Business Council of Australia

BCA Submission

NEM Wholesale Market Review – Initial Consultation 2025

February 2025

Contents

Overview

The Business Council of Australia (BCA) welcomes the opportunity to comment on the NEM Wholesale Market Settings Review being conducted by an independent expert panel supported by the Department of Climate Change, Energy, the Environment and Water.

Australia and the world are transitioning to a net zero future where all anthropogenic sources of emissions will have been mitigated — either by avoidance or removal of those emissions. The scale, breadth and complexity of the transition to net zero has been referred to as the next industrial revolution by some commentators and equated with world war mobilisation efforts by others. Dr Alan Finkel recently wrote:[1]

> *The transition to net zero emissions is the most difficult economic transition undertaken by humanity. Not the most difficult transition since the Industrial Revolution. Not the most difficult since the Second World War. This economic transition is the most difficult, ever. It is driven by externalities, not convenience or economic benefits.*

Two recent reports by the BCA argue that the key to achieving our economic goals and the net zero goal is to make Australia one of the most attractive investment destinations in the world, by becoming a more competitive place to do business.[2] The Net Zero Australia study estimated a cumulative capital investment of $7 to 9 trillion could be required to transition our economy to net zero.[3]

The BCA's recent Big Five Questions release ahead of the 2025 Federal Election, highlights the point that future proofing our environment and economy relies on a smooth transition to a modern energy system — one that is reliable, affordable, low emission and eventually net zero.[4] We note that this will involve the full breadth of Australia's grid and off grid electricity markets and related infrastructure, as well as Australia's gas markets and related infrastructure.

Notwithstanding progress made over the past 20 years, Australia's aging energy system needs to be rebuilt into a modern energy system over the next 20 years. If we are to have any real chance of meeting this enormous investment challenge, Australia's governments need to align on three things urgently.

1. A comprehensive and durable national energy transition plan — substantial, timely and efficient flows of capital into energy assets and infrastructure require clear and stable long term investment signals from the energy policy framework.
2. The private sector continues to be the primary driver of energy sector investment — notwithstanding the critical role of energy policy, private capital and markets are best placed to deliver an energy mix that is reliable, affordable and low emissions.
3. A technology agnostic portfolio of energy mix options — the complexity associated with balancing energy reliability, affordability and low emissions necessitates that all demand and supply side technologies be 'on the table' for consideration by the market and the community over time.

We note that the conclusion of the NEM Capacity Investment Scheme in 2027 is the catalyst for this review and that the review's scope is limited to the wholesale electricity market in eastern and southern Australia.

Notwithstanding this, we would expect this review to adopt a wider, long term perspective that considers the integrated nature of our energy system and the energy needs of our economy to 2050 and beyond. Policy frameworks that acknowledge the connection between electricity and gas markets nationwide and the long term nature of energy assets and infrastructure are critical to creating robust and durable long term investment signals.

We endorse the panel's commitment to building on the work already undertaken by the Finkel Review and the Energy Security Board (et al.) given the depth and quality of thinking and consultation undertaken as part of these processes.

[1] Engineers Australia, Accelerating Energy Transition Series, Dr Alan Finkel AC June 2024.
[2] https://www.bca.com.au/achieving_a_net_zero_economy , https://www.bca.com.au/seize_the_moment
[3] https://www.netzeroaustralia.net.au/
[4] https://www.bca.com.au/australia_s_priorities_for_the_2025_federal_election

This review

While the panel has usefully outlined five core topics for early input and engagement, we believe it is worthwhile taking a step back at this initial consultation stage to consider the approach being taken when examining and responding to these topics.

Ultimately, the success of this review will depend on multipartisan support for its recommendations from Australia's governments.

- Unresolved issues and the resulting misalignment in jurisdictional policies has diluted the efficacy of past attempts to reform the energy system.
- Ad hoc, incremental approaches to addressing issues have been adopted in favour of long term approaches that support robust, durable investment signals in the wholesale electricity market (and related financial markets).
- The exclusion of gas generation capacity in the Capacity Investment Scheme is a prime manifestation of past misalignment.

The BCA proposes the following approach to examining and responding to the five core topics identified for early input and engagement in this review.

1. A refreshed articulation of the long term vision for Australia's energy system to 2050 — based on the established trilemma objectives embedded in national energy legislation.[5]
2. Clear problem identification in each area of the wholesale electricity market that is not serving the long term vision and objectives.
    a. What supply side energy services are lacking (or are expected to be lacking in the future) in terms of quantity and quality and what barriers or market failures are relevant.
    b. What demand side energy services are lacking (or are expected to be lacking in the future) in terms of quantity and quality and what barriers or market failures are relevant.
    c. Flag any critical related energy market issues which are in need of review and reform but which are considered outside the immediate scope of this review.
3. Robust principles for designing responses to address the problems identified including, but not limited to, the following.
    a. As a first port of call, removing policy and regulatory barriers to enable commercial incentives and income streams to establish or boost energy services on the supply and demand side.
    b. As a last resort, implementing policy or regulatory mechanisms where they represent the least cost options for establishing or boosting energy services on the supply and demand side.
    c. All energy technologies are initially eligible and then assessed against their merits in terms of being able to address the problems identified at least cost (and with respect to the other two trilemma objectives).
4. Comprehensive implementation plan and timeframes for agreed reforms to wholesale energy market settings.
    a. Provide a bridging period for reforms that is staged and prioritised to help give all governments time to build confidence, particularly where it involves them stepping back from market interventions.
    b. Commonwealth Government to consider providing a system of 'reform incentives' to jurisdictional governments to encourage a long term joint commitment to implementing agreed reforms.
    c. Indicate any prioritisation and policy sequencing required between wholesale energy market reforms and other energy market and emission reduction policies (for example, policies driving the rate of electrification of gas loads across other sectors of the economy).

[5] National Electricity Law, National Gas Law, National Energy Retail Law.