

2 August 2021



Angus Taylor
Minister for Energy and Emissions Reduction
Department of Industry, Science, Energy and Resources

Submitted electronically to GFRConsultation@industry.gov.au

Dear Minister Taylor,

Gas-Fired Recovery: Infrastructure and Investment

The Public Interest Advocacy Centre (PIAC) is leading social justice law and policy centre. Established in 1982, we are an independent, non-profit organisation that works with people and communities who are marginalised and facing disadvantage. PIAC builds a fairer, stronger society by helping to change laws, policies and practices that cause injustice and inequality. The Energy and Water Consumers' Advocacy Program (EWCAP) represents the interests of low-income and other residential consumers of electricity, gas and water in New South Wales. The program develops policy and advocates in the interests of low-income and other residential consumers in the NSW energy and water markets

PIAC welcomes the opportunity to respond to the Department of Industry, Science, Energy and Resources consultation into the Gas Fired Recovery Plan.

PIAC does not support the measures proposed in the Gas Fired Recovery Plan. We consider they will not deliver the Plan's intended benefits, while endangering urgent efforts to address climate change and presenting an unacceptable cost and risk to consumers and the community.

In PIAC's view, subsidising gas infrastructure will not lower costs for end users and is an ineffective means of stimulating economic recovery. Increasing fossil gas supply and use is incompatible with Australia's international climate commitments and will worsen already catastrophic climate change.

PIAC recommends the government helps consumers dependent on gas transition away from the fuel or afford it where they cannot, and seeks policies that couple decarbonisation with job creation at least cost and risk to consumers.

Future of gas

The role of gas in the energy system is diminishing and will continue to diminish for a range of reasons.

Gas Peaking Generation (GPG), which represents the majority of domestic gas consumption, faces competition from greater interconnection between regions, more Variable Renewable Energy (VRE) and lower cost storage in the NEM. Recent analysis from the Climate Council found gas generation playing a diminishing role in the

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NEM, falling by 19 percent in 2020,¹ and the Australian Energy Market Operator's (AEMO) most recent forecasts show GPG consumption will decline at an accelerating pace over the coming five years.²

Recent AEMO forecasts showing gas prices remaining (often well) above \$7/GJ for the next 30 years, suggest no future where the fuel can reasonably compete with renewable energy and storage in the NEM.³ AEMO's analysis from the 2020 Integrated System Plan suggests the price of gas would have to be around \$4/GJ and battery charging costs high for the fuel to compete with batteries in future.⁴

A trend towards electrification of traditional gas and transport loads in homes and businesses will also reduce gas demand. The ACT Government has committed to phase out fossil-fuel-gas in the ACT by 2045 at the latest and has set a goal of no new gas mains infrastructure to new developments by 2023. The Victorian government is currently consulting on a gas substitution roadmap to provide a framework for decarbonising fossil gas in Victoria.⁵ Other governments are likely to follow suit due to the many benefits of electrification, which include:

- Overall cost savings from avoiding appliance fuel and capital cost and the cost of gas network connections
- Higher efficiency
- Improved health and safety
- Ability to participate in electricity services and markets
- Easier and more rapid and cost-effective decarbonisation

Analysis from the Grattan Institute found households would save money and Australia would reduce emissions if new houses in NSW, Queensland, South Australia, and the ACT were all-electric.⁶

A transition away from gas will also be necessary to meet increasingly urgent net zero emissions objectives.

All jurisdictional governments in Australia have committed to net-zero by 2050 or earlier. Australia is a signatory to the Paris Agreement, which aims to reduce global warming to 1.5 degrees.⁷ Numerous bodies have warned radical cuts to emissions will be required by 2030 to avoid crossing the 2°C threshold (let alone 1.5°C) by 2100.

A recent report released by the Climate Targets Panel found:

¹ Climate Council, 2021. New data reveals 2020 was a shocker for gas. <https://www.climatecouncil.org.au/resources/new-data-reveals-2020-was-shocker-for-gas/>

² AEMO, 2021. Gas Statement of Opportunities, 21. https://aemo.com.au/-/media/files/gas/national_planning_and_forecasting/gsoo/2021/2021-gas-statement-of-opportunities.pdf?la=en

³ AEMO, July 2021. Inputs, Assumptions and Scenarios Report 2021, 97. <https://aemo.com.au/-/media/files/major-publications/isp/2021/2021-inputs-assumptions-and-scenarios-report.pdf?la=en>

⁴ AEMO, Integrated System Plan 2020, July 2020, 55. <https://aemo.com.au/-/media/files/major-publications/isp/2020/final-2020-integrated-system-plan.pdf>

⁵ Victoria State Government, 2021. Gas Substitution Roadmap. https://engage.vic.gov.au/download_file/49414/5619

⁶ Grattan Institute, Flame out The future of natural gas, November 2020, 3. <https://grattan.edu.au/wp-content/uploads/2020/11/Flame-out-Grattan-report.pdf>

⁷ The Paris Agreement, <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

To be consistent with the Paris Agreement goal of limiting global warming to well below 2°C, Australia's 2030 emissions reduction target must be 50% below 2005 levels. A 2035 target would need to be 67% below 2005 levels. Net-zero emissions would need to be reached by 2045.

To be consistent with the Paris Agreement goal of limiting global warming to 1.5°C, Australia's 2030 emissions reduction target must be 74% below 2005 levels, with net-zero emissions reached by 2035.

A simple 'net-zero emissions by 2050' target for Australia is not sufficient for the Paris Agreement goal of limiting global warming to well below 2°C (nor 1.5°C).⁸

With this in mind, gas would need to be phased-out rapidly for Australia to meet its international obligations and ensure a safe climate for future generations.

Likelihood of effectiveness

Diverse stakeholders have dismissed the likelihood of lower gas prices or an increased role of gas in the future energy system. Origin director and former boss of gas pipeline business APA, Mick McCormack, said in January 2021 the kinds of low gas prices being discussed as the goal of the 'gas-led recovery' are not likely, saying \$4 per gigajoule was unrealistic.⁹

A report by the Grattan Institute found eastern Australia "faces inexorably more expensive gas" and the "only rational approach, for governments, the energy industry, and its customers, is to begin planning for a future without natural gas, or at least with a substantially reduced role for natural gas".¹⁰ It notes the measures proposed in the federal government's 'gas-fired recovery' will "either make little to no difference to gas prices, or would require significant ongoing taxpayer subsidies to do so."¹¹

The government's plans do not stipulate such an ongoing commitment, and it would not be in the interests of taxpayers, consumers, or the community to do so.

The energy minister of Australia's most populous state, Matt Kean, following the announcement of the Gas-Led Recovery Plan in 2020, said, "the business case for gas is on the clock" gas "may be useful in the short term", wind, solar, pumped hydro and batteries are "the future for New South Wales".

AEMO recently abandoned plans to model a gas-led recovery scenario in its development of the 2022 ISP, largely due to widespread feedback the scenario was implausible and not useful.

Helping consumers with high gas prices

High gas prices are an issue for many large and small consumers who rely on the fuel. Given the difficulty in reducing gas prices over the long term without large government subsidies, the need to phase out gas use to meet urgent emissions reduction targets, and the many benefits of electrification and other fuel switching, governments should focus on helping consumers rapidly transition away from gas and afford it until that is possible.

⁸ Climate Targets Panel Report, January 2021. Australia's Paris Agreement Pathways: Updating the Climate Change Authority's 2014 Emissions Reduction Targets, 6.

⁹ The Australian, January 2021. Cheap gas is unrealistic, warns Origin Energy director Mick McCormack. <https://www.theaustralian.com.au/business/mining-energy/cheap-gas-is-impossible-warns-origin-energy-director-mick-mccormack/news-story/cebf34dbf69c96932b589a5d9297335f>

¹⁰ Grattan Institute, Flame out The future of natural gas, November 2020, 3. <https://grattan.edu.au/wp-content/uploads/2020/11/Flame-out-Grattan-report.pdf>

¹¹ Grattan Institute, Flame out The future of natural gas, November 2020, 15. <https://grattan.edu.au/wp-content/uploads/2020/11/Flame-out-Grattan-report.pdf>

For residential consumers, one of the most effective means of reducing reliance on gas is to improve home energy efficiency. In June 2020, PIAC joined more than 50 other groups including the Australian Industry Group, the Australian Council of Social Services and National Shelter to call for an energy efficiency and solar installation program for low-income households. PIAC has also joined groups calling for states to commit to a framework for minimum energy efficiency standards for rental homes. As well as the benefits of reducing energy costs and improving comfort in households, improving energy efficiency is also job rich, and lowers emissions and network costs.

Similarly, commercial and industrial users reliant on gas should be supported to replace it with zero-emissions alternatives such as renewable electricity and renewable gas alternatives.

It is unacceptable to support increased extraction and transport of fossil gas to alleviate unaffordability, without first helping struggling consumers switch to other more affordable and sustainable fuel sources.

Pipeline investment

There is nothing preventing private investment in pipelines and other infrastructure where it has prospects of current and future value. Far from investing, some gas transmission and distribution businesses are currently pursuing accelerated depreciation of assets in recognition of their reduced value and rapidly increasing risk of stranding. It is irresponsible to invest public money where, due to unacceptable risks and costs, the private sector will not. Public investment in pipelines socialises the certain cost of asset stranding, and will lock in higher energy prices by crowding out cheaper sources of generation such as wind, solar and batteries, and increase emissions, as the role of gas declines.

PIAC strongly urges the government to develop alternative means of stimulating the economy and helping consumers with high gas prices that are effective and serve the long-term interest of consumers and the community.

PIAC welcomes the opportunity to discuss these matters further with the Department of Industry, Science, Energy and Resources.

Yours sincerely,

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