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Department of Climate Change, Energy, the Environment and Water



Submitted online

National Renewable Gas Policy – Consultation Paper

The Australian Financial Markets Association (AFMA) is responding to the Energy and Climate Change Ministerial Council's (ECMC) National Renewable Gas Consultation Paper.

AFMA is the leading industry association representing Australia's financial markets - including the capital, credit, derivatives, foreign exchange, and other specialist markets. We have more than 140 members, from Australian and international banks, leading brokers, securities companies, and state government treasury corporations to fund managers, energy firms, and industry service providers. Our members include key participants in the Australian gas market and AFMA plays a key role maintaining market documentation for environmental products, including renewable gases.

Key Points

- **Renewable gases are likely to play important but niche roles in the gas market**
 - **Consistent national certification will aid the development of the market for renewable gases**
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The Australian gas market is undergoing a complicated transition with declines in both domestic demand and traditional sources of supply. AFMA considers that domestic gas demand will continue to decline as residential and commercial loads electrify but, as noted in the Commonwealth's Future Gas Strategy, there will be continuing roles for gas in electricity generation and hard to abate industrial sectors.

In the short term AFMA considers that lower cost renewable gases could play a modest role in ensuring gas security by partially replacing supply from traditional fields. Longer term we can see a range of renewable gases could play an important niche role as a fuel for industries with hard to abate emissions. AFMA considers that government can play an important role establishing standardised national renewable gas certifications, but we think government should be cautious as without significant policy support we anticipate renewable gases are unlikely to play a major role in the Australian energy market.

We note that significant funding has already been announced by the Commonwealth and jurisdictions, including the \$1.1 billion Cleaner Fuels Program, but that currently a green premium is required to make renewable gases viable. We think clearer policy signals regarding the role renewable gases will play as part of the economy-wide contributions to decarbonisation are required to create demand for renewable gases and suggest this should include separating the green value from the underlying commodity to avoid the risk of policy interventions distorting the gas market.

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1. National certification

The current fragmentation of renewable gas standards under state and voluntary schemes has hindered the development of the renewable gas market. Developing consistent technology-neutral national standards that the existing schemes can transition to will be an important first step to facilitate the development of renewable gases. The Commonwealth's Guarantee of Origin scheme could serve as a framework for a national certification although we note some of our members consider that the administrative burden of this scheme is prohibitive for renewable gas projects. AFMA considers that there would be merit in considering if the fungible certificate framework used for Renewable Electricity Guarantee of Origin certificates might be more appropriate to support the development of a renewable gas market than the more product linked arrangements under the Product Guarantee of Origin framework. We think it is important to design the certification scheme in a way that ensures the administrative burden of participating does not outweigh the benefits.

AFMA also understand that lack of recognition under the Commonwealth's NGER methodology that underpins the Safeguard Mechanism has been a significant barrier to the uptake of renewable gas under GreenPower's voluntary Renewable Gas Guarantee of Origin (RGGO) scheme. We think ECMC should consider the treatment of emissions reductions resulting from the use of renewable gases under the NGERS framework as part of the development of a national renewable gas policy. We would also suggest ECMC should consider integrating the existing jurisdictional schemes into one technology-neutral, market-based framework.

AFMA Recommendations

- i. There should be national certifications for renewable gases.
- ii. ECMC should consider developing fungible certificates.
- iii. ECMC should consider integrating the existing jurisdictional schemes into one technology-neutral, market-based framework.
- iv. Emissions reductions from the use of renewable gases should be able to be counted towards liable entities Safeguard targets and used for voluntary abatement.

2. Role of renewable gases

State and voluntary renewable gas schemes have existed for a number of years and give some insight into the challenges of developing renewable gases and the role they might play in the energy system. NSW's Renewable Fuels Scheme was established in 2021 to encourage the development of green hydrogen for use in the reticulated gas system, but commencement of the scheme has been delayed multiple times due to technical and commercial challenges of developing green hydrogen. GreenPower's voluntary RGGO scheme launched in 2023 and has enjoyed modest success supplying biomethane to commercial and industrial customers. Victoria's Gas Substitution Roadmap is the most ambitious of the schemes looking to use biomethane at scale to partially replace declining conventional gas production and we welcome Victoria's desire to work within the national framework.

AFMA's observation from these schemes is that green hydrogen and other more expensive renewable gases face significant commercial and technical hurdles. As a result, we think it is unlikely they will make a significant contribution to gas security in the near term and that mass market and

commercial customers are more likely to decarbonise via electrification rather than by switching to these fuels. While we think it is unlikely that high-cost renewable gases will be adopted broadly, we note that they may play an important role for industrial customers with hard to abate emissions. Currently biomethane appears to be both the most available and commercially viable renewable gas and we consider that it is the mostly likely renewable gas to be able to make a meaningful contribution to gas supply with both NSW and Victorian policy envisaging it playing a role in their states, but we note that as technologies evolve other gases may become competitive.

The experience of the existing voluntary and state schemes and the failure of existing policies to promote the development of a green hydrogen sector suggest that the combination of the commercial and technical challenges of developing renewable gases and limited demand, both domestically and internationally, mean that the scale of the renewable gas opportunity may be modest. AFMA therefore encourages ECMC to be clear eyed about the potential for renewable gases and appropriately scale policy to reflect this.

AFMA Recommendations

- v. ECMC should soberly consider the scale of the renewable gas opportunity and the level of government support required to realise it.

3. Policy support

AFMA considers that renewable gases are likely to play important but niche roles in the energy market. As a result, we think ECMC should be cautious about developing policy to support renewable gases and ensure that the cost of any government support is born by the parties that benefit from them. As discussed above, we consider that green hydrogen and other high-cost renewable gases are unlikely to play a major role in supplying mass market customers and therefore we think any policies to support them should look to allocate the cost of any support to the class of customers who benefit from them, rather than allocating the costs of the scheme broadly across all gas users.

It is difficult to comment on how renewable gases should be treated under the Domestic Supply Obligation (DSO) as that mechanism has not been finalised. Our initial thoughts are that renewable gases should not be precluded from being used to meet the DSO but it is not clear to us that they should receive any special preference under that scheme. We note the DSO is intended to ensure secure supply at reasonable prices and question the extent to which encouraging LNG exporters to supply smaller volumes of more expensive gas is consistent with this policy. We think policy should instead focus on allowing renewable gas producers to capture a green premium separately from the underlying supply of gas, possibly through a fungible certificate scheme.

AFMA Recommendations

- vi. Any support for renewable gases should be well focused and allocate costs to parties who benefit.
- vii. Renewable gases should not be excluded from the DSO but should not receive any preference under it.

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 at lgamble@afma.com.au or 02 9776 7994.

Yours sincerely,

A handwritten signature in black ink that reads "L. Gamble". The signature is written in a cursive, flowing style.

Lindsay Gamble

Head of Energy and Carbon