PO Box 4136
East Richmond VIC 3121
T 131 806
F 1300 661 086
W redenergy.com.au

PO Box 4136
East Richmond VIC 3121
T 1300 115 866
F 1300 136 891
W lumoenergy.com.au

9 July 2025

Alisa Toomey
Director
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

Submitted electronically

Dear Alisa,

Re: Gas distribution networks: Connection and permanent abolishment charges (National Gas and Energy Retail Rule Amendments 2025) (GRC0085)

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to respond to the Australian Energy Market Commission (the Commission) consultation paper on gas connection and permanent abolishment frameworks.

There is considerable uncertainty about the future role of gas and as a consequence, the recovery of costs associated with its transportation. The Commission will be aware of a broad range of policy objectives across the NEM to encourage electrification, particularly among residential and small business consumers. This includes the development and expansion of certificate schemes to encourage electrification and in some instances, explicit prohibitions on gas use and disconnections. However, it is possible that some unconventional gases, particularly biomethane, could become more economically viable while others do not (e.g. hydrogen). It is possible that we will observe higher volumes of transported gas in the future than many current stakeholders assume. This complicates the calculation of the net present value of any new connection.

Given this context, we support the Commission's decision to prioritise those rule change proposals that relate to new connections and disconnections. These events are highly relevant for many current consumers and the cost of entry and exit can be a key determinant of their choice of fuel. We agree it is timely to consider the equitable treatment of costs for those connecting, those disconnecting, and those who remain connected and bear the depreciation costs of the network.

We also welcome the Commission's decision to undertake a more holistic assessment of whether changes to the framework for the economic regulation of gas networks is required to ensure it remains fit for purpose.

Cost of new connections

Red and Lumo support a model that involves some upfront charges for new gas connections. We view this as one mechanism for delivering a more equitable model of cost recovery from all gas consumers throughout the transition to net zero.

There is little reason to subsidise the cost of a new connection when there is considerable uncertainty about the timing of cost recovery and the potential for asset stranding. Moreover, a connection charge in some form is preferable to the inclusion of the cost of connections in the Regulatory Asset Base, reducing current consumers' exposure to accelerated depreciation. This is a more reasonable approach given uncertainty about future levels of gas consumption.

Energy Consumers Australia refers to a notable example. Some developers may be incentivised under the current framework to connect gas service lines and install gas appliances. This heightens the exposure of other gas consumers to accelerated depreciation. A connection charge that reflects costs to some degree will result in more economically efficient decisions, including potential electrification, rather than assuming cross subsidisation.

The more challenging issue is the level at which to set any connection charge and how to transition to a more equitable framework for new and existing gas consumers. We note the Commission's discussion of an alternative to 'full' cost recovery that would retain the existing framework to some degree but involve further clarity around the determination of the Net Present Value of new connections. We recommend the Commission consider this further but note how challenging this might be and in particular, how new connections that are considered uneconomic at a point in time may evolve in line with other developments across the network.

Gas disconnection and abolishment is completed at the request of the customer.

When discussing disconnection from the gas network, there are three criteria which must be considered in the context of the existing Rules: safety, incentives and explicit informed consent requirements for the work to be undertaken.

The National Energy Retail Rules require that the disconnection of a service is at the customer's request unless there are safety reasons for the Distributor to disconnect or a consumer fails to pay for the service.

The type of disconnection to which the rule change proposal relates, be it temporary or permanent, is at the request of the consumer who then incurs some cost associated with that action. We have found that for many consumers, the relative cost influences their decision even if it does not result in the safest outcome. For example, some may simply choose to finalise their account with their retailer, leaving the service connected and unused now that they have installed electric appliances, while others may choose a temporary disconnection even if they have no intention of continuing to consume gas and where the safest choice may be a more expensive permanent capping of the service line.

Both the Essential Services Commission and Australian Energy Regulator took this into account when they chose to set abolishment charges equivalent to meter removal charges in Victoria. They acknowledged the merit of some cross subsidisation in regulated abolishment charges while also recognising the need for longer term reforms in light of the uncertainty about the direction of the consumption of gas.

We note the Justice and Equity Centre's concerns about the equity implications of this approach but the primary consideration should be to reach the safest outcome. Identifying more cost-effective means of abolishment is to be encouraged, however binding disconnection guidelines may be problematic when considering the safety requirements of pipelines or individual sites.

A further factor is the recovery of regulated charges. It is likely that the creation of a temporary or pending abolishment will result in increased costs for all consumers. This is because retailers have limited ability to charge and then recover the cost of this service from consumers. Disconnection implies the end of their contract with that consumer. Similarly, meter removal alone rather than abolishment of the service line also places a burden on the remaining consumers who will have to shoulder the network operator's costs when it comes time to make those service lines safe in future.

An alternative approach that would address safety concerns and ensure that consumers are fully informed is to have them engage directly with their Distributor for technical advice and assessment of their reason for disconnection. With this assessment complete, the Distributor can arrange and charge for the appropriate, safe, disconnection service.

Again, supporting a more equitable model of cost recovery from all gas consumers throughout the transition to net zero, we recommend the AEMC consider the challenge of providing consumers with the balanced incentive of a cost-reflective charge for the safe disconnection of a gas service.

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail electricity and gas in New South Wales, Queensland, South Australia, Victoria and in the ACT to over 1.5 million customers.

Red and Lumo thank the Commission for the opportunity to comment on the draft rule determination. Should you wish to discuss or have any further enquiries regarding this submission, please call Sean Jennings, Regulatory Manager on 0403 846 585.

Yours sincerely

Geoff Hargreaves

Manager - Regulatory Affairs
Red Energy Pty Ltd
Lumo Energy (Australia) Pty Ltd