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Review of the Electric Car Discount

The Australian Energy Council (AEC) welcomes the opportunity to make a submission to Treasury's consultation on the *Review of the Electric Car Discount* ('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.

By 2030, the transport sector is projected to be the equal largest sectoral emitter alongside large industry.[1] The ability of Australia to reach net-zero and its interim targets along the way will depend on having effective policies in place to reduce transport emissions. The nature of transport emissions, whereby they become locked in based on customer purchases of internal combustion engine (ICE) vehicles many years in advance, means policy must be successful now to achieve decarbonisation outcomes in a decade and beyond.

Electric vehicles (EVs), especially battery electric vehicles (BEVs), currently represent the only real commercial option for replacing ICE vehicles and materially reducing transport emissions. But the scale of uptake required to meet Australia's targets is significant. The Climate Change Authority (CCA), when recommending Australia's 62 to 70 per cent 2035 emissions reduction target, stated it means that "around half of all light vehicles sold between now and 2035 would need to be EVs" or in numerical terms, over 5 million electric vehicles by 2035.[2] Separately, the CCA advised that 100 per cent of new vehicle sales must be EVs by 2040 given the time it takes for fleet to turnover.[3]

The two main policies of the Federal Government to incentivise EV uptake are the New Vehicle Efficiency Standard (NVES) and the Electric Car Discount (otherwise known as the EV Fringe Benefits Tax (FBT) exemption, which also includes the import tariff exemption). The AEC considers the NVES to be a well-designed, market-based mechanism that should improve the economics of EV over time by providing supply-side incentives. However, it is not enough on its own to decarbonise transport in a timeframe consistent with Australia's carbon targets.

A demand-side incentive like the Electric Car Discount does help accelerate greater EV uptake but involves a delicate trade-off with managing budgetary impacts. The AEC's position is that the

[1] DCCEEW, Australia's Emissions Projections 2025, p17.
[2] Climate Change Authority, 2035 Targets Advice, p8.
[3] Climate Change Authority, The Fuel Efficiency Standard – Cleaner, Cheaper to Run Cars for Australia, p2.

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Electric Car Discount should be retained and stay in place until EVs, preferably BEVs, are market competitive at which point it should be gradually phased down.

There are regulatory mechanisms that Treasury can take to manage budgetary impacts, as well as increase the policy's effectiveness:

- Phasing in a Virtual Power Plant (VPP) capability requirement to capitalise on vehicle-to-grid technology once it and the accompanying regulatory framework are mature. This could be a flat requirement to access the discount, or a condition to receive the full discount. VPP capability will have flow-on benefits for the electricity grid, making it easier to manage peak demand and maximise displaced emissions.
- Introducing a performance-based sunset clause linked to achieving market competitiveness to provide policy certainty to industry and consumers. This would represent a point of "critical mass" of EV adoption which could be determined through targeted consultation between government and industry stakeholders.
- Setting a gradual "phase down" period for the Discount once the market competitiveness threshold has been achieved. It might involve, for example, reducing the discount by 20 or 25 per cent on a year-by-year basis. This is so the market can adjust smoothly to unsubsidised pricing and allow policymakers to monitor the maturity of the NVES as a standalone market signal.
- Including a trigger for a formal review in 2029 or 2030 to assess the state of the EV market, the effectiveness of the policy, and the transport sector's progress in the context of Australia's overall emissions trajectory. If the Discount has phased in a VPP capability requirement by this point, then the review should consider how it has influenced customer choice; alternatively, if there is still no VPP capability requirement, then assessing whether the technology and supporting regulations are now mature enough for it to be a condition of access.

The AEC strongly encourages the Review to consider the flow-on impacts of transport electrification on the electricity sector. There is a range of policy, regulatory, and technical reforms that need to be implemented within the electricity sector to support and integrate the increased electricity consumption and demand that comes from transport electrification. AEMO's Draft 2026 Integrated System Plan forecasts that "electrification is the main driver of rise in electricity consumption, adding 114 TWh by 2050 – about three quarters of the NEM's current total. Road transport is the dominant single element of that shift, rising from today's 1 TWh up to 61 TWh by 2050. Of that amount, about half would power household EVs …".[4]

Some of the main challenges to address are:

- Managing peak and minimum demand – effective and fair CER orchestration will be needed to ensure customers are not all charging their EVs at the same time of the day. If this were to happen, the electricity grid would need to build significant capacity to meet peak demand, increasing costs of the transition. Likewise, there will still need to be enough synchronous, grid-connected electricity generation online at all times to maintain essential system security services. If the electricity transition becomes disorderly or too expensive, this might dissuade customers from purchasing an electric vehicle.
- Leveraging retailers to deliver CER orchestration – as the customer-facing actor in the electricity system, retailers are playing an increasingly important role in helping customers manage and control their CER technologies. Innovation in tariff reform to

[4] AEMO, 2026 Draft Integrated System Plan, page 35.

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encourage behaviours like vehicle-to-grid charging and two-way price signalling is needed to incentivise load shifting at different times of the day. It will also require further evolution of technical standards and capabilities, but it may be appropriate to adopt the Cheaper Home Batteries Program's focus on VPP capability as an initial step.

- Pace of renewable penetration – even at current emissions intensity levels, electric vehicles produce lower emissions compared to ICE vehicles. However, fully maximising the emissions benefits of electrification may take some time to be realised and current forecasts, such as the CCA's Annual Progress Report, suggest reaching 82 per cent by 2030 will be difficult. This is not an argument against EV uptake but does mean that forecasts about emissions displaced have some margin for error. Making sure other sectors are contributing to reducing emissions can help reduce the risk of undershooting on emissions targets.

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Yours sincerely,

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