

19 May 2022

Senior Energy Officials
Department of Industry, Science, Energy and Resources
GPO Box 2013
Canberra ACT 2601

By email: renewablegas@industry.gov.au

Dear Senior Energy Officials

AusNet appreciates the opportunity to comment on the Officials Review and Draft Report on extending the regulatory framework to hydrogen and renewable gases, specifically the proposed changes to the National Gas Law (**NGL**) contained in the draft National Energy Laws Amendment (Other Gases) Bill 2022 (**draft Bill**). AusNet owns and operates the gas distribution network in Western Victoria which currently carries natural gas only, but we recognize that the gas market may undergo a significant transition to renewable gases or gas blends over the coming decades and we support this review preparing the regulatory framework for this transition.

AusNet supports the extension of the NGL to renewable gases and the draft approach to extend the pipeline access regime to covered gases. We consider the scope for 'covered gases' provides adequate flexibility and coverage of the potential gases which may play a role as we transition to Net Zero, as identified at this stage of the markets development.

We support the proposed changes to the NGL to allow greater discretion and flexibility for the AER to make ring fencing determinations. However, we recognize the AER will need to put in place practical and reasonable approaches in its ring fencing determinations so as not to prohibit market development and serve the long term interests of consumers. We are concerned that some of the conditions the AER may propose in granting an exemption may lead to investment uncertainty which is disproportionate to the risk sought to be mitigated by the condition. For example, time limit exemptions or a requirement for networks to divest assets upon expiry of an exemption should only be imposed in response to a real and imminent threat to competition. Although in principle these conditions may appear reasonable to impose, in practice consideration must be given to the appropriateness of the conditions to ensure they do not create barriers for the development of a competitive renewable gas market.

We recommend further consideration of the treatment of blending facilities. Although the separation of blending services via stand-alone facilities or direct inject (in-pipeline blending) may be appropriate, we query whether it is appropriate for minimum ring-fencing requirements to apply to all service providers at this stage of the development of the renewable gas market. We welcome the ability for distributors to conduct in-pipeline blending as a pipeline service and acknowledge this may be the most appropriate and efficient approach to incorporate gas blends into our networks, subject to economic and safety considerations. We support, in principle, the proposed light-handed regulation of standalone blending facilities, as a potential contestable service separate to pipeline services. However, in practice, whether there is a contestable market for blending facilities is yet to be observed, therefore it may be more appropriate at this stage of the renewable gas market for the regulation to allow pipeline service providers to deliver these services through stand-alone facilities and not automatically impose minimum ringfencing requirements. However, we acknowledge the proposed ring fencing arrangements will allow for the AER to grant distributors an exemption for stand-alone blending facilities if it is in the best interest for consumers based on the state of contestability in the market, which is likely to be very limited during early stage of renewable gas market development.

Please find attached further detail on the consultation questions and refer to Energy Networks Australia's (ENA) submission for further legal review of the draft Bill. If you have any questions regarding this submission, please contact Eliza Cochrane by email on eliza.cochrane@ausnetservices.com.au.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tom Hallam', is positioned above the typed name.

Tom Hallam
GM Regulation
AusNet Services

Attachment B: Officials' Consultation Paper – Stakeholder feedback template

Submission from AusNet

The template below has been developed to enable stakeholders to provide feedback on

- the refined approach to extending the national framework to covered gases (see Chapter 3 of the consultation paper); and
- the amendments to the NGL, NERL and National Regulations that are required to give effect to the refined approach (see **Attachment A** for the draft Bill and Chapters 4-5 of the consultation paper for a guide to these changes).

Feedback on the refined approach (see Chapter 3)

No.	Questions	Feedback
Related to:	Proposed approach to specifying the gases and blends within scope of national gas regulatory framework	n/a
1	What are your views on the refined approach to identifying the gases and blends that could fall within the scope of the national framework (see section 3.1)?	We support the approach and consider it reflects the gases and gas blends likely to displace natural gas in the short term (i.e. biomethane, hydrogen, synthetic methane as primary gases) and allows for jurisdictional flexibility.
Related to:	Proposed extension of the NGL and National Gas Regulations	n/a
2	What are your views on the refined approach to extending the NGL to covered gases (see section 3.3)? Where appropriate, please comment in relation to the subheadings below.	We support extending the NGL to covered gases.
2.1	<p>What are your views on the proposed extension of the pipeline access regime to all pipelines transporting covered gases (i.e. natural gas, biomethane, synthetic methane, hydrogen and blends of these gases) and the impacts it may have on smaller players or new entrants? In responding to this question please consider:</p> <ul style="list-style-type: none"> • the proposal to extend to the regime in this way from the commencement of the reforms; • the potential impact on industry development, including where it may support the development a competitive and cost-efficient hydrogen and renewable gas industry, or may create barriers; • the proposed changes to the pipeline ring-fencing arrangements; and 	<p>We support the extension of the pipeline access regime. We note there may be transitional arrangements required for those who are already involved in establishing a renewable gas market (e.g. through trials) in absence of this extension of the NGL to covered gases.</p> <p>We do not consider the reforms will create material barriers for the uptake of renewable blending. However, we also do not consider the reforms by themselves will strongly support the development of a transition to 100% renewable gas. The ring fencing arrangements, if not carefully applied, have the potential to create – rather than remove – barriers for development given that during market infancy there may not be entrants willing to enter and grow a renewable gas market. We expect the AER will be mindful of these concerns and exercise its powers and perform its functions in such a</p>

No.	Questions	Feedback
	<ul style="list-style-type: none"> the proposed power to exempt remote pipelines. 	way to ensure exemptions assist in delivering efficient market outcomes.
2.2	What are your views on the proposed new light-handed access regime for blend processing facilities?	We support this approach in principle if a competitive market for blending facilities emerges. However, to what extent a contestable market for stand-alone blending facilities emerges is yet to be determined. It is unlikely to emerge during the early development of the market (including the trial stage). Therefore, it may not be appropriate to prohibit service providers from operating blend processing facilities from the outset. Alternatively, service providers could be granted an exemption to minimum ring fencing arrangements to encourage the investment that is essential to enable uptake of renewable gases. We query if this proposed different treatment for providing the same service will lead to more efficient outcomes (ie. in-pipeline blending vs standalone facilities) and if there will be unnecessary additional costs on customers emerging from this separation. The final approach adopted should balance competition regulation with the benefits of renewable gas market development.
2.3	When developing the refined approach, a number of steps have been taken to minimise regulatory costs and risks for industry participants and new entrants. Do you think any additional steps are required? If so, please explain what they are and why they are required.	We consider the approach is reasonable and it is unlikely associated regulatory costs will inhibit new entrants. We do not propose any additional steps are required at this stage.
2.4	Do you agree with the AEMC's recommendations (see section 3.2) that the NGL be amended to: <ul style="list-style-type: none"> enable rules to be made so that AEMO can collect information for the purposes of the VGPR and capacity modelling from facilities that do not otherwise participate directly in the DWGM? limit the potential for the unintended application of the GSOO provisions in the NGL? If you disagree with either of these recommendations, please explain why.	We agree that this approach is reasonable.

No.	Questions	Feedback
2.5	<p>Do you agree with the AER's recommendations (see section 3.2) that the NGL be amended to:</p> <ul style="list-style-type: none"> accord the regulator the power to impose additional ring fencing requirements on a class of service providers or associates through a ring-fencing order? allow conditions to be imposed on minimum ring-fencing exemptions issued under the NGR? <p>If you disagree with either of these recommendations, please explain why.</p>	<p>We support the AER's recommendations to enable it to have more discretion and flexibility to make determinations based on relevant market conditions.</p> <p>We support in principle additional ring-fencing requirements applying to a class of service providers only if there is strong evidence this will lead to a more efficient approach, and if they reflect what is in the best interest of different consumers.</p> <p>We consider conditions on minimum ring fencing requirements may be appropriate. It is reasonable the AER be granted power to impose conditions if necessary for exemptions, having regard to the need for investment certainty.</p>
2.6	<p>Are any transitional arrangements required in the NGL to accommodate the extension to covered gases? If so, explain what they are and why they are required.</p>	<p>We consider it is unlikely that gases other than natural gas will be widely transported until after the amendments to the Law and Rules have commenced and therefore do not consider transitional arrangements will be widely required. However, we note there may need to be consideration given for trials which are currently being undertaken and were in place before the changes.</p>
Related to:	Proposed extension of the NERL and National Energy Retail Regulations	n/a
3.0	<p>What are your views on the refined approach to extending the NERL to covered gases (see section 3.3)? Where appropriate, please comment in relation to the questions below.</p>	
3.1	<p>What are your views on the approach to identifying NGEs and defining prescribed covered gases?</p>	<p>We suggest further clarity on the definition and scope of NGEs and the framework to which jurisdictional and nation regulations are responsible for prescribing gases to which the NERL will apply.</p>
3.2	<p>What are your views on the separate authorisation and exemption of natural gas and NGEs (as one group) and prescribed covered gases (as separate products)?</p>	<p>We suggest more clarity on the use of NGEs versus covered gases is provided and the rationale behind the separation. Further, to what extent the NERL will apply to a 100% renewable gas market is not clear.</p>
3.3	<p>Are any transitional arrangements required in the NERL to accommodate the extension to covered gases? If so, explain what they are and why they are required.</p>	<p>Same as 2.6</p>