

BIOENERGY AUSTRALIA SUBMISSION

2022 AEMC Draft Recommendations for Hydrogen and Renewable Gases

Bioenergy Australia (BA) is the national industry association committed to accelerating Australia's bio economy. Our mission is to foster the bioenergy sector to generate jobs, secure investment, maximise the value of local resources, minimise waste and environmental impact, and develop and promote national bioenergy expertise into international markets.

BA broadly supports the draft recommendations made by the Australian Energy Market Commission's (AEMC) on the *Review into extending the regulatory frameworks to hydrogen and renewable gases*. The AEMC has identified a strong model of initially including biomethane, synthetic methane and hydrogen within the scope of the national gas regulatory framework to act as the basis for later inclusions of hydrogen blends alongside other renewable methane blends.

These recommendations will enable the uptake of blended gases in all gas infrastructure and the uptake of pure hydrogen and other pure renewable gases in distribution infrastructure and declared transmission systems. Furthermore, the recommendations will bring blended and pure hydrogen alongside other renewable gases into the NERL. Finally, it will extend the coverage of hydrogen and other renewable gases under the NERL.

BA recommends the following amendments/additions to these draft recommendations:

Altering the existing ring-fencing exemption criteria to adopt a more flexible approach in allowing the AER to assess exemptions.

The new ring-fencing arrangement in the draft recommendations will prevent pipeline service providers from producing, purchasing, and selling renewable gas, including for trial and demonstration projects. Bioenergy Australia supports adjustments to the existing ring-fencing exemption criteria to promote flexibility in assessing exemptions.

Responsibility for the quality of blended renewable gases.

The AEMC has largely handled the injection of natural gas into the pipeline on a contractual basis. This has resulted in suppliers, producers, and consumers utilising contracts to express confidence in the quality of the gas being injected. BA suggest that the AEMC continue to utilise this strategy in relation to blended renewable gases as these contracts will address the quality of the blended renewable gases in accordance with the current gas standard and allow more flexibility on the nature of the blended gases being injected.

Notification of end-use customers regarding pipeline shifts.

Bioenergy Australia believe that notification of changes in energy quality is not required in every scenario. This is because biomethane is compositionally the same as natural gas so only when biomethane is blended with other renewable gases should suppliers notify end-use customers of quality changes that may implicate gas price.

Subjecting pure hydrogen and other pure renewable gases to the NGL risks impeding development of hydrogen and renewable gas industries by impeding investment in efficient transmission pipelines with spare capacity.

In order to deliver sufficient low-cost renewable gases to the market requires low-cost wholesale production and transport of pure renewable gases to supply blending facilities and distribution networks.

Larger pipelines for this transport are more cost-efficient than smaller pipelines as they are designed to service foundational customers and include spare capacity beyond these foundational customers. The development of appropriate pipelines will ensure costly changes are not required in future. Furthermore, introducing revenue risk for more efficient pipelines, which include spare capacity, will increase the cost of transporting pure hydrogen and pure renewable gases. Thus, there will be an increase in the likelihood of inefficient infrastructure duplication.

Overall, a higher transport cost will result in higher product costs for customers and a lack of spare capacity will slow market development. This will occur as producers and retailers cannot develop in a system with no spare capacity within efficiently sized pipelines. Furthermore, new pipeline infrastructure will take more time and cost more than developing appropriately sized infrastructure at the start.

Subjecting blending facilities to light economic regulation and ring-fencing requirements under the NGL risks impeding investment in blending facilities themselves.

Blending facilities have a more fine-tuned ability to ensure safe gas compositions enter downstream pipelines compared to other facilities who must close if there is unsafe gas composition. However, this is the only difference in their operations. Thus, blending facilities should not be subject to lighter economic regulations as this will reduce the likelihood of investment due to the introduction of revenue risk. Furthermore, the introduction of ringfencing provisions risks increasing economic costs of the operation of blending facilities. This is because it would increase the investment uncertainty, contributing to increased hurdle rates for investors and economic costs of blending service provision.

Class orders may increase the risk that an order is granted when it shouldn't be.

Compared to the current case-by-case approach of granting orders, a class orders approach may increase the risk of inappropriately granting orders. Under a class order approach, the regulator does not consider the specific circumstances of a service provider or the impact an exemption may have on competition. Thus, this should be reviewed further.

The proposed requirement of a pipeline not licenced to carry gas blends to regularly report on statistics relating to gas blends appears unnecessary.

Provisions requiring reports on statistics of gas blends be a pipeline not licences to carry gas blends should be amended to only be required of pipelines licenced to carry gas blends.

Producers should not be required to report on prices within Gas Sales Agreements and under gas swaps.

From 2025, it is proposed that hydrogen and biomethane producers be required to report on prices within Gas Sales Agreements and under gas swaps. This will be applied to the natural gas industry under transparency reforms due to pass into law alongside pipeline reforms before the end of 2022. However, this is an unnecessary regulation of producers that should be reviewed further.