

6 October 2023

Victorian State Government
Department of Energy, Environment, and Climate Action
PO Box 500
East Melbourne VIC 8002



Submitted online

Dear Victorian State Government Department of Energy, Environmental and Climate Action,

Victoria's Renewable Gas Consultation Paper

The Australian Financial Markets Association (**AFMA**) is responding to the Victorian State Government Department of Energy, Environment, and Climate Action's (**DEECA**) Victorian Renewable Gas Consultation Paper (**Scheme / Paper**).

AFMA is the leading financial markets industry association promoting efficiency, integrity and professionalism in Australia's financial markets, including the capital, credit, derivatives, foreign exchange, energy, carbon, and other specialist markets. Our membership base is comprised of over 125 of Australia's leading financial market participants, including many of the key participants in Australia's natural gas market.

AFMA supports the Commonwealth Government's target for Australia to be net-zero by 2050 and acknowledges that this will require significant change in the energy sector. In building the next generation of assets and technologies, the transition will require sizeable and regular capital inputs from the private sector. AFMA believes that markets will play a pivotal role in the energy transition in providing that capital on an efficient and sustained basis. AFMA therefore adopts a technologically neutral stance because we understand that markets will naturally drive the most efficient asset and technology outcomes.

Key points

- The scheme should focus on difficult to decarbonise sectors
- AFMA supports the inclusion of all renewable gases in the scheme
- AFMA support a market based approach
- The scheme should be designed as a tradeable certificate scheme, such as the Victorian Energy Upgrades (VEU) program
- The targets should be set in Gigajoules (GJ) or Terajoules (TJ) terms
- The scheme should be aligned with the Guarantee of Origin Scheme and the Safeguard

1. Renewable gas users

AFMA agrees with DEECA's analysis that renewable gases are unlikely to be cost competitive with natural gas in the near term, so we believe policies on what role they can play through targeted and measured policy is the most appropriate approach to take at this stage. We therefore agree that the focus of the scheme should be on hard to decarbonise industries, such as industrial businesses, where electrification may not be feasible or economically sound. Given that electrification is widely viewed

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as likely to be the most efficient approach for residential users, on this basis, we do not believe that residential energy users should be included in the scheme.

Similarly, whilst commercial and industrial users are often grouped together, we note a clear distinction. Large use, commercial users can more easily electrify, whereas many industrial users rely on gas for the core function of their business and as a result electrification may not be suitable to meet their business needs.

AFMA Recommendations

- i. Target the scheme at hard-to-abate sectors (i.e., industrial users) rather than residential and general users.

2. Inclusion of all renewable gases

AFMA also supports the Victorian State Government’s proposal to include all renewable gases, rather than limiting to just hydrogen. Allowing different gases to compete will lead to the lowest cost. We believe that as we move through the transition on the path to 2050, the market will naturally determine and drive investment into the most efficient, economic, and long-term viable fuel.

AFMA made similar representations to the New South Wales Government and cautioned them during their consultation process on the problem of green hydrogen being the only fuel eligible to participate in the NSW Renewable Fuel Scheme. As AFMA also recently highlighted in its submission to the National Hydrogen Review Strategy, the hydrogen industry (as remains the case with other renewable gases) is embryonic and we believe that the market needs to develop further before it can be considered as part of the solution to domestic energy security.

In this premature stage, we therefore strongly support including all renewable gases rather than limiting to one potential solution.

AFMA Recommendations

- ii. Include all renewable gases in the scheme enabling the market to determine the most effective and efficient fuel.

3. Markets based approach: creating a tradeable certificate scheme

AFMA strongly supports the option expressed in the consultation paper to develop a markets-based approach, which we assess to be the most appropriate approach to gaining investment in what will be a capital intensive scheme. AFMA would also highlight that a target, credit, or tradeable certificate has been critical to the development of other similar schemes in attracting investment. Designing the scheme as a tradeable certificates scheme would likely be conducive to a successful scheme. Given the uptake and success of the VEU Program, AFMA believes a tradeable certificate scheme similar to the VEU Program would be the better option.

Under the tradeable certificate scheme, AFMA believes it is most appropriate for the scheme to be ‘cost to causer’ where energy retailers have targets that are based upon their industrial users’ load who then have to surrender the certificates. Given that the end users are the focus of the emissions reduction and substitution from gas (industrial energy users), as well as benefiting from the scheme, to achieve the intended purpose of the scheme, the targets should be based on their load. The

obligations therefore would be based on the extent/ amount the energy retailer supplies industrial issuers.

AFMA would also recommend that self-contracting users also be captured under the obligation. Some of the largest industrial energy users do not have a contract with an energy retailer and purchase direct from the wholesale market. If self-contracting users' and their load were not part of the obligation, then some of Victoria's large emitters would be exempt from this emissions reduction effort. AFMA believes this to be an outcome contradictory to the intended purpose of the scheme.

4. Targets

Whilst AFMA makes no specific recommendations on the level of the target, we believe it is important to set the targets in GJ or TJ terms rather than linking to an evolving and adapting decarbonisation target or carbon savings. When a target is expressed in terms of reduced carbon emissions, rather than a consistent long-standing unit of measurement, the emissions intensity of the underlying electricity generation continues to change and evolve, as does in turn the target. This has become challenging not only to measure and conceptualise in terms of real-world benefit, but also creates complex moving pieces which disincentivise involvement and interactions. This has notably been a recurring issue in the VEU Program.

Supporting a markets-based approach will enable the most competitive and efficient product to naturally dominate. Therefore, AFMA does not support a hydrogen sub-target as it would dilute and disrupt the market signal.

AFMA Recommendations

- iii. Set the targets in terms of GJ or TJ rather than a moving decarbonisation linked target.
- iv. Do not dilute market signals by setting a hydrogen sub-target.

5. Interactions with other schemes

AFMA assess those interactions with other schemes a key consideration when developing Victoria's scheme. Alignment with other schemes will help minimise the compliance costs, which can often be burdensome and disincentivising. For sake of consistency, minimising compliance costs and future-proofing policy, AFMA recommends that the Victorian Government adopt the definitions on renewable gases as laid out in the Guarantee of Origin Scheme, currently being developed by the federal government. Aligning with the Guarantee of Origin Scheme will also help minimise administrative burden on participants and the scheme administrator. As such, we also believe that participants should not need to provide any additional evidence beyond the records held in the Guarantee of Origin Scheme registry and that the department should rely on the Guarantee of Origin scheme's registry.

AFMA also sees it as important to the schemes' integrity and success to enable entities captured under the Safeguard Mechanism to count savings under this scheme towards their safeguard targets. Should the Victorian State Government not opt for this approach, then we see considerable disadvantages.

Firstly, we assess that it complicates the scheme as it is unclear how emissions reductions attributable to the scheme would be dealt with in the Safeguard Mechanism. Secondly, entities wanting to support renewable gas but are also safeguard entities would be forced to pay twice. This would make the scheme uneconomical for safeguard entities, many of whom are energy retailers. Alignment would naturally likewise in turn help sustain and grow the scheme through to 2050 and beyond.

AFMA Recommendations

- v. Adopt the definitions of renewable gases used in the Guarantee of Origin Scheme.
- vi. Enable safeguard entities to count savings under this scheme toward their safeguard targets.

Thank you for considering the points and suggestions raised in this submission. AFMA would welcome the opportunity to discuss this submission further and would be pleased to provide further information or clarity as required. Please contact me via myoung@afma.com.au or 02 9776 7917.

Yours sincerely,



Monica Young

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