

INFRASTRUCTURE VICTORIA

TERMS OF REFERENCE - ADVICE ON GAS INFRASTRUCTURE

Background

The Government has a vision for Victoria as Australia's cheapest, cleanest energy jurisdiction.

The Victorian *Climate Change Act 2017* establishes a system of coordinated, whole-of-economy actions to achieve a net zero emissions target by 2050. This includes rolling five-year plans and targets to reduce emissions and adapt to climate change impacts, obliging all government policies, plans and decisions to consider climate change, and requiring all sectors of the economy (including energy) to develop and action emission reduction pledges. Victoria's greenhouse gas emissions and actions to reduce them also play a role in Australia meeting its international commitments.

In 2017, the energy sector (including transport) was responsible for 91% of Victorian greenhouse gas emissions. Electricity generation alone was responsible for 51% of Victorian emissions. For the same year, direct combustion amounted to 16% of total emissions and fugitive emissions accounted for 3%. Transport was responsible for another 20% of total emissions.

The cost of energy is also a key influence on cost of living and doing business in Victoria.

Victoria's significant natural endowments, existing energy infrastructure and human capital, particularly in regional areas, give the State a strong base for a clean energy future.

Victoria has two million gas customers and the highest domestic natural gas use in the nation. Currently, Victoria sources more energy from gas than from electricity. Natural gas is used in manufacturing, construction, agricultural, mining and chemical industries for both energy and chemical building blocks. In winter, the maximum gas demand is three times higher than in summer, mainly due to the extensive use of natural gas for residential heating.

As Victoria's carbon emissions are reduced and technology develops in fields such as clean hydrogen and biomethane, decisions will need to be made in coming years regarding the use and adaptation of gas infrastructure to support cheap, clean energy in Victoria.

The Victorian Government is currently undertaking significant work to enable the transition to a lower emissions future, including work to reduce emissions in both the electricity and gas sectors.

This will assist government, industry and the community to understand the opportunities for hydrogen and biomethane to create new sources of jobs and economic growth that are sustainable and resilient.

It will also assist government, industry and the community to understand the costs and benefits of natural gas use, how the value of Victoria's gas infrastructure can be optimised and how risks can be minimised.

Scope of advice

Advice is sought from Infrastructure Victoria on the nature and timing of decisions regarding the gas transmission and distribution networks for Victoria in a future where:

- Victoria's carbon emission reduction targets are achieved;
- Sufficient and suitable energy and chemical feedstocks are available for domestic, commercial and industrial use; and
- An option is available for hydrogen and/or biomethane to be part of the future energy mix.

The advice being sought from Infrastructure Victoria comprises:

- Development of two or more appropriate scenarios for a net zero emissions energy sector in 2050 and assessment of the relative economic, social and environmental impacts of those scenarios.
- Assessment of the implications for gas production, electricity generation, and transmission and distribution networks under the 2050 scenarios developed.
- Identification of the infrastructure decisions that need to be made, and the timing of those decisions, under each scenario, to ensure opportunities for the existing gas infrastructure can be optimised (including the extent to which gas infrastructure can be used for hydrogen, carbon capture and storage and/or biomethane).
- Assessment of the cost and reliability impact of key infrastructure decisions identified above, including considerations to minimise the social, environmental and economic costs to businesses, industry and the community.
- Analysis of the key uncertainties, trigger points and interdependencies associated with the infrastructure decisions identified above, including any significant risks and mitigation options.
- Identification of the role of the Victorian Government, including to optimise the utilisation of existing gas infrastructure.

Process

The Government expects Infrastructure Victoria will undertake engagement with industry, regulators, the community, government, and other key stakeholders in developing this advice.

Community and industry priorities should inform identification of the pathway(s) for gas infrastructure in Victoria. Community and stakeholder engagement should, where possible, promote an understanding of the key opportunities, issues, choices, costs and benefits in future gas infrastructure decisions.

In developing the advice, Infrastructure Victoria should also consider, complement and build upon existing State and Commonwealth strategy, planning, policy and regulatory documents including the Gas Roadmap that received funding in the 2020-21 Victorian budget.

Infrastructure Victoria should use a multi-disciplinary approach that draws on interstate and international comparators and research. Existing available evidence and modelling should be used where it is available. Analysis should consider the implications of interdependent trends such as uptake of zero-emission vehicles and low emission fuels, industry transitions, and sector pledges to reduce greenhouse gas emissions.

The advice is to be provided to me, as Treasurer, within 12 months of this request, by end 2021. An interim report shall be provided to me, as Treasurer, by Infrastructure Victoria, within six months of the request, that sets out key early findings and evidence, including any significant risks or opportunities, key issues for further consultation and the proposed strategic direction of the final advice.