SUBMISSION

VICTORIAN INDUSTRIAL RENEWABLE GAS GUARANTEE - VICTORIA'S RENEWABLE GAS DIRECTIONS PAPER

7 FEBRUARY 2025

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 Victorian Industrial Renewable Gas Guarantee - Victoria's Renewable Gas Directions Paper.

At the EUAA, we support the design of rules, legislation and procedures that achieve efficient, cost effective and equitable outcomes for networks, developers and consumers. As the proposed Victorian Industrial Renewable Gas Guarantee currently stands, it does not achieve these outcomes as it is trying to achieve a cost reduction for a limited group of end users with broad socialisation of the costs.

From that perspective, while we have promoted and support a preferential supply of renewable gases for the hard to abate industrial sector, we have not suggested this occurs while residential, commercial, and SME consumers are blocked from accessing renewable gases where this is the cheapest option for them. As a matter of principle, we have also not suggested or supported cross subsidisation of industrial access to renewable gases by the other sectors.

We have also not proposed that other commercial and industrial premises that government suggest are easy to electrify are excluded from an Industrial Renewable Gas Guarantee as it would appear they have in the proposal. We provide below the types of scenarios of large commercial and industrial consumers:

- Large multinational corporate entities that have targets to decarbonise their global operations with limited annual budgets. With relatively small operations and large operational costs, Australian sites are well down the priority list for investment to refit, replace or rebuild sites, thus budgets are only large enough to become incrementally cleaner.
    - For many of these companies, a "drop in fuel", e.g. biomethane is more achievable than electrification.
- Companies that require a carbon atom for their process that will transition to natural gas (and eventually biomethane when available) to reduce their current scope 1 emissions.
- Companies that require the hydrogen atom in natural gas who can not convert to 100% green hydrogen due to the global investment priorities of the parent, but are planning to convert to a hydrogen blend.

- Companies that need the methane molecule for its chemical or physical properties who can not transition their site to hydrogen or electrify.
- Companies that need to pay for electricity network augmentations to electrify.
- Those that can and will electrify.

That is, in addition to technological and supply constraints for electrification, many businesses (and residents) do not have access to the capital required for electrification.

The currently proposed Industrial Renewable Gas Guarantee is restricted by what we consider to be the difficult to achieve 100% electrification of households. With approximately 2 million Victorian homes currently connected to the natural gas network, and a government net zero target for 2045, approximately 100,000 homes need to be electrified per annum (on a linear trajectory) to meet the target. We understand that Victoria has neither access to the capability and labour force, the devices required, nor the household capital to achieve this outcome. The achievement of the household electrification is placed further out of reach by the current national cost of living crisis.

However, what we have proposed and promoted is for government to identify the hard to abate sector facilities that require renewable gases, identify which renewable gas they require (i.e. biomethane or green hydrogen), the volume of gas required for the facility including the local community (based on the existing gas network infrastructure) and the creation of a “renewable gas zone”. Government will then need to facilitate the delivery of the required renewable gas in the volume required (this may be delivered in a staged approach) and consider what financial support (if any) and the delivery mechanism (Victorian Energy Upgrades, grants etc) the developer, industrial facility and households may require. A similar approach can be taken for gas fired power generation (GPG).

By having a locational approach, government can advise residents located within a “renewable gas zone” that they can still electrify, however they do not need to. For every household that is supplied renewable gas instead of electrifying, the residential net zero target becomes easier to achieve.

While this approach may marginally slow the transition for industry, it will achieve similar or better outcomes for the State. In this way, residential, commercial, SME etc premises can also benefit from the program. We only support collection of costs for the Industrial Renewable Gas Guarantee from all consumers where all consumers may benefit.

Alternatively, if government choose to limit consumption of renewable gases to industrial consumers and GPG, we do not support collection of the costs across the entire Victorian gas consumer base.

In short, we support either opening up access to renewable gases to all consumers within a renewable gas zone, with all consumers contributing to the costs, or keeping the proposed restriction of access of renewable gases to industrial consumers and GPG with only industrial consumers and GPG contributing to costs.

In addition to the above program design commentary, we are also opposed to the small target by 2035. We understand that the current distributed biomethane production in Victoria far exceeds the proposed target, suggesting that a coordinated and centralised approach will easily achieve new investment to meet the proposed 4.5PJ by 2035. We support the alternative proposal of 14.5PJ by 2035.

RESPONSES TO QUESTIONS

Industry Capacity:
Q1: How do you assess the feasibility of the 4.5 PJ target by 2035?
• Do you think 1 PJ of biomethane production annually is possible within the first three years of the scheme?

Given the lack of major investment in the biomethane and green hydrogen sector of large production facilities, we agree with the 1 PJ target for 2030 irrespective of the 2035 target.

We consider that the 4.5PJ is an easily met target, and after the first PJ by 2030, requires less than 1 PJ per annum of additional production. We believe that government should be promoting a stretch target and support the proposed 14.5 PJ target by 2035.

Q2: Could industry potentially deliver volumes greater than 4.5 PJ by 2035?
• If so, what degree of confidence is there, and what evidence is that confidence based on?
• Is there likely to be demand for renewable gases that exceeds 4.5 PJ by 2035? If there is, what evidence is this based on?

Amongst our members, we have many Victorian based consumers who are considering renewable gases for various processes with total demand in excess of 14.5PJ. The barriers to proceeding with renewable gases is a lack of supply, the increased cost, and for renewable hydrogen, the new capital investment in their plant that is either not at the end of its economic life or a lack of available capital to invest in the new infrastructure required to utilise hydrogen. We know the demand for more than 14.5PJ of renewable gas is present in Victoria, however government facilitation and financial support are required to provide the supply, reduce the cost and where appropriate assist industry with the transition.

Q3: How should the dual ambitions of scaling up a renewable gas sector while directing renewable gases to their highest-value use cases to drive additional decarbonisation be managed?

While we support the rapid scale up of renewable gases in Victoria, we do not consider that government is proposing to scale up quickly enough and we do not support the restricting of access to renewable gases to just the highest-value use cases. Instead, we propose “prioritising” highest-use cases within “renewable gas zones” with free access to renewable gases by all gas consumers within the renewable gas zone.

Cost Recovery:
Q4: Should the costs of a renewable gas certificate scheme be recovered from all gas users, including residential and small commercial (i.e. Tariff V) users?
OR
Should the costs of a renewable gas certificate scheme be recovered from industrial gas (i.e. Tariff D) users only?
• Please state your reasons in support of one option or the other.

The response to this question depends on government’s decision on who has access to renewable gases.

Should government proceed with directing renewable gases to industry and GPG, then from an equity perspective the costs should only be recovered from industry and GPG.

However, should government decide to pursue renewable gas zones that are established around industry, we support recovery of costs from all consumers (consistent with the way the Renewable Energy Certificates and Victorian Energy Efficiency Certificates are funded).

Liable Entity:
Q5: Should the liable entity (i.e. the organisation that must procure and surrender certificates in line with annual targets) under any Victorian renewable gas certificate scheme be:
• Licensed gas retailers along with wholesale energy purchasers who do not procure gas through a licensed retailer?
OR
• Are there other actors that could potentially be liable entities?
Please state your reasons in support of one option or the other

We support liable entities being all participants in Victoria with wholesale gas contracts, which includes industry who purchase gas directly through the wholesale market, GPG and gas retailers as long as certificates are fully fungible.

From that perspective, the draft GO Scheme documents from the Federal Government linked renewable molecules to the certificate generation which prevented fungibility and therefore should the Federal Government not change this approach and the Victorian Government links the renewable gas certificates to the GO Scheme, the ability for retailers and wholesale gas purchasers to obtain certificates could be restricted. We strongly recommend an approach that promotes open, transparent markets and maximises market liquidity and participation.

CONCLUDING REMARKS

We do not support the Victorian Renewable Gas Guarantee as it is currently proposed.

Instead, we support the larger proposed target of 14.5PJ, and either opening up access to renewable gases to all consumers within a "renewable gas zone", with all consumers contributing to the costs, or keeping the proposed restriction of access of renewable gases to industrial consumers with only industrial consumers contributing to costs.

The EUAA welcomes further discussions with us and our members around the issues raised in this submission.

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

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