AEMC
Australian Energy Market Commission

INFORMATION

Draft determination to update the framework for gas connections

The AEMC has made a draft rule that would require newly connecting gas customers to pay the cost of their connection upfront

The Commission has decided to make a more preferable draft gas rule (draft rule) in response to the rule change request submitted on 14 February 2025 by Energy Consumers Australia. The draft rule would require gas network distributors (distributors) to charge newly connecting retail gas customers cost-reflective connection charges upfront.

The Commission has determined that no rule is required to amend the National Energy Retail Rules.

We are seeking stakeholder feedback by 30 October 2025.

Our more preferable draft rule would lead to more cost-reflective connection charges, while largely retaining the existing framework in Part 12A of the NGR

The Commission's draft rule would:

- **Amend the connection charges criteria in rule 119M of the national gas rules (NGR)** to remove the net present value test and replace it with new criteria for distributors to determine cost-reflective pricing. The draft rule would mean that the distributor can only recover the prudent and efficient directly attributable costs of providing the connection service.
- **Maintain the existing application of the connection charge requirements in Part 12A of the NGR** to retail customers on scheme and nominated non-scheme pipelines in jurisdictions subject to the National Energy Customer Framework for gas (NSW, the ACT, South Australia, and Queensland). The new connection charge arrangements would form part of the existing retail customer connection framework, which recognises three different types of connection services: basic, standard and negotiated.
- **Require the Australian Energy Regulator (AER) to publish its decisions on whether or not to approve distributors' model standing offers** and amend the matters the AER must consider in forming its decision to reflect the changes to the connections criteria.

The draft rule would remove the NPV test because it does not provide for efficient connection price signals in an environment of declining demand. It could result in existing customers having to pay for any unrecovered connection costs, when they have limited ability to manage these risks.

Our draft rule would address connection risks associated with the projected decline of residential and commercial gas demand

The NGR were drafted with the expectation of either steady or ongoing growth of gas demand. This is inconsistent with the projected decline in gas demand from residential and small commercial customers, as electrification is necessary to achieve emissions reduction targets.

As demand from residential and small commercial customers declines, and these customers leave the gas distribution networks, the costs of operating and maintaining the network will be shared among a declining customer base. The rate and timeframes for decline are uncertain, given there are different jurisdictional positions on gas, however, decline in demand will have significant cost impacts on remaining customers. This may further accelerate the decline in demand as customers who can electrify opt to do so sooner than they previously would.

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While there is some uncertainty surrounding the future path for some gas distribution networks, it is clear that maintaining the existing approach to retail customer connections, where some costs are added to the distributor's capital base, is unsustainable and unlikely to contribute to the achievement of the National Gas Objective. Our draft rule would provide for changes to Part 12A of the NGR, which are intended to:

- enable new retail customers to make more informed and efficient choices about their energy sources and whether to connect to gas distribution networks, by providing them with cost-reflective price signals for the connection
- provide for a more efficient and equitable allocation of the costs and risks associated with new retail connections, by implementing a beneficiary pays approach for connections that allocates the costs and risks associated with new connections to the connecting customers rather than existing customers
- limit growth in the risk of asset stranding that some gas distribution networks are facing, by requiring connection charges to be paid upfront and constraining the growth of distributors' capital bases
- support emissions reduction by enabling more informed and efficient energy choices to be made.

We assessed our draft rule against four assessment criteria

- **Principles of market efficiency** - the draft rule promotes economic efficiency through the provision of more efficient price signals to connecting retail gas customers and a more efficient allocation of the stranding risks associated with new connections
- **Outcomes for consumers** - the draft rule improves outcomes for consumers through the use of more efficient and equitable cost recovery arrangements for retail connections
- **Emissions reduction** - the draft rule supports emissions reduction by enabling retail customers to make more informed and efficient decisions about their choice of energy and connections
- **Principles of good regulatory practice** - the draft rule embodies principles of good regulatory practices, including by providing for simplicity and transparency in the arrangements and being consistent with the broader direction of reforms.

The draft rule is also consistent with the relevant revenue and pricing principles in the NGL.

Implementation of the draft rule

To provide sufficient time for distributors to implement changes to connection charges for all newly connecting customers, the draft rule has a commencement date of 1 July 2026.

Our draft rule would require:

- Distributors, for whom the AER has not made a final access arrangement decision in advance of 1 July 2026, to amend their proposals in light of the amending rule.
- Australian Gas Networks South Australia (AGN SA), Evoenergy and Jemena to submit model standing offers, revised in line with the new rule, to the AER for approval by 1 April 2026.
- AGN Queensland to revise its model standing offers for its nominated pipelines to reflect the new connection charges criteria by 1 July 2026.

This commencement timeline ensures that Evoenergy and AGN SA can implement upfront connection charges as part of the next 2026-31 Access Arrangement period. The final AER decision is due for publication on 30 April 2026. The timeline also provides for the new arrangements to apply in Jemena's gas distribution network even though its access arrangement was approved in 2025.

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