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Hi Carl

Apologies for BlueScope's delay in coming back to OECC on the RFS consultation process.

BlueScope will not be in a position to offer any meaningful contribution to the Rule 1 consultation before today's deadline. Nevertheless, we are very keen to discuss the RFS more broadly with the relevant members of OECC as it has the potential to materially impact our decarbonisation activities.

Ahead of a more fulsome discussion on the RFS I wanted to briefly lay out our concerns.

- BlueScope anticipates natural gas being used as the transition pathway to low emissions steelmaking. To pivot away from blast furnace operations with coal as a reductant we are exploring direct reduced iron (DRI) technology that uses natural gas in the process until hydrogen is cost competitive. If we do so our gas consumption in NSW will increase from 2PJ pa to **~41PJ pa**.
- If we assume that the NSW gas market holds steady and we add our volume, BlueScope will represent 41PJ out of 170PJ or about 24% of total gas use. If as the consultation paper suggests gas demand reduces over time then BlueScope's proportion of total gas use increases and so too the cost burden. Applying the proposed penalty rates and BlueScope is exposed to a material additional cost that would sit entirely with it (as opposed to gas retailers distributing to their customer base).
- Transitioning to natural gas will reduce steelmaking emissions by more than 60% from current levels. This is around 3.7mtpa CO₂-e. Our ability to deliver a gas-based DRI process and achieve meaningful emissions reduction is materially impacted by RFS liability.
- We understand your department is not in favour of any exemptions. BlueScope's Port Kembla Steelworks is currently an exempt EITE under RET and ESS/PDRS schemes at 90%. If an exemption is not applied our cost competitiveness with international alternatives is at risk.
- Biomethane is not currently a listed renewable fuel yet it has the potential to displace natural gas more efficiently than hydrogen. We support Bioenergy Australia's efforts to have this recognised in addition to hydrogen to help stand up a nascent industry.
- We're concerned that liability rests entirely with gas users when hydrogen is likely to be commercially attractive in the transport industry first. The gas industry is disproportionately burdened with the cost relative to the benefit.
- BlueScope is participating in the Illawarra Decarbonisation Plan process that is being led by the Go2Clean consortium as appointed by OECC. That process is identifying gas as a bridge to hydrogen and there is a risk that the work arising from that process will stall once the impact of the RFS is fully understood.

I won't go into any further detail and will leave that for a more fulsome meeting.

It would be good to arrange a time to discuss in the coming weeks. Could you please indicate availability and likely attendees at a discussion and I will do the same.

Please feel free to reach out to me to discuss further. I look forward to hearing from you.

Regards
Matt



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