

Friends of the Earth Melbourne – comments on Gas Substitution Roadmap

Friends of the Earth (Melbourne) Inc is a community based environmental group which has been active for more than 45 years. We appreciate the opportunity to contribute to this process and congratulate the Victorian government for investigating demand-side measures to help resolve gas supply, pricing and affordability issues.

The state government has had a somewhat conflicted approach to gas and we hope that this process deepens the commitment to a rapid phase out of our state's reliance on natural gas.

As a non renewable energy source, the cost of gas can only go up. As noted by the Government's own report (the Victorian Gas Program report #5), even if we were to access and use all the known and likely onshore reserves of conventional gas in the state, it would not be sufficient to reduce wholesale gas prices or power prices, nor would it fill the expected shortfall in supply, even if it was offered first to Victorian consumers. Bass Strait fields are in rapid decline and new offshore gas production will be expensive and take at least several years to come online. We are now competing with the global gas market because of the establishment of a Liquefied Natural Gas (LNG) export industry. There is no quick or cheap solution to energy supply issues which can be resolved by further investment in gas (including pipelines, as new gas connections will just lock in future high energy costs and potentially become stranded assets).

In light of this, the logical thing to do is to help Victorian households, businesses and manufacturers to get off gas as soon as possible.

QUESTION FROM THE ROADMAP: What are the opportunities and challenges for Victoria to decarbonise the gas sector and achieve Victoria's emissions reduction targets?

The first step is to form future energy policy on the basis of a 'no-regrets' approach that avoids any further lock-in to gas (including new supplies and investment in gas infrastructure) and to other unsustainable energy sources.

A logical step is to assist Victorian energy users to transition to reliance on electricity, based on 100% renewable energy sources.

Necessary initial steps include expanded programs targeting the community:

- to support low-income households on energy efficiency and electrification of appliances
- to ensure all gas users have relevant information available at key decision points when making decisions about future investment and energy use
- programs could also be established which assist Owner-occupiers and landlords to shift energy use

Assisting households and businesses to transition from the use of gas will bring various benefits to Victoria:

1. there will be health benefits to people currently reliant on gas
2. Energy prices will most likely fall
3. Gas will be freed up for industrial processes in the short term until commercially feasible alternatives are operational at scale
4. No new gas will be needed
5. The power of large companies that control gas transmission and distribution to dictate available supply and price will diminish

No more investment in gas

The Victorian government stopped funding the Energy to the Regions program, which was designed to extend the reticulated gas network into new regional areas and towns. At the time, in 2011, many regional Victorian residents and businesses were paying up to 30 per cent more for LPG than customers connected to reticulated natural gas. At the time it made sense to launch this program. However, with ever rising gas prices, ending funding was a sensible move.

However, consumers are now bearing the capital costs of converting the 5,400 kilometres of gas pipelines in Victoria to take a fuel mix with 10-15% hydrogen. Methane would still form over 80% of the fuel mix piped to our households, institutions and businesses. A better option and one which will avoid public funds being invested in stranded assets, would be to assist households and businesses to electrify their appliances.

Victoria was one of the first jurisdictions in the world to legislate a net-zero emissions target with the Climate Change Act 2017 and has now established five yearly Emission Reduction Targets. The government must align its climate change commitments made under the Climate Change Act and 2050 net zero target with future energy development. This means no further approvals for either onshore conventional gas or offshore gas in either state or Commonwealth waters.

Victoria is leading in demand side management and must do more

Victoria has already done good work on demand management. Additional mechanisms focused on demand will provide real opportunities to dramatically change the gas landscape and benefit all Victorians. Much can be achieved by fine tuning programs already being run by the Government.

The role of demand management in electricity markets is now widely recognised, and regulatory authorities are actively exploring the opportunities. We encourage the government to do more on gas in the way the Victorian Energy Upgrades program and Victorian Energy Efficiency Certificates do for energy efficiency. This should include providing assistance to help purchase appliances that use renewable energy (reverse cycle air conditioners, etc) and heat pumps. This is an important opportunity to support local procurement which would include promoting the heat pumps being manufactured by Earthworker Co-operative in the Latrobe Valley.

Gas prices, reliability and affordability

It is difficult to see hydrogen or biogas pathways, as outlined in the Discussion Paper, directly affecting prices, reliability and affordability.

Spot prices for gas in 2021 have reached record levels. Large companies buy gas mostly on contract, and can negotiate terms. Smaller manufacturing companies relying on gas for their high temperature processes have less negotiating power, and many choose to buy on the spot market. They are now being squeezed heavily. They will benefit if less gas is needed by households, commercial premises and institutions that can readily electrify for space heating, hot water and cooking.

The Federal Government is unlikely to resolve the price issue. It remains fixated on expanding supply of gas, not on reducing the market power of big gas distribution and pipeline companies. It has not acted to strongly intervene in the gas markets to keep prices down below international parity, and looks unlikely to do so. This is why leadership from the Victorian government is so important.

The big gas companies will continue to exploit this situation, unless demand for gas falls greatly. This can, and should be, encouraged by the state government.

Just transition for workers

Like the stationary energy sector, the gas industry is undergoing a market and technology based – and hence largely unmanaged - transition. Unmanaged transitions of a particular sector (eg car manufacturing, electricity generation, forestry) always lead to pain for working people employed in that sector and their communities. Change is coming rapidly to the gas sector as the resource runs out and alternatives become cheaper. Workers involved in all aspects of the gas industry deserve support as Victoria moves away from gas. Because gas use is very diffuse – that is the resource is used in many applications across society and the economy - a just transition plan will be complex.

Union involvement will be a core aspect of getting the right policies and support in place to ensure the reduction in gas use in Victoria benefits affected workers.