

# NATIONAL ELECTRICITY WHOLESALE MARKET SETTINGS REVIEW | INITIAL CONSULTATION

Australian Energy Producers | 14 February 2025

Australian Energy Producers welcomes the opportunity to provide input into the National Electricity Market (NEM) wholesale market settings review initial consultation.

**The Australian Energy Market Operator (AEMO) is clear that natural gas power generation (GPG) is part of the “lowest-cost way to supply electricity to homes and businesses as Australia transitions to a net zero economy”.** GHG plays a key role in the transition away from coal and provides the firm dispatchable energy required to unlock large-scale renewable energy deployment. The 2024 Integrated System Plan (ISP) Orchestrated Step Change scenario sees GPG output increasing by over 170 per cent in the NEM over the next two decades.<sup>1</sup> If there is insufficient GPG in the NEM, coal would be expected to remain in the system for longer and the rollout of renewables would be constrained.

**Significant investment in new GPG is required in the coming decades to back up renewables and maintain energy security and affordability during the energy transition, but the investment case for gas is getting harder.** The ISP finds that investment in 12.8 GW of new flexible GPG capacity is needed across the NEM by 2050, including replacing 9.3 GW of existing capacity and adding another 3.5 GW of new capacity.<sup>2</sup> At the same time, increasing penetrations of variable renewables are fundamentally changing the market dynamics of the NEM and in-turn impacting the investment case for GPG.

**Excluding GPG from current and future NEM capacity mechanisms, such as the Capacity Investment Scheme (CIS), risks increasing the cost of electricity, reducing reliability of the network and undermining efforts to decarbonise the grid.** The current scope of the NEM Review unnecessarily constrains the Panel’s ability to consider the role of GPG, while ruling out potentially efficient energy security and emissions reductions policy approaches.

## Australian Energy Producers recommends

- **The terms of reference for the NEM Review should be revised to allow for consideration of mechanisms to support the rollout of GPG** | The NEM Review should allow for the Panel’s consideration of the role of GPG in the NEM and what mechanisms may be necessary to ensure sufficient GPG is brought to market.
- **Any modelling undertaken as part of the NEM review must include GPG** | The Panel must ensure that their modelling considers the role of GPG, including evaluating the impact of different policy pathways, technologies and uncertainties, constraints on the commercial rollout of renewables and long-term energy storage solutions, the consequences of inadequate GPG investment, and potential mechanisms to support investment in GPG.

<sup>1</sup> AEMO’S [2024 Integrated System Plan](#); 15 GW required capacity / (2.2 GW unretired existing capacity + 3.5 GW additional capacity)

<sup>2</sup> AEMO’S 2024 Integrated System Plan [page 69](#)

- **A coordinated approach from federal and state entities is required across the NEM to support streamlined permitting, consistent regulation, and aligned decision making** | Harmonising regulatory processes, reducing administrative burdens, and introducing standardised assessment criteria for new GPG and renewables projects will help expedite project approvals without compromising environmental or market integrity. Enhanced coordination between the Australian Energy Market Commission, the Australian Energy Regulator, and the AEMO could enable more effective implementation of the ISP by ensuring that transmission and generation developments align with long-term system needs.

**Urgent action is required to address forecast gas shortfalls and to support the critical role of GPG in the NEM, including removing barriers to new gas projects and investment.** The ACCC has repeatedly highlighted that structural gas shortfalls could occur on the east coast as early as 2027, with potential shortfalls in peak periods from this year. Should shortfalls be allowed to eventuate they will have a significant impact on the economy, including undermining energy security and exacerbating cost-of-living pressures for all Australia households and businesses. The ACCC states that shortfalls “*would place continued upward pressure on prices in the domestic gas market, as well as pressure on the electricity market.*”<sup>3</sup>

To address shortfalls, the ACCC are clear that gas needs to be prioritised in Government energy policies – the ACCC state “*While gas will be essential for achieving security of energy supply and orderly transition to a lower-emissions economy, it is largely not yet incorporated as a priority in State and Commonwealth energy transition policies*” and that “*The exclusion of gas means that there is uncertainty about how demand will be efficiently met.*” The inclusion of gas in Government energy policies should extend to the NEM review and associated electricity capacity mechanisms.

Australian Energy Producers remains ready to assist and support the Panel in its important review of the future of the NEM.

Yours sincerely,



**Samantha McCulloch**  
Chief Executive

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<sup>3</sup> ACCC January 2023 Gas Inquiry Interim Report [pages 110](#)