15 September 2025

Submission: Productivity Commission Net Zero Interim Report

The Australian Pipelines and Gas Association (APGA) represents the owners, operators, designers, constructors and service providers of Australia's pipeline infrastructure. APGA members ensure safe and reliable delivery of over 1,500 PJpa of gas consumed in Australia alongside over 4,500 PJpa of gas for export.

APGA welcomes the opportunity to provide further comments on the Productivity Commission's Interim Report on *Investing in Cheaper, Cleaner Energy and the Net Zero Transformation*. Our June submission and responses to consultation questions provided an overview of our position, which we reiterate.[1]

- **Adopt a technology-neutral, coordinated approach across sectors**. Emissions reduction policies should avoid technology bias and fragmentation. APGA recommends nationally consistent, market-based frameworks ~~like a Renewable Gas Target (RGT),~~ which can deliver lower-cost abatement by allowing all technologies—electrification, renewable gases, and sustainable fuels—to compete equally.
- **Close policy gaps in gas and renewable fuels.** Key omissions include the absence of ~~an RGT~~market based frameworks that allow renewable gases and sustainable fuels to compete with the electricity sectors current incentives, exclusion of GPG from long-term energy and capacity investment schemes, lack of support for renewable fuels in transport, lack of a strategy for reusing or repurposing Australia's extensive gas infrastructure, and limited attention to hard-to-abate industrial sectors reliant on gaseous fuels.
- **Address overlapping and inconsistent sectoral policies**. Decarbonisation plans across industry, transport, and electricity sectors both duplicate and conflict due to differing energy assumptions and policy designs. APGA recommends aligning the energy use aspects of all plans with the Electricity and Energy Sector Plan (EESP).
- **Streamline emissions accounting and regulatory frameworks**. Overlapping certificate and reporting schemes (e.g., Safeguard Mechanism, state targets, voluntary programs) increase complexity and costs. APGA supports harmonised emissions tracking, certificate integration for renewable gases, and clearer intergovernmental alignment to ensure efficient, consistent carbon accounting.

Commented [GU1]: Reworded to remove RGT given feedback it was less amenable, but do reject these changes if you disagree and think the consistency is important.

Commented [GU2]: Owen: Not sure we want to do this given the EESP is set to be quite pro-electrification, dismissive of role of renewable gas until 2035+.

[1] APGA, 2025, *Submission: Productivity Commission - Pillar 5: Investing in cheaper, cleaner energy and the net zero transformation*, https://apga.org.au/submissions/productivity-commission-investing-in-cheaper-cleaner-energy-and-the-net-zero-transformation

Inconsistencies in the Interim Report

In many respects APGA agrees with the Productivity Commission's principles and draft recommendations, especially on technological neutrality of emissions reduction policy and reducing duplication of policy between jurisdictions.

However, there are areas ~~in~~ where the Interim Report ~~where~~ applies these principles ~~this is~~ inconsistently ~~applied~~. In particular:

- It recommends enduring, broad-based incentives for renewable electricity generation beyond 2030, but does not propose equivalent mechanisms for renewable gases or liquid fuels. This creates a structural imbalance that privileges electricity while excluding other viable technologies, in direct conflict with the Commission's principle of technology neutrality.This omission is also out of step with current policy development: at the 15 August 2025 meeting of the Energy and Climate Change Ministerial Council (ECMC), Ministers endorsed continued work by jurisdictions on options for a National Renewable Gas Policy.
- It assumes electrification as the primary pathway in some sectors, despite explicitly stating that governments should not favour one technology over another. This is not just inconsistent but contradictory: by supporting policies that mandate electrification while sidelining renewable gases, the PC risks undermining its own principle that emissions reduction pathways should be pursued on a least-cost, economy-wide basis.
- It is silent on the role of renewable gases (biomethane and hydrogen) outside a narrow reference to hydrogen in heavy vehicles, despite their demonstrated potential to contribute to least-cost, system-resilient decarbonisation.

These issues go to the current and future role of natural gas and renewable gas in the transition to net zero. They are also highly relevant to cost-effectiveness, where electrification in certain sectors may not be the most efficient pathway from a cost or emissions perspective compared with those that maintain and adapt gas.

~~Namely, the current and future role of gas and renewable gas in the transition to *net zero*. This is also relevant to the consideration of cost-effectiveness of emissions reductions policies, where the pursuit of electrification for certain sectors may not be the most cost effective relative to options which maintain gas.~~

Ensure policies do not preference some emissions-reduction options over others

The Productivity Commission states that governments should focus on three core principles to design emissions-reduction policies: ensuring that policies are **technology agnostic**; that emitters should get the same benefit from reducing emissions **regardless of how they do it**; and **fill gaps in emissions-reduction incentives**.

The ~~PC's~~ Interim Report ~~actual recommendations, however,~~ does not consistently ~~*strictly*~~ reflect these principles. Three key concerns emerge;

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- **Incentives asymmetry.** While the Report recommends enduring, broad-based market settings for renewable electricity post-2030, it does not contemplate equivalent mechanisms for renewable gases or liquid fuels. This creates a structural imbalance that undermines neutrality and raises system costs.
- **Electrification framing.** The Report only acknowledges electrification of buildings as a pathway to reduce ~3% of emissions from commercial and residential buildings, even while acknowledging two paragraphs above that that *"incentives should not favour one technology over another"*. It further references the 'all electric' restrictions in Victoria and the ACT, while overlooking that most jurisdictions have expressly retained technology-neutral policies that are supportive of renewable gas development and committed to maintaining competition and customer choice. If the Commission's intent in citing these examples is to warn against prescriptive approaches and to emphasise the importance of technology neutrality and economic efficiency, then this should be expressed more clearly in the final Report.
- **Silence on renewable gases.** Outside a narrow reference to hydrogen in heavy vehicles, renewable gases are overlooked. This omission fails to recognise the demonstrated potential of biomethane and hydrogen to provide least-cost and system-resilient abatement options.This omission also leaves current natural gas consumers who cannot or will not electrify with no realistic alternative. For households, this is an equity issue; for commercial and industrial users, the alternative may be to cease trading. These costs are not adequately reflected in policy considerations.

~~The report minimises the contribution of natural gas to the energy transition, and of renewable gases towards reaching *net* zero. That is, everywhere except for heavy vehicle decarbonisation, where hydrogen-powered trucks are recognised as a future option and are presented as an example of why technologically-agnostic approaches to policy are important.~~

~~The PC states that in taking measures to aid the transition to net zero at least cost, "incentives should not favour one form of technology over another." Two paragraphs later, the report states:~~

> ~~"Emissions from residential and commercial buildings also requires attention from governments. These emissions – which come from burning gas – account for about 3% of Australia's gross emissions. Electrification technologies are available to reduce building emissions and decarbonising the sector is already a focus of some governments. In Victoria, all new homes requiring a planning permit must now be 'all-electric' (Victorian Government 2024, p. 4) and new gas connections are also restricted in the Australian Capital Territory (ACT Government 2023). Governments should use the policy principles outlined above in this area, including the principle that policies' cost-effectiveness should broadly align with the national TCCVs."~~

~~The PC appears to be advising caution when it comes to decarbonisation of this sector, where some jurisdictions have explicitly preferred electrification over alternatives, including substituting current natural gas use with renewable gases injected into the existing gas network. The Interim Report however does not make this explicit. It is also worth noting that policies in some jurisdictions towards reducing gas network connections further challenge~~

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~~the viability of those very networks to continue to deliver necessary natural gas and future renewable gas to customers who cannot electrify.~~

Renewable gas producers face considerable barriers to investment, in large part because of the policy stratification that favours electrification alternatives. There is no Renewable Gas Target to match the long-running Renewable Electricity Target, which derisked investment in renewable electricity technologies. Existing government commitments and policy trajectories towards electrification narrow the potential customer base, lowering economies of scale and hence incentives for investment.

~~All of this leaves current natural gas consumers who *cannot* logistically or financially electrify with no realistic alternative. For residential consumers, this is acknowledged as an equity issue; for commercial and industrial consumers, their option may be to cease trading. The costs of this are not easily reflected in policy considerations.~~

~~Despite considerable barriers to investment,~~ Federal policies such as the Hydrogen Production Tax Incentive and Hydrogen Headstart provide targeted support for hydrogen. Biomethane, however, still lacks any dedicated incentive framework, despite being commercially ready today[2]. For both hydorgen and biomethane, the new Guarantee of Origin scheme and updates to the NGER framework formally recognise the emissions-reduction benefits of renewable gas. These mechanisms have potential to build on the success of renewable electricity certificates and position gas networks to deliver renewable gas to customers at lowest cost.

Thousands of Australians are already receiving renewable gas blends in their existing supply, including projects in Sydney (Malabar Biomethane Plant), Perth (ATCO Clean Energy Innovation Hub), Adelaide (HyP SA), and Gladstone (HyP Gladstone), with Albury-Wodonga (HyP Murray Valley) soon to follow with supply to 40,000 residential, commercial and industrial customers.

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~~the natural gas consumption of approximately 6,300 homes in southern Sydney is currently being decarbonised by biomethane supplied by Jemena at its Malabar biomethane plant. In Adelaide, Gladstone and shortly Albury-Wodonga, local natural gas use is being decarbonised by AGIG's green hydrogen electrolysers.~~

~~There are some state and Federal policies supporting green hydrogen development, such as the Hydrogen Production Tax Incentive and Hydrogen Headstart. To date, there are no specific incentives towards the development of biomethane, which will be needed much sooner than green hydrogen can be reliably delivered at scale.~~

Cost-effectiveness of electrification policies

Wholesale electrification of household and commercial gas consumption will be expensive, potentially prohibitively so. As stated by the PC, emissions from this sector, largely from combusting gas, account for roughly 3% of Australia's gross emissions. Transitioning this gas use to electricity would incur costs across appliances, local network upgrades, grid

[2] ACIL Allen, 2024, *Renewable Gas Target: Delivering lower cost decarbonisation for gas customers and the Australian economy*, https://apga.org.au/renewable-gas-target

upgrades and potentially additional electricity generation plan that may otherwise not have been needed.

In February 2025, Energy Networks Australia and LEK Consulting published a report[3] examining the system cost of progressive electrification of commercial and residential gas use in Victoria. Such a strategy would increase the overall energy system costs by approximately $22 billion over 20 years. This includes wholesale electricity costs of both existing electricity users and the cost of new load – which would also require new gas-powered peaking generation to support. Because of this, it would likely also result in a slight *increase* in emissions.

APGA agrees with the PC that the cost-effectiveness of emissions-reduction policies must be a consideration, but this also needs to extend to electrification – relative to its alternatives. The potentially extraordinary cost of decarbonising that 3% of household and commercial emissions may not stack up against the much lower relative cost of decarbonising other sectors of the economy.

Conclusion

APGA supports the Productivity Commission's focus on technology neutrality, reducing duplication and ensuring cost-effectiveness in emissions reduction policy. However, the Interim Report applies these principles inconsistently.

To uphold its own framework, the Commission's final report should:

1. Extend enduring, broad-based investment incentives beyond electricity to include renewable gases and sustainable fuels.
2. Ensure electrification pathways are assessed against renewable gas options on a least-cost, economy-wide basis.
3. Explicitly recognise renewable gases as central to achieving net zero, not as marginal or optional alternatives.

By addressing these issues, the Commission can ensure its final report delivers a genuinely technology-neutral, least-cost pathway to net zero that supports households, industry and the broader economy.

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[3] LEK Consulting, 2025, *Impacts of Forced Electrification on the Victorian Energy System, Costs and Emissions L.E.K. analytical report*, commissioned by Energy Networks Australia, https://www.energynetworks.com.au/assets/uploads/L.E.K-Consulting-Impacts-of-Forced-Electrification-on-the-Victorian-Energy-System-Costs-and-Emissions-February-2025.pdf

To discuss any of the above feedback further, please contact me on +61 409 489 814 or policy@apga.org.au.

Yours sincerely,