VICTORIA'S 2026-30 CLIMATE CHANGE STRATEGY

Australian Energy Producers | 8 April 2025

Australian Energy Producers welcomes the opportunity to provide input to Victoria's *2026-30 Climate Change Strategy*[1] (the Strategy).

Natural gas is essential for reaching net zero in Australia and the region. Natural gas underpins reliable electricity generation and supports the integration of growing shares of variable renewable energy and the managed phase-out of coal-fired generation. The gas industry is also central to delivering key emissions reduction technologies such as carbon capture, utilisation and storage (CCUS) and low-carbon hydrogen needed to achieve net-zero.

Victorian industry runs on natural gas. Natural gas fuels around one-third of Victorian manufacturing, as an essential feedstock and a source of the high-temperature heat required for food processing and the production of fertiliser, glass, cement and steel. Alternatives to natural gas for these industrial processes are yet to be deployed at scale and are significantly more expensive than natural gas today.

Natural gas is a pillar of Victoria's economy. The natural gas industry directly and indirectly employs over 40,000 Victorians and contributes $22 billion to the state's economy each year.[2] More than 2.2 million Victorian homes rely on natural gas for cooking, heating and hot water.

New gas supply is urgently needed to ensure Victoria's energy security and to meet net zero goals. Victoria is facing gas shortfalls from 2028, with supply from the offshore Gippsland Basin in decline after decades of supplying reliable and affordable gas to the Victorian and east coast markets. New sources of supply will need to be developed to meet future demand, consistent with the findings of the Australian Government's Future Gas Strategy[3] and independent analysis by EY that confirms the important role of gas in all plausible net zero pathways.[4]

For Victoria's 2026-30 Climate Change Strategy to deliver in the best interests of all Victorian households and business, it must:

- Recognise the important and long-term role of natural gas in meeting Victoria's energy and emissions reductions goals.
- Address forecasted structural gas shortfalls by supporting investment in new gas supply, including by removing regulatory barriers to offshore and onshore gas development.
- Adopt a least-cost approach to emissions reductions that includes key abatement technologies, like CCUS and low-emissions hydrogen.

Australian Energy Producers welcomes the opportunity to provide input into the development of the 2026-30 Climate Change Strategy and look forward to further engagement as the Strategy develops.

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[1] Department of Energy, Environment and Climate Change. (2025). *Victoria's Climate Change Strategy*. www.engage.vic.gov.au/climate-change-strategy
[2] KPMG, Economic contribution of the gas industry (2024) https://energyproducers.au/wp-content/uploads/2025/02/Economics-of-Gas-Industry-KPMG-Final-Report_18Dec2024.pdf
[3] Australian Government, Future Gas Strategy (2024). https://www.industry.gov.au/publications/future-gas-strategy
[4] Ernst & Young (2023), *The future role of natural gas in Australia and the region*. www.energyproducers.au/wp-content/uploads/2023/11/231127-EY-report-The-future-of-natural-gas-in-Australia-FINAL.pdf.

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Natural gas plays a vital role in Victoria's energy reliability and emissions reduction. Natural gas plays a unique and multifaceted role in Victoria's energy system: it underpins reliable electricity generation, provides crucial energy for households and industry, and supports the integration of variable renewable energy into the grid. As coal-fired power stations retire over the coming decades, gas powered generation (GPG) will become increasingly crucial for meeting peak electricity demand and stabilising the grid when wind or solar output is low.

In its 2024 *Integrated System Plan (ISP) Step-Change Scenario*, the Australian Energy Market Operator (AEMO) estimates that by 2030 Victoria will need to increase GPG from 2.4 Gigawatts (GW) (existing) to 3.6 GW to meet this demand.[5] Additionally, the *2025 Victorian AEMO Gas Planning Report*[6] estimates that natural gas demand in Victoria will be more in 2030 than today as coal power is retired. AEMO warns that peak gas demand days during winter will also increase substantially – by more than 169% – as gas plays a critical role during these periods of extremely high energy demand.

The Strategy should adopt an evidence-based approach to natural gas and recognise the need for investment in new gas supply. The Strategy's current approach to natural gas does not adequately recognise the important and long-term role for gas in Victoria's energy mix, and the need for investment in new gas supply. For instance, AEMO's *Integrated System Plan 2024* and *2025 Gas Statement of Opportunities* (GSOO), the ACCC's *December 2024 Gas Inquiry report*[7], and the Commonwealth's *Future Gas Strategy,* all explicitly recognise the need for new sources of gas supply to maintain energy security and reliability.

Failing to heed these calls increases the risk that Victoria will be increasingly reliant on gas from other states or liquefied natural gas (LNG) imports. Such reliance may come at a cost, as stated by the ACCC in their interim update on east coast gas market in December 2024: *"imported gas, including from Australian exporters, may incur additional costs not currently experienced by gas users on the east coast. These include LNG shipping, liquefaction and regassification costs, as well as premiums to cover financial, international LNG price, foreign exchange rate and insurance risks."*[8]

Pipeline capacity into Victoria is also limited, so there is only so much northern gas that can currently be brought south during peak periods. AEMO has cautioned that by winter 2028, available pipeline and production capacity may not fully meet Victoria's needs unless infrastructure upgrades are made. This exposes the state to supply risks undermining the very climate goals the Strategy seeks to achieve. By contrast, developing local natural gas resources can insulate Victoria from external risks while utilising existing infrastructure.

Natural gas can support the decarbonisation of Victoria's electricity mix. Natural gas is an enabler of emissions reductions. Used in modern high-efficiency generators, gas produces around half the emissions of coal for the same electricity output, helping to cut carbon emissions in the power sector immediately.[9] Gas turbines provide the fast-ramping capability needed to firm renewable generation, preventing blackouts when intermittent sources dip. Without gas in the mix, Victoria's reliance on brown coal is likely to be prolonged, with associated higher emissions. Reduced integration of natural gas power generation will likely lead to counterproductive consequences – such as insufficient back-up for renewables, extending the life of coal-fired power or resorting to higher-emission emergency fuels. Power

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[5] Australian Energy Market Operator. (2024). *2024 Integrated System Plan (ISP): Step-Change Scenario*. www.aemo.com.au/energy-systems/major-publications/integrated-system-plan-isp/2024-integrated-system-plan-isp

[6] Australian Energy Market Operator. (2025). *2025 Victorian Gas Planning Report*. www.aemo.com.au/-/media/files/gas/national_planning_and_forecasting/vgpr/2025/2025-victorian-gas-planning-report.pdf

[7] Australian Competition and Consumer Commission. (2025). *Gas inquiry December 2024 interim report*. www.accc.gov.au/about-us/publications/serial-publications/gas-inquiry-2017-30-reports/gas-inquiry-december-2024-interim-report

[8] Australian Competition and Consumer Commission, Gas Inquiry Interim update on east coast gas market (2024) www.accc.gov.au/system/files/accc-gas-inquiry-interim-report-december-2024.pdf

[9] International Energy Agency (2025). *The role of gas in today's energy transition.* www.iea.org/reports/the-role-of-gas-in-todays-energy-transitions

generation in South Australia for example, is mainly from intermittent renewable sources with nearly one third from gas, and has only a third of the emissions intensity of power generation in Victoria, which relies mainly on brown coal.[10]

More Victorian natural gas supply is needed. Victoria is the largest consumer of residential and commercial gas in Australia, accounting for 63% of the nation's usage in those sectors.[11] Over 2.2 million connections – homes and businesses – are linked to the Victorian gas network, and three in four Victorian households rely on gas daily for heating, hot water, or cooking.

The AEMO *2025 Victorian Gas Planning Report* (VGPR)[12] forecasts Victorian offshore gas production to continue to decline. This may result in potential peak-day gas shortfalls from 2028 and structural annual supply gaps from 2029 if additional gas fields or LNG import facilities do not come online. The Australian Competition and Consumer Commission (ACCC) has also warned that Victoria could experience significant gas shortfalls – even if the east coast as a whole has sufficient supply.[13] These authoritative assessments make it evident that without proactive measures to bolster domestic natural gas supply, Victoria is likely to confront energy shortfalls within years.

Removal of regulatory barriers to domestic natural gas development is required. AEMO has identified that there are several natural gas projects that could meet all southern gas demand this decade and beyond, but urgent government action is needed to remove barriers to new supply.

This includes facilitating the exploration and appraisal of projects that can increase supply, whether it be approving further exploration and development of known offshore fields, approving new appraisal of onshore gas, lifting the moratorium on unconventional gas development to advance well-regulated unconventional gas in appropriate areas.

The development of Victoria's own ample gas reserves also keep the benefits local – royalties, jobs, and energy security. Rather than spending billions on infrastructure to import gas that Victoria could produce itself, Australian Energy Producers urges the Victorian Government to view new gas supply investments as critical infrastructure that underpins both the energy transition and the state's economic resilience.

Victoria has potential for more domestic supply. Geoscience Australia estimates that over 6,000 Petajoules (PJ) of conventional gas reserves and resources remain in Victoria, mainly in the offshore Gippsland and Otway Basins – more than 25 years' worth of the state's current annual gas demand.[14] Even more significantly, Victoria has the potential to have up to 28,514 PJ of unconventional gas in the onshore Gippsland and Otway basins.[15] Just 10 per cent of this would meet Victoria's natural gas demand for 16 years.

The Strategy should build on Victoria's two decades of CCUS experience. CCUS is critical to reaching net zero in Australia. CCUS reduces emissions from hard-to-abate industry, including cement, steel, chemicals and fertiliser production, and has key a role in producing low-carbon hydrogen and in carbon dioxide (CO_2) removal from the atmosphere, including through Direct Air Capture (DAC).[16] The Net Zero Australia study found there is no pathway to net zero in Australia without CCUS.[17]

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[10] Australian Department of Climate Change, Energy, the Environment and Water (2023). *'Australian National Greenhouse Accounts Factors.'*
[11] Energy Victoria (2025). *About the gas sector.* Retrieved from www.energy.vic.gov.au/about-energy/about-the-gas-sector
[12] www.aemo.com.au/energy-systems/gas/gas-forecasting-and-planning/victorian-gas-planning-report
[13] Australian Competition and Consumer Commission. (2025) www.accc.gov.au/media-release/east-coast-gas-supply-outlook-worsens-july-to-september-2025-but-forward-longer-term-prices-ease
[14] Geoscience Australia, Australia's Energy Commodity Resources 2024
[15] Geoscience Australia, *Interim Gippsland Basin unconventional resource assessment.* (2022) https://dev.ecat.ga.gov.au/geonetwork/srv/api/records/f3cdeb70-1e08-4083-8b09-adfdf9827f32
[16] IEA, Carbon Capture, Utilisation and Storage, website (accessed 31 March 2025)
[17] Net Zero Australia, Modelling Summary Report, 2023

Victoria has also been a leader in CCUS research and pilot projects, for example, the Otway Project in southwest Victoria has been demonstrating CO_2 injection and storage since 2008[18], and the CarbonNet project in Gippsland[19] is working towards a commercial-scale carbon storage hub. Despite these efforts, the Strategy makes no mention of CCUS.

This is a significant omission, given that all credible global net-zero models (including those reviewed by EY) include deployment of CCUS alongside gas use to meet climate targets and to reduce emissions in hard to abate sectors such as fertiliser, steel, cement, and chemical manufacturing.[20] The Victorian Government should explicitly incorporate CCUS into its climate strategy, including for emissions reductions from hard-to-abate industry.

CCUS can unlock the lowest cost pathways for low-carbon gases. The Strategy highlights renewable hydrogen, synthetic methane and biogas as possible supplements for natural gas. Low-carbon hydrogen and biogas will play a role in the long term, but relying on them to scale up rapidly in the 2026-30 period is high-risk. Renewable hydrogen and biogas are currently far more expensive than natural gas today, and are yet to be deployed at scale. Natural gas plays an important role in underpinning investment, infrastructure and expertise as alternative low-carbon gasses continue to be investigated and developed.

Low carbon hydrogen produced from natural gas with CCUS is the lowest cost and most advanced pathway to low carbon hydrogen production today. This approach can deliver large volumes of hydrogen at lower cost while substantially reducing emissions, helping grow low-carbon hydrogen demand and facilitate the roll-out of renewable hydrogen as it scales up and costs come down. It is recommended that the Strategy incorporate support for low-carbon hydrogen production from Victoria's gas with CCUS alongside development of renewable hydrogen.

Economic and social considerations. Natural gas is not only an energy commodity in Victoria; it is also a pillar of the state's economy and a source of employment for thousands. The natural gas industry directly and indirectly employs over 40,000 Victorians and contributes $22 billion to the state economy each year.[21]

Natural gas supports a vast supply chain, including engineering services, maintenance, utilities, and more. Moreover, key industries in Victoria rely on gas as both a fuel and a feedstock, including food processing, paper production, petrochemicals, fertilisers, glass, cement and steel. Approximately 74% of industrial gas consumption is used for high-temperature processes in sectors like steel, cement, and chemicals.[22]

These are processes for which electrification remains technically challenging or prohibitively expensive. If natural gas supply becomes constrained, these industries may face severe difficulties, leading to output reductions, relocation, or closure.

Conclusion and recommendations

Australian Energy Producers recommends that Victoria's 2026-30 Climate Change Strategy be recalibrated to better integrate natural gas as a partner in the energy transition. By doing so, the Strategy can effectively achieve its legislated emissions targets while maintaining energy security and economic prosperity. In summary, we propose the following principles and actions for a balanced path forward:

- **Recognise the important and long-term role of natural gas in meeting Victoria's energy and emissions reduction goals**. The Strategy should acknowledge Victoria's domestic gas potential in a way that aligns with the state's economic interests and emissions reductions. This means supporting investment in gas infrastructure and treating gas as a strategic fuel and industrial

[18] CSIRO, *Otway CCS project* (2024). www.csiro.au/en/research/natural-environment/natural-resources/otway-project
[19] Victorian Government, CarboNet (2024). https://djsir.vic.gov.au/carbonnet/about-the-project
[20] International Energy Agency (2023), *Energy Technology Perspectives*. www.iea.org/reports/energy-technology-perspectives-2023
[21] KPMG (2025) *Economic impact of the gas industry*. www.energyproducers.au/wp-content/uploads/2025/02/AEP_KPMG_NATIONAL_FACTSHEET_V7.pdf
[22] Australian Government (2024) *Future Gas Strategy*. www.industry.gov.au/publications/future-gas-strategy/how-australian-gas-used-today

feedstock. Gas, alongside renewables, is essential for a resilient and reliable energy system through the coming decades. Properly leveraging domestic gas will help avoid scenarios of grid instability or blackouts, especially during extreme weather or when older coal plants retire.

- **Address forecast structural gas shortfalls by supporting investment in new gas supply, including by removing regulatory barriers to offshore and onshore gas development.** Balance Victoria's decarbonisation goals with domestic energy resilience by removing barriers for new gas production projects in strategic basins. Bringing additional supply online (and avoiding further delays and removing moratoria on unconventional gas) will prevent forecast shortages. The Government must encourage investment in critical infrastructure like gas pipelines, as well as in emissions-reducing technology, such as CCUS.
- **Adopt a technology-neutral, least-cost approach to energy security and emissions reductions**. Implement policies that prioritise achieving emissions reductions at least cost. This means recognising the value of both renewables and gas in a complementary mix. A technology-neutral approach also ensures that renewable expansion is balanced with "firming" capacity, so that each increment of new wind or solar is backed by sufficient dispatchable power (gas or otherwise) to maintain grid reliability. The Strategy should also consider the role of CCUS across Victoria, and in particular in emissions reduction for hard-to-abate industry and in the production of low-carbon hydrogen.

In conclusion, natural gas is an indispensable asset that will help Victoria transition to a cleaner energy future in a secure and economically responsible way. We urge the Victorian Government to update the Climate Change Strategy to reflect a balanced approach that recognises natural gas as a critical partner in fuelling industry, firming renewables, decarbonising the grid, and providing reliable energy for households.

Australian Energy Producers stands ready to assist the Victorian Government in refining and implementing the Strategy, and to support policies that deliver both lower emissions and continued prosperity for Victoria.

Thank you for the opportunity to contribute our perspective to this important strategy. We look forward to continued engagement and collaboration as Victoria works to achieve its climate objectives while keeping the lights on and the economy strong.