

19 May 2022

Mr James Tyrrell
Senior Advisor
Australian Energy Market Commission
Sydney South NSW 1235
By online submission

Dear Mr Tyrrell

AEMO Submission to Review into extending the regulatory frameworks to hydrogen and renewable gases.

The Australian Energy Market Operator (AEMO) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC), draft report on the *Review into extending the regulatory frameworks to hydrogen and renewable gases*.

AEMO supports extending the existing regulatory framework in the National Gas Rules (NGR) to hydrogen and renewable gas facilities. In parallel to the AEMC's review, AEMO has undertaken a review into the National Gas Procedures to identify the changes required to the Procedures to facilitate the participation of these new production facilities. Following the AEMC's final report, AEMO will need to undertake a further review of its Procedures to accommodate any changes that the AEMC makes to the NGR.

In line with AEMO's role, we have focussed on considering the AEMC's recommendations that relate to the Gas Statement of Opportunities (GSOO), Victorian Gas Planning Report (VGPR), Gas Bulletin Board (GBB), Short Term Trading Market (STTM), Declared Wholesale Gas Market (DWGM) and Regulated Retail Markets.

Gas Transparency

AEMO supports recommendations 8, 9, 10, 11 and 12 that relate to gas transparency. These recommendations seek to broaden the scope of the gas transparency mechanisms to include hydrogen and renewable gases and in the case of the Gas Bulletin Board, distribution networks. As this new industry develops, AEMO considers it will be increasingly important that the existing gas reporting and transparency mechanisms are able to provide a holistic overview of demand and supply for natural gas, hydrogen and renewable gases.

STTM and Retail Markets

AEMO supports recommendations 16, 17 and 19 that relate to the STTM and recommendation 22 that relates to the retail markets. These recommendations seek to ensure that the market participation framework (registration and submission of offers) is fit for purpose for hydrogen and renewable gas facilities. Specifically, AEMO supports streamlining the Custody Transfer Point amendment process and the creation of an aggregation framework for facilities operated by a single party.

AEMO does have concerns with recommendation 18 for the STTM. Recommendation 18 seeks to specify that an STTM facility operator is not required to notify AEMO of a change in facility hub capacity if there is no material difference. A Material difference in turn is defined as: exceeding the greater of A and B, where:

- A is 600 GJ; and
- B is the lesser of 5% of the nameplate rating of the STTM facility (determined in accordance with Part 18) and 10 TJ.

AEMO notes that facility hub capacity values can directly affect market outcomes and ultimately settlement and that this change may have unintended consequences. For example, say a 250 TJ facility has maintenance reducing its capacity by 9 TJ. Under the proposed rule this change would not need to be notified to AEMO for use in the ex-ante schedule. If the facility's updated capacity is not included in the schedule and actual flows (relative to scheduled flows) are limited by the facility operator to the lower, unreported capacity then participants will deviate on their schedules and market operator service (MOS) may be required. This scenario will affect settlement outcomes for participants and the scenario in reverse would result in higher prices. Given the potential for this change to have financial impacts for market participants, AEMO considers that a 10 TJ upper threshold is too high to be considered non-material.

Furthermore, AEMO is not convinced that it is particularly onerous for STTM facilities to provide a single daily facility hub capacity value for market scheduling given they likely need to calculate this figure for their own operational and commercial purposes anyway. Given the potential consequences to market price and scheduling outcomes, the rule should only be made if a very high compliance costs are demonstrated by facility operators

Implementation

AEMO notes that the current expectation from Energy Ministers is that implementation will occur sometime in 2023. Given the significant number of changes AEMO and industry is expected to deliver to both gas market Procedures and systems over the next 24 months, AEMO considers that the proposed timelines could be challenging to meet. In addition, for the GSOO and VGPR sufficient lead-time is required for the gathering of new information (as recommended in the review) so that this information can be incorporated in time for the regulated publication dates of these two documents. AEMO will seek to work with officials and the AEMC in developing an achievable and pragmatic implementation timeline ahead of the final report.

AEMO has appreciated the opportunity to work with the AEMC's project team ahead of the publication of the draft report. AEMO looks forward to continuing to work with the AEMC as it develops its final report. Should you require additional information please feel free to contact Nicholas Pope, Principal Analyst at Nicholas.Pope@aemo.com.au.

Yours sincerely,



Violette Mouchaileh

Executive General Manager – Reform Delivery