NSW Department of Climate Change, Energy, the Environment and Water

Submitted via email: renewablefuelscheme@environment.nsw.gov.au

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Opportunities for a Renewable Fuel Industry in NSW

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the NSW Department of Climate Change, Energy, the Environment and Water's ('Department') consultation on its *Opportunities for a Renewable Fuel Industry in NSW* ('Discussion Paper').

The Australian Energy Council is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

Renewable fuels are expected to play an increasingly important role in Australia's energy transition, especially when it comes to decarbonising heavy industrial and hard-to-abate sectors. The challenge facing policymakers is that these fuels are at different levels of maturity and generally not economically competitive enough for industries to switch to.

There are different policy levers governments can pull to incentivise the development of a renewable fuels industry. The main policy mechanism in NSW has been the Renewable Fuel Scheme ('RFS' or 'Scheme') which, to date, has focused only on increasing green hydrogen production. Unfortunately, the hydrogen industry has not matured quickly enough for the Scheme to be effective, resulting in slower renewable fuel uptake and regulatory uncertainty for liable entities.

This Discussion Paper provides an opportunity to consider how the RFS could operate more effectively. The AEC's response to this Paper has been guided by achieving two objectives: firstly, accelerating emissions reduction in sectors or industries without a current technological pathway and secondly, ensuring the costs of developing renewable fuels are efficient and spread equitably.

Consistent with these objectives, the AEC has four main recommendations:

1. The fuel eligibility criteria should be expanded to cover all renewable gases. Consideration should be given to having a separate policy lever for renewable liquid fuels.
2. A certificate scheme should only be one of multiple policy levers (such as direct funding and government orchestration) used to stimulate renewable fuel development in NSW.
3. The NSW Government should coordinate with other governments and leverage the Guarantee of Origin scheme to ensure there is harmonisation across the different jurisdictional renewable fuel policies.
4. The liable entities should be expanded to avoid unfairly burdening small gas customers and ensure costs are recovered equitably.

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Objectives of domestic renewable fuel industry

The AEC generally supports the objectives outlined in the Discussion Paper and believes they should be reflected in the legislation once amendments go ahead.

It should be made clear that the purpose of commercialising renewable fuel technologies is to help hard-to-abate sectors reduce their emissions, so NSW can meet its climate targets. This could include wording to the effect: *the objective of this scheme is to incentivise production of renewable fuels to achieve cost-efficient emissions reductions, especially in heavy industry or otherwise hard-to-abate sectors*.

This focus is helpful to ensure fuels developed under the Scheme are not being inefficiently allocated to sectors or industries with already clear and cheaper decarbonisation options (e.g. hydrogen replacing electrification in the reticulated gas network).

The AEC recommends including an objective about avoiding placing unreasonable costs on consumers. As the Scheme will likely involve recovering costs through consumers via certificates, policymakers should be mindful of how to minimise these costs. It is also important in the long run to keep track of whether a scheme remains needed (either because eligible fuels have reached commercial maturity or are not maturing quickly enough).

Recommendations on the design of Renewable Fuel Scheme

Recommendation 1 – Expand fuel eligibility criteria to include renewable gases

The AEC supports expanding the fuel eligibility criteria to include all renewable gases. This will increase the efficiency of the scheme by introducing some competitive pressures, which should push certificate prices lower, encourage innovation from eligible fuels, and reduce the risk of "putting all our eggs in one basket".

Just as importantly, some of these other fuels, notably biomethane, have already shown good potential to decarbonise target areas like industrial processing and heating, which is ultimately the purpose of the Scheme.

Furthermore, the Federal Government's *Future Made in Australia* policies – which includes significant funding for green hydrogen – has reduced the need for a separate, state-based hydrogen-only scheme.

While the Scheme should cover all renewable gases, the Government should consider whether there are better ways to incentivise the development of renewable liquid fuels, such as SAF and renewable diesel, which are derived from that gas. Other policy options might include having a separate certificate scheme for renewable liquids or direct funding.

If renewable liquids are included under the one certificate scheme, then the liable entities should be expanded to cover the likely end users – it would be an unfair cost burden to expect only gas retailers to subsidise liquid fuel uptake.

Recommendation 2 – Use multiple policy tools to stimulate renewable fuel uptake

The Discussion Paper raises some caution that expanding fuel eligibility criteria could lead to some gases (e.g. hydrogen) and some liquids (e.g. SAF) being crowded out because they are less commercially mature.

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The AEC considers this to be an intended feature of a market-based certificate scheme, which is to encourage cost-efficient abatement. The AEC does not support setting sub-targets or fuel carveouts within a certificate scheme because this is inefficient and risks locking in high costs.

The AEC would prefer to see additional policy support provided through separate and direct government funding forms. The type of support will depend on the circumstances but could include things like implementing a competitive grants scheme to support trial or proof-of-concept projects and/or setting up an innovation fund for R&D.

Any financial support should be supplemented by the NSW Government playing a role in identifying industry that might be suitable for renewable fuels and assisting with co-location of fuel production either onsite or nearby. In the case of biomethane, mechanisms that assist with orchestrating feedstock production can help lower costs and increase allocative efficiency while fuel sources are scarce. Orchestration of renewable fuel projects can also help ensure they are directed towards decarbonising hard-to-abate sectors.

Recommendation 3 – There should be harmonisation with other jurisdictional policies

Other jurisdictions, both federal and state, are similarly developing their own policies to increase renewable fuel production. This includes, for example:

- The Federal Government's *Future Made in Australia* agenda which has committed billions of dollars to renewable hydrogen production.
- The Guarantee of Origin ('GO') scheme which will certify hydrogen production and intends to soon also cover Low Carbon Liquid Fuels (LCLF).
- Victoria consulted on its renewable gas policy last year and is expected to make an announcement soon.

While these various policies indicate growing momentum behind renewable fuel development, it may also unnecessarily increase costs if there is poor harmonisation across jurisdictions. To encourage harmonisation, the AEC suggests that all state schemes leverage the GO Scheme for certification and administration (e.g. using its registry and participant features), and its definition of renewable energy/gases be adopted.

The NSW Government should also work with other jurisdictions to establish data-sharing arrangements between scheme administrators to ensure robustness.

Recommendation 4 – Costs should be recovered fairly

The current RFS places liability on gas retailers to recover costs of the Scheme through their customers. The AEC remains concerned about the equity of this, noting that:

- Many residential gas customers will not directly benefit from the fuels they are subsidising.
- The costs will be unfairly spread to smaller customers if large customers receive exemptions or are self-contracting users and not captured.
- Electrification will see fewer residential customers left on the gas network, meaning those that do remain are disproportionately exposed to scheme recovery costs.

The AEC notes that some design reforms (namely opening up fuel eligibility and using additional direct funding) should reduce certificate costs. However, there should also be an expansion of liable parties to capture those most likely to use these fuels. The AEC strongly suggests that if renewable liquids are included then the liable party arrangements must extend to liquid fuel

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users. For example, the beneficiaries of Sustainable Aviation Fuel would primarily be airlines and their customers, so to the extent SAF is included as a renewable fuel, airlines should also be included as entities from whom costs are recovered.

Waiver of liability in 2025

Noting both the intent to redesign the RFS and the absence of meaningful hydrogen production in NSW, the AEC supports the decision to waiver liability for 2025. Continuing ahead as is would only lead to unfair costs being placed on gas retailers and their customers.

The *Electricity Supply (General) Regulation 2014* currently specifies a $17.50 penalty rate for the 2025 compliance period. The Department has said it will set a penalty rate for 2026 this year, but then there will be legislative amendments made next year. What this means in practice is not clear.

The AEC considers it would be best practice to ensure the waiver of liability is reflected in legislation prior to 2025 to give legal certainty to liable entities.

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Yours sincerely,

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