



20 May 2022

Ms Anna Collyer  
Chair  
Australian Energy Market Commission  
GPO Box 2603  
SYDNEY NSW 2001

Jemena Gas Networks  
(NSW) Ltd  
ABN 87 003 004 322

Level 14  
99 Walker St  
North Sydney NSW 2060  
PO Box 1220  
North Sydney NSW 2060  
T +61 2 9867 7000  
F +61 2 9867 7010  
[www.jemena.com.au](http://www.jemena.com.au)

Sent by email

Dear Ms Collyer

**Draft report: Review into extending the regulatory frameworks to hydrogen and renewable gases**

Jemena welcomes the opportunity to assist the Australian Energy Market Commission (**AEMC**) develop a set of rules to incorporate renewable gases, including natural gas equivalents (**NGEs**), into the National Gas Rules (**NGR**) and National Energy Retail Rules (**NERR**).

Broadly, we welcome the regulatory package as we consider that the reforms will remove regulatory barriers which could prevent the transition to renewable gas, consistent with the policy goal of Energy Ministers.

We recognise that extending the regulatory framework – designed for an established market – in the midst of the wider transformation of Australia’s energy system is challenging. It is particularly difficult given that up and down stream markets for renewable gas either don’t yet exist or are in their infancy. Given these uncertainties, there is a real risk that disproportionate extension or expansion of the current regulatory framework stymies the development of a renewable gas industry.

This risk is not theoretical. Conflicting policy goals result in implicit or explicit trade-offs. Economic literature is full of examples of regulation with different policy objectives restricting innovation, firm entry and ultimately consumer outcomes.<sup>1</sup> Regulatory risk is a barrier to entry and market development in new and untested markets. When it comes to renewable gas, the regulatory risk is already naturally high given:

- The complexity, scale and rate of change of the national gas regulatory framework. Operating under this framework is particularly difficult for new or potential entrants who do not have the familiarity or expertise to participate. Regulatory protections and reporting requirements risk entrenching existing producers or preventing smaller operators partnering with other participants (such as gas networks) who are keen to de-risk and facilitate a renewable gas future.

---

<sup>1</sup> A recent study found that the European Union’s introduction of the General Data Protection Regulation (GDPR) (with the policy intent of improving privacy outcomes) led to the exit of 1/3 of apps from the Google Play Store and the reduction of new apps by half. See Janßen, Kesler, Kummer and Waldfogel, “GDPR and the Lost Generation of Innovative Apps”, *National Bureau of Economic Research*, 2022 <https://www.nber.org/papers/w30028> Working paper. Another study found that the regulatory requirements of setting up a limited liability company (for tax collection, anti-fraud, information gathering or to improve public decision making reasons) has the consequence of hampering the creation of new firms, force new entrants to be larger and for some firms to grow more slowly. See and Klapper, Laeven, Rajan, “Entry regulation as a barrier to entrepreneurship, 2004, *National Bureau of Economic Research*, 2004, <https://www.nber.org/papers/w10380> Working paper.

- The economic viability or technical feasibility of projects has not yet been demonstrated.
- The incredible value that renewable gas could unlock for Australian energy consumers in terms of security, affordability, reliability, optionality and choice.

Accordingly, we consider that it is vital that policy priority is given to ensuring that the regulatory framework provides sufficient flexibility so that a market can develop. With this lens, we have reviewed the AEMC's Draft Recommendations and identified several areas which we consider could be rebalanced to place greater emphasis on reducing regulatory barriers (consistent with the Energy Ministers' policy intention) while still maintaining the other more traditional policy objectives, such as the potential for market power.

We consider that the reforms could be improved by building in a greater degree of flexibility, proportionality and appropriateness for instance by:

- Ensuring that in the early stages of industry development, parties involved in pipelines, production and blending activities can work closely together in the interests of innovation and efficiency. We consider that the ringfencing arrangements proposed by the AER will impede such collaboration and partnerships and that greater flexibility is required.
- Recognising that existing provisions of the NGL and NGR — including the mandatory notification of associate contracts to the AER and the AER's existing powers to compel the provision of information as part of a compliance investigation — are sufficient to allow the AER to effectively monitor and enforce compliance with the NGL's associate contract provisions.
- Establishing a transitional measure, that certain types of activities should either be deemed to meet the ringfencing exemption principles.
- Recognising that the AER already has the power to impose ringfencing requirements on a class of participants (by naming those participants individually) and it has not done so – it is unclear why an additional power for the AER to impose class requirements is warranted for new and emerging markets if it has not been necessary for established markets.
- Recognising the difference between combining different sources of methane (natural gas, biomethane and synthetic methane) and blending methane with hydrogen (or other gases) in the regulatory framework (with respect of reporting, curtailment methodologies etc.) to ensure regulatory requirements achieve their policy objectives without causing unintended or unnecessary regulatory burden.
- Extending the matched allocation mechanism to cover distribution connected facilities, reflecting the distributed nature of renewable gas production. This approach will remove a barrier in procuring renewable gases – an important tool to help underwrite new projects and facilitate a renewable gas future. It will also work to ensure that the existing regulatory arrangements continue to work as intended.
- Not requiring unactionable customer notification where there are no customer implications from pipelines transporting different gases (just as electricity networks do not notify customers when electricity is generated from different sources).

We would like to thank the AEMC for engaging with our and industry's ideas and thoughts on these reforms. We welcome the majority of the AEMC's proposed reforms. Our submission provides us with an opportunity to share our thinking on the proposed recommendations, and seek clarification on the reforms where required. Please find attached further feedback to each of the AEMC's draft recommendations in Attachment A.

We are keen to continue engaging with the AEMC and other policy makers in the development and implementation of these reforms. Should you have any questions please do not hesitate to contact James Turnley, Gas Networks Regulation Manager, on (02) 9867 8659.

Yours sincerely,

Ana Dijanosic

General Manager Regulation

# Appendix A: Responses to Draft Recommendations

## 1. Economic regulation of pipelines

### 1.1 Draft recommendation 1: Clarify the right to connect to a pipeline and connection cost recovery for service providers

Jemena supports the amendment of the interconnection rules to clarify that there is only a right to connect where the connection is consistent with the safe and reliable supply of gas to end-users.

We also support the ability to recover our costs of establishing an interconnection, but consider that draft Rule 37 in the gas pipeline regulatory amendments enables this to occur.

We would also like to note that metering or monitoring equipment could be a part of a service provided by a pipeline service provider (by the means of in-pipe blending), rather than an interconnection service. For instance, where blending is undertaken by scheme pipelines, existing reference services could be expanded to include blending (just as JGN's reference service includes metering) or alternatively a separate blending service could be established. This would form part of scheme pipeline's reference service proposal to the AER. The existing access arrangement framework provides for this flexibility which should be retained through any reforms designed to establish firm boundaries between the various blending arrangements.

### 1.2 Draft Recommendation 2: Introduce a register of covered gas supplier pipeline connections

We support the introduction of a register of covered gas supplier pipeline connections as a proportionate and targeted approach that meets user needs and increases transparency of facility connections injecting covered gases into pipelines. However, this may need to be revisited if in the future widespread small scale renewable gas production occurs akin to what is occurring in the electricity sector (for instance if households install solar panels which produce hydrogen rather than electricity).

### 1.3 Draft Recommendation 3: Require service providers to publish a supplier related curtailment methodology in their access guide

While we are comfortable with the requirement for service providers to publish a supplier related curtailment methodology in their access guides, it is important that this obligation should only apply to pipelines licenced to transport covered gases other than natural gas, as a pipeline which is only licensed to transport natural gas (information that would be contained in the pipeline's user access guide) would not be able to accommodate any prospective suppliers of a gas other than natural gas.

To require all pipelines to comply with this obligation, including pipelines that only transport natural gas, would represent a significant change of policy unrelated to extending the framework to accommodate renewable gases.

As such, the requirement to publish a supplier related curtailment methodology should only be required of pipelines that are involved in the blending of renewable gases (see also our consideration of recommendation 12). It will be necessary for pipelines that carry out blending activities to establish a curtailment methodology, so that blending limits and gas quality specifications are met.

### 1.4 Draft recommendation 4: Require scheme pipeline service providers to include a supplier related curtailment methodology in their access arrangement

We support the inclusion of supplier related curtailment methodology in scheme pipeline Access Arrangements.

## **1.5 Draft Recommendation 5: Introduce reporting obligations on the gas a pipeline can transport and any proposed changes to this**

We support introducing reporting obligations on the gas a pipeline can transport and any proposed changes to this in user access guides as this document can be flexibly maintained and updated.

In contrast, Access Arrangements are typically only revised every 5-years with regulator approval which does not provide sufficient flexibility to ensure that the document is up to date (for instance on the latest trials being undertaken). Accordingly, we do not consider that this information should be duplicated across user access guides and Access Arrangements.<sup>2</sup>

## **1.6 Draft Recommendation 6: Require arbitrators to consider regulatory obligations and requirements in non-scheme pipeline access disputes**

We support the introduction of a requirement for arbitrators to consider regulatory obligations and requirements in access disputes on the basis that it provides clarity.

## **1.7 Draft Recommendation 7: Require government grants and concessional finance to be treated as capital contributions**

As it is current regulatory practice we have no objection to require the regulator to treat government grants in the same manner as user contributions.

We do not support providing the regulator with discretion to treat concessional finance in the same manner as user capital contributions and government grants for several reasons:

- Concessional finance is rare and where it is obtained, it is provided as government policy, for instance to provide an incentive to undertake an innovative project or as compensation for the risk incurred. Treating concessional finance as a capital contribution would undermine government policy.
- Concessional finance is immaterial in the context of a pipeline service providers financing costs.
- Current regulatory treatment of research and development tax deductions, which are similar to concessional finance,<sup>3</sup> is to make no adjustment.<sup>4</sup>
- The current regulatory framework presents financial disincentives and regulatory impediments to undertaking innovative projects where outcomes are uncertain and where benefits flow directly to consumers. This results in a reduced level of innovation and missed opportunities to deliver lower costs and higher quality services.<sup>5</sup> Removing the limited benefit that concessional finance could provide would further dampen incentives to innovate and deliver a renewable gas future.

---

<sup>2</sup> In Jemena's previous submission, we noted that the Access Arrangement should specify the type of information provided and, based on negotiation with users, specify how the information is provided. The Access Arrangement itself should not contain the information because it can only be updated every five years and does not provide the requisite flexibility for reporting on any changes.

<sup>3</sup> In respect of materiality, that they are provided to achieve government policy objectives and that they result in a difference between forecast costs (based on a benchmark) and actual costs.

<sup>4</sup> AER 2018, *Review of regulatory tax approach*, Final Report, p.87. Available here: [https://www.aer.gov.au/system/files/AER%20-%20Tax%20review%202018%20-%20Final%20report%20-%202017%20December%202018\\_0.PDF](https://www.aer.gov.au/system/files/AER%20-%20Tax%20review%202018%20-%20Final%20report%20-%202017%20December%202018_0.PDF)

<sup>5</sup> See the draft Gas Network Innovation scheme framework developed by Australian Gas Infrastructure Group, Jemena Gas Networks and AusNet Services provided in Appendix B.

## 2. Ringfencing framework

The existing ringfencing framework under the NGL provides a clear and well established framework for ensuring there is the necessary separation between service providers and its affiliates providing other services in the gas supply chain. Accordingly, we consider that the AER's recommendations to the existing framework go beyond what is required to integrate covered gases into this framework.

In Jemena's view the current framework can be extended to blend facilities with minimal modification. Accordingly, we consider that:

- There is no need to empower the AER with the ability to impose additional ringfencing requirements on a class basis (and conversely, there is no need to impose exemptions on a class basis). The difficulty in establishing a class will dangerously impose requirements and exemptions in unjustified circumstances;
- The existing associate contract rules ensure that the service providers and their associates operate within the market accepted boundaries of a competitive market. The AER has not demonstrated a problem with the existing rules that need to be addressed by further reforms to the provisions.

### QUESTION 1: EXEMPTION CRITERIA FOR MINIMUM RING FENCING REQUIREMENTS

1. Should the NGR continue to set out the limited circumstances in which exemptions from the minimum ring fencing requirements can be granted, or be amended to provide the regulator with greater discretion under high level criteria?
2. If the current approach is to be maintained, are the exemption criteria in rules 31(3)-(4) fit for purpose, or can they be improved? Please set out the changes you think need to be made and why.
3. If changes are to be made to the exemption framework, what are the likely costs, benefits and risks?
4. If changes are to be made to the exemption framework should they apply generally (for all covered gases including natural gas), or be limited to trials of hydrogen and renewable gases?

We support the AER's proposal to establish a principles-based approach to ringfencing exemptions (AER Recommendation 1). We consider the proposal to set out principles consistent with principles in the Electricity Distribution Ring-fencing Guideline in the NGR to be a suitable approach.

However, in addition to those principles, we consider, as a transitional measure, that certain types of activities should either be:

- deemed to meet the ringfencing exemption principles. This could be achieved by establishing a standing set of ringfencing exemptions in the savings and transitional provisions that allow participants to work together in relation to renewable gas trials and small scale projects; or
- establishing a review mechanism for the regulator with respect to those exemptions or otherwise a sunset date for exemptions that adequately captures the life cycle of renewable gas trials or small scale projects.

Some examples of exemptions that were provided based on a class of participants or activities for a transitional period include: the savings and transitional provisions for the implementation of the National Energy Customer Framework which acknowledged the diverse range of arrangements across participants and jurisdictions; the smart metering roll outs in both Victoria and nationally; and, AEMO's standing exemptions for certain types of generators.<sup>6</sup>

We consider activities that would fall into this category to be:

- a pipeline service provider being able to construct and operate assets (including blending facilities) to enable injection or storage of renewable gas to support the delivery of haulage services to customers, for instance to defer or avoid network augmentation required to supply loads at peak times. This would typically be the most economic solution and may also be necessary as it may not be possible for a third party to provide these services where the safety and security of the network is involved.
- pipeline service providers running trials to test technical and economic concepts to facilitate a renewable gas future. An example of this is the Western Sydney Green Hydrogen Hub (WSGHH) which produces and blends hydrogen with the intent of developing, not hindering the market.
- debblending services for a specific downstream customer in the case of a transition or trial.

In the absence of these standing exemptions, the AER should be required to grant an exemption if the service provider reasonably demonstrates:

- the activity will or is reasonably likely to assist in the development of the market for production, processing, transport or supply of covered gases;
- the activity is part of a trial or in response to a research and development grant; or
- the quantity of gas involved represents a immaterial portion of gas being transacted in the relevant market/jurisdiction.

## **QUESTION 2: CLASS EXEMPTIONS FOR MINIMUM RING FENCING REQUIREMENTS**

1. Should the regulator continue to assess exemptions from the minimum ring fencing requirements on a case-by-case basis, or should it be able to issue class exemptions?
2. If class exemptions are permitted,
  - a) what are the likely costs, benefits and risks?
  - b) in what circumstances could class exemptions be relevant?
  - c) how do you think the risks with class exemptions should be addressed?

Given the AER already has the power to impose ringfencing requirements on a class of participants (by naming those participants individually) and it has not done so, it is unclear why an additional power is warranted for new and emerging markets if it has not been necessary for established markets.

Class exemptions presume that there are identifiable classes with similar characteristics that justify exemption across a particular category. It enables the regulator to make assumptions about the class rather conducting a specific analysis of each participant.

Like the imposition of additional ringfencing requirements, we do not consider the characteristics of the existing and emerging gas markets justify departing from a case-by-case analysis. While additional ringfencing requirements imposed on a class basis may impede the development of markets, class based exemptions could have anti-competitive effects.

### **QUESTION 3: CONDITIONS ON EXEMPTIONS FROM MINIMUM RING FENCING REQUIREMENTS**

3. Should the regulator have the ability to impose conditions on an exemption from the minimum ring fencing requirements and also be able to vary the conditions?
4. Should the ring fencing exemption arrangements be amended to:
  - a) require the regulator to specify an expiration date or a review date for a ring fencing exemption decision?
  - b) require the service provider to notify the regulator without delay if conditions change such that it no longer qualifies for an exemption?
  - c) clarify the ability of the regulator to revoke an exemption from the minimum ring fencing requirements?

Jemena supports the regulator having the ability to impose conditions on ringfencing exemptions consistent with similar powers under the NGL and NGR and as a regulatory tool to adapt to the evolving nature of existing and emerging gas markets. However, the purpose of an exemption is to provide regulatory certainty as to the scope of regulation that will apply to the relevant asset or service. This certainty can be an important enabler of projects and incorporating a specific power to vary those conditions undermines that certainty. Prospective developers of a facility need the certainty of an exemption to build business cases and develop new and innovative services including through trials. To the extent the AER needs to vary an exemption, it is open to do so within the limits of administrative laws.

The power to impose conditions on an exemption is sufficiently broad to enable the AER to tailor exemptions to suit the particular circumstances, including where necessary to impose time limitations or review mechanisms. Prescribed expiry dates and establishing the power to vary conditions should not substitute for the upfront analysis and assessment that the regulator should conduct when granting an exemption. If every exemption included a specific time limitation, this will have the adverse effect of:

- undermining the regulatory certainty that would otherwise attach to the exemption, and in turn hinder investment decisions and business innovation;
- increasing the AER's workload to review exemptions where there has been no material change in circumstances.

### **QUESTION 4: CONSULTATION PROCESS FOR VARYING OR REVOKING MINIMUM RING FENCING EXEMPTIONS**

5. Should the regulator be required to employ the expedited consultative procedure for variations to, or revocations from, a minimum ring fencing exemption, or have greater discretion in the consultation it carries out?
6. If more flexibility is to be provided, should the regulator have a high or limited degree of discretion to determine the appropriate level of consultation?

As a matter of principle, the AER should be required to use the same administrative processes to vary or revoke exemptions that it uses to grant exemptions. This is the legally accepted principle for the exercise of statutory functions and powers. The ramifications of a variation or revocation are of equal significance as the initial granting of the exemption.



## QUESTION 5: CLASS DECISIONS ON ADDITIONAL RING FENCING REQUIREMENTS

7. Should the NGR specify any additional matters (in addition to those set out in the draft Bill) that the regulator would be required to consider when making a ring fencing order? If so, what are those matters and why are they required?

We do not support expanding the scope of the AER's powers so that it can impose additional ring fencing requirements on a class of service providers or associates (s. 143A of the Draft Bill).

The AER already has a role in gas ringfencing and to date, we see no basis to change the scope and purpose of that role. Unlike electricity, the NGL and NGR contain a clear framework which ensures service providers are not vertically integrated with other related businesses. The AER's role is to monitor compliance with these requirements and to intervene where it identifies non-compliance. The AER already has the regulatory tools to carry out this function.

To the extent that the AER considers that a class of participants should be subject to specific ringfencing requirements, it is open to the AER to undertake an analysis of those participants on a case-by-case basis and then impose a consistent set of requirements on those participants. The AER has not demonstrated how the current exercise of its function and powers have failed to deliver the objectives of the ringfencing framework.

Should the AER be able to impose requirements on a class of participants, the criteria in s. 144 needs to specifically take into the account the implications of imposing a ringfencing order on a class. In particular:

- ensuring that the imposition of a class ringfencing order will apply equally across the class having regard to the size, geographic location and market in which each member of the class is or will be providing goods or services;
- ensuring that the imposition of a class ringfencing order will not adversely affect the development of competition and innovation in the markets in which the class is providing goods or services;
- whether the requirements adequately take into account how the characteristics of the class will change over time.
- Consequently, the NGR does not need to specify additional matters that the AER would be required to consider when making a ring-fencing order.

## QUESTION 5: CLASS DECISIONS ON ADDITIONAL RING FENCING REQUIREMENTS

8. What matters do you think the regulator should consider when deciding whether to grant individual service providers or associates an exemption from a ring fencing order?
9. What consultative procedure do you think the regulator should employ when:
  - a) making a ring fencing order?
  - b) granting individual exemptions from the ring fencing order?

In addition to our comments on the Draft Bill as part of our response<sup>7</sup> to the Officials' paper, we consider that the AER needs to properly consider the market development benefits of granting an exemption. As

---

<sup>7</sup> Jemena 2022, Submission to DISER on the *Consultation paper: Extending the national gas regulatory framework to hydrogen blends & renewable gases – proposed changes to NGL, NERL and National Regulations*.

noted further above, we consider that the AER should be required to grant a range of standing exemptions at the commencement of these reforms.

In the absence of these standing exemptions, we consider, in granting an exemption, the AER should grant an exemption if the AER reasonably considers:

- the activity will or is likely to assist in the development of the market for production, processing, transport or supply of renewable gases;
- the activity being provided is part of a trial or in response to a research and development grant (there be a concern that an exemption for trials would not contribute to longer-term market development, the AER could impose a conditional represents exemption in this scenario);
- the quantity of gas involved represents a immaterial portion of gas being transacted in the relevant market/jurisdiction.

#### **QUESTION 6: APPROVAL OF ASSOCIATE CONTRACTS**

10. Should the current approach of approving associate contracts be retained or amended to require approval prior to (ex ante) entering into a contract? Why?
11. If an ex ante approval framework is introduced, should service providers be required to obtain approval of:
  - a) all associate contracts and variations
  - b) only those associate contracts and variations that do not involve the supply of a reference service at the reference tariff, or
  - c) only those associate contracts and variations identified by the regulator?
12. If the regulator is given the ability to identify the associate contracts that will or will not be subject to an ex ante approval process:
  - a) what types of contracts or variations are more likely to contravene the associate contract provisions in the NGL and should therefore be subject to the process?
  - b) should the rules guide the regulator in exercising that discretion?

#### **QUESTION 7: ONUS OF DEMONSTRATING AN ASSOCIATE CONTRACT COMPLIES WITH THE NGL**

13. Should the current onus on the regulator be maintained or should service providers be required to demonstrate, to the regulator's reasonable satisfaction, that an associate contract or variation does not contravene the anti-competitive effect and competitive parity rule provisions in the NGL? Why?
14. If the change is made, should service providers be required to include any information that it seeks to rely on in its application, including material that demonstrates that the contract or variation does not contravene the anti-competitive effect and competitive parity rules?

If the change is made, should the regulator be able to seek additional information from the service provider if required?

The existing NGL and NGR framework with respect to ringfencing and by extension, the regulation of associate contracts provides a strong and balanced foundation for ensuring that service providers and their associates conduct their commercial arrangements consistent with competition law principles. The AER has not demonstrated why this existing framework requires modification and cannot simply be extended to renewable gas.

We consider the existing framework to be fit for purpose, and that no changes are required. Jemena does not support the AER's recommendation 5, as we consider that the existing provisions of the NGL

and NGR—including the mandatory notification of associate contracts to the AER and the AER’s existing powers to compel the provision of information as part of a compliance investigation—are sufficient to allow the AER to effectively monitor and enforce compliance with the NGL’s associate contract provisions.

In our view, only contracts that do not meet the NGL requirements for associate contracts should be subject to consideration by the AER. However, if the policy intention is to give the AER a blanket approval role, Officials and the AEMC should consider the implementation of a more proportionate and efficient role for the AER. Specifically:

- give the AER the power to require further information from the service provider where the service provider has not demonstrated that the associate contract meets the requirements of the NGL and NGR;
- to require the AER to approve the associate contract where the service provider has provided evidence from a third party consultant or advisor that the associate contract does not contravene the associate contract requirements under the NGL/NGR and the AER has no reason to question that evidence. In this regard, we consider precedent can be taken from the savings and transitional provisions for the capacity trading reforms for transitional firm services.<sup>8</sup> This would not limit the AER’s power to impose restrictions or revoke that approval;
- in the interests of efficiency and the marginal impact on the market, associate contracts relating to trials and other short term ventures should not require AER notification or approval (noting that the associate contract provisions under the NGL will still apply).

#### **QUESTION 8: TIME AND CONSULTATION PROCESS FOR ASSOCIATE CONTRACTS DECISIONS**

15. Should the 20 business day time limit for decisions on associate contracts be extended? If so, what should it be?
16. Should a ‘stop-the-clock’ provision be available to the regulator in this process? If so, should there be any limit on the extent to which the decision-making time limit can be extended?
17. Should the decision-making process include public consultation? If so, what would be appropriate?

Jemena is supportive of ensuring the AER has sufficient time to consider decisions on associate contracts as long as the timeframe does not act as an impediment to investment decisions and works commencing.

The AER’s approval should be limited to the AER determining whether the service provider has provided sufficient evidence to establish that the associate contract meets the competitive parity rule and is otherwise not anti-competitive. It should be sufficient to establish these requirements by the service provider submitting a report by a third party expert (approved by the AER). In these circumstances, the AER should not be required to go behind that analysis to further consider the facts. The benefit of an expert report should eliminate the need for public consultation as that report would undertake the market analysis that would otherwise be achieved through public consultation and arguably, provide greater insights. Even if there is to be a degree of public consultation, it is not necessary or commercially acceptable for the terms and conditions of an associate contract to be the subject of public scrutiny and comment. Amending and prolonging the consultation process is not aligned with the National Gas Objective to deliver gas services at the lowest, sustainable cost.

If a more efficient decision making process is adopted (as outlined above), this would be contrary to a ‘stop-the clock’ right for the AER and for this reason, we do not support a ‘stop-the-clock’ provision.

---

<sup>8</sup> Schedule 5 of the NGR.

## **QUESTION 9: CLARIFYING THE COMPETITIVE PARITY RULE**

18. Should greater guidance on the competitive parity rule be included in the NGR, or is the current definition sufficient? Why?
19. If the change is made, should the new rule be based on the obligation to not discriminate provisions in the Ring-fencing guideline (electricity distribution) 2021, or is there an alternative approach to provide greater guidance?

The competitive parity rule is based on well-established competition law principles which industry can rely on when making an assessment in relation to associate contracts. The purpose of the competitive parity rule is not to dictate the terms and conditions of a contract, but to provide the overarching principle which should be applied to associate contracts. It provides sufficient guidance and clarity for service providers to determine how to structure arrangements with related businesses.

The AER in seeking to embody further guidance in the NGR in relation to the competitive parity rule has not demonstrated any material failings with the existing rule or that the existing rules have failed to ensure arm's length transactions between related businesses.

### 3. Market transparency mechanisms

In general, Jemena does not object to extending market transparency mechanisms to covered gases. Below we provide some feedback on draft recommendation 12.

We also note that there should be appropriate and sufficient transitional arrangements in place, to provide time for market participants – especially the new or smaller entrants – to comply with the obligations.

#### Blending

It is vital to recognise that there is a distinct difference between:

- Combining different sources of methane. While natural gas, biomethane or synthetic methane are identified as separate primary gases they are all principally constituted of methane with the only difference being the source<sup>9</sup>
- Blending methane (natural gas, biomethane or synthetic methane) with hydrogen or another constituent gas.

For the regulatory framework to be proportionate and avoid unintended consequences it is important to recognise this difference and tailor the regulatory approach accordingly. We consider the above distinction needs to be recognised to ensure that regulation is proportionate. Treating blending of gases which are principally constituted of methane in the same manner of blending methane with other gases with result in unnecessary administrative costs and burden.

The new reporting requirements, outlined in recommendation 12 (blending caps and number of times a supplier has been curtailed) are aimed to provide transparency in respect of methane based gases and hydrogen. However, unless carved out, the reporting requirements will capture when a pipeline service provider combines natural gas, biomethane or synthetic methane which doesn't have the same blending limits as when hydrogen and methane based gases are mixed.

It is also important to exclude curtailment which occurs when the upper limit of pressure has been reached as this does not relate to composition limits when blending methane based gases and other gases such as hydrogen.

These exclusions will ensure that the policy intent of the reporting obligations is achieved without incurring unintentional or unnecessary administrative burden and costs.

#### Blend processing facilities with a nameplate rating of 10 TJ/day or more

We are concerned that the 10TJ/day reporting threshold is not proportionate, as facilities blending small amounts of hydrogen may be captured imposing reporting obligations on smaller facilities.

Consider an example where a blend processing facility:

- Withdraws gas from a distribution network, blends it with hydrogen, and then reinjects the gas blend back into the same network;
- produced a gas blend which contains 2% hydrogen;
- had a nameplate capacity of 10TJ/day in respect of the injection into the distribution network.

---

<sup>9</sup> For instance naturally occurring, produced from biogas, methanation of substances derived from the processing of biomass, or methanation of carbon dioxide captured from air

In this case, the facility would only inject net energy from hydrogen of 0.2TJ/day (2% of 10TJ) but would exceed the 10TJ/day reporting threshold. A possible solution would be to only require reporting where the net increase in energy is above 10TJ/day.

## 4. Short-term trading market

### 4.1 Matched allocation mechanism

The policy intention of Energy Ministers is to bring renewable gases into the scope of the regulatory framework to ensure that:

- regulatory barriers do not restrict proposed investments in projects involving the supply of a NGE or the facilities and activities involved in the supply; and
- existing regulatory arrangements and protections continue to work as intended where NGEs are supplied.

The current regulatory framework includes the matched allocation mechanism, which allows Jemena to meet its obligation to procure "unaccounted for gas" for operational requirements of its Short Term Trading Market (STTM) distribution system outside of the STTM.

The matched allocation mechanism (MAA) was made a permanent feature of the framework in 2015 when the AEMC determined that:<sup>10</sup>

*The Commission is satisfied that the final rule will, or is likely to, contribute to the National Gas Objective as it will assist Jemena to better manage its obligations under its Access Arrangement and the gas Retail Market Procedures to replace unaccounted for gas in its distribution network, given the role of the distributor and particular treatment of unaccounted for gas in the NSW gas retail market.*

*The Commission's reasons for making the final rule are:*

- *Unaccounted for gas in the NSW gas retail market cannot be forecast accurately on a daily basis by Jemena, as there is limited daily metering information that is available to it that would facilitate more accurate daily forecasts and, therefore, gas nominations to the Australian Energy Market Operator by Jemena.*
- *The overall quantity of unaccounted for gas is relatively small as a proportion of total network quantities.*
- *To be able to participate effectively in the STTM and appropriately manage any potential exposure to trading risk, trading participants need to have the ability to accurately forecast their gas supplies to, or withdrawals from, the hub. This requires trading participants to have access to reliable and updated information as a basis for their decision-making. In light of these considerations, including the reasons cited above, managing unaccounted for gas quantities solely through the Sydney STTM could potentially be more challenging for Jemena, as compared to the matched allocation process.*

Each of the reasons identified by the AEMC still hold true.

An important characteristic of renewable gases is their decentralised nature. Hydrogen and biomethane are not produced in gas fields and do not need to be transported via transmission lines. Instead they can be produced and injected directly into distribution systems. This characteristic needs to be taken into account in considering how the regulatory framework is extended.

Our view is that in extending the regulatory framework to accommodate renewable gases, the matched allocation mechanism should also be extended to cover distribution connected facilities. This approach will remove a barrier to Jemena in procuring renewable gases – an important tool to help underwrite new

---

<sup>10</sup> AEMC 2015, *National Gas Amendment (Matched allocation process in the STTM) Rule 2015*, Rule Determination, pp i-ii

projects and facilitate a renewable gas future. It will also work to ensure that the existing regulatory arrangements continue to work as intended.

In contrast, not extending the matched allocation mechanism will create a hurdle for Jemena to procure decentralised green gas (which is not in place for natural gas) and result in the regulatory framework treating renewable gases different to how natural gas is currently treated.

#### **4.2 Draft Recommendation 16: Extend the STTM shipper registration category to injections from blend processing facilities**

We support draft recommendation 16, except to the extent it may automatically bring sale/purchases of UAG within the operation of the STTM, inconsistent with the framework and concepts of the MAA.

#### **4.3 Draft Recommendation 18: Modify the obligation for facility operators to provide expected capacity information**

We welcome draft recommendation 18.

#### **4.4 Draft Recommendation 19: Allow for facility aggregation and submission of offers by aggregated facility**

We welcome the draft recommendation to allow facility aggregation. We believe this will provide flexibility to the market and streamlines compliance obligations removing a potential barrier to the development of foundation projects for production or blending of covered gas.

Aggregation of larger facilities is welcomed, subject to ensuring that aggregation of a number of large (>10TJ/day) facilities will not adversely affect the safe and reliable operation of the network. Aggregation of several facilities located in diverse parts of the network could mean that an issue affecting one facility may affect the market, and/or there may be no visibility of granular, facility-specific information, which may prevent timely and effective diagnosis of issues faced by the affected facility.

Jemena considers that facilities with an individual capacity of over 10 TJ/day, aggregation should be permitted only where AEMO and the relevant pipeline service provider are satisfied that the aggregation will not or could not adversely affect the safe and reliable operation of the network.

We also consider that while aggregating the reporting of smaller distributed injection points that combine to be greater than 10 TJ/day should be permitted, again this should only occur where AEMO and the relevant service provider do not object.

#### **4.5 Draft Recommendation 20: Streamline the process for establishing new Custody Transfer Points**

While we support a streamlined process for establishing new Custody Transfer Points (CTPs), this approach removes flexibility which is currently in the Rules where CTP does not need to be established for a new injection facility, although this is the usual situation.

We also note that AEMO currently has the power to exempt parties from the requirement to register as participants in the STTM (Rule 135AG). We consider that an equivalent power should exist to enable AEMO to exempt production facility and related injection and CTPs from STTM obligations.

This approach will result in a consistency across the STTM and build-in the necessary flexibility to enable a renewable gas future (for instance allowing small-scale trials to inject directly without needing to trade in the STTM).



#### **4.6 Draft Recommendation 21: Allow distributors to agree to an alternative gas quality specification at a CTP**

Jemena supports giving distributors the flexibility to accommodate the requirement of a particular upstream operator (such as a producer or operator of gas blending facility), subject always to the safe and reliable operation of the network.

#### **4.7 Draft Recommendation 22: Expand existing registration categories in regulated retail markets**

Draft recommendation 22 proposes amending the NGR definition of self-contracting user (SCU) to include blend processing facilities. It is not clear that this is an appropriate amendment as, typically, SCUs do not inject gas into the network. If a generic term is to be used, it may be useful to consider a term which does not already have a commonly understood (and specific) meaning.

## 5. Consumer protections

Overall, Jemena supports the extension of existing consumer protection reforms to renewable gases. The social licence for the industry to operate is critical for the current operation of the market and will become increasingly important in the future. As such, Jemena is supportive of measures that will meaningfully build a greater understanding of the potential green gases to play a key role in our net-zero future.

We have been active participants in the Fuel Fuels Cooperative Research Centre (Future Fuels CRC). A key area of the Future Fuels CRC is Social Acceptance, Public Safety & Security of Supply. This program of work looks at how to best engage with communities on low carbon fuel investments, with the aim of achieving outcomes such as building a balanced, trustworthy source of information and understanding how the social licence for adoption and use of low-carbon fuels can be established.

Further, Jemena, along with several industry peers, recognises the benefit of building general awareness in the market about renewable gas solutions, their viability and the critical role they can play in Australia's future energy mix. Our marketing communications strategy will target key stakeholder groups and gas advocates including trade partners and appliance manufacturers, builders and developers, architects and energy consultants, industrial and household gas users, as well as some transport and government sectors. The marketing activities will range from video and radio advertising to educational videos, print and digital content, all focused in Jemena's NSW network jurisdiction. We therefore consider that at this stage there is no need for a mandated regulatory requirement to notify customers, with the mandatory notification occurring when there is a material change in the nature of gas being supplied.

### 5.1 Draft Recommendation 23: Require distributors and retailers to provide notices of a transition to a NGE

Draft recommendation 23 contemplates the creation of a new rule 147C, which requires distributors to notify retailers and AEMO in writing of a transition to a NGE. The notice has three main components:

- the date of transition to the NGE;
- the type of NGE that a distributor is licensed to transport and limits on blending;
- the impact of the NGE on volume of gas consumed by customers and heating values compared to the supply of natural gas. In the case of a NGE which is a gas blend, the potential impact may be expressed as a range, but must include the impact at the highest permitted blend limit.

If distribution networks were to transition to transport a gas which could not be used in the same way natural gas is currently used (i.e. a gas other than an NGE) it would be appropriate to inform of this transition and the impact it would have.

However, NGE's by their very nature will not have any implications for customers. A gas distribution network delivering different NGE's to customers is analogous to an electricity network delivering electricity from different sources. Just as

- gas networks supply gas from different sources (natural gas from different gas fields, biomethane, low level hydrogen blends etc.) electricity networks supply electricity from different sources (gas fired generation, coal, roof-top solar, hydro etc.);
- the mix of gas supplied will vary depending on injections as does the mix of electricity generators;
- the gas molecules of gas supplied to each customer will be different to the molecules purchased by their retailer, the electricity delivered to a customer cannot be attributed to the energy procured by their retailer; and

- the heating value of gas changes depending on the source of gas (including from different sources of gas) and is reflected by heating value zones, line losses different for different parts of an electricity network and are accounted for by distribution loss factors.

Just as electricity distribution networks do not notify customers of difference sources of electricity or the introduction of roof-top solar as this information is not actionable by consumers, notifications from gas networks that a network is transporting an NGE will not provide helpful or actionable information. Accordingly, we do not support the proposed requirement to notify of a transition to a NGE.

Below we provide further information on transition dates, heating value zones and how gas networks commingle gas molecules.

### **Transition date**

There is no fixed date a gas distribution network transitions to an NGE as there is no transition. The JGN is capable of transporting natural gas, biomethane or synthetic methane now. What gases are actually transported depends day to day on what gases are injected into our network.

### **Heating value zones**

Differences in heating values of difference gases can be adjusted for in the same way that differences in heating values of natural gas are currently accommodated.

To determine the amount of gas consumed by a consumer in energy terms for billing purposes, gas volumes measured by our meters are multiplied by the heating value of that gas. The gas heating value is measured by gas chromatographs (GCs) at distribution receipt points and the appropriate flow-weighted value is based on the heating value zone where the meter is installed.

If injection of a NGE into the network results in changes to heating values, it is possible to either adjust the heating values in a given zone or create a new heating value zone to ensure that customers are accurately billed. Accordingly, any material differences in heating values of difference gases can be accommodated for.

### **The gas procured by a retailer may not be supplied to that customer.**

A retailer purchases gas at the receipt point, which is then transported to a delivery point on our network. Once a gas (natural or covered) is injected the gas molecules commingle with each other and are spread across the network. It is not possible to transport specific gas types to certain regions or postcodes. For this reason, it is not possible to identify specific customers that have received a gas blend.

### **5.2 Draft recommendation 24: Require retailers to specify in customer retail contracts if a NGE is being sold**

We do not consider that this requirement will achieved the intended effect, as the gas procured by a customers retailer may not be delivered to that customer (see above).

### **5.3 Draft recommendation 25: Include NGE transition information in historical billing information**

As discussed above, we support informing customers where the objective is to improve transparency and consumer confidence in gas markets. However, it is not possible to identify a specific transition date.

# Gas Network Innovation Scheme (GNIS)

Draft Framework for Consultation

---

October 2021

# Contents

<b>Message from the Gas Distribution businesses .....</b>	<b>3</b>
<b>1. Background .....</b>	<b>4</b>
<b>1.1 The problem.....</b>	<b>4</b>
<b>1.2 The GNIS solution.....</b>	<b>6</b>
<b>1.3 Joint engagement on a GNIS .....</b>	<b>6</b>
<b>2. The Gas Network Innovation Scheme .....</b>	<b>10</b>
<b>2.1 Joint Innovation Group .....</b>	<b>10</b>
<b>2.2 Identifying eligible projects .....</b>	<b>11</b>
<b>2.3 Compliance reporting.....</b>	<b>13</b>
<b>2.4 AER review and determination.....</b>	<b>14</b>
<b>2.5 Application of the scheme.....</b>	<b>14</b>
<b>3. Glossary.....</b>	<b>16</b>
<b>How we have reflected stakeholder feedback .....</b>	<b>17</b>
<b>Appendix B: Regulatory framework.....</b>	<b>23</b>

## Message from the Gas Distribution businesses

Energy systems around the world are undergoing significant change. Digitisation, decentralisation and decarbonisation are creating new opportunities and challenges for how the gas distribution businesses (GDB) deliver for our customers today, and in the future.

Australian Gas Infrastructure Group, Jemena Gas Networks and AusNet Services (the GDBs) are responding. We are each taking advantage of new technologies to improve the quality and reduce the cost of providing services. We have also taken steps to facilitate the uptake of renewable gases. For instance, Australian Gas Infrastructure Group are currently delivering a 5% renewable gas blend to more than 700 homes in South Australia. While Jemena Gas Networks has launched a digital solution to mitigate the number of estimated reads allowing customers to submit self-reads via a mobile app.

However, we have also identified that there are financial disincentives and regulatory impediments to undertaking projects where outcomes are uncertain and where benefits flow directly to customers. This has resulted in a reduced level of innovation and missed opportunities to deliver lower costs and higher quality services to customers.

We have worked collaboratively – with each other and with key stakeholders, including customers – to develop a solution that will facilitate and promote innovation amongst GDBs in a way that is consistent with the National Gas Objective (NGO). We have engaged on whether a Gas Network Innovation Scheme (GNIS) is needed, what principles should apply and finally co-designed key elements. Section 1 provides an overview of this process.

The result is a draft GNIS (outlined in section 2), largely based on the Demand Management Innovation Allowance Mechanism (DMIAM) which applies to electricity networks. We believe that this draft GNIS provides a more adaptable and fit-for-purpose funding mechanism for innovation projects, which will complement and enhance existing measures. The GNIS will align the interests of network service providers with the long-term interests of consumers and drive better customer outcomes, in accordance with the NGO (regulatory framework is outlined in Appendix B).

We are now seeking your views on whether we have got the draft GNIS correct. We will then integrate any further feedback before finalising the framework. Following this, we will individually engage with our customers and, if they are supportive, include the GNIS in our business plans.

You can provide your feedback by email, or online [here](#).

# 1. Background

## 1.1 The problem

Examples of financial disincentives and regulatory impediments to innovation are the need to respond quickly to innovate, the relatively more uncertain nature of innovation projects and benefits which flow directly to consumers (so while the costs are shared, the benefits are not).

### 1.1.1 Timing issues

Regulatory proposals are developed with consumers two years prior to the start of an Access Arrangement (AA) period and are in place for five years – which means that operating costs and investment costs and benefits need to be forecast well in advance. This issue is somewhat mitigated by largely recurrent operating costs and relatively clear investment needs which often take years to plan and prepare for. For instance, the benefits and costs of mains replacement projects is clear – and, due to past experience, relatively certain.

This is not the case for innovation projects. Projects are typically first-of-a-kind or are conceived in response to a specific problem. Waiting until the next AA period to undertake an innovative project can result in a project being delivered too late and customers missing out on the benefits of innovation.

### 1.1.2 The uncertain nature of innovation projects

The benefits of innovation projects are, by their very nature, risky and uncertain. So while a project could provide clear net benefits to consumers on a risk-adjusted basis (that is accounting for the risk that a project will not succeed), businesses cannot provide a level of confidence around a specific innovation project as is typically the case for other investments. For instance, businesses are often unable to produce the data required to show that the costs exceed the benefits.

#### Case study: Smart metering

In 2017 Multinet Gas proposed a digital gas metering pilot study in its 2018-22 AA. The project was not approved largely due to the risky and uncertain nature of the project.

The pilot study proposed capex of \$2.1 million (\$2017) for the incremental cost of 10,000 digital meters and \$0.6 million (\$2017) for IT capex associated with the trial. The AER considered that Multinet Gas did not provide convincing evidence on the potential benefits. The AER's consultant found the technology was still in development and had not yet matured, Multinet Gas did not produce a financial cost benefit analysis and that without the results of Phase 1 (integrating a small number of functional meters into the United Energy AMI Network and demonstrating remote communication), the consultant was unable to

determine whether the business should progress to Phase 2 (10,000 meter implementation into Multinet's network and United Energy AMI framework).<sup>1</sup>

Since then, no smart meter trial has commenced in Australia. In comparison, internationally gas smart meters have or are being rolled-out in Italy, Netherlands, UK, France, Ireland, Japan, Taiwan, Belgium, California and New Zealand – largely on the basis of increasing retail competition (by facilitating easier switching) and energy efficiency savings flowing through to consumers. If these factors could drive a 1% reduction in the average residential bill in Australia, it would deliver consumer savings in the order of \$46 million per year across the GDB's regulated networks. This potential shows how innovative projects can deliver large consumer benefits, which more than offset the risk of the project not succeeding and the upfront uncertainty.

The consequence of the AER rejecting Multinet Gas' digital gas metering pilot study is that 1) GDBs and other industry stakeholders (including customers) do not have the data to support the business case for widespread use of smart meters in Australia and 2) consumers have forgone the benefits in terms of lower bills that could have been achieved.

### 1.1.3 GDB's incur the costs but don't share in the benefits

Compounding the difficulties in forecasting innovation project costs and benefits, is the application of the efficiency benefit sharing scheme (EBSS) and capital expenditure sharing scheme (CESS), which provide incentives to reduce costs. This means that unless cost savings can be achieved inside the regulatory period, undertaking an innovation project is likely to result in a financial penalty to the business.

For instance, if an innovation project delivers financial benefits in the subsequent regulatory periods, 100% of the benefits will flow through to consumers through lower expenditure allowances. However, the costs will be partly incurred by the GDB resulting in a negative Net Present Value (NPV) for a business.

Similarly, undertaking a project which largely benefits consumers (for instance through energy efficiency savings) will again result in a negative NPV – as the business will incur some of the cost but not receive any offsetting benefit.

---

<sup>1</sup> AER 2017, *Draft Decision Multinet Gas Access Arrangement 2018 to 2022, Attachment 6 – Capital Expenditure*, p. 6-36 – 6-37



## 1.2 The GNIS solution

A GNIS has the potential to remove the barriers to innovation projects by:

- Providing a continuous incentive to innovate throughout the regulatory period as the need for innovation emerges (much like current expenditure incentive schemes that encourage efficiencies to be revealed when they arise); and
- Providing additional flexibility to deliver innovation, including to respond to requirements identified through previous innovation and customer feedback.

A GNIS could add further value by:

- Encouraging greater collaboration between stakeholders (business, research and customers) to work together to deliver innovation; and
- Requiring learnings to be shared with all stakeholders rather than being held by the business that delivers that innovation (resulting in improved efficiency).

## 1.3 Joint engagement on a GNIS

The GDBs are strong supporters of innovation as we see the likely long-term benefits of innovation to our customers and accordingly to the wider gas industry.

Insights from recent customer engagement processes across the GDBs have highlighted customers expect businesses to innovate and plan for the future, whilst balancing affordability. Customers are particularly supportive of innovation where it meets their key needs from gas networks, including affordability, decarbonisation, safety and reliability.

**Table 1.1: Summary of customer insights**

Network	Insights
AusNet (2023-28)	Customer support for innovation projects that help AusNet deliver to their core needs. An expectation that gas networks work collaboratively with the private sector and other networks on innovation initiatives.
AGN Victoria & Albury, MGN (2023-28)	Customers see innovation as an enabler to transition towards cleaner energy, and more affordable and safe gas supply.
AGN South Australia (2021-26)	Strong customer support and scheme proposal included. Stakeholders identified the need for further engagement on scheme design.
Jemena Gas Networks (2020-25)	Customers expect JGN, along with other parts of the energy industry, to innovate and plan for the future so that they can continue to use gas in the longer term, as we move to a low-carbon future.

The GDBs sought to jointly co-ordinate sector-wide engagement on gas network innovation. This engagement was intended to build a collaborative approach between GDBs and key sector stakeholders on innovation, which ultimately could inform the development or revision of future gas AA proposals and broader engagement programs.

The overall objectives of the GNIS consultation process are to:

- Promote innovation in gas;
- Understand levels of stakeholders' support for the development of a customer-funded gas innovation scheme;
- If there is majority stakeholder support, develop a network innovation scheme that has been shaped by stakeholders in the interests of customers, and is capable of being accepted by our stakeholders;
- Develop a scheme that should be simple to apply for and access funding (low administrative burden on GDBs and the AER).

The joint engagement program was undertaken between September 2020 and October 2021 across two key phases to first understand levels of support, and if there was support, to co-design a potential scheme.

The engagement was supported by KPMG as the independent engagement partner and a stakeholder reference group which provided ongoing advice and feedback on the design and delivery of the GNIS engagement program. Reference group membership included ATCO, Evoenergy, the AER, Energy Networks Australia, Energy Consumers Australia and APA.

### **1.3.1 Summary of customer and stakeholder feedback**

In Phase 1 the GDBs sought to understand the levels of support among stakeholders for increasing the incentives available to GDBs to innovate. The discussion focused on understanding current constraints to innovation, the potential benefits to customers of more innovation, and the priority focus areas requiring additional innovation effort.

In summary:

- there was general support for the idea of GDBs investing in innovation;
- stakeholders largely agreed that the current mechanisms do not sufficiently enable and incentivise innovation; and
- customer benefit was a key consideration - any scheme design and project selection should prioritise customer benefit.

Understanding of why a GNIS is required improved over the engagement process after exploring the limitation of other incentives and external funding mechanisms for innovation in the sector.

At the conclusion of Phase 1, two-thirds of consumers and their representatives were supportive of further exploring and co-designing, a GNIS, while retailers were the least supportive cohort of stakeholders, taking overall support to 50%.

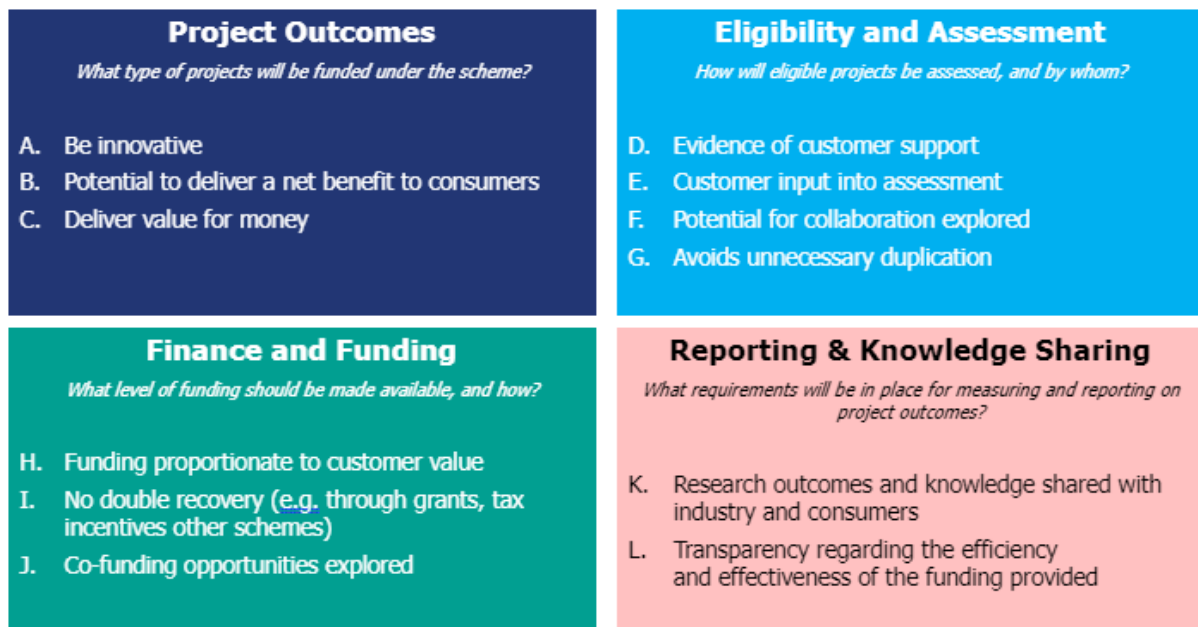
For further details on Phase 1 engagement process and outcomes, refer to: KPMG, Exploring the potential design and delivery of gas network innovation schemes in Australia, Stakeholder Engagement, Phase 1 Report, May 2021.

Based on feedback from stakeholders during the first phase, the GDBs decided to proceed to Phase 2, which sought to:

- Collate, and where possible align, stakeholder views on the key design elements of a GNIS;
- Identify what information, activities or research would be required to develop a GNIS capable of acceptance by key stakeholders and the AER; and
- To demonstrate ongoing commitment to our Engagement Principles of genuine and committed, integrate, clear, accurate and timely information, accessible and inclusive, transparent and measurable.

To facilitate this, we held a two-part workshop with consumers and consumer representatives where we presented some draft principles (see Figure 1.1) that were developed based on their feedback through Phase 1 and examples of other incentive schemes and asked; Are these the right principles? What changes are required? Is anything missing?

**Figure 1.1: First draft of principles presented during Phase 2**



We found that consumers and consumer representatives viewed the draft principles as being both reflective of the feedback provided in Phase 1 and based on good regulatory practice drawing on similarities from other schemes nationally and internationally. They were also positive about the commitment to demonstrate customer benefit, customer input into assessment of projects, and transparent reporting.

Specific feedback from consumer stakeholders on the draft principles centred on the funding mechanism and ensuring appropriate reporting, governance and knowledge sharing requirements.

Retailer representatives were not supportive of a GNIS, or incentive mechanisms for distributors in principle, expecting that GDBs should fund innovation as part of their regular expenditure.

For further details on Phase 2 engagement process and outcomes, refer to: KPMG, Exploring the potential design and delivery of gas network innovation schemes in Australia, Stakeholder Engagement, Phase 2 Report, October 2021

Following completion of Phase 2, the GDBs have taken all of the feedback received throughout the joint engagement and drafted this GNIS framework for consultation. A comprehensive summary of how we have incorporated and responded to stakeholder feedback is provided in Appendix A.

## Consultation questions on our GNIS engagement

1. Are you comfortable KPMG's Phase 2 report accurately captures the Phase 2 engagement process and feedback received?
2. Do you have any further comments or feedback on the engagement we have undertaken?

## 2. The Gas Network Innovation Scheme

The GNIS will provide an ex-ante use-it-or-lose-it allowance to undertake projects which are expected to result in customer net benefits.

Prior to proposing a GNIS for an AA period, a GDB will engage with its customers on how it should be applied. This will include, but is not limited to, the amount of funding, which is expected to be in the order of \$1-\$2 per customer.

When accessing funds under the GNIS, a GDB will need to have presented its eligible projects to a Joint Innovation Group, which includes customer and stakeholder members, who are able to ask questions and provide feedback for the GDB to consider.

To be eligible, a project must be:

- Innovative – which means based on new or original concepts or involves technology or a technique not previously implemented in the distribution of gas and in the form of a trial, development or demonstration;
- Likely to result in customer benefits through price, quality or reliability;
- Have an expected payback period of 6-15 years; and
- Not be eligible for funding under other state or federal government schemes.

The GDB will undertake ongoing engagement with customers and stakeholders on its GNIS activities and will make key reports and learnings related to these activities publicly available.

Annually, a GDB will lodge a compliance report which sets out how the expenditure incurred is consistent with the GNIS project principles. A GDB will also commit to providing additional disclosure information in its annual Regulatory Information Notice (RIN) which specifies the opex and capex incurred.

On an annual basis, the AER will review the compliance report and determine what amount is eligible to be funded from the GNIS.

Eligible GNIS costs will be excluded from opex and capex incentive schemes.

The difference between the ex-ante funding provided and the actual spend (adjusted for the time value of money, including differences in spend timing) will be returned to customers in the second year of the subsequent AA period through the tariff variation mechanism.

### 2.1 Joint Innovation Group

- 1) A Joint Innovation Group (**JIG**) will be established by GDBs proposing to adopt the GNIS.

- 2) In respect of the GNIS, the purpose of the **JIG** is to:
  - a) Collaborate and share innovations both across GDBs and the wider industry.
  - b) Identify opportunities to collaborate on projects, determine which network a project is most suited to, and avoid duplication where several networks undertake the same project.
  - c) Provide advice on how to develop a project so that it can comply with the GNIS principles.
  - d) Provide guidance and feedback on whether a proposed project would comply with GNIS principles.
  
- 3) The **JIG** will consist of a group of multi-disciplinary people including:
  - a) Representatives from each of the participating GDBs
  - b) Advisory members, which could include members who are:
    - i) Customers.
    - ii) Customer representatives.
    - iii) Government representatives, including technical regulators.
    - iv) Academics or specialists in innovation or other related subject matters.
    - v) Other interested parties from across the gas sector.

*To be clear:*

*GDBs decide whether to undertake a project.*

*The AER decides whether a project complies with the GNIS principles such that a project can be funded under the GNIS.*

## 2.2 Identifying eligible projects

- 4) All project expenditure to be funded through the GNIS must comply with the following project principles:

### **Project outcomes**

- a) Be innovative – which means:
  - i) that the project is based on new or original concepts; or
  - ii) involves technology or techniques or concepts that differ from those previously implemented or used in the relevant market; or
  - iii) is focused on customers in a market segment that significantly differs from those previously targeted by implementations of the relevant technology, in relevant geographic or demographic characteristics; and

- iv) that the project must not currently be 'business as usual' practice for an Australian gas distribution network.
- b) Likely to deliver a net benefit to consumers – A GDB must reasonably expect that net customer benefits will be achieved in within three AA periods (15 years) and that the customer benefits are sufficient to warrant undertaking a project despite the uncertainty.
- c) Delivers value for money – A project must be capable of realising customer benefits that exceed the costs of the project, taking into account that the risk that the project may not be successful.
- d) Clear, stated objectives – A GDB must clearly articulate at the outset of a project the customer benefit by identifying the outcome that the innovation project is aiming to achieve.

### **Eligibility and Assessment**

- e) Evidence of customer support – A GDB must demonstrate that customers support the project. Support could be demonstrated through results of customer surveys, direct engagement or feedback from the JIG.
- f) Customer input into assessment – A GDB must engage customers on how they will consider, prioritise and assess potential projects to be funded under a GNIS.
- g) Potential for collaboration – For this principle to be met, a GDB must explore collaboration opportunities across other gas networks, governments and other stakeholders including retailers and customers.

*Note: that this principle does not require collaboration, as this approach might not be appropriate for some projects. The principle only requires the potential for collaboration to be explored and considered.*

- h) Avoids unnecessary duplication – A GDB must ensure that any proposed project does not duplicate what has already been undertaken both in Australia and overseas.

*Note this principle does not disqualify projects which build on lessons learnt overseas or adapting projects to Australian or network specific circumstances.*

### **Finance and Funding**

- i) No double recovery – A GDB must not seek recovery of project costs twice, either through government grants, R&D tax incentives or through the EBSS and CESS schemes. To ensure this occurs a GDB will net off any external funding for projects and tax incentives, exclude material cost savings from the operation of the EBSS and CESS and include material cost savings in future opex and capex proposals (to ensure that 100% of the benefits flow through to consumers).
- j) Co-funding opportunities explored – A GDB must explore the opportunity for funding to be provided through other avenues to complement or partially replace funding via the GNIS mechanism.

## Reporting & Knowledge Sharing

- k) Transparent reporting – A GDB must periodically report, to industry, consumers and other interested stakeholders, at all stages of a project on:
  - i) Project outcomes and knowledge learned, including on projects that are unsuccessful.
  - ii) The efficiency and effectiveness of the funding provided.
  - iii) The information must also be published on a knowledge sharing platform (either for the entire industry or on a GDB’s individual websites).
- l) Proactive, proportionate and accessible communication – In reporting information, a GDB must go beyond publishing a report on a website. For each project a communication strategy must be developed which explains how progress and outcomes will be reported. Depending on the size of the project, this could range from a report and periodic updates to the JIG, to annual webinars, site visits and videos.

## 2.3 Compliance reporting

- 5) Each year, as part of the annual RIN a GDB must submit:
  - a) a compliance report which:
    - i) is in a form suitable for publication;
    - ii) provides a list and description of each eligible project on which the allowance was spent;
    - iii) for each project provides:
      - (1) The nature and scope;
      - (2) How and why the eligible project complies with the project principles;
      - (3) How the GDB has engaged with and sought customer and stakeholder feedback on the project;
      - (4) The costs incurred to date, in that regulatory year, and expected to be incurred in total over the duration of the eligible project.
  - b) a GNIS RIN template (included as an ‘additional disclosure’) which sets out
    - i) GNIS opex and capex spend by project.
    - ii) Contributions towards the project from third parties, including Government, other GDBs etc.
- 6) A GDB will commit to complying with the AER’s confidentiality guidelines in respect of information provided in compliance reports. For instance, if a compliance report contains confidential information, a non-confidential version of the report in a form suitable for publication must also be submitted.



## 2.4 AER review and determination

- 7) The AER will review the expenditure a GDB has incurred in each regulatory year in relation to this mechanism to ensure compliance with the project criteria.
- 8) For each regulatory year, the AER will determine, and inform the GDB of, the amount of the allowance recoverable through the GNIS.
- 9) In making this determination the AER will have regard to any guidance or advice provided by the JIG or the GDB's Customer Council.
- 10) To be clear this amount will exclude any amount provided not funded by the GDB (e.g. funding from other businesses, retailers, governments, tax incentives) or funded via non-GNIS forecast opex or capex allowances.
- 11) The total amount of expenditure determined by the AER as recoverable will not exceed the total GNIS allowance for the AA period.
- 12) The AER may reduce the amount of the allowance recoverable where it considers that the principles have not been met.

*Note the AER's determination of recoverable expenditure under the scheme will be applied as set out under 2.5 Application of the scheme, below.*

## 2.5 Application of the scheme

- 13) The application of the scheme is to be set out in a GDB's AA which will set out:
  - a) The ex-ante funding amount.
  - b) A mechanism in the AA to return any unused allowance in the second year of the subsequent AA period. The difference will be calculated:
    - i) Over the course of the AA period (enabling a GDB to re-profile spend).
    - ii) To adjust for the time value of money, including to adjust for any spend reprofiling.
  - c) That any GNIS spend will be excluded from the operation of any EBSS or CESS applicable to the AA.

## Consultation questions on the draft GNIS framework

3. Do you have any feedback on the proposed role, membership or any other aspect of the Joint Innovation Group?
4. Do you think the principles and critical detail outlined in section 2.2 will ensure investment in the right innovation projects?
5. Do you have any feedback on the proposed compliance reporting?
6. Is the AER's review and determination role clear and appropriate?
7. Do you support the mechanism to hand back to customers any unused or ineligible funds?
8. Are you comfortable the draft GNIS framework could deliver on our objective of promoting innovation in gas?
9. Do you agree that the draft GNIS framework has been shaped by stakeholder feedback, in the interest of customers?
10. Are you comfortable the draft GNIS framework will be simple to apply for and access funding (low administrative burden on GDBs and the AER)?
11. Do you have any other comments or feedback on the draft GNIS framework?

### 3. Glossary

Shortened form	Extended form
AER	Australian Energy Regulator
AA	Access Arrangement
CESS	Capital Expenditure Sharing Scheme
EBSS	Efficiency Benefit Sharing Scheme
GDB	Gas Distribution Business
GNIS	Gas Network Innovation Scheme
JIG	Joint Innovation Group
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
R&D	Research and Development
RIN	Regulatory Information Notice

Appendix A:

## How we have reflected stakeholder feedback

The tables below provide a summary of the stakeholder feedback received during the GNIS joint stakeholder engagement, our response and how we have reflected this in the draft framework we have developed for consultation.

**Table 3.1 Project outcomes**

Feedback		Our response
<b>Consumers and their representatives</b>		
Innovation projects should have a high likelihood of delivering benefits to consumers	Partially agreed	We have updated the principle from 'potential' to 'likely' however consider it is important to recognise the inherently risky nature of innovation and that even where a project is not successful, there can be important learnings.
Clarification of the principle 'be innovative' may be required in order to ensure consistent interpretation.	Agreed	Further context added to the 'be innovative' principle.
Innovation projects should be outcome-focussed and clarify an objective before commencing.	Agreed	Agreed. Further context added to the 'Clear, stated objectives' principle.
Clarification of what benefits to consumers are acceptable may be required. For example, whether benefits are required to apply across the market or to specific networks.	Noted	As above.
Stakeholder views vary about which types of projects are acceptable. While some stakeholders were concerned that a GNIS would support GDBs to inject low-carbon Hydrogen into the network, others supported this outcome.	Noted	We have included the principle of evidence of customer support. The scope and targets of the GNIS would be an area that can be agreed by each GDB, its customers and stakeholders. Based on current research by the GDBs, key areas of importance for innovation are affordability, decarbonisation, safety and reliability.
Project benefits should be expected to be realised after the five-year regulatory period in which the project is initiated.	Agreed	We have noted the intention that project benefits should accrue over a period of 6-15 years

Feedback		Our response
There were some divergent views about which benefits, or outcomes should be prioritised; while some stakeholders expressed the view that projects should be expected to deliver financial benefit to consumers, others indicated that innovation across a wider spectrum of benefits is important (e.g. social, environmental, financial).	Noted	As above
Projects should be clearly and explicitly defined from the outset.	Agreed	Further context added to the 'Clear, stated objectives' principle.
Projects should seek to build on existing research and innovation, where possible.	Agreed	Further context added to the 'Avoids unnecessary duplication' principle, as well as in outcome reporting and knowledge sharing requirements
<b>Retailers</b>		
Projects eligible for funding should be required to be highly innovative – that is, not 'business as usual' for a network.	Agreed	Further context added to the 'be innovative' principle.

**Table 3.2 Eligibility and assessment**

Feedback		Our response
<b>Consumers and their representatives</b>		
Customers should be engaged throughout all stages of innovation projects.	Agreed	Added to the 'transparent reporting' principle.
Consideration should be given to making collaboration between networks a key criteria for eligible projects.	Agreed	Further context added to the 'potential for collaboration' principle to require collaboration to be explored and considered (as it may be appropriate to not collaborate on delivering a project and to just share the findings).
Networks should work together to assess innovation projects in order to ensure projects are undertaken by the most appropriate network.	Agreed	This will occur through the Joint Innovation Group (as is set out as an express purpose).
Where innovation projects are proposed on the basis that the expected cost savings will outweigh the cost of the project, networks should provide upfront funding in addition to the GNIS funding to demonstrate that there is a real expectation that net benefits will be delivered.	Noted	We understand that this feedback was provided on the assumption that a GNIS would fund innovations that would lead to efficiency or cost savings which in part would flow through to financial benefits for gas distribution benefits.  This is not the case. The intention of the GNIS is to undertake projects which deliver net customer benefits.

Feedback	Our response
	<p>If a project delivered cost savings within a regulatory period that offset the costs, then a GNIS is not needed (as the project would fund itself). We have added some context to the 'No double recovery' principle to make this clear.</p> <p>We note projects which deliver cost savings in future regulatory periods would be eligible and customers are the beneficiary of future cost savings through lower expenditure allowances.</p>
<p>Networks' consumer advisory panels should be able to recommend projects are ended early if they fail to meet milestones.</p>	<p>Noted</p> <p>While ultimate review and determination would rest with the AER (as it relates to determining what prices a GDB can charge), our intention is the JIG will be able to share its recommendations with the GDBs and the AER for consideration in project decision making.</p>
<p>Projects should be assessed by multi-disciplinary groups which include consumer representatives.</p>	<p>Agreed</p> <p>Incorporated into the composition of the JIG.</p>
<p>The scheme should be sufficiently flexible to enable networks to cancel and commence projects within a five-year reset period.</p>	<p>Agreed</p> <p>This has been implemented through the adoption of a use-it-or-lose it allowance scheme based on the AER's Demand Management Innovation Allowance Mechanism.</p>
<p><b>Retailers</b></p>	
<p>There should be mechanisms in place to mitigate the risk of duplicating effort across networks – that is, ensuring that similar innovation projects are not underway in other markets/geographies.</p>	<p>Agreed</p> <p>This is implemented via the role of the JIG and the 'Avoids unnecessary duplication' principle.</p>

**Table 3.3 Finance and funding**

Feedback	Our response
<p><b>Consumers and their representatives</b></p>	
<p>Stakeholders were supportive of the proposed draft principles</p>	<p>Agreed</p> <p>The draft principles have largely been retained with some refinements based on feedback received.</p>
<p>Stakeholders hold divergent views on the most appropriate funding mechanism for a GNIS, as either: Incentive scheme – which rewards and disincentives according to particular defined outcomes or performance.</p>	<p>Noted</p> <p>We have decided to adopt a use-it-or-lose it allowance scheme based on the AER's Demand Management Innovation Allowance Mechanism – which aligns with the majority view.</p>

Feedback	Our response
<p>Allowance – an expenditure allowance which sits outside of EBSS and CESS and is ‘trued up’ at the end of a regulatory period.</p> <p>The majority (3 of 5 who expressed a view) preferred an allowance mechanism.</p>	<p>We have taken this approach as we consider it has the lowest administrative costs and is proportionate to the size of the funding provided by the GNIS mechanism.</p>
<p>Stakeholders who prefer an incentive scheme mechanism do so primarily because they see it as a way of holding networks to account and ensuring benefits to consumers are demonstrable.</p>	<p>We acknowledge the appeal of a scheme which provides both incentives and disincentives for performance. However, schemes of this nature generally require quantitative measures of success that can be frequently and reliably measured.</p>
<p>Stakeholders who prefer an allowance mechanism do so primarily because they perceive it to be a more efficient approach that represents an appropriate balance between rigour and efficiency.</p>	<p>Adopting this approach would require a scheme to be developed for each project funded.</p>
<p>Stakeholders who prefer an allowance mechanism tend to prefer a mechanism similar to the demand management innovation allowance mechanism for electricity networks, in which an allowance is set exogenously to projects, rather than an allowance set based on a proposed set of projects.</p>	<p>It would also result in a financial penalty for undertaking a project which initially appeared worthwhile but failed to achieve the goals set out. This approach does not recognise the value and lessons learned of undertaking an unsuccessful innovation project.</p>
<p><b>Retailers</b></p>	
<p>Retailer representatives expressed that they are not supportive of incentive mechanisms and do not support either funding mechanism (an incentive scheme or an allowance). Retailer representatives do not support a customer-funded GNIS. Retailer representatives referenced that the Demand Management Innovation Allowance Mechanism (DMIAM) for electricity networks and the Service Target Performance Incentive Scheme (STPIS) are examples of other incentive mechanisms which are not supported by energy retailers.</p>	

**Table 3.4 Governance, reporting and knowledge sharing**

Feedback	Our response
<p><b>Consumers and their representatives</b></p>	
<p>There was agreement that sharing learning and experience from innovation projects undertaken through a GNIS is important, regardless of the project’s outcome (i.e. whether or not it delivers its anticipated benefits).</p>	<p>This has been reflected in the ‘transparent reporting’ principle and outcome reporting and knowledge sharing requirements.</p>

Feedback		Our response
Communication and knowledge sharing should be proactive and accessible across networks, regulators, consumers and other stakeholder groups.	Agreed	This has been included in the 'Proactive, proportionate and accessible communication' principle.
It was suggested that networks' annual reports should report on innovation projects progress and outcomes.	Noted	However, we consider that innovation specific reporting would be more targeted and transparent (as more information could be provided).
While stakeholders agree that the governance structure of a GNIS should have customer involvement, there were differing views on the degree of customer input to decision-making (i.e. advisory vs decision-making).	Partially agreed	We have decided to adopt a JIG in an advisory capacity, as the power to approve expenditure rests with the AER. Despite this we have added a clause to clarify that the AER would have regard to feedback provided by the JIG.
Reporting and knowledge sharing should be transparent at all times, and a suggestion was made to establish a knowledge sharing platform across the industry.	Agreed	This has been reflected in the 'transparent reporting' principle. We will consider further whether an industry wide platform will be set up (or whether the information will be published on individual GDB websites)
Stakeholders preferred periodic program-level reporting across all projects (e.g. quarterly or annual reports), with emphasis on ongoing reporting and engagement. Some stakeholders prefer more detail or more regular reporting be required for larger projects, with stakeholders generally agreeing that reporting should be proportionate to the size and profile of the innovation projects being undertaken.	Agreed	Implemented in the 'transparent reporting' and 'proactive, proportionate and accessible communication' principles.
<b>Retailers</b>		
There was support for transparent and proactive reporting.	Agreed	Implemented in the 'transparent reporting' and 'proactive, proportionate and accessible communication' principles.
There was support for the establishment of a joint advisory panel across networks as this is likely to be the most efficient outcome.	Agreed	The GNIS includes the requirement for a JIG to be set up.



Feedback	Our response
<p>Retailer representatives suggest ensuring that regulators (both technical and economic regulatory bodies) are included into a GNIS government mechanism, to provide opportunity for regulators to consider ways of encouraging innovation through 'regulatory sandboxes' or providing 'regulatory relief' from particular regulations.</p>	<p>Partially agreed</p> <p>In respect of technical regulators, we agree – and have specifically outlined that technical regulators will be invited to join the JIG.</p> <p>AER members have not been included as the standard is for AER staff (when available) to attend as observers.</p> <p>We also note that regulatory sandboxing legislation will soon be legislated – and we agree that these reforms may be helpful in supporting the implementation of some innovation projects.</p>

## Appendix B: Regulatory framework

Rule 98 of the National Gas Rules (NGR) provides for the use of one or more incentive mechanisms to encourage efficiency in the provision of services by the service provider that is consistent with the revenue and pricing principles.

The revenue and pricing principles are set out in section 24 of the National Gas Law (NGL), and require, among other things, that a service provider be provided with effective incentives which promote efficient investment in, provision and use of pipeline services.

Rules 79 and 91 of the NGR set out the operating and capital expenditure tests. Under rule 79, forecast capex must reflect the expenditure required by a prudent gas distributor, acting efficiently and in accordance with good industry practice to achieve the lowest sustainable cost of providing reference services. Forecast capex must also satisfy additional criteria, including that the expenditure is necessary to:

- maintain and improve safety;
- maintain integrity;
- comply with our obligations;
- meet demand on the network;
- result in an overall economic benefit; or
- where additional revenue generated exceeds the associated costs.

Under rule 91, forecast operating expenditure must reflect the expenditure that would be incurred by a prudent gas pipeline business, acting efficiently, in accordance with good industry practice, to achieve the lowest sustainable cost of providing pipeline services.

We also note the AER's recent decision to provide \$7.5 million in funding for innovation projects in AusNet's 2022-26 regulatory period for its electricity distribution business. The AER considered the funding prudent based on customer support. In particular, AusNet was able to demonstrate that customers valued, and were willing to pay for, the proposed innovations through qualitative customer research and engagement with the Customer Forum. Further, AusNet had agreed to the conditions and criteria the Customer Forum had established during negotiations.

The funding was approved as non-recurrent expenditure and was not subject to the CESS or EBSS (i.e. a 'use it or lose it' basis). AusNet also agreed to seek external funding to leverage the approved contribution and put in place strong governance arrangements to enable appropriate prioritisation and evaluation of projects. Many of the elements in the AusNet innovation decision overlap with the principles outlined in this GNIS framework.

In summary, we consider the NGR provisions for incentive schemes would cover the application of the proposed GNIS. In the 2018-22 Victorian resets, each of the GDBs

proposed a version of a Network Innovation Scheme (NIS). Table 3.5 below outlines the AER’s key reasoning in rejecting each of these schemes and how we have considered the AER’s analysis in developing the draft GNIS framework.

**Table 3.5: AER final decisions in response to proposed Network Innovation Schemes in the 2018-22 Victorian AA determinations**

AER Reasons	How they have been considered
<p>Consumers bear the cost of investment and therefore take 100 per cent of the risk that the innovation project will fail</p>	<p>A prospective NIS project must be capable of realising customer benefits that exceed the costs of the project, taking into account that the risk that the project may not be successful.</p> <p>GDBs will not be able to double recover costs including through receiving material benefits through the application of incentive schemes.</p> <p>The proposed GNIS requires the GDB to explore co-funding opportunities to reduce the proportion of costs that consumers will bear if the project is unsuccessful.</p>
<p>It is not clear how the benefits of the innovation projects will be shared between the business and its customers</p>	<p>The GNIS requires an approved project to be likely to deliver a net benefit to consumers. Net benefits are to be considered in terms of quality, price and reliability. Quality and reliability improvements flow directly to customers. Price benefits may flow directly to customers where the benefit is related to their use of gas, or they may flow through from business benefits of reduced costs in future periods.</p>
<p>It is not targeted at a specific social problem (such as emissions reduction)</p>	<p>The GNIS principles require the GDB to present evidence of customer support for the proposed project. The scope and targets of the GNIS would be an area that can be agreed by each GDB, its customers and stakeholders. Based on current research by the GDBs, key areas of importance for innovation are affordability, decarbonisation, safety and reliability.</p>
<p>There are significant transaction and enforcement costs associated with the introduction and implementation of an innovation scheme</p>	<p>In developing the draft GNIS framework, we sought to reduce transaction and enforcement costs by utilising existing regulatory processes such as the AA review process, reporting within the existing RINs and coordinating across the GDBs to implement a forum for streamlined outcome reporting and knowledge sharing.</p>
<p>Higher prices for consumers in the short-run, with no guaranteed efficiency gains in the long-term</p>	<p>The GNIS principles require approved project to be likely to deliver a net benefit to consumers and provide value for money.</p> <p>We have also developed processes for annual reporting and knowledge sharing on GNIS project activities and outcomes which will allow tracking of project benefits and the ability to cancel or pause projects where it remains unclear whether future benefits will be delivered. While innovation is inherently ‘risky’ in nature, and projects may not always be successful, these principles will ensure the GNIS as a whole delivers benefits to customers over the long-term that outweigh the incremental investment that will be made.</p>