

# Grant Priority Issues

## Gas transition in homes and small businesses



### ***Purpose of this document***

*We are interested in exploring high-quality grant projects which address knowledge gaps on this issue. As part of a series, this document aims to provide an overall picture of the issue and the potential areas where your organisation could build knowledge and capacity to support energy policy development or programs to benefit households and small businesses now and into the future.*

*This is an important issue for households and small businesses. There may be other opportunities and challenges that are relevant to households and small businesses in the transition from fossil fuel gas that we have not identified in this document. If you believe your organisation is well placed to address any of the knowledge and capacity gaps that are important to the community please contact Alexandra Bishop, Manager Insights and Impacts ([alexandra.bishop@energyconsumersaustralia.com.au](mailto:alexandra.bishop@energyconsumersaustralia.com.au)).*

*For more information about the Grants Program visit: [www.energyconsumersaustralia.com.au/grants](http://www.energyconsumersaustralia.com.au/grants).*

### ***Summary***

If Australia is to achieve its net zero emissions targets by 2050, households and small businesses will need to eliminate their use of fossil fuel gas for heating, hot water, and cooking. The alternative pathways to replacing fossil fuel gas are electrification or hydrogen, produced using renewable energy. For consumers, the pace of change and the ability to easily and affordably switch away from using fossil fuel gas matters. This will require consumers being well informed about the alternatives, before their appliances fail, and having the means to finance replacement appliances and the changes that will need to be made to wiring and plumbing. Industry and the supply chain will need to have the skills and capability to support the transition. Governments have an important role in ensuring that the transition is fair and that those with the least resources aren't left to bear the burden of the costs.

## ***What is the problem that needs to be addressed?***

All Australian governments have committed to a net zero target by 2050 or earlier. Gas used to heat and cook in homes and small businesses is a fossil fuel and contributes to Australia's emissions. This means part of realising a net zero emissions target will require that gas is phased out.

Some governments are already taking action towards this target (see section below) and action is likely to accelerate in the coming years.

For 2 in 3 Australians already using gas, via pipelines or bottled LPG, the gas transition will have direct impacts. Victoria has the highest percentage of homes connected to natural gas pipelines with 76% of homes compared to 10% in Queensland, meaning the transition will look different in each jurisdiction.

Space and water heating use the most gas. In Victoria, 74% of residential gas usage is space heating and 24% is water heating. Replacing these gas appliances with zero-emission alternatives will be a critical part of the journey to net-zero. However, these appliances come at a large upfront cost to consumers and according to the ***Energy Consumer Sentiment Survey***, only 9% of households are seriously considering running their home on electricity only, whereas 77% either had not thought about it or had decided not to. Small businesses will also be impacted by the transition, and many will need to upgrade their appliances and change business practices to phase out of fossil fuel gas.

International conditions affect the price of fossil fuel gas sourced for use in our homes and businesses, and in recent times these prices have risen steeply. Consumers with solar systems already have an incentive to fully electrify their homes, and as retail gas prices rise it could encourage more consumers to consider replacing their appliances with electric alternatives such as heat pumps for heating and hot water, and induction for cooking. As more consumers choose to come off gas those who remain connected will have to pay for a larger proportion of the remaining gas pipelines network.

Many consumers may not be aware of the alternatives or be able to afford to replace their fossil fuel gas appliances, and we need programs in place to address the barriers to not add to affordability pressures on households and small business. Similarly, any transition will require investment in the capability of appliance retailers and licenced trades to meet consumers' requirements.

## ***Why is this a priority for Energy Consumers Australia?***

We want to ensure the transition from fossil fuel gas takes place at lowest cost to consumers, and that policies and programs be tailored to address the needs and values of individual households and small businesses. We believe it is critical to gain a clear understanding of the needs of different consumer segments, and what is action is required to support their decision-making and choices.

## What work is currently underway?

### GOVERNMENT ACTION

The ACT Government is **currently consulting** on the processes of implementing regulations which prevent new gas network connections by November 2023.

The Victorian Government released their '**Gas Substitution Roadmap**' in July 2022. The roadmap outlines actions such as increasing energy efficiency, electrification, and introducing alternative gases in order to achieve a net-zero target by 2050.

Many states and territories are requiring low-emissions options for new or replacement hot water systems, for consumers that are connected to the mains gas supply.

### MARKET BODY ACTION

In 2021 the Australian Energy Regulator released an **Information Paper** on 'Regulating Gas Pipelines Under Uncertainty.' This paper sets out the challenges associated with regulating gas pipelines during the transition away from gas and presents some preliminary options to manage demand uncertainty during the transition.

In its **Gas Statement of Opportunities** the Australian Energy Market Operator anticipates that all gas connections - households and all businesses, large and small - could fall from 4.9 million in 2023 to 1.9 million in 2042 under the Step Change scenario. AEMO notes that it's still unclear if greater electric appliance use will result in physical disconnections from the gas network and whether new households will elect not to connect to gas.

### COMMUNITY ACTION

In 2021, Moreland City Council in Melbourne (now known as Merri-bek City Council), under its **Net Zero Moreland** initiative, organised focus groups to understand people's knowledge of residential gas use, attitudes towards climate change and the gas transition and the language and key messaging which would be most effective to communicate with consumers.

In 2023, Merri-Bek City Council released an **Apartments Guide to Electrification**. The Guide provides a step-by-step process to transition to all - electric for both common and private areas of apartments or townhouses.

### INDUSTRY ACTION

Infrastructure Victoria's undertook **community sentiment research** as part of the advice they gave to the Victorian Government on gas infrastructure. This research found a widespread preference for using gas to heat homes and cook with in Victoria with few households intending to replace gas appliances.

The businesses that own and operate the gas network have been active in identifying the pathways to decarbonisation. In October 2021, Australian Gas Networks, Ausnet Services and Multinet Gas Networks released their **Future of Gas** report that was undertaken with KPMG, to explore four scenarios to decarbonisation of the gas network.

Energy Networks Australia released its updated **Gas Vision 2050** in April 2022.

Given AEMO's outlook, there is likely to be a significant fall in the number of households that have both electricity and gas bills (currently **2.2 million households and 0.08 million small businesses**). The Australian Energy Council, which represents energy companies, released a discussion paper in April 2022 ***Electrification & Heat***. These companies are the point of contact for households and small businesses to disconnect from the gas network.

Esperance Gas Distribution Company, in Western Australia, announced last year that it was no longer cost effective to be supplying the town of Esperance with gas via the local distribution network. This means the 400 households and commercial customers will need to switch to bottled gas or electricity. The network ceased supplying gas to the Esperance community from 31 March 2023. The Esperance community will be one of the first Australian communities to transition off the gas network. ***Read the article here.***

## ***What actions has Energy Consumers Australia undertaken?***

Energy Consumers Australia has engaged with gas networks on their future business models and made submissions to both the ***Victorian Government Department of Environment, Land, Water and Planning*** and ***Infrastructure Victoria*** on the Gas Substitution Roadmap. Our annual ***Energy Consumer Sentiment Survey*** also tracks community awareness and behaviour around the transition from fossil fuel gas.

We recently engaged ***Boardroom Energy*** to research the risks to gas consumers connected to the network of declining gas demand. The ***report*** found those who face barriers in making the switch away from fossil fuel gas face the greatest risk of spiraling gas costs and disrupted supply.

## ***Gaps in the work program and evidence-base – what else needs to be addressed?***

### ***IMPACT ON CONSUMERS***

There is not a clear, agreed strategy in any jurisdiction, or at inter-governmental level about legacy gas infrastructure and how costs will be managed.

There is uncertainty of the impacts or process for consumers wanting to disconnect or abolish their gas connection.

There is no agreed national policy framework which plans for meeting the costs of new or replacement appliances and how we ensure equity in the transition and that no one is left behind (including renters, multioccupancy buildings and low-income households).

There is no research or evidence base that looks at the implications of poorly insulated housing for future energy bills in the context of the gas transition.

#### **INFORMATION AND ENGAGEMENT WITH CONSUMERS**

While there is some evidence to suggest a low level of awareness about the phase out of fossil fuel, it is limited and concentrated in certain jurisdictions. We are still missing an understanding of consumer perceptions and knowledge of the transition from a diverse range of consumers across Australia.

There is a need for more data about how small businesses are currently using gas and how the gas transition will be different (or similar) for them compared to households. What are their unique needs?

There is a need to understand the unique needs and journey of specific consumer groups such as small businesses and CALD communities – what are their barriers, motivations, and expectations regarding electrification.

There is no current research that looks at consumer segments that cannot transition away from fossil fuel gas (e.g., where it is critical for a small business' production).

#### **INDUSTRY READINESS TO DELIVER FOR CONSUMERS**

There is no analysis of what is needed by way of industry readiness and the risks for consumers, in such a significant change to the gas network.

***We welcome your ideas on how to address these priority issues. To find out more about the Grants Program, [click here](#).***