

30 September 2024

The Hon Jim Chalmers MP
Treasurer of Australia

The Hon Daniel Mookhey MP
Treasurer of NSW

Via email to: nationalcompetitionpolicy@treasury.gov.au

Submission to the Revitalising National Competition Policy consultation paper

Thank you for the opportunity to contribute to the consultation paper, *Revitalising National Competition Policy*. We support the proposed objectives for competition as they apply to the net zero transformation, specifically to lower barriers to adoption of new technology which supports consumer access and choice to different technologies. We are also supportive of the consultation paper's position that policy settings that promote competition can deliver benefits including more innovation, technological diffusion and greater choice for customers, with broader benefits for the economy and standards of living.

AGIG is one of Australia's largest energy infrastructure groups with distribution, transmission and storage assets worth over \$9 billion. We deliver natural gas reliably, safely and efficiently to over 2 million residential, commercial and industrial customers across Australia. We are committed to decarbonisation and leading the transition from natural gas to renewable gases such as renewable hydrogen and biomethane. We are investing in renewable gas projects - today we have three projects operating or under construction, and a pipeline of several projects at earlier stages which will provide confidence in the deliverability of renewable gases to customers.

A major concern we have echoes the concerns the original Hilmer Report had in respect of government action, in that specific government policies, particularly those which attempt to pick winners or drive the transformation in one favoured direction, could limit the benefits competition can bring to the energy transformation. Continuing to encourage and allow for choice, and inter-system competition in the energy sector is a preferable approach instead.

In our view, this review of competition policy comes at an important juncture, as it provides an opportunity to revitalise genuine competition in the energy sector and bring it back to the centre of the debate where it belongs, with competition being used as a driving force for Australia to reach its net zero ambitions, while maintaining security, reliability, and cost for consumers. We look forward to the review providing this role, as Hilmer did some 30 years ago.

Net zero policies increasingly limit competition

AGIG is actively contributing towards achieving Australia's emissions targets and those in the states and territories in which we operate. As outlined above, we are leading investment in projects that will facilitate options to replace natural gas with renewable gases (specifically renewable hydrogen and biomethane) and to make these gases available to our customers, from large industrial users to individual households and small businesses.

We are seeing an emergence of policies, particularly at the state and territory level, which are increasingly creating barriers to providing renewable gases to future customers by limiting markets¹, and subsequently creating an unfavourable investment environment. In turn, this adversely affects the interests of current customers who need gas

¹ See Chapter 2 of the Victorian Gas Substitution Roadmap Update, December 2023 [Gas Substitution Roadmap Update \(energy.vic.gov.au\)](https://energy.vic.gov.au/gas-substitution-roadmap-update)

to continue to be able to operate and who may benefit from renewable alternatives to natural gas. For these customers, decarbonisation pathways favoured by Government electrification policies are not viable either economically or technically, and renewable gases represent an attractive option². However, some current policies effectively limit investment in and the deployment of alternatives, in turn limiting customer choice and the opportunity for more competitive alternatives to emerge. For example, in Victoria, policies in the Victorian Gas Substitution Roadmap banning or limiting the use of renewable gases in homes and businesses severely limit the market for developing a renewable gas industry, which is in its nascent stages commercially in Australia.

As the consultation paper highlights, *'unnecessary regulatory requirements ... that limit access to low emissions technology, will undermine efforts to capitalise on economic opportunities and increase the costs of the net zero transformation'*. Competition policy and principles should require all levels of government to consider very carefully legislation, regulation or policy which adversely affects competition in the energy sector, in the same way that consideration of competitive impacts of laws, regulations and policies was required under National Competition Policy reviews some 30 years past. A singular focus on subsidising specific technologies while not allowing others to compete is incompatible with competition principles, and risks creating new monopolies and market power. Encouraging competitive forces, such as renewable gases from networks that are independent of the electricity networks, as well as more directly consumer-focussed initiatives such as consumer energy resources controlled by consumers to emerge and compete, can deliver lower costs through competition within and between different energy sources, as we detail below.

Allowing for choice and competition is critical in reaching net zero

Our research shows that customers like gaseous fuels for heating and cooking for various reasons including its amenity, reliability and cost³. The research shows strong support for the development of renewable gases to maintain the properties of natural gas they enjoy. Industrial and commercial customers also have unique processes that use long-lived assets that are heavily reliant on gaseous fuels for those same reasons and require multiple decarbonisation options to be available – including renewable gases⁴.

If renewable gases can provide energy in forms that customers value, and can also meet the emissions requirements of state, territory and national policies, customers should be free to choose. Instead, in some states and territories policy makers are deciding for customers what forms of net zero energy will best serve their interests decades in advance – and explicitly excluding some options – resulting in inadvertently detrimental outcomes. For example:

² See Chapter 4 of the Victorian Gas Substitution Roadmap Update, December 2023 Gas Substitution Roadmap Update (energy.vic.gov.au)

³ Australian Gas Networks Voice of Consumers Q2 2024 Report (not published)

⁴ Industrial decarbonisation study conducted by KPMG, to be published. We would be pleased to arrange a detailed briefing for Treasury on the work.

- The upfront capital costs of electrification can be up to \$41,000 per household⁵ with households potentially having to incur significant upfront capital costs even after subsidies⁶.
- Mandating the removal of connections from the distribution network has implications on the fixed costs of shared infrastructure. Modelling performed by Frontier Economics indicates that costs to deliver gas to remaining industrial customers on the network, if all residential and business connections were removed, could result in a significant increase in costs to deliver and transport gases by around 43 times⁷.

This is why continuing to allow customer choice remains critical – ACIL Allen have demonstrated that using a mix of renewable gases and electricity, rather than an electrification-focused approach to decarbonisation, can deliver lower total system abatement costs for achieving net zero emissions⁸. Limiting consumer choice through mandates and bans will only serve to limit customer utility. Rather, maintaining customer choice and allowing the market to prioritise higher emitting sources for decarbonisation can reduce emissions sooner and at a lower system cost⁹.

Once again, competition principles should strongly encourage governments to ensure that customers have access to choice with respect to the most efficient and sustainable products, including energy products.

Competition is widely acknowledged as the best force to drive forwards innovation, and this is true in energy as it is anywhere else; particularly when the energy sector is undergoing a significant transformation. We highlight two areas of emerging competition which will be important in the energy transformation.

Firstly, within electricity networks, consumers can today deploy their own resources to produce and share electricity. This is not merely competition at the level of an individual household, where a consumer makes a “make-or-buy” choice about electricity for their own consumption, but is about the choices and new services that groups of consumers may begin to make use of. Virtual power plants and community batteries are the beginning of this emerging market. Competition policy and governance frameworks should therefore strike a balance between the efficiency of the network and encouraging sufficient innovation to occur on the electricity networks. Steps currently being taken by Governments to encourage choices and new services being incorporated into this market are a step in the right direction.

The second is competition in the energy market itself, between fuels. Gas networks and infrastructure provide this competition already, and have done for decades, giving consumers a choice in respect of how they heat their home or

⁵ See table 2, Frontier Economics Cost of switching from gas to electric appliances in the home (2022) <https://gamaa.asn.au/wp-content/uploads/2022/07/Frontier-Economics-Report-GAMAA.pdf>

⁶ See figure 14 of the Victorian Gas Substitution Roadmap Update, December 2023 [Gas Substitution Roadmap Update \(energy.vic.gov.au\)](https://energy.vic.gov.au/Gas-Substitution-Roadmap-Update)

⁷ See footnote **Error! Bookmark not defined.**

⁸ Renewable Gas Target: Delivering lower cost decarbonisation for gas customers and the Australian economy

ACIL Allen, 2023. <https://acilallen.com.au/projects/energy/renewable-gas-target-delivering-lower-cost-decarbonisation-for-gas-customers-and-the-australian-economy>

⁹ See p6-9 of BCG, 2023: Role of gas infrastructure in the energy transition <https://www.agig.com.au/-/media/files/agig/annual-reports/BCG-Reports/20230814-ROGIET-SummaryArticle.pdf>

cook their food. For industrial customers, particularly at a transmission scale, gas networks also offer direct competition in power generation by providing the fuel for self-generation. This is a service which our customers value, and one which we can continue to provide as we transition to zero-emission fuels and our customers capture the carbon generated from burning methane.

In this context, it is also important to recognise that dynamic competitive forces exist between fuels as well and that, just because we provide particular services to customers at present, that does not mean they are the only services we can offer. For example, as the economics of fuel cells and smaller scale generators improve, our customers smaller than major industrial plants could start to use us as a substitute for electricity networks by using our gas (renewable or non-renewables, with carbon capture in the latter case) as a direct substitute for network-supplied electricity.

Inter-system competition remains important and provides benefits for customers

As we have described above, competition in the energy market itself between fuels, or inter-system competition, currently provides customers with energy choice. National competition policy should therefore explicitly recognise that competition occurs not only between companies providing effectively the same good or service (e.g. electricity), but across systems providing similar goods/services (e.g. energy) via different mechanisms (e.g. electricity with gas).¹⁰ In Australia's energy system today, electricity and gas systems compete in various markets. This competition provides overall benefits to customers who can choose sources of energy based on the cost and the value each form of energy delivers to them.

This portfolio of energy options 'fosters competition and permits complementarity among technologies, lowering the price of energy and increasing supply resilience'.¹¹ It is important that opportunities for this inter-system competition remain viable and are not encumbered by policy or regulatory hurdles. Our concern is that this kind of competition is being eroded as governments make choices for customers as to which source of energy is best for them.

Once again, we thank you for the opportunity to comment on the consultation on revitalising national competition policy. If you would like to discuss this submission in detail please contact Shawn Tan, Manager Policy, at shawn.tan@agig.com.au.

Yours sincerely,



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¹⁰ See Zachman, Georg *The role of competition in the transition to climate neutrality* <https://www.econstor.eu/handle/10419/270465>

¹¹ Refer footnote 10