



**Tasmanian Small
Business Council**
Uniting Small Business

Tasmanian Draft *Future Gas Strategy*

Submission

Prepared with the assistance of



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Our Key Points

- The final Tasmanian *Future Gas Strategy* should recognise the real threat of gas shortages and skyrocketing prices, as well as the pre-existing unsatisfactory gas market and high gas prices faced by Tasmanian small businesses. It needs to provide more detail about what actions the Government can take to address this.
- Tasmania will not be able to escape these impacts and the Government needs to address this issue more clearly in the Final *Future Gas Strategy*, which should include a risk assessment for gas users and the industry of looming gas shortages and skyrocketing prices.
- The impacts of current very high wholesale gas prices (expected to continue, albeit dampened somewhat) on smaller commercial and household users should be assessed in the Final *Future Gas Strategy* and measures included that can deal with materially adverse outcomes. The relatively small gas price increases seen by these users to date provide no guarantee that their gas prices will not increase rapidly in future; nor does the application of Federal price regulation (the impacts of which remain uncertain) insulate them from gas market pressures. One possible outcome is supply shortages (the number two concern of smaller commercial gas users), keeping in mind that the ultimate price increase is non-availability of gas (at any price).
- In our view, the Final Future Gas Strategy needs to fully consider the impact of the volatile and uncertain immediate future facing the gas industry and its customers. These risks are of such moment that not doing so could jeopardize the strategy itself.
- The stagnant state of the natural gas market as a source of energy for small business in Tasmania is manifest. It has well and truly failed to reach its potential.
- Ensuring adequate gas supply and keeping competitive pressure on gas prices would be assisted by consideration in the final Gas Strategy of all the pros and cons of developing locally produced gas – conventional, unconventional and decarbonised. Restricting exploration and potential supply through a moratorium feeds into supply and price pressures, whatever else it may do.
- The impact of rapidly rising gas prices on small business should also form part of the Emissions Reduction and Resilience Plans the Government develops.
- The Government needs to ensure that decarbonisation does not increase industry costs. Business support for decarbonisation will rapidly diminish under higher costs.
- Rapid gas market transformation would achieve limited reductions in Tasmania's emissions, but could impose significant costs on gas users (for whom gas is an important source of energy) and the economy.
- While Tasmania's electricity is presently reliable and supply mostly adequate, this could change with greater electrification and decarbonization. The adoption of electrification and 'new' uses, such as electric vehicles, will place additional demands on electricity supply that will need to be met.
- The development of a Tasmanian hydrogen industry and other new green industries mentioned in the Draft Gas Strategy will also use significant amounts of additional electricity. For example, a 150MW alkaline electrolyser located in China, presently the world's largest green hydrogen project, is powered by a 200MW solar array. Hydrogen production is known to be very energy intensive and requires four times the amount of energy per tonne to produce than aluminium.
- A robust assessment of additional electricity needs should be undertaken for the Final *Future Gas Strategy*.
- The Final *Future Gas Strategy* should consider the impact of high electricity and gas prices on gas decarbonisation. Higher electricity prices make gas decarbonisation more expensive for gas users. Whilst higher fossil-based gas prices could make decarbonised gas more competitive this comes at a cost to gas users.

- Given that conversion costs are important to many businesses faced with electrification, it would be useful for the Final Gas Strategy to seek to align electrification, as far as possible, with the life cycle of gas equipment in Tasmania. We note that for some users, including powder coating, electrification does not allow for switching away from gas due to the extremely high costs involved.
- The Final Gas Strategy should be informed by a risk assessment of the impact of MarinusLink (considered primarily for export of electricity) and renewables developments on electrification.
- The Final Gas Strategy should consider the potential for additional sources and the likely demand for biogas on decarbonization through an inventory of biogas resources using the Government's Biogas Vision.
- Support for the use of green hydrogen should be tempered by the reality that it remains a possible fuel of the future that is still cost prohibitive, with commercial application still a way off. There are also question marks about the extent of its usefulness, with Rio Tinto's Chief Scientist arguing that it should not be used as an 'energy carrier', due to high production costs and transportation problems resulting from losses escaping into the atmosphere during shipping (with global warming impacts 5 to 16 times greater than carbon dioxide) making natural gas superior.
- Similarly support for renewable methane should also reflect its pre-commercial status, as well as its likely elevated production cost.
- Whilst blending offers some early potential decarbonization gains, it is held back by its limited use at current blending rates and the relatively small contribution of gas to Tasmanian energy use and emissions. Hydrogen blending is also less energy efficient.
- The TSBC supports the Tasmanian Government's pragmatic view that gas will continue to play a role in Tasmania's energy mix for some time to come and would welcome further detail on how this will be managed in the Final *Future Gas Strategy*. In our view, this should include measures to foster development of the gas market during transition, even if this increases the use of traditional gas in the meantime (noting that gas use is underdeveloped in Tasmania and that it is less carbon intensive than fuels like oil, coal and wood).
- We also support the idea that the *Future Gas Strategy* should ensure that existing gas infrastructure remains in place and is usable, given its potential value to gas decarbonised. The best way to do this is to ensure the economic viability of the gas market and its further development throughout the transition.
- The Final *Future Gas Strategy* should set out how the potentially conflicting goals of maintaining the gas market and introduction of commercially viable renewable gases will be implemented so that gas users and the industry are fully aware of the circumstances they will face.
- We support that the Government intends to provide support for gas users in the transition to renewable gas, but are concerned that there is too much focus on large industrial users to the detriment of smaller commercial ones who also rely on gas; and that not enough attention has been paid in the Draft Gas Strategy to the needs of small business in making the transition.
- Above all, a transition needs to be well managed (many are not) and its costs kept low.
- The Final *Future Gas Strategy* should seek to provide more detail around the transition that smaller commercial gas users will be asked to make and how they will be supported in this.
- Noting the lack of timeframes in the transition stages outlined in the Draft Gas Strategy, some indications as to what the Government believes to be reasonable would be useful for gas consumers, who are seeking to understand better the challenges that they will face, when they might face them and to plan for this. This applies particularly to Stage 2 and the beginning of Stage 3 in Figure 4 (of the Draft Gas Strategy), about which more is known.

- The decrease in overall gas use in Tasmania in the final stages of decarbonization also seems inconsistent with the ambitious plans the Government has for economic development based on renewable gases even after allowing for electrification (e.g., new 'green' industries based around renewable gases).
- The TSBC welcomes that the Government does not intend to implement mandates or moratoriums that prevent further connections to natural gas, though more could be done to foster these.
- We also support that the Government will be seeking to ensure an orderly transition to renewable gas, will be monitoring its impacts and that it recognises the importance of legacy natural gas users not facing unaffordable transportation costs. How the Government intends to manage this is important to the industry, gas users (including small business) and potential investors. The TSBC sees this as a critical element going forward and one that carries risks for all parties involved, including small business.
- Any government support for developing decarbonised gas options should be carefully assessed in terms of providing value for money to the Tasmanian community, should be transparent and should be backed by a robust business case.
- Based on a level of ambition that Tasmania might realistically achieve, the Government could also consider ways to pursue renewable gas developments (not just hydrogen) by leveraging off initiatives in other States and federally, or gaps therein.
- We support that the Tasmanian Government maintain an involvement in national gas reform underpinned by its commitment to improve gas supply to Tasmanian consumers at lowest cost.
- The TSBC supports reviewing regulation which can smooth the path to potential renewable gas investments, but cautions that regulation must not become a barrier to new investment or protect uneconomic ones, should avoid duplicating regulation at the national level, and should ensure consistency with national regulation where possible.
- The TSBC believes that the Government needs to consider extending energy efficiency incentives to gas appliances as these can provide readily available improvements in energy efficiency and offset the use of more carbon intensive forms of energy (e.g., oil, coal or wood); and continue to do so once decarbonised gas become available.
- We support the Tasmanian Government developing ways to alleviate decarbonization pressures, including support for low income and vulnerable consumers in the *Gas Strategy*.
- Given the resource and knowledge gaps that exist among small businesses, we believe that there is a strong case for including small business in existing emission reduction and resilience plans, where they are part of a relevant sector, or developing a separate plan to cover small business (recognising that small business is not homogeneous, but often has similar needs).
- The TSBC supports both co-operation between the Government, the gas industry and gas consumers on the transition to renewable gas and the Gas Working Group continuing its involvement. The TSBC would be pleased to continue its involvement.
- We support the proposal to review the *Future Gas Strategy* after five years, although we believe that a review after 3 years may be justified. The review should be independent and public.
- We recognise the need for timely and relevant skills development in renewable gases.
- We also recognise the benefits that well thought through certification of decarbonised gases can bring, including to small businesses.
- The TSBC suggests that the *Future Gas Strategy* should be driven by three broad overriding objectives – it should ensure that gas in Tasmania is **Available**, **Affordable** and **Assisted** by government in a transition (where necessary).

Introduction

The Tasmanian Small Business Council (TSBC) welcomes this opportunity to comment on the Tasmanian Government's Draft *Future Gas Strategy*, including the possibility of decarbonization of the Tasmanian gas industry.

About the TSBC

The TSBC is an association of associations, each of which represents a specialist industry sector. By bringing these sectors together, we provide small businesses with the opportunity to access information and advice across the wider small business community. We also represent small businesses as we communicate their interests and needs to government, regulators, other organisations and the public.

There are more than 37,000 small businesses in Tasmania. They make up over 96 per cent of all businesses in Tasmania and provide more than half of the private sector employment in our state. This shows their importance to Tasmania, its economy and Tasmanian society.

The TSBC's interest in the Tasmanian *Future Gas Strategy*

The TSBC has a long-standing and substantial track record of involvement in Tasmanian energy issues as they affect small business, including gas. Natural and liquified gas is used by many of our members. As such, we have been involved in advocacy on key Tasmanian gas issues over a number of years.

As mentioned in our submission on the Government's earlier Discussion Paper¹, the TSBC has advocated on the need for a Tasmanian gas strategy since 2016, when we commissioned and published a detailed review of the Tasmanian gas market by Goanna Energy.² That report found that, *inter alia*:

*A major review of the gas market is needed to ensure it does not continue as a significantly underutilised resource with a potential risk of eventual failure, instead maximising its potential to benefit Tasmanian gas users and the State's economy.*³

We are therefore pleased that the Tasmanian Government is developing the Tasmanian *Future Gas Strategy*. We urge the Tasmanian Government to address the many issues raised in the Goanna Energy Gas Market Report in developing its gas strategy.

The TSBC has also been pleased to be a member of the Working Group that is assisting the Government in the development of its *Future Gas Strategy* and provide a small business perspective on the issues under consideration.

Our approach to the Submission

In developing this submission, we have placed a priority on the needs of Tasmanian small businesses as existing, or potential, gas users and as potential beneficiaries of the further development of a

¹ TSBC, *Tasmanian Future Gas Strategy and Decarbonisation of Gas, Submission on Discussion Paper*, January 2022 available at

https://recfit.tas.gov.au/_data/assets/pdf_file/0005/365180/Tasmanian_Small_Business_Council_-_Submission_on_Future_Gas_Strategy_Discussion_Paper.PDF.

² Goanna Energy Consulting, *The Tasmanian Gas Market: Building the Pipeline to Opportunities*, Report for the TSBC, August 2016 (copies can be obtained by contacting Goanna Energy <https://goannaenergy.com.au/>).

³ *Ibid.*, p. 17.

stronger gas market in Tasmania. The unique position of the TSBC, as an umbrella organization for Tasmanian small businesses, provides us with wide ranging contact with Tasmanian small businesses who either use gas at present or have the potential to do so in future.

In developing this submission, we have also had regard to the views of commercial gas users who have provided us with their direct feedback on the Draft Gas Strategy.⁴ The great majority said that gas was either essential or very important to their operations. Their direct gas user knowledge and commercially based views were important to developing this submission, and we thank them for their feedback on the Draft Gas Strategy. Their views were often provided confidentially and have been included in this submission on that basis. We trust that the Government finds their inclusion useful.

How the Submission is structured

Our submission is set out as follows:

- We begin by providing some comments about small businesses as gas users in Tasmania.
- Next, we provide some commercial gas user views on decarbonisation of gas in Tasmania.
- Thirdly, we address the pathways to decarbonisation outlined in the Draft *Future Gas Strategy*.
- Fourthly, we discuss our views on the Government's vision for gas in Tasmania.
- Finally, we comment on proposed Government actions to support the *Future Gas Strategy*.

Our Key Points are summarized at the beginning of the submission.

Tasmanian Gas Industry and Small Business

In our January 2022 submission on the earlier Tasmanian Gas Strategy Discussion Paper released by the Tasmanian Government, we commented on the role of small business as gas users in Tasmania. We recap on this below and make some observations about important gas market developments that have impacted small business gas users over the past year which, we believe, should influence the Final Gas Strategy.

Recap: Small business as a commercial gas user in Tasmania

Small business is a relatively modest gas user in Tasmania. Moreover, the use of natural gas by Tasmanian small businesses has only grown slowly, both in terms of the number of customers and the size of their aggregate consumption of natural gas. There is clearly scope for more use of gas by Tasmanian small businesses, under the right conditions.

In 2020-21, there were only 1,130 small business natural gas users in Tasmania. This compares to 1,035 in 2016-17, an increase of less than 100 connections. Whilst other small businesses would have been using LPG, the stagnant state of the natural gas industry as a source of energy for small business in Tasmania is manifest. It has well and truly failed to reach its potential.

The 2016 Goanna Energy study of the Tasmanian gas market estimated that small businesses consume around 350 TJ of gas annually, or 6.5 per cent of non-gas fired generation natural gas supply. These numbers would not have increased much since.

⁴ The average annual use of natural gas of these users was 14,600 GJ. They came from a range of sectors including industrial processing, tourism, hospitality, primary industries and the public sector. Use of gas as a heat source dominated.

Nevertheless, natural and bottled gas are important energy sources for smaller commercial gas users in Tasmania, who have come to rely on its availability for many different uses and would incur costs, or have operational and technical difficulties, if gas were no longer available. This would have impacts on the broader Tasmanian economy and highlights the need for careful planning and a cautious approach in any Government decision to move away from existing gas sources.

“Many businesses require gas, it is an important fuel type with characteristics and infrastructure that electricity cannot match.”

Tasmanian gas user

Commercial gas use in Tasmania is diverse, both in terms of the range of industries and the way gas is used. Gas use by the commercial sector is more heterogeneous than for households. Where gas is used, it is often very important to the operations of the firms involved.

Competition in retailing of natural gas is very weak in Tasmania. Natural gas customers have a choice of only two retailers, TasGas or Aurora, with the former holding a dominant 88 per cent share of smaller commercial customers.

Furthermore, price differentiation between Tas Gas and Aurora is very limited. Even during the occasional times when there has been some material difference in their prices, it has been limited and transitory.

Given the above, most small business customers show limited interest in shopping around and retailer switching rates are very low.

Tasmania’s natural gas distribution system passes some 60,000 sites, but in 2020-21 only 14,749 were connected. Whilst the original plan was for the system to pass around 100,000 sites, this was significantly curtailed when the then Government withdrew financial support for any further roll out.

The Draft Gas Strategy mentions sea transport (freight and ferries) as potential growth areas for gas in Tasmania, but does not say that there are other more traditional areas of gas use that have failed to materialize due partly to a lack of support for developing the Tasmanian gas market.

According to the TasGas submission on the *Future Gas Strategy* Discussion Paper, there is comparatively high residential use of LPG in Tasmania with more LPG being consumed by households than natural gas. LPG appears to account for about 1.3 per cent of Tasmania’s energy consumption and 16 per cent of overall gas consumption, split around 70/30 in favour of residential use over commercial and industrial use, with the latter consuming about the same amount of LPG as they do natural gas.⁵ Small business use of LPG would reflect both the non-availability of natural gas and commercial decisions to utilise LPG notwithstanding the ability to connect to the natural gas network (e.g., due to switching, price and connection barriers). Goanna Energy advises that it is aware of commercial customers who have, or have considered, switching from natural gas back to bottled gas due to the high cost of natural gas in Tasmania.

Commercial customers in the LPG segment have a little more choice with access to multiple suppliers including Elgas, Origin Energy and Supagas. However, LPG prices are closely linked to

⁵ Goanna Energy estimates using information from TasGas Submission on Tasmania’s *Future Gas Strategy* Discussion Paper and Department of Energy, Climate Change, the Environment and Water, *Australian Energy Statistics 2022*, Table D.7.

international Saudi contract prices, which can vary significantly and often. LPG customers are not able to switch to natural gas unless they happen to be within easy reach of the Tas Gas distribution system and are prepared to pay the connection and conversion costs. There appears to be limited public information on the Tasmanian LPG market, which makes analysis of it more difficult.

BOC produces Liquefied Natural Gas (LNG) from locally sourced natural gas at its plant in Westbury, which it supplies to the heavy transport industry in Tasmania.⁶

Recap: Tasmanian gas prices

Natural gas prices for business customers in Tasmania are very high compared to other jurisdictions. In its most recent price comparison report, the Office of the Tasmanian Economic Regulator (OTTER)⁷ found that gas prices for small business customers in Tasmania were the highest of any Australian jurisdiction, whilst average annual gas bills were also the highest (apart from a few little used tariff in NSW, Qld and WA). The annual bill for a typical Tasmanian small business gas customer consuming 473,000 Mj pa was in the order of \$21,250, more than double the bill for a comparable gas user in Victoria and NSW. Any further gas price increases (decarbonised or not) could well put firms and jobs at risk, especially for firms exposed to overseas or inter-state markets.

Figure 1 below highlights the predicament that gas users currently face with prices in Australia's eastern states (including Tasmania), which have spiked since 2020/21. It also shows that current prices have tempered somewhat, though they are still high (shown as the dashed line, which is the

“Cost is affected adversely by the lack of supply.”

Tasmanian gas user

current Victorian wholesale gas market price of \$12.30/Gj, just above the \$12/Gj price cap).

The commercial gas users that were contacted for this submission expected natural gas prices in Tasmania to increase by 50 per cent over the next year and by 20 per cent over the next five years. They ranked commodity costs as the most important factor, closely followed by tight supply and then transport costs.

It is to be hoped that the final Tasmanian *Future Gas Strategy* recognises the above situation and contains measures to address it. Whilst the draft Gas Strategy provides some welcome indications that the Government is attuned to the unsatisfactory market and price settings faced by small businesses, the final version needs to provide more detail about what actions the Government can take to address it. Unfortunately, the Draft Gas Strategy seems to accept, as a *fait accompli*, both that Tasmanian gas prices are high and the reasons for this (e.g., small market, lack of economies of scale, remoteness from gas reserves, high transportation charges and mainly low volume users). We would point out that steps can be taken to address these impacts, such as those outlined in this submission and the

“All of these are just as important but I have put supply as the priority. Without it we have no business.”.

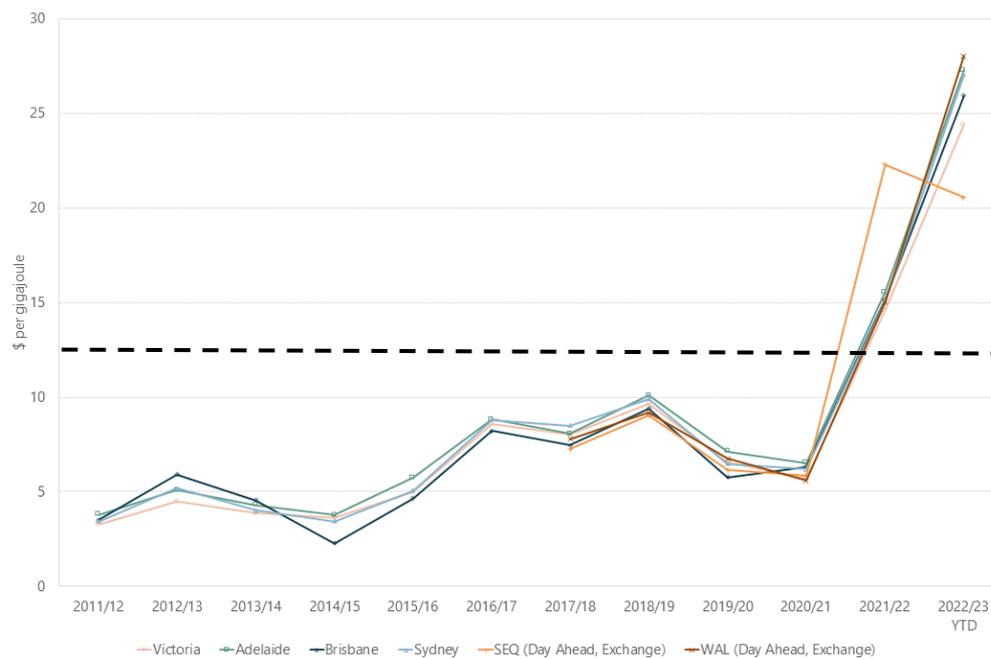
Tasmanian gas user

⁶ The plant produces up to 50 tonnes of LNG per day, which is equal to 70,000 litres of diesel.

⁷ OTTER, *Comparison of Electricity and Gas Prices Available to Small Customers in Australia*, Report, Oct. 2022 at <https://www.economicregulator.tas.gov.au/Documents/22%202145%20%20Comparison%20of%20Electricity%20and%20Gas%20Prices%20Available%20to%20Small%20Customers%20in%20Australia%20-%20October%202022.pdf>.

2016 Goanna Energy Tasmanian Gas Market Study referred to earlier (e.g., stimulate competition, diversify supply, improve access to natural gas, facilitate the greater use of gas).

Figure 1: South-eastern Australian wholesale gas market prices



Source: AER; AEMO, Last updated: 24 Oct 2022 - 2:57 pm

Gas Market Issues

Below we comment on a range of important gas market issues that are relevant to the *Future Gas Strategy*.

Access to potential local gas supplies

The Draft Gas Strategy says that Tasmania has no local gas reserves. It is more accurate to say that it has no locally produced gas, with natural gas being imported via the TGP and bottled gas shipped into Tasmania from inter-state.

However, there are known to be both onshore and offshore gas resources available to Tasmania, although these have not yet been adequately explored, let alone developed. In the case of the unconventional onshore gas, a moratorium on fracking remains in place due to landholder and environmental concerns. Tasmania possibly also has access to conventional sources of gas that remain unexplored. A failure to explore these resources to determine their commercial feasibility may well have contributed to holding back the use of gas as an energy source in Tasmania and been detrimental to energy security. The draft Gas Strategy recognises these risks:

Given Tasmania is a small gas market dependent on imported gas, it is vulnerable to the increasing supply and price risks associated with both gas commodity and pipeline capacity.⁸

⁸ Draft *Future Gas Strategy*, p. 7

In 2017, the then Chairman of the ACCC commented that:

“Moratoria and other regulatory restrictions in New South Wales, Victoria and Tasmania were preventing or impeding onshore gas exploration and development in those states, at a time when the level and diversity of supply were critical in the east coast.”⁹

This situation is even more critical today with skyrocketing gas prices and worse supply deficiencies, yet little has been done in Tasmania (and elsewhere) to address these issues, which impact adversely on local gas users, including the small business community. The Draft Gas Strategy does not mention this, whilst the recent Commonwealth Government gas policy changes failed to address the matter, despite its obvious importance.

A better approach to ensuring gas supply and keeping competitive pressure on prices would be to consider all the pros and cons of locally produced gas – fossil based and decarbonized – in the final *Future Gas Strategy* and develop a path forward that net benefits the State.

Looming supply shortages and very high gas prices

To highlight this point of vulnerability further, AEMO is forecasting that gas supply in south-eastern Australia is declining (faster than projected consumption) opening a consequent gap in supply. In terms of gas use in south eastern Australia, this issue is exacerbated by the decline of gas reserves in Victoria and pipeline constraints in transporting gas from further north. Gas supply and exploration restrictions in NSW, Victoria and Tasmania are a further compounding factor. This is backed by concerns expressed by the ACCC that the gas supply-demand balance is tight from 2022 and likely to move into a deficit by winter 2023.¹⁰ Whilst the Draft Gas Strategy suggests that the impacts of this on Tasmania are unclear, it seems to us that Tasmania will not be able to escape the impacts and that the Government needs to address this issue more clearly in its Final Gas Strategy, including with a risk assessment for gas users and the industry, should the forecasts prove to be accurate.

Problems in the east coast gas market have been front of mind this year, with:

- A tight supply situation emerging due to high demand from electricity generation, the diversion of gas previously used to supply the local market to export markets, where demand has been high due to declines in Russian supplies to Europe and declining reserves.
- Domestic spot and contract prices spiking to record levels (see Figure 1).
- AEMO having to trigger the Gas Supply Guarantee (GSG) mechanism in response to forecast low reserves.

Wholesale gas price caps

More recently (and since the publication of the Draft Gas Strategy), the Federal Government has capped the price of wholesale domestic gas at \$12/Gj for 12 months (for uncontracted existing supplies), with a ‘reasonable prices’ approach to apply after that (for new and existing supplies).¹¹

⁹ Rod Sims, *Recognising Australia’s east coast gas crisis*, speech to 5th Annual Australian Domestic Gas Outlook 2017 at <https://www.accc.gov.au/speech/recognising-australias-east-coast-gas-crisis>.

¹⁰ Australian Competition & Consumer Commission, *Gas Inquiry January 2022 interim report* forecasts a potential shortfall of 56PJ of gas supply in the east coast market in 2023, if all excess gas of LNG exporters is sold in overseas markets.

¹¹ Defined as “efficient marginal costs of domestic supply, allowing for a commercial return on capital reflective of the industry’s risk profile” in Department of Treasury and Department of Climate Change, Energy, the Environment and Water, *Options to ensure the domestic wholesale gas market delivers for Australians*, *Consultation Paper*, December 2022, p. 10.

This has raised the ire of some gas suppliers, some of whom have indicated they may withdraw from the heads of agreement between the Federal Government and LNG exporters to meet (at market prices, not regulated prices) the expected shortfall in east coast gas demand in 2023.¹²

In our view, the Final *Future Gas Strategy* needs to fully consider the impact of the volatile and uncertain immediate future facing the gas industry and its customers. These risks are of such moment that not doing so could jeopardize the strategy itself.

Bearing in mind that the response to the new gas market regulations imposed by the Federal Government is still emerging, one path forward would be to try to hasten the transition to decarbonised gas in Tasmania, although this has risks associated with over-reliance on emerging technologies and uncertain adjustment processes for the industry and gas users. The other, which appears more certain in its impacts and is also consistent with the cautious transition approach of the Draft Gas Strategy, would be to recognise that reliance on fossil-based gas will continue for some time and that the Final Gas Strategy needs to include measures to improve the performance of the Tasmanian gas market. The TSBC favours the latter, even though it could impact decarbonization. We note that the options are, in fact, not mutually exclusive and could be used to support each other in the common goal of an orderly transition.

The Draft Gas Strategy makes the additional point that large gas users in Tasmania are insulated for the time being from recent gas price increases given they have negotiated 3–4-year contracts, although it recognises that higher gas prices will eventually impact these companies. Smaller commercial customers are supplied by TasGas and Aurora at annual posted tariffs that closely follow each other. These change each year, which could make them more susceptible to volatile gas market conditions and a lack of competition, depending on the contracts negotiated by the two gas retailers with gas producers and the TGP.¹³ The impacts of this need to be carefully assessed in the Final Gas Strategy and measures developed to deal with any materially adverse consequences. They should also form part of the Emissions Reduction and Resilience Plans the Government intends to develop. One possible outcome is supply shortages (the second most important concern of the smaller commercial gas users who provided us with their feedback), keeping in mind that the ultimate price increase is non-availability of gas (at any price).

Tasmanian Gas User Views on Decarbonisation

Gas users indicated that they would either find it “difficult” or “somewhat difficult” to decarbonise their gas use due to a range of technical and cost reasons. Some said that they would not be able to do so, whilst none said it would be easy. Powder coating is one industry that would find it

¹² Shell has said that it will not be accepting new offers for the 50 Pj of gas that it was previously offering until it has assessed the Federal Government’s price capping arrangements and Woodside, which is joint owner of the Gippsland Basin fields that supply much of Tasmania’s gas, has suspended its sales process, which had attracted about 20 buyers, and paused other domestic marketing activities.

¹³ TasGas announced on 26 February 2022 (see <https://www.tasgas.com.au/uploads/linkedfiles/tasgas.com.au/Media-Release-Gas-Agreements-26.2.22.pdf>) that it had negotiated with Origin Energy the supply of 5.1 Pj of gas for its residential, commercial and industrial customers from the start of 2023 to end 2025. They noted that this was “helping to address the potential medium-term shortfall that has been forecast by AEMO for the east coast natural gas market.” The total gas involved is sufficient to meet total annual (non-generation) gas demand for about 9 months, so these customers will still be exposed to the future of the gas market as TasGas’ other supply contracts unwind, albeit under the impact of Federal Government price regulation (with their impact on the market still uncertain).

technically impossible to switch, based on existing commercial technologies, due to the extremely high cost of doing so.

There was reasonable support for decarbonisation among users with all indicating either strong or moderate support. Organisational goals to reduce emissions and a perceived lack of certainty about gas supplies and volatile prices were among the reasons given. However, support dropped off

“Powder Coat Oven Technology is based around gas. The few electric systems that are available are so expensive to run that they are not feasible.”

Tasmanian gas user

markedly if decarbonisation increased their costs, with none professing strong support and some opposition also emerging. This suggests strongly that the Government needs to ensure that decarbonisation does not increase industry costs.

According to these gas users, the costs of replacing equipment, converting equipment and fuel costs were all important in decarbonization, whilst high costs and technical issues were seen as the main

obstacles along with the small size of the Tasmanian market and the need for a national approach to decarbonization.

Gas Decarbonisation Pathways

The Draft Gas Strategy raises several ways to decarbonise Tasmania’s gas market. It is fair to say that all present challenges of one kind or another (e.g., economic, technical) that make rapid transformation difficult and will require a carefully managed transition.

Overall, the feedback from most gas users was that the pathways presented would be either “very difficult” or “somewhat difficult”, although some also indicated that they would find it “easy”. There was also a significant amount of uncertainty about switching options apparent from this feedback.

Electrification

The TSBC concurs that electrification is the most likely gas decarbonisation option in many contexts in Tasmania. We also observe that electrification will be difficult for some gas consumers due to high costs of switching or technical obstacles, especially industrial process heating. One gas user commented that:

“For existing assets within our business, further investigation will need to be made into the commercial/technical feasibility of electrification over the transition to a decarbonised gas substitute. Significant technical/commercial obstacles are likely to present in electrifying larger asset infrastructure currently reliant on gas.”

Some gas users feedback said that they felt that electrification was an “easy” option for them, though this varied and was qualified by the type of equipment, its application and size, and a need to undertake further investigations. Others would clearly have significant difficulties.

There are a range of additional issues that the Final *Future Gas Strategy* should consider further:

- While Tasmania’s electricity remains reliable and supply mostly adequate, this could change with greater use and an assessment of this should be undertaken for the Final Gas Strategy. The adoption of electrification and ‘new’ uses, such as electric vehicles, will place additional

demands on electricity supply that will need to be met. The development of a Tasmanian hydrogen industry and other new green industries mentioned in the Draft Gas Strategy will also use significant amounts of additional electricity. For example, the world's largest green hydrogen project, a 150MW alkaline electrolyser located in China, is powered by a 200MW solar array.¹⁴ This is comparable to the 350MW used by the Bell Bay aluminium smelter. Hydrogen production plants are likely to get even bigger in future, requiring more electricity. Hydrogen production is known to be a very energy intensive activity that requires four times the amount of energy per tonne to produce than aluminium.

- For small businesses, the price of electricity in Tasmania remains problematic. Whilst the Tasmanian Economic Regulator found in its most recent report comparing Tasmanian electricity tariffs with those across Australia that at \$1,429, the annual small business bill under Aurora Energy's (regulated) Tariff 22 is the fourth lowest bill, it needs to be considered that (at 3,500 kWh per year) average Tasmanian small business consumption is well below the national average (20,000 kWh). A national comparison of small business electricity bills using the national average small business consumption level commissioned by the TSBC found that small business bills in Tasmania ranked in the middle.¹⁵ Moreover, it also found that electricity price discounting in Tasmania for small business is far more limited than in other NEM jurisdictions and is heavily impacted by price regulation and Aurora's retail market domination. Higher electricity prices (such as those currently being seen in the NEM) and bills make the task of electrification more difficult, and the Final Gas Strategy should consider this.
- Adding to this problem, electricity prices in the NEM have spiked in recent years (even more than gas) and are projected to continue to do so, notwithstanding recent Federal interventions and support measures (discussed earlier in this submission). This makes the task of electrification more difficult, especially in the short to medium term. Businesses facing conversion costs will be facing the prospect of a double whammy and be more reluctant to switch. The Final Gas Strategy needs to consider this and the future direction of electricity prices.
- Given that the costs of conversion are important to many businesses faced with electrification, it would be useful for the Final Gas Strategy to seek to align electrification, as far as possible, with the life cycle of gas equipment in Tasmania. In this regard, we note that there would be few Tasmanian small businesses that have gas equipment which is more than 20 or so years old, given the introduction of natural gas was in 2004. Other things being equal, this would delay electrification.
- The Draft Gas Strategy mentions that electrification will increase the demand for electricity but notes that the Tasmanian RET will double the amount of renewable energy by 2040. However, we see several qualifications to this: it relies on the construction of MarinusLink, which is not yet a foregone conclusion; even if MarinusLink is built, much of the additional renewable capacity will be used for export; and industry requires access to reliable supply, with renewables still facing challenges in this regard. The Final Gas Strategy should be informed by an assessment of risks in this area.

¹⁴ Recharge, *Record breaker | World's largest green hydrogen project, with 150MW electrolyser, brought on line in China*, 1 February 2022.

¹⁵ Goanna Energy, *Fair to Middling, But Nothing to Crow About: Tasmanian Small Business Electricity Prices – a National Comparison*, Report produced for the TSBC, March 2022.

Bioenergy and Biogas

Biogas will provide some commercial opportunities for decarbonization and is attractive because it is already commercial in certain applications. However, its application is limited both by how it can be used and the availability of biogas resources. Allowing for these limits, gas users expressed a general view that biogas would present them with a relatively easy switching option. However, one gas user said that “Biogas will incur a high cost and technical difficulties”, whilst another explained that biogas was not needed for their operations as electrification provided a preferred option on both cost and environmental grounds.

The Final *Future Gas Strategy* should consider what impact biogas is likely to have on decarbonization and could usefully be informed by an inventory of Tasmanian biogas resources, the potential for additional sources and consideration of the likely demand for biogas. The Government’s Biogas Vision could be a useful way of assessing such matters.

Hydrogen

Hydrogen may well offer an important means of decarbonizing gas with broad application but, as the Draft Gas Strategy notes, it “is not yet commercially viable as a large-scale natural gas or LPG substitute” and will have higher transition costs involving converting infrastructure, meters and end use appliances, and increased regulatory burden, including safety, training and licencing. Hydrogen also provides less energy than natural gas, meaning that its use would require gas users to consume more energy with likely cost imposts.

There are also question marks about the extent of hydrogen’s usefulness, with Rio Tinto’s Chief Scientist, Nigel Steward, arguing that it should not be used as an ‘energy carrier’, due to high production costs and transportation problems resulting from losses escaping into the atmosphere during shipping (with global warming impacts 5 to 16 times greater than carbon dioxide) making natural gas superior.¹⁶ We note that access to export markets (inter-state and international) would presumably be a significant factor in the potential for Tasmanian hydrogen production.

Gas users indicated a belief that switching to hydrogen may be possible (longer term) but with obstacles mentioned around energy density, storage and safety. Uncertainty about hydrogen (technical, economic, regulatory and environmental) was also seen as an obstacle.

We further note that the Draft Gas Strategy points out that hydrogen may not be compatible with the TGP steel pipeline, limiting its transportability, and with some end user equipment, although it seems better suited to the TasGas distribution network (the use of which is limited by its current reach, high charges and need to connect to the TGP for all but local use).

“(I)t does not currently make sense (commercially, environmentally) for it [Green Hydrogen] to be used in applications where electrification is an option.”

Tasmanian gas user

Whilst the use of hydrogen should be included in the *Future Gas Strategy*, support for its use needs to be tempered by the reality that it remains a possible fuel of the future and is still subject to considerable uncertainty with commercial application still a way off.

¹⁶ ACAPMAg, 1 December 2022 at <https://acapmag.com.au/2022/12/rio-tinto-chief-scientist-nigel-steward-says-hydrogen-hype-faces-tough-tests-in-reality/>

Renewable methane

Overall, gas users felt that renewable methane, if commercially viable, could provide a relatively easy means of switching from fossil-based gas, although noting that too little was currently known about its application to be certain about this. However, we note that the Draft Gas Strategy says that renewable methane is not yet commercially feasible and that the additional step involved in its production will always likely make it a higher cost decarbonization option. The Final Gas Strategy should reflect this reality.

Blending

We largely concur with the position of the Draft Gas Strategy that blending could offer some possible early potential to reduce carbon emissions, but this is limited by the low level of blending involved. Consequently, its carbon reduction impact would also be limited. In the case of Tasmania, its impact would be further limited by the relatively small amount of gas presently used in the State, unless the gas market can be grown faster.

In relation to hydrogen blending into the natural gas network, we note the current non-commercial status of the technology further limits what can be done and that, as hydrogen carries less energy than gas, blending it would increase costs to gas users.

Whilst gas users expressed a degree of support for blending, they were also unsure about its value or if “it would satisfy the intent”.

The Government’s Vision for Gas in Tasmania

The Draft *Future Gas Strategy* sets out the Government’s vision for the future of gas in Tasmania and we comment on this below, particularly in terms of small business impacts.

A Continued Role for Gas

The TSBC supports the Tasmanian Government’s stated position in the Draft Gas Strategy that:

(T)he Tasmanian Government’s view is that gas will continue to play a role in Tasmania’s energy mix for some time to come, pending the further development of suitable and affordable alternative renewable fuel sources. (p. 15)

And that:

Acting to transition away from gas before suitable alternative fuels become widely available would therefore have an adverse impact on Tasmania’s economy and employment, while doing little to reduce greenhouse gas emissions. (p. 15)

We believe that this provides an important foundation for a pragmatic approach to gas

“Businesses are facing enough price challenges at the moment without introducing more costs. So I understand the government wants to protect the industries and jobs involved.”

Tasmanian gas user

decarbonization in Tasmania, one which recognises that gas plays an important role in the energy needs of the State, including for over 1,100 small businesses natural gas users and that a measured transition to decarbonization will be required to avoid economic and commercial disruption. It is important that the *Future Gas Strategy* balances what is

possible commercially with the Government’s desire to head Tasmania on a path to net zero emissions by 2030.

Gas users offered strong support for gas to continue to play an important role during a decarbonization transition. They also supported the need for the Government to provide more details on what this will mean in practice and the Final Gas Strategy should reflect this.

We also support the idea that the *Future Gas Strategy* should ensure that the existing gas infrastructure remains in place and is usable, given its value both at present and to decarbonised gas. The TSBC believes that the best way to ensure this is to maintain and improve the economic viability of the gas market throughout the transition. We note that further growth in the Tasmanian gas market and its reach, including greater use of gas by small business where commercial, would ultimately provide an even more valuable asset for decarbonization, notwithstanding that it might result in some small increase in Tasmanian emissions in the interim.

Government Support for the Transition

We note the statement in the Draft Gas Strategy that “the Government will not seek to prolong the use of natural gas and LPG beyond the point that renewable alternatives become widely available and commercially viable.” (p. 16) This sets a limit on the Government’s approach to the gas decarbonisation transition. There was a measure of gas user support for this. However, the Government will need to take care to ensure that this does not conflict with its commitment to allow fossil-based gas to continue play a role until new alternative renewable gases become available. The Final Gas Strategy should set out how this will be implemented so that gas users and the industry are fully aware of the circumstances they will face.

We asked gas users to indicate how they would respond to a difficult or poorly managed transition. Common responses were that they would seek to pass on costs to their customers (if they could) or to scale back their operations. Closing down was also seen as an option. Faced with the prospect of natural gas/LPG becoming unavailable or unviable they said they would either try to decarbonise faster, pass on costs or close down. Closing down became a more likely option. These answers show the importance of a well-managed transition and the costs of one that is not.

There was also strong support from gas users for Government assistance with managing the transition, although there was also a small degree of opposition.

How the Government intends to manage the transition is important to the industry, gas users (including small business) and potential investors. The TSBC sees this as a critical element going

“Major infrastructure costs will have small business questioning their future in the industry which will have a massive impact on all areas of manufacturing, building and engineering.”

Tasmanian gas user

forward and one that carries risks for all parties involved, including small business. There are many real-world examples of how transitions have been poorly managed but far less of how they have been well managed. In this regard, the Draft Gas Strategy has provided some indicators, which provides a starting point, though more detail needs to be provided and further thought given to just what needs to be done.

First, the Draft Gas Strategy signals that the Government is prepared to provide help to “gas-reliant” industries to adopt new technologies. It has not provided detail on what it means by “gas-reliant”,

though the Draft Gas Strategy suggests that this could be limited to the largest gas users. If so, we would observe that there are other important firms and industries that are reliant on gas and they will also find transition difficult. The powder coating industry is one example we were made aware of, although there are no doubt others. These should also be considered for government support.

Among the gas users who provided feedback to us, there was widespread opposition to limiting Government support to large industrial gas users and for support to be more broadly available.

Second, the Draft Gas Strategy also talks about “a need for Government to assist less gas-reliant manufacturers, such as food processors, understand their energy options.” (p. 16) The gas users we obtained feedback from did indicate a degree of support for limited assistance of this type but clearly wanted help to go further. Financial support, taxation measures, collaboration, measurement and verification (M&V) guidance, help with energy efficiency assessments and technical advice were all mentioned as being desirable means of government support.

Again, there is little detail provided in the Draft Gas Strategy about what is front of mind here – what is meant by “less gas-reliant”, the types of industries (beyond food processing), what help with understanding options is being considered.

We also suggest that the Government needs to provide a basic level of help to industries, including small business, so that they have a better understanding of their options and to help educate them about such an important change to their energy use. We note that small businesses are far less well equipped (in terms of skills and access to finance) than large gas users to tackle such a change and arguably require more help to make a successful transition away from fossil-based gas. Many commercial gas users made the transition to natural gas in Tasmania based on a government program of support to bring natural gas to Tasmania. If the Government is now going to ask them to move away from natural gas, it should recognise their needs.

Overall, the Final *Future Gas Strategy* should seek to improve and provide more detail around the transition that commercial gas users will be asked to make and how they will be supported in this.

We note that the Victorian Government has developed a roadmap for decarbonizing its gas sector as part of its net zero by 2050 commitment.¹⁷ This contains several important commitments:

- There is a strong commitment to reducing the carbon emissions from gas but grounded on keeping energy affordable and reliable for all consumers throughout the transition.
- There is a clear recognition that some business users will find switching away from traditional gas more difficult than residential consumers and an expectation (based on modelling) that remaining users will face higher network charges but offset to some extent by lower wholesale costs (driven by less demand pressure).
- There are incentives provided for businesses to help them make the change, especially towards electrification, which offers the most immediate potential.¹⁸

¹⁷ Victorian Government, *Victoria’s Gas Substitution Roadmap*, October 2022, <https://www.energy.vic.gov.au/renewable-energy/victorias-gas-substitution-roadmap>.

¹⁸ See Victorian Government, *Helping Business Electrify and Cut Energy Bills – Fact Sheet*, https://www.energy.vic.gov.au/data/assets/pdf_file/0040/579883/Victorias-Gas-Substitution-Roadmap-Helping-businesses-electrify-and-cut-energy-bills.pdf. Commercial and Industrial Heat Pump Water Heaters (C&I HPWH) have recently been added to the Victorian Energy Upgrades program, allowing businesses that have an existing gas or electric resistance boiler or water heater to install a HPWH at a reduced price and receive an incentive of between \$2,000 and \$16,000.

The Draft Gas Strategy observes that industrial gas users face significant challenges, particularly in replacing natural gas for process heating, but points to the Australian Renewable Energy Agency (ARENA) report *Renewable Energy Options for Industrial Process Heat*, which found that there are demonstrated and available renewable energy technologies for every application of process heat. However, this report also mentions barriers in that not all are sufficiently proven in a commercial sense, that there is a low level of experience with generating heat using renewable fuels and that there is the low appetite for risk and short payback time expectations. It is also worth adding that ARENA found that, short term, only 12 per cent of total industrial gas use for heat could make economic use of renewable substitution.¹⁹ The feedback provided by Tasmanian gas users to the TSBC confirms that there are some significant barriers to overcome.

The Draft Gas Strategy points out that transitioning to renewable forms of gas could create new opportunities for gas users in Tasmania, including:

- The generation of on-island renewable gases such as hydrogen and biogas, although the potential for this remains uncertain at this stage and would place Tasmania in competition with mainland States and other countries, who may have advantages over Tasmania (e.g., larger economies, industrial scale and scope, transport advantages, proximity to markets).
- In turn, this could be used to leverage into production of “green” manufactures, with steel, ammonia and aluminium being referred to. The TSBC would welcome further detail on how these new industries might be developed competitively in Tasmanian and with what level of government support. The TSBC is not opposed to such developments and notes that they could be essential to the production of on-island renewable gases, but is concerned that the Government does not engage in picking winners that are poor targets.
- Allowing Tasmania to become less reliant on imported gas, providing gas users with a degree of protection from externally driven commodity shortfalls and price volatility. This could be true up to a point, although if Tasmania is to successfully produce renewable gases, it will have to rely on exports to do so, which would be linked to export prices.

Gas users felt that Tasmania could principally benefit from decarbonisation and renewable gas by creating new ‘green’ products and reducing a reliance on mainland gas.

The TSBC notes that gas use accounts for only 5 per cent of carbon emissions in Tasmania, due to the relatively low carbon emissions resulting from gas (compared to coal, for example) and the relatively low level of gas consumption in Tasmania. This compares to 15 per cent of carbon emissions from gas in Victoria, for example. This helps to put the task of the *Future Gas Strategy* in context. Rapid transformation would achieve limited reductions in Tasmania’s emissions, but could impose significant costs on gas users (for whom gas is an important source of energy) and the economy. While the relatively low level of carbon emissions from gas also means that Tasmania’s decarbonisation task is not as large, the risks of disruption are still important to keep in mind.

Transition Stages

The Draft Gas Strategy talks about four stages in the transition to renewable gas in Tasmania, namely:

- *Stage 1*: being the introduction of reticulated natural gas into Tasmania from 2003;

¹⁹ Australian Renewable Energy Agency, *Renewable Energy Options for Industrial Process Heat*, 2019, <https://arena.gov.au/knowledge-bank/renewable-energy-options-for-industrial-process-heat/>.

- *Stage 2*: the current stage, in which renewable alternatives to gas are being developed, but are not yet widely available or financially viable for the vast majority of gas consumers;
- *Stage 3*: in which renewable gases become widely available and increasingly commercially viable; and
- *Stage 4*: the settling of Tasmania's gas market as renewable gas solutions mature and usage of natural gas and LPG tails off.

It does not put any time frames around these stages, even indicative ones. We recognise that this may be difficult given the uncertainty that still surrounds the development of renewable gas, but some indications as to what the Government believes to be reasonable would be useful for gas consumers, who are seeking to understand better the challenges that they will face, when they might face them and to plan for this. This applies particularly to Stage 2 and the beginning of Stage 3, about which more is known. We would describe the stage that Tasmania is currently in as the very beginning of Stage 2.

We also contrast this to other areas of related policy that are also subject to significant uncertainty, such as the State's net zero emissions target by 2030 and its 200 per cent renewables target, which have specific years attached to them.

Furthermore, our attention was caught by the comment in the Draft Gas Strategy that:

Relative to the size of Tasmania's economy, renewable gas usage may plateau slightly lower than the historic peak of natural gas due to electrification and increased energy efficiency. (p. 17)²⁰

Notwithstanding that this is framed in a relative sense and allows for electrification, as well as improvements in energy efficiency, it seems to be at odds with the Government's bullish position on the potential for the growth of new industries based on renewable gases. For example, its position on strong potential for growth of green hydrogen and new renewable industries in Tasmania.²¹ We also observe that the current use of natural gas in Tasmania is very small compared to most other jurisdictions and not consistent with even a modest ambition on renewable gases. This could be considered further in the Final Gas Strategy.

Government Actions to Support the *Future Gas Strategy*

The Draft *Future Gas Strategy* outlines numerous measures designed to support the decarbonization of gas in Tasmania. We comment on these below.

No Mandates or Moratoriums on New Natural Gas Connections

The Government has said that it sees a continued role for natural gas in Tasmania's energy mix for the foreseeable future until renewable gas alternatives become widely available. To this end, we are pleased that the Government does not intend to implement mandates or moratoriums that prevent further connections to natural gas. Given this and the underdeveloped state of the Tasmanian gas market 20 years from its inception, we reiterate our earlier point that the Government should also be seeking to encourage further development of the use of natural gas and its supporting infrastructure in the interim.

²⁰ This comment relates to Figure 4 in the Draft Gas Strategy. Whilst there is no label or values on the y-axis of the Figure, we assume this refers to the quantity of renewable gas used in Tasmania.

²¹ For example, the March 2020 Tasmanian Renewable Hydrogen Action Plan supports a vision for Tasmania to become a world leader in large-scale renewable hydrogen production for domestic use and export.

We also support that the Government will be seeking to ensure an orderly transition to renewable gas and that it recognises the importance of legacy natural gas users not facing unaffordable transportation costs.

We further support that the Government continue to monitor the State's gas requirements and any impact changes may have on gas users. We believe that this should involve gas users and the TSBC would be pleased to be involved in this.

Gas user opinion on no mandates or moratoriums was varied but mostly supportive.

Support for Developing Green Hydrogen

The Draft Gas Strategy refers to the March 2020 Tasmanian Renewable Hydrogen Action Plan (TRHAP), with its vision for Tasmania to become a world leader in large-scale renewable hydrogen production for domestic use and export. This includes a \$50 million Tasmanian Renewable Hydrogen Development Funding Program, incorporating project support, concessional loans and further support measures (such as competitive electricity supply arrangements and payroll tax relief). We note that the Government has already committed to trials for hydrogen blending and a Green Hydrogen Hub at Bell Bay.

Gas users support for this measure varied from "Strong" to "Neutral".

The TSBC believes that Government support for green hydrogen development in Tasmania should have regard to the following:

- The Government needs to be realistic in terms of what Tasmania can achieve in terms of green hydrogen. Whilst the State has certain advantages like a significant hydro-electric resource and water, a relatively new gas network, some desirable locations for new 'green' industries and an existing industrial base that could benefit this pursuit, it also has disadvantages such as being more remote from export markets, having a small domestic market and having relatively limited transport and gas infrastructure.
- Encouraging the development of green hydrogen has become a competitive field. Many other States and countries are involved, most would have deeper pockets than Tasmania and are prepared to commit large sums of money to the task, including public funds (often backed by significant private sector investments). For example, just looking at other States, the NSW Green Hydrogen Strategy has committed up to \$3 billion in public support and to deliver 2030 stretch targets of 110,000 tonnes of annual green hydrogen production and 700 MW of electrolyser capacity. Meanwhile, the SA government has committed to creating a new hydrogen production and storage facility near Whyalla, promising \$593 million to the project over 4 years and Victoria has developed a Renewable Hydrogen Industry Development Plan.

The Government needs to be particularly careful that it does not commit taxpayer funds in support for green hydrogen and related industries that provide a poor return on public investment that could have been put to better use elsewhere. Based on a level of ambition that Tasmania might realistically achieve, the Government could also consider ways to pursue renewable gas (not just hydrogen) developments by leveraging off initiatives in other States and federally, or gaps therein. Any government support should provide value for money to the Tasmanian taxpayer, be transparent and be backed by a robust business case.

Supporting the Development of Tasmania's Bioenergy and Biogas Industries

We note that the Government is working with industry to develop a Bioenergy Vision which aims to support the private sector to unlock investment in this area. Gas user support for a government role in biogas development was somewhat supportive but varied. Whilst it is possible that Tasmania's bioenergy resources are not large enough to substantially contribute to the decarbonisation of gas, they could still make a useful contribution and do so economically within a relatively short period. We do, however, stress the need for care in the use of public resources in this area so that taxpayers' money is spent wisely.

National Gas Reform

The TSBC welcomes the fact that the Tasmanian Government is working to improve the supply of gas to Tasmanian consumers at lowest cost, by influencing the national gas reform program and we are pleased to see that this forms part of the Draft Gas Strategy. The Government would be aware that there are significant current challenges in this area and that the Federal Government has recently announced a series of measures involving price caps on uncommitted wholesale gas for 2023, followed by a 'reasonable price' mechanism. We commented on these issues earlier in the submission and again draw attention to those comments. Suffice to say that there is a lot of instability in the east coast gas market at the moment with much uncertainty about how the market will respond in 2023 and beyond. We therefore support that the Tasmanian Government maintain an involvement in national gas reform underpinned by its commitment to improve the supply of gas to Tasmanian consumers at lowest cost.

Gas users moderately supported Tasmanian involvement in national gas reforms.

The TSBC also supports that the Tasmanian Government is actively involved in developing national reforms that will support the next steps in the roll-out of hydrogen, biomethane and other renewable gases to be used in Australia's gas networks. Regulation that allows for safe, low-level blending of hydrogen, biomethane and other renewable gases into existing gas distribution systems is mentioned as a specific example. We note that obtaining national consistency in such areas (provided it is done in the most economic ways) could assist the Government's objective of a decarbonisation transition that is in the interests of gas users, including small business.

Tasmanian Hydrogen Regulation

The Government is reviewing State regulations that impact on the potential development of hydrogen with priority on legislation and regulation impacting the hydrogen value chain; and engagement with potential hydrogen users and industry proponents on potential regulatory barriers. The TSBC supports this activity so long as it can smooth the path to potential economic investments, but cautions that it must not allow regulation to become a barrier to new investment, or to protect uneconomic ones. We also believe that the Government needs to avoid duplicating regulation at the national level, as well as seeking to ensure there is consistency with national regulation where possible. We urge the Government to involve business in its review as a means of helping to ensure that regulation does not become an impediment to investment.

Supporting Energy Efficiency

The main government funded energy efficiency program in Tasmania is the Energy Saver Loans Scheme (ESLS), which is providing \$50 million over three years to fund interest free loans of up to \$10,000 for households and small business to undertake energy efficiency measures. Separately, the Tasmanian Government is undertaking \$15 million in energy efficient upgrades to social housing.

The ESLS does not cover the purchase of gas appliances, notwithstanding that this can improve the efficiency of energy use. The TSBC believes that the Government needs to consider extending energy efficiency incentives to gas appliances as these can provide readily available improvement in energy efficiency and offset the use of more carbon intensive forms of energy (e.g., oil, coal or wood), and that it should continue to do so as decarbonised gas becomes available.²²

We also believe that the use of low interest loans to fund energy efficiency improvements is problematic in what it can achieve. A more effective way of doing so would be to provide meaningful grants or rebates.

There was a strong to moderate level of support for energy efficiency initiatives among gas users.

Help Low Income and Vulnerable Consumers to Transition

The TSBC recognises that decarbonization will pose serious switching challenges for low income and vulnerable Tasmanians but could also provide opportunities for them to lower their energy costs and emissions. We support the Tasmanian Government developing ways to alleviate these pressures as part of the *Future Gas Strategy*. We also note that the Draft Gas Strategy flags that:

The Government will continue to explore options to support vulnerable households to transition to lower emissions fuel and build on its current initiatives such as the No Interest Loans Scheme (NILS) and funding for energy efficiency improvements to Tasmania's public housing. (p. 21)

There was a strong to moderate level of support from gas users for this measure.

Emissions Reduction and Resilience Plans

We note that the Government will be working with industry to develop sector plans to identify opportunities, gaps and barriers to reduce greenhouse gas emissions, including readiness of technologies and likely adoption timeframes, and define pathways to build the required knowledge and skills to achieve emissions reductions. We particularly welcome the involvement of industry as this should help ensure that these plans are commercially focused, practical and implementable.

Given the resource and knowledge gaps that exist among small businesses, we believe that there is a strong case for including small business in existing plans, where they are part of a relevant sector, or developing a separate plan to cover small business (recognising that small businesses are not homogeneous but do often have similar needs).

Gas users were strongly to moderately supportive of the need for industry plans.

The Draft Gas Strategy also speaks of a Plan for Government operations, which will lead by example. This is only useful for business if the examples are commercially based or capable of being easily brought to that point.

Adoption of Renewable Gases by Government

The Government will invest \$10 million over four years to replace fossil fuel boilers in Government buildings with renewable energy-powered alternatives, including bioenergy. Such investments should deliver net benefits. There was moderate support for government adoption.

²² We note that the Government intends to build on its low-income support mechanisms to recognise the role that efficient, low emission technologies can play.

Working with Industry

The TSBC supports that there be co-operation between the Government, the gas industry and gas consumers on the transition to renewable gas. Gas users strongly supported co-operation between the Government and industry.

We welcome the fact that the Government believes that the transition should be as orderly as possible and that solutions are developed that meet the needs of individual gas consumers. By tapping into industry knowledge, the Government will have access to an important sounding board for emerging transition issues, as well as a clearer idea of the impact of decarbonisation on businesses. In turn, businesses will have a better understanding of what the Government proposes to support their decarbonisation decisions. We support that the Gas Working Group continue to play a role in the implementation of the *Future Gas Strategy* so that the Government has access to practical and commercially based advice.

Reviewing the Tasmanian *Future Gas Strategy*

The Government proposes to review the *Future Gas Strategy* within five years to ensure that the strategic direction of the Tasmanian gas market keeps pace with the rapidly changing circumstances. We support the need for such a review, which should be independent and public. There was also strong support from gas users for a review. In fact, given the current fast pace of change in the gas market, we wonder whether a review after three years might be called for. Such a review should involve and consult with gas consumers, including small business.

Other Government Support Measures

The Energising Tasmania initiative will be used to support the development of the key technical skills needed in a decarbonised gas market. We recognise that renewable gas will need access to some new skills but suggest that an important issue will be to appropriately time the availability of such skills in a new emerging market like renewable gas. Too early and the effort could be wasted, too late and skills shortages could create delays. Private sector involvement should be sought.

Regarding renewable gas certification, we suggest that Tasmania would be best served by: ensuring that certification is needed and provides net benefits; and leveraging off what the Commonwealth and other jurisdictions are doing, where possible. A case in point is that the Tasmanian Government is considering the need for a Tasmanian Renewable Energy Guarantee of Origin Scheme that will allow traceability and verification of all Tasmanian renewable energy generation. The need for certified carbon free gas within a set of robust accounting standards was mentioned as a desirable objective by gas users.

We note the comments in the Draft Gas Strategy that certification can provide the transparency and traceability needed for a zero-emissions gas market, which the Commonwealth has committed to.