

VICTORIA'S RENEWABLE GAS CONSULTATION PAPER

Getting electrification right to pave the way for
renewable gas.

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Master Electricians Australia (MEA) is the trade association representing electrical contractors recognised by industry, government and the community as the electrical industry's leading business partner, knowledge source and advocate. Our website is www.masterelectricians.com.au

MEA supports Victoria's Department of Energy, Environment and Climate Action's (DEECA) position that long term electrification of infrastructure in Victoria is desirable but believe that there are dangers for reliable electricity supply if the transition away from gas for cooking, space heating, and water heating is too swift. MEA have been strongly advocating that Commonwealth Governments need to introduce regulations to speed up the implementation of Consumer Energy Resources (CER) in residential and commercial buildings to increase capacity, stabilise the grid and reduce energy bills.

MEA concurs with the recommendation in the *Victoria's Renewable Gas Consultation Paper* (the report)¹ that electrification is not an economic alternative for the industrial sector using gas. We support DEECA stating that "early action to electrify and improve efficiency in buildings using mature already available technology can buy the time needed to increase the supply and reduce the (currently high) cost of renewable gas"². The technology is available now, Government regulation needs to reflect this, which in turn will assist with implementing renewable gas policies and reducing the amount of gas used in the Victorian market.

The ACT Government has recently accepted submissions in response to its position paper *DEVELOPING ACT'S INTEGRATED ENERGY PLANE Canberra is electrifying: Towards a net zero emission city*³. In MEA's response to the consultation, we pointed out that there will be significant challenges in decommissioning gas networks, and that electrification will immensely benefit from implementing regulations which swiftly action frameworks for bi-directional EV tariffs and other CER enabling initiatives. Rebates should be available for electrical infrastructure upgrades for existing dwellings to assist with electrification of buildings. We have identified that the move towards smart electrification and away from gas will be quicker if licenced electrical workers are recognised as Accredited Service Providers (ASPs) and allowed to install smart meters on premises.

Even though MEA's above commentary was in response to ACT Government, it reflects our overall position that DEECA needs to swiftly implement CER policies to complement its intention to decrease Victorian reliance on natural gas. If a comprehensive suite of CER initiatives is not simultaneously implemented with the Victorian governments de-gasification agenda, reliability of energy supply will be jeopardised impacting business and investor confidence.

¹ Victoria Department of Energy, Environment and Climate Action "Victoria's Renewable Gas Consultation Paper Consultation Paper" [2023].

² Ibid, page 12.

³ ACT Government "DEVELOPING ACT'S INTEGRATED ENERGY PLAN Canberra is electrifying: Towards a net zero emissions city Position Paper" [2023].

Consultation Questions

Question 2.1a – Do you agree with the use cases this paper has set out for biomethane and renewable hydrogen?

In the consultation paper there were three criteria put forward to be considered in the transition to Net Zero in Victoria; namely Affordability, Reliability, and Decarbonisation. MEA believe that the proposal on renewable gas, fails the Affordability and Reliability tests. Two completely new industries (bio-methane and hydrogen) would need to be scaled up to replace fossil gas supply.

Question 2.1b – Are there any other use cases that should be incentivised through a policy mechanism?

MEA believes that prioritising implementation of CER technology (home BESS, bi-directional EVs, HEMS) into the grid should flatten the electricity peak demand curve, reduce electricity pricing, and provide a natural market incentive towards electrification and away from fossil gas.

Question 3.1a - Regarding specific technology development, do you think the objective should be to:

- Consider all renewable gases neutrally (e.g. the lowest cost is supported); or
- Target specific technologies (e.g. renewable hydrogen)

Consider this on the basis of commercial readiness, emissions and energy intensity.

MEA believes that technologies should be considered neutrally and that the criteria set out in the paper of Affordability and Reliability should be weighed in considering the costs of the energy transition.

Question 3.2a – Should a renewable gas policy in Victoria be government-funded or market-based and why?

MEA supports DEECA's position that residential and commercial buildings can and should be 100 percent electrified, leaving natural gas to be utilised by a targeted group (industrial sector), in principle. However, a market-based approach should be used to develop competition to create innovative products and services to replace fossil gas.

Question 3.2b – Have we captured the advantages and disadvantages of a market-based approach? Are there any missing?

The disadvantages list in the report raised concern over a market-based approach not necessarily resulting in the best outcomes. MEA believes that a predominately market-based approach, with targeted government incentives will inherently create market competition of innovative services and products between suppliers to increase residential and commercial electrification.

Question 3.3a - Have we captured the potential policy options (and their advantages and disadvantages) to drive the uptake of renewable gas?

An alternative option is a market-based approach to implement CER in domestic and commercial settings, with government subsidy packages designed to alleviate financial pressures on consumers (e.g. infrastructure investment subsidies) and encourage co-investment in electricity infrastructure from the wider community. This will incentivise greater uptake of electrification required for the transition away from gas.

Question 3.3b - Which policy mechanism would be best suited to deploy renewable gas in Victoria?
Why?

Given MEA supports a market-based approach for funding the implementation of renewable gas, it follows the best policy option is a certificate style and direct obligation scheme if renewable gas policy were to be pursued. This is better than reverse auctions and tenders, as development and timelines are essentially at the project developer's mercy; both financial and non-financial interruptions often occur blowing out both deadlines and the government budget. Feed-in-tariffs are too unpredictable, especially with the volatile gas market; fairness for end-consumer costs is jeopardized and rocks the stability of investment.

Question 3.3c - What are the critical factors or policy design elements that are needed for successful project investment?

Factors:

- Project timelines
- Financial and legal responsibilities/liabilities
- Costs
 - How much?
 - Who will bear the costs?
- Impacted groups
 - Who benefits from the policy?
 - Who is at a disadvantage?
- Regulatory oversight
- Long-term sustainability
- Yield of return
- Opportunity costs
- Implementation
 - How long will the transition process take?
 - How do we change human behaviour?
- Existing frameworks/networks
 - Can the current frameworks be utilised?
 - If not, how do we disengage them? At what cost? Who bears the cost?
- Do we have the skilled labour for this transformation?
- Macro-economics
 - Employment
 - Interest rates
 - Inflation

Question 3.4a - Do you agree with the energy consumer types most impacted above? Are any user types, or potential impacts, missing?

MEA advocates that all residential and commercial buildings can and should be 100 percent electrified over time. This will require government regulatory intervention to ensure high-rise complexes, renters

and low-income households are positioned to make this transition. It therefore follows, the impacts suggested in the report for renters and low-income households will not eventuate as they will be fully electrified. Timelines for implementing renewable gas policies need to reflect electrification timelines.

The industrial sector is likely to on-charge costs associated with the market-based approach. However, we can expect the benefits of electrification to off-set this. For example, we are anticipating a fully electric fleet of vehicles in Australia thereby removing the costs of petrol and utilising bi-directional charging sourced from PV solar rooftops. Reduced transport costs lead to reduced costs of goods and services. This is why electrification is essential where possible as a 'sister' policy to the renewable gas. If we allow for skilled licenced electrical workers to install smart meters in homes as Accredited Service Providers (ASPs), electrification will be quicker allowing it to complement and off-set costs of renewable gas implementation.

Impact on international competitive market would require further investigation. If the impacts are deemed significant, government intervention could assist such as trading agreements with renewed international trading tariff reforms. With regards to risks of unemployment, the same argument could be made for government-based approach as there would be reduced funds to cover other public needs which can ultimately result in increased taxes. We are currently facing a living-crisis with large inflationary and interest pressures; government expenditure would be better invested towards living costs instead of renewable gas which will ultimately only benefit the industrial sector in the longer term.

Question 3.4b - What potential consequences should we consider in analysing the impact of potential policy costs?

- Labor
 - Will it increase unemployment through industries no longer existing?
 - Will it increase employment through innovative products and services?
- Interest levels
 - How will new policies impact Banks' comfort levels regarding loans
- Inflationary pressures
- Compliance (and regulatory oversight of this)
 - Does a new government department need to be created?
 - How do we monitor and punish non-compliance?
- Investors
 - Do policies create inviting investment opportunities for investors?
- Cost of delays
- Administrative costs
- Training
 - Skills labour
 - Consumer behaviour
- International engagement
 - Will new policy be acceptable by local standards of international markets?

- Do tariffs allow for such trading
- Maintenance costs
 - Who bears this and how is safety of ‘maintained’ network reviewed?

Question 3.4c - What are the best support policies for the different energy consumer types?

The best support policy for renewable gas transition is to ensure implementation of renewable energy policies allowing for secondary settlement points with separate meters at household and business premises to support the implementation of CER infrastructure. When these buildings are electrified, there is a reduced demand on gas, thereby releasing consumer demand on gas supply. Benefits of electrification (such as electric vehicle charging) will off-set costs of renewable gas.

Alternative supporting policies could include government support packages for low-income households or rebates. Until electrification is mandated, the government could introduce incentives for landlords to implement CER technology into their tenancy properties (such as tax deductions, or rebates).

For the industrial sector, government subsidies could be available. For example, businesses with ‘x’ number of staff on the payroll would receive wage subsidies, relieving pressures on the ‘bottom line’. This would, however, require regulatory oversight (and therefore policy) to ensure the supplier is not continuing to pass on non-existent costs to consumers.

Question 3.5a - Have we captured the relevant considerations for target design? If not, what aspects are missing?

MEA has no opinion.

Question 3.5b - What are your views on:

- The final target year and scheme duration?
- Target levels, including in intervening years?
- Target design?
- Target basis, including whether the target should be based only on distribution-connected sales or include transmission (i.e. Victoria-wide) sales?

The ACT’s latest consultation paper *Canberra is Electrifying: Towards a Net Zero Emissions City* three stage process provides a good example of a final target year and scheme duration:

1. Integrated Energy Plan 1 2024 – 2030
2. Integrated Energy Plan 2 2030 – 2035
3. Integrated Energy Plan 3 2035 – 2040

The ACT intends to be largely electrified by 2035 and begin decommissioning gas networks.⁴ While the ACT is still in the planning phase and therefore not committed to this timeline, it does provide a good timeframe example for natural gas implementation. VIC introducing a 20 year scheme duration for renewable gas would provide sufficient time to create different phases of implementation and allow

⁴ ACT Government “DEVELOPING ACT’S INTEGRATED ENERGY PLAN Canberra is electrifying: Towards a net zero emissions city Position Paper” [2023].



time for the industrial sector to slowly transition their infrastructure towards renewable gas. This creates less burdensome upfront costs for the industrial sector and provides time for consumers to transition off gas towards electrification. The VIC Government should give equal focus to electrification policies; doing so will remove concerns raised in question 3.4c above.

Whether 2025 is a good year to commence depends on whether VIC has sufficient electrification policies to work in concert with renewable gas or de-gasification policies, infrastructure, investment and regulatory framework to action its implementation.

Question 3.6a - Have we captured the issues, and the advantages and disadvantages, of including a renewable hydrogen sub-target? If not, what is missing?

MEA has no opinion.

Question 3.6b - Should there be a renewable hydrogen sub-target in any policy design?

MEA has no opinion.

Question 3.6c - Does hydrogen have a greater role in the decarbonisation of the gas network following the announcement of recent Australian and international policies (e.g., the Hydrogen Headstart program and United States Inflation Reduction Act)?

MEA has no opinion.

Question 3.7a - Have we captured all the potential end uses of renewable gases?

MEA has no opinion.

Question 3.7b - Have we captured the advantages and disadvantages of broad project eligibility?

MEA has no opinion.

Question 3.7c - Should any Victorian renewable gas policy allow behind-the-meter, transport and/or electricity firming projects to be eligible?

MEA believes that this may be advantageous.

Question 3.8a - Have we captured the co-benefits of a renewable gas policy mechanism? What is missing or needs to be changed?

MEA has no opinion.

Question 3.9a - Have we captured the barriers to increasing the uptake of renewable gas? What is missing or needs to be changed?

MEA has no opinion.

Question 3.10a - Have we captured the key certification and administration issues?

MEA has no opinion.

Question 3.10b - What options exist for a Victorian-based scheme for renewable gas production and how could this align with and/or complement the GO scheme once legislated?

MEA has no opinion.

Question 5.1a - Do you think measures taken in other jurisdictions are an effective way of increasing the uptake of renewable gas? If so, what can Victoria learn from these other jurisdictions?

MEA has no opinion.

Question 5.2a - Should a Victorian renewable gas target and/or certificate be additional to an ACCU (or the proposed new Safeguard Mechanism Credits)?

MEA has no opinion.

Question 5.2b - To what extent would, for current gas distribution companies, the Safeguard Mechanism create an incentive to implement renewable gas?

MEA has no opinion.

Question 5.2c - Is it likely that any Victorian Safeguard-regulated company would develop renewable gas production projects to meet their Safeguard obligations? How might a Victorian renewable gas scheme assist in this regard?

MEA has no opinion.

Question 5.3a - What opportunities are there for water corporations to enhance their biogas production in order to fulfill their, and Victoria's net zero obligations (both for onsite and offsite use)?

MEA has no opinion.

Question 5.3b - What are the opportunities and challenges water corporations could encounter when transitioning from producing biogas to biomethane?

MEA has no opinion.

Question 5.3c - What opportunities and challenges are there for water corporations to consider when investing in renewable hydrogen projects?

MEA has no opinion.

Question 5.3d - All things considered, what is the current strategic focus for water corporations: biogas, biomethane or renewable hydrogen?

MEA has no opinion.

Question 5.4a - What aspects of the Inflation Reduction Act will have the largest impact on Victoria's energy transition?

MEA has no opinion.



Question 5.4b - How can Victoria capitalise on and respond to, global clean energy investment, such as the Inflation Reduction Act and the Compact (discussed in Section 5.2 above)?

MEA has no opinion.



Conclusion

MEA has considered Table 1 in section 1.4 of the report, where 60% of the gas demand in Victoria is from domestic and commercial sources, with all the energy uses (space heating, water heating, cooking) being readily transferable to electrification over time. It is the 31% used by Industrial processes that seems to be the most intractable problem for an economic non-fossil gas alternative, that would not jeopardise the continuation of these industries in Victoria. Bearing this in mind, it seems that mandating rapid change in this sector would be counterproductive, and that efforts to speed up de-gasification in the residential and commercial sectors of the economy be focused on in the short-to-medium term using a deliberate and co-ordinated approach to implement CER in the Victorian grid. For the Industrial sector, it would seem prudent to take note of research and development into bio-methane and green hydrogen production, both in Australia and overseas to find the best low carbon alternative for industry.

As stated in the body of our submission, MEA believes that a move towards electrification and away from fossil gas should be market based and happen in such a way that does not put strain on the current capacity of the electrical grid. MEA believes that using residential and commercial infrastructure to time shift energy usage to flatten the demand curve, via a co-investment of the consumer and the government in CER technology such as home batteries and bi-directional enabled EVs, should be pursued in conjunction with the de-gasification agenda of the Victorian Government.