

15<sup>th</sup> December 2023

Phoebe Colman  
Principal Policy Officer  
Office of Energy and Climate Change, NSW Treasury  
NSW Government  
52 Martin Place, Sydney, NSW 2000

Dear Phoebe,

**Re: NSW Renewable Fuel Scheme – Discussion paper on scheme expansion**

The Australian Hydrogen Council (AHC) is the peak body for the hydrogen industry, with over 100 members from across the hydrogen value chain. Our members are at the forefront of Australia's hydrogen industry, developing the technology, skills and partnerships necessary to ensure that hydrogen plays a meaningful role in decarbonising Australian industry.

AHC welcomes the opportunity to respond to the proposed expansion of the Renewable Fuel Scheme (RFS). The RFS is a market-based certificate scheme designed to incentivise green hydrogen production, supporting the ambitions of NSW. In its current form, producers of green hydrogen can create certificates for each gigajoule (GJ), and gas retailers/large gas users without a retailer must obtain and surrender these certificates to meet targets.

This discussion paper considers:

1. The expansion of the scheme to include other eligible fuels
2. The expansion of the scheme to include other liable parties
3. Changing the scheme targets, namely quantities, metrics, singular or separate targets for different renewable fuels and possible multipliers
4. The 2025 penalty rate.

We have formatted our response under each of these sections.

**Scheme expansion – additional fuels**

The RFS was established under the Energy Security Safeguard and the NSW Hydrogen Strategy in December 2021, with the intention of incentivising the production of green hydrogen in NSW. This consultation proposes the expansion of the RFS to cover additional renewable fuels, such as: methane, ammonia, methanol, kerosene, diesel, liquified petroleum gas and ethanol.

We are supportive of the expansion if it does not undermine the support for hydrogen. It is integral that the key mission of the RFS is not diluted by the inclusion of additional fuels.

In developing the RFS, the NSW government is keenly aware of the monumental task and timeline of establishing a green hydrogen industry in Australia; the original policy is a key pathway for accelerating the transition and establishing hydrogen production in the state. By diversifying the fuels covered under the RFS, NSW could incentivise a holistic net zero approach; however, as a market scheme, the original intention would be inherently modified with cheaper fuels included. If the scheme is to be expanded, safeguards would need to be implemented to ensure that the prospect and support for hydrogen in NSW is not fundamentally constrained or completely undermined.

Considering that biogenic fuels are closer to price parity, the RFS team could consider inclusion in the short term to accelerate decarbonisation efforts before phasing out of the scheme.

We also note that many of the proposed alternative fuels mentioned can use green hydrogen as a feedstock. We would seek clarity on whether this would compound benefits for the hydrogen supply chain.

### **Scheme expansion – additional liable parties**

Prior to this proposed expansion, the only liable parties were to be gas retailers and gas consumers that don't use a retailer. AHC has previously advocated that this could have negative impacts, as this cost would likely be passed down to household utility bills. This could have a negative impact on the social licence of hydrogen when individuals would be paying for what is primarily an industrial solution and one that they may never interact with directly.

With the possible expansion of covered renewable fuels, this discussion paper considers additional liable parties, namely liquid fuel users (wholesale or retailers) and mine operators. It is proposed that liability would be shared based on their proportion of total liable gas use in NSW, which requires a reporting element and final determination by the scheme regulator. However, the methodology of the reporting and evaluation are not expressed, and we would hope that this would be a transparent process tied into other schemes and reporting requirements to avoid regulatory burden.

If the scheme is to expand into additional fuels, then AHC would be supportive of additional liable parties to support the transition. But costs should not be borne solely by households.

### **Amending the design of targets**

If the scheme is to be extended to additional fuels and liable parties, the discussion paper suggests that there could be a single agnostic target, separate targets for hydrogen and biogenic fuels, or a single target with certificate multiplier for hydrogen.

A concern for consideration is that hydrogen is not yet commercially viable and yet is a necessary element for Australia reaching net zero. If there is only a single agnostic target and there is a choice of fuels with variable production costs, green hydrogen and derivative production will be disadvantaged due to costs.

The hydrogen industry needs long lead times to become economic. The original RFS is the type of policy that can lay the foundations for the long-term success of the green hydrogen and derivatives industry. Without an incentive such as a robust hydrogen-specific target under the RFS, there will need to be additional subsidy or offtake guarantees put in place for the long-term support of the industry. Should the scheme be expanded, there should be individual targets for the various fuels that can contribute to NSW (and Australian) decarbonisation targets, without jeopardising the emerging industry.

### **Penalty rate**

The Discussion Paper sets out the proposed penalty rate for 2025 as \$25 per GJ (tax-effective) for scheme commencement on 1 January 2025. The penalty refers to the rate that liable parties must pay if they do not obtain sufficient certificates from renewable fuel producers. Setting this provides a cap that certificates could be purchased for.

While it is helpful for all parties to now know and plan for the 2025 penalty rate, it is inadequate to provide this in the consultation without methodology. We understand that the penalty rates for subsequent years will be consulted on in mid-2024 and that the 2025 rate may not be representative of

this, and that the Draft Rule consultation expected in December 2023 will explain the certificate calculation methods. There is a sequencing issue here; it is inappropriate for stakeholders to respond or plan based on a proposed penalty rate without being privy to the supportive infrastructure.

We look forward to engaging in further consultations and developments as part of this process.

Yours sincerely,

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