

NEW SOUTH WALES RENEWABLE FUEL SCHEME RULE 1

2 FEBRUARY 2024

INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

Thank you for the opportunity to make a submission under the New South Wales Renewable Fuel Scheme Rule 1 Consultation Paper which sets out the eligible renewable fuels (only hydrogen produced by electrolysis) and the methodology for calculating renewable fuel certificates.

The EUAA notes that the NSW government has chosen a market-based approach, which for renewable fuel increases the cost for consumers, in addition to the increased cost from transitioning to renewable fuel (it is known that biomethane costs more than fossil gas and green hydrogen is even more expensive). The EUAA recommends that the NSW government should be alleviating these additional costs during the early years of implementation, incentivising the transition and attracting new investment to the country through cheaper renewable fuel implementation costs than elsewhere.

We are supportive of the least cost renewable fuels being able to participate on merit so while hydrogen is more expensive than biomethane it shouldn't be given special treatment in a market-based response, as this would increase total costs for consumers. The EUAA is hopeful that the proposed "Future work" includes biomethane as an additional renewable fuel and that a "Rule 2" to include biomethane can proceed as soon as possible.

The EUAA is disappointed that the NSW government has not changed the liable entities to include, at least, the transport sector or that transport energy has not been excluded as an end use of the green hydrogen. This is likely to result in stationary energy users (industry and households) cross subsidising transport energy users. As previously advised, these two end use applications are likely to be on different deployment and cost trajectories so should be treated separately in the RFS. The EUAA expected the RFS to be sophisticated enough to allow for different end uses.

The EUAA recommends that the NSW government expands the current list of liable entities to include all potential wholesale purchasers of the primary renewable fuel, that is gas retailers and wholesale customers for gaseous renewable fuels and fuel retailers for liquid fuels. Where a renewable fuel is utilised as an input to create another product, as is the case for ammonia and explosives, the entity who purchased the renewable fuel at the wholesale level should be the liable entity.

Government has also not provided any indication that it has considered the impact to large energy consumers given the magnitude of the increase in fuel costs for large gas users, many of whom need to increase natural gas

consumption in the short to medium term in order to reduce carbon emissions, before becoming zero emissions before 2050. Additionally, several EUAA members consume significant quantities of natural gas in NSW. As such, the financial impact of the current pass-through mechanism may have significant impacts on the operations of those facilities.

In establishing an exemptions framework, government should consider potential costs, particularly the impact to large energy consumers including the magnitude of the increase in gas costs (inclusive of renewable fuel purchase price, supply charges, plant conversion costs and the cost of policy implementation) and the impact these have on competitiveness, both domestically (interstate) and internationally.

The EUAA supports NSW's renewable fuel target being complementary to the Safeguard Mechanism. If the NSW Government creates an NSW renewable fuel certificate that is additional to an ACCU, the emissions reduction achieved will be double accounted and double funded, leading to increased costs for all consumers.

Several Safeguard-regulated companies who are members of the EUAA are considering developing renewable fuel production to reduce their emissions profile. A clear policy environment that does not result in the Safeguard-regulated companies cross-subsidising other industries would assist these companies in their project development.

From a policy perspective, the EUAA would support exemptions based on the quantity of gas, e.g. above 0.5PJ per annum, which would maintain domestic and international competitiveness for these large energy consumers and would also capture EITE sites. However, as mentioned above, it is EUAA's strong preference government to have policies that orchestrate, facilitate and provide financial support through grants.

It must be recognised that in the case of meaningful quantities of hydrogen we will be faced with significant increases in the volume of electrical energy and associated energy infrastructure (i.e. transmission, storage, system strength) and that these costs must be considered as part of an overall green energy economy.

Therefore, in addition to significant increase in energy system costs the transition away from natural gas needs to be considered and implemented by the government in an orchestrated manner, to ensure that those that transition away from the natural gas do not leave increased costs for the remaining natural gas consumers, and that sufficient volumes of renewable fuels and natural gas are available at all times during the fuel transition to meet the total fuel demand.

RESPONSE TO SELECTED CONSULTATION QUESTIONS

1. Renewable Energy is the "eligible renewable energy source" as defined in the forthcoming 'GO Act 2024 (Cth)'.

The EUAA commends the NSW government for supporting the Commonwealth's Guarantee of Origin legislation and not duplicating the work. We support this approach.

2. Product GO certificates will be required to create renewable fuel certificates.

We think this is a logical step after utilising the Commonwealth's GO Act, and support this approach.

5. The Local Use Factor is 1 for all green hydrogen produced in NSW.

Without understanding the potential end use scenarios of proposed projects, the EUAA supports the use of Local Use Factor as 1 for all green hydrogen produced in NSW, however the EUAA recommends updating this as projects are being commissioned and offtake agreements are understood.

7. IPART will only accredit green hydrogen producers to create renewable fuel certificates.

The EUAA does not support the green hydrogen producers being the Accredited Certificate Providers (ACP) without understanding the audit process that will take place to ensure that the ACP's accounting practices and claims are accurate.

We would prefer to see third party ACP's to ensure the integrity of RFS certificate production.

8. Renewable Energy Certificates

- a. Only include certificates eligible under the GreenPower Program Rules**
- b. Involve the surrender of certificates through an accredited GreenPower product**

The EUAA does not see the need for hydrogen producers to purchase renewable energy only from the GreenPower Program providers. This approach appears anti-competitive and undermines the RFS use of the GO. GO certificates should be adequate to prove 100% renewable energy is supplied to create green hydrogen, and does not create additional administrative burdens.

The EUAA supports the surrendering of GO certificates by hydrogen producers so that the inherent "greenness" of the electricity stays with the hydrogen producer. The EUAA would not support selling the GO certificates by the hydrogen producers as this sells the "greenness".

12. The sites listed in clause 9.4 of the draft RFS rule can only create renewable fuel certificates for producing green hydrogen above their annual baseline production.

We support the exclusion of the current hydrogen annual baseline production capacity of Jemena's Horsley Green Energy Hub from the generation of RFS certificates. Including this facilities current production capacity conflicts with the RFS program goal of increasing hydrogen production capacity in NSW.

13. Future Work

The EUAA sees Future Work on the RFS as a priority and is disappointed that this work has not been performed prior to the current Consultation Paper. Future Work that the EUAA sees as a priority include:

- 1. Expanding the list of liable entities.** The EUAA strongly recommends expanding the current list of liable entities to include all potential wholesale purchasers of the primary renewable fuel, that is gas retailers and wholesale customers for gaseous renewable fuels and fuel retailers for liquid fuels. Where a renewable fuel is utilised as an input to create another product, as is the case for ammonia and explosives, the entity who purchased the renewable fuel at the wholesale level should be the liable entity. Given the NSW government will be collecting data on end-user and end-use location, we do not see any administrative barriers to designing the RFS Certificate costs to be covered by the hydrogen consumers that actually utilise the hydrogen instead of the current RFS liable entities being only natural gas consumers.

2. **Supporting other policies and programs.** The EUAA sees it as a priority to ensure the RFS will complement other programs relevant to our members, being Australian Carbon Credit Units and the Safeguard Mechanism. Undermining these important programs through the implementation of the RFS will make continued production in NSW difficult. The EUAA sees a starting point as exempting all facilities with a nominal annual consumption above 0.5PJ.
3. **Expanding the RFS into other fuels,** especially biomethane. The methane molecule is critical to many of EUAA's members and they are unable to achieve zero emissions without biomethane. The EUAA would support the NSW government introducing biomethane into the RFS to enable the development of the biomethane industry, noting that there is not enough biomass in Australia to support transitioning all of the current natural gas consumers to biomethane or blends of biomethane and hydrogen, therefore the EUAA would be looking for some kind of industrial priority in the consumption of biomethane.
4. **Local Use Factor.** The EUAA recommends updating the local use factors as projects are being commissioned and offtake agreements are understood.
5. **Other hydrogen production technologies.** The EUAA considers that the exclusion of other hydrogen production technologies in the current Rule 1 may hinder the development of the hydrogen industry in NSW, as new technologies are looking globally for places to build plant.

CONCLUDING REMARKS

The EUAA is supportive of the NSW governments RFS, but considers that the current policy framework is incomplete and requires further work before implementation and before the EUAA can place its full support behind the scheme.

The EUAA and its members are disappointed with the potentially significant cross-subsidisation of the transport sector by the stationary gas consumers with the policy design that has been legislated. The EUAA and its members consider that this issue needs to be addressed as a matter of urgency.

We are also concerned about the lack of regard of the financial impact to large consumers (and consumers more broadly, the focus on a single fuel via a single technology and the lack of oversight in the generation of RFS certificates.

EUAA members have advised that cost pass-throughs such as RFS certificates are increasingly challenging the cost base of large energy users. These types of costs fall outside of the long term "energy" contracts that were initially put in place to maintain a stable costbase/cashflow.

Do not hesitate to be in contact should you have any questions.



Andrew Richards
Chief Executive Officer