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Dear Commissioners



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**Gas distribution networks: Connection and permanent abolishment charges —
consultation paper — 12 June 2025**

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

We welcome the Commission's consideration of the rule change proposals lodged by Energy Consumers Australia (ECA) and the Justice and Equity Centre (JEC), dealing with the stranding risk of gas networks and associated 'death spiral' price increases for our customers. In addition to facing constant pressures in the competitive market, retailers are under significant pressure from governments and regulators to deliver bill reductions, even though major cost drivers are not within our control. The costs customers face arising from networks businesses are the result of rule determinations by the Commission and price determinations by the AER.

The Commission has partitioned consultation on the rule change proposals, commencing with the two that deal with connection and disconnection pricing:

- the ECA's proposal to introduce cost-reflective fees for new gas connections — we see this as helping to remove subsidies for new connections that would be inefficient and therefore compound asset stranding issues.
- JEC's proposal to introduce a standardised approach for disconnection and abolishment, also involving elements of cost recovery — we see this is a more complicated matter as disconnection fees represent a cost barrier for customers who might otherwise lower their total energy bills via electrification.

As alluded to in the Consultation paper, several elements of the National Gas Rules (NGR) reflect those in the earlier Gas Code, which was drafted at a time when there were no real policy commitments to decarbonisation, and gas demand was generally expected to keep

increasing. As such, several rules are predicated on seeking opportunities to lower prices for customers by spreading system costs over a larger customer and consumption base. With decarbonisation, this process is effectively reversing, conflicting with rules that effectively encourage gas consumption. In addition, regulated gas networks have an inherent incentive to expand the value of their regulated asset bases. This has led them to promote consumption of the underlying commodity, arguably in excess of the long-term prospects and scale of renewable gas opportunities.¹ Further to this, the NGR also 'lock in' the legacy asset values of networks which, in competitive markets, would be written down in the face of declining demand and policy-induced stranding. We look forward to engaging on this broader topic when the Commission consults on the rule change proposals relating to the depreciation and capex planning of gas networks.

We support setting cost-reflective connection charges

The ECA's proposal is to move away from the Net Present Value (NPV) approach of setting connection charges under rule 119M, towards a standardised charge based on the 'actual' physical connection cost.

We generally agree with the ECA's rationale, in that the current NPV approach risks subsidising and inefficiently encouraging new connections. The prolonging of gas demand, and associated system costs in catering to this, potentially increases carbon emissions and would add to pricing pressures over the medium to long term. Such an outcome would be inconsistent with the National Gas Objective. The Commission should explore how gas networks currently price connections and explore how this might change under the ECA's proposed alternative.

The NPV approach is grounded in sound economics and should deliver cost-reflective pricing. The combination of connection and usage charges are set such that the sum of payments from the customer over their lifetime should not exceed the expected cost they impose on the system. As noted above, these arrangements were premised on an expectation that gas demand would expand over time. They were intended to prevent customers from paying connection charges in situations where there was a growing revenue stream from usage charges, even to the extent of providing surplus funds that would be used to lower prices for other network customers.

In theory, an NPV approach should still function in a decarbonising market, by forecasting declining demand and setting high enough discount rates to reflect prevailing uncertainty, including from shifting policy settings. However in practice we expect this to be problematic as the parameters for the NPV approach become the subject of increasing uncertainty and debate. Even setting aside genuine challenges in forecasting, regulators would need to counter the tendency for networks to overestimate demand (for example in promoting renewable gas solutions), thereby reducing connection costs, encouraging new connections and promoting ongoing consumption. The parameters in forecasting connection numbers and their costs for pricing purposes should be subject to less contention.

If properly implemented, an NPV approach should result in high and increasing connection fees as the future revenue stream of the customer is reduced, and also discounted at higher rates. This approach should arguably also reflect the cost of carbon emissions from the customer's expected fossil gas usage, at the new Value of Emissions Reduction, which would compound these effects. More broadly and as it relates to stranding risk, newly

¹ [Australian Gas Networks in Court over alleged greenwashing in renewable gas campaign | ACCC](#)

connecting customers should also face the full 'deep' cost of any incremental upstream augmentation that is required to service their gas demand.

The practical outcome of maintaining the NPV approach may therefore be the same as under the ECA's proposal in terms of raising connection fees.

We otherwise fully appreciate concerns regarding any regulatory change that results in customers facing higher energy supply costs. The Commission should seek and validate quantitative information from networks on what they currently charge customers, and how this might change under departures from the NPV approach. To the extent alternative connection pricing is prohibitive for new customers, this may amount to a de facto ban on new connections. This may align with the policy positions already taken by the ACT and Victorian governments for residential customers. We generally support policy frameworks that rely on electrification as a least cost decarbonisation pathway, provided they also cater for equity issues and the capacities to pay by different customer cohorts. The Commission should liaise with governments on these issues to ensure its eventual rule determination does not evoke an inconsistent or countervailing policy response.

The AER should be given guidance around treatment of disconnections

The proposal from JEC seeks to address two main issues with the status quo:

- some customers are circumventing the higher cost of permanent disconnection and service abolishment by requesting network owners 'temporarily' block their physical supply
- the safety risk and eventual cost of these unused connection assets are socialised across remaining customers where networks and retailers still retain a financial relationship.

As the Commission notes, the AER deliberated on this issue, deciding to equalise the cost of temporary and permanent disconnection, with the difference socialised across remaining users.

We agree with JEC's general point that the NGR may not provide sufficient guidance for regulators in the treatment of disconnections. The AER position was an interim one in the expectation of government or other policy guidance. We suggest the Commission explore the need for guiding principles in the NGR in the broader context of stranding risk. We expect these issues will arise more fully in considering the ECA's and JEC's other rule change proposals.

JEC propose various elements of prescription on disconnection service classification and pricing. It appears to object to the AER's approach on the basis that it enables a higher number of customers to disconnect, meaning that there are more costs to socialise over a declining customer base. Instead, JEC propose to codify arrangements that involve customers paying an ongoing fee for temporary disconnection while also paying the full cost of permanent disconnection. On face value the removal of cross subsidies in this instance may be an efficient outcome. However the AER's approach encourages customers to genuinely disconnect. This may be a more efficient outcome where the socialised cost borne by other customers at the time of disconnection is less than managing safety issues and eventually abolishing those connection assets at a later date.

JEC's position seems to be a short term and, in our view inferior, means to deal with death spiral type concerns by disincentivising disconnection. There are also equity considerations in that it appears to assume disconnecting customers have a higher capacity to pay.

At the same time, JEC seek to discourage customers from seeking temporary disconnections in a direct price sense but also requiring customers, networks and retailers to annually reconfirm the disconnection status, defaulting to abolishment. In our view this would:

- raise the same equity considerations in that a class of existing customers, that have already financially 'exited' from the network, would be charged new and ongoing fees
- add administrative burden in networks processing work orders to maintain the status quo of a temporary disconnection. The communication and financial arrangements are not clear as presumably the retailer-customer relationship would cease when accounts are cancelled. Fees paid for a temporary disconnection would also need to be dealt with by the network, requiring payment systems changes including for late payments, hardship etc.
- an arrangement that defaults to a higher cost of permanent disconnection does not seem to be ideal from a customer perspective. It would be better for the customer to communicate and consciously request this type of outcome rather than have it forced upon them.

Otherwise our view is that the concerns raised by JEC reflect the need to properly deal with the cost of stranded assets in a regulatory setting. Its proposal is effectively to charge a type of exit fee which would mitigate stranding and 'death spiral' type pricing but problematic on policy grounds, and may also be inconsistent with the Commission's Targets Statement.² That is, exit fees would potentially create a barrier to electrification, with higher carbon emissions from fossil gas consumption.

If you would like to discuss this submission, please contact me on 03 9060 0612 or Lawrence.irlam@energyaustralia.com.au.

Regards

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² Target statement for greenhouse gas emissions June 2025