Joint Submission to AEMC Gas Distribution Networks: Connections and Permanent Abolishment Charges Rule Change Requests

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About the Justice and Equity Centre

The Justice and Equity Centre is a leading, independent law and policy centre. Established in 1982 as the Public Interest Advocacy Centre (PIAC), we work with people and communities who are marginalised and facing disadvantage.

The Centre tackles injustice and inequality through:

- legal advice and representation, specialising in test cases and strategic casework;
- research, analysis and policy development; and
- advocacy for systems change to deliver social justice.

Energy and Water Justice

Our Energy and Water Justice work improves regulation and policy so all people can access the sustainable, dependable and affordable energy and water they need. We ensure consumer protections improve equity and limit disadvantage and support communities to play a meaningful role in decision-making. We help to accelerate a transition away from fossil fuels that also improves outcomes for people. We work collaboratively with community and consumer groups across the country, and our work receives input from a community-based reference group whose members include:

- Affiliated Residential Park Residents Association NSW;
- Anglicare;
- Combined Pensioners and Superannuants Association of NSW;
- Energy and Water Ombudsman NSW;
- Ethnic Communities Council NSW;
- Financial Counsellors Association of NSW;
- NSW Council of Social Service;
- Physical Disability Council of NSW;
- St Vincent de Paul Society of NSW;
- The Salvation Army;
- Tenants Union NSW; and
- The Sydney Alliance.

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The Justice and Equity Centre office is located on the land of the Gadigal of the Eora Nation.

Queensland Council of Social Service

Queensland Council of Social Service (QCOSS) is Queensland's peak body for the social service sector. Our vision is to achieve equality, opportunity, and wellbeing for all Queenslanders.

Solar Citizens

Solar Citizens is an independent, community-based organisation working to grow renewable energy and clean transport to bring down bills and reduce household emissions. With over 200,000 supporters across the nation, Solar Citizens advocates on behalf of the millions of Australians whose rooftops are helping to power a cleaner, cheaper energy grid, as well as advocating for locked out households to access consumer energy resources.

Sydney Community Forum

Sydney Community Forum is a regional community development organisation that has worked towards social justice, inclusion, and sustainability outcomes for disadvantaged and marginalised communities in Sydney since 1974. Since 2017, in collaboration with the Sydney Alliance, we have worked closely with migrant community leaders through the Voices for Power project to highlight the climate justice and energy equity related issues, concerns and priorities of migrant communities in Western and South-Western-Sydney.

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Introduction

The Justice and Equity Centre (JEC), Sydney Community Forum (SCF), Solar Citizens and Queensland Council of Social Service (QCOSS) welcome the opportunity to respond to the AEMC's consultation paper on Gas distribution networks: connection and permanent abolishment charges.

Our organisations represent the interests of energy consumers across the Eastern gas region, including specific representation of low-income households, migrant communities and consumers impacted by disadvantage.

Our organisations broadly support regulation based on the principles that costs should be borne by those who cause them and benefit from them. Gas regulations should ensure that costs to consumers, where they are unavoidable, are minimised, equitable, transparent and efficient.

We support the framing of the issues by the JEC and ECA and the proposed changes to connection and disconnection rules to address those issues. The proposed changes provide greater certainty for consumers on what costs they can reasonably be expected to bear in relation to both connecting to and disconnecting from their residential gas network. The proposals help ensure:

- Disconnection costs are minimised,
- New connection costs do not add to stranding risks,
- Connection and disconnection costs are transparent,
- Connection and disconnection costs are determined and regulated on a consistent and efficient basis,
- Connection and disconnection costs are recovered more equitably,
- Decisions by gas networks and consumers are more informed and efficient, with no unreasonable incentives to connect, or disincentives to disconnect.
- Ongoing gas network safety is supported,
- The rules are more fit-for-purpose to enable the energy system transition and managed retreat of gas networks.

These proposed rule changes cannot and are not intended to resolve all inequity and complexity in the transition away from residential gas use. But they are strong, principled 'no regrets' steps which can be built on with further rulechange processes expected to follow in 2025-26. Importantly, they help ensure fairer outcomes for all consumers, and better outcomes for disadvantaged and vulnerable consumers struggling with the escalating costs of energy.

Government action will be critical. The rules alone cannot address the issues facing gas networks in the next 10-15 years. Government reforms are needed to support residential electrification, and ensure that consumers facing disadvantage – such as renters, low-income homeowners, migrant communities and apartment dwellers – are not left behind facing unmanageable gas network costs. In the meantime, the proposed rules help mitigate future risks and costs associated with gas networks, and ensure existing gas consumers, particularly those most vulnerable, are not bearing an unreasonable burden to support the connection and disconnection decisions of others.

Context

Australia has committed to eliminate emissions driving climate change, with the Commonwealth and States and Territories committing to emissions reduction targets and progressively implementing policies aimed to accelerate the transition of the energy system and economy to net-zero. Achievement of these targets requires the rapid retreat and electrification of residential reticulated gas use.

The emissions-driven trajectory

Transformation of the energy system and the Australian Government's goal of reaching net zero emissions by 2050 create considerable uncertainties in medium-term gas demand expectations. A decline of gas demand is expected to accelerate, but there is uncertainty as to how quickly that will happen and what the path to residential 'electrification' will look like.

AEMO forecasts that 2.5-3.5 million of the homes that use gas today are likely to permanently disconnect from the gas network in coming decades.[1] This is considered a conservative assessment. While 'abolishment' costs vary, at the approximately $1,000 per gas user of current permanent disconnection charges, the total cost for disconnecting households could be $2.5-3.5 billion or higher (2025 values).

The existing rules

Existing regulation of gas network businesses are not fit for purpose. They are predicated on an assumption of supporting network expansion and increasing demand and are fundamentally misaligned with the current circumstances we face. As they stand, the gas rules cannot enable the most efficient decisions regarding the retreat of gas networks, and do not support equitable recovery of costs through the transition of gas networks required to enable decarbonisation. In short, they are not able to best promote the long-term interests of consumers.

New connections are being increasingly restricted but still continue in their thousands partly as a result of proponents not being required to face the full cost involved.

It is certain that disconnections will increase as consumers take advantage of the benefits of electrification (increasingly supported by government grants and incentives) including significant cost of living savings, reduced health risks and improved safety. However, consumers' ability to leave their gas distribution network is impacted by tenancy, costs and considerable information asymmetry. As more advantaged households and small businesses leave the network, there will be significant impacts for customers remaining on the network.

Absent any policy interventions, many of these consumers are likely to be left using the gas network for years longer than those who can afford to electrify. It is necessary to ensure these remaining consumers are not also required to carry additional and inefficient costs associated with connection and disconnection decisions of others.

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[1] See AEMO, [2025 Gas Statement of Opportunities](), Figure 12, p.26,

Connections

Under the current rules, the costs of new gas connections are substantially socialised among existing gas consumers. This increases costs for consumers, particularly renters and others with few options to electrify, now and into the future. These new connections add to the risks of future network asset stranding, further compounding the impacts on existing gas consumers, particularly vulnerable consumers. By not facing the full costs associated with a connection, new connecting entities are given an inefficient incentive to connect, at the expense of existing consumers.

Disconnection

There is no regulation of disconnection in the current rules. This gap means there is no consistent basis on which to ensure consistency and transparency in the costs of disconnection and permanent disconnection. The lack of consistency, and a wide gap between disconnection and permanent disconnection (abolishment) costs, disincentivises electrification and creates potential safety risks.

Gas network connections

Despite the clear need for residential gas use to be rapidly phased out in Australia, new residential gas connections are still occurring in most jurisdictions. The existing gas rules do not require or even allow for the full cost of new connections to be borne by the connecting entity. This leaves existing users to subsidise those costs, which further exacerbates the existing and well-known problem of costs to be recovered from users in a declining network.

Our organisations advocate for and anticipate that other jurisdictions will follow the ACT, and that all new connections to residential gas networks will be ceased in coming years. However, it may be possible that some connections will continue. Regardless, in the intervening period there is a need to ensure equity in the treatment of costs related to any connections which are permitted. It is also necessary for the cost of connection to be a clear and efficient signal to potential connecting entities, enabling them to make properly informed and efficient decisions.

ECA’s proposed change to connections

ECA’s proposed rule change requires the full cost of a new connection to be carried by the connecting entity (most likely a developer, but in some cases an individual household). This recognises that the connecting entity is “causing” the connection costs and would be the main beneficiary of that new connection.

By requiring the full cost of a new connection to be borne by the connecting entity, that entity would be made more fully aware of the future risks and costs of connecting to a declining gas network, enabling them to better compare this decision with the fully electric alternative. It would further ensure that this new connection will not be subsidised by existing consumers, helping to minimise the costs of the existing network – including any costs of potential asset stranding - needing to be shared among a declining customer base. Charging consumers upfront for new gas connections will help mitigate stranded asset risk by ensuring the cost of new gas connection assets are not added to the regulated asset base.

Our organisations agree with ECA that the key benefits of this rule change include:

- Providing potential connecting consumers with the tools to make more informed and efficient decisions about whether or not to connect to the gas network. By signalling the full cost of gas connections, it is more likely consumers will choose more efficient, all-electric alternatives, lowering bills long-term and lowering emissions from household energy use;

- Existing consumers will benefit by not being exposed to the costs of new connections. This will help mitigate increases in gas network costs for existing consumers, which is of particular benefit for those most disadvantaged and unable to otherwise control their energy bills;

- Future asset stranding risks are mitigated, by helping to prevent inefficient network growth, and prevent growth in regulated asset base resulting from new connections. While this does not reduce the future risks of asset stranding, and its potential to impact consumers, it helps to prevent ongoing escalation of the 'problem'.

Importantly, the implementation of the rule must address information asymmetry by providing resources to consumers in simple English, and other languages, outlining the trends in declining gas connections, Australia's planned trajectory towards a net zero economy, and the cost implications of joining a declining network.

Recommendation 1

That the AEMC implement a rule change to require and allow retail gas customers to pay the full upfront costs of a new gas connection, as proposed by Energy Consumers Australia.

Gas network disconnections

The existing rules do not deal with gas network disconnections. They provide no basis on which to deal consistently and efficiently with the abolition or permanent disconnection of gas supply services to retail customer's premises.

In a time when the number of disconnections is growing year on year (and expected to accelerate long-term) this regulatory gap is increasingly problematic for consumers. The absence of rules on disconnection creates issues with regulatory uncertainty, safety, inequitable cost sharing, information asymmetry, inefficiency and regulatory decisions inconsistent with principles of beneficiary/causer pays.

Current approaches are inequitable and unsustainable

There is a lack of clarity as to when temporary or permanent disconnections are required, what should be included in those services and how much those services should cost. This is often resulting in a substantial difference in costs of temporary and permanent disconnection, with some consumers opting to use temporary disconnections to avoid higher permanent disconnection costs. This has been noted as a potential safety risk, leaving an active gas supply on the premises that is not being maintained or monitored.

In recent Victorian and NSW decisions, the AER capped the individual customer payment for permanent disconnection at $220 (VIC) and $250 (NSW) per customer (the cost of temporary disconnection) and socialised the rest of the cost across all customers of the network. The AER's intent was to eliminate the gap between the cost of temporary and permanent disconnection to address the potential incentive resulting from the cost differential. This was justified on the basis of potential safety risks resulting from a large number of connections being left temporarily disconnected in the future.[2]

In making these decisions the AER themselves recognised that 'socialisation' is inherently inequitable, is unsustainable, and fundamentally 'not a long-term solution'. This approach exacerbates the escalation in costs for those remaining on the network and adds to tariff increases resulting from customers leaving the network.[3]

The example of the Jemena Gas access arrangement illustrates the impact of this unsustainable and unfair approach. In its final determination, the AER set Jemena's permanent disconnection tariff at $1200. The cost to disconnecting consumers was set at $250, socialising the remaining $950 per disconnection across the remaining network consumer base. Over time this will amount to significant sums of money with material impacts on remaining consumers, particularly vulnerable consumers.

Should this arrangement continue, the impact of the cost of disconnections on remaining users will compound over time. As more disconnections occur, more costs are being recovered from a smaller ongoing base, further adding to the established issue of network costs accelerating as they are recovered from a diminishing consumer base.

Consumers who can afford to leave the network will continue to do so. The remaining consumers are much more likely to be those without scope to make such decisions, such as renters, low-income owner-occupiers, consumers with language and cultural barriers, and apartment residents. This exacerbates issues of equity. Permanent disconnection costs cannot be socialised across the network, leaving the customers who are unable to electrify paying the electrification costs of others. A more principled, fair and consistent approach is required.

JEC's disconnection proposals

Our organisations agree that disconnection and permanent disconnection services should be defined in the National Gas Rules (NGR). We support greater certainty and consistency in what costs are allowed for these services, ensuring that consumers are not paying any more than is necessary to undertake them safely.

We support the principle that the beneficiary of a service should pay for it and that costs should be carried by those responsible for causing them. These principles should be applied consistently to disconnection services, as they should to connection. 'Socialisation' of permanent disconnection costs is inappropriate and increases inequities involved in the recovery of gas

2 AER, 2023, Final Decision AusNet Access Arrangement 2023-2028, pp.7, 28, and 34.
3 Ibid, p. 7, 32-33

network service costs, exacerbating issues face by consumers facing disadvantage in the transition.

The rule change proposal put forward by the JEC will provide definitions for disconnection, permanent disconnection and remediation services, and a regulatory framework to deal with them. We support the benefits arising from this proposal, including:

- **Minimising costs to consumers**
  Costs will be set according to the minimum service required to 'make safe' ensuring that disconnecting and permanently disconnecting consumers pay no more than is absolutely necessary for a disconnection service. In ensuring costs are carried by the disconnecting consumer, costs to all other consumers on the network are also minimised.

- **Efficiency will be increased**
  Consumers will only be required to pay for the minimum works necessary to make safe the permanent disconnection, and not additional works that they don't request or require.

  Consumers will have the opportunity to request additional remediation services, including from distribution companies.

  Jurisdictions will be able to elect for permanent disconnection and remediation services to be contestable, and customers will be able to request these from distributors or third parties.

- **Creating regulatory certainty**
  Gas network businesses, the regulator and consumers, will have a clear understanding of what services, may and may not, form part of permanent disconnection service. There will also be definitions for temporary disconnection services, and remediation services, with clear understanding of when they apply, what is involved and how much they should cost.

- **Helping ensure equitable cost sharing**
  Costs will be borne by the proponent responsible for the disconnection (and benefitting from it). This clarity ensures more equitable cost sharing, setting in place a consistent approach to which costs can be recouped from the retail customer at the premises, and what costs can be shared.

- **Ensuring safe disconnections**
  By clarifying the definition and costs of temporary and permanent disconnections, consumers will be able to make better choices when choosing to disconnect, while ensuring all services maintain safety.

- **Ensuring consistent regulatory decisions**
  The clear framework defining the service of permanent disconnection, and related remediation services, along with rules on cost allocation will provide clarity to gas network businesses when making access arrangement proposals, and to the regulator to make consistent decisions between network businesses when approving these proposals.

While acknowledging Government policy lies largely outside the Commission's remit, we note the rule change will provide a robust, transparent and efficient platform for any subsequent potential government policy to deal with permanent disconnections as part of wider electrification and energy transition policies, such as those already being implemented in jurisdictions such as the ACT and Victoria. Further government support for household electrification is likely to accelerate as it is a critical contributor to emissions reduction beyond 2030, as well as supporting a range of energy affordability, industry development and other policy objectives.

We regard government support for permanent disconnection costs, including in the form of direct subsidy, a more appropriate means of supporting electrification than attempting to do so in a regulatory decision, at the cost of vulnerable consumers. Greater regulatory consistency and clarity as to the definition and cost sharing of permanent disconnection, will help facilitate government consideration of potential government subsidy of permanent disconnection costs, in line with developing policies to encourage household electrification

Recommendation 2

That the AEMC implement the rule change on establishing a regulatory framework for gas disconnections and permanent abolishment, as proposed by the Justice and Equity Centre.

Continued engagement

Our organisations welcome the opportunity to further discuss this issue with the AEMC and other interested stakeholders.