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Establishing a regulatory framework for gas disconnections and permanent abolishment

Rewiring Australia response to AEMC proposed rule change

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Rewiring Australia welcomes the opportunity to respond to the AEMC's consultation on rule change requests to improve the regulatory treatment of gas network connection and abolishment charges. We strongly support both the Energy Consumers Australia (ECA) and Justice and Equity Centre (JEC) proposals and urge the Commission to proceed with reforms that better reflect the energy transition underway, ensure that consumers are free to make the choice to disconnect from gas without high costs, and protect all consumers from rising and inequitable costs.

To deliver a fast, fair and affordable path to zero emissions, planning assumptions must more clearly reflect the transformative role of household and community electrification for the energy system transition, the critical role of electrifying gas appliances for near-term, economically beneficial emissions reduction, and the importance of aligning microeconomic incentives in consumer decision-making.

New gas connections - ECA proposal

Rewiring Australia supports the proposal to charge new customers upfront for the full cost of their connection. Connecting to a network which is beginning planning for decommissioning over the coming decades is a sunk and stranded cost. This cost is discretionary on the part of the developer or property owner given that it is now both better value and lower emissions to opt for all-electric appliances for homes and small businesses[1].

[1] https://www.rewiringaustralia.org/report/the-electrification-tipping-point

This change would also address the split incentive between residential property developers and the ultimate lot owners. As it stands, many developers continue to build new homes with gas network connections because it is cost effective. Providing the net present value requirement is met, the gas infrastructure is provided for free. In many cases, accepting the free gas infrastructure also realises a cost saving on the electricity infrastructure for the developer. The result is a saving for the developer and an added cost for lot owners, who are left with gas infrastructure and appliances which cost them more over the lifetime of the assets than an electric alternative.

Mandating that the connecting customer pays in full upfront for the cost of the gas network connection will more closely align gas infrastructure build-out cost allocation with that for electricity infrastructure.

Recommendation 1: Amend the National Gas Rules to require all new gas connections to be charged on a full, upfront cost basis, regardless of NPV assessments. This should apply to both retail and non-retail customers, and across all jurisdictions. Developers and those choosing to connect must bear the full cost of connection, not existing or future consumers.

Gas disconnections and abolishments - JEC proposal

Rewiring Australia supports the addition to the National Gas Rules of definitions for different disconnection services, including temporary disconnection and permanent abolishment, and to allow for contestable provision of some services. Today's inconsistent practice and cost treatment across networks creates confusion, perverse incentives, and safety risks.

It is crucial that the proposed changes lower and minimise the cost of safe and effective gas disconnection. It is also crucial that disconnection fees are not used by gas networks to discourage consumer disconnection, or to recover lost revenue.

Recommendation 2: Support the range of measures to lower disconnection costs, including clear definitions and safety standards for disconnection and remediation

services, and enabling contestable services.

Equity

We recognise the importance of cost socialisation to equitable outcomes and avoiding hardship on customers that remain on the gas network, in particular vulnerable renters who can't avoid gas costs. Reducing socialisation of disconnection costs is desirable from an equity perspective. However, charging the disconnecting customer high costs is also suboptimal from an equity perspective, and is likely to disincentivise abolishment, and promote disconnection or other more affordable shortcuts.

The current approach of a low disconnection fee combined with a large permitted recovery of costs from remaining customers is an appropriate immediate solution to the need for low disconnection costs. However, it is crucial to enact the various measures proposed by JEC to drive down the cost of disconnection by ensuring minimal safe disconnection measures are taken, and allowing for contestability with much lower cost services to be provided by trades already on site. The focus should be on drastically reducing the price and underlying cost of disconnection, and thus reduce the size of the cost recovery socialised onto the network.

Recommendation 3: The minimisation of disconnection costs should be a key priority for the proposed rule change, and aligns to the interests of consumers and emissions reductions. The permitted socialised component of costs should be reduced over time as much as possible based on effective measures to drive cost reductions.

Efficient outcomes

Alongside equity, the framework should seek to incentivise efficient disconnection and systematic decommissioning of the gas network (as reflected in the AEMC's proposed decision-making criteria). Efficient decommissioning might involve an assessment of the fragments of the network with low utilisation or in need of upgrading, or identification of areas of significant disconnection. This assessment would prompt collaboration with

customers to disconnect their properties before efficiently abolishing the gas network for an entire street or branch of the pipe.

Such efficient or systematic disconnections are unlikely to be achieved through charging the disconnecting customer the full cost, as this would not promote coordinated decision-making, or incentivise the network operator to deliver more efficient disconnection services. Socialisation of disconnection costs may offer networks a cost-saving opportunity from efficient disconnections but only indirectly incentivises this.

Whilst a systematic decommissioning of the gas network could in principle be delivered by multiple bodies, the regulated gas networks are both the focus of this regulatory framework and hold the data and tools to deliver such a program. A regulatory framework should ensure that the network bears a portion of the cost of disconnections sufficient, and in a manner, to incentivise efficient and systematic decommissioning of the network.

Conclusion

Rewiring Australia supports the ECA and JEC proposals to clarify the way forward for the decommissioning of the gas network. It is crucial to align the incentives facing consumers at both connection and disconnection times to the consumer and emissions interest in a fast, fair and orderly switch to all-electric households. The cost to connect should be high and cost-reflective of counterproductive investment in a stranded asset; the price and regulation of disconnection services should be regulated in a way to ensure it is a low cost that enables better consumer choices while balancing the need for .

About Rewiring Australia

Rewiring Australia is a non-profit research and advocacy organisation dedicated to representing the people, households and communities in the energy system. We deliver practical climate progress by working with government, industry, and communities to electrify everything. We highlight the positive climate and economic outcomes possible for Australia, and the world, with electrification of fossil fuel machines. www.rewiringaustralia.org

In addition to co-founding Rewiring Australia, Saul Griffith is also the co-founder and Chief Scientist of Rewiring America. Rewiring America and Saul worked closely with the Biden Administration in the drafting of the Inflation Reduction Act to drive investment in clean, electric machines and in supporting households and the larger U.S. economy to electrify.