Australian Sustainable Finance Institute
Consultation portal
30 June 2024

RE: Comments on the Taxonomy (V0.1) Consultation Paper

Australian Energy Producers is pleased to provide this submission on the Australian Sustainable Financial Institute's (ASFI) *Australian Sustainable Financial Taxonomy* (V0.1) consultation paper.

This submission builds on our December 2023 submission to the Department of Treasury's consultations on Australia's Sustainable Finance Strategy, where we highlighted the importance of the Taxonomy being technology-neutral. Our submission reflected on the role of market-based measures such as the Safeguard Mechanism and the Australian Carbon Credits Unit (ACCU) scheme as already providing efficient carbon-related investment signals to financial markets.

Australian Energy Producers' key concern with the proposed Taxonomy is the proposal to classify natural gas as a 'phase-down/out' activity. This is at odds with the critical role natural gas in Australia's transition to net zero by 2050, that was confirmed in the Federal Government's Future Gas Strategy.

The Strategy found that Australian natural gas has a critical long-term role in Australia's energy mix "to 2050 and beyond", and "gas will be essential to the transition because our energy system needs gas to achieve net zero" [1]. It also found that Australia requires new investment in gas supply because "continued gas development and more flexible gas infrastructure is needed to increase the resilience of Australia's energy system and keep costs down as we transition."

The proposed classification overlooks the crucial role of natural gas in mitigating emissions by switching out of higher-emitting fuels (coal, diesel) both domestically and regionally. It also ignores the broad range of proven mitigation solutions and practices available to significantly reduce emissions and transition to net-zero.

Furthermore, excluding consideration of abated natural gas at this stage of the Taxonomy's development risks prematurely narrowing the focus of abatement and energy investments and could hinder Australia's ability to achieve net-zero emissions by 2050 at least cost and with minimal disruption to its economy.

Australian Energy Producers recommends natural gas be classified as a transition activity and abated natural gas, carbon capture and storage (CCS), and hydrogen production with natural gas using CCS should all be classified as green activities.

The Taxonomy should align with the Government's Future Gas Strategy (FGS), which recognised natural gas as a core element of Australia's pathways to net-zero emissions by 2050, is vital, and that investment in new gas supply is necessary to meet Australia's energy needs to 2050 and beyond, and to meet the energy needs of our trade partners as they decarbonise their economies.

By supporting an increase in Australia's natural gas supply as a low-carbon energy source, low-carbon energy carrier (hydrogen), and industrial feedstock, the Taxonomy can help balance gas power generation with alternative energy storage technologies in the power sector and help maintain energy system stability as renewables are rapidly deployed.

The following responses address relevant questions in the ASFI's paper.

[1] Future Gas Strategy, Minister's Foreword, p3, May 2024.

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Do you agree with the proposal to provide the market with system-level advice for energy utilities or portfolios of assets that contain gas firming facilities? If so, please provide feedback on what issues should be covered in the advice. If not, please elaborate.

RESPONSE

The Taxonomy should remain technology-neutral, embracing all legal low-carbon options to ensure energy reliability and security. In doing so, the Taxonomy will avoid limiting the tools considered essential for energy system reliability and affordability. The Taxonomy should not limit any low-carbon options from fairly competing for access to attractive financing arrangements.

As stated, positioning natural gas as 'phase-down/out' risks prematurely narrowing the focus of sustainable energy investments, which is not in Australia's national interest.

Australia already has a robust financial system where the private sector efficiently allocates investments and prioritises the optimal and highest value use of natural gas. This includes system level information provided by the Australian Energy Market Operator's (AEMO) Integrated System Plan, on the necessary electricity generation mix required to maintain system reliability and stability. Additionally, Australia's legislated net zero emissions targets and the Safeguard Mechanism also ensure alignment and compliance with our international emissions reduction obligations.

The Taxonomy should support investment decisions by allowing the market maximum flexibility in managing its future carbon liability risks while leveraging Australia's comparative advantages in resources such as natural gas.

Only a technology-neutral approach can facilitate least-cost climate responses by leaving technology choices and risks to the market to decide on what and how it needs to comply with emissions reduction obligations; this also helps ensure affordability of climate action. Excluding least-cost considerations could hinder Australia's net-zero transition and increase living costs.

The ASFI's Technical Readiness Criteria (TRC) should adopt a broader approach to assess the commercial credibility of abatement technologies. Relying solely on Technical Readiness Levels (TRLs) overlooks the long-term mitigation potential of technologies, especially when many meet Technical Screening Criteria (TSC).

For example, the ASFI's TSC threshold for green activities in the power sector is 0.100tCO_2-e/MWh. Abated natural gas easily meets this threshold. Typically, natural gas generation emits around 0.350tCO_2-e/MWh; with CCS capturing over 90% of emissions, the abated emissions intensity falls to 0.035tCO_2-e/MWh, qualifying it as a green activity.

TRCs tend to overlook the broader operational context of technologies like CCS. CCS will need to play a broad role in helping Australia achieve net-zero emissions and energy policy objectives. The ASFI currently views CCS in the power sector as not credible due to its 'prior to early adoption stage.'

This is not only at odds with the EU's Taxonomy and the IEA's assessments, which both classify CCS components (capture, transport, storage) as technically sound, but the Global CCS Institute anecdotal market evidence of a 47% year on year (2022-2023) increase in CCS project capacity, with global capture capacity of 361MtCO_2 per year. This is 80% of Australia's total net emissions. CCS is clearly being commercially deployed globally across many sectors, not just power, including natural gas, fertilisers, chemicals, cement, maritime shipping, steel, and iron.

It is also at odds with the Future Gas Strategy, which found "Australia has significant onshore and offshore storage reservoirs potentially suitable for CCS projects… Successful deployment of CCS and negative emissions technologies can help decarbonise oil and gas operations and other hard-to-abate industries, such as cement production."

The Strategy also committed the Federal Government to "organise and attract investment in Australia's growing CCS industry" through a range of actions, including the development of fit-for-purpose regulatory

systems, and encouraging collaboration across industries to enable CCS projects to reach scale.

On a scale of 1-3, how much of a challenge is it to acquire lifecycle assessment data for upstream scope 3 emissions? (1 = not likely to ever be available, 2= challenging but can be resolved in time with better disclosures and evolving practices, 3= not challenging, data is readily available).

RESPONSE

Scale = 1 (not likely to be ever available).

Given the complexity of supply chains, where scope 3 emissions are legally accounted for across multiple entities, locations and at various stages of the value chain as scope 1 emissions, the challenges of sufficient and accurate data collection and aggregation are exceedingly difficult, if not impossible, to resolve. Global supply chains involve various entities operating in diverse settings, each with distinct reporting standards, lifecycle assessments (LCA) protocols, and varying compliance costs.

The substitution possibilities available to importers of Australian natural gas for coal and diesel (among others), coupled with the difficulty to credibly aggregate emissions data, often subject to commercial and legal confidentiality once offtakes are sold, do not lend to accurate and comprehensive scope 3 emissions LCAs.

Are there any additional activities that should be included, which comply with the taxonomy transition methodology?

RESPONSE

Yes.

Natural gas should be reclassified as a transition activity, aligning with the EU Taxonomy's classification (among others as noted). Additionally, abated natural gas, CCS, and hydrogen production with natural gas using CCS should all be classified as green.

Classifying natural gas as 'phase-down/out' and excluding consideration of abated natural gas at this stage of the Taxonomy's development risks prematurely narrowing the focus of abatement and energy investments. This could potentially hinder Australia's ability to achieve net-zero emissions by 2050 at least cost and with minimal disruption to its economy.

The proposed classification overlooks the crucial role of natural gas in mitigating emissions by switching out of higher-emitting fuels (coal, diesel) both domestically and regionally. It also ignores the broad range of proven mitigation solutions and practices available to significantly reduce emissions and transition to net zero.

ASFI's consultation paper discusses the average emissions intensity of electricity generation grids within the context of the International Energy Agency's (IEA) Net Zero Emissions by 2050 (NZE2050) scenario. The IEA projects that global average grid emissions intensity needs to decrease to 0.186tCO_2-e/MWh by 2030.

ASFI indicates Australia's grid is currently at 0.561tCO_2-e/MWh but needs to be no more than 0.100tCO_2-e/MWh by 2030 and zero by 2035. While these emissions intensity thresholds are not mandated by the Australian Government, the ASFI has adopted a TSC threshold of 0.100tCO_2-e/MWh for green activities in the power sector.

Despite ASFI's recommended classification, abated natural gas can easily meet this emissions intensity threshold. The emissions intensity of natural gas power generation without CCS is typically around 0.350tCO_2-e/MWh. With CCS capturing and permanently storing over 90% of CO_2 emissions, the abated emissions intensity of natural gas falls to about 0.035tCO_2-e/MWh, which is 35% of ASFI's TSC.

If you have additional feedback, please share below:

RESPONSE

Noting the Taxonomy is not mandated, it remains important it serves to guide financial markets in identifying gas-related activities essential for Australia's reliable and cost-effective transition to carbon neutrality, aligning with legislated emissions reduction targets.

As such we strongly recommend that ASFI extend their consultation process to allow for more detailed two-way industry-based consultation. We note that engagements to date have been held at a high level with various peak bodies and organisations, however these engagements have not fully provided for operational relevant feedback on the Taxonomy's underlying basis and categorisation of business activities, nor been structured to address those potentially directly impacted. As such, we are concerned that the Taxonomy may not be developed in the most effective manner, with the potential to be misaligned with Australia's decarbonisation pathways and policies.

Rather than ASFI attributing what are arguably contestable judgements on technology investments, the Taxonomy should remain technology-neutral, promoting the adoption of proven low-carbon solutions that are/will be commercially viable and considered crucial for achieving net zero emissions. Ensuring this neutrality will prevent unintentional disadvantage to legitimate activities and technologies and avoid favouring technologies that Australia may never be able to deploy at scale.

The ASFI's recommendation not to adopt the EU's classification of natural gas as a transitional and environmentally sustainable activity should be reconsidered. The EU's regulated classification aligns natural gas with the Paris Agreement's long-term climate goals and the proposed Taxonomy's Minimum Social Safeguards (MSS) and Do No Significant Harm (DNSH) principles. It recognises proven mitigation approaches, such as reducing emissions at point sources (including fugitive emissions), enhancing energy efficiency, and integrating CCUS.

Notably, the United Nations Framework Convention on Climate Change (UNFCCC) Paris Agreement, at its 28th Conference of the Parties, referred to natural gas as a transitional activity. Further, the EU Taxonomy acknowledges the rapid technological advancements and deployment in the natural gas sector, including the development of low-carbon solutions such as CCS, low-carbon hydrogen with natural gas, and methane management technologies which include effective leak detection and repair solutions to avoid and minimise fugitive emissions.

Australian Energy Producers considers classifying natural gas as a transitional activity and abated natural gas as a green activity is crucial for providing Australia's financial market with balanced and inclusive guidance on the necessary investments underpinning a more sustainable energy system. Natural gas clearly has mitigation options available, driving significant and sustainable emissions reductions over time, aligned with global 1.5°C pathways, while ensuring energy security, reliability, and affordability.

The proposed Taxonomy should comprehensively reassess the value and applications of natural gas, both within and outside the power sector. This includes acknowledging the significant role that unabated natural gas plays in reducing emissions by switching from coal and diesel to gas, both in Australia and the surrounding region.

The ASFI's proposed classification should be updated to classify unabated natural gas as transitional and abated natural gas as green to better represent the essential role of natural gas in achieving a transition to net zero emissions. This adjustment will enhance the effectiveness of the Taxonomy as a financial tool.

Yours faithfully,

Mark Bonner

Director, Climate and Energy Policy