

19 May 2022

The Australian Energy Market Commission

Online submission: <https://www.aemc.gov.au/contact-us/lodge-submission>

To whom it may concern,

GRC0062 DWGM distribution connected facilities – draft determination

Australian Gas Infrastructure Group (AGIG) welcomes the opportunity to make a submission to the Australian Energy Market Commission (AEMC) on the draft determination on the proposed rule change to include distribution connected facilities in the Victorian Declared Wholesale Gas Market (DWGM) (the draft determination).

Allowing production facilities like hydrogen and other renewable gas production facilities to connect to the declared distribution network and participate in the DWGM is an important step forward in developing the foundations for a renewable gas industry in Victoria.

We support the broad goal of the draft rule to remove market and regulatory barriers to distribution connected injection facilities (DCFs). This should enable planned renewable hydrogen projects like the Hydrogen Park Murray Valley (HyP Murray Valley) proposal to proceed. HyP Murray Valley would be the first renewable hydrogen project in Victoria and is a stepping stone to the decarbonisation of Victoria's gas distribution network, which will reduce emissions for users of natural gas.

We broadly support the proposed changes to market operations, market settlements and system operation and planning, which we consider are the most efficient means of integrating distribution connected facilities while maintaining the fundamentals of the current market design. However, the application of the DWGM framework should be fit for purpose and recognise that some elements of the existing framework may not be fully appropriate for hydrogen and other renewable gas distribution connected facilities, particularly in the early stages of the industry's development.

For example, depending on where hydrogen and renewable gas production facilities are located and network demand conditions, producers may not be able to forecast how much they could inject in a day / period, as it's much more dependent on underlying network demand. This is different to suppliers connected to transmission pipelines which have linepack, acting as a contingency.

We note that it may be appropriate to undertake a review of the framework to ensure the National Gas Rules (NGR) remains fit for purpose in enabling a renewable gas market in Victoria in the future.

After a brief introduction to AGIG, we set out our detailed responses to some of the key discussion points of the draft determination.

About AGIG

AGIG is the largest gas distribution business in Australia, serving more than two million customers through our networks in Victoria, Queensland, South Australia, and several regional networks in New South Wales and the Northern Territory. Our transmission pipelines and storage facility serve a range of industrial, mining and power generation customers.

At AGIG, we are committed to sustainable gas delivery today, and tomorrow. Our Low Carbon Strategy targets 10% renewable gas in networks by no later than 2030, with full decarbonisation of our networks by 2040 as a stretch target and by no later than 2050.

We are now delivering on our strategy by deploying low carbon gas projects. Our projects include:

- Hydrogen Park Murray Valley (HyP Murray Valley) – A 10MW electrolyser to produce renewable hydrogen for blending with natural gas (up to 10%) and supply the twin cities of Wodonga (Victoria) and Albury (New South Wales), with the potential to supply industry and transport. Final investment decision on this project is expected by the end of June 2022, with an expected commissioning date around Q2 2024.
- Hydrogen Park South Australia – A 1.25MW electrolyser to demonstrate the production of renewable hydrogen for blending with natural gas (up to 5%) and supply to more than 700 existing homes in metropolitan Adelaide. HyP SA is now operational.
- Hydrogen Park Gladstone – A 175kW electrolyser to demonstrate the production renewable hydrogen for blending with natural gas (up to 10%) and supply to the entire network of Gladstone, including industry.
- The Australian Hydrogen Centre (AHC) – A virtual centre delivering feasibility studies for 10% and 100% blending of renewable hydrogen into towns and cities in South Australia and Victoria.

Market Operations

Registration categories

We support creating a separate registration category for distribution connected facilities, however there may be a need to further disaggregate the distribution connected facility operator category to recognise that the distribution connected facilities have different characteristics and it may not be appropriate to have the same rules and requirements apply to all facilities.

Requirements to submit bids and gas scheduling

We broadly support the direction of the rule change to extend the existing forecasting, bidding and scheduling requirements to DCFs.

We recognise the importance of ensuring market integrity and a safe and secure operating environment. Nonetheless, we consider it important that we take into account the nascence of DCFs compared to traditional injection sites such as natural gas production and storage facilities. Operators of traditional sites are building on decades of experience with such sites and associated equipment, and the existing rules were designed with these sites in mind.

With early projects, operators may be less confident in their ability to *strictly* meet forecasting, bidding and scheduling requirements. Similar challenges may also arise for renewable gas projects. As noted above, the ability to inject may also be more dependent on underlying network demand than is the case in the DTS. The demand of the underlying network is out of the control of the DCF, therefore impacting the ability of the DCF adhere to their forecast.

If discrepancies in compliance with these requirements due to circumstances beyond the operators' control were sufficiently material that they undermined the efficient workings of the market and compromised the safety and security of the system, then it would not be appropriate for these facilities to connect. Accordingly, the qualifier "material" in several sections of the rules is important, for example:

*Rule 213 (4): A Market Participant who knows or believes that it will not, or that it is unlikely to be able to, comply in any **material** respect with the injections or withdrawals scheduled for that Market Participant in an operating schedule must immediately notify AEMO of that fact and the extent of the known or likely non-compliance.*

*Rule 219 (2): If, for any reason, there is a **material** change to the quantity of gas previously notified by a Registered participant under this rule, then the Registered participant must promptly notify AEMO of the change."*

Noting that DCFs are going to be much smaller than a typical transmission-connected injection point, discrepancies may not be material. However, the arbiter of what is “material” under the proposed rules is the Australian Energy Market Operator (AEMO), in an operational sense, and then the Australian Energy Regulator (AER) in terms of compliance and enforcement. While the AEMC cannot direct the other agencies in their interpretation of what is material, it would assist proponents of DCFs to properly understand the risks their project may be subject to if that interpretation was as transparent as possible and allowed for stakeholder input. To that end the AEMC could include a reference to the need to develop guidelines for both operational assessment and compliance and enforcement in the final NGR.

Uncontrollable withdrawals for blending facilities

We consider that blending facilities would be best facilitated by bidding in their net gas injections rather than bidding in their injections through the DWGM and be scheduled through the market and submit demand forecasts for the gas they will use for blending. This would remove concerns around where non-scheduled gas would distort the demand forecast of the system and remove any complications with Transmission Use of System Charges and Distribution Use of System Charges.

Gas scheduling

Constraints

We accept that the declared distribution system operator (DDSO) should manage constraints and curtailment relating to DCFs. It’s important to note that this will be a new activity for distributors – and so we would appreciate some flexibility in terms of this role as we work through the development of constraint methodologies with AEMO, including the ability to vary constraint methodologies. We note that it is important for the market to be confident that these methodologies are non-discriminatory (which we support), especially in circumstances where multiple DCFs are connecting to the same distribution network in the same network region.

Curtailment

We note that in the AEMC’s draft report on its hydrogen and renewable gas review, it proposes for the suppliers to provide to the Gas Bulletin Board information, on the level of blending that has occurred in the pipeline (if any) and any supplier curtailment that has occurred in the last month.

In our submission we question the need to have this information reported on the Gas Bulletin Board. This will have system implications and costs burdens, which we consider outweighs the benefits of having the information published on the Gas Bulletin Board, particularly at the outset of market development.

Further, we consider that the requirement should only operate once a pipeline is licenced to transport renewable gas and that any supplier curtailment reporting should be limited to renewable gases. Further, at the initial stages of market development where there may be very few projects connected, we consider quarterly reporting to be more appropriate than monthly reporting.

Data sharing provisions

We support data sharing between AEMO and the DDSO and agree that the data-sharing agreements within the NGR should not form an obligation for AEMO or the distributor to create or install equipment that provides data to either party. It would be appropriate to use data already produced by the parties in the first instance to make available to each other for example, use of AEMO’s gas quality data.

Systems operations

Given that new interconnection principles have been developed, but have yet to be signed into law, we support the AEMC’s solution of embedding the principles directly into the new rules as a transitional

measure. In order to ensure that AGIG as a DDSO can discharge its own obligations under the new rules, we consider that two further rules on interconnection are required. These are as follows:

- a person will only have a right to connect a facility to a pipeline where the connection is consistent with the safe and reliable supply of gas to end-users; and
- a service provider (where it has developed an interconnection or part of an interconnection), should be able to recover as part of its interconnection fee the costs of metering and monitoring the quality of the gas injected by the connecting facility that are directly attributable to the interconnection.

These suggestions are consistent with what is being proposed by the AEMC in its hydrogen and renewable gas review. In addition to clarifying that service providers can recover the costs of metering and monitoring the quality of gas injected by the connecting facility, other items like pressure regulation (installation and maintenance) and potentially other items of equipment, for turn metering and monitoring should also be recognised.

Gas quality

We support the allocation of responsibility for gas quality in a distribution network to the DDSO. Given much of the gas in each network will still come from the DTS, there is a need for DDSOs to collaborate with AEMO to ensure a consistent approach to gas quality issues across the system as natural gas equivalents are introduced to the system. Factors such as odourisation levels will need to be harmonised. We would support establishing a gas quality working group to allow AEMO and DDSOs to jointly develop gas quality standards that apply consistently across Victoria and also nationally.

Metering

We support the draft determination's approach to metering.

Implementation

We appreciate that the proposed implementation date intends to align with the expected commencement date of HyP Murray Valley in Q2 2024, which will need the new rules in place in order to be able to legally inject gas into the local distribution network. We would prefer to have the expected implementation date in Q1 2024 to allow more time for systems and processes to be implemented.

Once again, I would like to thank you for the opportunity to feedback on the review. Should you have any queries about the information provided in this submission please contact Jenny Thai, Senior Policy Advisor (jenny.thai@agig.com.au or 0419 428 348).

Yours sincerely,



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