

GAS DISTRIBUTION NETWORKS: CONNECTION & PERMANENT ABOLISHMENT CHARGES RULE CHANGE

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The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our members are the engine room of the Australian economy, producing many of the products that households and business use every day including bricks, glass, steel, aluminium, paper, food and beverages. Combined, our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

EUAA members are focussed on making products that meet their own customers' requirements where energy is just one input to the process albeit a critical one. Their expectation is that the energy industry continues to provide energy services that are fit for purpose and consistent with the NEO so that our members can continue to provide a fit for purpose product for their customers.

Thank you for the opportunity to make a submission on the rule changes proposed the Energy Consumers Australia and the Justice and Equity Centre.

Introduction and Summary

We agree with the way the Commission has presented the issues facing gas networks and their consumers. Network assets were built on a regulatory framework designed to support increased gas consumption to improve asset utilisation and put downward pressure on tariffs. Under the so-called 'regulatory compact', network owners believed that framework gives them the right to recover, from consumers, return on and of the prudent and efficient capex and opex approved by the AER for the technical life of the assets. Based on this AER approval, consumers implicitly promised to pay that return on and of capital. However, consumers are now changing their minds due to a combination of personal decisions and responding to Government policies designed to reduce gas consumption.

These consumers who are leaving the network are saying they do not want to be part of the compact and implicitly do not want to pay the full cost of providing the service they have been using. They want the mortgage discharged early and seem to expect the bank's shareholders or other bank customers to bear the cost of early termination. Networks are realising that there is political and regulatory risk that they do not think has been reflected in historical WACCs. Networks want the compact to continue via existing consumers paying as much as they can e.g. though accelerated depreciation and cost reflective abolishment fees, before they leave. So, do those customers who are remaining connected who do not want to be left to pay for the other customers' early termination.

In any debate about 'who pays', concepts of efficiency and equity are proffered to support particular approaches, though a definition of equity seems very much in the eye of the beholder.

Our approach starts with looking at two related time periods:

- current period equity e.g. how should the costs of connections/disconnections be shared now?
- intergenerational equity e.g. how much should be charged e.g. through abolishment charges and accelerated depreciation now to ensure customers that leave the network in the near future pay a 'fair share' of the costs associated with their historical connection and not leave their costs to be borne by the dwindling cohort of increasingly vulnerable consumers in the future?

and three capex categories (with associated opex):

- Historical capex spent up to some recent date - the end of the Access Arrangement (AA) period ending after around 2020 when the likelihood of future stranded assets became widely recognised,
- Future replacement capex proposed for the subsequent AA periods to sustain existing connections, and
- Expansion capex proposed for the next AA period - both 'infill' where it is new connections in areas where gas is already available and 'augmentation' where it is expansion of the network to new regions/suburbs.

We support the regulatory compact applying to (i) and (ii) including the right of networks to look for new customers to better utilise that existing network on the basis of full cost recovery of direct connection costs. Network owners built and maintained the approved capex and customers connected over time expecting to be able to safely and efficiently source their gas through the network. Customers join and leave over time and the regulatory framework encouraged higher consumption and asset utilisation to limit price increases. Implicitly, both the network owners and consumers accepted that there were market and regulatory risks of building and connecting to a long-life asset in a price cap regulatory framework. We see these risks as part and parcel of the existing regulatory compact that meant consumers paid and networks received, a WACC that used the same beta as electricity networks reflecting similar systematic risks. As the AER concluded in the most recent RORI review¹:

"We maintain the view that asset stranding risks faced by gas networks should be addressed through the broader regulatory framework (for example, accelerated depreciation)."

However, there is an argument that category (iii) is not covered by the existing regulatory compact and that a new compact is required for two reasons:

- While alternative fuels may play a role into the future, we do not believe the case has been made that renewable gas (e.g. biomethane and hydrogen) will be available in sufficient economic volumes to replace natural gas and sustain network viability in the longer term
- Government policy, particularly in Victoria (even with the recent slowing of changes) and the ACT, is focussed on getting consumers to move out of gas and into electricity, so there is an obvious stranded asset risk from new connections expansion capex.

Gas consumption outside of gas fired generation is falling across Australia whether in Victoria where there is explicit Government policy to reduce consumption, or South Australia where the Government continues to support customer choice. This means that both networks and their consumers need to make their investment and connection/disconnection decisions cognisant of the stranded asset risk this will bring. Customers leaving 'early' before they have paid the full costs of their connection leave it to remaining customers to pay the residual. New customers connecting are very unlikely to stay for the full technical life of the assets built to provide that connection and, under the existing rules, leaving 'early' again leaves remaining customers to pay the residual.

¹ See the discussion at pp183-4 https://www.aer.gov.au/system/files/AER%20-%20Rate%20of%20Return%20Instrument%20-%20Explanatory%20Statement%20-%202024%20February%202023_1.pdf

So, to the extent that connection charges do not cover the full cost of expansion capex, then the network has to accept the stranded asset risk on the residual.

While the Consultation Paper frequently refers to AEMO forecasts of a decline in gas consumption by residential and small commercial users forecast by the 2025 GSOO we would highlight the situation for large C&I customers. The 2025 GSOO forecasts a modest fall in annual consumption and notes the impact since 2024 of the early closure of facilities in NSW and Victoria². If gas prices stay at their current elevated levels then we would argue that many C&I customers should be considered 'vulnerable'. This is particularly the case for those in 'hard to abate' sectors who stay connected and have to pay for stranded asset risk caused by other users leaving the network.

We also support the Commissions approach as focussing on these two rule changes first, leaving the other rule changes considering capital expenditure, capital recovery and planning arrangements applying to distribution networks, to the next, much more holistic, stage of the review process. This approach is supported by the subsequent rule change proposed by the Justice and Equity Centre on the role of accelerated depreciation and asset redundancy³. While consideration of connection and abolishment fees does require discussion of wider stranded asset risk issues, this discussion on these two initial rule changes will be useful to inform the subsequent discussion for the next tranche of rule changes. This is particularly the case for the proposed criteria which will be applied to these rule changes as well as the subsequent ones proposed by the ECA and JEC.

We support introducing cost reflective connection and disconnection/abolishment charges for gas distribution networks to efficiently reduce the level of future stranded asset risk:

- For connections we support the ECA proposal to follow the ESCV approach that has applied in Victoria since 1st January 2025 to include both the costs to install the dedicated customer facilities and the augmentation costs of the shared distribution network. We recommend that were the Draft Decision support the ECA that the Draft provide details on how each component should be calculated drawing on the methodologies that Victorian gas networks are now using. This is to avoid unintended consequences on marginal new consumers being charged large augmentation costs.
- For abolishments we support the JEC proposal but doubt the benefits of contestability
- Both rule changes should come into effect at the time of the Commission's final decision

Introducing both full cost of connections and abolishment services will have an important impact on reducing future stranded asset risk and both current period and intergenerational inequities.

We begin our discussion of the consultation questions with our response to Question 15 on the assessment criteria.

² See pp 32-3 https://aemo.com.au/-/media/files/gas/national_planning_and_forecasting/gsoo/2025/2025-gas-statement-of-opportunities.pdf?la=en

³ <https://www.aemc.gov.au/rule-changes/gas-distribution-network-accelerated-depreciation-and-asset-redundancy>

Response to consultation questions

Question 15 - Proposed assessment criteria

The Consultation Paper proposes five criteria. While they focus on the expected notions of efficiency, simplicity and good regulatory practice, the first refers to ‘equity’:

“Outcomes for consumers: Would the proposed solutions in the ECA and JEC rule change requests promote equitable cost recovery and allocate the costs and benefits efficiently and fairly to the party most appropriate to carry the risk? Would the proposed solutions incentivise customers to make more efficient connection and disconnection/abolishment decisions?”

and that is the focus of our comments.

Apart from the phrases mentioning equity in the criteria, the Consultation Paper also refers to ‘a consistent framework is necessary to ensure consumer ...equity...’ and supporting an ‘equitable outcome for consumers’. Given these criteria are expected to be used not just for these particular rule changes but all the subsequent gas network rule changes proposed by the ECA and JEC, it is important for the Commission to be clear about how they will be interpreted. However, the Consultation Paper provides little guidance on what these phrases mean.

The Commission’s recent publication on ‘How the national energy objectives shape our decisions’⁴ discusses the recent strategic plan review that results in seven assessment criteria to assess their decisions against the national energy objectives. One of these areas is (p.2):

“Outcomes for consumers: to ensure we ultimately deliver equitable outcomes for all consumers (including First Nations peoples and those experiencing vulnerability) through providing choice and clear information, addressing barriers to energy services and, where appropriate, introducing consumer protections.”

The publication goes on to comment that (p.10):

“In many cases, improving equity will help us better achieve the national energy objectives. In other cases, it may be possible for us to make rules that meet the national energy objectives and are more equitable than alternatives. Where equitable outcomes do not align with efficient outcomes, our increased awareness of equity implications could help us design rules that ease consumer impacts.”

though no explicit definition of ‘improving equity’ or ‘equitable outcome’ is provided. The Commission’s recent decision on the Federal Climate change and Energy Minister’s rule change on retail energy market contracts provided a bit more guidance where the rule change was designed to⁵:

“... improve outcomes for consumers by strengthening consumer protections relating to benefits and price certainty, particularly for consumers who do not regularly switch their energy retailers. We consider this is

⁴ AEMC ‘How the national energy objectives shape our decisions’ 27 March 2025 <https://www.aemc.gov.au/sites/default/files/2025-03/How%20the%20national%20energy%20objectives%20shape%20our%20decisions%20260325.pdf>

⁵ AEMC ‘Improving consumer confidence in retail energy plans’ 19th June 2025 <https://www.aemc.gov.au/rule-changes/improving-consumer-confidence-in-retail-energy-plans>

compatible with consumers' wants and needs. It advances equity by providing additional protections for vulnerable consumers where we consider this is necessary and appropriate. In particular, it removes retail fees for vulnerable consumers and removes the price penalty for consumers who cannot engage with the market and are on contracts with expiring benefits or unreasonable penalties."

Here the focus is on protecting 'vulnerable' retail consumers who have limited financial circumstances and who are unable to fully engage in a competitive retail market, have been subject to imposts such as paying more than the standing offer, unreasonable conditions on discounts and having frequent tariff increases. We agree that these measures will 'improve equity' e.g. through improving consumer protection against unfair retailer fees.

But how does this notion of 'improving equity' apply in these and forthcoming gas market rule changes? We would argue that consumers:

- Paying the AER determined full cost of a connection or abolishment
- Paying accelerated depreciation under an AER approved AA

is consistent with criteria 3 (Principles of economic efficiency) and 4 (Principles of good regulatory practice). But does the Commission believe such payments are inconsistent with 'improving equity' or an 'equitable outcome for consumers'?

We make two comments and provide some perspective on how 'equity' might be considered:

(i) Large customers can also be 'vulnerable'

So far the Commission's work on equity and 'vulnerable consumers' has been in the context of retail markets. We would encourage the Commission to expand the consideration of 'vulnerable' consumer to larger consumers who are trying to stay in business in the face of large increases in delivered gas prices. Yes these larger consumers are better able to engage with the market than a small retail customer, but they are still very vulnerable to rises in gas network charges that may result from a narrow view of equity that leads to retail customer connection, abolishment and accelerated depreciation costs being cross subsidised by larger gas network customers.

Those large customers in 'hard to abate' and 'hard to electrify' sectors are particularly vulnerable. They may have no economic or technically feasible choice to substitute for natural gas but are facing large increase in network costs if all customers are not paying their 'equitable' share (determined by applying the AER's network pricing principles) of AER determined connection, abolishment and accelerated depreciation costs. Further these 'hard to abate' customers also have stranded asset risk for their own assets were gas to become too expensive to continue operations.

Does the Commission's view on 'equity' mean it is 'equitable' for these large vulnerable customers to cross subsidise vulnerable retail customers?

(ii) How network tariffs should address efficiency and equity

We caution about using gas network tariffs to achieve equity objectives. Our view of 'equity' is that it is best achieved within a gas network tariff structure where all customers pay the AER determined prudent and efficient

cost of their decisions to connect or disconnect from the network – the beneficiary/causer pays principle that the JEC advocates. If the Commission judges that this ‘unfairly’ disadvantages any ‘vulnerable’ consumer then the efficient (and equitable) policy response is for the State Government to provide a means tested subsidy for those connection or disconnection costs that is paid to the network which then charges the customer a discounted fee. It is not by other supposedly ‘non-vulnerable’ customers, who may be judged as ‘more appropriate to carry the risk’ (and no explanation of what this means is provided), paying a cross subsidy through network tariffs. This ends up meaning a vulnerable customer who remains on the network is cross subsidising the vulnerable (and non-vulnerable) customer leaving the network.

We recommend the Commission provide more clarity on how it proposes to interpret this first assessment criteria.

Connection Charges

Question 1: How should connection charges be treated in the context of the projected decline of residential and commercial gas demand?

We do not think that the current approach to socialisation of connection costs is fit for purpose and agree with the ECA’s view that this leads to inefficient connection decisions. It was part of a regulatory framework that assumed continued growth in the network and consumption which is now no longer the case. As Part 12A of the NGR only regulates connection charges payable by retail customers, our members are already paying the full costs of their new connection. It should not matter whether it is or is not a material issue. The approach should be based on efficient pricing principles and good regulatory practice. This requires new retail gas customers to pay the full cost of a connection service consistent with a beneficiary-causer pays principle.

As to what this ‘full cost’ should cover, the ECA supports the approach set out in the ESC Code of Practice that has applied in Victoria since 1st January 2025. This requires the ‘upfront’ cost to include both the dedicated connection assets plus any required augmentation of the shared network to supply the new customer⁶:

4.2.3. For *connection* applications made from 1 January 2025, the *connection charge* to be paid by a *customer* for a *connection service* must be the sum of:

- (a) the cost of purchasing and installing the *dedicated facilities* to that *customer*; and
- (b) the cost of *augmentation* of the *shared distribution system* which may be required to support the additional load resulting from the *connection service*.

It is important to understand how (b) will be calculated so that the ‘marginal’ customer is not billed the entire augmentation cost. Following discussions with AusNet Services, we would support the approach they are taking to implement the ESCV requirement that is outlined in their GAAR re-opener submission to the AER in September 2024⁷.

This methodology replaces the ‘economic contribution’ model and we support its application of this approach across all other jurisdictions that currently still use that model.

⁶ ESC Gas Distribution Code of Practice Version 1 October 2024

<https://www.esc.vic.gov.au/sites/default/files/documents/Gas%20Distribution%20Code%20of%20Practice%20-%20FINAL%20%28PDF%29.pdf>

⁷ See Section 5.5 pp38-42 <https://www.aer.gov.au/system/files/2024-10/ASG%20-%20AusNet%20Gas%20Access%20Information%2024-28%20-%2030%20Sep%2024%20-%20PUBLIC.pdf>

Question 2: Would the ECA proposed solution address the issue of inequitable cost sharing?

Yes, given our view of what 'full cost' should cover, will reduce the current inequitable cost sharing.

Question 3: What distribution networks and customers should ECA's proposed solution apply to?

We understand there are complex legal issues around the potential application to non-scheme pipelines which we leave to the Commission's lawyers to advise on. Given that non-scheme pipelines, that bear their own stranded asset risk, are currently able to charge cost reflective connection and abolishment charges, it is unclear why the proposed solution needs to be formally expanded to non-scheme pipelines. The Consultation Paper provides no data on connection/abolishment charges across scheme and non-scheme pipelines to suggest there might need to be regulation of the latter's charges, even if that is possible under the NGRs. We look forward to reviewing network submissions on this matter.

The other comment we would make is to note that there is some difference in gas policy across jurisdictions. The ACT has a clear goal on removing gas by 2025, Victoria's ambitious policy has been scaled back very recently but still has a strong bias to reducing gas consumption. South Australia and NSW continue to support consumer choice and have, so far, not gone the ACT or Victorian route. We need to ensure that any final rule appropriately reflects jurisdictional policies.

Question 4: What are your views on the costs and benefits of ECA's proposed solution?

We agree with the ECA's analysis of the strong net benefits from new customers paying the full costs of the dedicated facilities required to connect a new customer. It will improve the efficiency and equity of the gas rules and assist in producing a fairer allocation of stranded asset costs resulting in net benefits to all gas consumers.

Question 5: What implementation considerations should the AEMC contemplate for the ECA proposal?

The ECA proposal to following the ESCV approach of also including shared network augmentation costs could be very difficult administratively to implement. Our approach of only including the costs of the dedicated asset is simple and likely to more easily gain widespread consumer support.

Question 6: Are there alternative, more preferable solutions to address the issues with the existing gas connection arrangements?

We do not think there are. The experience in Victoria since the 1st January has provided practical experience to the implementation of the ECA's approach and we look forward to reviewing network submissions on what changes might be made to improve on the ESCV methodology.

Disconnection/abolishment charges

Question 7: Do you consider there is a regulatory gap in relation to gas disconnection/abolishment?

Yes. We agree with JECs analysis of both the ambiguity on what different disconnection/abolishment services can include and on the lack of a clearly established approach to determining the cost and cost allocation leading to a

wide variation in costs across networks. We also agree with the JEC view that the socialisation of disconnection charges is inequitable.

Question 8: Do you agree with the JEC proposal to introduce a framework for disconnection/abolishment in the rules?

Yes. We agree with developing service definitions in the NGR covering permanent disconnection (abolishment) service, temporary disconnection service and remediation service. We would suggest the definitions, especially for remediation services, be principles based and not too prescriptive to take account of the range of circumstances that occur for different customers and the range of jurisdictional safety requirements.

We have doubts about benefits to consumers of the JEC proposal for contestability in the provision of permanent disconnection services and remediation services. We understand the current network approach is to undertake a competitive tender for the provision of these services. The costs that result from this tender process are then assessed as part of AA opex by the AER for prudence and efficiency. This seems to be a much more efficient way of achieving a competitive cost outcome than the network having to accredit a number of providers who then compete on price.

Question 9: How should costs for disconnection/abolishment services be recovered?

We support the JEC beneficiary-causer pays approach for each of the three proposed new services.

Question 10: What consequential NERR changes would be required to complement any changes in the NGR?

We leave the AEMC to determine what are the consequential changes in the NERR from the changes we support in the NGR.

Question 11: What distribution networks and customers should the proposed JEC solution apply to?

Refer to our response to question 3 above.

Question 12: What are your views on the costs and benefits of JEC's proposed solution?

We agree with JEC's analysis that their proposed changes have net benefits. There are significant efficiency and equity benefits from cost reflective abolishment charges that will contribute to both the NGO and NERO.

Question 13: What implementation considerations should the AEMC contemplate for the JEC proposal?

We support the JEC proposal for the disconnection/abolishment arrangements to become effective at the time of the Commission's final determination. We interpret that to mean that it would apply:

- to AGIG South Australia and Evo Energy for their 2026-31 Access Arrangement,
- immediately to Victorian and NSW distribution networks in their current 2023-28 Access Arrangement i.e. does not wait until their 2028-32 AA

- immediately to non-scheme pipelines with the AER to assess the prudent and efficient level of abolishment charges for each network.

Question 14: Can the problem be solved in a different way?

We do not support the hybrid approach used by the AER in its recent decisions – noting that it was an interim measure to address safety concerns with live gas pipelines. We do not see safety concerns as a reason to socialise disconnection/abolishment charges. If these safety concerns are real then the State Government should provide a means tested subsidy to the network which enables the network to charge a reduced disconnection/abolishment fee to the customer but recover the full costs of the disconnection. If the impact on vulnerable customers exiting the network is a key consideration then it is inequitable for vulnerable continuing customers to cross subsidise other customers, whether or not they are vulnerable, to disconnect.

The EUAA looks forward to further engagement on these matters.

Do not hesitate to be in contact with EUAA Director Policy and Regulation Mark Grenning, should you have any questions.



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