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Sustainable Finance Strategy

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to Treasury's consultation on its *Sustainable Finance Strategy* ('Consultation Paper').

The Australian Energy Council 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.

The Sustainable Finance Strategy represents an important part of the Federal Government's intent to achieve economy-wide decarbonisation. Developing a clear and transparent regulatory framework for sustainable finance will give customers confidence in the products they are purchasing and ensure Australian businesses can continue to compete for access to international capital for green investment.

There are, however, challenges with respect to converting broad concepts into regulatory expectations, and the high-level nature of this Consultation Paper does make meaningful input difficult. There is a need for more granular consultation to supplement the rollout of the implementation roadmap for the Sustainable Finance Strategy, especially as it relates to transition planning and any data reform.

Furthermore, while international alignment should be the standard, Treasury should be mindful of unique domestic market conditions and how Australia's energy transition will be different to other jurisdictions. Specifically, the Sustainable Finance Strategy should be careful to avoid deterring investment in important transitional fuels, such as gas peaking generation, that Australia needs to reach net-zero.

Transition planning

The Sustainable Finance Strategy has listed as its Priority 3 to "support credible net zero transition planning". The electricity sector is the most progressed sector in Australia when it comes to net zero transition planning, with it leading – and projected to continue to lead – Australia's economy-wide decarbonisation.

Some electricity businesses have already published climate transition plans, while others are now preparing to do so as part of Treasury's *Climate-related Financial Disclosure* reforms. During the consultation on these reforms, the AEC submitted to Treasury about the unique circumstances electricity companies face with respect to transition and scenario planning, and why these circumstances are not amenable to inflexible or uniform regulations.

These unique challenges relate to:

- Electricity decarbonisation is a whole-of-industry effort and the Australian Energy Market Operator ('AEMO') serves as the system operator to coordinate and manage the electricity and gas markets. This means that, as far as transition planning goes, electricity generators cannot operate wholly independently from each other - e.g. a coal-fired power station cannot announce it is closing tomorrow simply to meet a company carbon target. Plant closures depend on a range of whole-of-system factors outside an individual company's control, including (but not limited to) system security, building of replacement capacity, and transmission access.
- The emissions reductions of electricity companies tend to occur in a lump (i.e. when a fossil fuel plant closes), rather than being a linear reduction over time. During the life of a plant, there will be fluctuations in emissions due to unexpected outages, unseasonal weather, fuel supply issues, market dynamics and technical limitations. This can make it difficult to measure how an electricity company is progressing towards a climate target.
- Strong government involvement in the NEM, which includes some plant closure arrangements with state governments, means the transition planning of individual companies is somewhat reliant on the effective rollout of government electricity policies. A slower than expected rollout can cause delays in plant closure and corporate transition plans.

A smooth whole-of-industry energy transition will also involve investment in transitional fuels, which includes gas peaking generation. AEMO has documented this clearly in its *2023 Gas Statement of Opportunities*: "AEMO forecasts currently indicate less regular but more important operation of gas generation as dispatchable capacity as electricity supply transitions to higher shares of renewable energy".[1] Likewise, the Commonwealth Government's recent *Future Gas Strategy* consultation acknowledges that "gas is expected to play a key role as the electricity sector moves to renewable energy sources".[2]

This creates a perverse anomaly as far as individual transition planning goes – investment in transitional fuels hastens the sector's decarbonisation by allowing for the smoother closure of higher-emitting power stations (i.e. coal); however, it will increase an individual company's own emissions profile. The Consultation Paper – while quiet on the role of gas specifically – does comment generally about making sure the Sustainable Finance Strategy supports transitional activities, which is to be subject to a "rigorous, science-based criteria".

This is sensible on paper but unless these transitional activities are specifically called out, it will not create enough investment certainty for businesses. The political climate is already increasing the risk of investment in peaking generation and the Federal Government has indicated, through its most recent expansion of the Capacity Investment Scheme, that any gas dispatchable capacity will be left to state jurisdictions to decide. Further to that, stricter ESG policies regarding investment in carbon fuels, even when they are transitional, make access to capital increasingly difficult.

Finally, the Consultation Paper states Treasury's intent in 2024 to "enhance firm level transition planning, beyond ISSB-aligned disclosure requirements". This would seem to represent a departure from Treasury's original intent to align Australia with international developments. Further information is sought about what Treasury sees as missing in the ISSB framework and why it is needed in the Australian context.

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[1] AEMO, 'Gas Statement of Opportunities', March 2023, p8-9.
[2] Department of Industry, Science and Resources, 'Future Gas Strategy: Consultation Paper', October 2023, p7.

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AUSTRALIAN ENERGY COUNCIL

Alignment with certification schemes

As Treasury seeks to develop its Sustainable Finance Taxonomy, it will be important that the terminology agreed to aligns with recent reforms to GreenPower and Climate Active, and the eventual commencement of Renewable Electricity Guarantee of Origin (REGO) certificates. With growing regulatory scrutiny about sustainability-related claims, the Taxonomy should be a document that provides regulatory certainty and consistency to businesses about the types of claims that are acceptable.

Any questions about this submission should be addressed to Rhys Thomas, by email Rhys.Thomas@energycouncil.com.au or mobile on 0450 150 794.

Yours sincerely,

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