Election 2025:

Energy and Climate Policy

February 2025

Key recommendations

Investable policy

Australia's next government should evolve current plans and policies in climate and energy, not upend them.

Electricity

Urgent deployment of electricity infrastructure will benefit all Australians, guided by the evolving Integrated System Plan. Moderating new build costs is important for competitiveness and will require both ambitious reforms and stable investment frameworks. Smarter use of energy is crucial to minimise bills as more services electrify.

Gas

Meeting gas users' needs will take an 'all of the above' strategy, including short-term LNG imports; electrification and renewable gases as appropriate; expanded production and pipelines where it best makes sense; scrutiny and timely decisions to ensure interventions like the Gas Code or prospective reservation are effective; and invocation of the ADGSM controls if absolutely necessary.

Industry transition

Getting to net zero requires pro-competitive and pro-investment policy for both existing and emerging industries.

The challenge

Australia has huge opportunities in the energy transition, but our next government will need to resolve serious challenges to deliver what industry needs.

For all industries, business continuity depends on the availability of sufficiently reliable energy. The competitiveness of many industries will also be heavily shaped by the cost of energy and their ability to keep up with the pace of decarbonisation required by customers, investors, governments and their own commitments.

Australia's former domestic cost advantage in abundant fossil fuels has vanished as those resources have become deeply connected to global markets, and we have not yet achieved the new cost advantage in clean energy that is clearly possible.

Australia's electricity generation fleet is ageing and high-emitting and urgently requires substantial new investment in generation, transmission and storage. Traditional gas resources in south eastern Australia are depleting much faster than demand is declining.

While some clean economy technologies have become highly cost competitive and continue to improve with deployment, for other essential industrial products cleaner production still has a significant cost premium to bridge.

Priority areas for action

Investable policy

Australia's next government should evolve current plans and policies in climate and energy, not upend them. While improvements are necessary and worth pursuing, major policy reversals in this space have substantial costs, and experience has shown that wholly new initiatives almost always take longer and prove more complex than expected.

National goals for emissions reduction are an important plank for planning and investment by businesses as much as by governments and trade partners. Australia has made major progress towards its existing 2030 commitment, though considerable attention will be needed to speed planning, permitting and delivery of new infrastructure to fully meet it on time.

New commitments beyond 2030 need careful balancing: the short-term costs of emissions reduction can accelerate if scaled too fast, but deferring cuts risks high long-term costs for negative emissions and/or climate damages. Australia's next commitment should be ambitious, deliverable and the spur for a national push on streamlining policy and lifting productivity.

Electricity

The efficient deployment of electricity infrastructure is urgent. Affordable, reliable, secure and clean electricity is a foundation of our economy.

The AEMO Integrated System Plan is a perpetual work in progress but the best plan available for the future of our biggest grid. Rapid deployment of new solar and wind, batteries, pumped hydro, gas peakers, transmission and other assets is vital to our economic security and competitiveness, as well as to climate transition.

Moderating the cost of new builds is essential for competitiveness. That requires attention to the cost of capital-facing projects, delivering swifter approvals with reasonable conditions, facilitating adequate supply chain and skills availability and lifting construction productivity.

Everybody has a stake in the success of electricity infrastructure deployment at lowest cost. The price and reliability of energy in Australia's regions is in the balance just as much as that in the cities. Employment opportunities in energy construction and supply chains are important but dwarfed by the potential jobs associated with expansion of clean energy-intensive manufacturing – as long as Australia can deliver on its potential energy cost advantage.

Market and policy reform needs to ensure there is a basis for investment in the full suite of electricity services we need, including bulk generation (likely to be dominated by solar and wind); flexibility (today mostly gas peakers, but likely to be dominated by batteries, pumped hydro and smart demand); backup (likely a long-term role for gas peakers); grid services and grids. After a period of fragmentation, the current spirit of NEM-wide cooperation is welcome and should go further. The announced review of post-2030 electricity investment policy is a good opportunity to continue bringing jurisdictions back together.

Electricity demand is set to grow dramatically thanks to significant electrification of transport and heat. That growth is good and will require in any case substantial new generation, transmission and distribution investments. However, those investments will need to be much

larger if Australia doesn't manage demand growth well. Demand-side improvements to efficiency, flexibility, smart time of use and energy generation and storage are very important to moderate energy system costs and cut the final cost of energy services to all Australians.

On current evidence, civilian nuclear electricity generation – while a safe, clean and globally important energy source – does not appear economically attractive in Australia. It is possible that its viability may improve in future, and it would be sensible to lift federal and state bans on the technology. It would not be sensible to scale back delivery of the Integrated System Plan, including transmission and large-scale renewable generation on the hope that nuclear's relative attractiveness sharply improves.

Gas

Gas adequacy and transition will take an 'all of the above' approach. Gas is a vital fuel for many activities today, and it will remain important for a long time even as its usage narrows. Supply needs to remain adequate and as affordable as possible for as long as necessary.

Urgent short-term action is needed to avert a gas supply gap using all available tools: the Heads Of Agreement to voluntarily redirect gas to the local market, LNG imports with a mechanism to quarantine the market from import parity pricing as far as practical and invocation of the Australian Domestic Gas Security Mechanism if absolutely necessary.

We also need action now on longer-term solutions. Some of that is about demand-side transition, including efficiency, electrification and investment in the use and supply of bioenergy and hydrogen. The right demand-side solutions will differ in different end-user contexts, and one size will not fit all. Gas transition will be ever more important over the long term.

Natural gas supply solutions are also needed where they make long-term sense. That includes:

- gas production, noting production is most easily expanded in Queensland;
- gas transport, most plausibly expansion of existing north-south pipeline capacity; and
- gas storage, which will become more important as gas peakers increasingly shift to a backup role and broader gas demand declines.

Mechanisms to secure the commitment of adequate gas volumes to the domestic market can be useful, as Western Australia shows. It's not yet clear whether the Mandatory Gas Code of Conduct has weakened the link between eastern Australian gas prices and export parity. The Code needs continued monitoring for effectiveness, adequacy and efficiency. Alternative approaches such as a prospective national gas reservation would need similar scrutiny in detail. The foundation contracts for the Eastern LNG export terminals will expire in 10 years. Now is the time to start designing the policy framework under which any new export contracts will operate, ensuring local supply adequacy while avoiding sovereign risk.

All new supply options have costs much higher than historic average gas prices. Price-sensitive gas users will be challenged even if we avoid shortages. Prices could always be worse with shortages or excessive exposure to international shocks.

Based on technology trends, cost relativities, network expectations and government policies, it is clear that at least a large proportion of low-grade heat will electrify. That means we must start a conversation about how to manage the financial and physical challenges of less-utilised gas distribution networks. Some industrial gas users will certainly not electrify, and they cannot be left to bear the full costs of infrastructure that was built for others.

The role of gas in electricity supply is small in volume but high in consequence. We need that backup to be available and investable. However, gas is an expensive fuel and the less often we need to rely on it for bulk power, the better for energy users.

Industry transition to net zero

Transition needs pro-competitive and pro-investment policy for existing and emerging industries. Australian industry can have a bright future in a net zero emissions world, but this will take sustained and supportive policies, wise investment and a portfolio of calculated risks.

The development of new industrial opportunities is exciting, and strategic industry development incentives including for green metals and low carbon liquid fuels are well worth considering. Design detail and a credible strategy for long-term competitiveness will be very important. Hydrogen holds opportunities for Australia and the recent national Strategy is broadly sensible, particularly the commitment to ongoing monitoring and adjustment of policy in light of experience.

The transition of Australia's existing industries is even more important.

Australia should keep building on the current Safeguard Mechanism, which provides an important signal for low-carbon investment and emissions reduction for our largest industrial facilities. The Safeguard will need to be bolstered with measures to ensure a level competitive playing field for the long term; a well-designed system for Border Carbon Adjustment that respects our World Trade Organization commitments is the most plausible solution for some of our most sensitive industries. Avoiding distortions between competing facilities above and below the Safeguard threshold will be increasingly important.

We also badly need substantial support for the adoption of clean process heat options in wider industry, for businesses never likely to be part of the Safeguard. For different users, different solutions are relevant or will emerge. These may include electrification (such as via industrial heat pumps or thermal batteries), biogas, biomethane, hydrogen and perhaps other sources like solar thermal or geothermal. Funding, finance, provision and coordination of infrastructure, information and advice and accounting methodologies all have parts to play.

Transport is important to most businesses and while important strides are being made in decarbonisation of light vehicles, more work is needed to open up options for heavy transport especially freight.

About Australian Industry Group

Ai Group and partner organisations represent the interests of more than 60,000 businesses employing more than 1 million staff. Our membership includes businesses of all sizes, from large international companies operating in Australia and iconic Australian brands to family-run SMEs. Our members operate across a wide cross-section of the Australian economy and are linked to the broader economy through national and international supply chains.

Our purpose is to create a better Australia by empowering industry success. We offer our membership strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

With more than 250 staff and networks of relationships that extend beyond borders (domestic and international), we have the resources and expertise to meet the changing needs of our membership. We provide the practical information, advice and assistance you need to run your business. Our deep experience of industrial relations and workplace law positions Ai Group as Australia's leading industrial advocate.

We listen and we support our members by remaining at the cutting edge of policy debate and legislative change. We provide solution-driven advice to address business opportunities and risks.

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