Investor Group on Climate Change

25 March 2024

To the Department of Climate Change, Energy, the Environment and Water,

Response to the Expanded Capacity Investment Scheme – Design Paper consultation

The Investor Group on Climate Change (IGCC) welcomes the opportunity to provide feedback on the Commonwealth Government's Expanded CIS - Design Paper consultation, published in March 2024.

IGCC is a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments. IGCC represents investors with total funds under management of over $3 trillion in Australia and New Zealand and $30 trillion around the world. IGCC's members are the custodians of the retirement savings of around 15 million Australians.

As the long-term custodians of trillions of dollars in retirement funds, investors have a fiduciary duty to deliver long-term returns for their beneficiaries that are commensurate with the level of risk taken. Due to the systemic nature of climate change, unless it is addressed in an orderly and just way, the long-term retirement savings of millions of Australians are under threat.

IGCC welcomes the expanded CIS, from 6GW to 32GW. IGCC supports the Scheme's aim of electrifying Australia's grids towards the 82% renewable energy target by 2030.

IGCC directs the Government's attention to the submissions made by the Clean Energy Council (CEC) and the Clean Energy Investor Group (CEIG), with which IGCC is in close alignment.

While the CEC, CEIG and IGCC understand that the CIS is an interim measure to stimulate investment in the electricity sector in the near-term, there are important considerations for how investment decisions made today will impact a post-2030 electricity system.

This is very relevant and important to the development of the Government's sector-by-sector decarbonisation plans and any 2035 Nationally Determined Contribution (NDC).

IGCC urges the Government to consider:

- How certain technology types are favoured under the CIS merit assessments. It is unquestionable that Australia needs more renewable generation, and fast, but there are benefits to energisation by a wide range of technologies.
    - For instance, utility-scale solar and onshore wind, even when co-located with short duration batteries (2 and 4-hour duration) do not offer the same grid-firming capabilities as offshore wind and long duration batteries.
    - These capabilities will be important to maintaining system security as coal fired power stations come offline in the 2030s. However, they necessitate longer build times and will likely not contribute to the current renewable energy target.

- Waiting until after 2030 to support an array of technologies coming online poses risks to a smooth, orderly and just transition.
- As such, IGCC recommends that the Government develop a targeted approach to support technologies that are presently underrepresented in the grids, but that contribute to the CIS's goals of filling reliability gaps and improving system security.
- This may take the form of an extended and partitioned CIS, or a separate scheme with a similar underwriting mechanism. This will enable investors to inject capital into these technologies with the certainty of returns that they require.
- As renewable generation saturates the grid, the need for diversified renewable technology types that provide different but essential grid-firming capabilities will increase.
- It is important that the CIS does not inadvertently act as a barrier to entry for such technologies, thereby making reaching a 2035 NDC harder than it otherwise would be.

- How market and regulatory reforms will be essential in supporting an electricity system that has a high penetration of Variable Renewable Energy, once the Government reaches its 82% renewable energy target by 2030.
  - Consumer Energy Resources, aggregated and coordinated through Virtual Power Plants (VPPs), can provide significant grid-firming capabilities should Government undertake the reforms required for their integration.
  - IGCC welcomes that VPPs will be considered under the CIS in future tenders and encourages the Government to examine how VPPs and utility-scale generation can support each other in electrifying the grids without detracting upon each other's unique functions and revenues.

- How energy infrastructure can be made as resilient as possible in a climate-changed environment.
  - IGCC holds that physical risk management of assets is an important consideration in securing future returns on investments.
  - Renewable energy assets that are exposed to climate hazards, both acute and chronic, are less attractive investments.
  - While the CIS may not be the place to consider the placement and resilience of future (and established) energy infrastructure, IGCC urges the Government to consider the most appropriate body to undertake screening or planning for future system security.
  - For example, the principles for the development of sector-by-sector decarbonisation plans agreed between the Government and investors in December 2023 explicitly recognise the need to consider physical risk from climate change as part of a comprehensive response.
  - IGCC urges DCCEEW to consider energy infrastructure planning within the National Adaptation Plan, and ensure that physical risk management is considered in subordinate policies.

IGCC thanks the Commonwealth Government for the opportunity to provide feedback on its Expanded CIS Design Paper and looks forward to continued engagement on the above issues.

Please contact Junior Policy Manager, Bethany Richards (bethany.richards@igcc.org.au) for further discussion on any comment made in this submission.

Sincerely,

Erwin Jackson.

Managing Director of Policy

Investor Group on Climate Change

W: https://igcc.org.au/