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Manager, Gas Reform
Department of Environment, Land, Water and Planning
8 Nicholson St,
Melbourne 3000

SUBMISSION TO THE VICTORIAN GOVERNMENT GAS SUBSTITUTION ROADMAP CONSULTATION PAPER

Dear Ms. Sands,

Energy Consumers Australia would like to thank the Victorian Government Department of Environment, Land, Water, and Planning (DELWP) for the opportunity to make a submission in response to the Victorian Government Gas Substitution Roadmap Consultation Paper (the Roadmap Consultation Paper).

Energy Consumers Australia is the independent, national voice for residential and small business energy consumers. Established by the Council of Australian Governments (COAG) Energy Council in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety, and security of supply. We advocate for a future Australian energy system that works for, and benefits, the households and small businesses who use it.

We are aware of the significant scale of the challenge which Victoria faces in transitioning away from natural gas to meet the jurisdiction's net-zero emissions targets by 2050. Victoria has the highest natural gas consumption in the East Coast Gas Market. Households and commercial consumers make up 61% of the total gas usage in the state¹, making them a central part of Victoria's transition. Consumers will likely bear significant costs associated with the transition which is why Energy Consumers Australia commends and encourages the Victorian Government to keep seeking input from consumer organisations.

Energy Consumers Australia is focused on ensuring that the outcomes of the transition from natural gas in Victoria reflect an affordable, reliable, modern, individualised energy system for consumers. The following submission outlines some of the key challenges and questions Energy Consumers Australia believes the Victorian Government must consider in developing their Roadmap.

Consumers want a clean, renewable energy transition and they want to be a part of it.

Consumers want to actively participate in the energy transition. In February 2020, our research on Consumer Expectations² found that Australian energy consumers wanted a say in the evolution of the energy market but feel that they lack the information and platform to be heard. Consumers are looking to governments for a long-term plan, seeing them as the key to making tangible change, as concluded in the same research piece. More recent focus group conversations with consumers have revealed that they believed reducing energy usage is a shared responsibility and they would welcome further education on energy issues. The Energy Consumer Sentiment Survey (ECSS) June 2021³ found that 40% of consumers believed that transitioning to renewable energy sources to help prevent climate change was either the most or second most important challenge to the Australian energy system.

¹ <https://engage.vic.gov.au/help-us-build-victorias-gas-substitution-roadmap>

² <https://energyconsumersaustralia.com.au/projects/consumer-values-expectations-and-needs>

³ <https://ecss.energyconsumersaustralia.com.au/>



We need to understand what consumers want when it comes to gas.

Focused research on consumer behaviour and attitudes towards gas in Victoria is required to ensure that consumers are both involved and represented in the future transition. Currently, there is very limited research focused on consumers' gas preferences. We are pleased to see that Infrastructure Victoria's Interim Report recognises this current gap in knowledge and has commissioned further research on consumers as they provide advice to the Victorian Government.

The Energy Consumer Sentiment Survey reveals that in Victoria 73% of households have not given any thought yet to running their homes on only electricity. This is greater than the national average of 69% of households who have not considered transitioning from gas to electricity. Consumer focus groups ran at the same time also revealed that, while environmental and social impacts are important to Australian consumers, cost and reliability are still the highest priority. This priority is important to keep in mind when designing policies and initiatives to support consumers to transition away from natural gas.

Energy Consumers Australia has partnered with the Digital Energy Futures Lab at Monash University which recently released their report Future Home Life⁴ in July 2021 on household energy practices in Victoria and New South Wales. The research found that there is an increasing interest for households in transitioning to 'all electric' homes motivated by a desire to reduce overall energy costs. To do this households have been engaging in electrification discussions through Facebook pages where tips and tricks are posted by community members. The report also outlines that upfront costs and consumer reluctance to replace retired appliances such as gas water heaters before the end of their life were the main barriers to electrification.

Both pieces of research, while providing a starting place, indicate that more work needs to be done to understand the motivations and barriers for consumers transitioning away from natural gas in Victoria.

We strongly encourage The Victorian Government to seek further targeted research on the behaviours, preferences, and attitudes towards gas for Victorians. This type of research is important as human behaviour and decision-making often cannot be predicted using only economic modelling as it is often based on emotion and heuristics rather than maximising utility. To have a people-centred future transition we must consider the complex unpredictable nature of human decision-making.

Further research will also help complement programs such as \$447 million of funding outlined in the Roadmap Consultation Paper to improve energy efficiency in low-income and vulnerable homes in Victoria. To make the most effective use of this money we need to understand how these new appliances or energy-efficient measures will fit into consumers' daily routines. The Digital Energy Futures project found that consumers are reluctant to throw away systems that still work and are concerned that new systems will not achieve the same results or perform in the same way.

What are the barriers within the transition for different segments of consumers?

Transitioning and reducing natural gas usage in Victoria must be inclusive of all consumers which is why we encourage the Victorian Government to consider motivation, ability, and opportunity for all consumers to transition and the potential barriers that may arise for consumers within the pathways suggested by the Roadmap.

⁴ https://www.monash.edu/__data/assets/pdf_file/0011/2617157/DEF-Future-Home-Life-Full-Report.pdf



For low-income consumers, the upfront costs of electrification, retrofitting appliances for an alternative gas, or increasing energy efficiency efforts may prevent them from participating in the transition early on and potentially expose them to increasing gas network costs over time. Consumers who rent may not have the authority to make household or business premises updates. Similar barriers could also exist for consumers who live or work in apartments or embedded networks.

Accessing up to date and unbiased information is also a potential barrier in making informed decisions. As mentioned above, we are already seeing consumers who are currently using gas looking online for further information on electrification and want to assess the possibility of an alternate gas such as green hydrogen compared to electrification. Information on alternative green gas needs to come from a trusted and independent source.

How will the cost of the transition be spread equally?

Victorian gas networks are currently commencing the process for their determination and access arrangements for the 2023-2027 period, with their proposals due on January 1st, 2022. The AER State of the Energy Market report released in 2021 states that the current regulatory asset base for both transmission and distribution networks in Victoria is \$5.7 billion, to be recovered from current and future gas consumers⁵. Any further expenditure on additional network capacity has to be considered in the light of expectations of future demand, and uncertainty about alternatives to natural gas.

The electrification pathway will see the number of gas network users shrink. In the short term, those who can afford the upfront costs of electrification will be able to move off the gas network whenever they choose, resulting in increasing prices for those who cannot afford the upfront cost. We would encourage the Roadmap to consider how best to manage the remaining cost of network infrastructure, noting the best approach may sit outside “the box”, outside the current network revenue setting framework.

Further down the electrification path, the Roadmap would need to consider the possible costs of gas network infrastructure removal on households and small businesses. Energy Consumers Australia encourages the government to consider all possible scenarios for the future of the gas network whilst working to achieve net-zero emissions by 2050 to ensure consumers are protected.

As mentioned in the online forum the Victorian Government held on Tuesday the 13th of July 2021, any changes in the gas network must consider the outcomes for the electricity network.

A shift towards electricity and away from natural gas will have significant consequences for the Victorian electricity network. 64% of Victorian households use natural gas for space heating⁶. As a result, Victorian households and small businesses currently use less electricity than any other jurisdiction in Australia. If consumers electrify their heating how will the current electricity system cope? Peak demand may shift to winter. Energy Consumers Australia encourages the Victorian Government to work with electricity networks to create a plan for a potential increase in stress on the electricity system. If increased use of the electricity in Victoria requires upgrades to the network will this mean consumers are paying off the remaining gas network while also paying increased electricity bills?

⁵ <https://www.aer.gov.au/system/files/State%20of%20the%20energy%20market%202021%20-%20Chapter%205%20-%20Regulated%20gas%20pipelines.pdf>

⁶ <https://engage.vic.gov.au/help-us-build-victorias-gas-substitution-roadmap>



Replacing natural gas with renewable hydrogen gas by 2050 is included in the Roadmap Consultation Paper as one of the potential pathways for Victoria's transition. Currently, we know that renewable hydrogen gas can only be blended up to 10% with natural gas before pipelines and appliances must be upgraded. There is still far to go in terms of research on renewable hydrogen gas as well as the construction of renewable hydrogen electrolysis plants, adapting our current network infrastructure, and developing hydrogen gas appliances for consumers. What are the government's timeframes on each of these critical components in switching to renewable hydrogen gas? Consumers are making decisions now. Choosing to electrify, update their appliances and renovate their homes so will need a clear timeline on how the government plans on achieving this goal in the next 30 years.

We acknowledge that there is no one answer to the challenge of transitioning Victoria from natural gas and support the Roadmap consultation paper's position of keeping all pathways open. No clear path does mean that more work is required, and we encourage the Victorian Government to keep actively investigating all options with the interests of consumers in mind. Consumers will most likely face costs regardless of the path chosen and so having a clear plan that the community believes is putting their interests first will help to ensure the transition is successful.

Thank you again for the invitation to make a submission to the Victorian Government Gas Substitution Roadmap Consultation Paper. We look forward to the release of the Roadmap later this year. If you

Yours sincerely,

Lynne Gallagher

Chief Executive Officer