

20 February 2020

Owen Pascoe
Australian Energy Markets Commission
Via online submission

Dear Owen

Regulatory Sandbox Toolkit – Draft Rules

Thank you for the opportunity to comment on the AEMC's Draft Rules for the regulatory sandbox toolkit (the sandbox toolkit).

The development of the regulatory sandbox framework is a very positive step and critical to supporting innovation and encouraging efficient investment by participants. Overall, we consider the intent of the proposed changes to the Rules to be very positive. However, we remain concerned that the enabling provisions in the *National Gas Law* (NGL) which are suggested in the AEMC's *Final Report - Regulatory Sandbox Toolkit* (Final Report), will limit the utility of the framework proposed for the Rules.

Trials relating to natural gas distribution networks and transmission pipelines are likely to involve blending natural gas with alternative forms of energy (hydrogen and biomethane), which may also be produced by the network or pipeline owner. From the outset this may integrate production and networks, including electricity networks, and would therefore require flexibility in defining what is included in a trial as well as the AER's powers to enable genuine innovation in respect of natural gas.

After briefly introducing Australian Gas Infrastructure Group (AGIG), this submission will provide more detail on our concerns. This submission should also be read in conjunction with our earlier submission to the review of 8 August 2019.

About AGIG

AGIG is one of the largest gas infrastructure businesses in Australia. We serve over 2 million customers across every mainland state and the Northern Territory through 34,000km of distribution networks, more than 4,000 km of transmission pipelines and 57 petajoules of storage capacity.

AGIG is also at the forefront of the emerging renewable gas industry in Australia. At Hydrogen Park South Australia (HyP SA), we are investing in a hydrogen production facility with support from the South Australian Government through the Renewable Technology Fund. We will deliver a 5% renewable gas blend to around 700 customers in the suburb of Mitchell Park by mid-2020.

We are also working to establish the Australian Hydrogen Centre (the Centre) with a range of private and public sector partners. The Centre will socialise learnings from our HyP SA project as well as delivering blueprints to decarbonise gas distribution networks in South Australia and Victoria, including feasibility studies for 10% blending and 100% hydrogen networks in each state.

AGIG's efforts, and those of other gas networks across Australia, are accelerating the development and widespread deployment of hydrogen for the benefit of Australian customers.

Accessing the sandbox toolkit for natural gas innovation

Overall, we support the intent of the regulatory sandbox toolkit to enable genuinely innovative trials to take place in gas markets. The Draft Rules broadly meet this intent and we have no specific comment on the Draft Rules.

However, we are concerned that the enabling provisions suggested for the NGL may limit the utility of the toolkit for trials involving natural gas pipelines. While these provisions have not yet been drafted (and our outside the scope of the AEMC's proposed Rule changes), our concerns are based on the outline provided in the AEMC's Final Report. This is because the type of trials likely to occur in gas markets are likely to be different from those in electricity, integrating different forms of energy and parts of the supply chain.

A range of options are available to decarbonise natural gas consumption in Australia, and there is a growing list of projects which are testing both the technical and economic feasibility of these decarbonisation options (including our own HyP SA project).

Two alternatives to natural gas are particularly prominent – hydrogen and biomethane. Both of these forms of energy will be blended with natural gas in the initial phases (i.e. for all customers (other than perhaps the largest industrial facilities) hydrogen and biomethane would not be available other than through a gas network or pipeline). Furthermore, there are significant economic benefits to making use of existing natural gas infrastructure to deliver these alternatives.

As a result, customer access to both hydrogen and biomethane will be tied to gas pipelines and networks from the outset. This is notably different to electricity, where distributed technologies (e.g. rooftop solar) were initially developed and deployed outside of the regulatory framework for networks. It is only in recent years that they have been integrated into the electricity regulatory framework. Gas will not follow the same path to a low carbon future.

This raises two important issues that the regulatory sandbox toolkit should have the flexibility to address. Firstly, the integration of different types of energy. The proposal that a trial be defined with explicit reference to "natural gas" as defined in the NGL will limit the types of trials eligible to make use of the sandbox toolkit.

For example, trials which blend hydrogen (above certain levels) with natural gas will be ineligible. On the other hand trials which seek to blend biomethane with natural gas might be eligible. Furthermore, this definition might limit trials which provide benefits of sector coupling across electricity and gas, preferring those limited to one form of energy. This creates an uneven playing field for the various forms energy that today appear most promising for decarbonising natural gas consumption and is presumably not intended by the regulatory sandbox framework.

We believe both forms of energy should be eligible for consideration within the sandbox toolkit. Indeed, innovation which has the potential to contribute to the long-term interests of consumers should be encouraged by the framework without limiting the form of energy eligible for the sandbox. This does not require a fundamental change to the NGL,¹ but rather a recognition that trials might involve forms of energy other than natural gas.

Secondly, we are concerned that the AER will require flexibility in using its powers to ensure the sandbox framework can be utilised as intended. It is important that the proposed changes to the Rules are also reflected in the required changes to the NGL relating to the AER's powers and decision making process. For example, it is necessary to ensure the Rules and the Law enable trials to be incorporated within the fully regulated gas networks. As outlined above, decarbonising natural gas usage in homes, businesses and industry is unlikely to occur without a significant network component.

¹ This is being considered in more detail by the National Hydrogen Strategy working group.

Given the issues outlined above, we believe that in drafting amendments to the NGL to enable the sandbox toolkit, further thought should be given to ensuring that trials involving alternatives to natural gas and involving natural gas networks can be eligible to use the sandbox toolkit. We look forward to addressing these issues as part of further consultations. This is to ensure the sandbox toolkit better promotes the long-term interests of consumers as intended.

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@agiq.com.au).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Craig de Laine', is positioned above a light grey rectangular box.

Craig de Laine
General Manager People and Strategy