



19 May 2022

Anna Collyer  
Chair  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Submitted online: [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Ms Collyer

### **Review into extending the regulatory frameworks to hydrogen and renewable gases – Draft Report**

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Australian Energy Market Commission's (AEMC) Review into Extending the regulatory frameworks to hydrogen and renewable gases Draft Report.

Origin is supportive of the overarching initiative and largely agrees with the draft recommendations outlined by the AEMC. However, we have identified a number of recommendations that warrant further consideration with a view to ensuring the associated regulatory obligations are appropriately targeted and proportionate to the issues they are intended to address, as noted below.

- **Short term trading market (STTM) participation:** Origin supports reducing reporting requirements for facility operators and allowing facilities to be aggregated for market trading and settlement purposes as proposed. This should assist with ensuring the Australian Energy Market Operator (AEMO) has visibility of gas flows while reducing the potential regulatory burden on shippers and facility operators. However, consideration should also be given to establishing a threshold under which STTM injection facilities could be fully exempted from participating in market processes. This approach would help manage the regulatory burden associated with trading gas (injected or withdrawn) from small blending facilities and is consistent with the rationale for differentiating between small and large resources under the National Electricity Market (NEM) framework.
- **Gas quality specification:** The supply of hydrogen blends across multiple facilities and injection points within a DDS could potentially impact the safety, security and reliability of supply to consumers given its different specifications if the gas quality governance framework is not appropriately designed. Origin therefore considers it would be preferable to establish uniform gas quality specifications for alternative gases that apply to all relevant STTM distribution systems. Such an approach would increase overall transparency for regulators, prospective suppliers and retailers. It would also reduce any administrative complexity associated with relying on individual contractual arrangements to agree alternate gas quality specifications.
- **Responsibility for gas quality:** A fundamental principle of best practice regulatory policy is that risks should be allocated to the entity best placed to manage them. Accordingly, we consider liability for gas quality should reside with the party injecting the gas into the distribution network or the distributor undertaking the blending within its network respectively. Purchasers, shippers

and retailers have no control over the quality of gas entering the distribution system and should therefore not be held liable in circumstances where gas quality does not meet specifications.

- **Transitioning to natural gas equivalent (NGE) supply:** Origin agrees retailers will have a role to play in communicating information to customers relating to any pricing / consumption impacts associated with NGE supply. However, we do not consider retailers should be responsible for informing customers that a distribution system is transitioning to NGEs as proposed by the AEMC, given the initial supply of NGEs is likely to be driven by distributor / government initiatives over which retailers have no control. A government / distributor led information campaign would therefore likely be more effective than a retailer-based notification framework.

We have provided further comments on these matters, and the AEMC's broader suite of draft recommendations, in Attachment 1. If you wish to discuss any aspect of this submission further, please contact Shaun Cole at [shaun.cole@originenergy.com.au](mailto:shaun.cole@originenergy.com.au) or on 03 8665 7366.

Yours Sincerely,



Steve Reid  
Group Manager, Regulatory Policy

Questions	Feedback
<b>Economic regulation of pipelines</b>	
<b>3.1 Access to pipelines by suppliers of covered gases</b>	Origin is broadly supportive of amending the interconnection rules to: clarify that a parties right to interconnect to a pipeline is also subject to the connection being consistent with the safe and reliable supply of gas to end users; and enable the service provider to recover the costs of metering and monitoring the quality of gas injected by the connecting facility that are directly attributable to the interconnection as part of its interconnection fee. We also agree service providers should be required to publish a register of covered gas supply facilities connected to the pipeline; curtailment methodologies as part of user access guides and access arrangements; and information on the level of blending that has occurred in the pipeline (if any) and any curtailment that has occurred on a monthly basis.
<b>3.2 Information on the type of gas a pipeline is transporting or proposing to transport</b>	As noted by the AEMC, under the proposed framework, pipeline users and end users will no longer be able to assume all pipelines will be transporting natural gas alone. We therefore agree pipeline service providers should be required to publish information relating to the type of gas the facility is licenced to transport, any blending limits that may apply, and any information relevant to the timing/scope of gas trials.
<b>3.3 Regulatory treatment of government mandated transitions to transporting another covered gas</b>	The pricing principles applicable to non-scheme pipeline access disputes are sufficiently broad such that an arbitrator can consider the costs associated with complying with any regulatory obligations or requirements in circumstances where a jurisdiction has mandated that a non-scheme pipeline transition to another covered gas. We therefore consider the principles remain fit-for purpose and do not require updating, which is consistent with the AEMC's rationale for not recommending any changes in the context of items 3.4 and 3.5 below.
<b>3.4 Regulatory treatment of voluntary transitions to transporting another covered gas</b>	We agree the pricing principles applicable to non-scheme remain fit for purpose and do not require updating to account for voluntary transitions to transporting another covered gas, or government grants and concessional finance.
<b>3.5 Regulatory treatment of government grants and concessional finance</b>	
<b>Ring fencing framework</b>	
<b>4.2 Exemption framework for minimum ring fencing requirements</b>	<p><b>Q1: Exemption criteria for minimum ring fencing requirements</b></p> <p>We do not support the proposed amendments to the minimum ring-fencing requirements. Effective ring-fencing of pipeline service providers and their affiliates operating in competitive environments is essential to promoting the long-term interests of consumers, and there is currently no demonstrated need to amend the existing process. For example, it is not clear there is a build-up of potential exemption applications and as noted by the AEMC, there are other options currently available to service providers to progress initiatives, including:</p> <ul style="list-style-type: none"> <li>▪ partnering with unrelated parties to undertake the contestable activities of production, processing and/or supplying these gases; and</li> <li>▪ establishing an associate to carry out the contestable activities, which is what a number of service providers are understood to have already done.<sup>1</sup></li> </ul> <p>The current issue for service providers primarily relates to testing the concept of adding hydrogen to the existing network. We consider the strength of the</p>

<sup>1</sup> AEMC, 'Review into extending the regulatory frameworks to hydrogen and renewable gases – Draft Report', 31 March 2022, pg. 37.

	<p>competitive market and the suitability of existing ring-fencing provisions (including potential amendments) can only be accurately assessed once technology / processes are proven and the competitive market is provided time to develop.</p> <p><b>Q2: Class Exemptions for minimum ring-fencing requirements</b></p> <p>Exemptions should continue to be assessed on a case-by-case basis rather than through class exemptions at this time. Deficiencies in the current process have not been adequately demonstrated (e.g. it is not clear a significant number of exemption applications are in train or even likely). There is also an inherent risk the provision of class exemptions would not allow adequate regard to be given to the variable impact of individual applications on competitive service provision and long-term customer outcomes.</p> <p>We agree that providing for class exemptions may be more appropriately considered through a future review or rule change process if the need arises.</p> <p><b>Q3: Conditions on exemptions from minimum ring fencing requirements</b></p> <p>Origin agrees the regulator should have the flexibility to impose conditions on a minimum ring-fencing exemption. This would align the ring-fencing exemption provisions with the treatment of exemptions in other parts of the NGR. We also support the proposed amendments to the exemption arrangements as set out under Question 3.2.</p> <p><b>Q4: Consultation process for varying or revoking minimum ring fencing exemptions</b></p> <p>Origin supports the Australian Energy Regulator’s (AER) view that the expedited consultation process may not be appropriate for variations to, or revocations from, a minimum ring-fencing exemption. In these situations, we agree it would be more efficient to provide the AER with discretion to determine the appropriate degree of consultation.</p> <p>Where more flexibility is provided, it will still be important to ensure the level of consultation is fit for purpose. To support this, it would be beneficial to consider under what circumstances an abbreviated process may be warranted. The conditions governing the use of an abbreviated process should also be established up front and agreed by all parties.</p>
<p><b>4.3 Class orders for additional ring fencing requirements</b></p>	<p>Origin has not identified any additional matters for consideration.</p>
<p><b>4.4 Associate contract approval process</b></p>	<p><b>Q6 Approval of associate contracts</b></p> <p>Given the potential increase in associates carrying on related businesses as the hydrogen and renewable gas industry develops, we consider it is appropriate to review the existing process for approving associate contracts. It is important associate contracts do not impede the development of the competitive market and scope for discrimination or cross subsidisation is minimised. To address this, we consider the current process should be amended to require approval prior to entering into a contract.</p> <p>To the extent an ex ante approval process is introduced, we consider it would be inefficient to require approval of all associate contracts and variations. Rather, approval should be sought for those contracts and variations identified by the regulator as posing the most risk (e.g. contracts for services provided in a competitive market, or where there is potential for a competitive market to develop).</p> <p>Without knowing the types of services specifically, we anticipate the AER will be required to exercise its discretion. In the initial stages it may be necessary for the AER to adopt a conservative approach and request ex ante approval for most contracts with refinement of the approach as the AER becomes more familiar with the service requests. Emphasis should be on ensuring the impact on the competitive market is assessed and minimised.</p>

	<p><b>Q7: Onus of demonstrating an associate contract complies with the NGL</b></p> <p>The onus should be on the service provider to demonstrate (as part of its application) that an associate contract or variation complies with the National Gas Law (NGL), given they are best placed to provide all relevant supporting information to the regulator. While the regulator should also be able to request information it deems necessary to determine compliance, guidance on the type of information that may be required should be provided to applicants.</p> <p><b>Q8: Time and consultation process for associate contracts decisions</b></p> <p>The current time limit may be insufficient in circumstances where contracts are more complex or require detailed supporting information to be provided by service providers to determine compliance. The introduction of a 'stop-the-clock' provision could assist with alleviating this issue and still allow regulatory decisions to be made in a timely manner.</p> <p>Where a stop-the-clock provision is provided, we do not consider it should be time limited given service providers will be strongly incentivised to provide the required information in a timely manner to enable approval of proposed contracts. The need for any public consultation should also be at the discretion of the regulator. However, the regulator should be required to provide up-front guidance on the type of information that could be required, as well as the circumstances under which public consultation may be appropriate.</p> <p><b>Q9: Clarifying the competitive parity rule</b></p> <p>With the potential for growth in the number of associated contracts there is likely to be an increased focus on the competitive parity rule to ensure associates do not receive preferential treatment from service providers. While there is no apparent evidence to suggest the current approach is not appropriate, we consider it would be beneficial to clarify the regulators expectations regarding the relationship between service providers and associates to support compliance with the rule.</p> <p>We also consider the discrimination provisions in the Electricity Distribution Ring-fencing Guideline (which were recently reviewed) provide useful guidance and are readily applicable to the competitive parity rule.</p>
<b>Market transparency mechanisms</b>	
<b>5.1 Extending the transparency mechanisms to other covered gases</b>	<p>Given the revised approach to expanding the National Gas Law (NGL) to include a broader group of covered gases (as set out in the Officials' Paper), Origin is generally supportive of extending market transparency mechanisms as proposed to capture facilities supplying all relevant gases. We also agree with the proposal to introduce specific reporting requirements for blending facilities, given their different characteristics relative to production facilities.</p> <p>In extending gas transparency mechanisms, there is a need to ensure the associated reporting burden for impacted facilities (particularly for small participants) does not outweigh the associated benefits. To this end, we support the additional measures proposed by the AEMC to reduce the potential reporting burden where appropriate while also supporting transparency. These include:</p> <ul style="list-style-type: none"> <li>▪ allowing AEMO to use information obtained through a GSOO survey for the purposes of the VGPR and vice versa to avoid duplicative reporting;</li> <li>▪ retaining the current 10TJ/day reporting threshold for the BB such that small facilities are not captured; and</li> <li>▪ for distribution systems that exceed the BB threshold, requiring standing information related to a blending facilities nameplate capacity and receipt / delivery points to be reported by the relevant distributor rather than the facility operator.</li> </ul> <p>With respect to the BB reporting threshold, Origin acknowledges there is potential for a large number of smaller facilities to emerge over time that do not meet the threshold, but in aggregate could have a material effect on the</p>
<b>5.2 Gas Statement of Opportunities (GSOO)</b>	
<b>5.3 Victorian Gas Planning Report (VGPR)</b>	
<b>5.4 Bulletin Board (BB)</b>	
<b>5.5 AER gas price reporting function</b>	
<b>5.6 Non-pipeline infrastructure reporting obligation</b>	

	<p>market. However, we agree it is premature to try and address such a scenario and consider the issue could be monitored by AEMO as part of its biennial review of the Bulletin Board. Any proposal to alter the nameplate rating provisions (which are currently defined by reference to 'normal operating conditions') should also be consulted on by AEMO to ensure the merit of the change (and any resultant impact) can be adequately assessed.</p>
<b>STTM</b>	
<b>6.1 Registration and facility categories</b>	<p>We are broadly supportive of creating a single injection facility category that allows for injections directly into an STTM distribution system at a custody transfer point (CTP), including from production, storage and blend processing facilities. This approach would retain consistency with the existing framework, with market participants required to register as both an STTM Shipper and STTM User to inject and withdraw gas at storage / blending facilities respectively.</p>
<b>6.2 Settlement and reporting obligations for distribution connected facilities</b>	<p>Origin is supportive of reducing reporting requirements for facility operators and allowing facilities to be aggregated for market trading and settlement purposes as proposed. As noted by the AEMC, this should ultimately assist with ensuring AEMO has visibility of gas flows, while reducing the potential regulatory burden on shippers and facility operators.</p> <p>Notwithstanding the above, consideration should also be given to establishing a threshold under which STTM injection facilities could be fully exempted from participating in trading market processes. This approach would further reduce the level of regulatory burden on small blending facilities and is consistent with the rationale for distinguishing between small and large resources under the NEM framework. To the extent there are concerns the application of a threshold could lead to the proliferation of a large number of smaller resources that in aggregate have a material impact on the market, this issue could be monitored through existing reporting processes (e.g. through the AEMC's biennial market report) and actions taken to remove the threshold or revise the treatment of exempted facilities over time if considered appropriate.</p>
<b>6.3 Establishment of CTPs</b>	<p>We agree the process for establishing new CTPs should be streamlined through the introduction of a new CTP register (to be maintained by AEMO) and associated framework for notifying the relevant STTM distributor and market participants more broadly.</p>
<b>6.4 Matched allocation mechanism in the Sydney STTM</b>	<p>Origin generally agrees the matched allocation mechanism should not be expanded to allow unaccounted for gas (UAFG) provided from distribution connected facilities to be excluded from operation of the STTM.</p>
<b>6.5 Gas quality specification and responsibility for gas quality</b>	<p><b>Gas quality specifications</b></p> <p>The supply of hydrogen blends across multiple facilities and injection points could potentially have adverse implications for consumers if the gas quality governance framework is not appropriately designed. To this end, Origin considers it would be preferable to establish uniform gas quality specifications for alternative gases that apply to all relevant STTM distribution systems, rather than rely on individual contractual arrangements to manage the quality of gas that does not meet the current Australian gas quality standard. Such an approach would increase overall transparency for regulators, prospective suppliers and retailers. It would also reduce any administrative complexity associated with relying on individual contractual arrangements to agree alternate gas quality specification. Notwithstanding the above, there would likely be benefits in distributors retaining some flexibility to agree to alternate specifications where appropriate / practical within a defined envelope.</p> <p><b>Responsibility for gas quality</b></p> <p>A fundamental principle of best practice regulatory policy is that risks should be allocated to the entity best placed to manage them. Accordingly, we consider liability for gas quality should reside with the party injecting the gas into the</p>

	distribution network or the distributor undertaking the blending within its network respectively. Purchasers, shippers and retailers have no control over the quality of gas entering the distribution system and should not be held liable for in circumstances where gas does not meet required specifications.
<b>Declared wholesale gas market (DWGM)</b>	
<b>7.2 UAFG</b>	Consistent with our response to Item 6.4, we agree existing arrangements for managing UAFG remain fit for purpose and do not consider it would be appropriate to establish a separate mechanism to allow UAFG to be procured by distributors (e.g. through offsetting supply of NGE) outside of the DWGM market arrangements.
<b>7.3 Treatment of parts of non-declared transmission system (DTS) pipelines</b>	It is appropriate that declared distribution systems (DDS) not directly connected to the DTS are not included in the operation of the DWGM. However, we agree the AEMC's draft recommendations that are not specific to the DWGM should still apply to those DDS locations, noting further analysis could be undertaken on a case by case basis to consider whether any additional regulatory changes would be required.
<b>Regulated retail markets</b>	
<b>8.1 Registration categories</b>	We support the AEMC's recommendation that registration categories in regulated retail markets be expanded to include blend processing facilities.
<b>8.2 Metering and heating values</b>	We generally agree existing governance arrangements for metering and heating values remain appropriate. We also support the AEMC recommendation that jurisdictions review measures for heating value calculations at injection and withdrawal points and consider the degree of consistency between regions, noting uniformity is preferable where practical.
<b>8.3 Settlement and balancing</b>	Notwithstanding AEMO's finding that existing processes largely remain fit for purpose, more detailed analysis of AEMO's Retail Market Procedures should be undertaken as part of any subsequent implementation process.
<b>8.4 Cost of gas and competition concerns</b>	We agree changes are not required at this stage.
<b>Consumer protections</b>	
<b>9.1 Notice of transition to a NGE</b>	Origin does not consider retailers should be responsible for informing customers that a distribution system is transitioning to NGEs during the initial phase of market development. We recognise retail bills provide a direct avenue for relaying information to customers and agree retailers will have a role to play in communicating information to customers (e.g. in relation to pricing / consumption impacts) as supply of NGEs increases. However, the initial supply of NGEs is likely to be driven by distributor / government initiatives over which retailers have no control, including in relation to addressing potential concerns around gas quality. Requiring retailers to notify customers of a transition over which they have no control would therefore give rise to additional costs (both in terms of the initial communication and responding to ongoing customer enquiries) for limited benefit. A high-level government / distributor led information campaign would likely be more effective than a retailer-based notification framework.
<b>9.2 Notice of price change due to a transition to a NGE</b>	We agree the existing notification process for advising customers of actual variations to prices, tariffs and charges is adequate, and additional arrangements to notify customers of <i>potential</i> price changes due to a transition to NGE would add unnecessary complexity for retailers and customers.
<b>9.3 Arrangements for billing on transition to a NGE</b>	Requiring retailers to specify the date on which a distribution system transitioned to NGE supply as part of historical billing information requested by a customer would be appropriate.

<b>9.4 Gas quality risk issues</b>	Consistent with our response to Item 6.5, we consider liability for gas quality risk issues for customers should reside with distributors, given purchasers, shippers and retailers have no control or visibility over the quality of gas injected and withdrawn from a distribution system.
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