

19 May 2022

Meredith Mayes
Director
Australian Energy Market Commission

Submitted online

Dear Meredith,

Review into extending the regulatory frameworks to hydrogen and renewable gases

PIAC welcomes the opportunity to respond to the Draft Report 'Extending the national gas regulatory framework to hydrogen blends & renewable gases (the Draft)'.

PIAC strongly opposes the extension of the regulatory framework to accommodate blends and natural gas equivalents. The existing gas frameworks were created for the specific purpose of efficiently and reliably providing naturally sourced methane gases and efficiently recovering the costs involved in the maintenance and augmentation of existing network assets. The provision of any new gas products involves different considerations which are not compatible with this purpose.

PIAC notes the Commission has indicated that issues arising from the supply to consumers of other gas products that are not suitable for consumption as natural gas are not included in this review. However, there is substantial expert opinion that even the low levels of blending proposed as Natural Gas Equivalents (NGE) are likely to have a material negative impact on efficiency, safety and health and could be unsuitable for some applications. PIAC strongly recommends reforms ensure clear differentiation between existing 'natural gas' and other gases that are intended to provide similar service but involve issues related to their constitution, formulation, and application. It is inappropriate for the regulatory framework to regard products that are not functionally identical as the same for the purposes of regulation.

PIAC supports the Commissions assessment that the purpose of this review is to accommodate other potential gases not to facilitate or accelerate or actively encourage their use. If the extension of the framework to natural gas equivalents, blends and other gases is to proceed, transparency and equivalent consumer protection must be prioritised.

Access to pipelines by suppliers of covered gases

PIAC supports the draft recommendation amending interconnection rules and ensuring interconnection can only occur when it is consistent with safe and reliable supply to end users. This amendment should also include a requirement that 'quality' of supply to end users not be impacted as a result of interconnection.

Information on the type of gas a pipeline is transporting or proposing to transport

PIAC supports the draft recommendation introducing obligations to report on the gas a pipeline can transport and any proposed changes to this. We recommend these reporting obligations also include:

- Reporting on the composition of the gas being transported. Considering blends can vary widely and the make-up of blends is material to end use, it is necessary for pipelines to report on actual carriage as well as licenced gases, capacity and other limitations.
- Reporting on whether users and consumers have been consulted and support the commencement of a trial or the transition to a new gas, including broad acceptance of any costs incurred within homes and businesses due to appliance replacement or modification for the new gas product.

Regulatory treatment of voluntary transitions to transporting another covered gas

PIAC recommends that the Regulator's treatment of capital expenditure related to voluntary transitions to the transportation of another covered gas include an additional consideration. This should ensure that the transition reflects the preferences and long-term interests of impacted consumers, demonstrated by meaningful consumer and community engagement.

Regulatory treatment of government grants and concessional finance

We support the draft recommendation requiring government grants and concessional finance to be treated as capital contributions. Any extension of the regulatory framework must ensure consumers do not pay charges to recover the costs of facilities which have been funded through government grants or concessional finance.

Exemption framework for minimum ring fencing requirements

PIAC does not support the introduction of an ability to issue class-exemptions from the minimum ring-fencing requirements. Any exemptions should

- continue to be assessed on a case-by-case basis,
- be subject to scope/ volumetric and/or time limitations and require key findings or observations to be made available for public benefit, and
- be open to periodic review, or reviewed in the case of material change to the operations of the exempted party.

Extending transparency mechanisms to other covered gases

We support the Commission's decision to amend the National Gas Rules to extend the five transparency mechanisms to natural gas equivalents and constituent gases. However, we disagree with the proposal from Officials not to differentiate between natural gas, natural gas equivalents, constituent gases and gas blends.

PIAC strongly recommends that any extension of the National Gas Law and Rules to other gases must continue to recognise different covered gases and maintain transparent distinction between them. There are material qualitative differences between these gases which must be recognised. Laws and regulations will likely need to evolve to respond to the different circumstances of these different products to ensure promotion and protection of the consumer interest.

Amendments to the GSOO

PIAC recommends the Gas Statement of Opportunities (GSOO) require, not merely allow, AEMO to report on the feedstock used in the production of other gases. The feedstock of gases is a crucial determinant of the renewable status of the gas and its potential impact – positive or negative – on emissions. This information is vital for providers, retailers and end users and should be provided consistently by AEMO.

Cost of gas and competition concerns

PIAC recommends the rules prescribe the cost allocation and transparency around any flow through costs associated with Natural Gas Equivalents, blends and other gases. PIAC rejects contentions that the 'renewable' component of gas blends does not need to be regulated and could be managed by the market like the renewable component of electricity. This is not a reasonable comparison as renewable electricity generation produces an identical product (electricity at 50Hz). It can not be differentiated from the non-renewable content and can seamlessly replace the non-renewable content with no consumer detriment or impact, where it is price competitive. This increases its potential to develop a market and ensures a strong competitive pressure on cost.

Notice of price changes because of transition to an NGE

PIAC recommends the Commission create new arrangements to ensure consumers are notified of price changes resulting from the transition to a Natural Gas Equivalent. The reason for a price impact is a key information point for consumer decision-making, particularly in the long-term where consumers must make comparisons with the costs of an electrified household.

Arrangements for billing on transition to a NGE

PIAC supports the draft recommendation to include Natural Gas Equivalent transition information in historical billing information. This information is crucial for effective consumer decision making and would assist in resolving any issues or disputes which may arise from the transition to a Natural Gas Equivalent.

Supply of natural gas in trials

PIAC supports the AER position on the operation of the regulatory sandbox framework, and recommends that demonstration of support from the impacted community and consumers, derived from robust engagement, is required prior to approval of any trial.

PIAC would welcome the opportunity to discuss these matters further with the Commission and other stakeholders.

Yours sincerely

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