

26 February 2021



Gas Taskforce
Department of Industry, Science, Energy and Resources

Submitted via email to gas@industry.gov.au

To whom it may concern,

Gas Fired Recovery Plan

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in 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 as we consider they will not deliver the Plan's intended benefits, and present an unacceptable cost and risk to consumers and the community.

PIAC considers subsidising gas infrastructure will not lower costs for end users and is an ineffective means of stimulating economic recovery. PIAC recommends the government help consumers dependent on gas transition away from the fuel and seek 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 NEM, falling by 19 percent in 2020,¹ and

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/>

the Australian Energy Market Operator (AEMO) revised its most recent gas consumption forecast down due largely to a lower long-term outlook for GPG.²

Recent AEMO forecasts for gas prices suggest no future where the fuel could reasonably compete with renewable energy and storage in the NEM. AEMO's analysis from the 2020 Integrated System Plan suggests the price of gas would have to be well below current levels and battery charging costs high for the fuel to compete with batteries in future:

[F]or GPG to remain a competitive investment as battery costs reduce (to \$922/kWh by 2030), gas prices need to be as low as \$4/GJ in the long run, while charging costs need to remain relatively high at \$30/MWh. Even in 2019-20, 4-hour batteries would have been able to charge at an average price below \$30/MWh in all regions except New South Wales.³

Recent AEMO forecasts show gas prices remaining around \$8/GJ between now and 2030, and increasing from then onward.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 set a goal of no new gas mains infrastructure to new developments by 2023. While the ACT is the only jurisdictional government to make this kind of commitment, the many benefits of electrification make it likely other governments will follow suit. These benefits 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 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.⁵

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, and the federal government looks increasingly likely to do so too. Australia is a signatory to the Paris Agreement, which aims to reduce global warming to 1.5 degrees.⁶ 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.

² AEMO, 2020. *Gas Statement of Opportunities 2020*, p4. https://aemo.com.au/-/media/files/gas/national_planning_and_forecasting/gsoo/2020/2020-gas-statement-of-opportunities.pdf?la=en

³ AEMO, Integrated System Plan 2020, July 2020, 55. <https://aemo.com.au/-/media/files/major-publications/isp/2020/final-2020-integrated-system-plan.pdf>

⁴ AEMO, December 2020. *Inputs, Assumptions and Scenarios Report*, p102.

⁵ 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>

⁶ The Paris Agreement, <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

A recent report released by the Climate Targets Panel found:

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).⁷

With this in mind, gas would need to be phased-out sooner rather than later for Australia to meet its international obligations and ensure a safe climate for generations to come.

Credulity has been expressed at the likelihood of lower gas prices or an increased role of gas in the future energy system by a number of diverse stakeholders. 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 part of the 'gas-led recovery' are not likely, saying \$4 per gigajoule was an unrealistic goal.⁸

A recent 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".⁹ 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."¹⁰ The government's plans do not stipulate such an ongoing commitment, and it would not be in the interests of tax payers, 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".

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 transition away from gas or afford it where that is not possible.

⁷ Climate Targets Panel Report, January 2021. *Australia's Paris Agreement Pathways: Updating the Climate Change Authority's 2014 Emissions Reduction Targets*, 6.

⁸ 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>.

⁹ 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>

¹⁰ 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. Improving energy efficiency is also job rich and lowers emissions.

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

Pipeline investment

There is nothing preventing private investment in pipelines and other infrastructure currently. It is inefficient and unnecessary to invest public money where, due to unacceptable risks and costs, the private sector will not. As well as being unnecessary, public investment in pipelines will likely lock in higher energy prices by crowding out cheaper sources of generation such as wind, solar and batteries, increase emissions, and create stranded assets as the role of gas declines.

PIAC strongly urges the government to develop alternative means of helping consumers with high gas prices and stimulating the economy 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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