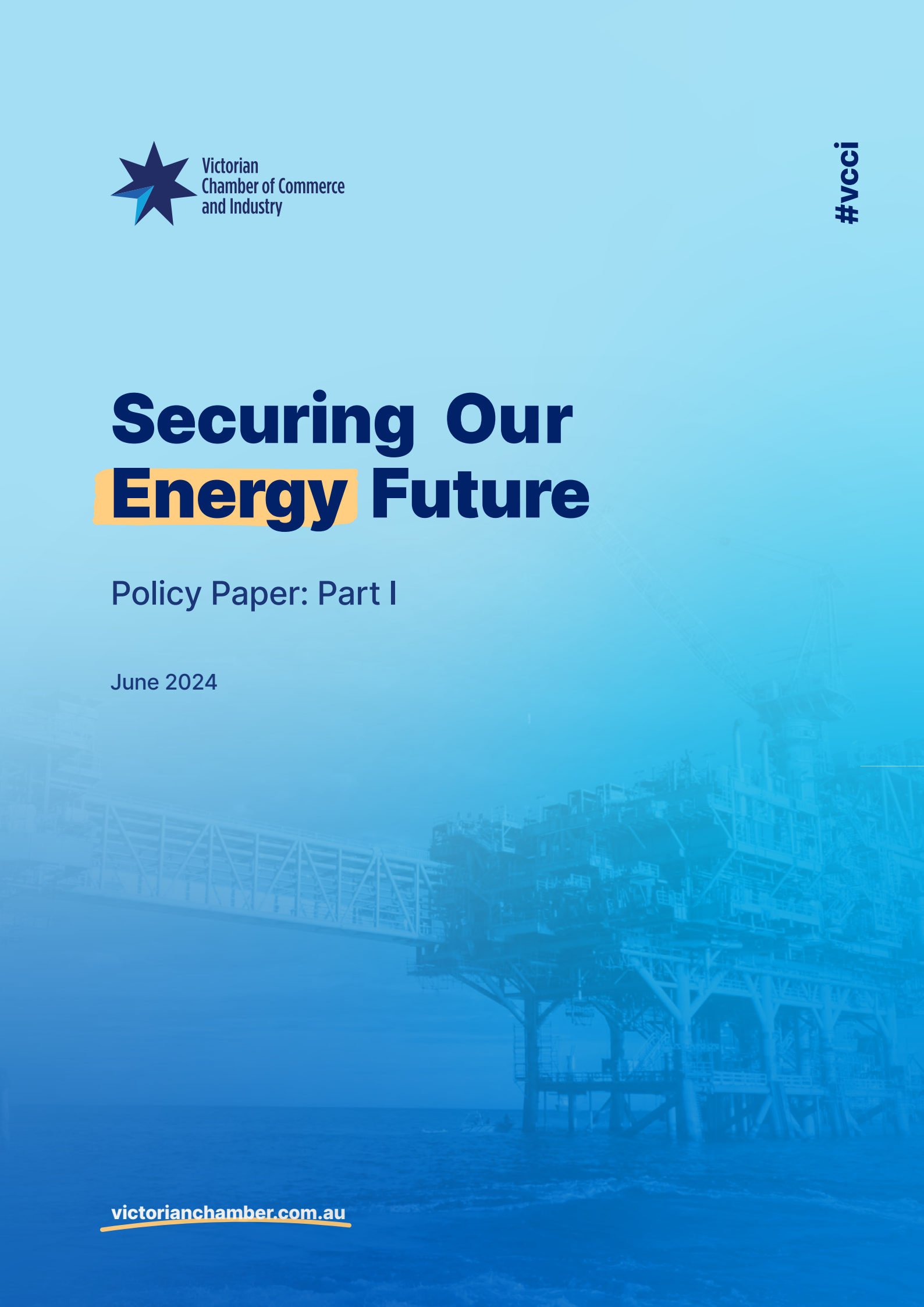
Victorian Chamber of Commerce and Industry

#vcci

Securing Our Energy Future

Policy Paper: Part I

June 2024



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Acknowledgement of Country

The Victorian Chamber of Commerce and Industry acknowledges the Aboriginal and Torres Strait Islander peoples of this nation. We acknowledge the Traditional Custodians, the Wurundjeri people of the Kulin Nation, of the lands on which the Victorian Chamber head office is located and extend this respect to all lands across the country.

We pay our respects to ancestors and elders, past and present, and support the continuation of cultural, spiritual and educational practices of Aboriginal and Torres Strait Islander peoples. We endeavour to develop stronger and enduring partnerships with First Peoples and work together to achieve economic, social and cultural equity and prosperity across Victoria.

We are committed to honouring Aboriginal and Torres Strait Islander peoples' unique cultural and spiritual relationships to the land, waters and seas and their rich contribution to society.

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Executive summary

One of the greatest uncertainties for industry today is energy security. Without it, business confidence, investment, profitability and jobs suffer.

The Victorian Chamber of Commerce and Industry is calling for pragmatic energy policies to get us through the next decade – a timeframe which the Australian Energy Market Operator (AEMO) predicts will be characterised by gas shortfalls and electricity blackouts amid delays in the development of new transmission lines and renewable energy projects.

The energy transition can be divided into two parts:

1. immediately ensuring sufficient supply of energy
2. transitioning society to net zero in the future.

This policy paper puts forward an alternative energy pathway and focuses on supply of energy, and particularly makes the case for gas to stay in the system at a time when there are little viable alternatives for industry.

It highlights the risks of our current trajectory, our vision for Victoria's energy revolution, and it lays the foundations for Victoria to reach the status of economic powerhouse.

The paper does not have an emphasis on electrification – a policy direction we support when it makes commercial sense – because we are awaiting the imminent release of the final Australian Energy Market Operator's (AEMO) 2024 Integrated System Plan (ISP).

Our energy prosperity will be underpinned by electrification and energy efficiency, natural gas, renewable gas, carbon capture and storage, and renewable liquid fuels.

There are multiple policy levers to achieve this energy prosperity.

We urge the Federal and State Governments to centre their efforts on immediately guaranteeing ongoing supply of energy; and bringing on new gas supply, streamlining regulatory approvals, upholding technology neutrality, setting targets, formally recognising emerging energies in pre-existing frameworks, and incentivising supply and demand of novel gases and liquid fuels.

The Federal Government's Future Gas Strategy [1] identifies the crucial role of natural and renewable gas. It is fundamental that the Federal and State Governments can align, otherwise we will need federal intervention to maintain energy security for the eastern seaboard.

Essential to all these policy measures is collaboration. Collaboration between governments, industry, investors, and workers.

At a time when the energy transition is challenged, we need to put the right foundations in place to uphold energy security, affordability and reliability now and into the future.

Our current trajectory is putting Victoria's prosperity at risk

Energy policy that is solely focused on electrification threatens our economy.

The electrification task is challenging. To reach future electrification demands, Australia must double the rate at which it builds grid-scale renewables.[2] There are also many barriers to electrification of industry and households, including costly capital investments and logistical issues.

AEMO has warned that investment in generation, firming, storage and transmission is rapidly required to provide secure, reliable and affordable electricity during the energy transition.[3]

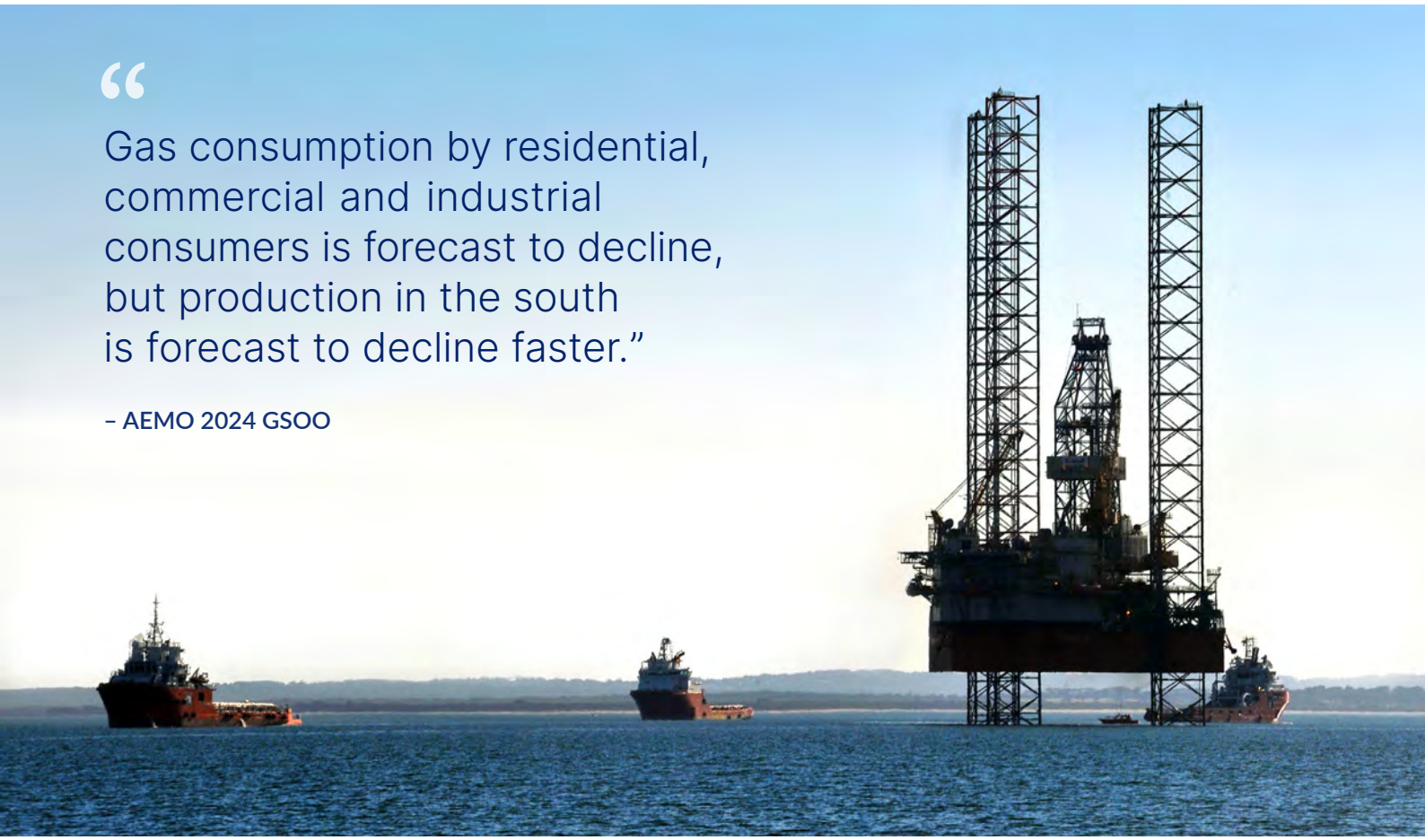
In the absence of AEMO's final 2024 Integrated System Plan (ISP), this policy paper focuses on the role of gas in our energy mix.

Victoria is at risk of gas supply gaps and price spikes becoming the norm for Victorian residential, commercial and industrial energy users.

Our gas reserves are rapidly depleting, and we need to quickly backfill these reserves with undeveloped gas resources and further exploration.

A lack of backup gas-powered generation (GPG) – with its firming capacity to support renewable energy production – and storage capacity puts the entire East Coast of Australia's energy security at risk.

Victoria's energy choices impact the entire nation. AEMO's 2024 Gas Statement of Opportunities (GSOO) forecasts gas shortfalls as early as 2025 for the East Coast of Australia.[4]



> "Gas consumption by residential, commercial and industrial consumers is forecast to decline, but production in the south is forecast to decline faster."
>
> – AEMO 2024 GSOO

Timeline of forecast gas deficiency risks according to AEMO's 2024 GSOO report [5]

2024

2025

- risks of shortfalls in winter in southern Australia under extreme peak demand conditions
- northern producers need to deliver anticipated supplies to meet domestic needs

2026

- potential for small seasonal supply gaps in each winter in southern Australia under sustained high gas usage conditions

2027

- potential for small seasonal supply gaps in each winter in southern Australia under sustained high gas usage conditions

2028

- annual supply gaps increase in magnitude as southern production declines, meaning new sources of gas supply are required

mid-2030s

- the forecast level of GPG increases as coal generators retire through the energy transition

The greatest threat is that our current path causes the closure of manufacturing and other gas-reliant businesses, mass exodus to other states or relocation offshore.

On our current trajectory, Victoria is at risk of:

Power outages meaning the lights and energy go out in households and businesses alike.

Running out of gas leaving gas-reliant industry without affordable energy alternatives and renewables without essential backup GPG.

Energy insecurity and unreliability because we have chosen to focus investment exclusively on wind and solar rather than relying on market mechanisms to drive low-cost abatement and innovation.

Rising energy prices that will leave local industry uncompetitive and limit new investment.

Slow carbon emissions reduction driven by the timing, availability and cost of limited available options and longer reliance on heavy-emitting coal-fired power generation.

Losing our competitive advantage – previously cheap gas for industry – to other states and overseas markets.

Mass exodus of businesses due to the rising cost of doing business in Victoria, causing the loss of thousands of jobs.

International competitors undercutting our sovereign manufacturing because of increased local production costs that factor in higher energy prices.

Deepening socio-economic disadvantage as the current policy settings benefit high-income earners who own their own home and can afford solar panels, electric cooktops, EVs, batteries and heat pumps, and exclude the low-income earners who are typically renters and cannot afford these costly appliances.

Volatile global supply chains impacted by geopolitical struggles that put our energy sovereignty at risk.

Missing opportunities to be a part of global clean energy economies if the State chooses not to embrace broader decarbonisation solutions at pace.

Our vision for a pragmatic energy future

The energy revolution demands bold decisions, long-term planning and a stable investment environment to cut down carbon emissions while simultaneously maintain the services we enjoy today.

Energy pragmatism is the way forward.

The transition to net-zero demands diverse energy sources and technology neutrality to uphold energy security, reliability and affordability, while providing confidence for investment in new energy-intensive industries. This includes energy from natural gas, wind, solar, hydro, hydrogen, renewable gases and biofuels.

Electrification, supported by wind and solar, and energy efficiency will be the cornerstones of the energy transition for many households and small businesses. Yet, for many other businesses, electrification is currently unrealistic.

A recent Victorian Chamber survey showed that for the majority of businesses, switching from gas to electricity is not financially or commercially viable.[6]

Targets should be set not just for emissions reduction, but also for new industries, jobs, productivity gains, export opportunities and international investment.

The latest Net Zero Australia Mobilisation Report[7] stipulates that, in all transition scenarios, new GPG is required to provide a backup to renewables, no matter what the weather.

With a pragmatic mindset, we can leverage all our natural resources to further our competitive advantage. By doing this, we will preserve our sovereign capability and energy independence from volatile international supply chains and geopolitics.

The Victorian Chamber's vision for the energy revolution has eight principles to ensure a thriving local economy in our net zero future.




8 principles for the energy revolution
1
Energy security
2
Diverse energy sources
3
Reliable and affordable energy
4
Technology neutrality
5
Commercially realistic policy
6
International and private-sector investment
7
New clean energy industries
8
New clean energy jobs

Energy security is at the heart of the net-zero debate. Victoria must shore up sufficient supply of electricity and gas to ensure the State has enough energy at affordable prices for industry and households alike throughout the transition.

Preference should be given to policies with energy diversity at the centre, which are low-emission-focused and technology-agnostic. This will help to stabilise our energy system, increase certainty in the market and boost business confidence.

Policy settings need to be put in place that bring new domestic gas supply into the market to address the forecast shortfalls and guarantee reliable and affordable energy to industry.

With the ban on gas in new-builds in Victoria, industry is concerned about soaring gas prices for the remaining users on the network – primarily businesses.

Gas can assist the energy transition, providing lower-emissions energy in place of coal and liquid fuels while alternative zero emissions fuels, such as hydrogen, biogases and biofuels, are being developed and commercialised at a scale that is economically viable.

Commercially realistic policies release international and private-sector investment, particularly in crucial elements to an orderly transition such the expansion and construction of transmission lines. We must prioritise enabling industry, provide investment assurance and let the market develop and find the most cost-effective way forward.

Victoria has the opportunity to develop these new clean energy industries. These novel industries translate into more jobs that would drive our local economy into the net-zero future.

A successful energy transition will be underpinned by energy diversity, collegiality, and a whole-of-economy approach, which is market-based and has at its heart economic growth.



Immediate action to shore up supply

Energy security is paramount, above all else, as we decarbonise our economy. In the absence of energy security, there will be no power for industry or households.

The Federal Government's target of a 43 per cent reduction on 2005-level carbon emissions by 2030, with renewables supplying 82 per cent of electricity, is ambitious and requires calibrated collaboration to get it right.

An orderly energy transition will advance our economy's productivity. Done right, it could stimulate a GDP increase of $890 billion and create around 195,000 new jobs by 2070.[8]

A stable electricity system, supported by energy efficiency, is needed to reach net zero within the designated timeframes. However, reliability issues are arising in the National Electricity Market (NEM).

Severe weather events are taking down powerlines, the rollout of renewables is behind schedule, and a lack of coordination between the NEM and federal Renewable Energy Target (RET) is jeopardising the prompt entry of sufficient resources to uphold reliability of supply.[9]

It is of utmost importance that Governments maintain adequate coal and gas-powered generation in the energy system until we have an abundance of renewable and low-carbon alternatives.

Gas also plays a critical transitional role by providing firming capacity to support renewable electrification, manage demand peaks on the electricity network and secure our energy system.

To ensure energy security, we must be pragmatic and remain energy agnostic.

Electrification and energy efficiency

Electrification, powered by renewables, and energy efficiency are the leaders of the net-zero race. Although they do not come without challenges.

Australia must double the rate at which it builds grid-scale renewables and maintain current installation rates of rooftop solar each year to 2030 to meet future capacity demands.[10]

Yet, at the moment, there is unnecessarily cumbersome planning and regulatory regimes, which are impeding the rollout of renewables. Social license hurdles are also blocking the development of renewable energy projects.

AEMO's Draft 2024 Integrated System Plan (ISP) urges for rapid investment in generation, firming, storage and transmission to deliver secure, reliable and affordable electricity throughout the energy transition.[11]

Relatedly, electrification and energy efficiency are key enablers to reduce in demand for limited gas supplies. Reduction in demand for gas will play a critical role in freeing gas supplies for hard-to-abate sectors and GPG.

According to the 2024 GSOO, gas consumption has noticeably declined across all sectors since the publication of the 2023 GSOO, with emerging indications of fuel-switching from gas to electricity.

Electrification and other drivers in the Step Change scenario are forecast to reduce natural gas consumption by around 135 petajoules (PJ) to around 280 PJ by 2043.[12] Additionally, some state governments have implemented measures to restrict new residential gas connections and encourage electrification for small customers.[13]

There are, however, several barriers to the electrification of households and businesses, such as high upfront costs, logistical problems and lack of information.[14] Therefore, it is important that sufficient incentives, support and information are provided to overcome these barriers.

Improvements to thermal construction for new and existing buildings and amended efficiency standards for appliances, will improve energy performance and efficiency, while contributing to gas savings.

Investment in energy efficiency and electrification will be an important lever to free up scarce gas supplies.

However, an ACIL Allen report shows that the most economically efficient pathway to net-zero emissions for today's gas users will involve a mix of both renewable gas and renewable electricity.[15]

Gas will continue to play an important role for hard-to-abate sectors and in meeting forecast increasing GPG.[16] Beyond 2032, GPG consumption is forecast to raise to support electricity demand growth and high renewable penetration with the early retirement of coal-fired power stations.[17]

Therefore, additional gas supplies from a wide range of sources, such as domestic natural gas and renewable gas production as well as import terminals, will be required.

Natural gas

Natural gas is the nexus between today and the net-zero future. It is an enabler that ensures an orderly transition to net zero – both domestically and for our regional trading partners. The underground gas network will facilitate the safe and reliable transport of natural and renewable gas into the future.

Studies have shown that transitioning from coal to gas now can reduce our carbon footprint at a more rapid rate. The International Energy Agency's (IEA) report, ***The Role of Gas in Today's Energy Transitions***,[18] exposes that, in the short-term, switching from coal to natural gas reduces CO2 emissions.

Gas-fired peaking power plants are needed to support renewables, [19] not replace them. They are the technical partner of renewables.



Despite the push to switch to renewables, natural gas is going to be around for the foreseeable future with an expanded role to smooth the transition.

In a recent Victorian Chamber survey, **74 per cent of Victorian businesses are not financially planning to transition to cleaner energies. And the large majority do not need to upgrade their gas appliances for the next 10 to 20 years and beyond**.[20] Forcing businesses to transition would result in the stranding of assets and impose unnecessary costs on businesses needing to perform capital upgrades in a capital-constrained, high-inflation environment.

The business community needs time to decarbonise and deliver our net-zero ambition.

However, Victoria's natural advantage is eroding. The only way to avoid gas shortfalls is with a supportive and cohesive policy environment that urgently brings on new gas supply close to where it is consumed.

This means continuing gas exploration and production in Victoria, streamlining regulatory approval processes, incentivising industry investment in new gas supply and diversifying decarbonisation options, particularly for the hard-to-abate sectors.

Future renewable and low-carbon industries

There are several renewable energy and low-carbon industries that will be pivotal for industry to reach net zero.

Low-emission energies and their derivatives are needed to decarbonise hard-to-electrify sectors and will have the added benefit of creating new industries and jobs of the future.

Through extensive consultation with industry, the Victorian Chamber has identified key energy solutions that, with sufficient support, could drive our economic prosperity.

Renewable gases, carbon capture and storage, as well as renewable liquid fuels are all essential allies in our decarbonisation journey. Investing in these industries would not only turbocharge local jobs and communities, but also our productivity and government tax revenue to drive down state debt.

The development of these industries should be private-sector-led. However, Government intervention through supportive policies to drive these nascent energy industries will help overcome certain supply and demand hurdles.



Renewable gas

Victoria is poised to become a melting pot of diverse renewable and low-carbon energies.

Our abundance of natural resources and world-class gas distribution network mean we are positioned to be the future manufacturers of renewables gases – biomethane, low-emission hydrogen and other biogases – all key elements in the transition to net zero.

There is a growing need and expectation globally for Australia to deliver low-carbon gases to local industry and the world.

The AEMO 2024 GSOO identifies that use of hydrogen and biomethane can lower emissions, even when blended, and demand for these gases in hard-to-electrify and high-temperature applications (e.g. manufacturing and industrial processes) is expected to grow.[21]

Net Zero Australia has found that our nation requires significant supplies of low-emission hydrogen for a successful transition.[22]

The International Energy Agency views Australia as a critical exporter of low-emission hydrogen in global trade.[23]

Commercial viability and affordability are the current roadblocks to further development, investment and uptake in industry.

For industrial processes requiring high levels of heat using natural-gas-fired furnaces (e.g. the manufacturing of steel products), it is likely that these processes could be converted to run on 100 per cent hydrogen fuel. However, significant capital investment and upgrades to appliances will be needed. This requires the large-scale availability of hydrogen at a competitive price.

In a recent Victorian Chamber survey, **77 per cent of businesses able switch to renewable gas are unsure which renewable gas is best suited for them**.[24]

To provide industry, and specifically hard-to-abate sectors, with additional decarbonisation options, we must turbocharge the development of the renewable gas market.

Conducive policy settings to stimulate the renewable gas industry will be those centred on incentives for both supply and demand, formal recognition in pre-existing frameworks and targets.

Carbon capture and storage

Carbon capture and storage (CCS) is a key feature of our decarbonisation journey. It can be a solution for industries where electrification is unlikely to be a realistic technical solution.

The Federal Government's Future Gas Strategy promotes geological storage of CO2 to aid the decarbonisation of Australia and our region.[25]

Rapid innovation and investment are required to rollout CCS to ensure that, from 2030 onwards, industrial plants can begin to be equipped with capture facilities[26] and connected to transport and storage hubs.

In Australia, the Gippsland region in Victoria has been identified as the most attractive region for CCS.[27]

Proposed CCS hubs, such as the CarbonNet Project[28] and ExxonMobil's South East Australia Carbon Capture and Storage (SEA CCS) hub,[29] have the potential to deliver thousands of construction and operational jobs[30] to drive the local economy.

In the case of the SEA CCS hub, Victoria has the unique opportunity to repurpose gas infrastructure, enhancing the accessibility of world-class geological storage to customers.

The economic benefits of these proposed projects would flow over into related industries such as the production of hydrogen, fertilisers, waste-to-energy, gas and hard-to-abate sectors, such as the cement and steel industries.

However, economies of scale are needed to support customers like those in hard-to-abate sectors.

Government support is required to create CCS hubs that aggregate CO2 from multiple existing industries and help lower the cost of abatement for these sectors.

We must ensure the right policy settings are in place to activate the CCS industry in Victoria and attract international investment, both to support existing industry to transition and attract new, low-carbon industries.

Renewable liquid fuels

Renewable liquid fuels are integral to the decarbonisation of hard-to-abate sectors including construction, mining, rail, agriculture, defence, and supply chains, particularly the heavy road transport, aviation and maritime sectors.[31] These industries will continue to rely on liquid fuels as the use of hydrogen and electrification are not yet readily available or economically feasible.

Drop-in replacement fuels, such as renewable diesel, that are compatible with existing infrastructure, technology, and equipment are key to rapid decarbonisation of these hard-to-abate sectors. The development of a local renewable fuels industry can also generate new sovereign capability, sustainability, and economic opportunities, while reducing our reliance on imports.

Sustainable aviation fuels (SAFs) and renewable diesel are both bridging fuels during the transition to alternative low-carbon technologies as well as long-term decarbonisation solutions.[32]

Victoria has the capacity to grow local feedstock to become a global leader in sustainable agriculture practices to support both SAF and renewable diesel production. Opportunities to develop domestic refining capacity, grow our agriculture capability and capitalise off these novel industries should not be missed.

According to a joint CSIRO and Boeing report,[33] Australia has the capacity to produce 60 per cent of local SAF demand by 2025. This figure grows to 90 per cent by 2050 as both energies from organic matter and hydrogen ramp up.

With neighbouring countries in the Asia Pacific taking steps to become SAF refiners, Australia and Victoria need to take advantage of our local feedstocks instead of sending them off for export.

In Victoria, there are opportunities to embrace the biofuels race. The State Government should identify the regions with the greatest competitive advantage to direct investment. A dedicated focus on enabling demand side drivers, so that the regions with the most competitive advantage are able to respond to market forces and support market development, would also be useful.

In Geelong, VIVA Energy is exploring options to develop its oil refinery into an Energy Hub to produce a range of low-carbon solutions, including SAF and renewable diesels.[34]

In Portland, HAMR's Portland Renewable Fuels project aims to produce renewable methanol from biomass to decarbonise hard-to-abate sectors such as the shipping industry.[35] HAMR is also in collaboration with the Port of Melbourne to explore the establishment of a green methanol storage and bunkering hub at the Port.

Both of these initiatives are important steps in the decarbonisation of supply chains.

Incentives and supportive regulation need to be put in place to generate a local market for these fuels.

To enable the growth of this emerging industry, Victorian legislation needs to be consistent with that of other jurisdictions to ensure commercial viability and competitiveness of projects. Learnings can also be taken from the regulatory settings of other regional partners (e.g. Singapore) that are working on the development, transportation and bunkering of these fuels.

Policies that support these emerging industries and their customers will send signals to international partners that Victoria is a destination to do decarbonised business.

Renewable fuels not only create new job opportunities across the supply chain and energy sector but also leverage existing skills and infrastructure that enable traditional energy workers to retain their jobs while adapting to cleaner energy sources.



Policy levers

There are multiple policy levers that can transform Victoria into an economic powerhouse.

Policy mechanisms centred on creating a market for the wide uptake of low-carbon energies as well as establishing a conducive environment for their production are favourable.

The most effective policies are those that prioritise new gas supply, streamlined regulatory approval processes, technology neutrality, incentives, formal recognition in pre-existing frameworks and targets.

The following policy recommendations are aimed at both the Federal (F) and State (S) Governments.

New gas supply

Bringing on new gas supply is essential for the future of Australia's manufacturing heartland. Without it, industry reliant on gas will decline and steadily leave our shores.

Through pragmatic policies, Victoria can ensure local businesses have access to a secure, reliable and affordable supply of gas over the long term. Thereby, maintaining the competitiveness of Victorian business against international and interstate competition.

The Victorian Chamber welcomes the anticipated extension of ExxonMobil and Woodside's joint oil and gas venture in the Bass Strait to bring on new supply. However, Bass Strait reserves are depleting at a rapid rate, and further additional new supply is essential to meet demand.

Seventy-one per cent of Victorian businesses agree that the Government must unlock new Victorian gas supply.[36]

While efforts to reduce household gas consumption will help to close the forecast supply-demand gap, driving this change will take time and money.



Policies that force residential and commercial customers to electrify end up inadvertently hurting gas-reliant businesses by shrinking the market and increasing the costs of shared gas transport infrastructure used for those left on the gas network.

We cannot allow gas-reliant manufacturers and businesses to pack up and head interstate or offshore because of uncertainty around this critical resource. Those manufacturers and businesses will not be back.

Gas production, transportation and storage should be progressed alongside renewables in government policy to derisk further investment by the gas industry and ensure sufficient supply at affordable prices.

This must be addressed as a national priority, not a state-based issue.

The Federal Government must establish a stable and secure policy environment that brings on undeveloped gas supply, such as the remaining projects in the Gippsland Basin, to service the needs of Victoria and other southern states this decade.[37] This includes creating the necessary conditions for sufficient investment in new gas supply and supporting infrastructure.

The expansion of pipeline capacity from the Northern Territory and Queensland to southern states could potentially also deliver increased gas supply to Victoria. Alignment between the Federal and State Governments needs to occur for such infrastructure development initiatives so that projects are not unnecessarily held up by environmental and planning approval processes.

In Victoria, State Government policy must embrace local gas production, storage and use throughout the transition while replacement energies become commercially viable.

As well as bringing on new domestic gas supply, Victoria should also explore other options to future-proof our energy security. Import terminals, such as those proposed by VIVA Energy Australia[38] and Vopak [39] or in neighbouring states, would enable Liquefied Natural Gas (LNG) to be brought into Victoria and supplement local gas supply for usage by industry while considering pipeline alternatives.

However, when discussing these options, cost must be a primary consideration. Price impacts are frequently more significant for industrial customers.[40] Preference should be given to the least-cost solution.

A mix of these policy levers may help to drive down costs through healthy competition that benefits consumers and businesses alike.

Additionally, investment in GPG through appropriate policy mechanisms, similar to the Federal Capacity Investment Scheme, would provide further certainty of firming capacity to renewables.

Federal and state policy frameworks that work in unison – not isolation – will be the most efficient means to deliver new gas supply to the Victorian market. It is only through collaboration across jurisdictions that Victoria, and other southern states, will avoid gas shortages.

Recommendations		**F** = Federal **S** = State
1	Establish a stable and secure policy environment that brings on undeveloped gas supply to the Victorian market to avoid gas shortfalls in southern states.	**F/S**
2	Consider the expansion of pipeline capacity from the Northern Territory and Queensland to southern states to deliver increased gas supply to Victoria.	**F/S**
3	Consider the development of import terminals to deliver LNG to Victoria for storage and use as required by industry throughout the energy transition.	**S**
4	Support investment in GPG through appropriate policy mechanisms, similar to the Federal Capacity Investment Scheme, to provide certainty of firming capacity to renewables.	**F/S**

Streamlined regulatory approvals

Slow and arduous regulatory approval processes stunt industry development. They are one of the greatest barriers to investment in Australia, including the exploration and development of new gas reserves to bring more gas supply into the Victorian market.

Approval processes in the gas industry can take several years as gas companies navigate environmental regulation and social licence hurdles at the local, state and federal government levels.

In comparison, in some US states, it takes only a couple of months to apply for and receive onshore and offshore drilling permits.[41] In Australia, both approval processes can take up to two years.[42] This acts as a huge deterrent for gas exploration and production projects.

Gas projects should be considered as priority projects and eligible for accelerated planning assessment. This would fast track their approvals and ensure Victoria and other southern states have adequate gas supply to meet demand into the 2030s.

Onshore energy projects that advance Victoria's net-zero goal, such as the development of CCS facilities and low-emission gases and fuels, should also be subject to accelerated assessment and fall under the Victorian Government's Development Facilitation Program (DFP).[43]

A central point of contact within the State Government would assist in getting projects across the line in time. A State Significant Projects Coordinator should be appointed to oversee regulatory approvals of projects critical to the advancement of our local economy – such as gas projects. A State Significant Projects Coordinator would help deliver streamlined approval processes, enhanced communication channels with industry and efficient approval outcomes.

Further, the State Government should fast track the review of policies that act as a barrier to industry development and seek alignment with policies in other jurisdictions across Australia to ensure commercial viability and competitiveness of projects.

Recommendations		**F** = Federal **S** = State
5	Streamline all regulatory approval processes for gas exploration and production projects to fast track their approval and boost gas supply to southern states in Australia.	**F/S**
6	Expand the Development Facilitation Program to include all energy projects that advance Victoria's net-zero goal (e.g. CCS and low-emission gases and fuels) to accelerate their assessment and approval.	**S**
7	Appoint a State Significant Projects Coordinator to oversee regulatory approvals of all projects critical to the advancement of the Victorian economy.	**S**
8	Review policies that act as a barrier to development of renewable gases and fuels and ensure consistency with legislation in jurisdictions across Australia to support the commercial viability and competitiveness of projects.	**S**

Technology neutrality

A shift away from 'green' to 'clean' energy would help to diversify our energy sources throughout the transition. South Australia is one example of a technology-agnostic state, which uses gas to generate electricity[44] and firm renewables to provide system security.

Victoria's decarbonisation journey should focus on reducing carbon intensity, not the technology used to create energy. During the energy transition, the colour of hydrogen, for example, should not matter as long as it produces fewer emissions than conventional energy sources.

Victorian Chamber focus group data reveals that Victorians are supportive of all forms of low-emission hydrogen to help ease the transition to net zero.[45] Support for low-emission hydrogen further increased when it was associated with bringing certainty to energy prices and driving manufacturing within Victoria.

We need to put policies in place that support all types of low-emission initiatives, such as the Hydrogen Energy Supply Chain (HESC) Pilot Project, which successfully created and transported liquefied hydrogen from Victoria to Japan. The Japanese Government has since invested approximately AU$2.1 billion into the commercial demonstration phase of the HESC Project.[46]

Establishing a Liquefied Hydrogen Supply Chain between Victoria and Japan has the potential to reduce global CO2 emissions by 1.8 million tonnes per year, drive further international investment and create 1,000 jobs per year in Victoria.[47]

Government backing of low-carbon projects would open the floodgates to international investment and export opportunities, which connect Victoria to the global clean energy economy. The flow-on effects would seep into other industries, boosting jobs and our local economy.

Recommendations		**F** = Federal **S** = State
9	Create policies based on reducing carbon intensity, instead of the technology used to produce energy, to diversify our energy sources, create a more resilient energy system and embrace international investment and export opportunities.	**F/S**



Targets

Targets are a key driver behind our net-zero ambition. Setting targets for renewable gases and liquid fuels would provide impetus for further development and enhance uptake in industry.

It is noted that further support is required to work renewable natural gas to a point where its role and contribution (e.g., scale potential and timing) is better understood to properly inform targets.

Similar to the Renewable Energy Target (RET) scheme, aimed at turbocharging renewable electricity generation, the Federal Government is urged to set a 2030 renewable gas target. This would help to spur demand for renewable gases.

The inclusion of renewable gas targets in government procurement processes would kick start the industry locally.

Official targets would send the right signals to the market to draw in private-sector and international investors.

The renewable liquid fuel market also requires a 2030 target to stimulate local production and decarbonise supply chains that are reliant on the aviation and shipping sectors.

The Federal Government should take inspiration from airline companies such as Qantas, which has set a SAF target of 10 per cent by 2030 and 60 per cent by 2050.[48]

To avoid confusion, any targets set at the state level must align with federal legislated targets.



Recommendations		F = Federal S = State
10	Set a 2030 renewable gas target by 2025, including a sub-target for biomethane and renewable hydrogen, to drive growth in the local renewable gas industry.	F/S
11	Set a 2030 renewable liquid fuel target by 2025, including a sub-target for Sustainable Aviation Fuels (SAFs), to turbocharge local production and decarbonise the aviation and shipping sectors.	F/S
12	Include renewable gas and liquid fuel targets in government procurement, including government flights and Defence, to aid development of these industries in Australia.	F/S

Formal recognition in pre-existing frameworks

One essential policy mechanism to drive uptake of renewable gases and liquid fuels in industry is formal recognition in pre-existing frameworks.

Renewable gases and liquid fuels should be recognised as low-emission energy sources in the Guarantee of Origin scheme and National Greenhouse and Energy Reporting Scheme (NGERS) to enable industry to reduce its Scope 1 emissions and meet Safeguard Mechanism obligations.

Biomethane, renewable hydrogen and biofuels formally recognised as renewable energy sources would clarify their low-emission character and justify their inclusion in the above federal schemes.

Putting in place a traceability framework would further enable the trading of these renewable energies and drive their uptake in industry.

Australia's proposed Guarantee of Origin Scheme,[49] scheduled to be legislated this year, provides a mechanism for tracking and verifying emissions associated with hydrogen and renewable electricity made locally. It should be expanded to include other Australian made products, such as other renewable gases and low-emission fuels.

At the moment, industry is bound by the Safeguard Mechanism with little means of achieving its obligations. Enabling the trade of renewable gases and liquid fuels would mean businesses could count their carbon emissions reduction from utilising these renewable energies in NGERS. This would provide industry with a decarbonisation pathway.

Currently, NGERS only allows for the reporting of behind-the-meter renewable gases, not those sourced from common infrastructure.[50] Modifications to NGERS should be focused on its expansion to incorporate renewable gases and liquid fuels sourced from shared infrastructure across multiple industries. This should take effect by no later than 1 July 2025.

In the absence of a national certification framework, Government should recognise initiatives such as GreenPower's Renewable Gas Guarantee of Origin (RGGO)[51] scheme.

There is a multiplicity of benefits of this formal recognition in pre-existing frameworks. This includes: delivering revenue to renewable gas and liquid fuel producers for reinvestment into projects increasing their commercial viability; providing a tradable means for industry to meet its Safeguard Mechanism obligations; cutting carbon emissions; creating jobs primarily in regional areas, which will also contribute to our state and national economy; upholding energy security by providing sufficient supply to meet energy demand and peak loads; and reducing the risks of shortages and price spikes.

Recommendations		**F** = Federal **S** = State
13	Recognise renewable gases and liquid fuels as low-emission energy sources in the Guarantee of Origin scheme and National Greenhouse and Energy Reporting Scheme (NGERS) to enable industry to reduce its Scope 1 emissions and meet Safeguard Mechanism obligations.	**F**
14	Amend NGERS to recognise renewable gases and liquid fuels supplied via common-user infrastructure and ensure it takes effect from 1 July 2025 to help industry meet its Safeguard Mechanism obligations.	**F**



Incentives

Cost and carbon reduction schemes are central to creating a renewable energy market. Government has an important role to play bridging the gap between the price of fossil fuels and renewable energy to incentivise uptake.

At the Federal level, NGERS along with the Safeguard Mechanism supported by the Australian Carbon Credit Unit (ACCU) scheme are the centrepieces of compliance-based climate mitigation and reporting.

These are likely to be complemented with mandated climate-related financial disclosures, as well as a Sustainability Finance Framework and Australian Sustainability Taxonomy that should influence the demand drivers for low-carbon technologies and secure affordable financing and insurance services for customers.

However, more can be done.

Barriers need to be removed to enable investment in natural gas production and transmission to meet future demand.

Incentives are required to stimulate investment in the renewable gas, CCS and renewable liquid fuel markets.

Multiple levers can be used to increase demand for low-emission gases and fuels.

Tax credits for producers, blenders, fuel users and investors based upon uptake or emissions reduction would incentivise their use.

A Low Carbon Fuel Standard, joint infrastructure investment and further incentives (beyond the Safeguard Mechanism) for customers of CCS, hydrogen, and low-emission fuel to support necessary investment in facilities to incorporate new low-carbon tech would also all help stimulate demand.

Grants or low-interest loans are effective at providing financial support for capital expenditures. This funding would assist to deploy projects at scale and derisk these industries.

Industry that cannot electrify should consider all other decarbonisation options, such as fuel-switching and CCS enabling market competitiveness for the best solution, and be provided with financial assistance.

Support for investment in shared CCS infrastructure would benefit multiple industries, which could tap into common pipelines to transport captured emissions to storage facilities.

Victoria should look to initiatives in other jurisdictions for inspiration when seeking to develop diverse renewable gas and fuel industries. For example, California's Low Carbon Fuel Standard[52] incentivises uptake while also reducing the carbon emissions intensity of the State's fuel mix.

Programs like Hydrogen Headstart help to address supply-side issues of renewable gas, however Australia needs more diversity in government-funded projects. The scope of such programs should be recalibrated to include other energies like biomethane and domestic benefits to drive demand locally at affordable prices.

Australia must prioritise industries, such as biogas, biofuel, CCS as well as low-emission hydrogen, where we have a competitive advantage and can leverage our natural resources and existing local industries.

Support for carbon reduction projects is essential to boosting confidence in these emerging industries and sending strong signals to the market to attract further investment.

Recommendations		**F** = Federal **S** = State
15	Implement tax credits for producers, blenders, fuel users and investors based upon uptake or emissions reduction to incentivise their wide use.	**F**
16	Establish a low-carbon fuel standard to incentivise uptake and reduce carbon emissions intensity in Australia's fuel mix.	**F**
17	Provide grants or low-interest loans to diverse low-emission energy producers to assist deployment of new energies at scale and derisk these novel technologies.	**F/S**
18	Provide financial support to industry to assist with carbon capture during industrial processes.	**S**
19	Subsidise shared CCS infrastructure to build common pipelines that multiple different industries can use to transport their carbon emissions to storage facilities.	**S**
20	Expand the Hydrogen Headstart Program to include other low-emission gases, such as biomethane, to promote technology neutrality and recalibrate its scope to incorporate domestic benefits to advance these clean energy industries locally at affordable prices.	**F**



Collaboration

Industry stands ready to work with the Federal and State Governments to ensure energy security, reliability and affordability.

The Victorian Chamber has collaborated with the energy industry including producers, retailers, pipeline and infrastructure companies, peak bodies as well as end-users to produce this paper, which details the significant opportunities that the energy transition presents to Victoria.

We fundamentally believe that the issues presented in this document fall within the purview of both the State and Federal Governments. We urge the Federal Government to consider the issues in this paper as relevant to the entire East Coast of Australia.

Energy pragmatism is the way forward. We need collaboration to provide affordable and reliable energy from diverse sources and uphold our sovereign energy security.

Industry is committed to working with Government to chart the most prosperous and pragmatic path to our net-zero future.

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