



Office of Energy and Climate Change

New South Wales Government

Submitted via email at renewablefuelscheme@environment.nsw.gov.au.

4 December 2023

NSW Renewable Fuel Scheme discussion paper on scheme expansion

AGL Energy (**AGL**) welcomes the opportunity to make a submission in response to the NSW Government's Office of Climate Change and Energy's NSW Renewable Fuel Scheme (**RFS**) discussion paper on scheme expansion (**Discussion Paper**).

Proudly Australian since 1837, AGL delivers around 4.3 million gas, electricity, and telecommunications services to our residential, small, and large business, and wholesale customers across Australia. We operate Australia's largest electricity generation portfolio and have the largest renewables and storage portfolio of any ASX-listed company, having invested \$4.8 billion in renewable and firming generation over the past 20 years and added more than 2,350 MW of new generation capacity to the grid since 2003.

AGL strongly supports the NSW Government commitment to achieving net zero emissions by 2050. To achieve this objective, emissions must decline across all sectors of the NSW economy. As highlighted in the Discussion Paper, fossil fuel-based gas, diesel, aviation fuel and other fuels provide about 75 per cent (850 PJ) of primary energy consumed in NSW. The remaining 25 per cent of energy is provided by renewables and fossil fuels that generate electricity.¹

While electrification is considered by AGL to be the preferred pathway for decarbonisation, especially for the residential and small business sectors, we agree that many hard-to-abate sectors² will rely on renewable fuels to decarbonise as electrification is either not technically or commercially feasible at the moment.

AGL is committed to a safe and responsible transition, for our customers and community and pursuing its decarbonisation roadmap. In our inaugural 2022 Climate Transition Action Plan (CTAP), we outlined AGL's updated ambition to become an integrated low-carbon energy leader, including:

- Targeting a full exit from coal-fired generation by the end of FY35;
- Ambition to meet customer energy demand with around 12 GW new firming and renewable assets by 2036; and,
- An initial target of 5 GW new firming and renewables by 2030.

AGL has committed to repurposing its large thermal generation sites into low carbon industrial energy hubs. Our industrial energy hub in the Hunter Valley will bring together renewable energy production and storage with energy-intensive industries, centred around a shared infrastructure backbone. This existing infrastructure backbone may also play a role in green hydrogen and/or renewable fuel industry developments.

¹ NSW Environmental Protection Agency (2021) State of Environment

² These include steel, cement, chemicals, remote power generation, heavy road transport, rail, marine transport and aviation.



To support the transition of high emission industries to a cleaner future, in 2022 AGL acquired Energy360 Pty Ltd (Energy360). Energy360 is a leading provider of solutions for sustainable energy systems, by producing biogas through the break-down of residue organic materials in an oxygen-free environment, providing an effective renewable solution for commercial and industrial customers within agricultural, landfill, food processing and waste management industries.

At the same time, reliance on gas generation to support the broader electricity grid can also be mitigated through rapid electrification and innovation in customer products and services. Given that AGL considers that residential electrification is the most likely decarbonisation pathway, broader grid impacts may be resolved through better demand management and orchestration of existing and growing Consumer Energy Resources.

Reliance on gas for some existing applications, notably domestic and commercial heating, may also be able to be significantly reduced by amending standards for new and existing buildings to improve energy performance and efficiency.

AGL has also launched a pilot program, Electrify Now, which educates customers about the benefits of electrification including the potential cost savings. While still in the pilot phase, the program aims to estimate how much customers can potentially save on their energy bills and reduce their home's carbon emissions. Additionally, Electrify Now includes estimates for switching from gas to electricity for hot water and cooktop replacement. We also offer a range of products and services that enable customers to reduce their emissions and save on their energy bills, such as solar panels, batteries, electric vehicle charging, and green energy plans.

RFS policy objectives

According to the Discussion Paper, the NSW Government is considering options to expand the RFS to help support the NSW Government's commitment to net zero emissions in NSW by 2050.³

In its current design, the RFS is a market-based scheme that creates a financial incentive for green hydrogen production, and this objective is reflected in the regulations that support the RFS.⁴

However, we consider that the above objective does not adequately reflect the reason for encouraging green hydrogen (or other renewable fuel production), which is to commercialise technologies that can reduce emissions, especially in otherwise hard-to-abate sectors, so NSW can meet its climate targets.

As such, we consider that it may be timely to rework the legislative objective to focus on cost-effective emissions reduction in hard-to-abate sectors. An objective clause that reflects the emissions reduction value of technology would assist in identifying which technologies should be eligible, as well as making clearer who are the beneficiaries of their production.

Penalty price

AGL welcomes the inclusion of a penalty price in the RFS.

As stated in our previous submission, a shortfall price is critical to provide some backstop that scheme costs will not put a disproportionate burden on NSW gas users if renewable gas production does not scale as

³ See page 4 of the NSW Renewable Fuel Scheme: Discussion paper on scheme expansion.

⁴ For example, the *Electricity Supply Amendment (Renewable Fuel Scheme) Regulation 2021* states the object 'is to create a financial incentive to increase the production of green hydrogen and other renewable fuels'.



forecast by the NSW Government. This is particularly important given current cost of living pressures on households and businesses, recent gas commodity price increases and forecast high prices into the future.⁵

It will be important to track the impact of the penalty price on the RFS to ensure that it is supporting overall scheme efficiency.

Inclusion of biogenic fuels

AGL is strongly supportive of biogenic fuels being included in the RFS. As we stated in our previous submission, it is our view that the NSW RFS would be much improved by allowing biomethane and other eligible zero-emissions gases into the scheme.⁶ This would help to ensure overall costs are minimised while the broader objective of the scheme, to decarbonise NSW gas networks most efficiently, is maintained.

We consider that biomethane is likely to be a key element of gas decarbonisation, especially if hydrogen production takes longer to scale or if production cost declines do not meet the current ambitious forecasts.

Linkages with other schemes

AGL recommends that the RFS be aligned with the Guarantee of Origin Scheme (GO). AGL considers that these recommendations will help the RFS achieve the objectives of increasing the use of renewable fuels and reducing greenhouse gas emissions, while also reducing the compliance burden of the RFS and ensuring environmental integrity.

Furthermore, ensuring transparent information about price and volume for all renewable fuel transactions that benefit from the RFS will also aid market participation and growth.

AGL also recommends that the government considers the various other incentives and liabilities that many liable parties may be eligible for and/or subject to. For example, incentives for landfill gas under the Emissions Reduction Fund and liabilities under the Safeguard Mechanism for industrial facilities.

Incentives

Renewable fuels are in the early stages of development and are not yet competitive with existing fossil fuels; we believe that allowing different renewable fuels to compete will lead to the lowest cost. It is our view that as we move through the energy transition, the market will naturally determine and drive investment into the most efficient, economic, and long-term viable fuel.

As such, we would discourage government from pursuing fuel specific incentives and rather let the market naturally determine costs and support the expansion of the most commercially viable fuels.

Liable parties

It is AGL's view that the costs of any scheme should generally be borne by those who benefit from it. As such, if the RFS is expanded to include other fuels, it should follow that those that will gain a benefit from the RFS should also be liable under the scheme.

Given our view that the costs of a scheme should be borne by those who benefit from it, a challenge with the proposed retailer-led certificate scheme is that small customers will not necessarily directly benefit from the uptake of renewable fuels. As we stated above, AGL considers electrification to be the preferred decarbonisation pathway for residential and small business customers. Given this, it is likely that many NSW small gas customers will not benefit from the growth in available renewable gases, other than biomethane

⁵ See page 2 of AGL's previous [submission to the NSW RFS](#)

⁶ See page 2 of AGL's previous [submission to the NSW RFS](#)



providing a niche role in decarbonising households unsuited for electrification. Furthermore, this electrification uptake will see the number of residential gas users decline, meaning the recovery costs of the RFS will increase and unfairly fall on those who remain.

Exemptions

With respect to exemptions, we agree with the view put forward in the Discussion Paper that the preferred option should be no exemptions.

In AGL's view, this is the most equitable approach and is aligned with NSW's net zero by 2050 objective.

Targets

Setting an appropriate target for the RFS is challenging. In AGL's view, the target needs to be ambitious enough to drive investment, while also being achievable.

While we would need to see the detailed target design to provide a comprehensive view, AGL considers target option 1, a single fuel agnostic target, to be currently the best approach. As outlined above, we support the market being allowed to naturally determine and drive investment into the most efficient, economic, and long-term viable fuel. Furthermore, as stated in the Discussion Paper, option 1 also maximises cost-effective short-term emissions abatement and provides greater simplicity in the scheme design.

It is important for gas retailers that the target be set in advance and is easy to calculate as this will help ease the compliance burden. It also important that the methodology for the target is clear.

As we stated in our previous submission, the RFS targets are quite ambitious, with liable entities needing to source certificates for 360,000 GJ in 2024, increasing to 8,000,000 GJ by 2030.⁷ This is with green hydrogen starting from a base of near zero, being unable to be a direct substitute for gas or electricity and having a lower calorific value than natural gas.

Given the ambition, it may be prudent for the NSW Government to consider retaining some medium-term flexibility to accommodate the potential that gas usage could decline quickly, and a fixed target could end up being higher than anticipated. Consideration should also be given to whether the annual targets should be fixed or tied to overall system demand. If a fixed target is maintained regardless of fluctuations in total gas demand, then the NSW Government should consider how banking, borrowing, and administrative pricing could support overall scheme efficiency.

Should you have any questions in relation to this submission, please contact Leilani Kuhn (Policy Manager) on 03 8633 6934 or myself on 0409 533 584.

Yours sincerely,



Chris Streets

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⁷ See page 2 of AGL's previous [submission to the NSW RFS](#)