Victoria Government
Department of Energy, Environment, and Climate Action

Submitted via email: climate.change@deeca.vic.gov.au

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Victoria's Climate Change Strategy 2026-30

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the Department of Energy, Environment, and Climate Action's consultation on *Victoria's Climate Change Strategy* ('Consultation Paper').

The 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.

The next five years represent a critical juncture in the progress of climate policy as governments face heightened scrutiny about their ability to meet their interim targets. In Victoria, the interim targets are a 45-50 per cent emissions reduction target (backed by a 65 per cent renewable generation target), which ramps up to 75-80 per cent emissions reductions and 95 per cent renewable generation by 2035. The ability of Victoria to meet these targets will invariably shape the national conversation about the Federal Government's equivalent 2030 targets of 43 per cent emissions reductions and 82 per cent renewable generation.

Although these emissions reduction and renewable generation targets are technically separate, in reality they are bound to one another – federal and state governments are relying almost exclusively on accelerated deployment of renewable generation and storage to meet their emissions reduction targets.

As much as the electricity sector accepts its role in leading economy-wide decarbonisation, this should not obscure the reality that there are presently major barriers to meeting such ambitious, near-term renewable generation targets, a view that has been echoed by independent agencies like the Climate Change Authority[1] and Infrastructure Victoria[2] in recent reports.

These barriers mostly exist on the supply-side and include:

- Supply-chain limitations on the complex equipment required to build and connect large-scale renewables.
- Skill shortages, particularly with respect to electrical networks.
- Land-use resistance to the buildout of renewable generation and network infrastructure.

[1] For example, "the authority considers that further action is required to ensure its 82% renewable electricity target is met", p9.
[2] For example, "this task [renewable deployment] faces challenges including limited scale of private investment so far, rising costs, supply chain disruptions and long approval times. Some community opposition, policy uncertainty, and physical limitations such as restricted transmission connections and inadequate roads make the task harder. Workforce shortages are another challenge", p99.

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- Long and delayed approval and permit processes, complicated by tension between climate and environmental/biodiversity objectives.
- Even after receiving approval, longer than expected build times for connection assets, stabilisation equipment (e.g. synchronous condensers), long-distance transmission and pumped-hydro storage.
- Slow progress in developing the necessary tools to understand the complex phenomena resulting from deep penetration of inverter-based resources on a large electrical grid.
- Cost-push inflation continuing to impact the availability of renewable technologies.
- Ongoing regulatory and policy uncertainty relating to the rollout of renewable generation, transmission and firming infrastructure.

At present, these challenges do appear overwhelming and make it probable there will be some slippage in federal and state governments meeting their renewable energy targets. Under current policy settings, this will mean interim emissions reduction targets are not met.

To mitigate against the risk of slippage, policymakers will need to begin giving proper contemplation to the costs and technical feasibility of trying to meet government mandated renewable energy targets, and at what point this continues to represent least-cost abatement compared to other decarbonisation options (i.e. the closer the electricity sector gets to net-zero, the higher the abatement cost becomes).[3]

To that end, the AEC recommends:

1. Victoria's Climate Change Strategy includes an annual emissions projections plan

The quality and transparency of Victoria's Climate Change Strategy can be significantly strengthened through publication of an annual document the equivalent of Commonwealth DCCEEW's Australia's Emissions Projections.

This document would contain detailed information about the projected decline of Victoria's emissions across each sector, communicating to industry, investors, and the public the main assumptions government is relying on to meet its targets. It would presumably include acknowledgement that Victoria is taking a point-in-time approach to meeting its targets, rather than setting a carbon budget, and illustrate the extent to which Land Use, Land Use Change, and Forestry (LULUCF) is being relied on.

For the electricity sector, the document should make clear assumptions around:

- Major point-in-time checkpoints for emissions reduction (e.g. the closure of Yallourn Power Station).
- Projected year-on-year buildout of renewable generation, including offshore wind.
- Projected speed of rollout of Consumer Energy Resources.
- Expected timing of deployment of firming generation and major infrastructure projects (e.g. Marinus Link and transmission to Snowy 2.0).

2. Improve quality and consistency of data in the Greenhouse Gas Emissions Reports

The way Victoria currently reports its emissions does not a paint a clear or up-to-date picture of progress. The most recent Greenhouse Gas Emissions Report has a time lag (2022) and the quality of data within it varies significantly year-to-year.

[3] One data point for this is the Australian Energy Regulator's Valuing Emissions Reduction Guidance.

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In conjunction with the first recommendation, Victoria should publish its own annual update of the state's decarbonisation progress with clear and consistent benchmarking (e.g. annual changes in emissions by sector, comparisons to 2005 baseline, etc).

This will enable stakeholders and policymakers to track progress, identify where slippage is occurring or may be likely to occur, and consider any appropriate policy response.

3. Monitor the impacts of mandated renewable energy targets on energy affordability

The energy transition is requiring significant investment in mass renewables, storage, firming and transmission infrastructure in a very short period of time. The scale of this investment is currently being driven mostly by public policy (shaped around meeting climate targets) rather than efficient economic signals provided through the market.

These costs are flowing into electricity bills as wholesale prices become more volatile and retailers recover the costs of new network infrastructure and government underwriting policies. While it is an uncomfortable message, the reality of the energy transition as bumpy and expensive is going to continue and needs to be communicated honestly to maintain public confidence.

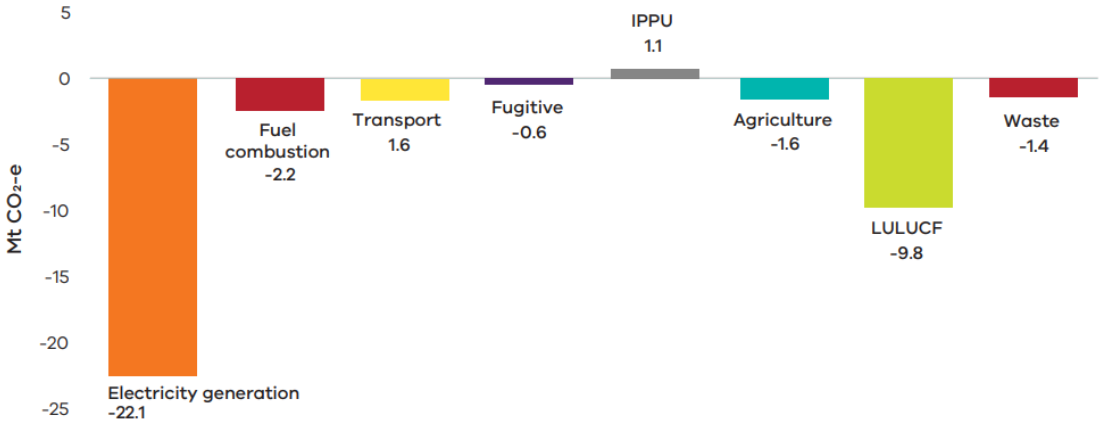
On that front, it is important that Victoria's pursuit of renewable energy targets does not lose sight of its position within the National Electricity Market ('NEM'). The NEM's interconnectivity has allowed the build-out of renewable resources to be localised to areas that best maximise their value, enabling a lower cost build for all electricity customers.

State-based targets without flexibility detract from this advantage by limiting the ability of renewable resources to be deployed where they can operate most efficiently and cheaply for customers, increasing the costs of the transition.

4. Stronger policy action to ensure other sectors contribute their fair share

Right now, the electricity sector is doing the heavy lifting to drive down emissions in Victoria and across Australia. The electricity sector playing a larger role now (and over the next decade) is expected due to its higher emissions profile and the commerciality of abatement technology (i.e. renewable generation).

Figure 1: Change in emissions between 2005 and 2021 by sector, Victoria



Source: State and Territory Greenhouse Gas Inventories 2021 (DCCEEW, 2023e)

Source: Victorian Greenhouse Gas Emissions Report, p18.

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At the same time, the various constraints mentioned earlier will inhibit the speed at which the electricity sector can decarbonise without compromising system security and reliability. Even under a best-case scenario, the cost to abate will increase the closer the sector gets to net-zero, which means Victoria may drift away from a least-cost transition to net-zero in the absence of other sectoral policy action.

Building on the first recommendation, which should lay out how Victoria sees other sectors decarbonising (i.e. the speed, the technological uptake, major breakthrough periods), there needs to be stronger policy incentives for economy-wide decarbonisation. Incentivising other sectors to start decarbonising will put in place the structural changes needed to meet net-zero and mitigate the risk of any slippage on renewable generation targets flowing into the economy-wide emissions targets.

As part of this, the Victorian Government should consider how it can accelerate the development and commercial deployment of emerging carbon dioxide removal (CDR) technologies, such as Direct Air Capture (DAC) and Bioenergy with Carbon Capture and Storage (BECCS), among others.

The AEC and its members would welcome the opportunity to further engage with the Victorian Government as it develops its Climate Change Strategy.

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Yours sincerely,

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