4 December 2023

Submission: NSW Renewable Fuels Scheme expansion

The Australian Pipelines and Gas Association (APGA) represents the owners, operators, designers, constructors and service providers of Australia's pipeline infrastructure, connecting natural and renewable gas production to demand centres in cities and other locations across Australia. Offering a wide range of services to gas users, retailers and producers, APGA members ensure the safe and reliable delivery of 28 per cent of the end-use energy consumed in Australia and are at the forefront of Australia's renewable gas industry, helping achieve net-zero as quickly and affordably as possible.

APGA welcomes the opportunity to contribute further comments to the Renewable Fuels Scheme (RFS). APGA applauds the RFS expansion to include biomethane as proposed by APGA in January 2023, but warns that the risk of gas customers paying for the decarbonisation of other sectors has not been solved by the new proposal.

Policy which results in cross-subsidies and some customers paying for the decarbonisation of others is inappropriate.

APGA recommends two solutions to address this issue within the RFS:

- Pursue national recognition of RFS certificates within National Greenhouse and Energy Reporting (NGER) legislation; and
- Consider separate customer-side targets, to address the potential crowding out of renewable gaseous fuels by renewable liquid fuels under the RFS.

APGA supports a net zero emission future for Australia by 2050,[1] Renewable gases represent a real, technically viable approach to lowest-cost energy decarbonisation in Australia. As set out in Gas Vision 2050,[2] APGA sees renewable gases such as hydrogen and biomethane playing a critical role in decarbonising gas use for both wholesale and retail customers. APGA is the largest industry contributor to the Future Fuels CRC,[3] which has over 80 research projects dedicated to leveraging the value of Australia's gas infrastructure to deliver decarbonised energy to homes, businesses, and industry throughout Australia.

Gas customers subsidise decarbonisation in other sectors

The expansion of the RFS to make transport and aviation fuel customers liable under the scheme will inappropriately make gas customers liable for emissions reduction in these sectors. Unfortunately, the simple expansion of liable parties to these end users does not

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[1] APGA, *Climate Statement*, available at: https://www.apga.org.au/apga-climate-statement
[2] APGA, 2020, *Gas Vision 2050*, https://www.apga.org.au/sites/default/files/uploaded-content/website-content/gasinnovation_04.pdf
[3] Future Fuels CRC: https://www.futurefuelscrc.com/

resolve the issue. This is because the scheme now spans multiple markets with different decarbonisation cost premiums.

Generally speaking, the premium paid for renewable alternatives to fossil liquid fuels is less than that paid for renewable alternatives to natural gas. These renewable alternatives to natural gas are still cost competitive or cheaper than electrification of gas demand. However, the higher premium relative to liquid fuel alternative premium means that RFS certificates produced by renewable alternatives to natural gas will cost more than RFS certificates produced by renewable alternatives to fossil liquid fuels.

This indicates that projects producing renewable alternatives to fossil liquid fuels will reach Final Investment Decision more easily off the back of selling lower cost RFS certificates.

While this seems like a good thing at first, if gas customers are paying for RFS certificates produced by renewable alternatives to fossil liquid fuels, then the renewable alternatives to natural gas will not as easily reach Final Investment Decision. If the renewable alternatives to natural gas aren't going into the gas network, then there is currently no way for gas customers to gain the emissions reduction benefit which they are paying for.

Once again, the RFS design risks gas customers paying for the decarbonisation of others.

Solutions to avoid gas customers paying for the decarbonisation of others

APGA has identified two solutions to avoid the RFS risking gas customers paying for the decarbonisation of others.

- National recognition of certificates under NGER – relatively straightforward, but out of NSW Government hands;
- Customer segment specific targets – more complex, but in NSW Government hands.

These issues are explored in the following sections. For the avoidance of doubt, APGA proposes *customer* side segmentation, not *producer* side segmentation.

National recognition of certificates under NGER

There is currently no mechanism under NGER legislation to recognise surrender of state-issued renewable fuel certificates as proof of zero scope 1 emission gas consumption. Allowing recognition of state or federally issued renewable gas certificates such as RFS certificates within the NGER Measurement Determination gas emissions accounting methodologies provides a simple solution to allowing gas customers to have their emissions reduction recognised, for which they are liable to pay under the RFS.

Luckily, there is precedent. Compilation 15 of the NGER Measurement Determination published June 2023 established a Market-Based Instrument (MBI) method for scope 2 emissions accounting under Section 7.4. This provides a precedent for using renewable energy certificates for emissions accounting, and a model for how this might be achieved for renewable fuels.

Unfortunately this is out of the hands of the NSW Government. NSW has the opportunity to engage with the Federal Government on behalf of all NSW gas customers to propose that emissions reporting method similar to section 7.4 of the NGER Measurement Determination be replicated for gas combustion emissions reporting.

Customer segment specific targets

A more detailed amendment to the RFS to avoid gas customers paying for the decarbonisation of others would be to include separate targets for each customer segment.

The RFS could have separate targets for gas networks, for transport fuel, and for sustainable aviation fuels. Similar in concept to fuel-specific targets but aimed at specific subsets of customers, this would ensure that all RFS certificates are produced by renewable fuel production that goes into each customer market. This would allow each segment to get the corresponding emissions reduction benefit, and avert cross-subsidisation of decarbonisation by different customers..

A precedent for this exists in the Renewable Energy Target, which only focused on electricity customers. This had separate targets for large and small certificates (Large Generation Certificates v Small-scale Renewable Energy Scheme), targeting different segments of the market.

To discuss any of the above feedback further, please contact me on +61 422 057 856 or jmccollum@apga.org.au.

Yours sincerely,

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Consultation questions

1 What renewable fuels do we need to produce at scale to achieve net zero?

- All renewable fuels should be explored to produce at scale, however APGA considers that renewable gases are a priority to achieving net zero.
- APGA goes into detail in the general opportunities of renewable gases to support decarbonisation in our submissions to the Senate Inquiry into Household Electrification[4] and the Future Gas Strategy.

2 Of these fuels, which need incentives under the scheme to be commercially viable and for how long?

- As detailed in our submission above, gaseous fuels may require more incentives to achieve scale relative to liquid fuels as the design of the RFS will prioritise liquid fuel replacement.
- The extent to which production of biomethane and biodiesels for sustainable aviation fuels compete for available feedstocks should also be considered when designing incentives (such as the RFS).

3 Which fuels or production pathways should not receive incentives under the scheme? For example, should methane generated from landfill be excluded?

- APGA does not see a reason why biomethane generated from landfill should be excluded. All production pathways for renewable fuels should be considered, and biomethane from landfill will be an important source to support scale-up of the industry.

4 If biogenic fuels are included in the scheme, what controls should be in place to safeguard environmental outcomes and avoid competing with food production?

- APGA defers to biogenic fuel producers on this topic.

5 If the scheme is expanded to include other renewable fuels, who should be the liable parties and why?

- APGA agrees with the proposal to expand the RFS to include biogenic fuels, and the extension of liability to all gas users. However, where gas users are liable for the scheme, they are likely to cross-subsidise liquid fuel replacement as this is incentivised by the scheme.
- This should be addressed through separate means (such as scheme targets) rather than by further adjusting scheme liability.

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[4] APGA, 2023, *Submission: Inquiry into Residential Electrification*, https://www.apga.org.au/sites/default/files/uploaded-content/field_f_content_file/20230929_apga_submission_-_submission_to_federal_residential_electrification_enquiry_compressed.pdf

6 Are there any other liable parties or principles for choosing liable parties that we should consider?

- Issues of liability and proportionality should be reconsidered in light of APGA's suggestion to implement customer segment specific targets.
- Generally, APGA's position is that customers should be able to benefit from the emissions reduction for which they pay. The current liability design of the RFS scheme does not fully permit this for gas customers, who will likely subsidise the decarbonisation of liquid fuels.

7 If there are multiple categories of liable parties, how should liability be apportioned between them?

- See Q6.

8 What target levels are appropriate beyond 2030 to develop the scale of renewable fuel production needed for net zero in NSW by 2050?

- APGA has no comment on this.

9 How can the scheme best provide targeted support for hydrogen and e-fuels until these fuels are commercially mature? Is it more effective to have a separate target for hydrogen or a certificate multiplier, and why?

- APGA proposes separate customer segment specific targets, which would go some way to targeting 'support' for hydrogen and synthetic derivative fuels (electrofuels or e-fuels).
- APGA observes that hydrogen and biomethane share many of the same customers, and these customers are different to those of biogenic or synthetic liquid fuels (for example, biodiesel). It may be more appropriate to consider renewable gaseous fuels as separate to renewable liquid fuels.
- There are some consumers for whom e-fuels will be preferable to their biogenic renewable alternatives, providing additional incentive for e-fuel industry development through APGA's proposal for separate customer segment targets.

10 If hydrogen and e-fuels do not have targeted support under the scheme, what support outside of the scheme should Government provide to help establish supply chains now?

- APGA has no comment on this.

11 Should the target for an expanded scheme be a production volume in GJ or an increasing percentage of liable fuel sales, and why?

- APGA has no comment on this.

12 How can we provide assurance of the maximum scheme incentives for hydrogen project developers planning investment decisions before the scheme expansion is finalised in 2024?

- APGA has no comment on this.

13 What factors should the Government consider in setting the exemptions framework?

- APGA has no comment on this.

14 Should any exemptions be granted under the RFS?

- APGA has no comment on specific exemptions.

15 For the liquid fuel sector, should specific fuels or uses be exempt? For example, should agricultural use be exempt, and why? If so, how could this exemption be effectively regulated and audited, and when should it end?

- APGA defers to the liquid fuel sector on this topic.