Victorian Government

Department of Energy, Environment, and Climate Action

Submitted via the Engage Victoria portal

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Victoria's Industrial Renewable Gas Directions Paper

AGL Energy (AGL) welcomes the opportunity to make a submission in response to Victoria's Industrial Renewable Gas Directions Paper (Directions Paper).

Proudly Australian since 1837, AGL delivers around 4.5 million gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. AGL operates the largest electricity generation portfolio in Australia of any ASX-listed company, with a total operated generation capacity of 7,982 MW as of 30 June 2024. Since 2006, AGL has invested billions of dollars in the construction and delivery of over 2 GW of renewable and firming capacity in the National Electricity Market.

AGL strongly supports the Victorian government's ambition to meet its long-term ambition of net zero greenhouse gas emissions by 2050. To achieve this objective, emissions must decline across all sectors of the economy, including the natural gas sector, which currently contributes around 17 per cent of Victoria's total greenhouse gas emissions. Although this transition to a low-emissions economy brings significant challenges, with well-designed policies there is potential to promote a more productive, inclusive economy with healthy, connected communities, underpinned by affordable energy.

AGL recognises the large part that we must play in the transition to a low carbon economy. Our 2022 Climate Transition Action Plan outlines AGL's ambition for decarbonisation, including the following commitments:

- Targeting a full exit from coal-fired generation by the end of FY35 (up to a decade earlier than previously announced).
- Ambition to meet customer energy demand with around 12 GW of new firming and renewable assets by 2036.
- An initial target of 5 GW of new firming and renewable capacity by 2030.

With the increased tightening of supply and demand conditions within Victoria and across the broader Eastern Australian gas markets, it has been a key priority for AGL to ensure adequate gas supplies for its customers, especially in the context of declining gas supply in the southern states with no replacement production or import facilities.

To support the transition of high emission industries to a cleaner future, in 2022 AGL acquired Energy360 Pty Ltd (Energy360). Energy360 is a leading provider of solutions for sustainable energy systems, by producing biogas through the break-down of residue organic materials in an oxygen-free environment, providing an effective renewable solution for commercial and industrial customers within agricultural, landfill, food processing and waste management industries.

AGL has also launched Electrify Now, which supports customers looking to switch away from natural gas appliances such as gas heating, gas hot water, and gas cooktops. This program aims to save customers money on their energy bills and reduce their home's carbon emissions.

AGL is committed to a safe and responsible transition, for our customers and community and pursuing its decarbonisation roadmap. Within this context, gas supply continues to be critical to achieving a successful transition to net zero, particularly through flexible peaking generation to support other forms of long duration storage or clean dispatchable generation.

AGL is broadly supportive of the Victorian Government's renewable gas policy direction as outlined in the Directions Paper. Some of the key suggestions that we have outlined below include:

- One of the key actions to open up potential biomethane is to look to unlock feedstock. The government must ensure that the appropriate laws, guidelines and policies are in place to support access to feedstock for use in producing renewable gas.
- Look to include some risk mitigation options such as a certificate shortfall penalty price and regular reviews of the scheme to help protect consumers and producers from any unforeseen impacts from the scheme.
- If the scheme costs are to be recovered from all gas customers, the Victorian Government should ensure that it looks at ways to manage the diverse impacts that the scheme may have on different customer groups, with one potential solution being redistributing some of the scheme's revenue to support vulnerable customers, renters, and small-to-medium enterprises with unclear gas substitution pathways.

AGL has provided more detailed responses to the Directions Paper questions below in **Appendix A**.

Should you have any questions in relation to this submission, please contact Leilani Kuhn (Policy Manager) on 03 8633 6934.

Yours sincerely,

AGL Energy

Appendix A – AGL's responses to the Directions Paper's questions

1. **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? If so, why? If not, why not?**

AGL's view is that any target needs to be ambitious enough to drive investment while also being achievable.

AGL considers the target of achieving 4.5 PJ per year within a decade (and 1PJ within three years of the start of the scheme) to be very feasible, if it is backed up by a well-defined and supported investment policy system. In fact, there may be room for a more ambitious target, however we would encourage the Victorian Government to implement the scheme and then use its planned review to assess the appropriateness of the target at that time.

Ensuring that the policy framework is clearly articulated and has broad support will be crucial for attracting the necessary investments and helping realise potential renewable gas projects. This includes providing incentives, streamlining regulatory processes, and fostering collaboration between stakeholders.

Biomethane is likely to play a significant role in meeting this target due to its relatively lower cost compared to renewable hydrogen, which is expected to remain more expensive in the near term. However, availability of feedstocks is likely to be one of the key constraints on the development of biomethane. AGL suggests that the Victorian Government work closely with industry to determine some key actions that could be implemented to address this risk.

2. **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?**

AGL considers that it is very likely that the renewable gas industry could deliver potentially greater volumes than 4.5PJ by 2035.

The Renewable Gas Alliance (RGA) commissioned Deloitte in 2023 to conduct a survey of Victorian project developers, pipeline operators, and retailers to build a clear understanding of the renewable gas pipeline projects in progress and their renewable gas potential out to 2030. The survey findings indicated a potential to inject 26 PJ of renewable gas into the state's network by 2030.

Demand for renewable gas

AEMO's central Step Change scenario currently anticipates stable industrial gas demand of around 57 PJ/year through the 2040s. Even with potential accelerated advancements in industrial electrification, a significant demand for gas is expected to persist from 2035 onwards.

The Victorian Industrial Renewable Gas Guarantee and the Commonwealth's Safeguard Mechanism will be crucial in bridging the cost gap between renewable and fossil gas. If these mechanisms effectively address the cost differential, it is reasonable to expect a sustained demand for renewable gas from industrial users in 2035 and beyond.

AEMO's Integrated System Plan (ISP) also emphasises the critical role of gas-powered generation (GPG) in providing backup during periods of low renewable output, and in meeting peaks in consumer demand after

the retirement of coal-fired generators. This indicates a continued, albeit variable, demand for gas from GPG.

While the exact volumes of this demand are challenging to quantify, the need for reliable backup power and peak demand management suggests that renewable gas is likely to play an important role in the energy mix.

To meet this expected demand, it will be imperative that the necessary infrastructure and policy support are in place to provide confidence to the market about long-term investments in renewable gas.

Given the above complexities in accurately predicting Victoria's industrial and GPG renewable gas demands, there are two risks associated with setting an appropriate target:

- Renewable gas is less scalable or more expensive than expected resulting in excessive energy user costs and an over-supply of renewable gas production.
- Victoria does not have adequate renewable gas supplies to meet its decarbonisation ambitions.

In our view, some of the ways that the government can seek to mitigate these risks include:

- **Scheme Safety Valve**: Setting a safety valve at a moderate premium to expected certificate prices can help manage the risk of renewable gas production being less scalable or more expensive than anticipated. This could be implemented through:
    - A certificate shortfall penalty price.
    - A public supply of compliance units available at a set price, with no bankability or tradability.
- **Penalty Price Revenue**: Ensuring that any penalty price revenue is pre-committed and legally mandated for uses that benefit gas users, such as:
    - Energy user rebates.
    - Offsetting gas user share of gas distribution network costs, including transition costs.
- **Managing Excess Supply**: Addressing the risk of excessive targeted supply compared to demand through regular scheme reviews to adjust future targets based on the latest supply and demand information.

These measures can help create a stable and supportive environment for the development of renewable gas resources, ensuring that both producers and consumers are protected.

3. **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?**

Managing these two dual ambitions requires careful planning and thought.

The Directions Paper outlines the preferred approach for all the renewable gas produced under the scheme to be reserved for the exclusive use of industrial and GPG sectors.

We can understand this approach given that electrification has been identified as the lowest cost way to decarbonise residential and small commercial customers. However, the practicalities of achieving this without imposing significant compliance costs on scheme participants is something that the Victorian Government needs to carefully consider.

AGL also supports the Victorian Government's commitment to ensuring that the renewable gas certificate scheme leverages relevant jurisdictional initiatives (such as the Guarantee of Origin Scheme (GO scheme) and the GreenPower Renewable Gas certification) and is designed in a way that can be integrated into a

national or multi-jurisdictional approach over time. This will be important to help minimise the compliance costs and the administrative burden on participants.

In aligning with the GO scheme, the Victorian Government should look to adopt the definitions of renewable gases as laid out in the GO Scheme. It should also rely on the GO scheme's registry and participants should not need to provide any additional evidence beyond the records held in that registry.

The Victorian Government should also seek to establish data-sharing arrangements with other scheme administrators to ensure the robustness of data.

4. **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 question of who the costs of a renewable gas certificate scheme should be recovered from is a complex one.

As AGL stated in our previous submission,[1] caution should be exercised when considering any policy options that could increase consumer energy bills.

Having said that, we also acknowledge that:

- The cost burden on residential and small commercial customers is expected to be relatively low, especially if gas prices stay well above historical averages which is expected. Although, we note that the costs associated with the scheme would increase as more customers disconnect from the gas network.
- Industrial energy users have a limited capacity to pay higher energy costs.
- The long-term continuity of industry provides broader benefits to the community.
- GPG enhances grid reliability, benefiting the entire community.
- Decarbonising the energy sector provides whole of society benefits by addressing climate change.

If it is decided that the costs of the renewable gas certificate scheme should be recovered from all gas customers, it will be crucial that the Victorian Government looks at ways to manage the diverse impacts that the scheme may have on different customer groups. One potential solution is redistributing some of the scheme's revenue to support vulnerable customers, renters, and small-to-medium enterprises with unclear gas substitution pathways as discussed above.

5. **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.**

AGL supports the liable entity being the licensed gas retailers along with wholesale energy purchasers who do not procure gas through a licensed retailer.

[1] See AGL's submission to Victoria's Renewable Gas Consultation Paper

There are certain efficiencies gain by placing liability on licensed gas retailers including:

- **Administrative Efficiency**: Retailers already have compliance systems in place due to participation in similar schemes.
- **Market Integration**: Retailers can effectively manage certificate procurement, pass through costs, and support market development.
- **Risk Management**: Retailers are experienced in handling environmental compliance obligations and associated costs.
- **Market Liquidity**: Retailers' involvement supports the development and liquidity of the certificate market.