

2 December 2021

The Australian Energy Market Commission

Online submission: <https://www.aemc.gov.au/contact-us/lodge-submission>

To whom it may concern,

Extending the national gas regulatory framework to hydrogen blends and renewable gases - Changes to the NGR and NERL

Australian Gas Infrastructure Group (AGIG) welcomes the opportunity to provide feedback on the potential amendments to the national gas regulatory framework to extend the framework to hydrogen blends and renewable gas – changes to the National Gas Rules (NGR) and National Gas Retail Law (NGRL) (the Australian Energy Market Commission (AEMC) review).

As mentioned in our submission to the Officials' Consultation Paper on potential changes to the National Gas Law (NGL) and National Gas Retail Law (NGRL), this reform package is an important step forward in developing the foundations for a renewable gas industry in Australia. We are strongly supportive of the reform as it will enable investment in innovative projects that will not only reduce emissions for users of natural gas including in our gas networks, but also assist in increasing scale and driving down the costs of hydrogen and other renewable gas projects.

This letter provides an overview of the key points in our submission with detailed responses to the questions found in Attachment A, followed by an overview of AGIG.

We support applying a flexible and fit for purpose regulatory framework to NG equivalents and its constituent gases

As submitted in the Officials' Paper, we support the proposed approach of expediting amendments to bring low level blends of hydrogen and renewable gas (natural gas equivalents) suitable for consumption within the national gas regulatory framework. These amendments will ensure that regulatory barriers do not restrict proposed and planned investments in renewable gas projects over the next few years. The approach will enable hydrogen and other renewable gases to access existing markets on at least equivalent terms to natural gas, and provide for emissions reductions for natural gas users.

However, the application of the national regulatory framework should be fit for purpose and recognise that some elements of the existing framework may not be fully appropriate for hydrogen and other renewable gases. This is because we are in very early stages of the industry's development. Hydrogen and other renewable gases need time for appropriate business models to emerge and therefore flexibility within the regulatory framework is imperative to enable the required innovation to occur, while maintaining appropriate protections for consumers.

Ring fencing arrangements

In particular, we consider that the existing ring fencing arrangements should not act as a barrier and allow for service providers to engage in the production, purchase and sale of NG equivalents and its constituent gases. Gas distributors do not possess market power in the production of renewable gases – in fact at current prices it is unlikely any producer of renewable gases holds market power. Imposing ring fencing requirements at the outset of market development may unnecessarily stifle or restrict proposed investments in renewable gas projects (particularly for trials and demonstration

projects) from gas distributors who are likely to be the first movers in the market development for hydrogen and renewable gas.

We propose the following new exemption mechanisms to allow service providers to undertake activities related to the production, purchase and sale of NG equivalents and its related constituent gases and OG products:

- at a minimum, trial and demonstration projects that produce hydrogen and other renewable gases under a certain volume limit should be automatically granted an exemption; and
- a new broad exemption power allowing the regulator to grant exemptions that could cover both trial and early commercial projects based on set criteria, with appropriate safeguards in place.

While we recognise that service providers hold market power over the connections and potential curtailment processes, we consider that the risk of potential discriminatory behaviour arising could be minimised through oversight under the regulatory framework (the proposed interconnection principles). For a new industry, this is a more balanced approach to addressing concerns that pipeline service providers might inhibit access, as opposed to ring fencing arrangements which are likely to stifle innovation.

Extension of the transparency mechanisms to constituent gases

We consider that the application of the identified transparency mechanisms to facilities and activities involved in the supply of constituent gas should be deferred until a later process, given the cost of the regulatory burden in meeting the reporting requirements is likely to outweigh the public benefit of transparency, particularly when the volume of natural gas equivalents is expected to be relatively small in the initial stages of the market's development.

Flexibility in defining market responsibilities is required

We note that the market for hydrogen and renewable gas is likely to go through significant change as it develops overtime and we welcome the proposal to introduce new functions and responsibilities (such as operation of blending units and managing blending limits) arising as a result of extending the national gas framework to cover hydrogen and renewable gas.

We support the development of consistent processes and clearly defined roles overtime for these new functions. However, the Laws and Rules should be flexible in allocating responsibility between market bodies (such as the Australian Energy Market Operator (AEMO)) and market participants to recognise that market changes are likely to occur. For example, we would support AEMO being given the power at the NGL level to manage blending limits, and defining and allocating responsibilities could take place at the procedure level.

This would provide the flexibility to make changes to responsibilities efficiently without going through legislative changes. We recognise that it may be appropriate in the early stages of market development for gas distributors to take on a number of the functions and responsibilities in the interim, and we would welcome further collaboration with AEMO and other participants.

About AGIG

AGIG is the largest gas distribution business in Australia, serving more than two million customers through our networks in Victoria, Queensland, South Australia, and several regional networks in New South Wales and the Northern Territory. Our transmission pipelines and storage facility serve a range of industrial, mining and power generation customers.

At AGIG, we are committed to sustainable gas delivery today, and tomorrow. Our Low Carbon Strategy targets 10% renewable gas in networks by no later than 2030, delivering 100% renewable gas developments from 2025, with full decarbonisation of our networks by 2040 as a stretch target and by no later than 2050.

We are now delivering on our strategy by deploying low carbon gas projects. Our most advanced projects include:

- Hydrogen Park South Australia (HyP SA) – A 1.25MW electrolyser to demonstrate the production of renewable hydrogen for blending with natural gas (up to 5%) and supply to more than 700 existing homes in metropolitan Adelaide. Hyp SA is now operational.
- Hydrogen Park Gladstone – A 175kW electrolyser to demonstrate the production renewable hydrogen for blending with natural gas (up to 10%) and supply to the entire network of Gladstone, including industry. First production is expected in 2022.
- The Australian Hydrogen Centre (AHC) – A virtual centre delivering feasibility studies for 10% and 100% blending of renewable hydrogen into towns and cities in South Australia and Victoria.

Once again, I would like to thank you for the opportunity to feedback on the AEMC review. Should you have any queries about the information provided in this submission please contact Drew Pearman, Head of Policy and Government Relations (drew.pearman@agig.com.au or 0417 544 731).

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'KRaman', is positioned below the text 'Yours sincerely,'.

Kristin Raman
Acting Executive General Manager People and Strategy

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

ORGANISATION: Australian Gas Infrastructure Group

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PHONE: 0417 544 731

DATE 02 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?	We agree with the AEMC's preliminary position on the scope of this review. This review will enable hydrogen and other renewable gases to access existing markets on at least equivalent terms to natural gas, and provide for emissions reductions for natural gas users.
2. Are there additional areas in the NGR or NERR that should be excluded or included in the current review? If so, why?	We have not identified other areas that should be excluded or included in the current review.

QUESTION 2 – CHAPTER 2 – ASSESSMENT FRAMEWORK

3. Do you agree with the Commission's proposed assessment framework for this review?	We agree with the AEMC'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??	No comment.

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>The draft interconnection rules of the NGR appear to be sufficient to deal with connections by suppliers of NG equivalents. The draft interconnection rules provide sufficient flexibility for service providers to design a fit for purpose connections process while ensuring that NG equivalent suppliers maintain their right to connect a facility to a pipeline.</p> <p>However, we recognise the need to provide consistent and transparent processes for connecting parties across the different markets where they operate and aim to work with industry to develop these guidelines in the near future.</p> <p>We note that as part of the DWGM rule change the AEMC are consulting on whether the existing declared transmission system connection processes should be adopted for the declared distribution system connections in Victoria. We would prefer to have the draft interconnection principles apply in DWGM for distribution connected facilities where appropriate to ensure consistent application across the different jurisdictions.</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?	As the market development for NG equivalents is still in the early stages, questions of where it is technically feasible to connect should be left to bilateral discussions between the service provider and proponents. We acknowledge there may be a need for this level of transparency as the market develops overtime, but in the near term the approach is likely to be adjusted in response to each new connection request as service providers and producers learn and adapt. Requiring published information at this early stage may restrict the options available and lead to inefficient solutions.

<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>In dealing with the risk, the NGR could include a specific prohibition against a service provider acting in such manner rather than an outright prohibition through the ring fencing provisions. However this could already be managed through existing commercial arrangements. For example, AGIG’s terms and conditions applicable to Reference Services sets out its right to interrupt or curtail deliveries of gas through the network and the order of priority AGIG will endeavour to interrupt or curtail deliveries. It explicitly notes that AGIG may interrupt or curtail deliveries in such order as we determine having regard to the relevant circumstances and will not explicitly be based on the identity of the user.¹</p> <p>A similar approach could be adopted to the curtailment of natural gas equivalents facilities.</p>
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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>Given AGIG’s pipelines are a significant part of the pipeline system, it seems unlikely that AGIG would meet the existing criteria for exemption from section 139 of the NGR. Therefore, we consider that the ring fencing arrangements should include exemptions to recognise the benefits of allowing service providers to produce, sell and purchase renewable gases (NG equivalents, including constituent gases and OG products) in promoting the development of a competitive market for renewable gas. As the cost of renewable gas is not currently commercially competitive, gas distributors are likely to be the first entrants in deploying renewable gas projects to demonstrate the net zero benefits of renewable gases in decarbonising gas networks.</p> <p>Ring fencing arrangements on these trial projects may unnecessarily stifle or restrict proposed investments in renewable gas projects as gas distributors do not possess market power in the production of renewable gases – in fact at current prices, it is unlikely any producer of renewable gases holds market power. The cost of imposing ring fencing requirements on demonstration projects (lower innovation and barriers to investment in reducing emissions) would likely outweigh the benefits. Given that the market for renewable gas has not yet formed, producers of renewable gases have no market power, and networks in facilitating the uptake of renewable gases through their own projects would only serve to increase competition for energy, not reduce it.</p> <p>We support, at a minimum, a new automatic exemption mechanism covering trial and demonstration projects be introduced. Further we also propose a broad exemption provision allowing the AER to exempt both trial and commercial projects where the costs of ring-fencing outweigh the benefits with appropriate safeguards in place.</p>
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¹ See clause 17: <https://www.aer.gov.au/system/files/AGN%20-%20Access%20Arrangement%20-%20Annexure%20G%20-%20General%20Terms%20and%20Conditions%20-%202013%20January%202021.pdf>

	<p>While we recognise the potential risks that ring fencing is trying to prevent, the following proposed arrangements provide a reasonable safeguard to mitigate the potential risks, rather than applying a blanket prohibition:</p> <ul style="list-style-type: none"> • risk of favouring affiliates in connecting production facilities to the gas network – connections process and information sharing should be subject to oversight under the regulatory framework (through the draft interconnection principles); and • risk of curtailing other facilities ahead of own affiliates – existing contractual arrangements are sufficient or introduce a specific prohibition in the NGR from the service provider acting in such manner. <p>We suggest that the NGR could be amended (or include in a ring fencing guideline developed by the regulator, like what currently occurs in electricity) to include the following detail for exemption:</p> <ul style="list-style-type: none"> • which type of hydrogen and renewable gas production facilities may apply for exemption (which might be all facilities or only those below a certain size); • the criteria the regulator may apply (there may be a different criteria for trial projects than for commercial scale projects); • the provisions from which the service provider may be exempted; and • the conditions (if any) to which exemptions may be subject to.
<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>If all trial and demonstration projects were automatically exempted from ring fencing, imposing a limit on the volume service providers should be able to produce, purchase or sell would be reasonable. For example, up to 10 per cent hydrogen and renewable gas blend by volume would be appropriate, as this target is expected to be reached by 2030 when the cost of hydrogen production for blending is expected to reach cost competitiveness.²</p> <p>Alternatively, if the NGR also included a broad exemption to cover all renewable gas projects (for example trials and early stage projects), the regulator should be given the discretion to assess limits on a project by project basis.</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>If the NGL and NGR are amended such that references to natural gas are extended to NG equivalents or constituent gases, then the effect of the ring fencing provisions would be to prevent a service provider producing and selling NG equivalents and constituent gases outside of its own network. For example, a service provider would not be able to establish a hydrogen production facility next to a factory and supply hydrogen direct to that factory (i.e. with the hydrogen never entering a network). Similarly a service provider in say, South Australia, could not establish a hydrogen facility in Tasmania for the purposes of injecting hydrogen into the Tasmanian network even though that service provider might own no pipeline assets (or indeed any other assets) in Tasmania. This is because 'related business' in the NGL is simply defined as "the business of producing, purchasing or selling natural gas or processable gas". There is no requirement the gas be connected with a network owned by or associated with the service provider in some way. We suggest the prohibition be amended to allow service providers or their associates to own and operate hydrogen and other renewable gas facilities in markets where they are not the incumbent service provider and would not have an unfair competitive advantage.</p>

² See Clean Energy Finance Corporation, *Australian Hydrogen Market Study*. See: <https://www.cefc.com.au/media/nkmljvkc/australian-hydrogen-market-study.pdf>

	<p>We also query whether the prohibition should apply to circumstances where a service provider is selling hydrogen into a hub where it does not control the price – for example if a service provider were selling hydrogen into the declared wholesale market or the STTM and the market determines the price. Unless it can be demonstrated the covered service provider has some unfair advantage by reference to information it holds or otherwise, from a policy perspective there does not seem to be a reason a service provider should not be able to engage in such activities. Restricting them from doing so restricts, rather than promotes competition. The situation for hydrogen is notably different to natural gas. In the latter case reserves and production are concentrated in particular areas with often a single pipeline delivering that energy to a demand centre. But renewable gases and renewable hydrogen production in particular is likely to be dispersed limiting the pipeline’s market power and creating opportunities for competition across different business models – e.g. having an electrolyser near to the source of demand connected to the electricity transmission network, versus placing the electrolyser far from the source of demand but near to stronger renewable energy resources and thus requiring a pipeline to transport the hydrogen longer distances. Ring-fencing seems unnecessary in this environment as they are multiple opportunities for competition to emerge provided pipelines are open to new interconnections.</p>
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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>As part of the Victorian Access Arrangement Reviews for the next period (2023 to 2028), we are planning to propose renewable gas related expenditure in preparing our Victorian networks (not renewable gas production) for NG equivalents. Our expenditure proposals will be tested with our customers and stakeholders to ensure it reflects their preferences and are capable of being accepted.</p> <p>If the NGL is amended to incorporate national gas equivalents, this will provide the necessary confirmation that the economic regulator would be able to exercise its functions and powers with respect to NG equivalents and related constituent gases just as they currently do with respect to natural gas.</p> <p>While it appears the existing expenditure criteria may be fit for purpose following the definitional changes outlined in the officials’ paper, amendments to Part 9 of the NGR would be welcomed to reduce uncertainty. We suggest the criteria explicitly clarify how the regulator will assess proposals that include a transition to NG equivalents with no jurisdictional mandate. This would provide the necessary certainty and clarity for service providers rather than leaving the interpretation of the criteria to a regulator’s discretion. Amendments could be made to the following provisions to reflect that the regulator may consider the expenditures as prudent and efficient or necessary to cater for consumer preferences if there is demonstrated strong consumer support.</p> <ul style="list-style-type: none"> • Rule 79(1)(a) <i>the capital expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of providing services;</i> • Rule 79(2)(c) - <i>capital expenditure is justifiable if the capital expenditure is necessary</i>
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	<ul style="list-style-type: none"> • Rule 91(1) - <i>Operating expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services</i> <p>In its recently published information paper “Regulating gas pipelines under uncertainty”, the AER observed the current regulatory framework provides limited flexibility for the AER to accept expenditures to accommodate natural gas blends when determining efficient costs for gas networks. While this may be perceived as a barrier to the supply of sustainable gases into pipelines, it ensures that customers pay no more than the efficient cost of receiving natural gas services, which is consistent with the current NGR. However the AER notes that provided that a regulated business demonstrates strong customer support for expenditures related to the transport of natural gas blends, the AER may consider the expenditures as prudent and efficient to cater for customer preferences. For example, the AER accepted our proposal to incur higher costs for obtaining 20% of its ‘unaccounted for gas’ from biogas because of the strong customer support it had garnered for this proposal.³</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>We agree with the proposal to amend Part 9 to clarify how government grants or funding are to be treated for regulatory purposes.</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>	<p>No comment.</p>

³ AER, Regulating gas pipelines under uncertainty – information paper: <https://www.aer.gov.au/networks-pipelines/performance-reporting/regulating-gas-pipelines-under-uncertainty-information-paper>

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>We agree with the proposal to amend the arbitration principles applying to non-scheme pipelines to cover the identified issues.</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>	<p>No comment.</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>We have no objections to requiring service providers to publish the information identified by the AEMC as this would provide transparency to the market.</p>
<p>17. Do you think this information should also be reported on the AEMC's Pipeline Register?</p>	<p>We would support also having this information on the AEMC's Pipeline Register so that interested parties can readily access the information for a number of pipelines in the one place.</p>

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>No comment.</p>
<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? 	<ul style="list-style-type: none"> a) We consider that the exemption provisions should be extended to cover facilities involved in the production, transportation, storage, compression and or use of natural gas equivalents as this will give AEMO the discretion to grant exemptions particularly if the information is not material, having regard to the purpose of the Bulletin Board in rule 145, particularly in the early stages of market development. b) No comment c) No comment d) No comment e) No comment
<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>We consider that blending facilities could be treated as production facilities for the purposes of the Bulletin Board, GSOO and VGPR. The definition of the production facility could be expanded so that it refers to the maximum capacity of hydrogen that could be blended into a blending facility for injection into a pipeline on a gas day (which depends on the gas demand on that day). This would make clear that it is the capacity of the blending point that is measured, rather than the capacity of the electrolyser. Production owners may choose to oversize the capacity of the electrolyser to serve non-pipeline markets (e.g. onsite transport refuelling), which could exceed the 10 TJ/d reporting threshold.</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>	<p>No comment.</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>We consider that the application of the identified transparency mechanisms to facilities and activities involved in the supply of constituent gas should be deferred until a later process, given the cost of the regulatory burden in meeting the reporting requirements is likely to outweigh the public benefit of transparency, particularly when the volume of natural gas equivalents is expected to be relatively small in the initial stages of the market’s development.</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>No comment.</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>	<p>No comment.</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>We consider that NG equivalents should be traded through the facilitated markets, the same way natural gas is traded through the facilitated markets as it provides participants with a well-established transparent and efficient market-based mechanism to trade imbalances, purchase gas on a short-term basis and efficiently allocate gas during system constraints and emergencies.</p>
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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?	While in the short term it may more efficient to trade NG equivalents outside of the STTM and DWGM we agree with the AEMC's observation that as time progresses, and the provision of blends increases in volume and decreases in cost, the operation of two parallel market processes may create material inefficiencies.
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QUESTION 11- CHAPTER 5 – FACILITATED MARKETS REGISTRATION CATEGORIES

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?	Where appropriate, existing definitions could be expanded to accommodate facilities and participants involved in the creation of NG equivalents as this option would automatically flow through the rules.
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?	No comment.

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

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?	We strongly support jurisdictional arrangements for UAFG to allow gas distributors to offset UAFG with NG equivalents. Allowing gas distributors to offset UAFG with gas blends is a relatively simple mechanism that would allow gas distributors to decarbonise the gas supply they transports. If jurisdictional arrangements for offsetting UAFG with renewable gas are imposed on gas distributors, we would suggest the definition of 'pipeline services' in the National Gas Law to be amended so that gas distributors can incorporate these costs in network tariffs.
30. If so, how will this impact the operation of the matched allocation mechanism (as used by the distributor in the Sydney STTM hub)?	We agree with the issues identified by the AEMC about the operation of the matched allocation mechanism that would need to be resolved.
31. What changes would be required to UAFG arrangements in the DWGM?	For the UAFG arrangements in the DWGM, it could allow the distributors to be responsible for supplying UAFG (rather than the retailers) either through its own operations or contract through a third party. The UAFG benchmark framework set by the Essential Services Commission could also be replaced by a settlement/sourcing process similar to the SA and QLD models involving a single UAFG supplier. We note that the NGR specifically references the unaccounted for gas process for the DDS and we would suggest to amend these provisions now as a future proofing exercise to remove the detail that ties it to the current arrangements (could be shifted to the Procedures if not already covered) in the event that the DWGM UAFG process is changed.

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

32. If distribution connected blending facilities are not integrated into the facilitated markets, what settlement issues may arise?	No comment.
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?	No comment.
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?	No comment.
35. How should facilities exempted from registration, or that fall below a materiality threshold, be treated under settlement arrangements in the facilitated markets?	No comment.

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?	It appears that the NGR does not restrict a distributors' ability to calculate heating values in different parts of the distribution system to accommodate the different uses of NG equivalent gases in the facilitated markets, however if there is uncertainty, it could be useful to clarify this point in the NGR.
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?	If there is uncertainty, it could be useful to amend 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?	We support the clarification that AS 4564 – 2005 can be augmented or replaced to accommodate blending in certain parts of STTM distribution systems.
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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?

We consider that Part 19 of the NGR should be amended to clarify how the gas specification for DDS is governed. Like the DTS, gas specification could be set by the 'standard gas quality specifications' which is currently defined as: (a) the quality specifications contained in AS 4564 – 2005 (amended to clarify that AS 4564 – 2005 can be augmented or replaced to accommodate blending in certain parts of the DDS – see Q38); or (b) if those gas quality specifications have been added to or otherwise modified by or under applicable legislation (principal or subordinate) of the Commonwealth or a State — those gas quality specifications as added to or otherwise modified, or AEMO, in circumstances where it can approve gas quality that does not comply with the standard gas quality specifications.

If AEMO can determine the gas specification on distribution systems, then it may be appropriate to expand the existing standards to include distribution connections to which the connected party must comply with to have centrally set standards but to allow the gas distributor and the connected party to reach agreement as to how they comply, rather than seek AEMO approval. We would welcome further consultation with AEMO and other Victorian gas distributors.

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

<p>40. Who should be responsible for the creation of natural gas equivalent blends and ensuring that these remain consistent with a revised gas specification?</p>	<p>The operator of a blending facility could be responsible for the creation of NG equivalent blends. This is likely to be:</p> <ul style="list-style-type: none"> • constituent gas producers, particularly if the blending facility is located at the production site; • gas distributors, particularly if the blending facility is located at the downstream injection point and where jurisdictional arrangements are made to allow gas distributors to offset UAFG with renewable gas blends. Producers could also contractually outsource the creation of the NG equivalent to the gas distributor. <p>In terms of monitoring and enforcement of compliance with the revised gas specification, this role could be assigned to the relevant gas distributor or AEMO. We would welcome further consultation on this issue and would support defining responsibility for this function be conducted at the AEMO procedure level.</p>
<p>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?</p>	<p>We would support drafting that provides AEMO with the power to assign functions and responsibilities in managing blending constraints at the procedure level. We consider that it could be appropriate for AEMO or the service provider to be given operational control over the distribution system to manage blending in the DWGM and would welcome further consultation on this issue with AEMO and other industry participants.</p>

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

<p>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?</p>	<p>No comment.</p>
<p>43. Are there any other issues the Commission should be aware of?</p>	<p>No comment.</p>
<p>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?</p>	<p>No comment.</p>
<p>45. Are there any transitional issues?</p>	<p>No comment.</p>

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?	The initial issues identified by the AEMC may need to be dealt with as part of this review.
47. Are there any other changes required to the retail market provisions in the NGR to accommodate natural gas equivalents?	No comment.

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?	Renewable hydrogen remains in the early stages of commercial demonstration and is currently not cost competitive with the price of natural gas. Appropriate policy support and incentives are needed to achieve the rapid and widespread deployment of hydrogen in all states, as has occurred for renewable electricity. As in renewable electricity, these mechanisms largely rest outside of the National Energy Regulatory Framework, and we consider these issues to be outside the scope of the current review.
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?	No comment.
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.	We recognise there may be a need to change the rules to allow for cost pass through of renewables in the retail market if jurisdictions introduce policies in relation to mandated renewable gas targets or mandated green value in a gas stream. Any changes to the rules will depend on the type of policy introduced and should be considered in that specific context.

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>A) We support this proposal as it would promote transparency and build social acceptance for renewable gas with customers. In our renewable gas projects to date, we have undertaken significant stakeholder engagement programs including notifying all affected customers before the change to a renewable gas blend. We intend to continue with this process, but as markets for NG equivalents grow this will require more cooperation from retailers who often hold customer contact details.</p> <p>B) Yes, we support this proposal.</p> <p>C) Yes, we support this proposal.</p> <p>D) The proposal would provide for more accurate billing for customers, however it comes at a cost that might outweigh the benefits.</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>No comment.</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>We consider the existing rules on tariffs and charges sufficient in requiring retailers to notify customers of changes to their tariffs and charges.</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>	<p>The existing allocation of risk for the quality of natural gas is appropriate if distributors have responsibility for creating the natural gas equivalent.</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>We agree with the observations of the AEMC in that it is not practicable for a retail customer to opt out of a change of product trial and that the definition of explicit informed consent should reflect that the customer is unable to opt out of the trial for the period of the trial.</p>
<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>No comment.</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>We consider that the AER's assessment of the safety, security and reliability impacts of a trial waiver before making its decision on a trial waiver for a change of product trial involving the sale and supply of an 'other gas product' should be sufficient to ensure there are necessary protections in place.</p>
<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>No comment.</p>