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Owen Pascoe
Australian Energy Markets Commission
Via online submission

Dear Owen

Regulatory Sandbox Arrangements

Thank you for the opportunity to comment on the AEMC's Draft Report on Regulatory Sandbox Arrangements to Support Proof-of-Concept Trials (the Draft Report). AGIG is a strong supporter of efforts to foster innovation by introducing a regulatory toolbox applicable to both electricity and gas markets.

In the *Blueprint for the Future Security of the National Electricity Market* (the Finkel Review), which provided the catalyst for the AEMC's Draft Report, the authors noted a shared chorus of business, households, market participants and regulators calling 'for an electricity system that can cope with today's technologies and practices, and adapt resiliently to take advantage of tomorrow's.'[1]

We believe this sentiment from the Finkel Review applies to the broader energy sector, including the gas sector. We are therefore grateful that the AEMC has widened its consideration of Regulatory Sandbox Arrangements to include their potential application in *National Gas Law* (NGL) and *National Gas Rules.* We support the need for Regulatory Sandbox Arrangements in the NGR.

After briefly introducing AGIG, this submission will outline the transition underway for gas networks and markets. It will then consider in more detail the three tools proposed by the AEMC, namely the innovation inquiry service, the regulatory waiver power and the trial rule change process and their relevance for gas networks, while providing suggestions for further improvements.

About AGIG

Australian Gas Infrastructure Group (AGIG) is one of Australia's largest energy utility business. Our assets are in all mainland states of Australia and the Northern Territory, and include gas distribution networks, gas transmission pipelines and storage facilities. We have over two million customers across every Australian mainland state and the Northern Territory, 34,000km of distribution networks, over 4,000km of gas transmission pipelines, and more than 42 petajoules of gas storage capacity.

The transition in gas markets is already underway

The AEMC's Draft Report recognises the benefits innovation can bring to customers, particularly in maintaining energy security and reliability, while reducing emissions – that is in addressing the energy trilemma. As the Finkel Review noted, "[e]fficient gas markets have a central role to play in maintaining energy security and reliability as Australia reduces its emissions in line with international commitments".

In addition to international commitments, various state governments have commitments to reduce emissions that will also require innovation within gas markets, including Victoria's legislated target to achieve net-zero emissions by 2050. Gas networks will need to innovate to meet both international commitments and state targets.

[1] https://www.energy.gov.au/sites/default/files/independent-review-future-nem-blueprint-for-the-future-2017.pdf

Changes in electricity markets also directly affect gas markets. The increasing penetration of renewable energy into electricity networks flow through to demand for gas by gas-fired electricity generators. Furthermore, the mechanisms Australia and individual states adopt to reduce emissions will determine how existing gas networks are used in the long-term. It is essential that gas networks are part of the solution to address the energy trilemma in the future, as they are today. Enabling further innovation in gas networks will help to ensure businesses, market participants and households have the flexibility to adopt the most efficient solutions.

Our industry is already developing potential mechanisms for addressing the energy trilemma. In particular, the development of hydrogen production and blending into networks in Australia is a high priority for governments and the natural gas industry, with particular prominence through the *National Hydrogen Strategy*.[2]

AGIG is at the forefront of the emerging hydrogen industry in Australia. At Hydrogen Park South Australia (HyP SA), we are developing a renewable hydrogen project that is the first of its type and scale in Australia. The hydrogen produced at HyP SA will be blended into our South Australian gas distribution network and may also supply other markets such as industry and transport. HyP SA will provide a blend of 5% hydrogen to 710 customers from mid-2020.

Renewable hydrogen is just one of a number of potential innovations available for gas networks to help Australia address the energy trilemma. More detail on the suite of potential innovations is available in the gas industry's *Gas Vision 2050* publication.[3]

Proposed regulatory toolbox

As outlined above, the transformation of all energy markets, not just electricity markets, is required to address the energy trilemma. Therefore, it is essential that the proposed Regulatory Sandbox Arrangements apply under the NGL and NGR, as well as *National Electricity Law* and *Rules* (NEL and NER).

We support the three tools outlined in the Draft Report, which provide a useful mix of advice and adjustment to the existing Rules.

In particular, we agree that the regulatory waiver power should be broad and apply to all Rules. The nature and structure of innovative technologies, business models and markets remains uncertain; and the relationship between any proof-of-concept trial and the existing Law and Rules is not clear. Therefore, it is important to give the Regulator sufficient flexibility to waive rules as required in the specific project context.

Overall, we support the position that the application of the regulatory waiver should only apply where innovation is likely to support the long-term interests of energy customers. Such an approach must recognise the long-term interests of customers in addressing the energy trilemma and the investments required today to achieve this in the future.

Nonetheless, there needs to be a recognition that some innovations will fail. However, the benefit to customers comes from trialling innovation and discovering the most effective and efficient mechanisms for addressing the energy trilemma.

We agree that the eligibility criteria should include consistency with the objectives of National Gas, Electricity and Retail Laws. However, we note that in the future "natural gas" as defined in the NGL and referenced in the National Gas Objective, may not be the basis of innovations in gas markets and networks. The regulatory waiver needs flexibility to allow for innovation and proof-of-concept trials involving natural gas networks and services that are not limited to methane.

Furthermore, innovation in gas networks has the potential to provide significant benefits to electricity networks – particularly through inter-seasonal storage and demand response. The application of the regulatory toolbox should allow the benefits for the entire energy system to be taken into account, which potentially include benefits outside of the regulated network.

[2] https://consult.industry.gov.au/national-hydrogen-strategy-taskforce/national-hydrogen-strategy-issues-papers/
[3] https://www.energynetworks.com.au/gas-vision-2050

The definition of innovation also needs to be carefully considered. The Draft Report uses the undefined term of "genuinely innovative" as one of the proposed eligibility criteria. It is important that the regulatory toolbox, and the regulatory waiver specifically, be available for a range of innovations in technology and business models. This should include technologies and business models already applied in other markets but new in the specific context or market of the trial. "Genuinely innovative" may be unduly limiting.

Conclusion

Innovation is essential across all energy markets in Australia if we are to maintain secure and reliable energy while meeting international and domestic commitments to reduce emissions at the lowest cost to consumers. Developing appropriate regulatory tools is therefore important across the elements of the energy sector captured by the National Energy Laws, including gas networks. We therefore support the proposals in the AEMC's Draft Report and their application to the NGL and NGR in line with the more detailed comments above.

Should you have any queries about the information provided in this letter please contact Drew Pearman, Manager Policy and Government Relations (0417 544 731, drew.pearman@agig.com.au).

Yours sincerely

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