

Attachment B: Officials' Consultation Paper – Stakeholder feedback template

Submission from **Dr Jim Crosthwaite, independent economist (PhD, M.Comm, B.Ag.Eco)**

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).

Officials strongly encourage stakeholders to use this template, so that it can have due regard to the views expressed by stakeholders on each issue. If you wish to provide additional feedback outside the template, wherever possible please reference the relevant question to which your feedback relates. It's

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

No.	Questions	Feedback
1	<p>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)?</p>	<p>The approach outlined in section 3.1 is grossly inadequate.</p> <ul style="list-style-type: none"> • Long-term consumer interest requires transparency that should be directly addressed in identifying, classifying and defining in-scope gases and blends. Giving choice to consumers about the services and commodities that they buy enables them to maximise their utility. • The national regulatory framework will set the conditions for which new services and commodities based on hydrogen, biogas and other natural gas equivalents are offered to consumers. However, the proposed specification of gases is totally inadequate. • As the reforms are intended to widen the scope of services and commodities available to consumers, transparent information over time to inform consumer choice is critical. Central to this is information about the constituent gases in the services that they are buying. • Consumer choice requires that gases and blends should be identified by the carbon intensity of a) their production method and b) their carbon emissions when burnt. It is unacceptable for hydrogen and other gases to be defined without reference to production method and carbon emissions. • Recent cross-country research by Deloitte highlights the high level of consumer expectation about the climate impacts of products and services that they are offered. The World Economic Forum includes a guide on its website for consumers to take informed action via purchasing decisions. These are just two examples to highlight how transparent information about climate impacts increasingly underpins utility maximisation by consumers. • The creation of new services and commodities relating to hydrogen, biogas and other natural gas equivalents should not be an end-goal in and of itself but should be based on maximising consumer choice and creating efficient least-cost supply options. • The Australian Energy Market Commission (AEMC) has been vigorously working to increase consumer choice in retail electricity markets. The same endeavour is required to facilitate choice across all energy markets. • Transparency about the composition of gas blends is also required for setting and refining public policy, especially in relation to emission reduction targets. • The Official's Paper is weak on choice, confining the issue to one of consumer knowledge about when and how hydrogen blends are to be delivered. This is no substitute for full transparency as outlined above.

No.	Questions	Feedback
Related to:	Proposed extension of the NGL and National Gas Regulations	n/a
2	<p>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.</p>	<p>As a general comment, the reforms do not address the interests of household energy users as outlined above and clearly expressed in the <u>first-round submission</u> from the Public Interest Advocacy Centre (PIAC). PIAC's advice was largely overlooked, and no other consumer groups were invited to make a submission in the first round of consultation.</p> <p>The refined approach is inadequate and should not be adopted. A prudent approach would be trial and error, and deferring wholesale change to laws and regulations.</p> <p>See also my comments under the subheadings below.</p>

No.	Questions	Feedback
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 ▪ the proposed power to exempt remote pipelines. 	<p>Extending the regime in this way from the commencement of the reforms</p> <p>Extending the regime as proposed has potentially momentous implications that cannot be easily anticipated. The proposed changes open up the gas market to new products and to many suppliers using a range of production technologies.</p> <p>Let us contrast the current and potential product offerings and their supply in order to understand the very different gas market that is likely to emerge.</p> <ul style="list-style-type: none"> • The current regulatory regime allows close oversight of a few large suppliers of ‘natural gas’ in a few large gas fields (leaving aside the question of market power) • The new regime will be dealing with potentially many suppliers, and many injection points into the gas network. As Natural Gas Equivalents can be produced at small scale, at any location near a pipeline, there are relatively few barriers to entry. As scale grows, over time, this may change. <p>The proposed changes in essence create new regulated markets, albeit by adapting mechanisms that already exist. The Officials, AEMC, AER and AEMO will not have anticipated all situations that may arise. There is a big risk that the current proposals lock in a system that is not fit for purpose, that is failing to efficiently meet the long-term needs of consumers in the context of a rapid energy transition.</p> <ul style="list-style-type: none"> • Officials will face behaviour by market participants that seeks to take advantage of the new regulatory regime in ways that are unintended or not anticipated, and are not in the long-term interests of consumers. This is the problem of moral hazard. • It is possible that some businesses will gain a first mover advantage and build scale by offering NGEs into the gas market that are not in the long-term interests of consumers – for example, hydrogen produced with fossil fuels. <p>There are many cautionary examples where regulatory regimes in Australia have proven unfit for purpose: Water allocation regimes; Aged care; Banking; Franchises.</p> <p>The one unfortunate certainty is that the proposed regime will extend the life of the gas networks well beyond their necessary life, involving large avoidable investments ultimately paid by gas consumers and taxpayers.</p> <p>1b. 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</p> <p>Green hydrogen production should receive strong public support, because hydrogen will play an essential role in transport and industrial uses that are hard to electrify. However, it is hard to see how a hydrogen industry can be ‘competitive and cost effective’ if it is based on supplying gas services to households. Public policy makers should find more direct means to foster this infant industry than by allowing injections of hydrogen of unspecified provenance into the gas pipelines</p> <p>1c. the proposed changes to the pipeline ring-fencing arrangements; and the proposed power to exempt remote pipelines</p> <p>No comment</p>
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No.	Questions	Feedback
2.2	What are your views on the proposed new light-handed access regime for blend processing facilities?	Please reassess in light of my comments above
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.	Please reassess in light of my comments above
2.4	<p>Do you agree with the AEMC's recommendations (see section 3.2) that the NGL be amended to:</p> <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? <p>If you disagree with either of these recommendations, please explain why.</p>	Please reassess in light of my comments above
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>	Please reassess in light of my comments above
2.6	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.	Please reassess in light of my comments above
Related to:	Proposed extension of the NERL and National Energy Retail Regulations	n/a
3.0	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.	Please reassess in light of my comments above
3.1	What are your views on the approach to identifying NGEs and defining prescribed covered gases?	Please reassess in light of my comments above
3.2	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)?	Please reassess in light of my comments above
3.3	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.	Please reassess in light of my comments above

