



13 October 2022

Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

By electronic lodgment: www.aemc.gov.au

EMO0042 - Review into extending the regulatory frameworks to hydrogen and renewable gases

Alinta Energy welcomes the opportunity to respond to the Commission's final report on extending the regulatory frameworks to hydrogen and renewable gases and the proposed draft rule changes to the National Gas and National Energy Retail Rules.

Alinta Energy, as an active investor in energy markets across Australia with an owned and contracted generation portfolio of more than 3,000MW and over 1 million electricity and gas customers has a strong interest in the development of the hydrogen and renewable gases industry

We understand that the Commission's process has focused on limiting changes to the existing regulatory framework where possible and support this approach. However, a number of recommendations made in the final report that allocates risk and additional cost unfairly to shippers and retailers. In particular, recommendations and rules relating to gas quality in the short-term trading market, and additional responsibilities placed on retailers in communicating changes to gas customers, are incongruous with the nature of trials and commercialisation of renewable gas blending.

If a gas distributor blends gas (for example natural gas and 5 per cent hydrogen) in its network, it is no longer merely a monopoly pipeline serve provider, but is also acting as a producer. While ring fencing arrangements have a role in ensuring competitively neutral outcomes between distribution networks and related entities that may operate in competitive markets, the production and blending of renewable gases in existing natural gas networks is a new business model that cannot be seen through the lens of historic pipeline services.

Pipeline users (shippers and gas retailers), will not typically be involved in commercial decisions around the location and capacity of blending facilities operated by a gas distributor – unless they are collaborating in a trial or commercial opportunity (which is unlikely to involve multiple gas retailers). It is unreasonable to expect competitive market participants have imposed on them additional risk and costs over which they have no control. It is even more unreasonable when these additional risks and costs offer no commercial benefit to competitive users of a pipeline, which instead accrue to a monopoly service provider testing new business models.

Given the blending levels (particularly for hydrogen with natural gas) will be less than 10 per cent of gas piped to consumers, it is questionable why this change is of material interest to

consumers at all.

Alinta Energy supports trials of renewable gases and the decarbonisation of the gas sector generally, along with the right of consumers to understand the composition of gas supplied to them, but believe the burdensome notification requirements in the proposed changes to the rules:

- Transfers operational and reputational risk from the causer (the blending facility proponent) to entities with no stake in the blending of renewable gases;
- Ignores existing processes distributors have in place to manage routine changes in network conditions (such as planned outage notifications);
- Fails to recognise that distributors have contact centre infrastructure of their own and should take the opportunity to engage consumers in any transition to renewable gas blending should they choose, given they have the motivation and incentive to do so; and
- Imposes significant gas quality risks on STTM shippers, who may be unable to manage these risks contractually as suggested by the Commission on page 132 of the final report.

Furthermore, the allowance of three months to make changes to accommodate many of the draft rules is proposed in an environment where retailers and their wholesale businesses are managing multiple regulatory changes, including the implementation and potential enhancements to the Consumer Data Right, compliance with the Better Bills Guideline, and the numerous changes that will emerge from the Energy Security Board's Market Design Initiative streams (including two-sided markets and potential flexible trading arrangements).

While most of the proposed changes to the regulatory frameworks for gas are uncontroversial, limited and practical, the assignment of responsibility for gas quality and communicating changes caused by the trialling and commissioning of gas blending facilities owned and operated by gas distributors constitutes a fundamental misallocation of risk and cost. It essentially subsidises the activities of monopoly gas blending facility proponents and transfers risk to competitive gas market participants without compensation and with limited capacity to efficiently and effectively negotiate with the proponent.

Given the (likely) very small quantities of renewable gases that may be blended safely and supplied to small customers, assigning (without compensation) the responsibility for gas quality and communicating minor changes to market participants with no stake in or control over these new facilities would not serve the long term interests of consumers and is a disproportionate and unjustifiable allocation of cost and risk to parties unable to recover or manage these outcomes.

We would welcome further discussion of these concerns with the Commission, please contact David Calder (David.Calder@alintaenergy.com.au) in the first instance.

Yours sincerely



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