

2 December 2021

Mr James Tyrrell
Senior Advisor
Australian Energy Market Commission

Submitted via online submission portal

Dear Mr Tyrrell

Review into Extending the Regulatory Frameworks to Hydrogen and Renewable Gases

Energy Networks Australia appreciates the opportunity to provide a response to the Australian Energy Market Commission's (AEMC) [Consultation Paper](#) on its [Review into extending the regulatory frameworks to hydrogen and renewable gases](#).

Energy Networks Australia (ENA) is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

We understand that this review is part of a broader package of reforms being considered under the [Extending the national gas regulatory framework to hydrogen blends and renewable gases reform package](#). ENA supports the overall objective of these reforms, which is to bring hydrogen blends, biomethane and other renewable gases within the scope of the national gas legislative and regulatory framework.

Gas distribution network service providers (DNSPs) are on a decarbonisation journey to deliver renewable gas through distribution networks for customers. Gas networks are actively developing and proceeding with renewable gas trial projects to effectively operate renewable gas-blended networks and 100 per cent renewable gas networks.

It is important to ensure that these reforms include appropriate ring-fencing exemption criteria that allow DNSPs to continue working with renewable gases in trials and developing capability to manage renewable networks. A thorough understanding of how renewable gases and their facilities operate is required before larger-scale decarbonisation of gas networks can be undertaken.

ENA supports the review

Energy Ministers have agreed that the national gas regulatory framework, including amendments to relevant legislation and rules, should be progressed to allow biomethane, hydrogen blends and other renewable gas blends within its scope.¹ Energy Ministers are planning to introduce three new terms into the National Gas Law (NGL)², including:

- » **Constituent gas**, defined as *gases (other than natural gas) that are not themselves authorised for supply to end users but are used to create a natural gas equivalent or other blend subject to the NGL,*
- » **Natural gas equivalents**, defined as *a gas (such as biogas) or blend of gases (such as a low level natural gas-hydrogen blend) supplied to consumers by pipeline and that is suitable for use as natural gas – that is, it is safe for use in natural gas appliances, and*
- » **Other gas products**, defined as *gas or gas blends supplied to consumers by pipeline other than natural gas or natural gas equivalents.*

ENA understands that the purpose of this review is to ensure that the National Gas Rules (NGR) and National Energy Retail Rules (NERR) are fit for purpose to facilitate natural gas equivalents being supplied through natural gas pipelines. ENA supports the purpose of the review, and notes that we also support ensuring the NGR and NERR appropriately cover constituent gases. ENA notes that other gas products are out of scope for this review.

Ensuring the NGR and NERR are fit for purpose will allow DNSPs to continue to develop innovative renewable gas projects, typically involving constituent gases and natural gas equivalents, and build their capability to work with renewable gases in gas networks.

In our submission below we provide feedback on the AEMC's proposed changes to the NGR and NERR to ensure implementation of a fit-for-purpose regulatory framework that supports the development of renewable gas trial projects.

Early application of ring-fencing must be fit for purpose and with appropriate exemptions

Many jurisdictions have mandated net-zero targets by 2050 and through [Gas Vision 2050](#), gas DNSPs are working to decarbonise their networks. For example, customer consultation led by the Australian Gas Infrastructure Group (AGIG) to support the development of its 2021-26 SA Access Arrangement showed that 87 per cent of customers considered it very important or extremely important that AGIG consider ways to lower carbon emissions.

To make renewable gas options a reality for customers, DNSPs need to develop and deliver trial renewable gas projects to build the capabilities necessary to effectively operate renewable gas-blended networks and 100 per cent renewable gas networks. Reducing barriers to trialling renewable gas projects is in the long-term interests of customers because renewable gas trial projects will pave the way for

¹ The Hon Angus Taylor MP, [Energy National Cabinet Reform Committee](#) (August 2021)

² Senior Energy Officials, [Extending the national gas regulatory framework to hydrogen blends & renewable gases Consultation Paper](#) (October 2021)

further decarbonisation of gas networks. ENA therefore supports measures to reduce barriers to investing in renewable gas projects.

The AEMC's Consultation Paper outlines that the NGR currently provides for an exemption from ring fencing to be obtained if the regulator is satisfied that each of the following criteria are met³:

1. either the pipeline is not a significant part of the pipeline system for any participating jurisdiction, or the service provider does not have a significant interest in the pipeline and does not actively participate in pipeline management or operation
2. the cost of compliance would outweigh the public benefit resulting from compliance
3. the service provider has, by arrangement with the regulator, established internal controls within the business that substantially replicate the effect achieved if a related business were divested to a separate entity and dealings subject to the controls applicable to associate contracts.

For renewable gas trial projects to produce renewable gas, production facilities would need to be either:

- » owned and operated by an associate business rather than a DNSP, or
- » owned and operated by a DNSP after being granted a ring-fencing exemption under the NGR.

If an associate business owns and operates the production facilities, this may limit the learnings available to DNSPs that they could implement across their networks in the future.

ENA believes it is in customers' interests if DNSPs are able to actively undertake and learn from trial renewable gas projects involving constituent gases and natural gas equivalents. Learning from trial renewable gas projects is one of the main reasons DNSPs are undertaking trial projects.

However, ENA is concerned that DNSPs may be unable to seek exemptions under the above NGR criteria because they may not satisfy criteria 1. Without the ability to seek exemptions, DNSPs would be unable to own and operate trial renewable gas production facilities and may be unable to own and operate blending facilities.

Given this, ENA believes it would be preferable to include an automatic exemption in Part 6 of the NGR that covers trial-scale projects. For example, such an exemption could be based on volume limits on production and blending. This approach is appropriate because DNSPs would be able to learn from renewable gas trial projects and develop capability with managing increasingly renewable networks.

ENA also supports exploring the potential of giving the AER a specific role in granting individual exemptions that might not be limited to trial projects. This role would add appropriate flexibility to the regulatory framework as renewable gas technologies and markets develop, and would require further consultation to develop.

ENA supports fit for purpose reporting and transparency arrangements

ENA believes it is appropriate to delay the extension of reporting and transparency arrangements to the facilities and activities involved in the supply of constituent gases. These requirements are likely to be disproportionate to the current small volumes of constituent gas production in the early stages of technological and market development. It would likely be more fit for purpose to introduce reporting and

³ AEMC, *Review into Extending the Regulatory Frameworks to Hydrogen and Renewable Gases Consultation Paper* (October 2021), p. 14.

transparency arrangements when competition for the provision of constituent gases becomes more evident.

In order to balance the reporting benefits with the reporting burden and costs to consumers once reporting arrangements are implemented, ENA also supports that a production threshold be introduced alongside the reporting and transparency arrangements, where if a facility met the threshold, it would be required to meet the reporting and transparency obligations. ENA suggests that such a threshold could be set in line with the threshold for reporting to AEMO's Bulletin Board, which is set at 10 TJ of gas production per day.

ENA looks forward to further engagement with the AEMC throughout the development of draft rules. If you have any questions about this submission, please contact Chris Gilbert at cgilbert@energynetworks.com.au.

Yours sincerely,



Garth Crawford
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