

Information session – Consultation phase 2

Extending the National Gas Regulatory Framework to Hydrogen Blends and Renewable Gases

1 April 2022

energyministers



*In the spirit of reconciliation
we acknowledge the Traditional
Custodians of country throughout
Australia and their connections to land,
sea and community. We pay our respect
to their Elders past and present and
extend that respect to all Aboriginal and
Torres Strait Islander peoples today.*

Artwork Connection to Country, 2021

Artist Shaenice Allan

energyministers

Agenda

	Time (AEDT)	Item	Time (minutes)
1	1:00 pm	Introduction	15
2	1:15 pm	Officials Law Review	20
3	1:35 pm	AEMC Rules Review	20
4	1:55 pm	AEMO Markets Review	20
5	2:15 pm	Next Steps and how to engage	10
6	2:25 pm	Close	

Information session arrangements

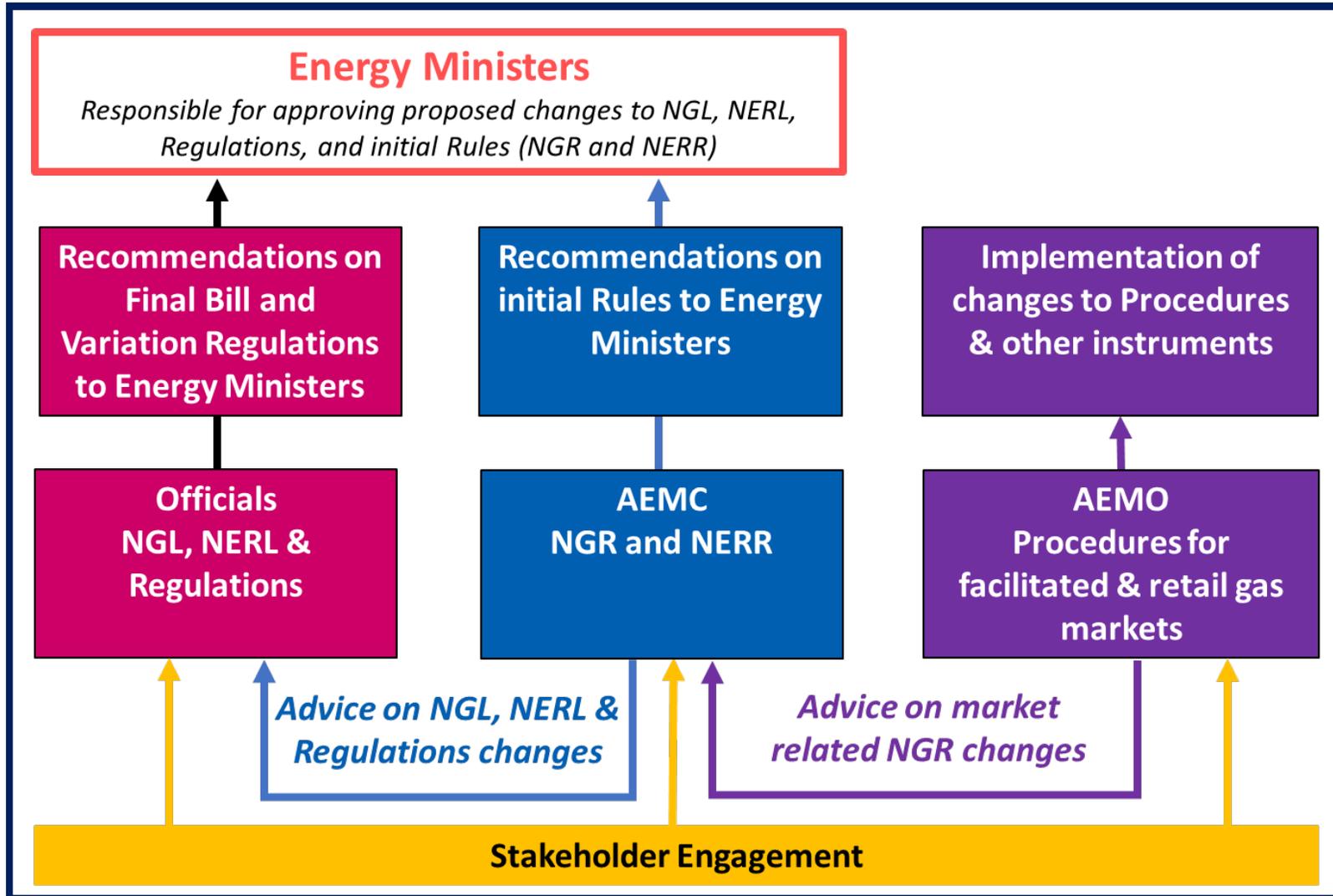
- Focus of session is to outline the consultation papers. If clarifications are needed, send your questions to renewablegas@industry.gov.au
- Slides will be made available after the session
- If you need assistance with technical issues during the session, contact renewablegas@industry.gov.au
- A more in-depth session on the draft consultation Bill with Q&A is planned for 12 April 2022.

What have Energy Ministers agreed to?

Energy Ministers have:

- agreed that the national gas regulatory framework should be amended to bring hydrogen blends, biomethane and other renewable gases within its scope
- directed Officials, the AEMC and AEMO to identify required amendments to the national framework

National gas and retail regulatory frameworks



Jurisdictional legislation

All jurisdictions

Responsible for amending their own legislative instruments to ensure that:

- they can accommodate hydrogen and renewable gas blends
- they can accommodate the changes to be made to the national framework.

Vic, NT, Tas & WA

Responsible for amending jurisdictional consumer protection legislation.

What are Energy Ministers' objectives in extending the national framework?

Energy Ministers objectives are to ensure that:

- regulatory barriers do not restrict proposed investments in projects involving the supply of low level blends and renewable gases or the facilities and activities involved in their supply; and
- existing regulatory arrangements and protections continue to work as intended where these products are supplied.

What is the intention in extending the national framework?

- The purpose of the national framework, as set out in the NGO and NERO, is to **promote economic efficiency in the long-term interests of consumers.**
- Consistent with this purpose, Energy Ministers' objectives and their vision for gas and hydrogen markets, the extension of the national framework is intended to:

*Foster the development of a **competitive and cost-efficient hydrogen and renewable gas industry** that promotes economic efficiency in the long-term interests of consumers.*

Officials' Consultation Paper

**Extending the national framework to hydrogen blends and renewable gases:
Refined approach and proposed changes to NGL, NERL and National Regulations**

Information session | 1 April 2022

Topics

1. What stakeholder feedback has been provided?
2. What is the refined approach to extending the NGL?
3. What is the refined approach to extending the NERL?
4. How will the refined approach help to foster the development of a competitive and cost-efficient hydrogen and renewable gas industry?
5. How is consultation on the refined approach being conducted?

1. What stakeholder feedback was provided?

Stakeholder feedback

The initial consultation paper set out a potential approach to extending the national framework to:

- natural gas equivalents (NGEs), their constituent gases (CGs) and related facilities and activities
- accommodate other gas products, their CGs and related facilities and activities over time.

19 submissions were received from stakeholders with interests across the natural gas, biomethane and hydrogen industries.

Issue	Stakeholder feedback
Proposed extension of the national framework to NGEs	Stakeholders were generally supportive
Proposed extension of the national framework to CGs and other gas products	Stakeholders were divided, with: <ul style="list-style-type: none">▪ around half supporting the proposed extension; and▪ the other half either:<ul style="list-style-type: none">○ opposed to the extension; or○ suggested these gases be dealt with in a more 'flexible' and 'gradual' manner.
Certainty and consistency	Some stakeholders noted the need for greater certainty about the gases that could be subject to the national framework and a more nationally consistent approach to their regulatory treatment.

Advice from market bodies

Officials have received advice from:

- the **AEMC** on potential changes to the NGL, which are intended to:
 - enable AEMO to collect VGPR information from facilities that are not direct DWGM participants
 - provide more clarity on the application of the GSOO.

- the **AER** on potential changes to the pipeline related ring-fencing and associate contract arrangements in the NGL, which will:
 - allow the regulator to impose additional ring-fencing obligations on a class of service providers or associates; and
 - allow the NGR to provide for conditions to be imposed on exemptions from the minimum ring-fencing requirements in the NGR.

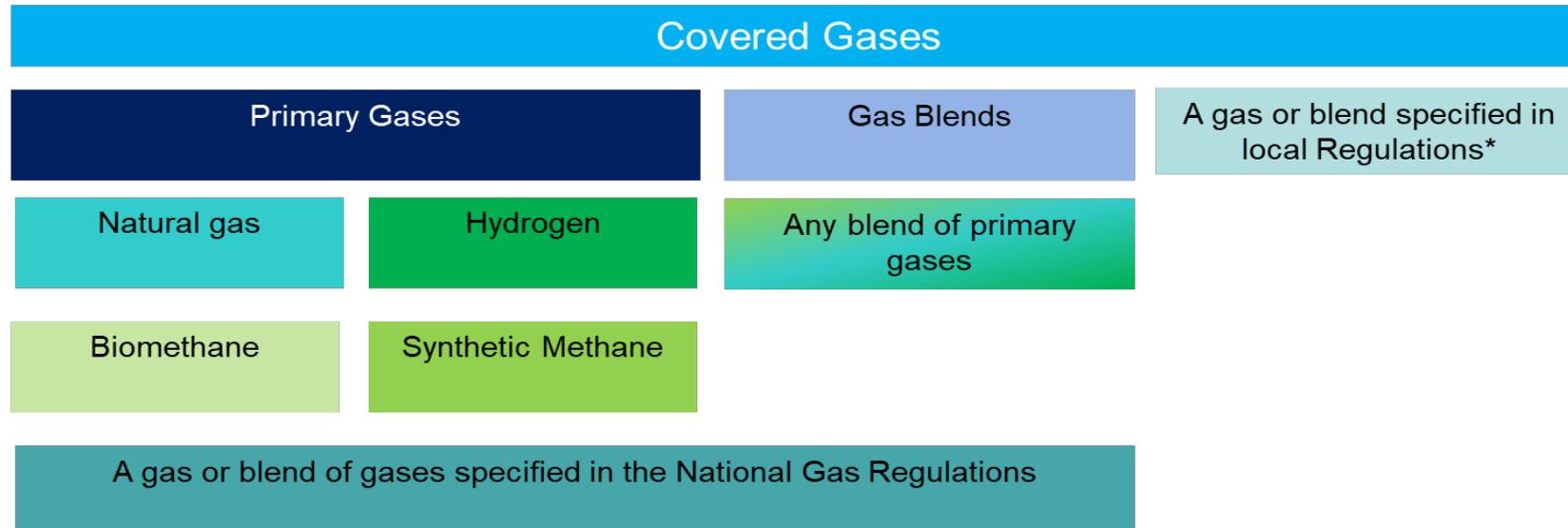
For consultation purposes, these proposed changes are reflected in the draft Bill and Officials are seeking feedback on these proposed changes.

2. What is the refined approach to extending the NGL?

Gas products in scope of the NGL

Under the refined approach, the following gases will fall within scope of the **NGL** and would be called **covered gas**:

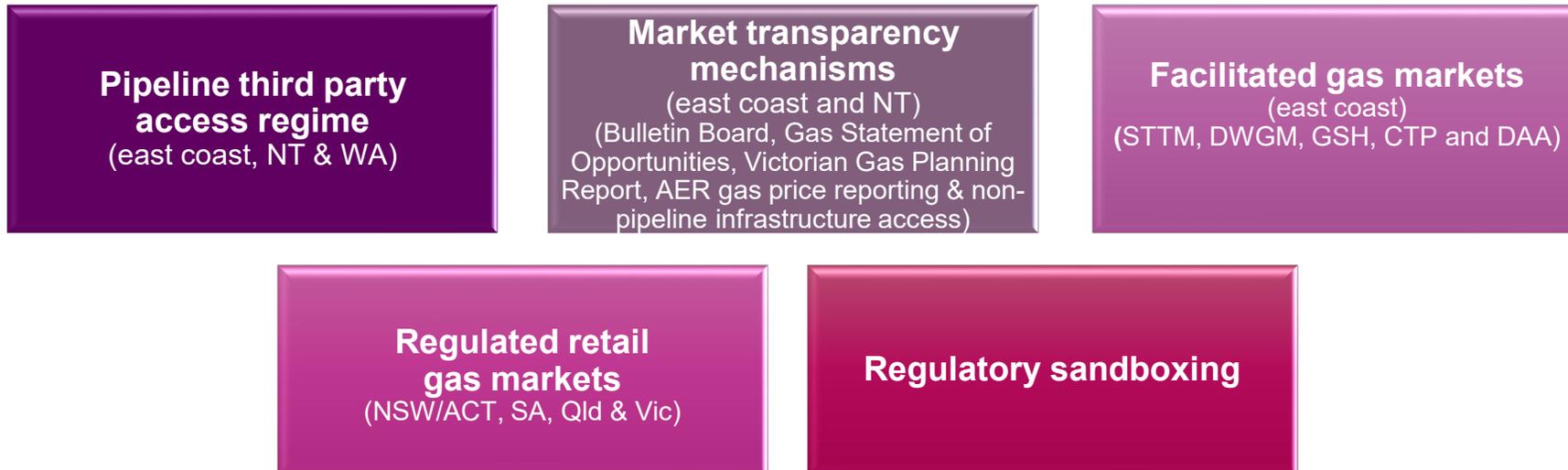
- natural gas, biomethane, synthetic methane and hydrogen (defined as a **primary gas**)
- any other gas or blend of gases specified as a primary gas in the National Gas Regulations
- blends of these gases (defined as a **gas blend**)
- in a jurisdiction, a gas or gas blend specified in a local regulation of that jurisdiction.



*Applicable in that jurisdiction only

Current scope of the NGL

Scope of the NGL (for natural gas in the participating jurisdictions)



Refined approach to extending the NGL

Pipeline access regime

Pipeline access regime (including ring-fencing and associate contract provisions) would apply to all pipelines transporting covered gases (unless a remote pipeline exemption is granted)

Blend processing access regime

A new light handed access regime would apply to blend processing facilities

Market Transparency

The NGR could extend the market transparency mechanisms to covered gases

Markets

The NGR could extend the facilitated and regulated retail markets to covered gases

Regulatory Sandbox

Sandboxing could be used for any covered gas and before a gas becomes a covered gas

3. What is the refined approach to extending the NERL?

Gas products in scope of the NERL

The refined approach provides for the following products to fall within scope of the **NERL**:

- **natural gas** and **NGEs**; and
- **prescribed covered gas**, which is a covered gas (other than a natural gas or NGE) that jurisdictions agree to designate as a 'prescribed covered gas' in the National Energy Retail Regulations.

The refined approach also provides for:

- the National Energy Retail Regulations to modify the application of the NERL/NERR to a particular prescribed covered gas; and
- jurisdictions to exclude the NERL from applying to the supply of a particular prescribed covered gas in its jurisdiction.

Current scope of the NERL

Scope of the NERL (for natural gas in Qld, NSW, SA and ACT)

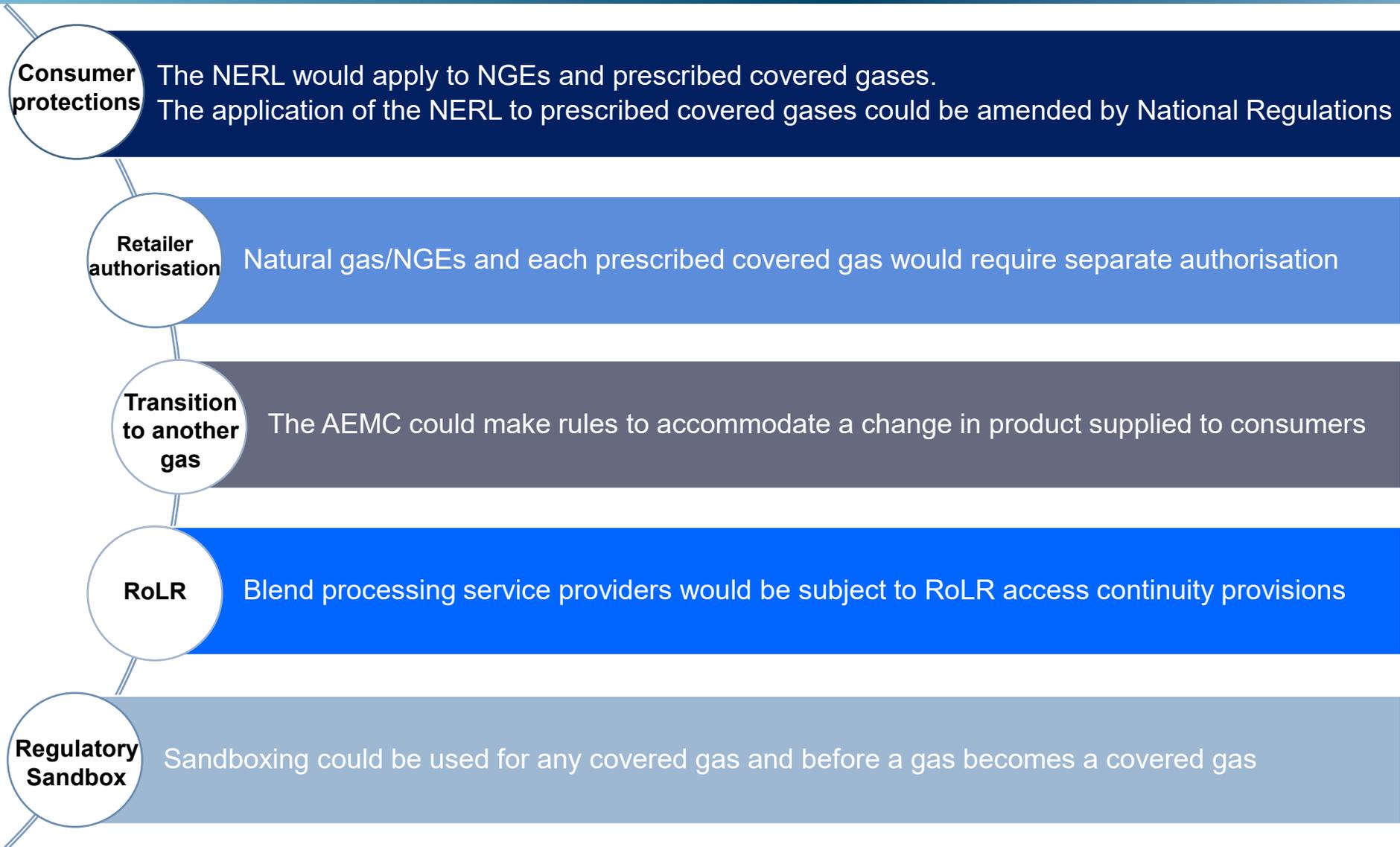
**Consumer
protections**

**Retailer
authorisations
and exemptions**

**Retailer of Last
Resort (RoLR)**

**Regulatory
sandboxing**

Refined approach to extending the NERL



4. How will the refined approach foster the development of a competitive and cost-efficient industry?

How is the refined approach intended to foster the development of a competitive and cost-efficient industry?

Criteria	Measures
Encouraging competition and minimising inefficient asset duplication	<ul style="list-style-type: none"> • Extension of pipeline access regime to all pipelines hauling covered gases • Implementation of light handed blend processing access regime • Prohibiting pipelines and blend processing facilities from impeding competition in contestable parts of industry
Ensuring existing markets operate as intended, where appropriate	<ul style="list-style-type: none"> • Allowing the NGR to extend the facilitated and regulated retail gas markets.
Ensuring consumers continue to benefit from consumer protections	<ul style="list-style-type: none"> • Extension of NERL to NGEs and prescribed covered gases
Encouraging innovation and investment	<ul style="list-style-type: none"> • Extension of regulatory sandbox provisions to covered gases • Extension of greenfields incentives to all pipelines hauling covered gases
Facilitating efficient-decision making	<ul style="list-style-type: none"> • Allowing the NGR to extend the market transparency mechanisms.
Providing for a more nationally consistent approach to covered gases	<ul style="list-style-type: none"> • Initial list of covered gases specified in NGL and jurisdictional agreement required to extend NGL and NERL to other covered gases in all jurisdictions
Being sufficiently flexible to deal with uncertainty and to adapt to change	<ul style="list-style-type: none"> • Allowing the Rules and/or National Regulations to extend and/or modify the application of the national framework (if required) • Providing individual jurisdictions flexibility to: identify additional NGL covered gases for their jurisdiction; exempt 'remote pipelines'; and exclude a prescribed covered gas from the NERL in their jurisdiction

5. How is consultation being conducted?

Stakeholder feedback on Officials' consultation paper

What feedback is sought?	Stakeholder feedback is sought on: <ul style="list-style-type: none">▪ the refined approach to extending the national framework; and▪ the proposed amendments to the NGL, NERL and National Regulations.
Submission closing date	12 May 2022 at 5 pm (AEST)
How to make a submission	<p>A response template has been prepared (Attachment B), which stakeholders are strongly encouraged to use.</p> <p>Submissions should be sent via email to renewablegas@industry.gov.au and include the subject: "Hydrogen and renewable gases and blends reforms"</p>
Information session on the legal package	<p>A separate legal package information session will be held on 12 April 2022.</p> <p>Please register your interest by sending an email to renewablegas@industry.gov.au and include the subject: 'legal information session'.</p>

REVIEW INTO EXTENDING THE REGULATORY FRAMEWORKS TO HYDROGEN AND RENEWABLE GASES

JAMES TYRRELL AND MEREDITH MAYES
1 APRIL 2022

AEMC

AEMC Hydrogen and renewable gases review

- **Terms of reference from:** Energy Ministers
- **Purpose and scope:**
 - Identify potential issues in the NGR and NERR that could emerge if natural gas equivalents are permitted to be supplied through gas distribution pipelines.
 - Develop draft initial rules to address these issues through a consultative process.
 - Inform jurisdictional officials of any NGL or NERL changes that it considers should be made to achieve the objective of the Energy Ministers.

To aid in meeting the Ministers' expedited timeframe, the AEMC will:

- prioritise changes that need to be made
 - consider whether any amendments to the NGR or NERR can be deferred.
- **Out of scope:**
 - Jurisdictional arrangements, including licensing
 - Other gas products that are not suitable for consumption as natural gas
 - Impacts, including the operation of facilities such as electrolysers, on the National Electricity Law or National Electricity Rules
 - Areas our preliminary assessment has identified as unlikely to be a priority for the initial rules package.

Draft report

The review has divided the NGR and NERR into eight pieces.

The draft report sets out

- 25 draft recommendations on the nature of the changes to the NGR and NERR that the AEMC considers is needed
- the AER's advice on ring fencing and seeks stakeholder feedback.

The final report will include rule drafting.

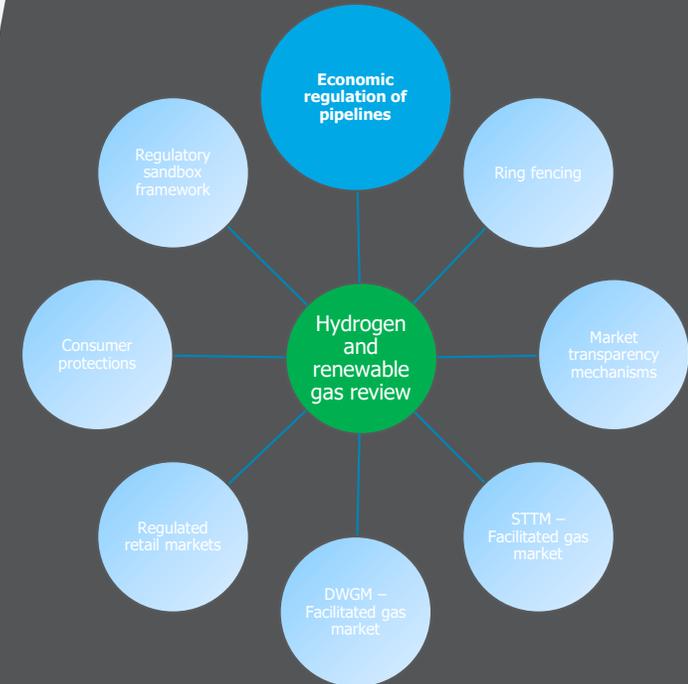


Economic regulation of pipelines

There are seven recommendations in relation to economic regulation.

These cover the follow policy issues:

- Amend pipeline connection rules
- Implement new low-cost reporting obligations to facilitate connections including a supplier curtailment methodology
- Require greater transparency of the gas a pipeline can transport and any proposal to trial or transition to another gas
- Clarify the regulatory treatment of government grants and concessional finance
- Clarify the regulatory treatment of regulatory obligations where a transition to an NGE is mandated
- No changes to the rules for the regulatory treatment of voluntary transitions to an NGE



Ring fencing

The AER has suggested that changes be made to the following:

- Exemption framework for minimum ring fencing requirements
- The regulators power to impose additional ring fencing requirements
- The associate contract approvals process

In line with the AERs terms of reference, the AER did not carry out public consultation on its advice.

Consequently, the Commission has set out the AERs advice in its report and will consult on these recommendations.



Market transparency mechanisms

There are five transparency mechanisms (the GSOO, VGPR, Bulletin Board, AER gas price reporting and infrastructure terms of access) in the NGL and NGR.

Our recommendations are to:

- extend the transparency mechanisms to the facilities and activities involved in the supply of other covered gases (each extension as relevant to the mechanism)
- make changes so that blend processing facilities are subject to appropriate reporting obligations like other facilities

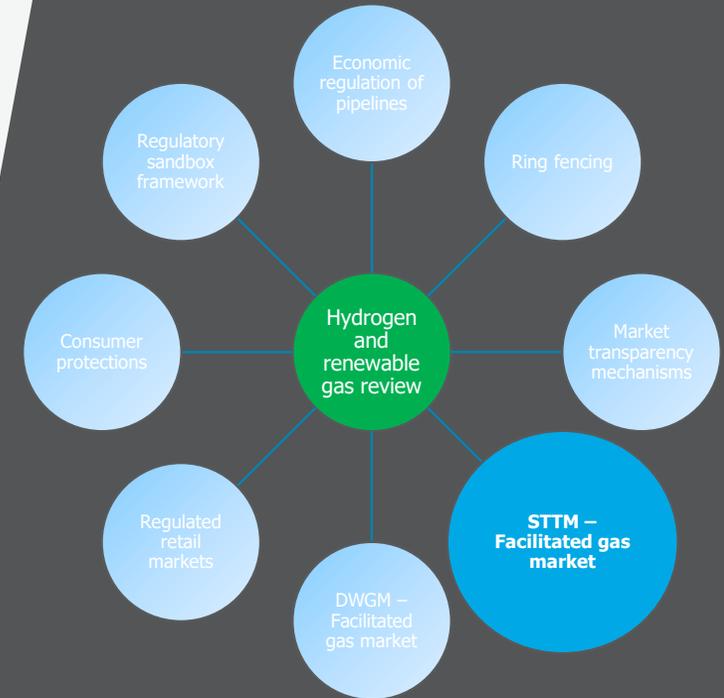
These changes are covered by recommendations 8 to 15 in the draft report.



Short term trading market (STTM)

The six recommendations in relation to the STTM are:

- Create a single injection facility category (this will include production, storage and blending)
- Injection facility operators will not be required to update future expected capacities, unless a change is expected
- Allow for facility aggregation for reporting obligations and submission of offers
- Remove the specification of Custody Transfer Points (CTPs) from the Procedures and instead require AEMO to maintain a register of CTPs
- Make no changes to the matched allocation mechanism for UAFG in Sydney
- Make no changes to the definition of gas quality specification

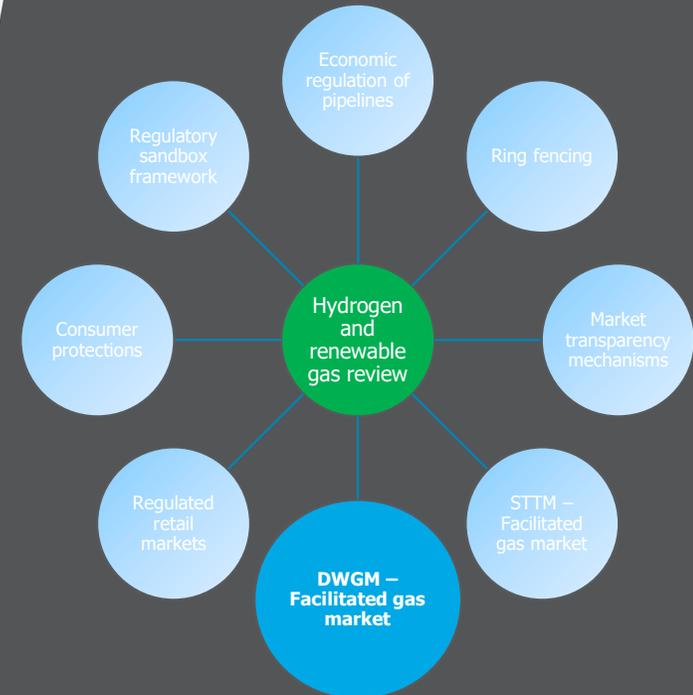


Victorian declared wholesale gas market (DWGM)

Most changes to the DWGM rules will be made through the rule change process which will introduce distribution connected facilities into the DWGM and make changes to the market rules for that purpose. The distributors will need to do some new tasks as a result.

The recommendations for the review are:

- Do not amend the DWGM UAFG arrangements
- Replace references to specific energy calculation standards with references to AEMO's Procedures
- Arrangements for non-DTS connected distribution systems will continue. Relevant changes made through the review will apply.



Regulated retail markets

Regulated retail markets are in Qld, ACT-NSW, Victoria and South Australia. Most governance is applied through AEMO procedures.

The retail market policy recommendations are:

- Expand each existing retail market withdrawal categories to allow for withdrawals of gas by blend processing facilities.
- The governance arrangements for heating value calculation and zone determination should remain unchanged with jurisdictions retaining responsibility.
- No new mechanism is needed to manage the potentially higher cost of producing renewable gases or any potential competition concerns that may arise as the new industry starts

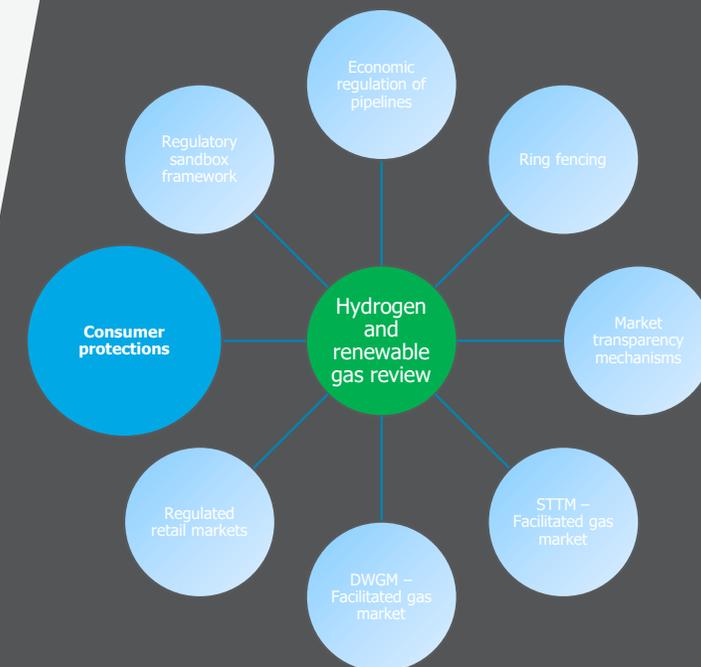


Consumer protections

Relevant parts of the NERR have been assessed to consider if changes are needed with the introduction of 'natural gas equivalents'.

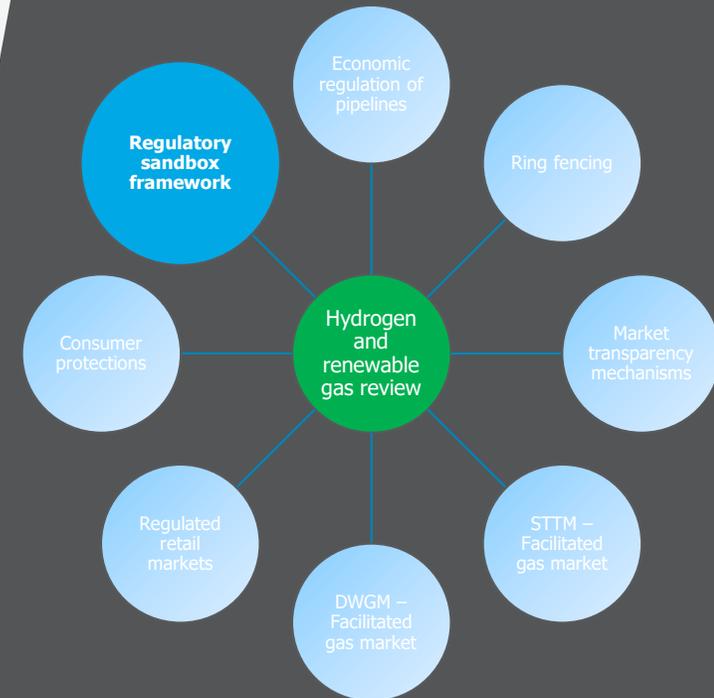
The recommendations for consumer protections are:

- Require a notice of transition to be provided to retailers, AEMO and customers
- Do not change the price variation notification requirements – these will still work
- Include NGE transition information in historical billing information
- Do not require a bill on transition from natural gas to NGE (or a different NGE)
- Retain current responsibilities for gas quality risks but recommend distributor liability limits be reviewed by jurisdictions



Regulatory sandbox framework

The recommendation was that no changes are needed to the regulatory sandboxing rules



AEMC law recommendations

The officials' workstream prepared a package of recommended law changes. The AEMC was tasked by Energy Ministers to identify any other law changes needed as a result of the review.

At this stage we have identified three additional changes that we recommended be made to the NGL, which are intended to:

- allow the AEMC to make rules in relation to pipeline service providers' curtailment methodology
- limit the potential overreach of the Gas Statement of Opportunities (GSOO)
- enable AEMO to collect information for the purposes of the Victorian Gas Planning Report and capacity modelling from facilities that do not otherwise participate directly in the DWGM

AEMC contact details

Review into extending the regulatory frameworks to hydrogen and renewable gases

Meredith Mayes

- meredith.mayes@aemc.gov.au
- (02) 8296 7849

James Tyrrell

- james.tyrrell@aemc.gov.au
- (02) 8296 7842

Link to project page ([here](#))

DWGM distribution connected facilities rule change

Daniela Moraes

- daniela.moraes@aemc.gov.au
- (02) 8296 0607

Harry Gibbs

- harrison.gibbs@aemc.gov.au
- (02) 8296 0626

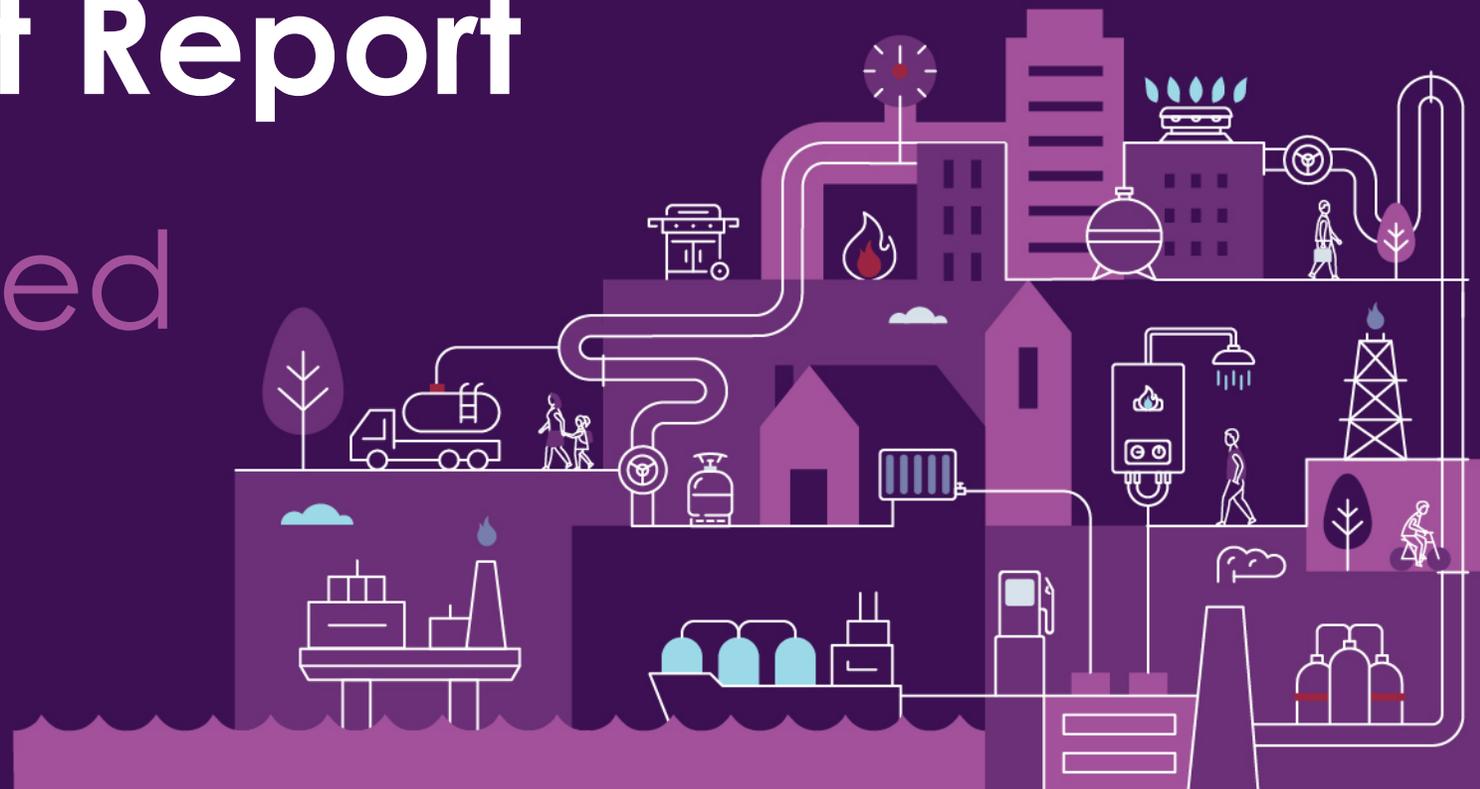
Link to project page ([here](#))

Submissions to the draft report for the review close 19 May 2022.

The DWGM rule change will hold a workshop on 8 April 2022

AEMO's Draft Report

Recommended
Procedure
Changes



Agenda

1. Overview of AEMO's review
2. Summary of consultation paper
3. DWGM Procedure Changes
4. STTM Procedure Changes
5. Retail Markets Procedure Changes
6. Next Steps

AEMO's Review

- AEMO tasked with reviewing the DWGM, STTM and Retail Market Procedures to:
 - Ensure that settlement and metering within these markets operates as intended.
 - Address any other material gaps in these markets that may be identified through consultation with market participants, other market bodies and government officials.
- AEMO was also asked to work with the AEMC in identifying any required changes to the NGR.
- AEMO will be responsible for implementing any necessary changes to the Procedures (including subordinate instruments) and systems following changes to the NGL and NGR.

AEMO's 2021 Consultation Paper

- Considering the scope and timing of AEMO's review, only limited changes were identified across the markets. In its consultation paper, AEMO concluded that:
 - The retail and wholesale markets are settled on an energy basis. By requiring covered gas facilities to bid, be allocated and settled in gigajoules, significant changes to settlement and approach, systems and Procedures are not required.
 - Primarily, changes are required to the Procedures to ensure that their application extends to facilities injecting covered gases directly into distribution systems.
 - Changes to the DWGM Procedures will primarily be required as a consequence of the AEMC's DDCF rule change, with only minor changes as an outcome of this review.

Summary of consultation paper feedback

- 8 Submissions received
 - Mix of infrastructure owners, retailers and associations.
 - All respondents supportive of the review and agreed with its scope.
 - In general, respondents considered that the STTM and retail markets are largely fit for purpose for covered gases (NGEs) and supported extending the scope of the DWGM to cover distribution-level supply.
- No wholesale changes identified to processes or Procedures at this stage.
 - Several minor definitional issues were identified that AEMO will consider in its draft recommendations.
 - Respondents agreed that existing market and operational processes should be able to accommodate covered gases.
- Comprehensive summary of feedback received and AEMO responses published on the AEMO website

AEMO Draft Report

- This draft report sets out AEMO's draft recommendations on the changes to be made to the STTM, DWGM and Regulated Retail Market Procedures.
- The recommendations are based on the findings in AEMO's October 2021 consultation and stakeholder feedback received.
- The draft report sets out the likely changes that AEMO will make to its Procedures following the enactment of changes to the NGL and NGR.
- Industry feedback on this draft report will inform the development of any changes to AEMO's Procedures for formal consultation and the recommendations in AEMO's final report.

DWGM Recommendations

- A number of changes required to align Procedures with new terminology and concepts proposed in the DDCF rule change e.g. market injection point.
 - AEMO will undertake a comprehensive review following a final determination.
- Market and Settlement Procedures largely fit for purpose. A number of definitional and scope changes identified to ensure that participants injection at the distribution level are settled appropriately.
- Ownership Rules and Capacity Certificate Procedures to be aligned with AEMC's recommendations in draft determination.

DWGM Recommendations continued

• Operational Procedures

- At a high level, changes to the operational Procedures and guidelines are expected to be required to accommodate distribution-level supply e.g. constraints, scheduling etc and the different physical characteristics of Hydrogen and other primary gases from natural gas.
- Changes to the gas quality guidelines to align them with the new gas Quality Monitoring Procedures
- Gas Scheduling Procedures to be reviewed and amended to describe how constraints will be applied at distribution connected facilities.
- System Security Procedures - Changes are primarily expected to the scope of these Procedures to accommodate distribution connected facilities into the DDS. The fundamental system security provisions and the way that AEMO operates the DTS and manages threats to system security are expected to be similar.

• Metering Procedures

- Scope change: the Metering Procedures require updates to reflect the DDCF rule change to ensure that new distribution connected facilities are captured for metering and settlement purposes.
- Accommodating renewable gases: Energy Calculation Procedures and metering uncertainty and calibration Procedures to be updated to reflect the different physical characteristics of renewable gases e.g. pressure correction factors. Ultimately, the goal will be to ensure that metering remains accurate in so far as is practicable.

STTM Recommendations

- STTM Procedures primarily talk to settlement and market operation. Following the consultation paper, AEMO's assessment is that these Procedures are largely fit for purpose and do not require change.
 - All respondents agreed with this view for the STTM.
- Changes to reflect new terms in the NGR: injection facility, blend processing facility.
- New framework for facility aggregation inline with AEMC's recommendations.
- New streamlined STTM hub CTP amendment process.

Retail Market Procedures

- Majority of RMPs that relate to facilitating retail competition do not require change.
 - All respondents to AEMO's consultation paper agreed with this position.
- A number of definitional and scope changes identified across the retail markets to ensure that users and distributors are able to meet their obligations to provide information to AEMO for the retail market.
 - Primarily concerned with ensuring that all supply sources in a retail market are captured (not just injections from transmission).
- Heating values
 - Outside of Victoria, heating values are zonal – AEMO is not proposing any Procedure changes. At the request of the Victorian government, AEMO has commenced a separate consultation process via the GRCF to amend the Procedures to implement zonal heating values for customers on basic meters.

Next steps

- Feedback to the paper due on Thursday 19 May
- Final recommendations (considering any industry feedback) on Procedure changes being made by September 2022.
- Initiation of formal consultation on the Procedures in the latter half of 2022, following Energy Ministers' agreement on the required amendments to the NGL.
- Implementation of any changes to the Procedures once the changes to the NGL and NGR have been made.
- Questions or feedback: gwcf_correspondence@aemo.com.au

Next steps and how to engage

Next steps and key dates

Indicative dates	Detail
31 March 2022	Officials, AEMC and AEMO release consultation packages
8 April 2022	AEMC hosting an information session on the DWGM review (10 am, register on the AEMC's website)
12 April 2022	Officials hosting an in-depth forum on their consultation package
12 May 2022	Feedback on Officials' consultation package due
19 May 2022	Feedback on AEMC and AEMO's draft reports due
Mid 2022	Officials provide final recommendations to Energy Ministers on proposed amendments to NGL, NERL and Regulations for approval. Changes to NGL and NERL progressed through South Australian Parliament.
Sep 2022	AEMC publishes final recommendations and releases proposed initial Rules for consultation. AEMO publishes final recommendations and releases draft amendments to Procedures and other subordinate instruments for consultation.
Sep – Oct 2022	Stakeholder engagement on AEMC's proposed amendments to initial Rules, and AEMO's proposed amendments to the Procedures and other subordinate instruments.
Nov 2022	AEMC provides Officials and Energy Ministers with proposed initial Rules for approval.
Late 2022- 2023	New measures take effect once proclamation of the changes to the NGL and NERL occurs.

How to engage

- **Review** the consultation papers and forward any questions to the relevant agency/body:
 - Links to the consultation papers can be accessed here: <https://www.energy.gov.au/government-priorities/energy-ministers/priorities/gas/gas-regulatory-framework-hydrogen-renewable-gases>
 - On the NGL, the NERL and Rules, send enquiries to renewablegas@industry.gov.au
 - On the NGR and NERR, send enquiries to the AEMC - meredith.mayes@aemc.gov.au and james.tyrrell@aemc.gov.au
 - On the the Procedures and other AEMO-made instruments, send enquiries to the AEMO - gwcf_correspondence@aemo.com.au
 - Contact your jurisdictional representative if you have questions about state and territory legislation
- **Participate** in stakeholder session on the draft Bill for consultation on 12 April 2022
 - Contact renewablegas@industry.gov.au to register interest
- **Submit** your responses to the consultation papers by:
 - 12 May 2022 for the Officials' paper and draft Bill
 - 19 May 2022 for the AEMC and AEMO papers

Thank you

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