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Friday, 29 April 2022

Ms Rachel Parry
Deputy Secretary Energy Climate Change and Sustainability
Office of Energy and Climate Change

Via email: hydrogen@planning.nsw.gov.au

Dear Rachel,

Green Hydrogen Network Charge Exemptions – Consultation Paper

Transgrid supports the NSW Government's Hydrogen Strategy, which includes a commitment to provide a 90% reduction in network charges to hydrogen producers that benefit from an exemption. Transgrid therefore welcomes the opportunity to make this submission in response to the above consultation paper, which seeks feedback on the implementation issues relating to the proposed reduction in network charges. In this context, Transgrid is ready to assist the NSW Government to ensure that the reduction in network charges for exempt hydrogen producers is implemented smoothly.

Transgrid notes that the 90% network charge exemption, which applies to transmission and distribution use of system charges, is subject to the following conditions:

- electrolysers must locate where there is spare capacity;
- network businesses and AEMO will be able to direct the electrolyser to curtail load if required during a peak event;
- hydrogen producers will be required to pay 10% of network use of system charges, which will account for their marginal costs (i.e. the additional costs they impose on the network); and
- the concessions will only be available for electrolyser capacity installed by 2030 and for a period of 12 years, after which the hydrogen producer will revert to paying the full network charges.

Transgrid understands that these conditions are intended to ensure that exempt hydrogen producers obtain a substantial reduction in network charges without imposing ongoing additional costs on other network users. In addition, the NSW Government's policy position is that network service providers should be kept financially whole. Specifically, the consultation paper notes that the recent amendments to the Electricity Supply Act 1995 to give effect to the reduction in network charges for exempt hydrogen producers includes the requirement that:¹

“The regulations may not have the effect of reducing the total revenue earned by a network service provider under a determination.”

¹ NSW Government, Green hydrogen network charge exemptions - Proposed approach for regulation and implementation consultation paper, page 2.

Transgrid strongly supports the NSW Government's policy intention to promote hydrogen production without materially impacting other network users or network companies. In reviewing the consultation paper, however, Transgrid has identified the following issues that may need further attention to ensure that the Government's policy intentions are given full effect.

1. Ensuring Transgrid is kept financially whole.

Contrary to the Government's policy position, the current National Electricity Rules (NER) would not allow Transgrid to be kept financially whole if exempt hydrogen producers receive a 90% discount on their transmission use of system charges.

The current NER include 'prudent discount' provisions that provide for transmission charges to be discounted and the shortfall recovered from other customers, but these provisions would not allow a 90% discount. It is likely, therefore, that Regulations will be required to give effect to the NSW Government's policy. Transgrid would like to work with the NSW Government to ensure that Regulations are introduced to enable Transgrid to be kept financially whole.

2. Implementing discounts for distribution connected producers

The consultation paper proposes that if an exempt hydrogen producer connects to the distribution network, Transgrid would be required to reduce its transmission charges in respect of that customer. While this approach is reasonable in principle, we are not convinced that the administrative costs and regulatory complexities in implementing this approach are warranted.

A simpler approach would not require Transgrid to reduce its transmission charges. Under this alternative approach, the distribution network would establish a network tariff for the exempt hydrogen producer that only included 10% of the transmission charges that would ordinarily apply to that customer. The distributor's other network tariffs would be set to enable the distributor to recover the total transmission charges that are payable to Transgrid.

A key benefit of this alternative approach is that it avoids the need to recalculate transmission charges each time an exempt hydrogen producer connects to the distribution network.

3. Clarification of the planning information requirement

The consultation paper recognises the importance of providing prospective hydrogen producers with information regarding opportunities to connect to the transmission and distribution networks. To address this issue, the consultation paper proposes that preliminary information regarding the location of spare capacity should be made available through the Transmission Annual Planning Report (TAPR).

Transgrid supports the proposed approach. Transgrid considers that the current level of information published in Transgrid's TAPR should be sufficient for prospective hydrogen producers to conduct their preliminary assessments. Transgrid would be grateful for confirmation that the NSW Government shares this view and that no additional reporting obligations or costs will need to be imposed in order to meet the Government's policy objectives.

4. Avoiding future augmentation costs

Transgrid supports the NSW Government's policy that exempt hydrogen producers should not cause any future network augmentation costs. To give effect to this policy, the NSW Government proposes that each exempt hydrogen producer's load would be subject to curtailment provisions if a

peak event occurred. The intention of this policy is that network augmentation would not be needed to meet the needs of the exempt hydrogen producers.

Transgrid would like to understand the NSW Government's proposed approach in further detail to ensure that it achieves the policy objective. In particular, any conditions placed on an exempt hydrogen producers' load requirements will need to interface with Transgrid's planning obligations to ensure that the load cannot drive transmission augmentations. In this regard, Transgrid would like to explore whether curtailment provisions are appropriate or, as an alternative, whether requiring the load to be scheduled would be preferable.

5. Maintaining accurate exemption records

As a practical matter, Transgrid will also need accurate information regarding the exemption status of hydrogen producers. In the absence of accurate information, it is possible for network discounts to be provided inadvertently to hydrogen producers whose exemption has lapsed or been withdrawn. Transgrid's view is that the NSW Government would be best placed to maintain accurate records of network exemptions and make this information available to the network service providers.

Transgrid notes that the success of the NSW Government's Hydrogen Strategy will depend, in part, on the effective resolution and management of the implementation issues noted above. As such, Transgrid would appreciate the opportunity to work collaboratively with the NSW Government to ensure that each issue is resolved in a manner that gives effect to the NSW Government's policy intent.

With this in mind, we will be in touch with your office to arrange a meeting to discuss the points raised in this submission. In the meantime, if you have any immediate questions regarding this submission, please do not hesitate to contact me.

Yours sincerely,



Brett Redman
Chief Executive Officer, Transgrid