AUSTRALIAN ENERGY REGULATOR

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10 July 2025

Alisa Twomey
AEMC Project sponsor

Dear Ms Twomey

Re: Updating the regulatory framework for gas connections

The Australian Energy Regulator (AER) welcomes the opportunity to provide a submission to the Australian Energy Market Commission (AEMC) on National Gas Rules (the Rules) change proposals for connections/disconnections submitted by Energy Consumers Australia (ECA) and the Justice and Equity Centre (JEC).[1]

The AER's role

We are the economic regulator for major scheme (full regulation) gas distribution networks in New South Wales (NSW), Victoria, South Australia and the Australian Capital Territory (ACT). Those gas distributors are subject to economic regulation via 'access arrangements' which set out the network tariffs they may levy on network users, mechanisms for how tariffs will vary from year to year, and terms and conditions of access. Access arrangements for an upcoming 5-year period are proposed to us by gas distributors and we assess them under a regulatory framework set out in the National Gas Law and Rules.

Under the Rules, our role also includes approving the model standing offers (MSO) of gas distribution networks. An MSO sets out the price and non-price terms and conditions under which a gas distributor will provide a basic or standard connection service to a customer. It forms the basis of the connection offer to a customer wishing to connect to the distribution network.

Changing context - reduced gas demand and the AER's recent considerations

We are now undertaking our functions in a fundamentally different context to even the relatively recent past. Australian and state and territory governments have now adopted emissions abatement targets. Some have enacted policy interventions

[1] AEMC, *Gas distribution networks: Connection and permanent abolishment charges*, June 2025.

aimed at transitioning customers from gas to electrical appliances,[2] with further policy interventions under consideration.[3] The National Gas Objective has been updated to incorporate emissions reduction objectives. For Australia's East Coast Gas Market, the Australian Energy Market Operator's (AEMO) 2025 Gas Statement of Opportunity (GSOO) states: "electrification and other factors are expected to reduce residential and small commercial gas consumption by 125 petajoules (PJ), from 176 PJ in 2025 to 51 PJ in 2044, despite rising population and economic growth".[4]

With the above in mind, our long term modelling of the regulatory asset bases (RAB) of the gas distributors we regulate indicates they face material risk of asset stranding as a result of declining demand – that is, they risk not recovering the full value of their network asset investments by the net zero target date of 2050 (or 2045 for the ACT). This creates uncertainty for investors in these networks and for customers. As customers leave the gas network, there are fewer customers to share the fixed costs of providing gas network services. Declining demand is ultimately the key driver of rising future network prices.

Our recent access arrangement decisions for gas distributors in Victoria[5] and NSW[6] have granted some accelerated depreciation to balance the need for a start of accelerated depreciation to promote efficient investment, and the need to limit the impact of accelerated depreciation on consumers. "While accelerated depreciation can be used as a tool for reducing asset stranding risk, it has limitations and on its own cannot resolve the issues faced by the gas networks and customers from anticipated declining demand. So long as demand continues to decline, no affordable amount of accelerated depreciation will achieve long-term price stability."[7]

Connections rule change

The current regulatory framework, which prohibits newly connecting small customers facing cost reflective connection tariffs, is worsening the asset stranding challenge. The capital cost of new connections is added to RABs, meaning the asset stranding risk grows commensurately. Mitigating asset stranding risk requires limitations on new capital value being added to existing RABs. We therefore support establishing cost reflective connection tariffs for newly connecting customers.

Additionally, our role in approving the MSO does not extend to mandating specific connection charges in these connection offers. This is because, as noted by the ECA, "Rule 119M of the NGR limits both the circumstances in which distributors may charge customers for new connections, and the amount they may charge".[8] Also,

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2 www.climatechoices.act.gov.au; www.energy.vic.gov.au/renewable-energy/victorias-gas-substitution-roadmap;

3 Victoria Department of Transport and Planning, *Building electrification RIS – Summary*, December 2024; ACT Government, *2024–30 The Integrated Energy Plan,* June 2024.

4 AEMO, *2025 Gas Statement of Opportunities*, p.23.

5 See final decisions for: Australian Gas Networks (Victoria and Albury) - Access arrangement 2023–28; Multinet Gas - Access arrangement 2023–28; and AusNet Services - Access arrangement 2023–28.

6 AER, *Final decision - JGN access arrangement 2025–30 – Overview*, May 2025.

7 AER, Final decision - JGN access arrangement 2025–30 – Overview, May 2025, p. iv.

8 Energy Consumers Australia, *Gas Distribution Network Rule Change Requests,* p.15, February 2025

"gas distribution networks have the discretion to charge non-retail customers up front the full cost of new connections, but no requirement to do so".[9]

Having new customers pay their way, rather than have the capital cost of their new connections added to RABs, would protect other customers from incurring those connection costs and reduce the long term asset stranding risk faced by gas distributors. We note the Victorian gas distributors are already subject to a determination by the Essential Services Commission of Victoria (ESCV) to levy cost reflective connection tariffs on newly connecting customers.[10] Equivalent arrangements are now required for the other jurisdictions hosting scheme gas distribution networks.[11]

We note too, that the ESCV's regulatory intervention to mandate cost reflective connection tariffs was augmented by new obligations it imposed on Victorian gas distributors to publish on their websites information about connection and disconnection services and associated tariffs.[12] We ask the AEMC to consider whether gas distributors outside Victoria should be obliged to make available to customers clear, accessible information about their connection and disconnection options.

In terms of connection tariffs, the most appropriate way of amending the Rules to facilitate cost reflective connection tariffs is not yet clear. One possible approach would be for small customer connections to be made available to us to classify as ancillary reference services. In this scenario, gas distributors would submit proposed connection reference tariffs to us for assessment as part of the standard access arrangement assessment process. An alternative approach would be for the Rules to mandate cost reflective connection tariffs – as proposed by ECA. Whether, or how, the AER could have regulatory oversight would need to be considered. Under either of the above approaches, rule 119M of the Rules would require amendment to facilitate cost reflective connection tariffs.

The AEMC consultation paper canvasses a further option, to potentially retain the existing net present value (NPV) test for determining the portion of connection costs financed upfront by connecting customers.[13] The paper notes that distributors or the AER could, under the existing framework, exercise discretion to reduce the expected life of new connections to facilitate connecting customers paying more for their connection service. In response, we observe that retaining the existing NPV test in any form would see some connection costs, potentially a majority, added to RABs. There are preferable reform options that can better contribute to mitigating the asset stranding challenge.

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9 Energy Consumers Australia, *Gas Distribution Network Rule Change Requests,* p.15, February 2025

10 Essential Services Commission of Victoria, *Gas distribution system code of practice review: Final decision*, May 2024.

11 Noting the ACT ban on new connections is already an effective policy intervention in terms of mitigating RAB growth, such that in its ACT service area Evoenergy need not be subject to any new connection tariff regulations.

12 Essential Services Commission of Victoria, *Gas distribution system code of practice review: Final decision*, May 2024, p.34.

13 AEMC, *Gas distribution networks: Connection and permanent abolishment charges*, June 2025, p.14.

In terms of the urgency of connections tariff reform, 2026−31 access arrangement proposals were submitted to us by Evoenergy and AGN SA by 1 July 2025, with our final decisions on those proposals due in April 2026. We consider the AEMC's expected release date for its final decision on the ECA rule change proposal, in December 2025, would enable Evoenergy and AGN SA to submit proposed connections ancillary reference service tariffs to us for assessment with their revised access arrangement proposals, in early 2026.

While Evoenergy is subject to a new connections ban within the ACT, it also serves customers in southern New South Wales where no such ban is in effect. Similarly in South Australia, there is currently no restriction on new gas connections. This means that, for both gas distributors, there is urgent need for connections pricing reform to mitigate long-term asset stranding risk and protect existing customers from incurring additional costs.

Disconnections rule change

On JEC's rule change proposal for disconnections, our recent access arrangement decisions for network service providers in Victoria and New South Wales have responded to concerns about unsafe disconnection practices expressed by jurisdictional technical/safety regulators by partially socialising the cost of abolishing unused connections.[14] By reducing abolishment tariffs from ~$1,000 to ~$250 in our recent access arrangement decisions, it is hoped more customers will request abolishment rather than either requesting a temporary disconnection (priced ~$70) or simply ceasing their retailer relationship and leaving their gas connection unmanaged. Either of those approaches leaves live gas connection pipes under customer properties and sometimes leaves gas within customer premises, giving risk of inadvertent gas leaks via strikes on connection pipes or other events.

The balance of abolishment costs, the portion of the cost reflective tariff that is socialised, is recovered from all remaining gas customers via their payments for gas transportation services. In partially socialising abolishment tariffs in our recent access arrangement decisions, on the advice of jurisdictional technical/safety regulators, we have been conscious of the cost burden imposed on remaining gas customers should this arrangement continue while the number of permanently disconnecting customers grows over time. We are also conscious that it will likely be customers with the least resources, or who rent, that will continue to use their gas connections the longest, while customers who own their homes and have more resources will electrify. This dynamic would worsen equity outcomes.

We consider that the sector, relevant regulators and governments should investigate alternatives to loading additional costs on to remaining gas customers, while also effectively managing the safety risk associated with live but unused gas connections remaining in situ.

In terms of the form of new regulatory arrangements for disconnections, in principle we can see the rationale for the NGR to provide guidance to distributors and

[14] AER, *Final decision – Jemena Gas Networks (NSW) access arrangement 2025 to 2030*, May 2025, p.42.

regulators. However, JEC's proposal for the AER to develop a new guideline on disconnection practices appears to conflate the AER's role as economic regulator with the role of a technical/safety regulator. Our statutory functions do not extend to directing gas distributors on how to safely disconnect customers. Our role is limited to determining the efficient cost of providing, and cost recovery for, provision of gas pipeline services. We note that policy interventions may also be required to give effect to the sort of new disconnections framework proposed by JEC.

We can further observe that, while JEC's proposal to define a distinct set of disconnection and abolishment services in the regulatory framework would enhance certainty, there is also risk of inappropriately binding distributors and regulators. We are seeing a variety of disconnection and abolishment services being developed by scheme gas distributors, reflecting changing policy settings and market expectations. Different distributors, and their stakeholders including technical/safety regulators, may see value in differing cease-of-service options, while we see value in maximising regulatory flexibility to respond to changing circumstances.

In terms of the urgency of disconnections reform, we expect that sorting through the economic and technical/safety issues, and identifying any potential role for government policy, may require significant effort and time. We see risk in bundling disconnections reform with the ECA rule change for connections pricing reform. Bundling the two projects could delay connections pricing reform beyond useful timing for the 2026−31 Evoenergy and AGN SA access arrangement decisions. In considering the merits of bundling these two rule change proposals, we ask the AEMC to place weight on the urgency for connections pricing reform.

Yours sincerely

Dr Kris Funston
Executive General Manager – Network Regulation