

# Submission to the NEM Review Interim Report

## Investor Group on Climate Change

17 September 2025

## About IGCC

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 $4 trillion in Australia and New Zealand. 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 retirement savings of millions of Australians are under threat.

## Introduction

Investors support the dual intentions of the NEM Review, which is to propose solutions to challenges that hinder investment in the National Electricity Market (NEM), and to deliver electricity system services more efficiently. Market settings have been designed around fossil fuel generation, which do not appropriately support grid security, efficiency or new investment in the types of variable and decentralised services that are now required.

As the transition to renewable energy accelerates, managing grids across Australia is becoming more complex, with frequent rule changes, new entrants and differing reliability concerns. Greater uncertainty around rapidly evolving technology[[1]](#footnote-2) is intensifying revenue and technology risks, resulting in fewer long-term contracts being available to project proponents. The Capacity Investment Scheme (CIS) is going some way to address this issue with government underwriting 40GW of dispatchable capacity and storage by 2030.

However, with CIS tender auctions ceasing in 2027, and coal fired generation still needing to come offline, new mechanisms to support continued transition investment in the NEM (and other jurisdictions) are needed. Additionally, the market, and decision-makers that govern it, need to become more sophisticated to ensure that system security and efficiency are optimised for the evolving energy mix.

The review also comes at a time where the federal government is promoting a strong climate and green industry agenda. The decarbonisation of the NEM is essential to whole of economy electrification and underpins the ambitions of the Future Made in Australia agenda.

The Australian government has its 82% renewable energy target by 2030, and states and territories have their own targets, ranging in ambition. Ministers, agencies, regulators and market bodies, as well as companies and investors, all have their own transition objectives.

Investors remain concerned that the transition task has been pursued in a fragmented and often incoherent way across decision-making bodies, which discourages investment. Investors are also concerned that the demand signal generated by the CIS will cease during this critical coal phaseout period, and without a strong signal to replace it – such as a carbon price for the electricity sector – investment will stall. Investors do not anticipate that the ESEM will generate a strong enough demand signal to overcome transition risks.

## Summary of response

The panel acknowledges that the NEM has new needs, and that updated market rules are required to facilitate more efficient investment to meet these needs. IGCC highlights two additional priorities for the panel’s consideration:

1. Differing needs in the transition between the pre-coal phaseout and post-coal phaseout require a more “hands-on” approach.
2. More coordinated, transparent governance of decision-making within the NEM is essential in delivering investment-critical information to market.

Without these two additional concerns being addressed, the NEM Review risks designing solutions that cannot be effectively implemented – that investment in the NEM will not increase to the pace and scale required to meet renewable energy targets.

IGCC has identified the following as being new NEM needs, or, what the NEM requires from governance bodies to meet renewable energy targets in the most secure and efficient way possible:

* An independent entity that provides advice to government about energy system needs, monitors progress towards net zero and communicates these findings transparently to market and government. This entity should provide advice on how big and how many contracts the ESEM administers, and when to resell them.
	+ The body that issues the ESEM contracts should be separate from the one which determines their quantity and size.
	+ Investors emphasise that nationally directed energy transitions need to engage with the diversity of subnational approaches, including but not limited to underwriting and other government-led schemes.
* A separate modelling service that can provide better integrated data and can test policy solutions in an increasingly complex market. The Integrated System Plans are the best tools available for understanding what the NEM will need under different demand scenarios. However, as the NEM becomes more complex, a model to test different policy solutions should be developed; one which better integrates CER. Governance of the model should remain within the Australian Energy Market Operator, but should be under the oversight of an independent panel which can ensure its robustness to modelling new NEM challenges.
	+ i.e. what policy is needed during coal-phaseout and post coal-phaseout?
	+ What policies may improve CER integration and energy management?
	+ How do different green industry goals translate to demand in the NEM (and other jurisdictions)?
	+ Better modelling of climate hazards and adaptation solutions for electricity systems.
* An explicit carbon price to overcome transition risk and allow the ESEM to function as intended (mitigate technology and revenue risks). IGCC is urging government across various forums to consider how expanding the Safeguard Mechanism to the electricity sector would bring more clarity to coal phaseout timelines. The independent advisory body, as described above, could provide analysis on this.
* IGCC advises against establishing a new entity to manage the transition task, but to equip established bodies with the remits and powers to effectively execute it.

## Extended response

## Overcoming transition risk

The NEM is undergoing massive transformation, and this transition period while coal is being phased out will require a more deliberate approach from decision-makers. Requiring operators to provide better information to market about expected timeframes for phaseout is not enough for investors to make informed investment decisions, when state governments will continue to extend lifetimes of coal generators to ensure system security. Different strategies to stimulate investment that align with market needs and targets are required for different points across the transition.

Bringing new bulk, shaping and firming services online to prepare the system for coal phaseout, creating comfort in governments that there is adequate reliability is essential; creating comfort that demand from coal exit will be there to support return on investment is also essential. The currently proposed ESEM cannot address this alone, because it cannot provide certainty around phaseout dates for coal fired generation. Investors note that the tenor gap is an issue, but so too is securing the early years of a contract for new projects. A more “hands on” approach to policy will be required, particularly in aligning supply and demand, during this period.

Creating a market signal strong enough to override not just technology and revenue risk, but also transition risk, is the solution. Investors recommend that government consider how expanding the Safeguard Mechanism to the electricity sector would create more clarity around coal fired generation phaseout. Such an expansion should be designed in a way that creates demand for e-Safeguard Mechanism Credits[[2]](#footnote-3), or Renewable Energy Guarantee of Origin certificates, which may help overcome some of the financing issues for renewables, described below. While Safeguard is not within purview of the NEM Review, the Panel should consider what supports decision-makers and the market will require in this coal-transition period

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## Short term issues in reaching FID

The ESEM is proposed to function by addressing the tenor gap, underwriting the latter years of a project’s life while allowing space for proponents to find contracts for the early years. This assumes that the earlier years of contracting are easier to secure. While securing long-term contracts is challenging, so too are short-term contracts, particularly for offshore wind.

Some investors with wind assets have raised concerns about the fungibility of ESEM contracts for wind because of the significant variability in profiles depending on location. It may also be challenging to recycle contracts for low-value profiles back to market because there will only be a single price (or alternatively, the market clearing price would substantially under-value better profiles).

While transmission is out of scope for the NEM Review, investors note that there needs to be improved sequencing of transmission capacity coming online to facilitate new entry of generation. Without clarity on this, investment decisions will stall. Additionally, ESEM contracts could include penalty exclusion conditions to ensure that if generation is delivered on time, but transmission is not ready, that project proponents are note penalised.

Investors are also concerned that the out-of-market service that the ESEM is proposed to offer for gas peakers, where the early years of the contract are paid out, will create incentives for gas peakers over long duration storage. While the ISP does purport the need for new gas peakers to facilitate broader renewable energy transition, it does leave an open question about how to support clean technologies that have challenging risk-return profiles in the near term, but are required to reach net zero.

## Harmonising government policy and market planning

Investors, particularly in the last four years, have seen a significant (and positive) uptick in climate and energy policy, and have been encouraged to deploy capital to facilitate government’s decarbonisation ambitions – but without enduring structures that create that clarity, and trust, that the transition is happening.

Governance challenges are underpinned by access to information. New NEM needs include a modelling service that can provide information to market and government about different reasonable future states of the NEM, test policy interventions, model different demand scenarios for stated green industry objectives and the impact of an expanded Safeguard Mechanism to the sector. This model should expand upon the ISP’s scenarios and be more robust, including improved CER and energy management modelling. For improved governance, modelling and analysis should be separate from advice to decision-makers, particularly in informing how many and how large ESEM contracts should be.

A body that provides advice to government on the quantity and size of ESEM contracts should also track progress on renewable energy targets, sector decarbonisation plans and green industry ambitions, so that decision-makers are appropriately equipped to design policy and evolve process in alignment with market needs. It should put forward policy solutions as the needs of the NEM evolve from coal-transition to post-coal transition, and to support green industry ambitions from state and federal governments.

Installing market rules that mean assets which interact with the market must be visible to AEMO is only part of the solution. The panel acknowledges that greater incentives may be required to integrate more CER into the NEM, in a coordinated way, but does not speculate as to what will be needed. This should be the role of an independent advisor.

The independent advisory body should be separate from the market operator (and ESEM contract administrator), which is already experiencing challenges in keeping up with significant volumes of new entrants to market, CER integration and many more rule changes than it was designed to manage. AEMO is acting as an electricity system planner, a network operator and a market operator. It, as well as other decision-makers, have absorbed new functions in an ad hoc way as systems have increased in complexity. AEMO/ASL may be best placed to administer contracts but should not also be determining their volume and quantity.

Decision-making is diluted across ministries, market bodies, agencies, regulators and others, which create challenges in effectively identifying what needs to change and how to effect change in a timely fashion. IGCC advises against establishing a new entity to manage the transition task, but to equip established bodies with the remits and powers to effectively execute it. The NEM review should identify which decision-makers should be accountable for what new functions are required by electricity systems as they transition to net zero. Ways of coordinating national and subnational policy approaches should also be considered here, including but not limited to how ESEM contracts interact with similar state-based schemes.

## Evolved supports for evolved needs

The coal-phaseout period is not the only one that requires a targeted policy response. Presumably, the more CER that becomes visible and orchestrated, the fewer bulk contracts will be required, and those that are offered will ensure better revenue streams are available for utility-scale investments. After coal leaves the system, a more market-driven approach can stimulate innovation because there is more clarity around demand and less transition risk.

As electricity systems decarbonise, overcapacity is required to ensure system security. As revenues from renewable energy generation eventually flatten due to a saturated market, ensuring that there is adequate new investment to meet reliability requirements should also be considered.

## For more information

IGCC looks forward to continued engagement with DCCEEW and the NEM Review Panel.

For any questions on content in this submission, please contact Policy Manager Bethany Richards at bethany.richards@igcc.org.au.

1. Including the extent to which Consumer Energy Resources will be integrated and account for more energy services, compared to utility scale assets. [↑](#footnote-ref-2)
2. As opposed to Australian Carbon Credit Units, which IGCC members discourage the use of over on-site abatement. [↑](#footnote-ref-3)