

2 December 2021

Ms Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
SYDNEY 2001
Lodged via submission page

Dear Ms Collyer

Re: Hydrogen blends and renewable gases reforms

Thank you for the opportunity to provide feedback on the review of the National Gas Rules to accommodate low level hydrogen and renewable gases blends with natural gas (EM00042).

ATCO considers changes to the National Gas Rules are an important enabler in transitioning gas networks to a decarbonised future and achieving the net zero target by 2050.

Our detailed responses to the consultation questions on the National Gas Rules are focused on the economic regulation of pipelines and the regulatory sandbox framework. In summary, ATCO considers:

- Rule changes are needed to provide regulatory flexibility for the framework to incorporate natural gas equivalents and scope to adapt in the future. Reducing barriers for investment and providing certainty in the regulatory treatment of natural gas equivalents and other gas products are important for immediate and near-term investment decisions in transitioning gas networks.
- Specific and limited ring-fencing exemptions will be needed for trials at this current stage of market development as the markets for hydrogen and renewable gases evolve and competitive markets are yet to develop. Service providers are leading the transition of gas networks and are likely to be utilising their own facilities to produce hydrogen for natural gas equivalents for certainty of supply in existing or planned trials.
- Sandbox arrangements need to include a mechanism to enable recovery of the cost of innovation by service providers to progress the use of natural gas equivalents, other gas products and constituent gases.
- Transitional provisions are required to provide a means of capturing past network expenditure to accept NG equivalents.

The National Energy Retail Rules and aspects of the National Gas Rules do not apply in Western Australia. As a result, ATCO would like to work in parallel with the WA Government to help progress the necessary reforms to the WA Gas Retail Market and consumer protection framework to ensure that they can accommodate hydrogen and renewable gas blends on the same timeline or as soon as practicable after these changes are adopted nationally. This will assist in providing investment certainty for participants in hydrogen projects in Western Australia.

ATCO has been investing in hydrogen since 2017 and is currently considering commercial investments in hydrogen blending and commercial scale hydrogen production in the Clean Energy Innovation Park in the mid-west of Western Australia. Meeting the timeframes for the next steps in the review process are critically important to ATCO and other stakeholders in making these important investment decisions.

I encourage and support this important work, and would greatly appreciate the AEMC maintaining the momentum of this review and transparency of any changes to the timing of next steps.

If you have any questions or would like to discuss any of the comments made in this submission, please contact myself or Simon Byrne, General Counsel on 0434 313 101.

Yours sincerely



J.D. Patrick Creaghan
Country Chair
ATCO Australia

Att. ATCO response to AEMC Consultation Paper

Review into extending the regulatory frameworks to hydrogen and renewable gases

STAKEHOLDER FEEDBACK TEMPLATE

The template below has been developed to enable stakeholders to provide their feedback on the questions posed in the consultation paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to assist it to consider the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the consultation paper.

SUBMITTER DETAILS

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DATE 2 December 2021

PROJECT DETAILS

NAME OF RULE CHANGE: **Review into extending the regulatory frameworks to hydrogen and renewable gases**

PROJECT CODE: EMO0042

PROPONENT: Energy Ministers

SUBMISSION DUE DATE: 2 December 2021

QUESTION 1 – CHAPTER 1 – INTRODUCTION

1. Do you agree with the Commission's preliminary position on the scope of this review?	
2. Are there additional areas in the NGR or NERR that should be excluded or included in the current review? If so, why?	<p>ATCO requests that (taking into account the timing of the steps in each of the processes) the final versions of the legislative and rule reforms to be implemented as part of the "Improving gas pipeline regulation" for the NGL and NGR are expressly addressed and the impacts consulted upon as part of this review.</p> <p>Transition provisions will be necessary to enable recognition and recovery of investment that has occurred prior to the introduction of these changes to be incorporated into the economic regulation framework. Transitional provisions could be modelled on the speculative investment provisions in the NGR subject to the regulator satisfying itself that the investment is prudent and efficient in the usual way.</p> <p>For clarity, any references to "green hydrogen" by ATCO in this document are references to hydrogen produced by a process of electrolysis using electricity from renewable sources only.</p>

QUESTION 2 – CHAPTER 2 – ASSESSMENT FRAMEWORK

3. Do you agree with the Commission's proposed assessment framework for this review?	
4. Are there any criteria the Commission should or should not consider as a part of its assessment framework??	

QUESTION 3 – CHAPTER 3 – SUPPLIER ACCESS TO PIPELINES

5. Do you think that any additional guidance is required in the NGR to deal with connections by suppliers of natural gas equivalents or constituent gases, or are the new draft interconnection rules sufficient? If you think additional guidance is required, please set out what guidance you think is required.	<p>ATCO supports the existing interconnection principle reference to "technically feasible and consistent with the safe and reliable operation of the pipeline". This principle provides sufficient scope for ATCO to maintain a safe network and flexibility for service providers and proponents to negotiate connections. No additional guidance is required.</p>
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<p>6. Do you think service providers should be required to publish information on where connections by suppliers of natural gas equivalents or constituent gases would be technically feasible, or should this just be left to negotiations?</p>	<p>ATCO agrees that publication of information on where connections by suppliers of natural gas equivalents (NG equivalents) or constituent gases would be technically feasible and would assist in providing guidance to service providers considering applications for pipeline access. However, as this information will be subject to change and iterative development given the nature of the implementation of emergent technology and the variable nature of natural gas equivalents or constituent gases, it could only be indicative and could not replace negotiations. The accuracy of information published would also be affected by seasonality, time of day and comingling characteristics of different gases, including variances in the specification and characteristics of these different types of gases.</p>
<p>7. Do you think that any specific rules are required in the NGR to deal with the risk that service providers may favour their own natural gas equivalents or constituent gas facilities by curtailing other facilities ahead of their own, or do you think this should be dealt with through ring-fencing arrangements?</p>	<p>No specific rules are required at this point as it is too early to determine if specific rules are required to address curtailment of natural gas equivalents or constituent gas facilities. The starting principle should be that the current ring-fencing provisions (including associate contract provisions) should remain, and that any exemptions should be limited and specific to trials only, and reviewed as the market develops. Specific ring-fencing mechanisms (ie other than exemptions) will need to be trialled while the market is emerging, as service providers will be utilising their own facilities and making investments to produce, blend and supply hydrogen for NG equivalents or constituent gases.</p>

QUESTION 4 – CHAPTER 3 – RING-FENCING ARRANGEMENTS

<p>8. Do you think the ring-fencing exemptions in the NGR should be amended to accommodate trials by service providers? Why?</p>	<p>ATCO supports the approach to implement limited specific amended ring-fencing exemptions for natural gas equivalents or constituent gases trials to provide certainty - for example, this would be required to help facilitate and manage the availability of green hydrogen needed to support existing and planned trials. The starting principle should be that the current ring-fencing provisions (including associate contract provisions) should remain, and that any exemptions should be limited and specific to trials only, and reviewed as the market develops. Access to the quantities of green hydrogen needed for trials is not certain because industry development of green hydrogen is not yet commercially available at this time.</p> <p>Limited and specific exemptions from ring-fencing in the NGR is appropriate for trials, given the smaller quantities of gases utilised for trial projects - production and blending / injection facilities will most likely be owned and operated by network service providers for the foreseeable future, given the very limited availability of green hydrogen. Trials such as ATCO Gas Australia’s planned blending of hydrogen into a section of the WA gas distribution network will utilise hydrogen produced and supplied from its Clean Energy Innovation Hub, which produces hydrogen by electrolysis and is located at an operational depot as part of ATCO Gas Australia’s gas distribution business. This trial has potential ring-fencing considerations under the current NGR and NG, given the prohibitions against carrying on a related business (in this case “production” of gas - see S.137 and 139 NGL). Limited and specific ring-fencing exemptions that accommodate the planned trial would allow service providers to continue to innovate and benefit from a streamlined process without having to seek exemptions for each trial instance.</p>
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<p>9. If so, do you think there should be any limit on the volume service providers should be able to produce, purchase or sell (e.g. up to the unaccounted for gas level)?</p>	<p>ATCO supports moves to limit the volume of gas within a trial that can be produced, purchased or sold by the network service provider. This limitation should be commensurate with the volumes required for the trial. In practice this is likely to be restricted by physical parameters such as electrolyser capacity, blending / injection facilities or the available supply of renewable gas. Similar to the electricity sector, trial limits could be considered on a case by case basis and a streamlined approval process adopted for low risk trials.</p> <p>ATCO understands the attraction in using the unaccounted for gas (UAFG) level as an appropriate benchmark to gauge volume limits outside of a trial, however we note that the UAFG levels vary between service providers depending on pipeline length, fugitive emissions, metering and time of year. Flexibility in the Rules may be needed to accommodate the benchmarking and management of varying volume limitations. ATCO suggests that a simpler alternative for consideration would be to set a notional limit, for example no more than 5% of annual delivered volumes.</p>
<p>10. Do you think any other changes need to be made to the ring-fencing provisions in the NGL or NGR to accommodate natural gas equivalents or constituent gases?</p>	<p>ATCO supports the provision for automatic exemptions from ring-fencing that apply to trials in specific cases where funding has been approved by the Australian Energy Regulator; appropriate jurisdictional regulatory body; or by the Federal or State Governments. This approach is consistent with the starting principle that the current ring-fencing provisions (including associate contract provisions) should remain, and that any exemptions should be limited and specific to trials only.</p>

QUESTION 5 – CHAPTER 3 – RULES FOR SCHEME PIPELINES

<p>11. Do you think Part 9 of the NGR should be amended to provide the regulator with additional guidance on how to assess service provider proposals to transition to natural gas equivalents in those cases where a jurisdiction does not mandate the transition? If so, please explain what changes you think need to be made and why.</p>	<p>ATCO supports the need to provide the regulator with additional guidance on assessing proposals to transition to natural gas equivalents by considering the environmental impact of transported gases and the need to decarbonise existing gas networks to achieve efficient asset utilisation, including for longevity of pipeline assets.</p>
<p>12. Do you think Part 9 of the NGR should be amended to clarify how government grants or funding are to be treated for regulatory purposes?</p>	<p>ATCO supports moves to clarify any ambiguity in rule 82 of the NGR on how this approach should be applied to the treatment of government grants for the purposes of determining conforming capital expenditure. The clarification should also consider the taxation treatment and liability that arises from government grants and its effect on the resulting capital base.</p>
<p>13. Do you think any of the other rules that will apply to scheme pipelines under the new regulatory framework need to be amended to accommodate pipelines hauling natural gas equivalents or constituent gases?</p>	

QUESTION 6 – CHAPTER 3 – RULES FOR NON-SCHEME PIPELINES

<p>14. Do you think the arbitration principles applying to non-scheme pipelines should be amended to:</p> <ul style="list-style-type: none"> a) require the arbitrator to take into account any regulatory obligation that a pipeline may be subject to? b) provide the arbitrator with greater guidance on how to assess proposals by a service provider to transition to transporting a natural gas equivalent where the transition is not mandated? c) clarify how government grants are to be treated? 	<p>ATCO supports the amendment of arbitration principles for non-scheme pipelines to consider regulatory obligations (e.g. climate and environmental targets) and the provision of guidance on transitioning to natural gas equivalents. Arbitration principles on the treatment of government grants should be consistent with the approach under rule 82 of the NGR and recognise the taxation impact and financial contribution by the service provider.</p>
<p>15. Do you think any of the other rules that will apply to non-scheme pipelines under the new regulatory framework need to be amended to accommodate pipelines hauling natural gas equivalents or constituent gases?</p>	

QUESTION 7 – CHAPTER 3 – PIPELINE GAS INFORMATION

<p>16. Do you think service providers should be required to publish information on:</p> <ul style="list-style-type: none"> a) the type of gas they are licensed to transport in their user access guides and, in the case of scheme pipelines, the access arrangement and access arrangement information? Why? b) any firm plans to conduct either a trial or to transition the pipeline (or part of the pipeline) to a natural gas equivalent or other gas product? Why? 	<p>The intent is that natural gas equivalents would have little impact on customers, however information on characteristics of gas may be of value to other parties, e.g. shippers and large industrial users.</p> <ul style="list-style-type: none"> a) ATCO considers it reasonable to expect information on the type of gas a pipeline is licensed to transport will be made available. ATCO supports making this information available through either the user access guide or the applicable access arrangement (as part of the pipeline description requirements). Publication of this information and the ability to update information on the type of gas transported as licenced gases will need amendment over time – the iterative development of emergent technologies and products such as natural gas equivalents or other gas products needs to be considered in setting any regulatory requirement that is to apply. b) ATCO considers that plans for a trial will be well communicated with impacted stakeholders as a necessity for planning and undertaking a successful trial and any wider application following the trial outcome. Given the low number of customers impacted in trials, having an additional requirement to publish information appears onerous. <p>ATCO supports the provision of information on any transition to a natural gas equivalent through either the user access guide or the applicable access arrangement (as part of the pipeline description requirements) to ensure customers have the opportunity to plan for and adjust to the proposed change.</p>
<p>17. Do you think this information should also be reported on the AEMC's Pipeline Register?</p>	<p>ATCO does not support this proposal as the AEMC Pipeline Register provides high-level information on each pipeline. For regulated pipelines there is already a link to the access arrangement, which includes this information. Any</p>

	reporting requirements need to reflect delivering value to users, industry participants and the community and duplication of reporting should be minimised.
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QUESTION 8 – CHAPTER 4 – EXTENSION OF THE TRANSPARENCY MECHANISMS TO NATURAL GAS EQUIVALENTS

<p>18. Except for blending facilities are there any other facilities or activities involved in the supply or use of natural gas equivalents that are not already captured by:</p> <ul style="list-style-type: none"> c) the BB facilities listed in rule 141 of Part 18 of the NGR? d) the DWGM registration categories in rule 135A of Part 15A of the NGR? 	
<p>19. If the information to be reported by facilities involved in the production, transportation, storage, compression and or use of natural gas equivalents is to be based on the information reported by their natural gas counterparts, are any amendments required to reflect differences in the physical characteristics of these facilities compared to natural gas facilities for:</p> <ul style="list-style-type: none"> a) the Bulletin Board reporting obligations in Part 18 of the NGR? b) the GSOO content in rule 135KB of Part 15D of the NGR? c) rules 323-324 in Part 19 of the NGR? d) the compression and storage reporting obligations in Part 18A of the NGR? e) the price information to be published by the AER in proposed rule 140B in Part 17 of the NGR? 	
<p>20. Should blending facilities be treated as production facilities for the purposes of the Bulletin Board, GSOO and VGPR, or should specific reporting obligations be developed for these facilities? Why? If you think specific reporting obligations are required, what should these be?</p>	
<p>21. Are there any other gaps in the NGR that have not been identified that would need to be addressed if the five transparency mechanisms were to be extended to natural gas equivalents? Why? If you think there are other issues, what are they and what amendments are needed?</p>	

QUESTION 9 - CHAPTER 4 – EXTENSION OF THE TRANSPARENCY MECHANISMS TO CONSTITUENT GASES

<p>22. Do you think the following transparency mechanisms should be extended to the facilities and activities involved in the supply of constituent gases as part of the initial rules package or should the application of one or more be deferred until a later process? Why?</p> <p>A) The Bulletin Board B) The GSOO C) The VGPR D) The compression and storage terms and prices E) The AER’s gas reporting functions.</p>	
<p>23. If you think the transparency mechanisms should be extended as part of the initial rules package:</p> <p>a) What facilities do you think need to be captured? b) Do you think the facilities and activities involved in the supply of constituent gases should be subject to equivalent reporting obligations as their natural gas counterparts, or are some modifications required to reflect differences in the physical characteristics of these facilities?</p>	
<p>24. Are there any other gaps in the NGR that have not been identified that would need to be addressed if the transparency mechanisms were to be extended to constituent gases? Why? If you think there are other issues, what are they and what amendments are needed?</p>	

QUESTION 10 - CHAPTER 5 – TRADING NATURAL GAS EQUIVALENTS IN THE FACILITATED GAS MARKETS

<p>25. Do you think natural gas equivalents should be traded through the facilitated markets, or outside of the facilitated markets?</p>	
<p>26. What do you consider are the implications of these two options, in terms of required regulatory changes, costs of implementation and potential market inefficiencies?</p>	

QUESTION 11- CHAPTER 5 – FACILITATED MARKETS REGISTRATION CATEGORIES

<p>27. If natural gas equivalents are to be integrated into the facilitated markets, are new registration categories required to accommodate facilities and participants involved in the creation of these products, including through the injection of blends into the distribution system?</p>	
<p>28. If flows associated with distribution-connected blending facilities are not scheduled in facilitated markets, are new registration categories required for blending facilities and associated participants or can they be exempted from registration?</p>	

QUESTION 12- CHAPTER 5 – UNACCOUNTED FOR GAS IN THE FACILITATED MARKETS

<p>29. Do you think initial trials involving the injection of natural gas equivalents into the distribution system should be accommodated by amending jurisdictional arrangements for UAFG?</p>	
<p>30. If so, how will this impact the operation of the matched allocation mechanism (as used by the distributor in the Sydney STTM hub)?</p>	
<p>31. What changes would be required to UAFG arrangements in the DWGM?</p>	

QUESTION 13 - CHAPTER 5 – SETTLEMENT ISSUES IN THE FACILITATED MARKETS

<p>32. If distribution connected blending facilities are not integrated into the facilitated markets, what settlement issues may arise?</p>	
<p>33. If distribution injections and corresponding end use consumption need to be excluded from settlement, how should excluded consumption be treated? What factors might affect this?</p>	

34. If distribution connected blending facilities are integrated into the facilitated markets, are settlement issues in the STTM likely to be relatively straightforward to resolve? Why?	
35. How should facilities exempted from registration, or that fall below a materiality threshold, be treated under settlement arrangements in the facilitated markets?	

QUESTION 14 - CHAPTER 5 – METERING AND HEATING VALUES IN THE FACILITATED MARKETS

36. Does the NGR restrict distributors' ability to calculate heating values in different parts of the distribution system to accommodate the different uses of natural gas equivalent gases in the facilitated markets?	
37. Are amendments required to the NGR to facilitate the determination of more granular heating values and any other matters relating to the metering provisions for the DWGM?	

QUESTION 15 - CHAPTER 5 – GAS SPECIFICATION IN THE FACILITATED MARKETS

38. In relation to the STTM, do you think Part 20 of the rules should be amended to clarify that AS 4564 – 2005 can be augmented or replaced to accommodate blending in certain parts of STTM distribution systems? Are any other changes required, including to accommodate impacts on connected transmission pipelines?	
39. In relation to the DWGM, do you think Part 19 of the rules should be amended to give AEMO (or another party) the ability to directly determine the gas specification on distribution systems?	

QUESTION 16 - CHAPTER 5 – BLENDING CONSTRAINTS IN THE FACILITATED MARKETS

40. Who should be responsible for the creation of natural gas equivalent blends and ensuring that these remain consistent with a revised gas specification?	
41. In the DWGM, should AEMO be given operational control over the distribution system to manage blending constraints? If so, what changes to the rules would be required?	

QUESTION 17 - CHAPTER 5 – OTHER IDENTIFIED ISSUES IN THE FACILITATED GAS MARKETS

42. Do the identified issues in the NGR and changes required cover all necessary changes to facilitate the trade of natural gas equivalents in the DWGM and STTM?	
43. Are there any other issues the Commission should be aware of?	
44. Are all of these changes required now for natural gas equivalents? Could some of these changes be made at a later date, or when other gas products are taken into consideration?	
45. Are there any transitional issues?	

QUESTION 18 – CHAPTER 6 – INITIAL IDENTIFIED ISSUES IN THE REGULATED RETAIL MARKETS

46. Are changes to the retail market registration provisions required to accommodate natural gas equivalents?	For Western Australia, ATCO proposes to engage directly with the Western Australian Government on these issues.
47. Are there any other changes required to the retail market provisions in the NGR to accommodate natural gas equivalents?	

QUESTION 19 – CHAPTER 6 – OTHER POTENTIAL ISSUES IN THE REGULATED RETAIL MARKETS

48. Are there any issues the AEMC should consider in relation to the recovery of the cost of the renewable component of the natural gas equivalent from retail customers, for a natural gas equivalent?	For Western Australia, ATCO proposes to engage directly with the Western Australian Government on these issues.
49. Are there any issues the AEMC should consider in relation to retail competition and consumer choice as a consequence of the introduction of natural gas equivalents?	
50. How are these issues impacted by jurisdictional policies in relation to mandated renewable gas targets or mandated green value in a gas stream? Are any changes to the NGR and NERR needed, either now or in the near future, to address any concerns about competition, consumer choice and cost pass through of renewables in the retail market.	

QUESTION 20 - CHAPTER 7 – CONSUMER PROTECTION FRAMEWORK

<p>51. Do you consider that changes are required to the consumer protection framework to reflect the physical properties of natural gas equivalents compared to natural gas? Specifically:</p> <ul style="list-style-type: none"> a) Should retailers be required to notify existing customers prior to the transition from the supply of natural gas to a natural gas equivalent that the customer is now being supplied with the natural gas equivalent and the changes the customer may see in relation to the quantity of gas metered at their premises following the transition? b) Should the model terms and conditions for standard retail contracts and the minimum requirements for market retail contracts be amended to make clear if the supply of gas under that contract is a supply of natural gas or a natural gas equivalent? c) Should retailers who receive requests for historical billing data from a customer be required to state in the billing information provided if there was a transition from natural gas to a natural gas equivalent during the billing history period for which information is requested, and the date at which the transition occurred? d) If the natural gas equivalent to be supplied has a different heating value from natural gas, should there be a requirement for retailers to issue a bill based on an actual meter read for customers with accumulation (non-interval) meters before supply is transitioned to a natural gas equivalent? 	<p>For Western Australia, ATCO proposes to engage directly with the Western Australian Government on these issues.</p>
<p>52. Are there any other gaps in the consumer protection framework that arise because of the difference in the physical properties of natural gas and natural gas equivalents?</p>	
<p>53. Do you consider that customers should be informed if price variations occur because of the transition to natural gas equivalents?</p>	
<p>54. How should the risks of 'off spec' natural gas equivalents be allocated under the NERL and NERR? Is the existing allocation of risk for the quality of natural gas appropriate if distributors have responsibility for creating the natural gas equivalent (for example, through the operation of blending facilities)? What is the appropriate mechanism for managing loss suffered by customers as a result of 'off spec' natural gas equivalents?</p>	

QUESTION 21 - CHAPTER 8 – REGULATORY SANDBOX ARRANGEMENTS

<p>55. Is it practicable for a retail customer to opt out of a change of product trial? If not:</p> <ul style="list-style-type: none"> a) should the definition of explicit informed consent be required to provide information that the customer is unable to opt out of the trial for the period of the trial? b) should the AER have power to extend a change of fuel trial if retail customers cannot practicably opt out of the trial? 	<p>ATCO agrees with AEMC observation outlined in the consultation paper that customers will be unable to practically opt out of a change of product trial. ATCO raised this issue previously with the AEMC in consultation over the Regulatory Sandbox Legislative Amendments in October 2020. Blended gas trials of NG equivalents or other gas products will impact all customers in a region or connected network (or subnetwork).</p> <ul style="list-style-type: none"> (a) Customers should be made aware of the inability to opt out of a trial when seeking explicit informed consent. (b) The inability to opt out of trials should not impact on the AER power to extend trials, as customers participating in the trial would be aware of this condition from well before the trial commencement
<p>56. Are any changes to the consultation requirements regarding proposed trial waivers for change of product trials needed? For example, on the AER public consultation requirements for change of product trials.</p>	
<p>57. Should amendments be made to specify certain pre-conditions to the granting of a trial waiver for a change of product trial involving the sale and supply of an 'other gas product'? If so:</p> <ul style="list-style-type: none"> a) should the applicant be required to provide this approval as part of its application for a trial waiver? b) should the rule change proponent for a trial rule be required to provide this approval as part of its request for the rule? 	<p>Any amendments to a trial wavier should be based on continuing provision of certainty to applicants in making investment decisions related to trials. Pre-conditions to granting a trial wavier must be cognisant of requirements from relevant local legislation (including applicable Safety Cases) and jurisdictional technical regulators in overseeing the safety, security and reliability of a gas network.</p> <ul style="list-style-type: none"> (a) No, applicants should not need to provide this approval as part of an application for a trial wavier as local legislation (including applicable Safety Cases) and jurisdictional technical regulators will already ensure that the safety, security and reliability of the network is paramount with the introduction of any other gas product. (b) Any requirement to provide approvals from a jurisdictional technical regulator as part of a request for a trial rule should minimise any unnecessary regulatory hurdles.
<p>58. Are there any other gaps that would arise in the proposed regulatory sandbox framework if it is extended to natural gas equivalents, other gas products and constituent gases?</p>	<p>Without a mechanism under the Rules to enable cost recovery, there will be no incentive to practically apply the regulatory sandbox framework and therefore consumers will not obtain any benefit.</p> <p>It is essential to remain competitive in a transition to a decarbonised future that a mechanism for recovery of costs of innovation is included. This is particularly necessary for gas networks where there is currently no mechanism to enable the recovery of expenditure on innovation by gas network service providers who are progressing technology to incorporate natural gas equivalents, other gas products and constituent gases. Introducing a mechanism will put gas networks on a level playing field with electricity networks that have access to innovation incentive mechanisms under the NER that provide for cost recovery.</p> <p>Currently, gas networks must rely on funding from other government sources to progress innovation in these areas.</p>

An avenue for cost recovery either at the time of the trial or at the next regulatory reset is needed to encourage innovation investment. Without such a mechanism, consumers will face higher costs and not benefit from decarbonisation of gas networks.