Gas distribution networks: Connection and permanent abolishment charges

Submission to Australian Energy Market Commission Consultation Paper

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Households and small businesses who electrify benefit from significantly lower energy costs, healthier homes and businesses, and play an important role in helping Australia reach net-zero targets.[1]

But not everyone can access these benefits, with groups such as low-income households, renters, small businesses and apartment-dwellers facing barriers to electrification. Under current arrangements, consumers who are left using the gas network for longer will face rising gas bills as the cost of maintaining and operating the gas network is shared among a diminishing cohort of customers.[2] The transition to all-electric homes and businesses must be supported by early and proactive planning to minimise this risk and ensure no consumers are left behind.

The National Gas Rules (NGR) were designed to promote continued growth of the network and are therefore not fit-for-purpose in the context of declining demand for gas. Energy Consumers Australia's proposed changing the NGR in four distinct ways to minimise the risk of rising gas bills by ensuring unnecessary costs are not added to an already expensive network and by providing greater tools to help stakeholders plan for an orderly transition away from gas.

We commend the Australian Energy Market Commission's commitment to pursuing these rule changes proposals. We are pleased to see consultation begin first on our proposal to charge upfront costs to connect to the gas network. This rule change will have clear and immediate benefits. It will:

- Ensure connection costs do not add to the costs of gas networks already at risk of stranding, reducing risks to existing gas network consumers
- Provide greater certainty to gas distribution businesses planning for the future of their network.
- Provide a more effective price signal to consumers considering connecting to the gas network.

The Justice and Equity Centre's rule change proposal on disconnection costs also highlights the need to plan for a declining gas network. Existing regulation does not adequately address how the costs of disconnecting customers from gas networks can be sustainably recovered.

We support the JEC's proposal to introduce a framework that will clearly define the costs associated with disconnections so consumers only pay the minimum standard required to maintain safety. However, we also consider that more information is needed on what this minimum standard requires to ensure only those consumers who should be pursuing full abolishment are doing so.

Both socialising the cost of abolishments for all individual connections, and requiring the disconnecting customer pay the full cost, have distinct issues. Neither are a sustainable long-term solution. We therefore support any change that will bring greater clarity over the costs of disconnecting/abolishing, help consumers make informed decisions about the options available to them, and will assist industry and policymakers more generally as the sector works towards a solution that ensures consumers have access to a safe and affordable means to disconnect.

[1] Grattan Institute, Getting off Gas, June 2023
[2] ECA, Stepping Up: A smoother pathway to decarbonising homes, August 2023.

Upfront Connection Costs

Question 1: How should connection charges be treated in the context of the projected decline of residential and commercial gas demand?

Question 2: Would the ECA proposed solution address the issue of inequitable cost sharing?

The current approach to socialise connection costs across all network customers is not fit-for-purpose in the context of the projected decline of residential and commercial gas demand. The case for socialising connection costs hinges on the logic that the revenue received over the lifetime of the connecting customer will be greater than the cost of connecting, therefore lowering the costs for all consumers. This logic is fundamentally altered by a projected decline in gas demand. Accordingly, socialising some of the cost of connection no longer represents an equitable approach to cost recovery.

Our Consumer Energy Report Card finds over a third of homeowner households plan on cancelling their gas supply in the next ten years.[3] And, while the ACT and Victoria remain the only jurisdictions to limit new connections to the gas network, jurisdictions across Australia have acknowledged the benefits of electrification and the likelihood consumers will increasingly take them up. The Commonwealth Government's Future Gas Strategy says: "households and small businesses will have, for the most part, electrified by 2050"[4] as: "Most households are likely to embrace opportunities to reduce their energy bills and emissions by switching from gas to electric appliances when existing appliances need replacing".[5] Australian residential and commercial gas use is expected to decline 72% by 2043[6] and to be largely non-existent by 2050[7] as households and businesses electrify and leave the gas network.

This rule change represents a more equitable approach to recovering connection costs as consumers connecting to gas now are increasingly likely to electrify before the costs of their connection have been paid off, particularly as rising network costs increase the incentive to do so.

Further, in the context of a declining gas network, consumers need clear information to help them assess potential risks related to connecting for the first time. Consumers who choose to connect to gas will face higher running costs and, if they consider electrification later, potentially high upfront costs to making the switch. Grattan's *Getting Off Gas* identifies a significant cost hurdle for those considering switching, including higher appliance costs, the costs of disconnection or abolishment, and potential rewiring needs to accommodate increased electricity load.[8] This rule change will also act as a more effective price signal for consumers and developers considering connecting for the first time.

[3] ECA, Consumer Energy Report Card: How households use gas and their attitudes towards electrification, February 2025.
[4] Australian Government Department of Industry, Science and Resources, Future Gas Strategy, 2024. p. 38
[5] Australian Government Department of Industry, Science and Resources, Future Gas Strategy, 2024. p. 42
[6] AEMO, 2024 Gas Statement of Opportunities (GSOO), Step Change Scenario accessed via gas forecasting data portal.
[7] Reedman, et. al., Multi-sector energy modelling 2022: Methodology and results: Final report, CSIRO Report No. EP2022-5553, Australia. P. 59
[8] Grattan Institute, Getting off Gas, June 2023

Question 3: What distribution networks and customers should ECA's proposed solution apply to?

Our proposal is that this rule change apply both to scheme and non-scheme pipelines. All consumers, regardless of their distribution network, should have access to effective and accurate price signals when making the decision whether to connect to gas. As we have noted already, many consumers may be unaware of the benefits of electrification when connecting to gas. These consumers will face higher running costs and, if they choose to electrify later, will be met with the upfront costs of switching to all-electric.

Question 4: What are your views on the costs and benefits of ECA's proposed solution?

Charging upfront connection costs offers clear and immediate benefits for individual consumers, all remaining gas customers, and the industry more broadly.

As has been noted in our proposal and in the consultation paper, there are several benefits to our proposed change, including:

- consumers who are considering connecting benefit from a more effective price signal of the cost of a gas connection. This may result in consumers choosing not to install a gas connection, resulting in lower running costs and avoiding future upfront costs of electrifying.
- Remaining gas customers, particularly those who face barriers to electrification, will not be expected to pay the costs of new connections.
- It addresses a split incentive between developers and future occupants whereby the developer does not need to consider the higher running costs of installing a gas connection.

In addition to benefitting consumers directly, this rule change will offer clarity to gas distribution networks seeking to make accurate revenue proposals within a context of significant policy uncertainty. Jemena Gas Network's opening statement in their 2025-2031 Draft Plan states: *"We are operating in a period of significant uncertainty surrounding the future role of gas networks in the Australian energy landscape. This presents a complex challenge for us and our customers as we seek to develop a 2025 Plan which is in the long term interests of consumers."*[9]

Jurisdictions outside of the ACT and Victoria are yet to introduce clear guidance and regulation encouraging consumers to electrify. This rule change will provide clarity by prescribing that connections costs should not be added to networks' Regulatory Asset Bases. It will also ensure gas distribution networks, as well as their customers, are not exposed to this stranded asset risk.

Question 5: What implementation considerations should the AEMC contemplate for the ECA proposal?

The AEMC should seek to implement this change as soon as possible given ongoing Access Arrangement decisions and the continued increase in consumers connecting to gas networks across almost all jurisdictions.

[9] Jemena Gas Networks, Draft 2025 Plan, February 2024, p. iv

Evoenergy in the ACT and Australian Gas Networks in South Australia have recently released their Draft Plans for 2026-2031. Their plans must make assumptions about the number of consumers connecting to their networks and the costs associated with these connections. AGN has proposed $141 million to connect new customers to their network over the 2026-31 period.[10] And while Evoenergy's proposed spending on connections is substantially lower due to the ACT's ban on new connections, they still propose spending over $5 million connecting new customers in the small parts of their network that lie in NSW.[11]

Both businesses have stated within their Drafts that this rule change will have a material impact on their proposals and adjustments would be made if it were successful. AGN has indicated they would reopen their Access Arrangement if this rule change was successful after a Final Determination. The AEMC should therefore seek to proceed this change as soon as possible to ensure changes can be accounted for in these ongoing processes.

Question 6: Are there alternative, more preferable solutions to address the issues with the existing gas connection arrangements?

We consider the approach outlined in our proposal the most straightforward and equitable approach to addressing the issues. Our proposal suggested alternatives, including allowing gas distribution networks choose whether to charge upfront costs, with any costs not recovered up front "quarantined" so gas distribution networks cannot claim accelerated depreciation on them. However, this option is significantly more administratively burdensome compared to our proposed option and we therefore do not believe it should be adopted.

The alternatives outlined in the consultation paper are also unnecessarily complex and may be difficult to effectively implement given the existing policy uncertainty. Updating the net present value analysis would require making assumptions about how long a consumer is likely to remain on the gas network, which will be dependent not just on their individual circumstance but also on the as yet unknown policy direction of many jurisdictions. Equally, the recovery of permanent abolishment costs is also a live policy debate (as demonstrated by the AEMC's consultation on JEC's rule change proposal); including these costs as part of a new connection may also add complexity without need.

Significant stakeholder feedback informed the submission of our rule change proposal. Stakeholders have indicated to us that this option is the most straightforward approach to achieve our desired outcomes. The Essential Service Commission also considered alternative approaches before ultimately deciding to require upfront connection costs. We strongly recommend the AEMC do the same.

Disconnection Costs

When consumers electrify, they have the choice to permanently abolish their gas connection or temporarily disconnect. The former is significantly more expensive, (the AER has recently approved $1,200 for abolishment services in the Jemena network), however has been identified by regulators as

[10] AGN, Five year plan for our South Australian Network, March 2025.
[11] Evoenergy, Draft five year gas plan, March 2025

the preferred option due to the public safety risk associated with an active, unmonitored gas connection.[12]

To encourage more consumers to permanently abolish their connection, the AER has recently taken the approach of socialising most of the cost among existing gas customers. This approach reduces the cost burden on the disconnecting consumer. However, as the number of consumers leaving the gas network increases, total disconnection costs will reach a level that will not be considered fair, reasonable, or affordable for remaining gas consumers to pay. While the AER has said this will only be a temporary measure, there is a risk that it becomes permanent (or at least long-term) if action is not taken to identify a more sustainable solution.

Neither socialising costs with the existing customer base, nor expecting all disconnecting customers to pay the full cost, offers a sustainable solution to recovering the costs of disconnecting consumers from the gas network. As the number of consumers considering disconnecting grows, the most efficient option will likely be to pursue decommissioning of multiple properties at one time. Until then, consumers (whether this be all consumers through network costs or the individual customer who is disconnecting) should only be expected to pay for the absolute minimum necessary to maintain safety requirements.

JEC's rule change offers a sensible and well-needed amendment to the National Gas Rules that will clearly define what activities are needed to ensure the ongoing safe operations of gas networks. This change will not only ensure consumers are only expected to pay what is absolutely necessary, but will also increase clarity for consumers and industry about what options are available when a consumer leaves the gas network.

ECA considers further information is needed to determine the best solution for how to recover the costs of disconnecting/abolishing consumers from the gas network in the short-term until larger-scale decommissioning is pursued. Given safety has been identified as the primary justification for abolishment, further public information on the extent of this safety risk is necessary, including which consumers and how many pose the most risk from a temporary disconnection.

The AER reports that there are over 180,000 “dormant connections” in the National Energy Market, where consumers are still connected but not consuming any gas.[13] It is unclear if these connections pose a significant safety risk. If so, why have they been allowed to remain connected without using gas for so long? If not, these dormant connections are further evidence that it may neither be efficient nor necessary that all consumers who electrify should fully abolish.

ACT's gas network, Evoenergy, conducted a formal safety assessment as part of their Draft Plan for 2026-2031.[14] It found that the cost of abolishing all connections was greater than the safety benefits it would bring. Instead, Evoenergy recommends targeted abolishment, identifying the instances when maintaining an active gas connection poses the greatest risk (likely to be when a customer electrifies, sells the property and the new owners are unaware of the existing gas connection). One option they have investigated to mitigate this risk efficiently is requiring a customer pay for full abolishment when selling the premise.

[12] AER, Final decision – JGN access arrangement 2025-30 – Overview, May 2025, p. V.
[13] AER Gas Quarterly Disconnection Reporting 19 May 2025
[14] Evoenergy, Draft five year gas plan, March 2025

The feasibility of this approach is yet to be determined. However, in the ACT, additional information on the nature of the safety risk has allowed for a more open conversation of potential options for how these costs can be best allocated and recovered.

Question 7: Do you consider there is a regulatory gap in relation to gas disconnection/abolishment?

Question 8: Do you agree with the JEC proposal to introduce a framework for disconnection/abolishment in the rules?

ECA agrees there is a regulatory gap in relation to gas disconnection/abolishment. We therefore strongly agree with JEC's proposal to define different services and to define the scope of works required for different services.

The number of households and small businesses considering switching to all-electric is growing, particularly in jurisdictions where there is clear policy aimed at incentivising consumers to electrify. For the last three financial years, the number of homes disconnecting from the ACT gas network has exceeded the number of homes connecting.[15]

But the decision on whether to temporarily disconnect or permanently abolish remains unclear for consumers and industry alike. Ombudsman services have received complaints highlighting the confusion surrounding the costs and processes of abolishment and disconnection.[16] And the costs regulators allow distribution networks to recover as part of abolishment services differ and are not clearly defined. While Evoenergy charges around $800 for an abolishment service in the ACT, the AER has recently approved Jemena Gas Network's proposal for around $1200, a number which was contended throughout consultation.[17]

Consumers should only be expected to pay what is necessary to achieve a minimum safety standard when electrifying their premises. However, determining what is required to achieve this is complicated without a clear framework for disconnection/abolishment in the rules.

Question 9: How should costs for disconnection/abolishment services be recovered?

The most efficient and just recovery of disconnection and abolishment services cannot be appropriately determined without a greater understanding of the nature of the safety risk permanent abolishment seeks to address.

The AER has recently begun socialising a large portion of the cost of abolishing a gas connection among all existing gas customers. However, it has acknowledged: "*a socialised abolishment cost model is only an interim measure to address this public safety issue. Further work is required across the sector to develop a more sustainable solution".*[18] As the number of households and small businesses disconnecting from the gas network increases, the costs of abolishing individual connections will further

[15] AER, Gas quarterly disconnection reporting, February 2025 update. Accessed March 2025.
[16] Energy and Water Ombudsman Victoria, Submission to Gas Distribution System Code of Practice Review, December 2023.
[17] AER, Final decision – JGN access arrangement 2025-30 – Overview, May 2025,
[18] AER, AER decision supports Victorian gas consumers in energy transition, June 2023

exacerbate the existing risk of stranded gas network assets and the potential for consumers to face rising gas network costs.

As previously discussed, further information on the need for full abolishment is required before an assessment of how these costs can be determined.

Question 10: What consequential NERR changes would be required to complement any changes in the NGR?

The NERR should be updated alongside any changes to the NGR to ensure consumers have access to clear information on the options available to them when disconnecting and are confident they are paying a fair price to disconnect from gas networks. As noted in question 8, confusion already exists among consumers on the process and costs related to disconnection/abolishment and ECA supports updates to amend this. Instances have of retailers failing to inform consumers about the options they have available to them, with some having no knowledge that temporary disconnection was an option.[19] The NERR should explicitly set out the information retailers must provide to consumers who are electrifying to ensure they are making a decision that is in their best interests.

Question 11: What distribution networks and customers should the proposed JEC solution apply to?

All consumers, regardless of which distribution network they are in, should only be expected to pay the minimum cost required to safely disconnect from gas. As discussed in our response to question 3, any reasons why these rule changes should not be applied for all consumers must be appropriately balanced with this need.

Question 12: What are your views on the costs and benefits of JEC's proposed solution?

ECA agrees with the JEC that there will be an efficiency benefit for abolishing customers who will only face the minimum charge for a basic abolishment service.

We also agree that the current approach to socialising abolishment costs will be unsustainable as the number of consumers electrifying increases and that further policy interventions will be needed to ensure consumers have an affordable and safe option to disconnect from gas networks. However, greater information on which, and how many, consumers should be abolishing their gas connection will help identify the best solution for this issue.

Question 13: What implementation considerations should the AEMC contemplate for the JEC proposal?

We agree that any determination on this rule change should be brought in as soon as possible following the AEMC's final determination. As we have already noted in our response to question 5, this rule change will have a material impact on access arrangements that are already underway. To provide

[19] Sydney Morning Herald, Would you pay $100 to get off gas? Consumer dismay over disconnection cost, February 23 2023.

certainty to these processes, avoid future reopeners and ensure consumers have access to the benefits as soon as possible, the AEMC should therefore seek to make these changes effective immediately.

Question 14: Can the problem be solved in a different way?

As we have already discussed, we believe the JEC's proposal is an optimal way to ensure consumers are only paying the minimum costs required to safely abolish their connection to the gas network. However individually abolishing all connections is unlikely to be considered efficient as more consumers choose to electrify. Greater information on the nature of the safety risk is required to investigate alternative approaches.

The most efficient approach to safely disconnect consumers who have electrified their premises will ultimately be to decommission larger areas of the gas network, abolishing the connection of multiple premises at once. However, the timeline for this is unknown with Evoenergy currently the only gas network with a clear date for when it intends to begin decommissioning.[20] ECA has submitted a separate rule change proposal on future gas network planning as a potential way to provide greater information when and where gas networks should pursue coordinated disconnections en masse.

Until work on larger-scale decommissioning progresses, better understanding of which consumers should be abolishing, and at what time, will not only minimise costs spent on abolishment but will also help identify how and when these costs should be recovered. While much conversation has centred around what costs are necessary and who should pay for them, it is also worth considering *when* we should be abolishing, especially given the most efficient future solution will be larger-scale decommissioning. For example, Evoenergy has suggested full abolishment costs could be paid by the disconnected consumer at the point of selling their premises, when the risks related to temporary disconnection materially increase.

JEC's rule change goes some way to identifying a more sustainable approach to paying the costs of disconnection and abolishment. However, it does not fully solve this issue, with the solution unlikely to be found within the National Gas Rules. Governments and industry must work collaboratively to clearly articulate the future of gas for households and small businesses and identify the most sustainable approach to decommissioning gas networks. Evoenergy, for example, is operating in a unique policy environment where there is a clear understanding that the ACT will be decarbonising through electrification, with the ACT Government indicating that decommissioning will begin around 2035.[21] This clarity has afforded Evoenergy the opportunity to begin to assess the least-cost scenario for disconnecting consumers from their gas network.

Concluding remarks

There are clear, unresolved questions about how to fairly and orderly transition consumers away from gas distribution networks. Ensuring those who are last to electrify have access to a safe and affordable gas supply will require broader action from governments and industry.

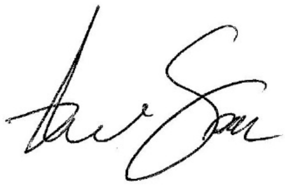
While these rule changes will not solve the issue at large, they are sensible and straightforward approaches to bring the National Gas Rules up to date in a declining gas network. They will minimise the issues already at play, help consumers make informed decisions, and serve as an important first step as

[20] Evoenergy, Draft five year gas plan, March 2025
[21] Evoenergy, Draft five year gas plan, March 2025

governments and industry more broadly investigate holistic approaches to planning for a declining network.

We look forward to continuing to engage in this consultation. Please reach out to Adam Collins at Adam.Collins@energyconsumersaustralia.com.au with any further questions.

Signed,



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