

Department of Energy, Environment, and Climate Action
Victorian Government

Submitted online.

Victoria's Renewable Gas Directions Paper

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the Department of Energy, Environment, and Climate Action's consultation on Victoria's Renewable Gas Directions Paper ('Directions Paper').

The AEC is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

The AEC welcomes the considered approach the Department has undertaken to developing its renewable gas scheme. Renewable gases as a whole have not commercialised as quickly as hoped and this has created challenges in other jurisdictions especially with respect to locked-in hydrogen targets.

The AEC considers that the Directions Paper has taken some sensible steps to mitigate this risk by setting scaling targets, having the target metric be PJs rather than emissions reductions, and making these targets subject to a review cycle. The Victorian Government should supplement these efforts with targeted government support, such as in the form of competitive grants and tax concessions, to help trial or proof-of-concept renewable gas projects reach commercial status.

Nonetheless, the AEC cannot support the proposal to place liability on residential gas customers. The argument that it will only result in "minor overall gas bill impacts" downplays the affordability and fairness issues that arise through a retailer-led certificate scheme and will become more pronounced over time.

Fundamentally it is not good policy to expect residential gas customers to subsidise the uptake of renewable gases when they do not directly benefit from this uptake, no matter how small the bill costs might be.

Even then, the forces keeping gas bill impacts minor – scaling targets and dispersion across a large residential gas customer base – are temporary. If this policy and the Victorian Government's Gas Substitution Roadmap achieve their intended goals, then far fewer customers will be left on the gas network to subsidise meeting much higher targets. Conversely, if targets far exceed the pace of uptake it will result in residential gas customers paying a penalty rate for no policy gain.

This latter scenario is not merely hypothetical and is something other jurisdictions are currently grappling with due to the slower than expected maturity of hydrogen. Victoria can arguably learn from these first movers and focus on a best practice policy design that avoids this outcome now rather than attempt to back solve it in a future review.

To that end, the AEC prefers liability arrangements that reflect a beneficiary pays principle – i.e. those that benefit from renewable gas should pay for it. This will include some large gas

customers and should extend to large self-contracting users and mining operators. Consistent with a beneficiary pays principle, the Department should reject any proposal to make electricity customers liable for a renewable gas scheme.

Whichever liability approach is taken, the AEC suggests that the renewable gas scheme leverage the AER's existing experience in gas regulation in Victoria to set the gas charges to be passed onto gas retailers (assuming they still hold some role as liable entities). This will reduce the administrative burden of compliance with the scheme.

While it is outside the remit of this Directions Paper, the way in which renewable gases are reported under NGER will influence their demand and uptake. Currently the NGER scheme does not provide a market-based accounting method for the injection of renewable gas into shared infrastructure. After the most recent NGER consultation phase last year, it was noted that 'the department has commenced work on the development of a market method for renewable gas including biomethane, with the aim of being ready for consideration in next year's [2025] NGER update'. The AEC encourages the Victorian Department to work with their federal counterparts to implement this change.

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Yours sincerely,

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