18 September 2026

Mr Daniel Besley

Head of Product and Industrial Emissions Branch
Via email to: Safeguard.Mechanism@dcceew.gov.au

Response to DCCEEW Consultation Paper on Safeguard Mechanism Review

Dear Mr Besley,

Squadron Energy welcomes the opportunity to respond to the Consultation Paper published by DCCEEW in August 2026 on the Safeguard Mechanism Review (the Review).

Squadron Energy is Australia's leading renewable energy company. We develop, own and operate renewable energy assets across Australia, with 2 gigawatts (GW) of generation in operation or under construction and a development pipeline spanning wind, solar, battery energy storage systems and gas peaking generation. We also own the Port Kembla Energy Terminal, a fully constructed Liquefied Natural Gas regasification terminal in NSW designed and built to introduce additional gas supply capacity, enhance gas supply security and support market-led supply solutions to emerging gas adequacy risks in southern markets.

Key points and recommendations

Squadron Energy recommends:

1. **Applying facility-level rather than sectoral emissions obligations to the electricity sector**. This will create a credible coal-exit signal, complement the Electricity Services Entry Mechanism (ESEM)'s renewable generation entry signal, and strengthen investment in the renewable generation needs to replace ageing coal plants and meet emissions targets.

2. **Providing a targeted adjustment for low-utilisation gas-powered generation** providing genuine firming and reliability services. This will recognise the importance of gas generation as coal retires while avoiding incentives for gas to replace coal as sustained energy generation.

3. **Creating an electricity-specific class of Safeguard Mechanism Credit (SMC)** that eligible low- and zero-emissions generators can earn. This would reward lower-emissions generation and strengthen the investment signal for clean replacement capacity, complementing the ESEM. Ring-fencing them from the existing industrial Safeguard credit market would protect incentives for on-site abatement, consistent with the Review's objectives.

Introduction

The Review is an important, SQE believe critical, opportunity to strengthen the investment signals needed to support an orderly transition of the electricity system.

Australia needs significant new renewable generation, storage and firming capacity to replace ageing coal generation as it retires. However, repeated extensions to coal plants' closure dates are suppressing expected wholesale revenues while the cost of developing new renewable projects - particularly wind - has increased. This situation has significantly impacted investment in renewable, storage and firming generation – in fact this has effectively stalled.

This widening gap between project costs and expected revenues is making it harder for new projects to reach final investment decision and financial close. In its *Clean Energy Australia 2026 Report*, the Clean Energy Council found that "just 2.3 GW of new renewable energy generation reached financial close in 2025, down 46 per cent compared to the previous year. Onshore wind fell 59 per cent, while utility-scale solar commitments fell 29 per cent".

The Review is considering how the Safeguard Mechanism should contribute to Australia's 2035 emissions target and net zero by 2050, while maintaining a stable and predictable framework that supports long-term investment. It should therefore consider how the Safeguard Mechanism can provide a clearer signal for the orderly exit of high-emissions generation, while supporting investment in the clean energy capacity needed to replace it. We note also that exiting coal is one of the most impactful lever for managing Australian emissions from a least-cost abatement perspective.

SECTION 1 - Apply the Safeguard Mechanism to individual electricity generators

Application of facility-level rather than sectoral emissions obligations to the electricity sector

Grid-connected electricity is currently subject to a single sectoral Safeguard baseline of around 198 Mt CO_2-e, rather than declining obligations for individual generators. As the sector's emissions are well below this baseline, the Safeguard Mechanism currently provides little constraint on individual coal generators. This is unlike the more than 200 individual, largely industrial, facilities covered by the Safeguard Mechanism which have facility-level emissions baselines that generally decline each year, requiring them to reduce emissions or surrender eligible credits where their emissions exceed their baseline.

This matters because repeated extensions to coal plants' closure dates are weakening the investment signal for the renewable generation, storage and firming capacity needed to replace them. Keeping coal in the market for longer suppresses expected wholesale revenues and creates uncertainty, precisely when the ageing coal plants are becoming more unreliable and emitting more due to their run profile.

This risks creating a vicious cycle: delayed coal plant closures, extending higher emissions, weaken investment in replacement capacity; insufficient replacement capacity then creates reliability concerns that support further coal plant extensions. This exposes the market to a real reliability long-term risk that either unexpected high unavailability or a catastrophic failure of one or a few coal plant units is not able to be redressed as the development timeframes for renewables is long.

The Safeguard Mechanism should therefore apply facility-level obligations to major scheduled and relevant semi-scheduled generators in the electricity sector, with a predictable declining emissions trajectory that aligns to the intended transition of the electricity sector.

This would complement the proposed ESEM whose aim is to provide an entry signal for new capacity to deliver bulk energy, shaping and firming services. Through this proposal, the Safeguard Mechanism can provide the corresponding exit signal for high-emissions generation.

Treatment of gas-powered-generation

Over the next 1-2 decades, gas-powered generation will continue to have an important role in maintaining reliability as coal plants retire and variable renewable generation increases. In fact. it is the single biggest enabler of facilitating coal exit and assuring winter grid reliability. The Australian Energy Market Operator's 2026 Integrated System Plan projects around 17 GW of gas-powered capacity will be required by 2050, primarily to provide flexible firming capacity during periods of low renewable output.

Safeguard settings should therefore distinguish between sustained fossil-fuel generation and low-utilisation gas generation providing genuine firming and reliability services. This could be factored through a targeted adjustment for peaking generation (such as a capacity-factor-adjusted baseline or other adjustment).

Any adjustment should be tightly targeted so it supports the gas-powered generation needed for reliability without encouraging gas to replace coal as a source of sustained energy generation. This threshold should be carefully calibrated, with possible regular reviews to align with market dynamics (e.g. when significant coal volumes exit, gas powered generation may temporarily be required to do the heavy lifting while the build out of renewables and storage ramps up), whilst avoiding adding unnecessary uncertainty that could detract from the business case for new gas peaking plants

Government should coordinate these arrangements with ESEM and publish a transparent view of expected new entry and required firming capacity, giving investors greater confidence in the quantum and timing of capital required.

SECTION 2 - Create an electricity-specific class of SMC

Alongside facility-level obligations, the Government should create an electricity-specific class of SMC that eligible low- and zero-emissions generators can earn.

This would complement the introduction of facility-level obligations to create both sides of the investment signal: higher-emissions generation would face a cost, while clean replacement generation would be rewarded for their lower-emissions.

Electricity-specific SMCs should be ring-fenced from the existing industrial Safeguard credit market. This would avoid weakening the incentive for non-electricity Safeguard facilities to reduce their own emissions.

Detailed eligibility and additionality rules should be developed through further consultation to ensure credits support genuine emissions reductions and new investment.

This measure would create a stronger market-based revenue signal for new clean generation and could reduce the level of underwriting required through the ESEM to bring forward the replacement capacity the electricity system needs.

The objective should be a simple, coordinated framework: ESEM supports entry, facility-level Safeguard obligations support orderly exit, and electricity-specific SMCs help direct value towards the clean capacity needed to replace ageing coal generation.

If you would like to discuss this submission or any related content, please contact Marilyne Crestias, Director – Energy Policy & Regulation at marilyne.crestias@squadronenergy.com.

Yours sincerely



Dan Newlan
EGM, Corporate Affairs and Community
Squadron Energy