



**Tasmanian Small  
Business Council**  
Uniting Small Business

# Tasmanian *Future Gas Strategy* and Decarbonisation of Gas

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## Submission on Discussion Paper

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January 2022

### **Acknowledgement and Disclaimer**

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## Introduction

The Tasmanian Small Business Council (TSBC) welcomes this opportunity to comment on the Tasmanian Government's *Future Gas Strategy* and on the possibility of decarbonization of the Tasmanian gas industry. The call for submissions on the Government's *Future Gas Strategy* Discussion Paper is our first opportunity to provide input to the development of the Strategy.

### About the TSBC

The Tasmanian Small Business Council (TSBC) is an association of associations, each of which represents a specialist industry sector.

By bringing all these sectors together we provide small businesses with the opportunity to access information and advice across the wider small business sector. We also represent small businesses as we communicate their interests and needs to government, organisations and the general public.

There are more than 37,000 small businesses in Tasmania. They make up over 96 per cent of all businesses in Tasmania and provide more than half of the private sector employment in our state. This shows their importance to Tasmania, its economy and society.

### The TSBC's interest in Tasmanian gas issues

The TSBC has had a long-standing interest in Tasmanian energy issues as they affect small business, including gas. Natural and bottled gas is used by many of our members. As such, we have been involved in advocacy on key Tasmanian gas issues over a number of years.

### The Need for a Tasmanian Gas Strategy

The TSBC has advocated on the need for a Tasmanian gas strategy since 2016, when we commissioned and published a detailed review of the Tasmanian gas market by Goanna Energy.<sup>1</sup> That report found that, *inter alia*:

*A major review of the gas market is needed to ensure it does not continue as a significantly underutilised resource with a potential risk of eventual failure, instead maximising its potential to benefit Tasmanian gas users and the State's economy.<sup>2</sup>*

We are therefore pleased to see that the Tasmanian Government is undertaking such a review through its development of the Tasmanian *Future Gas Strategy*. However, the fact that the Government has not responded to this need earlier means that gas market opportunities, which could have benefitted Tasmania's small businesses (directly and indirectly), have been missed. We urge the Tasmanian Government to address the many issues raised in the Goanna Energy Report in developing its gas strategy. We return to this later in this submission. We also urge the Government to develop its gas strategy within a holistic energy framework so that interrelationships between gas and other forms of energy are captured.

### Our approach to the Submission

In developing this submission, we have placed a priority on the needs of Tasmanian small businesses as existing, or potential, gas users and as beneficiaries of the further development of a stronger gas

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<sup>1</sup> Goanna Energy Consulting, *The Tasmanian Gas Market: Building the Pipeline to Opportunities*, Report for the TSBC, August 2016 (copies can be obtained by contacting Goanna Energy <https://goannaenergy.com.au/>).

<sup>2</sup> *Ibid.*, p. 17.

industry in Tasmania. We have sought to address the list of questions contained in the Discussion Paper (in terms of their relevance to small business) but have also raised other issues where they are important to small business. The unique position of the TSBC, as an umbrella organization for Tasmanian small businesses, provides us with wide ranging contact with Tasmanian small businesses who either use gas at present or have the potential to do so in future.

In developing the submission, we have also had regard to the views of a number of commercial gas users who we contacted directly.

Our submission should be of particular interest in the further development of the Tasmanian *Future Gas Strategy* given that small business has not been previously consulted on it.

### How the Submission is structured

Our submission is set out as follows:

- We begin by outlining the needs of small business as gas users in Tasmania.
- Next, we comment on small business concerns with the current Tasmanian gas market, especially in the context of the development of the Future Gas Strategy.
- Thirdly, we address the development of the Government's *Future Gas Strategy*, and comment on the Discussion Paper.
- Fourthly, we comment on the possibility of decarbonization of gas in Tasmania and impacts on small business.
- Following this we present the views of commercial gas users we contacted.
- We conclude with some final thoughts for the ongoing development of the Tasmanian *Future Gas Strategy*.

## Tasmanian Gas Industry and Small Business

In this section of the submission, we comment on the role of small business as gas users in Tasmania. This provides important context to our submission.

### Small business as a commercial gas user in Tasmania

Small business is a relatively small gas user in Tasmania in terms of the number of customers, its aggregate gas use, compared to electricity generation and large industrial users, and relative to both electricity as a source of their energy and to gas use by their peers in other states. Moreover, the use of gas by Tasmanian small businesses has stagnated both in terms of the number of customers and the size of their aggregate consumption of gas.

In 2019-20, there were 1,059 small business natural gas users in Tasmania. This compares to 995 in 2017-18, an increase of only 64 connections (or 6.5 per cent). Whilst other small businesses would have been using LPG, the stagnation of the natural gas industry as a source of energy for small business in Tasmania is manifest. It has well and truly failed to reach its potential.

The Goanna Energy Tasmanian gas market study estimated that small business consumes around 350 TJ of gas annually, or 6.5 per cent of non-gas fired generation supply.

The commercial gas sector includes a diverse range of premises such as hospitals, accommodation, schools, office buildings, light and heavy manufacturing, farms and agricultural processing, mining, hotels, restaurants, laundromats and government buildings. Like households, significant use of gas by commercial users includes space heating, water heating, cooking and cooling, but the range of uses and their relative importance within the sector is far more diverse, as is the variation in the size

of gas user. Hence, gas use by the commercial sector is a lot more heterogeneous than for households. Where gas is used, it is often very important to the operations of commercial users and strategically important to the State economy, investment and jobs.

Competition is also very weak in the Tasmanian gas market. Natural gas customers have a choice of only two retailers, Tas Gas or Aurora, with the former holding a dominant 87 per cent share of small business customers. Weston Energy also focuses on the small business gas market, although we understand that its offering is based on Victorian pool prices pass through, which smaller customers do not find attractive.<sup>3</sup> Its competitive impact is therefore limited.

Furthermore, price differentiation between Tas Gas and Aurora is very limited. Even during the occasional times when there has been some material difference in their prices, it has been limited and transitory. Commercial customers often also lack the market knowledge, experience or motivation to explore market options that could save them gas costs, such as 'take-or-pay' contracts.

Because of these conditions, most small business customers show limited interest in the gas market or in shopping around.

Commercial customers in the LPG segment have more choice with access to suppliers including BOC, Elgas and Origin Energy. However, LPG prices are closely linked to international oil and gas prices and can vary significantly and often. LPG prices have gone up this year and if the world price of oil/gas goes up in future it will put added pressure on Tasmanian LPG users. These customers are not able to switch to natural gas, unless they happen to be within easy reach of the Tas Gas distribution system and are prepared to pay for conversion.

Tasmania's natural gas distribution system passes some 60,000 sites, but only 13,275 were connected in 2019-20. Moreover, the original plan was for the system to pass around 100,000 sites, but this plan was effectively shelved by the then Government when it withdrew financial support for any further roll out. These facts highlight both the malaise that continues to impact the Tasmanian natural gas market and its precarious state.

Nevertheless, gas is an important energy source for those small businesses that have either connected to the Tasmanian natural gas network or who use LPG. Gas provides them with an efficient source of energy for their operations. Some could transition to another energy source but would face switching problems or their energy costs would increase. For some others, switching would be more difficult being uneconomic or technically impossible. The extent of these problems is difficult to gauge and the Government should seek to find out more about them in finalizing its *Future Gas Strategy*. If material difficulties are found, then there needs to be consideration given to assistance or compensation for those businesses and jobs impacted.

### Tasmanian gas prices

Natural gas prices for business customers in Tasmania are very high compared to other jurisdictions. In its most recent price comparison report, the Office of the Tasmanian Economic Regulator (OTTER)<sup>4</sup> found that gas prices for small business customers in Tasmania were the highest of any Australian jurisdiction, whilst average annual gas bills were also the highest (apart from the little

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<sup>3</sup> We understand that some commercial gas customers who moved to gas pool price pass through during a recent period of low spot prices, subsequently experienced significant price increases.

<sup>4</sup> OTTER, *Comparison of Electricity and Gas Prices Available to Small Customers in Australia*, Report, Sept. 2021 at <https://www.economicregulator.tas.gov.au/Documents/Comparison%20of%20Electricity%20and%20Gas%20Prices%20Available%20to%20Small%20Customers%20in%20Australia%20-%20September%202021.pdf>.

used highest cost tariff options available in NSW and WA). The annual bill for a typical Tasmanian small business gas customer consuming 473,000 Mj pa was in the order of \$20,500. This was double the bill for a comparable gas user in Victoria and 50 per cent higher than for the ACT. The report also found that the prices offered by Tas Gas and Aurora were virtually identical, symptomatic of the lack of competition in the market. Any further price increases above this already non-competitive level could well put firms and jobs at risk, especially if exposed to overseas or inter-state markets.

This is little changed from the situation that existed in 2016 when the Goanna Report for the TSBC was published. At that time, gas bills for Tasmanian small businesses were also the highest in Australia (at \$18,000 pa), showed a similar large cost disadvantage compared to other jurisdictions and Tasmanian small businesses were paying the highest gas prices in Australia. Price discounting was also virtually absent.

These are concerning outcomes for small businesses in Tasmania who use gas or would like to, because notwithstanding known gas market shortcomings, nothing has changed in the intervening five years. Meanwhile, small business gas users and the gas industry in Tasmania have been left in a state of apparent policy inaction, notwithstanding that Tasmanian small businesses face a range of significant disadvantages compared to their peers in other jurisdictions. It is to be hoped that the development of the Tasmanian *Future Gas Strategy* improves this situation, although the Discussion Paper provides limited guidance on this. The TSBC would urge that the Government tackle Tasmanian gas market shortcomings in the draft Gas Strategy.

## Small business concerns about the current state and future of gas in Tasmania

Small business has numerous concerns about the current state and future of the Tasmanian gas market they would like to see addressed in the further development of the Tasmanian *Future Gas Strategy*. We believe that these concerns should be seen either in the context of a continuation of natural gas in Tasmania, or if there is a move to decarbonising the Tasmanian gas industry. At the same time, we recognize that decarbonization of gas would present some unique challenges and requires consideration of gas market issues within that context.

We outline these concerns below.

### Goanna Report on Tasmanian gas market

The 2016 report for the TSBC on the Tasmanian gas market by Goanna Energy outlined small business concerns with the Tasmanian natural gas market at that time and also reflected the views obtained from a survey of Tasmanian commercial gas users and potential users. We believe that most of these concerns are still relevant today.

In summary, the major concerns expressed that still have relevance to smaller commercial gas users are as follows:

- The challenge facing Tasmania is to capitalise on its energy-transfer links and build robust regulatory, market and investment opportunities to foster the economic growth of the State. Strategies need to be developed from a Tasmanian perspective, but also have due regard to the market conditions prevailing on the east coast of mainland Australia, which is also connected to global LNG markets.
- The Tasmanian gas market is small and vulnerable, and is a wasted resource for the State potentially at risk of spiralling into failure or (at best) continuing to stagnate. Cohesive and

comprehensive action is required to lift its performance through the combined efforts of the State Government, gas industry and gas users (including small business).

- The Tasmanian gas market lacks scale, which contributes to its high unit costs (as fixed costs need to be recovered from a small base to begin with). Low penetration rates from households and businesses caused by the relative high cost to utilise (e.g., the nation's highest transmission charges, higher than national average gas distribution charges), a lack of competition in gas supply, the risk of natural gas users switching to alternative fuels (such as electricity, LPG, coal or wood) and limited coverage by the distribution network. Tas Gas Networks has no plans to strategically expand its distribution network of its own volition unless it receives government support to do so. The cessation of then State Government financial support for new connections and pipeline expansion severely curtailed market growth and has continued to do so.
- Furthermore, the gas market is exposed to the significant risk of volume shrinkage due to the highly variable gas demand required for the Tamar Valley Power Station (TVPS) and the limited tenure of its gas transportation agreement with the Tasmanian Gas Pipeline (TGP).<sup>5</sup> This dynamic leads to the issue of severe underutilisation and survivability questions
- At penetration rates of 2 per cent for commercial businesses and 5 per cent for households plus low TGP utilisation, the gas market is not large enough to remain viable and badly needs growth opportunities. Improving its price competitiveness and increasing take up of gas, including through incentives are key. Actively seeking growth opportunities is also important. The Goanna study examined the existing network and areas where expansion is easiest and most logical, we found seven areas worthy of further consideration by way of developing a business case: Launceston and its northern and eastern suburbs; Launceston's airport precinct; East Devonport; Ulverstone; additional parts of Burnie; Wynyard; Smithton, which has industries that would benefit from natural gas, such as dairy and food processing; and Hobart's eastern shore, Kingston and Cambridge.
- Transmission costs are the highest in Australia and distribution costs are not far behind, so addressing these is a key to assist the competitiveness of gas. Higher throughput will allow fixed costs to be shared and reduce the costs per unit shipped. However, instead the risk of volume shrinkage is a real one constantly hanging over the gas market and Tasmanian gas users. Working with the industry and gas users, the Tasmanian Government should develop its gas strategy so these pipeline issues are addressed and facilitate growth in pipeline use.
- Tasmanian gas pipelines are lightly regulated through the Non-scheme Pipeline Access regime. The TGP is covered by the regime, whilst the Tas Gas distribution network has an exemption from certain parts of the regime (e.g., price reporting). The continuing very high transportation charges, which also lack transparency and monopoly power opportunities available to both pipeline owners suggests that this regime is not working in the interests of Tasmanian gas consumers. After 20 years, consumers who have connected are now more tied to gas than ever, so relying on electricity prices to place a ceiling on gas prices, the ability to switch to electricity and market infancy no longer provide the justifications for limited regulation that they once did. Given this and with the new access regime having

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<sup>5</sup> We note that Hydro Tasmania has recently reached agreement with TGP on a future gas contract, although only after protracted negotiations and referral to arbitration (though this was not necessary as a negotiated agreement was reached). The terms of the agreement remain confidential and its flow on impacts on other Tasmanian gas users are yet to be seen, though we understand that transportation charges have not increased.



commenced in 2017, it would be timely for the *Future Gas Strategy* to consider whether some regulatory reform is justified.

- The Tasmanian gas market should be allowed to operate on a level playing field with prices and growth opportunities that reflect this. It does not presently have one with some electricity tariffs that are not cost reflective distorting price signals and consumer choices (although some progress has been made in the area). High gas prices are also a disincentive for consumers to switch from fuels such as wood, oil and coal, which have higher emissions. The *Future Gas Strategy* affords an opportunity for the Government to develop policies that deal with such distortions, whilst also assisting the goal of gas market growth.
- The lack of competition is an impediment to further gas market growth. In a classic 'vicious cycle' scenario, the lack of competition holds back market growth and market growth is held back by the lack of competition. The small size of the gas market and the dominance of Tas Gas has acted as a deterrent to new entry. Aurora has mostly acted as a passive follower to Tas Gas in regard to price and service offerings. The larger Tasmanian electricity market also continues to lack competition and the Government could develop policies that encourage more competition in electricity retailing which, given the propensity of energy retailers to offer both gas and electricity, would be beneficial to gas as well. Breaking this cycle requires a change in approach from the current 'business-as-usual' to a suite of policies promoting both market growth and competition. Tasmania's *Future Gas Strategy* provides a timely opportunity to do this.
- Ongoing security of gas supply is an issue for small business. In particular, the reliance on a single pipeline raises concerns about how secure gas supplies are. The reliance of the TGP on a dominant gas user (TVPS) adds to these concerns, should that load ever be removed from the gas market. In 2017, the Tasmanian Energy Security Taskforce found that the viability of the Tasmanian gas market appears "susceptible" given its small scale and increasing supply and price risks associated with both gas commodity and pipeline access. Options to improve the security of gas supply usually involve building additional pipelines, developing storage options or access to alternative supplies of gas. The small size of the Tasmanian gas market precludes the building of any additional pipelines, but storage options and access to additional gas supply (or alternative forms of gas) could be explored further in developing the *Future Gas Strategy*. TGP has recently provided back-haul services to the Victorian market and its use as a temporary backup to Tasmanian gas supplies in the event of a gas failure at the Victorian end of the pipeline might be possible. Other 'on island' storage or production options could also be examined.
- The prospects for development of offshore or onshore gas should also be assessed. We recognize that the latter is controversial and has vocal opponents but, to our knowledge, the costs and benefits of development have never been fully assessed. Rather policies have tended to be made based on limited information, without fully considering the impacts on energy in Tasmania or the broader State economy. In 2018 the Tasmanian Government announced that the moratorium on the use of fracking would continue until March 2025. It also announced that a Review into the practice of fracking will be conducted before the moratorium expires via a process to be determined by the relevant Minister. In developing the *Future Gas Strategy*, the Government should also consider commencing this review so that it is completed before the end of the current moratorium in March 2025, bearing in mind that such a review would attract significant interest, would need to consider complex issues and should involve widespread public consultation.

### More recent and emerging issues for a Tasmanian gas strategy

Since the Goanna gas market study was released, there have been some developments impacting the Tasmanian gas market. However, we do not believe that they take away from the findings of the Goanna study. In many ways they support them. They should be considered in development of Tasmania's *Future Gas Strategy*.

- Decarbonisation of gas is an important potential development that contains threats and opportunities for the Tasmanian gas market and gas users. The Tasmanian Government is examining this as part of its gas strategy. We comment further on it below. We note that decarbonization of gas could be a catalyst to assist the development of the Tasmanian gas market and increase the use of gas in Tasmania.
- The TVPS gas contract with TGP has recently been renegotiated. The multi-year deal will help to underpin and provide additional certainty to the Tasmanian gas market, although how it impacts transmission charges for other gas customers, including small business, remains to be seen with the TVPS using less gas than it has historically. Nevertheless, the completion of a new contract should remove some uncertainty, at least for the term of that contract. However, the development of the gas strategy within a far longer time horizon requires that the future of gas generation in Tasmania be considered.
- Tasmania's gas market is inextricably linked to Australia's east coast gas market through the TGP and its connection to the Victorian gas system at Longford and associated gas commodity contracts. Gas into Tasmania comes mainly from the Gippsland Basin gas reserves owned and marketed by BHP Billiton and Esso. As the east coast gas market is now linked to LNG exports, gas export prices have become more important in Tasmanian gas commodity prices and these tend to fluctuate. Since 2019, Gippsland Basin gas is no longer jointly marketed, but each party separately markets its gas. This was expected to improve competition and there are some indications that it is doing so, although we are not aware of any indications that it has yet impacted Tasmanian gas prices.<sup>6</sup> However, in a more worrying development, the ACCC has also expressed concern that a supply shortfall in Australia's east coast gas market is increasingly likely in 2022, with prices under upward pressure.<sup>7</sup>
- LNG imports into Australia are now likely. Whilst AGL's proposed gas import terminal at Crib Point in Victoria has been stopped on environmental grounds, the Port Kembla LNG import terminal in NSW is proceeding with gas delivery scheduled for early 2023, whilst another terminal near Port Adelaide is being considered. This could help relieve expected supply and price pressures in east coast gas markets.
- As discussed above, the Non-scheme access regime now applies to Tasmania's gas pipelines.

### Observations on the Tasmanian *Future Gas Strategy*

In this section we comment on the approach and process being used to develop the gas strategy, provide feedback on the Discussion Paper and the gas decarbonization issues raised, and outline the views of some commercial gas users on questions posed in the Discussion Paper.

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<sup>6</sup> The ACCC reports that one LNG producer observed that the separate marketing of the Gippsland Basin Joint Venture parties had increased competition in the near term, with competition also observed from retailers (see ACCC, *Gas Inquiry 2017-25, Interim Report July 2021*, Box 3.8, p. 58 at [https://www.accc.gov.au/system/files/Gas%20Inquiry%20-%20July%202021%20interim%20report\\_0.pdf](https://www.accc.gov.au/system/files/Gas%20Inquiry%20-%20July%202021%20interim%20report_0.pdf) .

<sup>7</sup> ACCC, *Gas Inquiry 2017-25, Interim Report July 2021* at [https://www.accc.gov.au/system/files/Gas%20Inquiry%20-%20July%202021%20interim%20report\\_0.pdf](https://www.accc.gov.au/system/files/Gas%20Inquiry%20-%20July%202021%20interim%20report_0.pdf)

## Approach and process

The Government has been developing its Tasmanian *Future Gas Strategy* since early in 2021. Development of the strategy so far has been supported by a Working Group made up of some industry and consumer groups. We understand that the Working Group is made up of representatives from:

- Aurora
- Grange Resources
- Hydro Tasmania
- Tas Gas
- TasCOSS
- TMEC

We have no issues with these organisations being members of the Working Group, as they have a legitimate interest in the issues under consideration. However, we are disappointed that representatives of small business were not invited to join the Working Group. The non-participation of small business means that its interests and views have not been reflected in developing the gas strategy to date. Small business advocates are also the only group representing gas consumers who are not members of the Working Group. We would urge that the Government rectify this by inviting small business to be represented on the Working Group in future.

The Discussion Paper outlines the process intended to complete the gas strategy. This involves:

- Feedback on the Discussion Paper by 21 January 2022.
- Release and consultation on the draft strategy in the first half of 2022.
- Public release of the final gas strategy later in 2022.

We have no issue with this process and timetable, noting that there is significant work yet to be undertaken on a range of complex issues in developing a sound gas strategy. We would urge that the Strategy continue to be developed with support from the Working Group (including small business), thus ensuring beneficial gas market involvement.

Under the current Government's 2016 *Tasmanian Energy Strategy*, it is intended that energy should work to the advantage of the Tasmanian people, and strategically for investment attraction and job creation. We note that of the 43 Actions contained in that strategy, only two related to gas. Accordingly, the Goanna gas market study concluded that there is a need to better integrate gas into the Energy Strategy and for a more strategic approach to gas policy, addressing key gaps in the Tasmanian gas market. The development of the *Future Gas Strategy* provides an ideal opportunity to do this and to focus the gas strategy along the same priorities as the energy strategy. To this end, we are pleased to see that the Discussion Paper clearly says that "maintaining jobs, encouraging growth and investment, and protecting the interests of Tasmanian consumers while ensuring energy remains affordable and reliable remain key priorities for the Government." (p. 4) The Government will need to be mindful, however, that any increases in the price of decarbonised gas could put pressure on this priority.

We note that the gas strategy will aim to provide certainty for all gas market participants on the role of gas in Tasmania over the next 20-30 years. We support the need for as much certainty as possible, noting the long-term nature of critical infrastructure planning, although many changes can occur over this time horizon which can limit certainty. Therefore, we would suggest that an element of flexibility be built into the strategy to allow for changes in circumstances. The Tasmanian gas industry and consumers should help to steer and support this flexibility.

### TSBC Comments on the Discussion paper

The Discussion Paper explains that the Government is developing its gas strategy in response to domestic and international pressures to reduce carbon emissions and for countries to adopt net zero emissions, which Australia has recently done, by 2050. Consequently, there is growing investment in renewable technologies and interest in decarbonization of gas. The Tasmanian *Future Gas Strategy* is seeking to respond to these changes and position Tasmania to take advantage of them.

We support that gas in Tasmania should be as well prepared as possible to meet present and future challenges, including those mentioned above. However, we would urge that the Government should do this within broader Australian responses, not seek to pick winners (especially technological ones), allow industry to be the main driver for technological change and innovation, focus on policies that address well understood market failures and gather as much information as possible. It should also maintain a focus on practical issues that impact Tasmanian gas users and address known shortcomings in the Tasmanian gas market, such as those identified in the Goanna study and emerging since. This presents some challenges, as there are inevitably areas where the present gas market and new approaches, such as decarbonization of gas, will clash.

We support that the Government is also developing its Strategy in order to allow the gas supply chain to better understand the future role of gas in Tasmania and plan their operations accordingly.

The final Strategy will consider the current challenges facing the Tasmanian gas market, identify possible options for the market, consider the risks and opportunities to gas consumers in moving towards net zero emissions and renewable fuels, and start exploring the most promising pathways to decarbonisation. The TSBC believes that it is appropriate that these considerations be part of the Strategy, especially when applied within the Government's jobs, growth, investment, and energy affordability and security priorities.

We note that the Discussion Paper outlines several existing and future policies of the Government that it says will influence the future of gas in Tasmania. These include the Tasmanian Renewable Energy Target (TRET), the Tasmanian Renewable Energy Action Plan (the TREAP), the Tasmanian Renewable Hydrogen Action Plan, a Bioenergy Vision currently in development, the next version of Tasmania's Climate Change Action Plan, an intention to legislate a target of net zero emissions from 2030 and its Renewable Energy Coordination Framework. These policies should be applied to the *Future Gas Strategy* in a manner consistent with the Government's jobs, growth, investment, and energy affordability and security priorities.

The Discussion Paper says that:

*"Despite the comparatively small size of the sector, natural gas plays an important role in Tasmania's energy mix. Tasmanian homes and businesses use natural gas for heating, hot water and cooking; major industries rely on it across a range of sectors such as manufacturing, mining, and agriculture; and from time to time, it has an important role in electricity generation. In developing the Strategy, the Government will be considering the interests of all these gas users and working to address their key concerns and challenges." (p. 8)*

It is particularly important that gas user interests are fully considered and applied to the gas strategy. Gas users provide the *raison d'être* for the gas industry in Tasmania.

To this end, the Discussion Paper could have gone further by more clearly identifying how the Government intends to consider the interests of users in developing the gas strategy, what user

issues it sees as being the most important and how it will balance potential conflicts between user and other interests (e.g., suppliers, decarbonising gas, climate change and renewable energy).

The diversity and heterogeneous nature of commercial gas use spoken of previously is relevant to the Strategy and needs to be carefully considered in its development, including the potential for major changes to disrupt commercial operations. On the other hand, a well-designed strategy could also provide welcome opportunities to encourage continuing and increased commercial use of gas.

The impact on commercial users of any major changes in the Tasmanian gas industry, such as changes in the composition of gas, needs to be carefully examined. The operations of some commercial users are highly reliant on gas. Some would have great difficulty in converting away from natural gas for technical, efficiency or cost reasons. Others would be forced into conversions or early equipment replacement, imposing costs they may find difficult to bear.

The potential for a poorly designed gas strategy, or one focused only on perceived decarbonisation opportunities, to disrupt commercial gas operations should not be underestimated and needs to be fully explored in developing the *Future Gas Strategy*. It also needs to keep in mind that many commercial users initially converted to natural gas because they believed they would have continued access to it and they would be paying something around prevailing prices. This provided a key catalyst for their connection to the network, as did the Government's strong initial support for bringing natural gas to Tasmania. For some, the switch helped to sustain their Tasmanian operations. The Government needs to be mindful that many commercial gas users have already helped to lower Tasmania's emissions by converting to natural gas (a cleaner fuel than what they were previously using) and paid the associated costs. Commercial gas users would rightly feel aggrieved if there was a change in gas policy that threatened their continuing access to natural gas.

We believe that the Discussion paper could have made more of the important aspects of commercial gas use in Tasmania and encourage that the draft strategy does so. The Government's stated desire to understand industry impacts supports the need to better understand commercial gas use.

The Discussion Paper considers the role of electricity generation as the largest single user of natural gas in Tasmania. Without the TVPS it is doubtful that the TGP would have been built and, as mentioned earlier, any risk to TVPS's continuing use of gas would likely have significant impacts for other Tasmanian gas users in terms of gas prices or the viability of the TGP. The Discussion Paper does not go into much detail about these issues, but they should be outlined in the draft Strategy so that gas users have the certainty that the Tasmanian Government is seeking to provide.

The Discussion Paper provides some commentary on the small size of the Tasmanian gas market and the consequent significant underutilization of the TGP. It also discusses some of the issues around gas prices in Tasmania, including the extremely high prices being paid by commercial gas users. It further mentions the energy security vulnerability of the Tasmanian gas market. We provided comments on these three matters earlier in this submission. We believe that the Discussion Paper could have discussed in more detail how these issues could impact the *Future Gas Strategy* and look to the draft Strategy to do so.

We comment on Decarbonisation of gas in Tasmania in the following section.

## Decarbonisation of Gas in Tasmania

A significant change for the gas industry in Tasmania being considered by the Government is its decarbonisation. This forms part of the development the *Future Gas Strategy*. Commentary on this

is included in the Discussion Paper and a separate paper by the consultants Oakley Greenwood (OG) was released with the Discussion Paper. We provide feedback on this below.

We recognise that the Tasmanian Government is adopting a commitment that Tasmania has net zero carbon emissions by 2030, and has a range of other carbon abatement and renewable policies.<sup>8</sup> As noted previously, we also fully expect that the *Future Gas Strategy* will support the Government's priority of maintaining jobs, encouraging growth and investment, and protecting the interests of Tasmanian consumers while ensuring energy remains affordable and reliable. Aligning these could pose some challenges. We also note that, for the time being, gas decarbonisation technologies remain higher cost and face technical obstacles with views varying on which technological path is best and when costs might fall to commercial levels and technical challenges be surmounted. These matters are discussed in the Discussion Paper and in the OG paper.

The TSBC is particularly keen to ensure that undue costs are not imposed on gas users, that risks to the viability of their businesses are avoided and that, where costs or viability based on Government policies represent material business risks, businesses are assisted with or compensated for these.

The Discussion Paper includes several options for decarbonisation of gas in Tasmania, namely, renewable hydrogen, biogas, renewable methane and 'electrification'.

The OG study also alludes to 'do nothing' and 'growth in gas' options, but these not assessed as they are seen as incompatible with Tasmanian Government policies on renewable energy and net zero. It is disappointing that the costs and benefits of these two additional options were not considered further, as they could be compatible with the Government's priority in encouraging growth and investment, and protecting Tasmanian consumers while ensuring energy remains affordable and reliable. We believe that, at this stage, it is important to consider all available options and compare them to one another so that the option with the greatest net benefit is revealed. We would encourage the Government to do this and present the results for all options in its draft Strategy.

Of the options considered, the OG study finds that 'electrification' of commercial gas users would presently be the most cost-effective solution. However, as noted in the Discussion Paper, "electrification may not be suitable, or may be cost prohibitive, for a range of industrial heating purposes" (p. 17). We are concerned that this be examined in more detail so that stakeholders have a sound understanding of the impacts of the strategy and the extent of material issues facing commercial gas users as a result of an 'electrification' strategy.

Moreover, electrification of gas use in Tasmania would seem to raise the prospect of an already small gas market getting even smaller and place it in an even more precarious position, unless new gas opportunities can be created as well. At the same time, it would increase electricity demand and the impacts of this need to be looked at in detail, including on the supply-demand balance and prices. If MarinusLink and Battery of the Nation proceed, increased electricity demand due to 'electrification' in Tasmania might be more easily accommodated, but these two projects are not yet certain to go ahead and their economics is questioned by some.

The Discussion Paper goes on to say that OG considered the suitability of the remaining three alternatives for users whose gas operations could not be electrified and that the "best long-term choice is not clear today and each technology has its challenges." This involves risks and concerns to impacted gas users and there needs to be a fuller understanding of the costs and their impacts. We

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<sup>8</sup> It has adopted the Tasmanian Renewable Energy Target, the Tasmanian Renewable Energy Action Plan (TREAP) and the Tasmanian Renewable Hydrogen Action Plan, and is developing a Bioenergy Vision.

doubt that gaps in current information will allow such an assessment to be made in time for the final Strategy. We also anticipate that materially impacted users would seek compensation from the Government to either allow them to adjust to the new policies, or to close down in an orderly way.

Regarding renewable hydrogen, its costs remain very high and there are technical obstacles, so much uncertainty remains whether or when it can be economically produced and offer a genuine source of energy and feedstock to users. It seems highly unlikely that this uncertainty will be removed within the timeframe for the final *Future Gas Strategy*. Furthermore, the Discussion Paper mentions the significant technical and regulatory challenges associated with the use of renewable hydrogen and the unknown costs to convert pipelines, meters and end-use equipment. We also note that the potential development of hydrogen fuels is under consideration in other states and countries. The Tasmanian Government needs to be careful not to invest in poorly understood opportunities that later become stranded by technological constraints, a failure to develop commercially, or larger or more lucrative opportunities elsewhere.<sup>9</sup> It seems that, at best, the Tasmanian *Future Gas Strategy* could consider renewable hydrogen to be a possible future option still in need of significant development and might seek to position Tasmania to take advantage of it, if future circumstances are favourable.

Limited information is provided in the Discussion Paper about the efficacy of biogas, including the use of biomethane as a substitute for natural gas. There is a need for more information to be provided to gas users if they are to adequately understand the opportunities of biogas and practical issues such as the extent that biogas resources would permit this, what biogas would offer end users and its costs. At present there is significant uncertainty about this resource, which will concern gas users. The draft gas Strategy could seek to progress this and reduce the existing uncertainty.

Renewable methane appears to offer some advantages in that it involves fewer conversion issues and lower costs of converting. But its development is still in the early stages and the need for an additional process compared to hydrogen increases its production cost.

The TREAP includes an action to undertake a gas decarbonisation pathway study in 2021. This study involves examining various pathways for decarbonising Tasmania's gas networks, such as the utilisation of locally produced renewable hydrogen or biogas. The Discussion Paper points out that the outcome of this study will form a key part of the final *Future Gas Strategy* and the TSBC suggests that, to be useful, it will need to provide additional robust information for the Strategy.

## Views of Commercial Gas Users in Tasmania

In developing this submission, the TSBC and our consultants, Goanna Energy, discussed the questions posed at the end of the Discussion Paper with a targeted group of commercial gas users in Tasmania. Their individual responses were provided confidentially, but collective responses are summarized in the table below (numbered as in the Discussion Paper) and will hopefully assist the Government to progress the *Future Gas Strategy*. Responses have also been integrated into other parts of the submission. The responses came from the following industries: catering and hospitality, education, hotels, manufacturing, minerals processing and property. Some users also felt that it would have been preferable if they had been allowed longer to respond given the time of year, the recent impact of COVID on business operations and knowing the importance of the issue.

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<sup>9</sup> For example, a recently announced NSW Government hydrogen strategy provides up to \$3 billion in incentives for green hydrogen production. However, firm commitments are largely left for the future.

**TABLE: RESPONSES OF TASMANIAN GAS USERS TO DISCUSSION PAPER QUESTIONS**

<b>Question</b>	<b>Summary of responses</b>
<p>1. <i>What factors do you think need to be considered in developing a strategy for the future of gas in Tasmania?</i></p>	<ul style="list-style-type: none"> <li>• Lack of competition.</li> <li>• Continuity and stability of supply.</li> <li>• Cost relative to equivalent product.</li> <li>• Difficulty in converting some processes.</li> <li>• Having a plan for any decarbonisation. Respond to global challenges.</li> <li>• Proactive approach to energy efficiency, renewables and demand management.</li> </ul>
<p>2. <i>What changes are you observing related to global and domestic market settings for fossil fuels that could potentially impact on the outlook for gas in Tasmania?</i></p>	<ul style="list-style-type: none"> <li>• International uncertainty regarding coal supply because of demand, government policy and local protection of stocks, driven by climate action, which could flow on to gas supply.</li> <li>• Some prices have dropped.</li> <li>• Competitors’ countries either have lower 2030 targets or the targets are not being met (or are being ignored), so it is not possible to achieve higher prices for products just because we switch to non-greenhouse gas fuel.</li> <li>• Renewables are now cheaper than thermal generation and we are opting for more renewables in our energy use mix. Low emission gas is also an alternative.</li> </ul>
<p>4. <i>If you are a business that uses gas, what industry are you in? What do you use gas for?</i></p>	<ul style="list-style-type: none"> <li>• See list of industries above.</li> <li>• Boilers, heating, industrial processing, cooking, beverage dispensing and hot water.</li> </ul>
<p>5. <i>Are your gas appliances coming up for replacement? Are you considering switching to electricity or another alternative?</i></p>	<ul style="list-style-type: none"> <li>• Timelines for replacement varied, from near-term to up to 25 years ahead.</li> <li>• Considerations re replacement – cost of supply vs alternatives, cost of equipment (new equipment if alternative to gas, pay pack period), longevity of supply.</li> <li>• For some applications gas is a ‘must have’, e.g., flame-based cooking, some industrial processes.</li> <li>• Looking to switch our boilers to electricity. Significant investment. Targeted Government support would help.</li> </ul>



<p>6. <i>What do you see as the key opportunities and concerns as a gas user in Tasmania?</i></p>	<ul style="list-style-type: none"> <li>• More competition (opportunity).</li> <li>• Loss of a competitor (threat).</li> <li>• Better environmental and more cost-efficient production (opportunity).</li> <li>• Keeping gas costs stable (threat).</li> <li>• Matching costs to environmental obligations (threat).</li> <li>• Keeping up with lower costs overseas competitors (threat).</li> <li>• Costly Government obligations that could threaten our business (threat).</li> <li>• High monopoly gas transport charges (threat).</li> <li>• We have an opportunity to use and scale up already available green hydrogen technology, including waste-to-energy hydrogen (electrolysis) production and methane capture. Significant investment required.</li> <li>• Consumer and supply chain pressures along with the risks of increased capital costs for companies (and nations) who don't drive down emissions. Natural gas won't support this.</li> </ul>
<p>7. <i>What is your view on the outlook for the pricing of gas in Tasmania?</i></p>	<ul style="list-style-type: none"> <li>• High monopoly gas transport charges appear set to remain unless regulated.</li> <li>• Lack of retail and commodity competition set to keep gas prices high unless there is reform.</li> <li>• Significant price uncertainty.</li> <li>• Unless there is more competition, prices look set to keep increasing.</li> <li>• Price has doubled over the last 10 years.</li> <li>• Gas prices remain high driven by high international gas prices. Don't see an end to this.</li> </ul>
<p>8. <i>Given the forecast supply shortfalls and reliance on importing gas, do you think there is any risk of supply of gas from mainland Australia?</i></p>	<ul style="list-style-type: none"> <li>• A fragile single supply line and source raises concerns about reliability of supply and cost.</li> <li>• The need to import gas raises concerns about continuity of supply.</li> <li>• We will look to renewable, energy efficiency and lowering emissions. Doing it already.</li> </ul>
<p>9. <i>If natural gas was unavailable in Tasmania, what would you do? Would you be considering moving to LPG, or to another alternative?</i></p>	<ul style="list-style-type: none"> <li>• Natural gas is our only possible source of energy supply.</li> <li>• Would be forced to move to alternative fuel sources and would need to balance the costs of converting with the ongoing cost of supply.</li> <li>• Could switch back to LPG, but at a higher cost and less convenient.</li> <li>• Difficult change over, with some electric boiler redundancy. Cost would higher.</li> <li>• Internal strategy is to replace gas with electric where possible, but cost higher.</li> </ul>

<p><i>10. Should Tasmania be transitioning to a decarbonised gas network?</i></p>	<ul style="list-style-type: none"> <li>• We will look to renewable, energy efficiency and lowering emissions. Doing it already.</li> <li>• Yes, with the intent of making supply cheaper than current gas products.</li> <li>• If our competitors do and we can keep our products competitive.</li> <li>• Support decarbonisation, but equipment life expectancy and pricing are issues.</li> <li>• Given global developments and financial markets, Tasmania may have no option but to transition to decarbonised gas and consumers will have no option but to pay the cost.</li> <li>• The case for developing hydrogen gas on site needs to consider that other renewable technologies are cheaper and are improving rapidly, proving a better business case.</li> <li>• A decarbonised gas network could form part of Tasmania’s energy mix. Significant effort needed to make these commercially viable. Tasmania should take advantage of its renewables.</li> <li>• We would need equipment capability assurance (for our equipment to accept gas alternatives), safety assurances, competitive supply cost, and transition support.</li> </ul>
<p><i>11. If Tasmania is to transition to a decarbonised gas network what should the transition pathway look like?</i></p>	<ul style="list-style-type: none"> <li>• Support a transition if higher costs can be passed on.</li> <li>• Government should provide support.</li> <li>• Allow industries time to adjust.</li> <li>• Tasmania could use the transition so it can leverage its ability to produce competitive electricity and supply excess electricity to produce H2.</li> <li>• Staged roll-out with conversions that can save costs.</li> <li>• When natural gas was introduced, consumers were encouraged to connect with the lure of free installation – industry or government could offer something similar.</li> <li>• The transition should consider Tasmania’s role in adopting the Australian Energy Market Operator’s (AEMO) Integrated System Plan (ISP) in managing the energy transformation.</li> <li>• SME businesses would benefit from government support in energy management.</li> <li>• Clean energy generators should be aligned to receive incentives for entering the market.</li> </ul>
<p><i>12. Would a switch to a renewable fuel need to be cost-equivalent or would you be willing to pay more for a carbon free fuel?</i></p>	<ul style="list-style-type: none"> <li>• Ability to switch varies with industry and types of operations. Some difficult, some not.</li> <li>• Some users were willing to pay more, but many are not.</li> <li>• Consumers may have no choice but to pay the higher prices or switch to electricity (if they can).</li> <li>• It would need to be equal cost, including equipment costs (or include government support).</li> <li>• Key issue is the ability to pass on costs or not.</li> </ul>

<p>13. <i>What risks do you see with decarbonising the Tasmanian gas network (technical, economic, social)?</i></p>	<ul style="list-style-type: none"> <li>• If it costs more to purchase and to upgrade, businesses won't convert. Anything that adds costs to businesses is being avoided.</li> <li>• There are technical risks/issues that require external support.</li> <li>• The biggest risk is the possible failure of decarbonisation.</li> </ul>
<p>14. <i>If you are a commercial gas user in Tasmania that would not be able to switch to renewable alternatives, what are the key barriers?</i></p>	<ul style="list-style-type: none"> <li>• Time consumed during the change-over, the cost of the new energy and its reliability of supply.</li> <li>• Extra costs and ability to switch.</li> <li>• Technical, related to production process and difficulty switching from natural gas.</li> <li>• Not enough information to say yet.</li> </ul>
<p>15. <i>What is the role for the Tasmanian Government in a decarbonisation transition for the gas sector? What should the Government's priority measures be?</i></p>	<ul style="list-style-type: none"> <li>• Ensuring that industries remain competitive, facilitate a transition, encourage energy use in Tasmania not merely energy export.</li> <li>• Provide partnership support to users to assist transition, conversion kits, compensation, no interest loans and related support.</li> <li>• Possible partnering with the industry to create carbonless energy.</li> <li>• Government should be setting the decarbonisation targets and emissions mitigation policies for the State's gas energy transition. A clear pathway and support will be needed for businesses to adopt.</li> <li>• Government should also collaborate with industry to scale up low emissions technology.</li> <li>• Low emissions and energy efficiency tax incentives, incentives for older commercial properties to complete HVAC and DHW conversions.</li> </ul>

Source: Information provided by Tasmanian commercial gas users.

## Suggested Actions for Progressing the Gas Strategy

We suggest that the following small business and broader commercial gas user issues should be progressed in developing the Tasmanian *Future Gas Strategy*:

1. The TSBC would urge that the draft Gas Strategy include actions on the Tasmanian gas market shortcomings raised in the Goanna Energy Tasmanian gas market study of 2016, which remain relevant today and irrespective of whether the market remains based on natural gas or switches to some form of decarbonized gas supply.
2. We urge the Government to develop its gas strategy within a holistic energy framework, so that interrelationships between gas and other forms of energy are captured.
3. Gas market strategies need to be developed from a Tasmanian perspective, but also have due regard to the market conditions prevailing and developments in the east coast gas market, which is connected to global gas markets.
4. Cohesive and comprehensive action is required to lift the performance of the Tasmanian gas market through the joint efforts of the State Government, gas industry and gas users (including small business).
5. Severe underutilisation of gas and gas infrastructure in Tasmania, leads inevitably to Tasmanian gas market survivability questions and eventually the risk of the market spiralling into failure. Transportation charges are at or near to the highest in Australia. Working with the industry and gas users, the Tasmanian Government should develop its gas strategy so these pipeline issues are addressed and used to facilitate growth in gas use.
6. Improving the price competitiveness of Tasmanian gas and increasing its take up, including through incentives, are key to developing the gas market, as is seeking growth opportunities.
7. The original justifications for light handed regulation of Tasmania's gas pipelines should be reconsidered and, with the existing non-scheme access regime having commenced in 2017, it would be timely for the *Future Gas Strategy* to consider whether reform is justified.
8. We are particularly keen to ensure that additional costs are not imposed on gas users, that risks to the business viability are avoided and that, where costs or viability based on Government policies represent material business risks, firms are assisted or compensated.
9. The *Future Gas Strategy* affords an opportunity for the Government to develop policies that place gas on a level energy playing field, whilst assisting gas market growth. High Tasmanian gas prices discourage gas use and switching away from more carbon intensive fuels (wood and coal), whilst remaining electricity price cross-subsidies discriminate against gas.
10. Breaking the vicious cycle that sees a lack of gas market competition limit market growth and *vice versa*, requires a change in approach from 'business-as-usual' to a suite of policies promoting both growth and competition. The Strategy provides an opportunity to do this.
11. The Tasmanian gas market is "susceptible" to security of supply risks and this needs to be considered in the *Future Gas Strategy*. Storage options and access to additional gas supply (or alternative forms of gas) should be explored in developing the Strategy.
12. The Strategy should ensure that the review of the moratorium on fracking is completed before the end of the current moratorium (March 2025), bearing in mind it would attract significant interest, needs to consider complex issues and involves widespread consultation.
13. Government should invite small business representation on the Strategy Working Group.
14. Given the 20-30 year horizon of the *Future Gas Strategy*, we would suggest that flexibility be built into the strategy to allow for the inevitable changes in circumstances that will arise.
15. We support that gas in Tasmania should be as well prepared as possible to meet present and future challenges. However, the Government should do this within broader Australian

responses, not seek to pick winners (especially technological ones), allow industry to be the main driver for technological change and innovation, focus on policies that address well understood market failures and gather as much information as possible.

16. Whilst the *Future Gas Strategy* should consider the threats and opportunities of decarbonising gas in Tasmania, this should be within the Government's jobs, growth, investment, and energy affordability and security priorities. It is particularly important that gas user interests are fully considered in the gas strategy. Moreover, Government needs to be mindful that any energy price increases gas could put pressure on commercial gas users.
17. The *Future Gas Strategy* needs to carefully consider the heterogeneous nature of commercial gas use, limitations on the ability of commercial users to adjust to major technological changes in gas and the potential for such changes to disrupt operations.
18. Given the critical role of gas-fired generation in Tasmania's gas market it is important that its future is clearly outlined in the *Future Gas Strategy* so that gas users have about this.
19. The TSBC recognizes that there are international pressures on Australia to decarbonise and that this is impacting the gas industry. Tasmania cannot remain immune from this, but needs to proceed in a measured and sensible way without damaging the Tasmanian economy. Policies that are consistent with national approaches are also desirable.
20. Decarbonization of gas, if found to be justified, could be used a catalyst to assist the development of the Tasmanian gas market and increase the use of gas in Tasmania.
21. We believe it is important that the *Future Gas Strategy* model all available options for gas in Tasmania and compare them to one another (and to business-as-usual and growth based around natural gas) so that the option with the greatest net benefit is revealed. We would encourage the Government to do this and present the results in its draft Strategy.
22. Based on known information about the various gas decarbonisation options raised in the Discussion Paper, the significant uncertainties about each and their current high costs, we would provide the following observations about decarbonisation options:
  - a. Tasmania should not rush into any one of them at this time, but await further developments and maintain a flexible approach to the various options.
  - b. However, Tasmania should position itself so that it can move towards decarbonization of gas when/if the circumstances support such a move.
  - c. If a move towards decarbonization can be justified, the Government should favour private sector investment (and risk taking), facilitated by a supportive policy environment that does not impede such investment.
  - d. The Government should not commit large amounts of public money towards 'picking winners' in gas decarbonisation.
  - e. Any Government support should be based on a cautious entry strategy towards decarbonization of gas within a well-managed transition, including for gas users.
  - f. Consideration should be given to providing gas users who are materially impacted by gas decarbonization in Tasmania with assistance or compensation for any Government induced change.
23. We are not in a position to offer any views at this point in time about which option for decarbonising gas in Tasmania would provide the best approach. There are too many uncertainties remaining. The high costs that could be imposed on commercial gas users by moving too early or in the wrong direction are a concern to the TSBC.

We look to the above matters being addressed in the draft Strategy with the Government producing a *Future Gas Strategy* that can work for the benefit of all Tasmanians, including small business.