

## **Australian Energy Market Commission**

Submitted via online portal

### **Review into extending the regulatory frameworks to hydrogen and renewable gases: Consultation on the final report**

Dear Sir/Madam

I am writing in response to the Final Report and Draft Rules as part of the Review into extending the regulatory frameworks to hydrogen and renewable gases. I particularly want to recognise the efforts of the Commission and secretariat, as well as state and federal governments, and other market bodies in progressing this important issue.

As you would be aware, Australian Gas Infrastructure Group (AGIG) is strongly supportive of the role of renewable gas in Australia's energy transition. By blending and ultimately replacing natural gas with renewable gas we can use our existing gas infrastructure to deliver Australia's net-zero carbon emissions for the least cost. We are partnering with governments, industry and the community to deliver these projects, which have become core to our business and underpin the ambitious targets we have set in our Low Carbon Vision.

Our view is that the existing framework for gas regulation limits the potential role of hydrogen and renewable gases in achieving Australia's climate change targets. The reforms outlined in the Final Report and Draft Rules overall will help to address some of these limits by providing avenues for hydrogen and renewable gases to enter markets and provide consumers with low carbon sources of energy not currently available.

Overall, we are pleased with the proposals, but we note more will be needed from governments to realise the potential of hydrogen and renewable gases, and to unlock investment in their development. This letter covers AGIG's high level feedback on the reforms and is supplemented by an attachment that provides more detailed feedback. Notwithstanding our overall support for the intent of the reforms, we wish to draw your attention to some sections which would seem to have the effect of creating barriers for the injection of renewable gas into networks and pipelines.

AGIG supports reforms that clear the pathway for renewable gas, allowing it to play a significant role in the energy transition. Key to this is acknowledging that hydrogen and other renewable gases are in the early stages of development and commercialisation, and are therefore more expensive than incumbent technologies, many of which have benefited from decades of direct government funding and policy support - notably, renewable electricity.

In providing a means for hydrogen and renewable gases to enter markets, we need to strike a balance between encouraging their development and deployment while continuing to maintain appropriate consumer protections. While many of the obligations in the draft rules begin at a level of production of  $\geq 10\text{TJ}$  per day - which we believe to be appropriate - we note a number of other issues in the

proposed rules which would seem inconsistent with the broader goal of encouraging emissions reduction technologies.

A significant issue for AGIG is how the costs associated with accommodating renewable gases in networks and pipelines are included in the Regulated Asset Base (RAB). The approach proposed under the AEMC's reforms (refer section 3.5) includes certain assumptions about the drivers of renewable gas in networks and pipelines that we do not believe are correct and would pose a barrier to renewable gas development.

The approach would appear to assume that the development of hydrogen and renewable gases will be driven by either government policy or networks, and that a "voluntary" transition should be treated less favourably under the National Gas Rules when compared to a transition mandated by government. This ignores the potential and need for customers (particularly industrial customers) to change to renewable gases and seek economic efficiencies provided by shared infrastructure.

In our experience, there is already considerable interest from industrial customers in renewable gas despite there not being a directive from government for its supply. They are acting on the basis of emissions reductions policies from state and federal governments and are turning to renewable gas as a low or zero carbon alternative to their current energy supply.

These network efficiencies and emissions reductions would be discouraged by requiring capital contributions unless, and until, a government explicitly requires a transition to renewable gases for all natural gas users. The first individual renewable gas proponents would bear the costs even if it is more efficient for energy users and the economy as a whole to spread them across all network users.

By discouraging network efficiencies and access, this would also provide a barrier to customers in achieving their emissions goals. It would further increase the costs of new technologies that are essential for reducing emissions and delay the transition, when governments should instead be working to reduce these costs.

Further to this point, residential customers are also driving the change towards renewable gas. In AGIG's recent customer consultations for its Victorian networks, environmental sustainability featured highly as a top priority for our customers, with almost 9 out of 10 customers viewing climate change and the need to reduce carbon emissions as either important or very important. Customers expect AGIG to be on the journey towards cleaner energy supply and they support proposed plans to prepare the network for renewable gas <sup>1</sup>.

One overarching reform that would help address these concerns is the inclusion of national emissions reduction targets within the National Gas Objective (NGO). We understand work is underway towards doing this and we would encourage it to be undertaken quickly. However, given there is no certainty of this change to the NGO, nor the timing of it, we believe that the existence of government policy which prescribes emissions reduction targets - both those which incentivise a network to reduce emissions and those which penalise the failure to do so - should be considered a sufficient government directive, if one is required.

Noting that every government in Australia has a net-zero target by 2050 or sooner, the same conforming capital expenditure assessment should apply to network expenditure enabling zero emissions gases in networks. That is, whether expenditure is triggered by an explicit government policy mandating a transition to renewable gas, or a "voluntary" transition, particularly if such "voluntary" transition would only affect a small part of a network or pipeline, expenditure should be assessed with the full suite of rules.

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<sup>1</sup> [KPMG customer engagement report, p19](#)

The Draft Rules include significant requirements for customer consultation about changing the type of gas in pipelines and networks, which will provide ample opportunity for customers to interrogate the potential costs if and when such a transition is requested by another user.

Another area of concern is the approach to concessional finance. The constraints in this part of the proposed approach we believe will serve to dampen incentives for investment and is yet another process that projects will have to go through before securing a Final Investment Decision (including from lenders). Learning from other renewable energy technologies which have also in the past faced difficulties in securing funding, this we believe will have the effect of increasing the costs of projects.

The Clean Energy Finance Corporation provides investments (assumedly on concessional terms) to electricity transmission infrastructure in support of renewable electricity generation and storage. However, the National Electricity Rules do not take account of this concessional finance for electricity infrastructure. At a minimum the approach should be consistent across the electricity and gas rules – with a preference in both for encouraging investment and commercialisation in support of Australia’s climate change targets.

Notwithstanding these issues, I once again want to recognise the importance of the draft rules as a first step in enabling hydrogen and other renewable gases to enter markets and provide low carbon energy to customers. It is vitally important that state and federal governments, and market bodies continue to work to unlock the potential of renewable gases using the draft rules as a first step.

Thank you for the opportunity to contribute to this consultation process. Should you have any queries about the information provided, please contact Rachel Cameron, Head of Corporate Affairs ([Rachel.Cameron@agig.com.au](mailto:Rachel.Cameron@agig.com.au) or 0425 199 184).

Yours sincerely,



**Kristin Raman**  
**Acting Executive General Manager Strategy and Sustainability**

## **About AGIG**

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

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

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

- Hydrogen Park South Australia – A 1.25MW electrolyser to demonstrate the production of renewable hydrogen for blending with natural gas (up to 5%) and supply to more than 700 existing homes in metropolitan Adelaide. HyP SA has been operational since May 2021, with plans to expand customer reach to more than 3,000 customers by the first quarter of 2023.

- Hydrogen Park Gladstone – A 175kW electrolyser to demonstrate the production of renewable hydrogen for blending with natural gas (up to 10%) and supply to the entire network of Gladstone, including industry. HyP Gladstone is currently under development.
- Hydrogen Park Murray Valley (HyP Murray Valley) proposal – A 10MW electrolyser to produce renewable hydrogen for blending with natural gas (up to 10%) and supply the twin cities of Albury (New South Wales) and Wodonga (Victoria), with the potential to supply industry and transport sectors.

## AEMC – Hydrogen and Renewable Gas Review Final Recommendations

Recommendation	Response
<p><b>RECOMMENDATION 12: DRAFT RULE — REGULATORY TREATMENT OF CONCESSIONAL FINANCE</b></p>	<p>As per our previous submissions, we maintain that this proposal represents a significant change in the way debt is considered within the regulatory process.</p> <p>As outlined in the consultation paper, the treatment will depend on the extent to which the concessional finance provider intended for the finance to be used to lower consumer prices or was intended to provide finance where this might not otherwise be possible. The drafting does not reflect this distinction instead asking whether the concessional finance provider intended for the finance to be treated as a “capital contribution”. It is highly unlikely that any concessional finance provider had any intention on this issue. The one example given, the Clean Energy Finance Corporation, has no legislative power to provide finance to lower consumer prices. Based on the objectives of the CEFC Act and the investment function defined therein, the CEFC is established to “facilitate increased flows of finance into the clean energy sector”. We are not aware of any concessional finance provider that has a legislative power to provide concessional finance to lower consumer prices. Lower consumer prices may be a secondary outcome of such finance but is rarely the primary purpose given that novel energy technologies tend to be more expensive than incumbent technologies while concessional finance is available.</p> <p>If the new section is maintained, we suggest the drafting be amended to make it explicit that only the difference between interest payable under concessional and market finance arrangements is treated as a capital contribution.</p>
<p><b>RECOMMENDATION 19: DRAFT RULE — AMEND THE ASSOCIATE CONTRACT NOTIFICATION REQUIREMENTS</b></p>	<p>We note that the 20 days notice period is much shorter than the time likely to be taken in the standard consultative procedure (NGR 8) and therefore service providers may be in a difficult situation of providing notice within the allowed timeframes but awaiting the outcome of the AER consultation period. The consultation period should be reduced to align with the notice required.</p>
<p><b>RECOMMENDATION 21: DRAFT RULE — AMEND THE ASSOCIATE CONTRACT APPROVAL PROCESS</b></p>	<p>Draft rule 35D does not explicitly refer to associate contract decisions, 35D(2) only refers to “ring-fencing decisions under this Part” not <u>all</u> decisions under Part 5, and should also refer to associate contracts decisions given associate contracts are defined separately. This will ensure the AER ring-fencing guideline covers process for</p>

	making decisions on ring-fencing and associate contracts.
<b>RECOMMENDATION 44:</b> DRAFT RULE — STREAMLINE THE PROCESS FOR ESTABLISHING NEW CTPS	Error: “CTP” is used in the drafting but not defined. CTP is defined in Part 24 of the NGR as Capacity Trading Platform, but here is more likely to mean Custody Transfer Point.
<b>RECOMMENDATION 45:</b> DRAFT RULE — ALLOW FOR ALTERNATIVE GAS QUALITY SPECIFICATIONS AT A CTP WHERE AUTHORISED	