

Postal Address
PO Box Z5267
Perth St Georges Tce WA 6831
Facsimile: + 61 8 9223 4301

Level 6
12-14 The Esplanade
Perth WA 6000
Telephone: +61 8 9223 4300

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Wendy Craik AM
Chair
Climate Change Authority
GPO Box 787
CANBERRA ACT 2600

submissions@climatechangeauthority.gov.au

Dear Wendy

EMISSIONS REDUCTION FUND CONSULTATION PAPER

DBP Transmission (**DBP**) Australian Gas Networks (**AGN**) and Multinet Gas (**MG**), as members of the Australian Gas Infrastructure Group (**AGIG**), appreciate the opportunity to respond to the Climate Change Authority's (**CCA**) *Review of the Carbon Farming Initiative Legislative and the Emissions Reduction Fund (Consultation Paper)*.

About AGIG

AGIG is one of Australia's leading gas infrastructure companies, and comprises a number of gas distribution network businesses and gas transmission pipeline businesses:

- DBP is the owner and operator of the Dampier to Bunbury Natural Gas Pipeline (**DBNGP**), Western Australia's most important piece of energy infrastructure. The DBNGP is WA's key gas transmission pipeline stretching almost 1600 kilometres, linking the gas fields located in the Carnarvon Basin off the Pilbara coast with population centres and industry in the south-west of the State.
- Through its ownership of AGN and MG, AGIG is Australia's largest natural gas distribution companies with over 1.9million end gas consumers and over 33,000km of distribution pipelines located in 5 states and territories.

AGIG's vision is to be the leading gas infrastructure business in Australia by being a good employer, sustainably cost efficient and delivering for customers.

Focus of this Submission

The Consultation Paper is seeking submissions on improvements to the operation, administration, design and governance of the framework for the Emissions Reduction Fund (**ERF**). This submission focuses on two matters:

- the issue raised in the Consultation Paper seeking to understand why there is a low number of ERF registered projects outside the vegetation and waste sectors. In this regard, we provide you with a summary of the types of things that have been considered for potential projects relating to gas transmission pipelines.
- longer-term energy policy and the role for gas in Australia as part of that policy.

We think these broader considerations are relevant to meeting longer-term energy objectives particularly as the CCA has expressed a view that the ERF under the Carbon Credits (Carbon Farming Initiative) Act

2011 (Cth) has a continued role in meeting Australia's Paris Agreement obligations until a longer-term policy solution can be implemented. We note our comments come before the outcomes of the Department of Environment and Energy's Review of Australia's climate change policies are released. The review will play a key role in determining the future direction of the safeguard mechanism and the extent to which reductions are required from the ERF and other policies.

Low uptake in the oil and gas sector

At section 2.1.1 of the Consultation Paper the CCA observe that that the mining, oil and gas, transport, and energy efficiency sectors have the lowest level of uptake for registering projects for the ERF.

The ERF method for the mining, oil and gas sectors has been developed to covering most of the sector, including transportation of natural gas, but in application it is focused on upstream and downstream oil refining.

The currently available method includes two options for projects, both of which are based on the phenomenon that combusting methane (CH₄) reduces its global warming potential and emissions (reported as CO₂-e). Either option would be difficult to use in the mid-stream sector. For example, flaring is not commonly used on transmission pipelines and is generally re-routed or vented to atmosphere. Significant research and development would be required before a technology became available for deployment of a suitable alternative in the operation of gas transmission pipelines.

Furthermore, the methodologies available for measuring fugitive emissions from natural gas pipelines under the National Greenhouse and Energy Reporting (Measurement) Determination mean that any actual and measurable reductions to fugitive emissions created by projects have no effect on reported emissions under the National Greenhouse and Energy Reporting Act 2009. This renders the ERF unusable for an area of emissions that could achieve important reductions across the economy. Separating out requirements for total emissions reporting from measuring reductions could help incentivise this type of project.

In addition to the lack of available methodologies, other issues that we expect potential project proponents consideration when assessing proposals:

- The competitiveness of a bid – projects are likely to have abatement costs around the \$10 to \$20 per Australian Carbon Credit Units (**ACCUs**);
- The size of the bid – the minimum requirement of 2,000 ACCUs may be prohibitive, while we note that projects can be combined to meet the threshold there are few emissions sources within a business akin to ours that are larger than this threshold;
- The predictability of emissions reductions available – predictability of the emissions reductions is also important in considering the ERF auction bid. While for crediting purposes, the baseline and ACCUs can adjust in response to changes in selected variables. This is not the case for auction purposes where a specific quantity of ACCUs must be offered and included in the contract. Given that actual pipeline emissions are responsive to demand and operating factors, this uncertainty increases the costs of participating in the ERF, and any shortfall in ACCUs delivered would need to be purchased in the secondary market.
- Other costs – the complexity and uncertainty of making an ERF bid means that there are likely to be significant costs in developing a bid and delivering a project. This include regular audits and reporting. This can be worked into the bid price, but are likely to detract from competitiveness.

The Importance of Natural Gas Infrastructure as an Energy Delivery Mechanism

In Australia, natural gas meets 44% of household energy requirements and underpins Australian industry to the value of \$362 billion, with only one-quarter to one-sixth the greenhouse emissions of grid electricity.¹

¹ Energy Networks Australia, *Australia's Bright Gas Future – Competitive, Clean and Reliable*, 2015.

We believe distributed natural gas is complementary to other energy sources and can assist with the energy trilemma:²

- *Reliability*: gas infrastructure is largely underground, with built in storage, and as such is very reliable. On average customers experience only one hour of supply interruption every forty years.³
- *Affordability*: recently residential gas prices have been falling driven by reduced distribution prices.⁴ For example, for an average gas customer in Victoria, using gas for cooking, hot water and heating is \$483 cheaper per year whilst contributing 70% less emissions than electricity from the grid.⁵ Utilising gas infrastructure can also help avoid future costs, for example:
 - the use of gas infrastructure can assist to reduce peak electricity demand, thereby avoiding costly investment;⁶ and
 - if we do not consider gas infrastructure to be a part of the future energy supply, then 44% of household energy would need to be replaced with other sources. This would require substantial investment in the likes of electricity networks, transmission, generation (including from renewables) and storage and would not utilise the large investment already made by all Australians in gas infrastructure.
- *Reducing Emissions*: gas infrastructure also have an important role to play in Australia's emissions reduction pathway. More specifically, gas infrastructure can assist Australia meet its emissions targets over the:
 - *Short-term*: natural gas used in the home has only one-quarter to one-sixth the greenhouse gas emissions of grid electricity⁷. Further, natural gas produces around 45% less CO₂ than coal when used in electricity generation. Gas-fired cogeneration and combined cycle gas turbines are the most greenhouse efficient forms of non-renewable power generation available.
 - *Mid-term*: carbon dioxide reduction of the gas stream through blending of carbon neutral fuels such as bio-methane and renewable hydrogen; and
 - *Long-term*: potential conversion of the entire networks to carbon dioxide-free hydrogen produced through either electrolysis of water and/or from natural gas with carbon capture and storage.

The future role of gas is described in further detail in Energy Networks Australia's Gas Vision 2050 (provided as **Attachment A**).

Gas Vision 2050 has been jointly developed by all parts of the gas sector from gas exploration and production, to transmission and distribution pipeline, to gas appliance manufacturers. It provides an outline of how the gas sector plans to work collaboratively with the electricity sector to provide Australian homes and businesses with reliable base load energy, whilst ensuring Australia can reach the carbon abatement targets the Government has set for 2030.

Key policy reforms that will deliver emission reductions in Australia

The key policy reforms we advocate for include:

- *Substitution of the Renewable Energy Target with an Emissions Intensity Scheme or a Clean Energy Target* – consistent with recent analysis and advice from the Australian Energy Market Commission,

² The energy trilemma is defined on page 10 of the Report (Dr Alan Finkel, Independent Review into the Future Security of the National Electricity Market, December 2016, page 10).

³ AGN, *Victoria and Albury Final Plan*, December 2016.

⁴ For example, in South Australia, AGN's distribution tariff fell by 23% on 1 July 2016, which tariff contributes approximately 50% of the average residential bill. In Victoria, AGN propose to lower its distribution tariff by 11% on 1 January 2018. Further information can be found in Access Arrangement documentation, available on the Australian Energy Regulator website.

⁵ Note: Sourced from AGN analysis of natural gas versus electric appliances using Origin Energy standing offer charges, as at 28 February 2017. Average Victorian gas customer is based on usage of 44GJ per year.

⁶ Energy Infrastructures Australia, *Australia's Bright Gas Future*, December 2015, page 8.

⁷ Energy Infrastructures Australia, *Australia's Bright Gas Future – Competitive, Clean and Reliable*, 2015.

we consider that this substitution of policies will ensure that emissions reductions are achieved in a technology-neutral manner and best achieve balanced energy trilemma outcomes.

- *Adopting a science and evidence-based approach to gas exploration policy* – we consider that lifting the bans relating to onshore exploration of gas will result in increased supply of gas to the market, ensuring the costs of gas (and therefore energy costs borne by Australians) are efficient and in the long-term interests of Australians, consistent with achieving emissions reductions at least cost.
- *Ensuring a well-functioning wholesale gas market* – consideration be given to the impact of the reforms that are currently underway in relation to the wholesale gas market and additional reforms that are likely to improve outcomes in the market such as reducing barriers to gas supply (e.g. price), such that the gas industry can effectively contribute to the achievement of emissions reductions, whilst supporting the reliability and affordability of energy in Australia.
- *Consolidating state-based energy efficiency programs* – consideration be given to consolidating these policies to ensure that there are consistent objectives across state jurisdictions, and in particular, support the achievement of the Federal Government’s emissions reduction objective.
- *Amending the Safeguard Mechanism* – the Safeguard Mechanism should be amended to ensure that businesses are not penalised for an increase in emissions generated, as a result of an increase in the scope of activities delivered as, for example, this may be offsetting a larger quantity of emissions produced from another business.

In summary, we consider that climate change-related policies should facilitate the effective utilisation of the gas sector in achieving the Federal Government’s emissions reduction targets.

Yours sincerely



Anthony Cribb
General Manager Corporate Services