Australian Energy Markets Commission
Project Leader
Rule Change Proposals – Gas Distribution Networks: Connection and Permanent Abolishment Charges

10 July 2025

Submitted electronically:

Dear Alisa,

Submission to the AEMC: Rule Change Proposals – Gas Distribution Networks: Connection and Permanent Abolishment Charges

The Australian Energy Council ('AEC') welcomes the opportunity to comment on the Rule Change Proposals – Gas Distribution Networks: Connection and Permanent Abolishment Charges.

The AEC is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 percent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

Introduction

This submission outlines the AEC's positions on the rule change proposals submitted by Energy Consumers Australia (ECA) and the Justice and Equity Centre (JEC), as well as feedback on the AEMC's alternative approaches. We appreciate each of the Commission's and the proponents' efforts in addressing the evolving issues associated with declining gas demand, stranded asset risks, and equitable cost allocation within gas distribution networks. These represent critical challenges.

Key Issues

The AEC acknowledges the critical challenges identified by the proponents:

- Declining gas demand, with residential and commercial consumption projected to fall 70% over 20 years (AEMO GSOO 2025 – Step Change Scenario) potentially leading to an inequitable cost allocation for remaining users as the network reaches end of life.
- The potential for inefficient new connection incentives under the current Net Present Value (NPV) test, potentially resulting in unfair cost burdens and increased stranded asset risk.
- The regulatory ambiguity around disconnection and abolishment services, creating inconsistent practices, safety concerns, and cross-subsidisation.

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The ECA Proposal – Full Upfront Cost Recovery for New Connections

The ECA proposes to amend the National Gas Rules (NGR) to require all new customers to pay the full cost of gas connections upfront, across all pipeline types and jurisdictions.

While we recognise the intent of aligning connection charges with user-pays principles and managing asset stranding risk, the AEC has significant reservations about the ECA's proposal as:

- The underlying data is based on the AEMO's Step Change Scenario, which assumes rapid electrification. While useful, it represents an ambitious decarbonisation pathway that may not materialise uniformly across jurisdictions.
- Mandating full upfront costs could serve as a de facto ban on new connections, potentially undermining energy diversity and the role of gas in supporting grid reliability during the transition.
- The internal inconsistency that lies in promoting gas for energy security while simultaneously disincentivising its access.

The AEC supports the AEMC's alternative proposal to update the NPV test assumptions rather than abandoning it. The AEMC proposal considers options to:

- Shorten asset lives to reflect earlier disconnection.
- Adjust forecast methodologies to reflect demand decline.

This approach retains flexibility, avoids unintended barriers to efficient connections, and manages risk through cost-reflectivity. Though it is not without its own risks. The NPV parameters will be debated and the AER would need to contest and counter the incentive for networks to overestimate forecast demand as they would be financially rewarded by reducing connection costs, encouraging new connections and promoting ongoing consumption. Further guard rails are required.

And it works in theory. Only uneconomic connections (based on revised NPV assumptions) would be required to contribute upfront, allowing efficient connections to proceed without distorting market behaviour. In our view a "market mechanism" to provide direction as to whether greenfields (developer) connections or infill connections are economic in this case is more appropriate to the transition as it can adjust to changes more readily than a singular regulated direction not to connect new gas, such as that being proposed.

Greenfields innovation (such as renewable gas) can still be accommodated under a revised NPV approach. It is riskier and harder to regulate but the revised NPV approach retains a necessary flexibility.

The JEC Proposal – Regulated Disconnection and Abolishment Charges

The JEC proposal addresses regulatory ambiguity around disconnection and abolishment services, with the intent to :

- Clarify disconnection and abolishment categories in the NGR and NERR.
- Require customers requesting permanent abolishment to pay the full cost.
- Introduce "make safe" standards and allow contestable provision where appropriate.

The AEC agrees that clarity in disconnection and abolishment services is needed. However, we raise the following concerns:

- The JEC argument that remaining customers unfairly bear the cost of others leaving overlooks that many of those same households (e.g., renters or low-income groups) also benefit when disconnection is subsidised.
- Cost socialisation can facilitate affordability for vulnerable customers, aligning with consumer protection principles, and therefore may be in consumer interest.
- The proposal lacks detailed attention to operational requirements, such as the roles of retailers and distributors in disconnection service orders.

The AEC's preferred approach is to maintain the status quo with improved regulatory guidance and consider adapting the Victorian model nationally. The recent Victorian decision to cap abolishment tariffs at $220 and socialise the balance up to a limit, while reconciling through a true-up mechanism, offers a pragmatic, transitional path forward.

Incentivising Safe Disconnection Options:

The AEC sees continuing merit in reducing the gap between the cost of meter removal (approx. $250) and full abolishment (approx. $1,100). By incorporating meter turn-on or refix costs with meter removal, a more cost-reflective pricing signal could encourage safer outcomes without mandating full abolishment. This alternative might better align with safety objectives and customer incentives than the JEC's proposal for temporary disconnection.

Summary of the AEC positions:

The AEC encourages a balanced regulatory outcome that supports both consumer fairness and economic efficiency in the face of a transitioning energy landscape. The AEC position is to:

- Support the AEMC's proposal to refine the NPV test assumptions to better cost reflectivity rather than mandate full upfront costs.
- Avoid a blanket user-pays model for new connections which could inadvertently stifle efficient development and energy access.
- Improve clarity and consistency in the regulation of disconnection and abolishment services, potentially aligning with the Victorian approach.
- Explore pricing reforms that nudge consumers toward safer disconnection choices without imposing full cost abolishment charges.
- Balance fairness and affordability, recognising the role that socialised costs play in supporting vulnerable households' energy transition.

Further engagement:

There will be outworkings to any decisions made regarding these proposals, and the AEC would welcome further engagement on these issues.

Yours sincerely

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