

12 September 2022

Jess Young
Director – Energy Markets and Networks
Energy Sector Reform
Energy
Department of Environment, Land, Water and Planning
Via email: jess.k.young@delwp.vic.gov.au

Dear Ms Young,

RENEWABLE GAS BLENDING IN VICTORIA – UPDATE ON IMPLEMENTING ZONAL HEATING VALUES

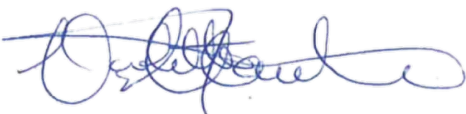
In late 2021 AEMO received a letter from the Hon Lily D’Ambrosio (see attachment A) requesting AEMO implement zonal heating values for Tariff V consumers. In February 2022 we wrote to the Minister (see attachment B) advising that we would work in partnership with the Department of Environment, Land, Water and Planning (DELWP) to progress the required amendments. Further, we advised the Minister that AEMO would undertake detailed IT impact and participant assessment and planning before advising on a specific delivery timetable for the zonal heating value (ZHV) project.

Our assessment phase is currently underway. The original scope was limited to transitioning current tariff V consumers on a single heating value across the state for each gas day to a single heating value for existing pre-defined zones for each gas day. We have determined that a broader approach is required due to the interaction with the review of the hydrogen and renewable gas blending programs of work to optimise our release strategy, costs, and timeframes. The specific components that were added include Distribution Connected Facilities (DCF), extending the national gas regulatory framework to hydrogen blends and renewable gases, and the Heating Value Allocation Model. Originally mid-2023 was the targeted implementation date for ZHV as a discrete release which was prior to the commissioning of the Hydrogen Park (HyP) Murray Valley project which at the time was targeted for second half of 2023. The commissioning of the HyP Murray Valley project has changed with renewable gas supplies to customers now targeted for early 2024¹. In terms of a specific delivery timetable, we are targeting an early 2024 implementation timeline aligning to the Australian Energy Market Commission’s (AEMC) regulatory changes² to accommodate hydrogen and renewable gases also implemented around this same period.

AEMO will continue working with the DELWP, Essential Services Commission (ESC), AEMC, Retailers and Distributors on the delivery of hydrogen related projects. AEMO will develop the zonal heating value methodology with our stakeholders and will communicate our revised implementation planning for hydrogen related projects to stakeholders.

If any of the matters contained in this letter raise any concerns or you require additional information, please feel free to contact me directly or Paddy Costigan on 0403 066 389.

Yours sincerely,



Violette Mouchaileh
Executive General Manager Reform Delivery

Attachment A – Letter from Minister.

¹ Australian Gas Networks website. Click [here](#) to view.

² National Gas Rules (NGR) and National Energy Retail Rules (NERR) if the National Gas Law (NGL) and National Energy Retail Law (NERL)



Hon Lily D'Ambrosio MP

Minister for Energy, Environment and Climate Change
Minister for Solar Homes

8 Nicholson Street
East Melbourne, Victoria 3002
Telephone: 03 9637 9504
DX710098

Ref: MBR046222



Mr Daniel Westerman
Chief Executive Officer and Managing Director
Australian Energy Market Operator
Level 22, 530 Collins Street
MELBOURNE VIC 3000

Dear Mr Westerman

RENEWABLE GAS BLENDING IN VICTORIA – REQUEST TO IMPLEMENT ZONAL HEATING VALUES

Victoria is part of a major global energy transition to renewable energy sources. The Victorian Government is committed to an orderly transition to net zero emissions, ensuring a sustainable, reliable, and affordable energy future for all Victorians. On 25 February 2021, the Victorian Renewable Hydrogen Industry Development Plan was released.

In the plan, Victoria has set out a pathway for gas networks to transition to zero-emissions fuels such as hydrogen, which will assist Victoria to achieve its legislated net-zero emissions target by 2050. We expect several projects to emerge focused on gas blending in Victoria that will require different approaches to regulating, operating, and legislating the gas sector. The first of these, the Hydrogen Park (HyP) Murray Valley project, has already secured funding from the Australian Renewable Energy Agency's (ARENA) Renewable Hydrogen Deployment Fund and it is expected that hydrogen production at HyP Murray Valley will begin in the second half of 2023.

As stated in my January 2021 letter to Australian Energy Market Operator (AEMO), amendments to the Victorian Retail Market Procedures (RMP) are required to enable the HyP Murray Valley project and others like it. Specifically, the RMP must be amended to implement zonal heating values for tariff V consumers, to ensure that customers participating in hydrogen blending trials are not disadvantaged. The RMP must be amended prior to when the HyP Murray Valley project produces and injects hydrogen into the Albury-Wodonga gas distribution network, to prevent inaccurate billing for customers receiving blended gas.

I request that AEMO initiate the process to amend the RMP for the reason set out above and ensure that zonal heating values are implemented prior to mid-2023 when consumers are expected to be receiving blended gas. I note that the HyP Murray Valley project is the first of several hydrogen blending proposals in Victoria that would require the implementation of zonal heating values.

The Department of Environment, Land, Water and Planning will work collaboratively with AEMO to ensure changes to the RMP are made swiftly and is eager to explore options to accelerate this work where appropriate.

Thank you for your ongoing support as we continue to decarbonise our energy system.

Yours sincerely



Hon Lily D'Ambrosio MP
Minister for Energy, Environment and Climate Change
Minister for Solar Homes

22 / 11 / 2021



OFFICIAL

9 February 2022

The Hon Lily D'Ambrosio
Minister for Energy, Environment and Climate Change
Level 16, 8 Nicholson Street
East Melbourne VIC 3002

Dear Minister,

RENEWABLE GAS BLENDING IN VICTORIA – REQUEST TO IMPLEMENT ZONAL HEATING VALUES

Thank you for your correspondence of 22 November 2021 requesting amendments to the Victorian Retail Market Procedures to implement zonal heating values for Tariff V consumers. The Australian Energy Market Operator (AEMO) understands the importance of these amendments to ensure customers participating in gas blending projects, including the HyP Murray Valley project, are not disadvantaged.

AEMO will continue working in partnership with the Department of Environment, Land, Water and Planning (DELWP) to progress the required amendments, targeting implementation for mid-2023 in accordance with DELWP's request (that is, prior to when customers are expected to begin receiving blended gas as part of the HyP Murray Valley project). However, AEMO will need to undertake detailed IT and participant impact assessment and planning before advising on a specific delivery timetable for the project. We will keep the DELWP informed as our detailed planning work progresses.

AEMO intends to undertake a joint formal consultation with the Essential Services Commission (ESC) to amend the Gas Distribution System Code and relevant market procedures. The consultation approach will seek to inform and coordinate necessary changes across industry as well as progress the most cost-effective solution and, where possible, leverage existing processes, procedures and IT systems to ensure efficiency.

AEMO looks forward to progressing these matters with DELWP to support the Victorian Government's gas network decarbonisation commitments. Should you require additional information please feel free to contact me directly or Violette Mouchaileh, Executive General Manager Reform Delivery, on (03) 9609 8551.

Yours sincerely,

Daniel Westerman
Chief Executive Officer and Managing Director