's [Transition Plan for System Security](#) has stated that "timely investments [in system security services] are needed to decouple reliance on coal generators for system security – enabling the next phase of the energy transition".³

As the Safeguard Mechanism only prices emissions, it is not designed or able to manage and resolve the essential system-wide services of electricity reliability and system security. Grid-connected electricity generators provide a centrally coordinated essential service where dispatch decisions are ultimately driven by system reliability and security requirements. These generators cannot simply reduce output to manage facility-level emissions liabilities if doing so would compromise system reliability or security. Proposals from some stakeholders for coal-

³ AEMO, '[Transition Plan for System Security](#)', December 2025, p6.

fired generators to face facility-specific Safeguard obligations based on announced closure dates are therefore not practical, could impact energy system reliability and security performance, and would increase electricity costs for little benefit.

It is expected many industries will pursue electrification as the least-cost commercial pathway to decarbonise their operations. For those facilities where electrification is viable or soon will be, electrification has a dual emissions reduction benefit. Firstly, even at current emissions intensity levels, electrification produces less emissions compared to other carbon gases or fuels. This is [because](#) of better energy efficiency conversion for heating compared to gas. Secondly, by electrifying, these facilities are then in lockstep with the fast decarbonisation trajectory of the electricity sector, reducing reliance on new or unproven abatement technologies.

Finally, the Commonwealth and energy market bodies are seeking to improve the delivery and cost of network infrastructure, as well as the efficiency with which networks connect new participants and operate. Progression of these reforms is important to ensure new generation and storage is delivered in a timely manner, but also to enable residential and low-heat industrial facilities to more easily electrify.

Access to domestic offsets complements electrification

While electrification is a key enabler of onsite abatement, this technology option is not viable for some hard-to-abate sectors, and for those facilities that can, there are still lead times to invest in and build or procure enabling infrastructure. Low emissions alternatives, such as renewable gases and low-carbon liquid fuels (LCLF), have policy frameworks being developed to support their commercial maturity but are otherwise not ready to be deployed at scale.

It was understood during the scheme's redesign that onsite abatement would be a non-linear process as many industrial decarbonisation projects require major capital investment with long lead times. For example, the Department's [Position Paper](#) stated that it wants to ensure "long term policy settings are efficient" so facilities have "sufficient time to plan and implement emissions reduction projects".⁴ Consequently the 2023 reforms focused on reinforcing a technology-neutral, market-based approach that supported trading between facilities and unrestricted access to the ACCU market.

There are better policy options to incentivise onsite abatement, especially through electrification, over limiting the use of domestic offsets. These approaches would avoid undermining a fundamental tenet of Australian emissions policies: once standardised to CO₂-e, a tonne is a tonne regardless of which greenhouse gas activity or sector it relates to. Offset restrictions invite various scheme challenges:

- They would represent a fundamental reform to the scheme's design.
- A sudden change to the rules creates uncertainty. Industries need time, and regulatory certainty to plan, secure project approvals and financing to implement improvements that require plant changes.
- The short-term effect is likely to increase compliance costs for most facilities with no commensurable benefit where technology uptake is still not a near-term prospect. Impacts to offset availability and prices would result in ongoing costs to hard-to-abate sectors.
- Options like discounting could create unfair perception issues about the integrity of offsets.

⁴ DCCEE, '[Safeguard Mechanism Reforms: Position Paper](#)', January 2023, p2.

With respect to the Climate Change Authority's (CCA) proposal for carbon abatement plans, there are already transparency and disclosure measures in place. Specific to the Safeguard, firms must provide a report if more than 30 per cent of their emissions are offset through ACCUs. More broadly, Treasury's climate-related financial disclosure regime is requiring reporting entities to publish their decarbonisation strategies and how it is integrated across business operations. Introducing further reporting without giving time for these new frameworks to mature would likely introduce undue costs and administrative burden for no material benefit.

Effort should be focused on refining the post-2030 settings

The benefits of changing the current arrangements are unclear given the Department's findings that the reforms are delivering on the legislated objectives and are projected to do so till 2030. The hybrid value approach recognises that the Safeguard Mechanism uses a single production variable to represent activities with very different emission profiles (e.g. open cut vs underground mining).

Coal mining represents about a third of Safeguard Mechanism facilities and a quarter of total emissions. Presently most coal mines, especially open cut mining, have no economically viable or technically feasible options for abating emissions directly. These facilities therefore rely on access to emissions offsets to comply with their obligations. They are also subject to prescriptive obligations at the state level (e.g. NSW EPA mandates abatement activities for coal mines). In this environment, proposals to change the baseline arrangements of coal mining are unlikely to lead to structural emissions reduction.

Additionally, the proposal to change the treatment of unplanned interruptions may risk undermining the Safeguard Mechanism's output-based architecture. This risk can be mitigated if the approach considers whether the causes of unplanned interruptions are appropriately captured under the exemption declaration guidance for all sectors. For example, the framework could be expanded to not just enable facilities to signal when issues such as criminal activity or natural disasters impact operations and / or ability to comply with the Safeguard Mechanism, but also when other factors like safety regulations do. This would also avoid any risk of facilities facing conflicting signals from different regulatory and policy mechanisms.

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Yours sincerely,

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