Australian Energy Market Commission

DETERMINATION

Draft rule determination

National Gas Amendment (Updating the regulatory framework for gas connections) Rule

Energy Consumers Australia

18 September 2025

Inquiries
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

E aemc@aemc.gov.au
T (02) 8296 7800

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About the AEMC
The AEMC reports to the energy ministers. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the energy ministers.

Acknowledgement of Country
The AEMC acknowledges and shows respect for the traditional custodians of the many different lands across Australia on which we all live and work. We pay respect to all Elders past and present and the continuing connection of Aboriginal and Torres Strait Islander peoples to Country. The AEMC office is located on the land traditionally owned by the Gadigal people of the Eora nation.

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Summary

1 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 (ECA). The draft gas rule would require gas network distributors (distributors)[1] 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 (NERR).

2 The draft rule promotes the national gas objective (NGO) and provides for improved outcomes for gas customers by:

- ensuring the stranding risks associated with new connections sit with the party best able to manage them (i.e. the connecting customer)
- preventing connection costs from being added to the capital base to limit asset stranding risk
- mitigating significant cost impacts for remaining gas customers, and
- providing a cost-reflective price signal to connecting parties to facilitate more efficient (and potentially lower emissions) connection and energy choice decisions.[2]

3 We have carefully assessed the draft rule against our statutory objectives, leading us to make more preferable rules in several areas. We have sought to balance outcomes for customers, efficiency and emissions reduction to deliver outcomes that best serve gas consumers in the long term.

4 We are seeking feedback on our draft determination and rule by **30 October 2025**.

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

5 The National Gas Rules (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. The Australian Energy Market Operator's (AEMO) latest Gas Statement of Opportunities (GSOO) is one source that provides some insight into the projected impact that electrification and other factors are expected to have on residential and commercial demand in gas networks over the next 10-20 years. The East Coast GSOO projects that distribution connected residential and commercial demand will fall by around 70% over the next 20 years, with a 30% reduction projected in the next 10 years.

6 As demand from residential and small commercial customers declines, and these customers leave 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, declining demand will have significant impacts on the prices payable by remaining customers. This may, in turn, further accelerate the decline in demand as customers who can electrify opt to do so sooner than they previously would. Continuing to add new connection costs to the capital base that must then be recovered from customers would exacerbate the risk faced by customers who face barriers to leave the network. It would also increase the risks faced by distributors, who are seeking to accelerate the recovery

1 Distributors is used to cover those operators of scheme or nominated non-scheme pipelines in National Energy Customer Framework (NECF) jurisdictions subject to Part 12A of the NGR.

2 For retail connection services (other than negotiated services) cost-reflective charges would be based on an estimate of the efficient cost of providing the connection.

of their capital base (including connection assets) through accelerated depreciation, which would place additional pressure on prices, increasing the risk for all customers.

7 A key focus area under the Australian Energy Market Commission's (AEMC or Commission) strategic narrative is to consider how the gas regulatory framework can best support consumers and the electricity system as we transition to a net-zero system. Declining demand on gas networks will place upward pressure on prices for those who continue to use gas. Absent any policy interventions, customers facing barriers to electrification will be left using the gas network. These customer groups may include lower-income households, renters and apartment dwellers. This may raise issues of cost inequities, particularly for vulnerable customers. The regulatory framework should seek to facilitate equitable outcomes for customers, whilst promoting efficient use and investment in gas infrastructure, safety and reliability of gas supply and emissions reduction.

8 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 NGO. Our draft rule would provide for a number of 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 the growth of distributors' capital bases by requiring connection charges to be paid upfront which would in turn reduce the amount of capital that may need to be recovered on an accelerated basis from a declining customer base
- support emissions reduction by enabling more informed and efficient energy choices to be made.

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

9 The Commission's draft rule would require all newly connecting retail gas customers to pay upfront cost-reflective charges for their gas connection. This would ensure newly connecting customers receive the right price signals to enable them to make more informed and efficient choices about their energy sources and whether to connect to the gas network.

10 Our draft would amend the connection charges criteria in rule 119M to remove the net present value (NPV) test and to specify in broad terms the criteria to be applied by distributors when calculating connection charges, including the principles to be applied and the types of costs that can be included in connection charges. The draft rule would mean that the distributor can only recover the prudent and efficient directly attributable costs of providing the connection service.

11 The draft rule would remove the NPV test because it does not provide for efficient connection price signals in an environment of declining demand. The use of this test also results in connection costs being added to the distributor's capital base, which can result in an inefficient allocation of the demand and stranding risks associated with new connections. This is because it

results in existing customers having to pay for any unrecovered connection costs, when they have limited ability to manage these risks.

12 The draft rule would maintain the existing application of the connection charge requirements in Part 12A to scheme and nominated non-scheme pipelines in jurisdictions subject to the National Energy Customer Framework (NECF) for gas.[3] It would also only apply to retail customers in these jurisdictions. 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.

13 The draft rule would also require the Australian Energy Regulator (AER) to publish its decisions on whether or not to approve distributors' model standing offers and amends the matters the AER must consider in forming its decision to reflect the changes to the connections criteria.

Our draft rule better promotes the NGO and provides improved customer outcomes than the proposed rule

14 The Commission has decided to make a more preferable draft rule. The draft rule is largely consistent with the rule change request in that it provides for the introduction of upfront cost-reflective charges for new connections to specified gas distribution networks. However, a number of amendments have been made to ensure the arrangements are targeted, fit for purpose, and proportionate to the issues they are intended to address.

15 The key differences between the proposed rule and our draft rule, are that the draft rule provides for:

- Maintenance of the current application of Part 12A of the NGR, rather than the expanded application proposed by ECA. This application is consistent with the original intent of the application of the retail customer connection arrangements and also avoids potential conflicts with other connection arrangements. The Commission therefore considers it would better promote the NGO than the application proposed in the rule change request.
- Retention of the model standing offer and negotiation framework in Part 12A of the NGR, rather than the individually costed charges as proposed by ECA. The retention of this framework is expected to minimise administrative costs while continuing to support consumer outcomes. The Commission therefore considers it would better promote the NGO than individual charging proposed in the rule change request.
- Less prescription in the rules around the specific costs that can be included in the connection charges than proposed by ECA. This approach is intended to provide relevant distributors and the AER an appropriate level of guidance on how connection charges are to be calculated, while also recognising the need for flexibility given the rules apply to a wide range of connections. In the Commission's view, this would better promote the NGO than the prescriptive approach proposed in the rule change request.
- Some minor refinements to the matters the AER must consider when assessing a relevant distributor's proposed model standing offer and a new requirement for the AER to publish any decision it makes on a relevant distributor's proposed model standing offer. These refinements were not identified in the rule change request. Publishing AER decisions will improve transparency and the refinements will improve clarity and certainty.

3 These jurisdictions are the ACT, NSW, South Australia and Queensland.

We have considered stakeholder feedback and undertaken further analysis in making our decisions

16 The key findings and observations that shaped the Commission's draft rule determination included:

- Broad support from stakeholders to amend the rules to introduce cost-reflective charges for new retail gas customers and require them to pay upfront and in full for their new connection.
- Stakeholders supported upfront connection charges to limit capital expenditure being added to the distributors' capital bases due to concerns about potential asset stranding.
- Stakeholders also supported protecting remaining gas customers from increasing network costs, particularly vulnerable customers or those facing barriers to electrification.
- Those stakeholders that did not support upfront connection charges did not agree that residential and small commercial gas network demand will decline in the short term and referenced continuing projected growth in new connections in some jurisdictions. However, we note that this does not align with AEMO's latest GSOO projections.
- Most stakeholders that commented on the application of the proposed rule change supported retaining the current application of Part 12A of the NGR to scheme and nominated non-scheme pipelines, as this aligns with the intent of light regulation for non-scheme pipelines. A number of stakeholders also commented that extending the application to non-retail customers was not necessary, as these customers were already subject to upfront connection charges.

  We also undertook internal qualitative and quantitative analysis of the existing NPV test to understand whether changes could be made to this test as an alternative to the proposed rule change. Historically, the NPV test has been used to encourage more customers to connect by reducing the financial barriers for new retail connection. In the context of new networks or expansions of existing networks, the use of this test has helped encourage earlier uptake of gas, which has benefited network owners and other customers through lower tariffs, with the fixed costs of operating the network being spread over a greater number of customers. However, this is not the position most gas networks are now in, with residential and small commercial demand projected to fall in most networks, and new connections adding to the costs and risks facing both distributors and existing customers. The only way to effectively manage these issues is to replace the NPV test with a requirement for newly connecting retail gas customers to pay for the cost of their connection upfront.

We assessed our draft rule against four assessment criteria

17 The Commission's draft rule would better contribute to the achievement of the NGO as follows:

- **Principles of market efficiency** - promotes economic efficiency through the provision of more efficient price signals to connecting retail gas customers and a more efficient allocation of the demand and stranding risks associated with new connections
- **Outcomes for consumers** - improves outcomes for consumers through the use of more efficient and equitable cost recovery arrangements for retail connections
- **Emissions reduction** - 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** - 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 National Gas Law (NGL). For instance:

- The movement to upfront cost-reflective connection charges would mean relevant distributors continue to have a reasonable opportunity to recover at least the efficient costs of providing reference services (where connection services are reference services), or comply with a regulatory obligation or requirement.[4]
- The movement to upfront cost-reflective charges, together with the requirement that connection charges only include those costs that would be incurred by a prudent service provider acting efficiently, should also:
  - minimise the economic costs and risks associated with both under and over-investment in the relevant distribution networks.[5]
  - provide relevant distributors stronger incentives to only undertake efficient investment in, or in connection with, the pipeline and efficiently provide pipeline services.[6]

Implementation of the draft rule

18 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. Any retail customer gas connection applications made after 1 July 2026 would be subject to the new framework.

19 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. It would also require Australian Gas Networks South Australia (AGN SA), Evoenergy and Jemena to submit revised model standing offers to the AER for approval by 1 April 2026. These model standing offers must be in line with the rule that commences on 1 July 2026, and the AER must make its assessment based on the new rule. AGN Queensland must also revise its model standing offers for its nominated pipelines to reflect the new connection charges criteria by 1 July 2026.

20 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.

Related rule change processes

21 This rule change is one of six rule changes submitted by ECA and the Justice and Equity Centre (JEC) seeking to ensure that the regulatory framework for gas pipelines is fit-for-purpose for Australia's energy transition.

22 We commenced consultation on the *Establishing a regulatory framework for gas disconnections and permanent abolishment* rule change from JEC at the same time as this rule change request. We have extended the time to make a draft determination on the *Establishing a regulatory framework for gas disconnections and permanent abolishment* rule change to 30 October 2025.[7]

4 Section 24(2) of the NGL.

5 Section 24(6) of the NGL.

6 Section 24(3) of the NGL.

7 The rule change raises issues of sufficient complexity or difficulty, thereby meeting the test for an extension under s. 317 of the National Gas Law and s. 266 of the National Energy Retail law.

23 The Commission published a consultation paper *Gas networks in transition* on 18 September 2025. This consultation paper is focusing on the four remaining rule changes from ECA and JEC, which are intended to constrain non-critical expenditure on distribution networks, facilitate better network planning and protect consumer interests in the transition.

How to make a submission

We encourage you to make a submission

Stakeholders can help shape the solution by participating in the rule change process. Engaging with stakeholders helps us understand the potential impacts of our decisions and contributes to well-informed, high quality rule changes.

How to make a written submission

Due date: Written submissions responding to this draft determination and rule must be lodged with Commission by **30 October 2025**.

How to make a submission: Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code **GRC0085.**[8]

Tips for making submissions on rule change requests are available on our website.[9]

Publication: The Commission publishes submissions on its website. However, we will not publish parts of a submission that we agree are confidential, or that we consider inappropriate (for example offensive or defamatory content, or content that is likely to infringe intellectual property rights).[10]

Next steps and opportunities for engagement

There are other opportunities for you to engage with us, such as one-on-one discussions or roundtables.

Figure 1: Standard rule change timeline: Updating the regulatory framework for gas connections

You can also request the Commission to hold a public hearing in relation to this draft rule determination.[11]

Due date: Requests for a hearing must be lodged with the Commission by 25 September 2025.

How to request a hearing: Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code **GRC0085.** Specify in the comment field that you are requesting a hearing rather than making a submission.[12]

For more information, you can contact us

Please contact the project leader with questions or feedback at any stage.

8 If you are not able to lodge a submission online, please contact us and we will provide instructions for alternative methods to lodge the submission

9 See: https://www.aemc.gov.au/our-work/changing-energy-rules-unique-process/making-rule-change-request/our-work-3

10 Further information about publication of submissions and our privacy policy can be found here: https://www.aemc.gov.au/contact-us/lodge-submission

11 Section 310(2) of the NGL and section 258(2) of the NERL.

12 If you are not able to lodge a request online, please contact us and we will provide instructions for alternative methods to lodge the request.

Email: submissions@aemc.gov.au
Telephone: 02 8296 7800

Contents

1 The Commission has made a draft determination

The Commission's draft determination is to make a more preferable draft rule (the draft rule) in response to a rule change request submitted by Energy Consumers Australia (ECA) on 14 February 2025, which sought changes to gas connection charges to ensure the framework remains fit for purpose. The draft rule would address the key issue raised in the rule change request by requiring gas network distributors (distributors) that are currently subject to Part 12A of the National Gas Rules (NGR) to charge retail customers cost-reflective charges for new gas connections through an upfront connection fee.

The Commission has decided not to make a draft rule to amend the NERR. The Commission considers that changes to the NERR would not be necessary to address the key issue raised in ECA's rule change request.

We are seeking stakeholder feedback on this draft rule. For more detailed information on:

- why we made the draft rule, refer to chapter 2
- how the draft rule works, refer to chapter 3
- the rule change request, refer to appendix A.

1.1 Our draft rule would ensure cost-reflective gas connection charges and protect existing customers by reducing stranded assets risks

1.1.1 Newly connecting retail customers would be required to pay upfront cost-reflective charges for their gas connection

Our draft rule would amend the retail customer gas connection framework in Part 12A of the NGR to require retail customers to pay cost-reflective charges for new gas connections upfront.

The current connection charging criteria in Part 12A of the NGR prescribes a Net Present Value (NPV) test, which dictates the circumstances in which a connection charge may be imposed, and the permitted quantum of any upfront charge. The Commission's draft determination is to replace the NPV with criteria that requires the upfront payment of connection charges. We consider this will:

- provide a cost-reflective price signal to connecting parties to facilitate more efficient connection and energy choice decisions.
- ensure the demand and stranding risks associated with new connections sit with the party best able to manage it (i.e. the connecting customer)
- prevent connection costs from being added to the distributors' capital base.

The Australian Energy Market Operator's (AEMO) latest Gas Statement of Opportunities (GSOO) provides some insight into the impact that electrification and other factors are expected to have on residential and commercial demand in gas networks over the next 10 to 20 years. The East Coast GSOO projects distribution-connected residential and commercial demand will fall by around 70% over the next 20 years, with a 30% reduction projected in the next 10 years.[13]

As demand by residential and small commercial customers is declining, and customers are projected to leave gas distribution networks over time, the costs of operating and maintaining these networks will be shared among a declining customer base. This will have significant cost impacts on remaining customers. This, in turn, may further accelerate the decline in demand as

13 AEMO, Gas Statement of Opportunities, March 2025, p. 23. These projections are based on AEMO's Step Change Scenario, which forecasts that residential and small commercial demand will fall from 169 PJ in 2024 to 116 PJ in 2034 and down to 51 PJ in 2044.

customers who can electrify opt to do so sooner than they previously would. Gas distributors have raised concerns about the impact increasing demand reduction would have on their ability to fully recover the costs of their efficient capital investments ('asset stranding risk').

By requiring newly connecting retail customers to pay upfront the cost of their new gas connection and specifying that no connection expenditure can be added to distributors' capital base and revenue requirement, the Commission's draft rule would limit stranding risks and mitigate the significant cost impacts on remaining customers. It would do this by reducing the amount of capital that may need to be recovered on an accelerated basis from a declining customer base. Adding to a distributor's capital base could place upward pressure on network charges, which could exacerbate the risk that distributors may be unable to fully recover the costs of their efficient capital investments.

To give effect to this, the draft rule sets out in broad terms how the new connection charges are to be calculated by distributors subject to Part 12A of the NGR. The draft rule would allow distributors to recover the prudent and efficient directly attributable costs of providing the connection service. This includes the direct costs of connecting the customer to the distribution network, as well as costs associated with any extension or augmentation (if required) and net tax liabilities. The draft rule also prevents connection costs being added to scheme distributors' capital base and revenue requirement.

The draft rule would align with the revenue and pricing principles of the National Gas Law (NGL) to promote efficient investment in gas pipelines. It is also consistent with the Commission's assessment criteria as it would support outcomes for consumers, promote economic efficiency by allocating costs and risks to the appropriate parties that can best manage those risks and support emissions reduction. The draft rule also aligns with good regulatory practice and net zero policies.

1.1.2 The draft rule would retain the existing connections framework in the NGR

The Commission's draft rule would largely retain the existing connections framework in Part 12A of the NGR. It would require distributors of scheme pipelines and those nominated distributors of non-scheme pipelines to develop a model standing offer with standardised connection charge for a basic connection service(s). It would also continue to allow for model standing offers for other standard connection services and negotiated connection services.

ECA proposed a broad application across all jurisdictional distribution pipelines and customers. However, the draft rule would maintain the existing application of the connection charge requirements in Part 12A to scheme and nominated non-scheme pipelines in jurisdictions subject to the National Energy Customer Framework (NECF). These are those jurisdictions that have adopted the National Energy Retail Law (NERL) and National Energy Retail Rules (NERR) for gas (ACT, NSW, South Australia and Queensland). The draft rule would not extend the framework to non-scheme pipelines that have not been nominated by jurisdictions. This is consistent with the original intent of Part 12A and avoids conflicts with the connection requirements that may be implemented in non-NECF jurisdictions, and focuses charging reform on those pipelines that must currently apply the NPV test. Other pipelines are already able to change the full upfront cost of connection. The draft rule would also only apply to retail customers in NECF jurisdictions, as we do not consider it necessary to extend to non-retail customers because these connections are already regulated under Part 6 of the NGR.

For more information on how the draft rule works, see chapter 3.

1.2 Stakeholder feedback and our own analysis shaped our draft rule

The Commission's draft rule determination was informed by stakeholders who broadly supported the proposal to amend the rules to introduce cost-reflective charges for new retail gas connections and require them to pay upfront and in full for their new connection costs.[14] Stakeholders supported this option as it limits growth in distributors' capital base and helps mitigate the asset-stranding risks associated with new connections. Submitters also supported protecting remaining gas customers from increasing network costs, particularly vulnerable customers or those facing barriers to electrification.[15]

Those who did not support introducing upfront charges felt there was insufficient justification as to why the current framework is not fit for purpose.[16] Some of these stakeholders did not necessarily agree with the proposed direction of reform and referenced continuing projected growth in new connections in Western Australia and, in the case of South Australia, the potential for the network to be used to supply renewable gases. However, this position does not align with AEMO's latest GSOO projections, which shows that although gas is projected to decline at a slower rate on the West Coast, demand is still expected to fall by around 20% in the next 10 years.[17]

Only two stakeholders favoured the alternative solution of updating rules to provide guidance as to the assumptions underpinning the current NPV test.[18] Others agreed in theory that updating the existing NPV approach may be beneficial; however, they acknowledged that in practice, it was problematic due to increasing uncertainty and debate.[19]

This draft rule would apply to the pipelines of Jemena in NSW, Australian Gas Networks South Australia and Evoenergy in the ACT.[20] Very few stakeholders commented which pipelines and types of customers should be covered by any rule change, and those that did provided mixed views. Our draft determination takes this approach as it avoids potential conflict with connection arrangements in jurisdictions that have not adopted the NERL and NERR and minimises the risk of over-regulating other pipelines that should have a strong incentive to recover connection costs from connecting customers.

Jemena and Evoenergy both supported introducing upfront connection charges, as this approach is more cost-reflective and implements a beneficiary pays principle.[21]

1.2.1 The Commission also undertook its own analysis of the existing NPV test

We undertook internal quantitative and qualitative analysis of the existing NPV test for determining connection charges to understand how different assumptions, such as the expected life and expected usage, may result in adjustments to what distributors may charge customers.

14 Submissions to the consultation paper: Evoenergy, p. 3; Jemena, p. 3; ActewAGL, p. 1; Brotherhood of St Lawrence, p. 2; NSW/Qld/SA Energy and Water Ombudsman, p. 2; Red Energy and Lumo Energy, p. 2; Rewiring Australia, p. 1; South Sydney Regional Organisation of Councils, p. 1; The Justice and Equity Centre, p. 7; EnergyAustralia, p. 1; St Vincent de Paul Society, p. 1; Environment Victoria, p. 3; APA Group, p. 3; AER p. 2; AGL, p. 2; Australian Pipelines and Gas Association, p. 2; AusNet, p. 2; Energy Networks Australia, p. 2; ECA, p. 3; Energy Users Association of Australia, p. 6; Institute for Energy Economics and Financial Analysis, p. 3.

15 Submissions to the consultation paper: ActewAGL, p. 1; Energy Consumers Australia, p. 3; Institute for Energy Economics and Financial Analysis, pp. 2-3.

16 Submissions to the consultation paper: AEC, p. 2; ATCO, p. 1; Origin, pp. 1-2; South Australian Technical Regulator, pp. 2-3.

17 AEMO, Western Australia Gas Statement of Opportunities, December 2024, p. 9. These projections are based on AEMO's Step Change Scenario which forecasts that distribution-connected demand will fall from 74 TJ/day in 2024 in 2024 to 58 TJ/day in 2034. Note that AEMO only produces 10-year forecasts in the Western Australian GSOO and does not provide a breakdown of residential and commercial demand within distribution networks.

18 Submissions to the consultation paper: AEC, p. 2 and Origin, p. 2.

19 Submissions to the consultation paper: APGA, pp. 2-3; APA, p. 4; EnergyAustralia, p. 2.

20 At the time the NERL/NERR were introduced in Queensland, the two distribution networks servicing Brisbane and Gold Coast were scheme pipelines. However, the regulatory status of these two pipelines subsequently changed, and they are now non-scheme pipelines.

21 Submissions to the consultation paper: Jemena, p. 3; Evoenergy, p. 3.

This allowed us to assess the alternative solution to maintain the current framework in the NGR but provide further guidance on how it is implemented. Our internal quantitative analysis showed only marginal positive NPV calculations (depending on the assumptions), and with the projected decline in average consumption and potential earlier electrification, it has become increasingly difficult to ensure the NPV approach results in efficient cost and risk allocation. See section 3.1.2 for more details.

While the alternative solution of providing stronger guidance on the NPV test and its assumptions may result in customers making more of an upfront contribution and improving price signals, connecting parties still would not face the full cost of their connection decisions. This would continue to result in inefficient connection and energy choice decisions by customers and developers. The alternative solution may result in lowering the risk associated with costs being added to the capital base; however, it won't eliminate these risks. There is still a risk that assumptions about asset life and consumption will be incorrect and remaining customers would continue to be exposed to the stranding risks associated with new connections that they can not manage.

1.3 Our draft determination would ensure that the regulatory framework for gas connections is fit-for-purpose given the broader direction of reform

A key focus area under the Australian Energy Market Commission's (AEMC or Commission) strategic narrative is to consider how the gas regulatory framework can best support consumers and the electricity system as we transition to a net-zero system. Declining demand on gas networks will place upward pressure on prices for those who continue to use gas. Absent any policy interventions, customers facing barriers to electrification will be left using the gas network. These customer groups may include lower-income households, renters, and apartment dwellers. This may raise issues of cost inequities, particularly for vulnerable customers. The regulatory framework should seek to facilitate equitable outcomes for customers, whilst promoting efficient use and investment in gas infrastructure, safety, and reliability of gas supply, and emissions reduction.

Our draft determination to require distributors subject to Part 12A of the NGR to charge newly connecting retail customers the cost of their gas connection upfront aligns with national net zero targets and the transition of the energy system. We note that jurisdictions have different positions on the future of gas and specific gas reform. We consider that ensuring customers face the full cost of their gas connection would send efficient price signals so they can make informed and efficient connection and energy choice decisions.

The current regulatory framework for gas pipelines is predicated on the assumption of growing or steady demand. This is no longer appropriate in jurisdictions subject to Part 12A of the NGR, given the projected residential and commercial decline in demand for gas, although the Commission understands that there is a possibility some networks may be repurposed to supply renewable gases.

Related to this, the Commission published a consultation paper *Gas networks in transition* on 18 September 2025. This consultation paper relates to a package of rule changes seeking to ensure that the regulatory framework for gas pipelines is fit-for-purpose through the energy transition. This package includes four separate rule change requests submitted by ECA and The Justice and Equity Centre (JEC), seeking amendments to the rules around depreciation, asset redundancy, new capital expenditure and planning requirements.

The Commission's draft rule would ensure gas connection costs are no longer added to distributors' capital base or revenue requirement for scheme distribution networks subject to Part 12A of the NGR. This protects other customers from the costs, and stranding risks associated with new connections and aligns with the other proposals from ECA and the JEC. It would also reduce the risk that distributors would have to accelerate depreciation further to recover new connection costs.

1.3.1 There is a related rule change request from the JEC to establish a regulatory framework for gas disconnections and permanent abolishment

The Justice and Equity Centre (JEC) submitted a rule change request on 9 May 2025 seeking to amend the NGR and NERR to create a new regulatory framework for gas disconnections, including temporary disconnections and permanent abolishments.[22]

The ECA proposal for connection charges was considered as part of a joint consultation with this JEC rule change request on gas disconnections and permanent abolishment. The consultation paper signalled that following the receipt of submissions, the Commission would determine whether to treat the two rule changes as separate rule change requests or to consolidate them.[23] The Commission has decided to consider them separately. We have also decided to extend the publication of a draft determination for the JEC rule change until 30 October 2025. This is due to the rule change raising issues of sufficient complexity or difficulty, thereby meeting the test for an extension in section 317 of the NGL and section 266 in the NERL.

22 *Establishing a regulatory framework for gas disconnections and permanent abolishment*rule change request.

23 The AEMC may treat two or more requests as one request if it considers it necessary or desirable. See section 300 of the NGL.

2 Our draft rule would contribute to the national gas objective

When deciding whether or not to make a rule, the Commission is required to act in the long-term interests of energy users by considering whether the rule will or is likely to contribute to the achievement of the relevant national energy objectives.

Our draft rule, which is a more preferable rule, is expected to contribute to the achievement of the NGO by promoting economic efficiency, improving outcomes for consumers, supporting emissions reduction and embodying principles of good regulatory practice. As the Commission is making no rule in the NERR, the NERO does not apply.

This chapter provides further detail on:

- the matters the Commission must take into account when making a rule, or a more preferable rule (section 2.1-section 2.2)
- how we applied the legal framework when making our draft determination (section 2.3)
- how our draft rule is expected to contribute to the NGO (section 2.4).

2.1 The Commission must act in the long-term interests of energy consumers

The Commission can only make a rule if it is satisfied that the rule will, or is likely to, contribute to the achievement of the relevant energy objectives.[24] For this rule change, the relevant energy objective is the NGO. As the Commission has determined that no consequential changes to the NERR are necessary, the Commission has determined to make no draft retail rule, and so is not required to consider the NERO.

The NGO is:[25]

> to promote efficient investment in, and efficient operation and use of, covered gas services for the long term interests of consumers of covered gas with respect to—
>
> (a) price, quality, safety, reliability and security of supply of covered gas; and
>
> (b) the achievement of targets set by a participating jurisdiction—
>
> (i) for reducing Australia's greenhouse gas emissions; or
>
> (ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.

The targets statement, available on the AEMC website, lists the emissions reduction targets to be considered, as a minimum, in having regard to the NGO.[26]

24 Section 291(1) of the NGL.
25 Section 23 of the NGL.
26 Section 72A(5) of the NGL.

2.2 We must also take some other matters into account when making a rule

2.2.1 We can make a more preferable rule

The Commission may make a rule that is different, including materially different, to a proposed rule (a more preferable rule) if it is satisfied that, having regard to the issue or issues raised in the rule change request, the more preferable rule is likely to better contribute to the achievement of the NGO.[27]

The Commission's draft determination is to make a more preferable draft rule, for the reasons set out below.

2.2.2 We must also consider the revenue and pricing principles

We must take into account the revenue and pricing principles set out in section 24 of the NGL when making a rule that regulates the revenues earned, or prices charged, by scheme pipelines.[28] Relevantly, for this rule change request, we must take those principles into account when making rules that affect a pipeline's capital base and the treatment of capital contributions for the purposes of approving or making an access arrangement, approving revisions or variations to an applicable access arrangement, or making an access determination.[29]

Of particular relevance to this rule change request are the principles that:[30]

- a scheme pipeline service provider should be provided with a reasonable opportunity to recover at least the efficient costs the service provider incurs in providing reference services and complying with a regulatory obligation or requirement
- a scheme pipeline service provider should be provided effective incentives in order to promote economic efficiency, including efficient investment in, or in connection with, the pipeline, efficient provision of pipeline services and efficient use of the pipeline
- regard should be had to the economic costs and risks of the potential for under and over-investment by a scheme pipeline service provider in a pipeline with which the service provider provides pipeline services.

2.3 How we have applied the legal framework to our decision

The Commission has considered ECA's proposal to amend the NGR to require upfront cost reflective charges to be paid for new gas connections against the legal framework outlined above.

We identified the following criteria to assess whether to make the proposed rule change, no change to the rules (business-as-usual), or other viable, rule-based options are likely to better contribute to achieving the NGO:

- principles of market efficiency
- outcomes for consumers
- emissions reduction
- principles of good regulatory practices.

27 Section 296 of the NGL.

28 Section 293 of the NGL.

29 Items 48 and 52 of Schedule 1 of the NGL.

30 Sections 24(2), (3) and (6) of the NGL.

These assessment criteria reflect the key potential impacts – costs and benefits – of the rule change request, for impacts within the scope of the NGO. Our reasons for choosing these criteria are set out in section 4.3.2 of the consultation paper.

In addition to these assessment criteria, we have taken into account the relevant revenue and pricing principles.

We have removed one assessment criterion from the consultation paper: safety, security and reliability. We consider this criterion most relevant to the other rule change request, *Establishing a regulatory framework for gas disconnections*, also covered by the consultation paper.

2.3.1 Our draft determination is to make a more preferable draft rule

The Commission has decided to make a more preferable draft rule. The draft rule is largely consistent with the rule change request in that it provides for the introduction of upfront cost-reflective charges for new connections to specified gas distribution networks. However, a number of amendments have been made to ensure the arrangements are targeted, fit for purpose, and proportionate to the issues they are intended to address.

The key differences between the proposed rule and our draft rule, are that the draft rule provides for:

- Maintaining the current application of the Gas connection for retail customer provisions in Part 12A of the NGR, rather than the expanded application proposed by ECA.[31] This means that the connection charge arrangements, as amended by the draft rule, will continue to apply to retail customers using the following types of distribution pipelines in those jurisdictions where the NERL and NERR apply to gas:[32]
  - scheme pipelines
  - non-scheme pipelines for which a distributor has been nominated by the relevant jurisdiction to provide customer connection services (nominated non-scheme distribution pipeline).

    This application is consistent with the original intent of the retail customer connection arrangements and also avoids potential conflicts with other connection arrangements. The Commission therefore considers it would better promote the NGO than the application proposed in the rule change request.
- Retaining the model standing offer and negotiation framework in Part 12A of the NGR, rather than the individually-costed connection charges as proposed by ECA.[33] The retention of the model standing offer framework means that distributors for the pipelines outlined above:
  - must have a model standing offer to provide a basic connection service to retail customers approved by the AER,[34] with the model standing offer to include the standard connection charge (or the basis on which it will be calculated) payable for a basic connection service and other terms and conditions
  - may submit for the AER's approval a model standing offer to provide standard connection services on specified terms and conditions

31 The ECA proposed that the connection arrangements should apply to retail and non-retail customers using both scheme and non-scheme distribution pipelines in all jurisdictions. See ECA, Rule change request, pp. 9 and 17.

32 These jurisdictions are the Australian Capital Territory, New South Wales, Queensland and South Australia.

33 ECA, Rule change request, p. 17.

34 Note that the relevant distributors in Queensland are not required to obtain AER approval, under the National Gas (Queensland) Regulation 2014.

  - may negotiate directly with connection applicants where a connection service is neither a basic nor a standard connection service, or where the applicant otherwise elects to negotiate.

    The retention of this framework is expected to minimise administrative costs while continuing to support consumer outcomes. The Commission therefore considers it would better promote the NGO than individually charging proposed in the rule change request.

- Less prescription in the rules around the specific costs that can be included in the connection charges than proposed by ECA.[35] This approach is intended to provide relevant distributors and the AER an appropriate level of guidance on how connection charges are to be calculated, while also recognising the need for flexibility given that the rules apply to a wide range of connections. In the Commission's view this would better promote the NGO than the prescriptive approach proposed in the rule change request.
- Some minor refinements to the matters the AER must consider when assessing a relevant distributor's proposed model standing offer and a new requirement for the AER to publish any decision it makes on a relevant distributor's proposed model standing offer. These refinements were not identified in the rule change request.

Further detail is provided below on why the Commission considers the more preferable draft rule would better contribute to the NGO than the proposed rule, and why it is consistent with the relevant revenue and pricing principles.

2.4 Our draft rule would contribute to the achievement of the NGO

Our draft rule provides for the introduction of upfront cost reflective connection charges for retail customers using scheme and nominated non-scheme pipelines in jurisdictions subject to Part 12A of the NGR. It would better contribute to the achievement of the NGO by:

- promoting economic efficiency through the provision of more efficient price signals to connecting parties and a more efficient allocation of stranding risks
- improving outcomes for consumers through the use of more efficient and equitable cost recovery arrangements for retail connections
- supporting emissions reduction by enabling potential new retail customers to make more informed and efficient decisions about their choice of energy and connections
- embodying principles of good regulatory practices, including by providing for simplicity and transparency in the arrangements and being consistent with the broader direction of reforms.

2.4.1 Promoting economic efficiency through more efficient price signals and a more efficient allocation of new connection risks

The draft rule would promote economic efficiency in those jurisdictions subject to Part 12A of the NGR by:

- providing retail customers with a more efficient price signal for new connections
- ensuring that the stranding risks associated with new connections sit with those best placed to manage these risks (i.e. the connecting customers).

This would be achieved through changes to Part 12A of the NGR that would require retail customers to pay an upfront connection charge that is based on the prudent and efficient, directly attributable costs associated with the new connection.

35 ECA, Rule change request, p. 21.

This differs from the current approach in Part 12A of the NGR, which only requires a connection charge to be paid by a retail customer if, in present value terms, the cost of the connection exceeds the incremental revenue that is expected to be generated from the connection.[36] This approach is commonly referred to as the NPV (net present value) test.

As explained further in section 3.1.2, there are some inherent limitations with this test, the impacts of which are likely to be more pronounced when demand is declining, as it is in most gas distribution networks in the East Coast.[37] The main limitations are that the NPV test:

1. does not provide connecting parties with a cost-reflective price signal, which can result in inefficient connection and energy choice decisions.
2. results in connection costs being added to the pipeline's capital base, which can result in inefficient allocation of the risks associated with new connections because it results in existing customers who have no ability to manage these risks having to pay for any unrecovered connection costs
3. only provides for the recovery of incremental costs, which means the benefits to existing customers of spreading the network's costs across a larger customer base may never be realised if customers leave before they contribute to these costs.

Put simply, the test does not provide for efficient connection price signals or an efficient allocation of the demand and asset stranding risks associated with new connections. While demand and stranding risks for new connections have been low in the past, these risks are growing in most networks as a result of declining consumption per connection and electrification. There is therefore an increasing risk that connecting customers will not pay for the full cost of their connection, let alone make a contribution to the distribution network's shared costs. Maintaining the NPV test could therefore result in inefficient investment in and the inefficient operation and use of distribution networks, contrary to the NGO.

In contrast to the NPV test, a requirement for retail customers to pay an upfront cost-reflective connection charge (i.e. a beneficiary pays approach) would provide connecting parties with an efficient signal about the cost of connecting to the network. It would also ensure the new connection risks are efficiently allocated to the connecting customer. This should, in turn, support more efficient connection decisions and, in so doing, promote efficient investment in, and the efficient operation and use of, those distribution networks subject to Part 12A of the NGR.

2.4.2 Improving outcomes for consumers by providing for more efficient and equitable cost recovery from retail customers

The draft rule would improve outcomes for potential and existing customers of gas distribution networks subject to Part 12A of the NGR by providing for:

- More efficient price signals to retail customers who are considering connecting to the network, which would enable these potential customers to make more informed and efficient decisions about their energy choices and whether to connect to the gas distribution network.
- A more efficient and equitable allocation of the costs and risks associated with new connections through the adoption of a beneficiary pays approach to connection charges, which, all other things being equal, should result in lower prices for other customers. This is because connection costs would no longer be added to the relevant distributors' capital base. Constraining the capital base in this way should also reduce the risk of that customers who

36 This test is set out in rule 119M(1) of the NGR.

37 See for example, AGN, SA Final Plan 2026/27-2030/31, 2025, pp. 134-136, Evoenergy, Our five-year gas plan, 2025, p. 40, JGN, Revised 2025 Plan, January 2025, p. 38.

cannot readily disconnect from the network (which may include vulnerable customers) may otherwise face.

The retention of the model standing offer and negotiation framework in Part 12A of the NGR would also support those retail customers who decide to connect to the gas distribution network. That is by maintaining appropriate consumer protections for basic, standard and negotiated connections, including regulatory oversight of relevant distributors' basic and standard model standing offers (including connection charges).[38]

The draft transitional arrangements would also support outcomes for consumers by providing for the new arrangements to commence relatively quickly (i.e. in 2026).

Finally, it is worth noting we have considered different types of customers and have decided not to extend the connection arrangements to:

- Non-retail customers, as there is an existing framework in Part 6 of the NGR that provides for efficient and equitable cost recovery from these types of customers.[39] This part of the NGR is therefore expected to continue to support outcomes for these customers.
- Non-scheme pipelines that are not already subject to Part 12A of the NGR, as we would expect the operators of these pipelines, who are not required by the rules to apply the NPV test, to have a strong incentive to recover connection costs from connecting parties. This is because they do not have the same ability to socialise costs as scheme distribution pipelines.

2.4.3 Supporting emissions reduction through the introduction of cost-reflective upfront connection charges

The draft rule would support emissions reduction in those jurisdictions that are subject to Part 12A of the NGR. That is, by providing retail customers with more efficient signals about the cost of connecting to gas distribution networks so that they can make more informed and efficient decisions about whether to connect to gas, or use an alternative energy source (e.g. electricity, which would result in lower emissions associated with that customer's energy use).

This differs from the current approach in Part 12A of the NGR, with the NPV test to date resulting in most retail customers not having to pay connection charges. The requirement for retail customers to pay an upfront cost-reflective connection charge can therefore be expected to result in some retail customers deciding not to connect, which would support emissions reduction in those jurisdictions that are subject to Part 12A of the NGR.

It is important to recognise that upfront connection charges on their own are unlikely to result in significant reductions in emissions. This is because even if faced with a cost-reflective connection charge, there may still be retail customers (or developers operating on behalf of future retail customers) that decide to connect to gas distribution networks. The ACT and Victorian governments have sought to overcome this issue by banning certain types of new gas connections. In addition, this draft rule would apply only to new gas customers, and would not significantly affect the incentives for current gas customers to transition away from gas.

38 Note that regulatory oversight doesn't apply to the two Queensland nominated non-scheme distribution networks because they are not required to provide their model standing offers to the AER for approval.

39 Non-retail customers are those customers that procure gas and pipeline services directly from producers and pipeline service providers or through other means (e.g. through AEMO operated markets). These types of customers may include gas powered generators, large commercial and industrial customers and other self-contracting customers.

2.4.4 Alignment with principles of good regulatory practice

The Commission has taken steps to ensure that the new connection arrangements embody principles of good regulatory practice, including by being:

- targeted, fit-for-purpose, and proportionate to the issues they are intended to address
- simple, transparent, and consistent with the broader direction of reforms.

This is reflected in the draft rule, which provides for:

- Maintaining the current application of Part 12A of the NGR, which is consistent with the original intent of the application of the retail customer connection arrangements. It also avoids potential conflicts with the connection arrangements that have been, or may in the future be, implemented in jurisdictions that have not adopted the NERL and NERR.
- Retaining the existing model standing offer framework, which is both simple and transparent. It would also minimise administrative costs for relevant distributors, while also ensuring that appropriate customer protections are in place for connecting retail customers.[40]
- Connection charge arrangements that are simple, transparent and broadly consistent with the approach taken by the Victorian Essential Services Commission.[41]
- The AER to publish its decisions on relevant distributors' model standing offers, which would enhance transparency. The AER would also have the option (but not the obligation) to publish any additional guidance that it considers relevant distributors may require, which could provide for greater clarity and consistency of approach.
- The new connection charging arrangements to come into effect in mid-2026.

Maintaining the current application of Part 12A of the NGR and retaining the existing model standing offer framework are also intended to minimise the implementation costs associated with the changes.

In developing the draft rule, the Commission has also been cognisant of the broader direction of reform, including the transition to a net-zero energy system, and the challenges that declining residential and small commercial gas demand is posing for distributors and their customers.

2.4.5 Consistency with the revenue and pricing principles

In addition to promoting the NGO, the Commission considers the draft rule is consistent with the relevant revenue and pricing principles. For instance:

- The movement to upfront cost-reflective connection charges would mean relevant distributors continue to have a reasonable opportunity to recover at least the efficient costs of providing reference services (where connection services are reference services), or comply with a regulatory obligation or requirement.[42]
- The movement to upfront cost-reflective charges, together with the requirement that connection charges only include those costs that would be incurred by a prudent service provider acting efficiently, should also:
  - minimise the economic costs and risks associated with both under and over-investment in the relevant distribution networks.[43]

40 That is by allowing for a standardised connection charge to be developed for a basic connection service rather than requiring individual offers to be developed for each connection.

41 ESC, Gas Distribution Code of Practice, 1 October 2024.

42 Section 24(2) of the NGL.

43 Section 24(6) of the NGL.

- provide relevant distributors stronger incentives to:[44]
  - only undertake efficient investment in, or in connection with, the pipeline
  - efficiently provide pipeline services.

44 Section 24(3) of the NGL.

3 How our rule would operate

Our draft rule would provide for the introduction of upfront cost-reflective connection charges for newly connecting gas customers. Our draft rule would apply to retail customers using scheme and nominated non-scheme pipelines in those jurisdictions subject to Part 12A of the NGR.[45] 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.

The key changes to the framework that would result from our draft determination are summarised in Figure 3.1. These changes would commence on 1 July 2026.

Figure 3.1: Retail gas connection framework in the NERL/NERR and NGL/NGR

NERL distributor connection requirements in NECF gas jurisdictions (s. 66)		A distributor must provide customer connection services for the premises of a retail customer: • who requests those services • whose premises are connected, or who is seeking to have those premises connected to the gas distribution system. The connection service must be provided in accordance with a customer connection contract (requirements are set out in Part 12A of the NGR).		
NGR Part 12A requirements (note QLD has amended this Part as it applies to QLD distributors)		**A connection service can take one of three forms:**		
	Connection services	**Basic connection service** A connection service that involves minimal or no extension to or augmentation of the pipeline, and for which the AER has approved a model standing offer.	**Standard connection service** A connection service (other than a basic connection service) for a particular class of connection applicant and for which the AER has approved a model standing offer.	**Negotiated connection service** A connection service that is neither a basic nor a standard connection service, or a is a basic or standard service that the applicant elects to negotiate.
	Model offer – negotiation requirements	Distributors must have a model standing offer to provide a basic connection service to retail customers, which must be approved by the AER. A model offer may relate to all basic connection services, or a particular class.	Distributors may develop standard connection service model standing offer(s), which must be approved by the AER. Model offers may provide for different terms and conditions for different classes of services or retail customers.	Distributors and applicants may negotiate a connection contract in accordance with the negotiation framework in the rules. Distributors must also provide the applicant a range of information including a connection charge estimate.
	Connection charges	Connection charges in model standing offers or proposed by distributors for negotiated connection services must be consistent with the **connection charges criteria,** which state that connection charges must: (a) be based on the directly attributable cost of providing the connection service (b) only include: (i) the cost of purchasing and installing the connection assets; (ii) the cost of any extension to, or augmentation of, the relevant distribution pipeline required to provide the connection service; (iii) incidental costs such as design, planning and administrative costs; and (iv) the net tax payable by the distributor as a result of receiving the connection charge (c) only include costs that would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of providing the service in a manner consistent with the achievement of the NGO (d) be consistent with any relevant provisions of a distributor's applicable access arrangement requiring the use of assumptions about: (i) the connection assets required, and (ii) the cost of purchasing and installing the connection assets. • For scheme pipelines, if the directly attributable cost > connection charge the distributor cannot recover the difference by rolling it into the capital base or otherwise including it in the total revenue calculation under Part 9 of the NGR. • The component of the connection charge that recovers capital expenditure is taken to be a capital contribution under Part 9 of the NGR.		
		• A model standing offer may include a standardised connection charge that is expected to satisfy the criteria only on average. • Where the actual directly attributable cost of providing a connection service under a model standing offer < connection charge, the distributor is not required to refund the difference.		n.a.
	AER approval requirements	The AER may approve model offers if, amongst other things, it is satisfied: • the connection charges are consistent with the connection charges criteria • the terms and conditions are fair and reasonable • the terms and conditions comply with applicable energy laws. • For basic connection service model standing offers, it must also be satisfied the service, or class of service, is likely to be sought by a **reasonable** number of retail customers. • The AER must publish its decisions relating to model standing offers.		n.a.

Source: AEMC. Key: Dotted boxes denote the AEMC's proposed changes to the gas connections framework.

45 These jurisdictions are the ACT, NSW, South Australia and Queensland.

The Commission considered the following two key points in making the draft rule:

- the projected decline in the residential and small commercial demand for gas in distribution networks that would be affected by the changes to Part 12A of the NGR, and the risks which this decline may expose network owners and existing customers to.[46]
- differences in jurisdictional policies on the future of gas distribution networks and the potential for some networks to be repurposed to supply renewable gases, while others plan for decommissioning.

We note that there is some uncertainty surrounding the future path of gas distribution networks. However, we consider 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 NGO. Our draft determination therefore provides for a number of 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 newly connecting retail customers paying for their connections and therefore bearing the costs and risks associated with new connections rather than existing customers
- limit the growth of distributors' capital bases by requiring connection charges to be paid upfront which would in turn reduce the amount of capital that may need to be recovered on an accelerated basis from a declining customer base
- support emissions reduction by enabling more informed and efficient energy choices to be made.

3.1 Retail customers would be required to pay upfront cost-reflective charges for new gas connections

Box 1: Draft determination - Part 12A of the NGR would be amended to require retail customers to pay upfront cost-reflective charges for new connections

Our draft determination would remove the NPV test for connection charges and replace it with a requirement for distributors to charge retail customers up front the cost-reflective charges for new gas connections.

This would support more informed and efficient decision-making by retail customers considering connecting to gas distribution networks and provide for a more efficient and equitable allocation of the costs and risks associated with new connections.

The Commission's draft rule would amend the framework for gas connections for retail customers to require a retail customer seeking a new gas connection to pay upfront cost-reflective charges for that connection. We consider that a beneficiary pays approach to connection charges is more efficient and equitable than the current approach set out in Part 12A of the NGR in a context of declining residential and small commercial gas demand. The current approach requires

46 See for example, AGN, SA Final Plan 2026/27-2030/31, 2025, pp. 134-136, Evoenergy, Our five-year gas plan, 2025, p. 40, JGN, Revised 2025 Plan, January 2025, p. 38.

distributors to apply the NPV test to determine whether retail customers should pay a connection charge.

Our draft determination would:

- Support more efficient connection and energy choice decisionsAs some stakeholders pointed out, this could result in fewer connections to gas distribution networks. This should not be viewed as a negative if customers are making more informed and efficient decisions, noting this is also likely to support emissions reduction and more efficient use of and investment in the pipeline, consistent with both the NGO and revenue and pricing principles.[47]
- Ensure that the stranding risks associated with new connections sits with the party best able to manage it (the connecting party). This is more efficient and equitable than the current approach and would slow the growth in the risk of asset stranding facing the distributor and customers.

3.1.1 Our draft determination is consistent with the rule change request and was supported by most stakeholders

Our draft determination is consistent with ECA's rule change request and is also consistent with the approach recently adopted by the Victorian Essential Services Commission (ESCV) following their review of the Victorian Gas Distribution Code of Practice.[48] The vast majority of stakeholders, including most distributors in those jurisdictions subject to Part 12A, supported this approach.[49]

Some stakeholders considered that the current NPV test places a disproportionate and growing burden on customers who remain connected to the gas distribution network. This is because the current NPV test results in connection costs being added to distributors' capital bases and being socialised.[50] AusNet noted that:[51]

> "Given the expected decline in residential and commercial gas usage, as forecast by AEMO and others, we now agree that alternatives to upfront charging through an NPV measure or revised economic test is no longer sufficiently robust for the current regulatory framework and that the 'causer pays' principle is the most efficient way to recover costs associated with each connection to the network going forward and reduce risk for the rest of our network's customer base."

Some stakeholders also expressed the view that the current framework creates an over-incentive to connect to the gas network, which is contrary to consumers' long-term interests.[52]

The AEC, ATCO, Origin and South Australian Technical Regulator were the only stakeholders that did not support the proposed change.[53] The South Australian Technical Regulator noted that the South Australian Government "remains committed to a fully operational gas network" but that "ultimately it is a commercial decision for the ... distribution company to determine the cost of connection services."[54] Origin and AEC, on the other hand, suggested that it amounted to a de

47 Submissions to the consultation paper: AEC, p. 2; Origin, p. 2.

48 ECA, Rule change request, p. 5; ESCV, Gas Distribution Code of Practice, 1 October 2024.

49 Submissions to the consultation paper: Evoenergy, p. 3; Jemena, p. 3; ActewAGL, p. 1; Brotherhood of St Lawrence, p. 2; NSW/Qld/SA Energy and Water Ombudsman, p. 2; Red Energy and Lumo Energy, p. 2; Rewiring Australia, p. 1; South Sydney Regional Organisation of Councils, p. 1; The Justice and Equity Centre, p. 7; EnergyAustralia, p. 1; St Vincent de Paul Society, p. 1; Environment Victoria, p. 3; APA Group, p. 3; AER p. 2; AGL, p. 2; Australian Pipelines and Gas Association, p. 2; AusNet, p. 2; Energy Networks Australia, p. 2; ECA, p. 3; Energy Users Association of Australia, p. 6; Institute for Energy Economics and Financial Analysis, p. 3.

50 Submissions to the consultation paper: ActewAGL, p. 1; Energy Consumers Australia, p. 3; Institute for Energy Economics and Financial Analysis, pp. 2-3.

51 AusNet, submission to the consultation paper: p. 3.

52 Submissions to the consultation paper: Brotherhood of St Lawrence, p. 2; Red Energy and Lumo Energy, p. 2.

53 Submissions to the consultation paper: AEC, p. 2; ATCO, p. 1; Origin, pp. 1-2; South Australian Technical Regulator, pp. 2-3.

facto ban on new connections and ATCO considered it premature because its network in Western Australia has not experienced a decline in residential and commercial gas demand to date.[55] While the AEC and Origin did not support a change to upfront connection charges, they did support updating the existing NPV assumptions to achieve more cost-reflective connection charges.[56]

The Commission understands that there is some uncertainty surrounding the future path for some gas distribution networks and that some may be repurposed. We note that the distributors' own forecasts for those relevant gas distribution networks (i.e. those subject to the connection charge arrangements under Part 12A of the NGR) all indicate that demand is expected to fall.[57] The Commission also notes that these same networks have also sought to accelerate the recovery of their capital base, citing future demand uncertainty.[58]

Maintenance of the NPV test, either in its current form or a modified form, is unlikely to be in the long-term interests of users of those networks. This is due to the inherent limitations of the NPV test outlined below, and the demand and stranding risk associated with new connections.

3.1.2 The current NPV test for determining connection charges is not fit for purpose in the context of the projected decline in gas demand in jurisdictions subject to Part 12A

The NPV test has historically been used to encourage more customers to connect by reducing the financial barriers for new retail customer connections. In the context of new networks or expansions of existing networks, the use of this test has helped encourage earlier uptake of gas. This has benefited network owners and other customers through lower tariffs with the fixed costs of operating the network being spread over a greater number of customers. However, this is not the position most gas networks in the East Coast are now in, with demand projected to fall in most networks, and new connections adding to the costs and risks facing both distributors and existing customers.[59]

Maintenance of the NPV test could therefore give rise to a range of inefficiencies and inequitable outcomes. This is because there are some inherent limitations in the NPV test, the impacts of which are likely to be more pronounced when demand is declining. The main limitations are as follows:

1. The test does not provide retail customers who are considering connecting to the network with a cost-reflective price signal, which can result in inefficient connection and energy choice decisions.
2. The test results in connection costs being added to the gas distribution network's capital base, which can result in inefficient allocation of the demand and asset stranding risks associated with new connections and higher tariffs for existing customers, because it results in existing customers, rather than connecting customers, having to pay for any unrecovered connection costs
3. The test only provides for the recovery of incremental costs, which means the benefits to existing customers of spreading a gas distribution network's costs across a larger customer

54 South Australian Technical Regulator, submission to the consultation paper, pp. 2-3.

55 Submissions to the consultation paper: AEC, p. 2; Origin, p. 2; ATCO, p. 1.

56 Submissions to the consultation paper: AEC, p. 2 and Origin, p. 2.

57 See for example, AGN, SA Final Plan 2026/27-2030/31, 2025, pp. 134-136; Evoenergy, Our five-year gas plan, 2025, p. 40, JGN; Revised 2025 Plan, January 2025, p. 38.

58 See for example, AGN, SA Final Plan 2026/27-2030/31, Chapter 6, pp. 134-136; Evoenergy, Our five-year gas plan, 2025, p. 29; JGN, Revised 2025 Plan, January 2025, p. ix.

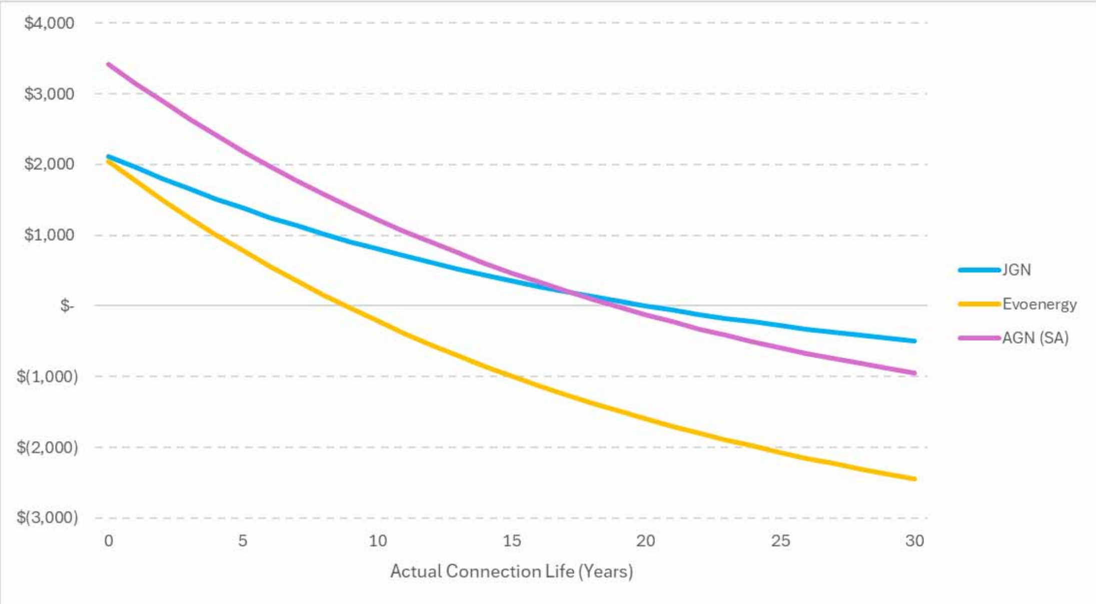
59 See for example, AGN, SA Final Plan 2026/27-2030/31, 2025, pp. 134-136; Evoenergy, Our five-year gas plan, 2025, p. 40, JGN; Revised 2025 Plan, January 2025, p. 38.

base may never be realised if customers leave before they contribute to these costs (see box below).

Box 2: The benefits of socialised gas connection costs to existing customers are predicated on correct assumptions about connection lives

If a gas distribution network assumes a new customer will remain connected for a given period of time, but the customer disconnects sooner, the sum of the connection charge allowed under rule 119M of the NGR and tariff revenue received from the customer over the period it is connected may under-recover the cost of establishing their connection. The outstanding cost would be recovered by the remaining customers of the network.

AEMC modelling suggests that this outstanding cost would be in the order of hundreds of dollars per customer. The following figure demonstrates the outstanding incremental cost of a gas connection (the maximum connection charge allowed under Rule 119M of the NGR) under a 20-year connection life assumption for three distributors subject to Part 12A of the NGR. As it highlights, if Jemena was to assume that a new customer will remain connected to the network for 20 years, but the customer disconnects after 10 years, other network customers would have to pay the outstanding cost of $807. Similarly, if AGN (SA) makes the same 20-year assumption about a new customer who disconnects after 10 years, other customers would have to pay the outstanding cost of $1,225. Since incremental revenue generated by Evoenergy customers is estimated to be relatively high, there is less risk of outstanding incremental cost.*



Source: AEMC; AER, AGN (SA)/JGN/Evoenergy 2024 Rin Responses; AER, AGN (SA)/JGN/Evoenergy 2024 Tariff Schedules. *Outstanding incremental cost is incremental cost net of incremental revenue and the maximum connection charge allowed under NGR Rule 119M.

It is possible that using more conservative assumptions about gas demand and connection lives in the NPV test may result in some improvements relative to the current approach. However, it would not address these more fundamental limitations, and so its continued use is unlikely to contribute to the NGO. This is because:

- connecting customers would still not be required to pay the full cost of connecting to the network, which means that they could continue to make inefficient connection and energy choice decisions (including as to whether to use renewable gases on those networks where these gases are supplied)

- existing customers would continue to bear the costs and demand-related risks associated with new connections
- existing customers would be subject to higher tariffs, which could prompt those that are able to electrify to do so earlier than they otherwise would, which would add to the risks and challenges facing both distributors (including those looking to repurpose their networks to supply renewable gases) and those customers that find it more difficult to disconnect.

The only way to effectively address these limitations is to move to upfront connection charges.

Our draft rule therefore removes the NPV test and requires retail customers to start paying cost-reflective charges for their connections on an upfront basis. This is reflected in rule 119M of the draft rule.[60]

3.1.3 Newly connecting gas customers would not be required to pay different tariffs

The Commission considered whether, as a result of the change to connection charging arrangements, newly connecting retail customers should pay a different tariff to existing customers. ATCO and APA raised this issue in submissions to the consultation paper and suggested that different tariffs would be required to avoid new customers subsidising existing connections.[61]

The Commission understands that this would be both costly and complex to implement and administer because distributors would need to:

- keep records of whether individual customers had paid the full connection cost, either upfront as newly connecting customers, or through network tariffs for those existing customers who have been connected to the network for some time
- apply different network tariffs to each of these customers.

The Commission has considered the logic outlined by ATCO and APA and considers it has limitations. The benefits of different tariffs are likely to be quite limited, because if the NPV test was working effectively when the networks were growing, then those connection costs should have largely been recovered through network tariffs. Newly connecting customers would also know what they are required to pay when they connect.

Our draft determination does not therefore require different network tariffs to be developed for newly connecting customers as we do not consider that the benefits would outweigh the additional costs and complexity.

Our draft determination on this issue is consistent with the position taken by the ESCV, which, for similar reasons, decided not to require different tariffs as part of its revisions to the Gas Distribution Code of Practice.[62] It is also consistent with the feedback provided by both ENA and AusNet, who noted that such a requirement would be administratively burdensome.[63]

3.2 The connection charges criteria would be amended to specify in broad terms how retail connection charges are to be calculated

60 Draft National Gas Amendment (Updating the regulatory framework for gas connections) Rule 2025, r. 119M.

61 Submissions to the consultation paper: ATCO, p. 5; APA, p. 4.

62 ESCV Gas Distribution Code of Practice Review, p. 24.

63 Submissions to the consultation paper: ENA, p. 2; AusNet, p. 3.

Box 3: Draft determination - The connection charges criteria would be amended to specify in broad terms how retail customer connection charges are to be calculated by distributors

Our draft rule would amend the connection charges criteria in rule 119M to remove the NPV test and to specify in broad terms the criteria to be applied by distributors when calculating connection charges. These connection charge criteria would include the principles to be applied and the types of costs that can be included in connection charges.

The changes to the connection charge criteria are intended to provide distributors, connecting parties and the AER an appropriate level of guidance on how connection charges are to be calculated, while also providing sufficient flexibility in the arrangements to deal with different types of connections.

The Commission's draft rule would amend the existing connection charges criteria and would remove the NPV test. The new criteria would specify in broad terms:[64]

- The principles that would apply to the calculation of connection charges for retail customers, which require charges to:
  - be based on the directly attributable cost of providing the connection service
  - only include the costs that would be incurred by a prudent service provider acting efficiently and in accordance with accepted good industry practice to achieve the lowest sustainable cost of providing the connection service
  - be consistent with any relevant provisions in a distributor's access arrangement requiring the use of assumptions about the connection assets required and the costs of purchasing and installing the connection assets
- The types of directly attributable costs that distributors can include in the calculation of connection charges, which are:
  - the costs of purchasing and installing connection assets
  - the costs of any extension to, or augmentation of, the gas distribution network required to provide the connection service
  - incidental costs such as design, planning, and administrative costs
  - the net tax payable by the distributor as a result of the receipt of the connection charge.

The draft rule also makes clear that:

- The connection charges for model standing offers are not expected to be calculated on an individual basis, rather standardised connection charges are expected to be developed and on average are expected to satisfy the criteria above.[65]
- If the directly attributable costs that a distributor incurs in:
  - providing connection services under a model standing offer is less than the connection charge in the model standing offer, the distributor is not required to refund the difference.[66]
  - providing a connection service is higher than the connection charge received, the difference cannot be added to a scheme pipeline's capital base or total revenue calculation under rule 76 of the NGR.

64 Draft National Gas Amendment (Updating the regulatory framework for gas connections) Rule 2025, r. 119M.

65 Ibid.

66 Ibid.

- Any costs recovered through a connection charge are not to be added to the capital base of a scheme pipeline.[67]

Our draft determination is broadly consistent with the rule change request, although ECA suggested that a more prescriptive approach be taken in terms of the costs to be included in connection charges.[68] The Commission is concerned that a more prescriptive approach may be too inflexible, given that these charging criteria need to be capable of being applied to a range of different connection services (i.e. basic, standard, and negotiated services). We have decided to employ more of a principles-based approach in the draft rule. We consider this approach would provide distributors, connecting customers, and the with AER sufficient guidance on how connection charges are to be calculated, while also providing for sufficient flexibility in the arrangements to accommodate different types of connections.

The ECA also suggested that a narrower set of costs be included in the calculation of connection charges. The rule change request proposed that costs should be limited to those associated with purchasing and installing connection assets and any augmentation of the shared network that may be required to support the additional load.[69] Several stakeholders questioned whether augmentation costs should be included in the charges of all gas connections.[70] However, Jemena pointed out that distributors can incur other costs providing connection services, such as design, planning, and administrative costs, and will also be liable to pay tax on any upfront connection charges.[71]

The Commission considers it appropriate to allow for all the directly attributable costs associated with providing connection services to be recovered by distributors from the connecting party. This is consistent with the revenue and pricing principles and the intent for connecting parties to pay the full upfront cost of the connection on an upfront basis. Our approach would allow distributors to recover incidental costs, such as those identified by Jemena, and the net tax that distributors will be liable to pay.[72]

It would also include the costs of any extension to, or augmentation of, the gas distribution network that is required to provide the connection service. While most connections do not require extensions to, or augmentations of, the network, it is important to recognise that the connection charges criteria also apply to negotiated connections, such as new developments, which may require these types of capital works. The draft rule allows for this type of cost to be included in the connection charges, but only where it is directly attributable to the provision of the connection service.[73] If costs associated with augmentation and tax are not recovered from the connecting party there is a risk that they will be recovered from the customer base.

This approach is consistent with the existing connection charges criteria, which assumes that any augmentation required to accommodate a new connection is included in the connection cost calculation.[74] It will also ensure that cost-reflective price signals are provided to developers and other retail customers who require these types of works, and that other customers are not having to subsidise them. We note that a 'basic connection service' under Part 12A of the NGR involves "minimal or no extension to, or augmentation of, the distribution pipeline."[75] We would therefore

67 NGR, rr. 119N, 82.

68 ECA, Rule change request, p. 21.

69 ECA, Rule change request, p. 21.

70 Submissions to the consultation paper: EUAA, p. 7; AusNet, p. 6; APGA, p. 2; Jemena, p. 6; ENA, p. 2; AGIG, p. 8; SSROC, p. 1.

71 Jemena, submission to the consultation paper, p. 5.

72 This means that any upfront connection charges that distributors receive may be assessed as income by the ATO with income tax payable on the revenue received net of any tax deductions, such as depreciation (net tax liability); Jemena, submission to the consultation paper, p. 5.

73 Draft National Gas Amendment (Updating the regulatory framework for gas connections) Rule 2025, r. 119M(1)(b)(ii).

74 NGR, r. 119M(2)(b).

not expect extensions or augmentation costs to be included in the basic connection service model offer. See section 3.4 below for more detail on different connection services.

3.3 The updated connections framework would apply to retail customers connecting to scheme and non-scheme gas distribution networks that are already subject to Part 12A of the NGR

Box 4: Draft determination - the connection framework would continue to apply to those gas distribution networks that are already subject to Part 12A of the NGR

Our draft determination would mean the updated gas connections framework continues to only apply to retail customers connecting to the scheme and nominated non-scheme gas distribution networks that are subject to Part 12A of the NGR.

Our draft determination would not extend the gas connections framework to non-scheme pipelines that are not nominated under Part 12A. These pipelines are not currently required to determine connection charges based on the NPV test and can already charge cost-reflective connection charges.

This approach avoids the national gas connections framework conflicting with jurisdictional connection charge requirements in non-NECF jurisdictions and avoids other unintended consequences for relevant distributors.

Our draft determination would result in the updated connections framework continuing to apply to retail customers connecting to the scheme and nominated non-scheme gas distribution networks that are captured by Part 12A of the NGR. Maintaining this application is consistent with the original intent of the application of the retail customer connection framework in terms of both the jurisdictions, distribution networks, and customers that should be subject to the arrangements. It also aligns with the *principles of good regulatory practice* assessment criteria and would promote the NGO, because it would:

- avoid potential conflicts with the connection arrangements that have been, or may in the future, be implemented in jurisdictions that have not adopted the NERL and NERR (e.g. Victoria, Western Australia, the Northern Territory and Tasmania)
- minimise the risk of over-regulating both:
    - non-scheme distribution networks that are not currently required by the rules to apply the NPV test and should have a strong incentive to recover connection costs from connecting retail customers
    - the connection arrangements for non-retail customers, which are already dealt with in Part 6 of the NGR.

3.3.1 The updated connections framework would apply to gas distribution networks that are already captured by Part 12A of the NGR

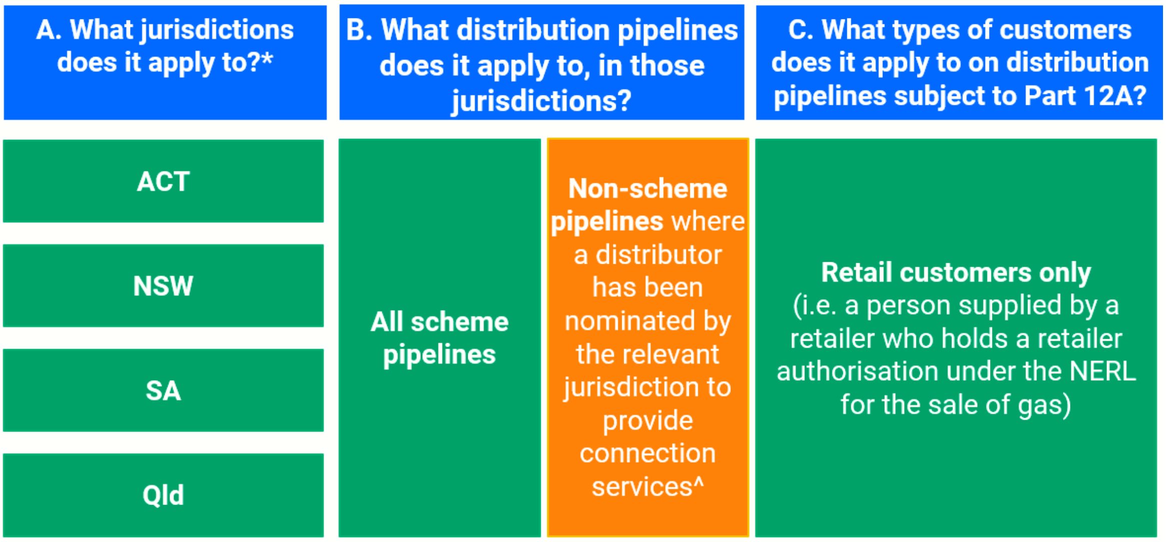
Part 12A of the NGR was implemented as part of the NECF to give effect to distributors' obligation to connect retail customers under the NERL.[76] This part of the NGR currently applies to a subset of gas distribution networks in those jurisdictions that have adopted NECF for gas. This part of the NGR currently only applies in the ACT, NSW, South Australia, and Queensland to scheme gas

75 NGR, r. 119A.

76 NERL, s. 66.

distribution networks and non-scheme gas distribution networks that have been nominated by the relevant jurisdiction. It does not apply to non-scheme pipelines that have not been nominated by a jurisdiction, or to gas distribution networks that have not adopted the NECF for gas. The current application of this part of the NGR is shown in Figure 3.2.

Figure 3.2: Current application of Part 12A of the NGR



Notes:

*These jurisdictions are subject to NERL/NERR for gas and associated connection arrangements. The distribution networks in Tasmania, Victoria, the NT and WA are subject to jurisdiction-specific connection arrangements for gas.

^ At the time the NERL/NERR were introduced in Qld, the two distribution networks servicing Brisbane and Gold Coast were scheme pipelines. However, the regulatory status of these two pipelines subsequently changed and they are now non-scheme pipelines. While it would be open to the Qld Gvt to nominate these two pipelines to be subject to Part 12A, it does not appear to have done so.

Section 8A of the NGL empowers jurisdictions, through local regulation, to apply Part 12A to non-scheme distribution networks. The application of Part 12A to the nominated distributor can be subject to modifications specified in the local regulation. Queensland appears to have done this with these two non-scheme distribution networks, with the requirement to submit a model standing offer to the AER for approval removed for these two networks.

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Source: AEMC

Our draft determination differs from ECA's proposal that the gas connection framework should apply to all scheme and non-scheme pipelines across Australia.[77]

The stakeholders who commented on this aspect of the rule change request provided mixed views. For example:

- Rewiring Australia, the Institute for Energy Economics and Financial Analysis (IEEFA) and AGL supported the application of an updated connection charge framework to both scheme and non-scheme pipelines.[78]
- The EUAA, ENA, AGIG, APA, ATCO, APGA and Jemena on the other hand, supported application to scheme pipelines only, with a number stating that non-scheme pipelines should not be regulated because they lack market power.[79] AGIG also stated that the connection charging

77 ECA, Rule change request, p. 17.

78 Submissions to the consultation paper: Rewiring Australia, p. 2; IEEFA, p. 6; AGL, p. 2; ECA, p. 4.

79 Submissions to the consultation paper: EUAA, p. 7; ENA, p. 2; APA, p. 3; ATCO, p. 4; APGA, p. 2; Jemena, p. 4.

problem had only arisen on pipelines subject to Part 12A because the rules in this part of the NGR departed from "normal competitive market practices."[80]

- ENA supported extending the application of the new gas connection charge framework to jurisdictions that sit outside the NERR and NERL for gas to achieve consistency across the NGR.[81]

The Commission's draft rule maintains the current jurisdictional and pipeline application for Part 12A of the NGR. We consider that this approach preserves the original intent of the application of the retail customer connection framework in terms of the jurisdictions and distribution networks that should be subject to this framework.

We have maintained the limit of the regulation of non-scheme pipelines to those nominated by jurisdictions. This approach is consistent with the premise of non-scheme regulation, which is that non-scheme pipelines will typically have a lower degree of market power and so are not subject to the same level of economic regulation as scheme pipelines. It also recognises that these networks, which are not subject to the NPV test, should have a strong incentive to recover connection costs directly from connecting parties, as they do not have the ability to socialise connection costs across existing users.

There are over 37 non-scheme distribution networks across Australia.[82] Extending the application of the connection framework to these gas distribution networks would result in the imposition of significant and unnecessary costs and obligations on these networks. This is because even if they are not currently applying the NPV test, if they were to become subject to Part 12A of the NGR, they would need to comply with all the obligations in this part of the NGR, including developing model standing offers. Our draft rule does not therefore provide for the extension of Part 12A to all non-scheme gas distribution networks or to non-NECF jurisdictions.

For the avoidance of doubt, the draft rule would not apply to transmission pipelines.

3.3.2 The updated connections framework would continue to apply to retail gas customers only

Our determination provides for the continued application of the gas connections framework to retail customers only. This differs from ECA's proposal to develop a complementary framework for non-retail customers.[83]

Few stakeholders provided feedback on ECA's proposal to extend connection charge requirements to non-retail customers. Rewiring Australia and AusNet supported ECA's proposal, while Jemena, APGA, APA and AGIG did not.[84] Jemena stated that their limited cohort of non-retail gas customers tends to be large, self-contracting gas users who "have the commercial capability and negotiating power to reach appropriate commercial arrangements without prescriptive regulatory intervention."[85]Jemena also stated that ECA's proposed Part 12B for non-retail gas customers "raises concerns about potential duplication or confusion with the existing Part 12A."[86] AGIG stated that it already charges non-retail gas customers for connections upfront because their connection costs are "often very high."[87]

80 AGIG, submission to the consultation paper, p. 12.
81 ENA, submission to the consultation paper, p. 2.
82 AEMC Pipeline Register.
83 ECA, Rule change request, p. 17.
84 Submissions to the consultation paper: Rewiring Australia, p. 2; AusNet, p. 2, Jemena, p. 4; APGA, p. 2; APA, p. 2; AGIG, p. 12.
85 Jemena, submission to the consultation paper, p. 4.
86 Jemena, submission to the consultation paper, p. 4.
87 AGIG, submission to the consultation paper, p. 12.

The Commission considers it unnecessary to extend the connection arrangements to non-retail customers, because there is an existing connection framework for such customers seeking to connect their facilities to pipelines in Part 6 of the NGR. This part of the NGR provides for upfront cost-reflective connection fees in a similar manner to our draft determination.[88]

3.4 Distributors would be required to develop a standardised connection charge for a basic service, consistent with the existing approach in NGR Part 12A

Box 5: Draft determination - The draft rule would maintain the current NGR requirements for connection services

The draft rule would maintain the current NGR requirements under Part 12A, Division 2 of the NGR for connection services, including basic, standard and negotiated connection services.

This means that a distributor:

- must have a model standing offer to provide a basic connection service that is submitted to the AER for approval
- may have a model standing offer for a standard connection service other than basic that is submitted to the AER for approval
- may directly negotiate charges for connection services that are not basic or standard connection services, or a basic or standard service that the applicant elects to negotiate.

The Commission considers that this approach affords distributors the flexibility to provide cost-reflective charges for connection services of varying complexity.

The Commission's draft determination is to retain the existing NGR requirement for distributors to develop a model standing offer for a basic connection service.[89] This would require distributors to provide a basic connection service that aligns with the conditions that the distributor has determined for that offer, at a price that is either specified in the model standing offer, or calculated in accordance with the model standing offer approved by the AER.

Our draft determination also retains the ability for distributors to develop one or more model standing offers for standard connection services and for other types of connections to be negotiated.[90] We consider that the current framework provides distributors sufficient and appropriate flexibility to charge upfront, cost-reflective charges for retail customer gas connection services of varying complexity. Figure 3.3 below shows the existing framework for connection services.

88 NGR, r. 38.

89 A basic connection service is defined in the NGR as involving no, or minimal augmentation to or extension of the distribution pipeline; NGR, r. 119A.

90 A model standing offer is a document approved by the AER that details a distributor's offer to provide connection services of a particular class, on specified terms, and if particular conditions are satisfied. Part 12A, Division 2 of the NGR prescribes the minimum terms required, and the factors the AER must have regard to in deciding whether to approve a distributor's model standing offer.

Figure 3.3: Gas connection services in the NERL/NERR and NGL/NGR

NERL distributor connection requirements in NECF gas jurisdictions (s. 66)	A distributor must provide customer connection services for the premises of a retail customer: • who requests those services; and • whose premises are connected, or who is seeking to have those premises connected, to the distributor's system. The connection service must be provided in accordance with a customer connection contract (under Part 12A of the NGR).			
NGR Part 12A requirements		A connection service can take one of 3 forms		
	Connection services	**Basic connection service** A connection service that involves **minimal or no extension to, or augmentation of the pipeline** and for which the AER has approved a model standing offer.	**Standard connection service** A connection service (other than a basic connection service) for a particular class of connection applicant and for which the AER has approved a model standing offer.	**Negotiated connection service** A connection service that is neither a basic nor a standard connection service, or is a basic or standard service that the applicant elects to negotiate.
	Model offer – negotiation requirements	Distributors **must have a basic connection services model standing offer** approved by the AER. A model offer **may relate to all basic connection services, or a particular class of basic connection services.**	Distributors **may develop a standard connection service model standing offer**, which must be approved by the AER. Model offers may provide for different T&Cs for **different classes of services** or **different classes of retail customers.**	Distributors and applicants **may negotiate** a connection contract in accordance with the negotiation framework in the rules. Distributors must provide the applicant a range of information including a connection charge estimate and statement on how they have been calculated.
	Connection charges	Connection charges in model offers or proposed by distributors for negotiated connection services must be consistent with the **connection charges criteria.**		
	AER approval requirements	The AER may approve model offers if, amongst other things, it is satisfied: • the T&Cs are fair and reasonable and comply with applicable energy laws • the connection charges are consistent with the connection charges criteria. NB: AER **does not** have the approval role for QLD nominated distributors.		n.a.

The draft determination differs from the ECA's proposal that distributors should be required to individually determine charges for newly connecting gas customers under an updated regulatory framework.[91] Several network businesses and ENA suggested that ECA's proposal to require all connection charges to be individually costed would generate a significant administrative burden.[92] Jemena also stated that it considered the proposal would be "of negligible value to customers."[93]

The Commission's draft rule would not require distributors to provide individually negotiated connection charges for customers who meet the conditions for a basic connection service, or any standard connection service where there is an approved model standing offer.[94] Distributors would be required to individually calculate connection charges for negotiated connection services. Negotiated connection services are more likely to include augmentation and planning costs (see section 3.2 for more information on the connection charges criteria) and are more complex.

We consider that it would be administratively burdensome if distributors were required to determine individual costs for each connection. Distributors should have the flexibility to charge standardised connection costs for different connection services, where the parameters are standardised and unlikely to have material variation. This approach aligns with the approach recently adopted by the ESCV following its review of the Gas Distribution Code of Practice.[95] We note may be some additional resourcing requirements from the AER to review the model standing offers as we anticipate that distributors would update their model standing offers more frequently.

The retention of the existing approach will provide simplicity and transparency for newly connecting gas consumers by ensuring distributors provide publicly available, predictable gas connection costs for common and less complex connection services. The draft rule would also

91 ECA, Rule change request, p. 17.

92 Submissions to the consultation paper: Jemena, p. 6; ENA, p. 3; AGIG, p. 8.

93 Jemena, submission to the consultation paper, p. 6.

94 This is reflected in draft rule 119M(2), which recognises that a standardised connection charge in a model standing offer is expected to satisfy the connection charge criteria on average.

95 ESCV Gas Distribution Code of Practice review: Final decision, p. 25.

retain distributors' flexibility to submit a model standing offer for standard connection services other than basic, and to negotiate full upfront connection charges where appropriate.[96]

The Commission notes that no distributors currently have a model standing offer for standard connection services. However, we consider that maintaining this option ensures distributors have the flexibility to efficiently charge full upfront costs of connection across a range of gas connection services, and it should not be removed.

3.5 The AER would be required to publish all model standing offer decisions

Box 6: Draft determination - The draft rule would require the AER to publish all model standing offer decisions, and also amends the matters the AER must consider in forming its decision

The draft rule would require the AER to publish all decisions made under Part 12A, Division 2 of the NGR.

The draft rule also amends the matters that the AER must consider in forming these decisions on model standing offers.

The Commission considers that these new obligations would promote predictability and regulatory consistency for stakeholders by providing greater transparency around the AER's decision.

3.5.1 The draft rule would require the AER to publish its decisions on whether or not to approve distributors' model standing offers

Our draft rule would require the AER to publish any decisions it makes on whether or not to approve distributors' model standing offers on its website. This would include the reason for the decision and, where it has approved the model standing offer, notice of its decision.[97]

Part 12A of the NGR does not currently require the AER to publish its decisions on whether or not to approve distributors' model standing offers. This is inconsistent with other parts of the NGR, which require AER decisions to be published. For example, the AER must publish decisions on ring-fencing and associated contract provisions, and access arrangements under the NGR.[98] We note that distributors are already required by the rules to publish model standing offers on their websites to ensure customers are aware of the price and non-price terms and conditions associated with basic retail connection services and any other model standing offers.[99] This new obligation is only intended therefore to provide for greater transparency around the AER's decision-making.

We consider that this new obligation would be consistent with the principles of good regulatory practice assessment criterion and would promote the NGO, because it would facilitate predictability and regulatory consistency and provide distributors, retail customers, and other interested parties greater transparency around the AER's decisions.

96 NGR, r. 119E and 119I.

97 Draft National Gas Amendment (Updating the regulatory framework for gas connections) Rule 2025, Part 12A, rr. 119D(5), 119F(5), 119G(7).

98 NGR, Parts 5, 8.

99 NGR, r. 119H.

3.5.2 The draft rule would amend the matters the AER must have regard to when deciding whether to approve model standing offers

Our draft rule also includes two amendments to rules that set out the matters the AER must consider when approving a model standing offers for basic connection services.[100]

The first amendment is to a rule that currently requires the AER to be satisfied that the basic connection service is likely to be sought by a *significant number of retail customers.*[101] We consider that, in a context of declining residential and small commercial gas demand, it can no longer be presumed that a *significant* number of retail customers will seek connection services. We have therefore amended this in the draft rule to require the AER to be satisfied that the basic connection service is likely to be sought by a *reasonable* number of retail customers.[102]

The second amendment is to a rule that currently requires the AER to have regard to *the basis on which the distributor has provided the [connection] service in the past*.[103] We consider that this requirement is no longer appropriate as distributors may provide fundamentally different gas connection services under the new framework.

We consider these two amendments to be consistent with the principles of good regulatory practice criteria because they will ensure the framework remains fit for purpose in the context of both declining residential and small commercial gas demand and the new arrangements.

3.6 We recommend that the AER consider whether updates to any guidelines are required

The Commission recommends that the AER consider whether any guidelines should be updated and whether a guidance note would be beneficial to help support distributors' transition to the new connection charge arrangements.

The Commission notes that the NER requires the AER to develop and publish connection charge guidelines for electricity distribution service providers.[104] We do not consider it necessary for the NGR to mandate that the AER develop and publish a similar guideline for gas connections, as the connection charge provisions in the NER are more complex than the equivalent NGR provisions. However, the AER may wish to consider this or an alternative. An AER guidance note would support the implementation of the new gas connection charge framework and, in so doing, promote predictability, stability, simplicity and transparency of the new framework.

We note the AEMC's *Gas Networks in Transition* project will consider further amendments to the economic regulatory framework for gas, and may require updates to guidelines or the development of guidance notes.

3.7 Transitional arrangements would provide for implementation of the rule by 1 July 2026

100 Draft National Gas Amendment (Updating the regulatory framework for gas connections) Rule 2025, Part 12A, r. 119D.

101 NGR r. 119D(1)(a).

102 Draft National Gas Amendment (Updating the regulatory framework for gas connections) Rule 2025, Part 12A, r. 119D(1)(a).

103 Draft National Gas Amendment (Updating the regulatory framework for gas connections) Rule 2025, Part 12A, r. 119D(2)(b).

104 NER, Cl. 5A.E.3(a).

Box 7: Draft determination - the connection charge framework would come into effect on 1 July 2026 with transitional arrangements to support this

Our draft rule would take effect from 1 July 2026.

Our draft rule includes transitional provisions that would mean that gas connection applications made in advance of 1 July 2026, and where the connecting customer has not entered into a connection agreement with a distributor, are to remain subject to the existing connection charge framework under Part 12A of the NGR. Any gas connection applications made after 1 July 2026 would be subject to the new framework.

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 be required to submit additional materials to the AER in support of the amending rule.

It would also require AGN SA, Evoenergy and Jemena to submit amended or substituted relevant model standing offers for approval by the AER no later than 1 April 2026. These model standing offers would be required to be in line with the rule that commences on 1 July 2026. The AER would be required to make its assessment based on the new rule. The draft rule would also require AGN Queensland to amend or substitute each of its model standing offers for the two nominated non-scheme distribution networks in Queensland to take into account the amended rules by no later than 1 July 2026.

This would mean the amended connection charges criteria can be given effect by distributors as soon as possible.

The Commission's draft rule would apply the new connection charge arrangements from 1 July 2026. The draft rule includes transitional provisions that clarify when the new arrangements would apply, and would require the AER and distributors to base updated model standing offers and access arrangement reviews that are underway on the updated rule.

The Commission notes that AGN SA and Evoenergy's revised access arrangements are due to be submitted to the AER in response to the AER's draft decisions in January 2026. Our draft rule includes transitional arrangements, which would require implementation of the new gas connection charge framework in AGN SA and Evoenergy's access arrangement proposal as a final decision would not have been made by the AER at the time the final rule (if made) commences.[105] This may require AGN SA and Evoenergy to submit changes to their access arrangements. We consider that the planned timing of our final rule on 11 December 2025 would enable AGN SA and Evoenergy to include the required additions or amendments in their revised access arrangements.

The draft rule also includes transitional provisions that would require:

- AGN SA, Evoenergy and Jemena to submit a proposal to the AER for the amendment or substitution of their model standing offers to take into account the amended rules by no later than 1 April 2026.[106] . The AER would be required to take into account the amended rules for any decisions made between the final determination date (11 December 2025) and the commencement date of the rule (1 July 2026).[107]
- AGN Queensland to amend or substitute each of its model standing offers to take into account the amended rules by no later than 1 July 2026.[108] Note that in contrast to AGN SA, Evoenergy and Jemena, AGN Queensland is not required to have the model standing offers for its two

105 Draft National Gas Amendment (Updating the regulatory framework for gas connections) Rule 2025, Schedule 1, Part 21, Division 2.

106 Draft National Gas Amendment (Updating the regulatory framework for gas connections) Rule 2025, Schedule 1, Part 21, Division 2.

107 Draft National Gas Amendment (Updating the regulatory framework for gas connections) Rule 2025, Schedule 1, Part 21, r. 118.

108 Draft National Gas Amendment (Updating the regulatory framework for gas connections) Rule 2025, Schedule 1, Part 21, Division 2.

nominated non-scheme distribution networks in Queensland (Maryborough-Hervey Bay distribution network and Bundaberg distribution network) approved by the AER, because it is subject to a modification to the NGR made under Queensland legislation.[109]

The Commission also notes that Jemena's access arrangement was approved in May 2025 for a five-year period. We have not included transitional arrangements to require the re-opening of the access arrangement, because we consider Rule 65 of the NGR provides sufficient flexibility to allow Jemena to seek a variation to its access arrangement if it is required.[110] The capital expenditure provisions in Part 9 of the NGR would also allow the AER to make any adjustments to the capital base that may be required to remove connection-related capital expenditure at the commencement of the next access arrangement review.[111] This is consistent with the approach taken in relation to the ESCV's new connection arrangements, which did not result in the re-opening of the Victorian gas distribution networks' access arrangements.[112]

109 National Energy Retail Law (Queensland) Regulation 2014, s. 8.

110 NGR, r. 65.

111 NGR, r. 77 and 79.

112 ESCV Gas Distribution Code of Practice Review, p. 25.

A Rule making process

A standard rule change request includes the following stages:

- a proponent submits a rule change request
- the Commission initiates the rule change process by publishing a consultation paper and seeking stakeholder feedback
- stakeholders lodge submissions on the consultation paper and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a draft determination and draft rule (if relevant)
- stakeholders lodge submissions on the draft determination and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a final determination and final rule (if relevant).

You can find more information on the rule change process on our website.[113]

A.1 The ECA proposed a rule to charge customers upfront for a new gas connection

ECA proposed introducing, in the NGR, an obligation on gas distributors to charge new customers the full cost of a new gas connection through an upfront connection fee. The proposal was for this obligation to apply to all gas distributors in Australia and to all customer types.

A.2 The proposal addressed ECA's concern that the current gas connections framework is not fit for purpose in the context of a declining customer base

ECA considers that the current frameworks for gas connection charges is no longer fit for purpose.

The NGR contains a framework for determining how gas distributors charge for new gas connections. Currently, if the NPV of expected revenue from a new connecting customer is higher than the capital expenditure associated with the new connection, the cost of a new connection is socialised among all gas distribution network customers. This means most customers face no upfront cost to establish a new gas connection. ECA considers that the current approach is resulting in inequitable cost-sharing as it contributes to increasing costs for remaining gas customers in the context of a declining customer base and is not reflective of the direction of broader energy reform.

ECA summarises issues with the current framework as follows:

- Connection rules provide inefficient price signals for new connections: Retail customers who are considering connecting to gas distribution networks do not currently face efficient price signals - by not having to pay the full cost of their new connection through upfront fees.
- New gas connection assets are increasingly at risk of becoming stranded if demand declines as projected: The proponent considers that new capital expenditure (capex) added to the RAB now faces a material risk of being stranded before the end of its technical life in a context of declining residential and commercial gas demand. This exposes existing and future customers to increased price risk.

113 See our website for more information on the rule change process: https://www.aemc.gov.au/our-work/changing-energy-rules

A.3 It proposed to do so by requiring gas customers to pay the full upfront costs of connection

To address the issues outlined above, ECA has proposed that the AEMC amend the rules to require distributors to charge customers the full cost of a new gas connection through an upfront connection fee. ECA submits that charging customers the full upfront cost for new gas connections is consistent with a beneficiary-causer pays principle. It also claims that this approach would ensure existing customers are not exposed to the stranded asset risk of decisions made by other customers in a context of declining demand.

ECA proposes that changes to the connection arrangements apply to:

- gas distribution networks across all jurisdictions
- both scheme pipelines and non-scheme pipelines, and
- connections involving both retail customers and non-retail customers.

A.4 The process to date

On 12 June 2025, the Commission published a notice advising of the initiation of the rule making process and consultation in respect of the rule change request.[114] A consultation paper identifying specific issues for consultation was also published. Submissions closed on 10 July 2025. The Commission received 27 submissions as part of the first round of consultation. The Commission considered all issues raised by stakeholders in submissions. Issues raised in submissions are discussed and responded to throughout this draft rule determination.

114 This notice was published under section 303 of the NGL and section 251 of the NERL.

B Legal requirements to make a rule

This appendix sets out the relevant legal requirements under the NGL and NERL for the Commission to make a draft rule determination.

B.1 Draft rule determination and draft rule

In accordance with section 308 of the NGL and 256 of the NERL, the Commission has made this draft rule determination to make a more preferable draft gas rule and to make no retail rule, in relation to the rule proposed by ECA.

The Commission's reasons for making this draft rule determination are set out in chapter 2.

A copy of the more preferable draft rule is attached to and published with this draft determination. Its key features are described in chapter 3.

B.2 Power to make the rule

The Commission is satisfied that the more preferable draft gas rule falls within the subject matter about which the Commission may make rules.

The more preferable draft rule falls within section 74 of the NGL as it relates to regulating:

- the provision of pipeline services
- the activities of Registered participants, users, end users and other persons in a regulated gas market
- the connection of premises of retail customers
- charges for the connection of premises of retail customers.[115]

Under section 296 of the NGL, the Commission may make a rule that is different (including materially different) to a proposed rule (a more preferable rule) if it is satisfied that, having regard to the issue or issues raised in the rule change request, the more preferable rule will or is likely to better contribute to the achievement of the NGO. The Commission is satisfied that the more preferable draft rule would or is likely to, better contribute to the achievement of the NGO than the proposed rule. The Commission's reasons are set out in chapter 2.

B.3 Commission's considerations

In assessing the rule change request, the Commission considered:

- its powers under the NGL to make the draft rule
- the rule change request
- submissions received during the first round consultation
- the Commission's analysis as to the ways in which the draft rule will or is likely to contribute to the achievement of the NGO
- the application of the draft rule to Western Australia
- the revenue and pricing principles set out in section 24 of the NGL.

115 NGL Schedule 2 item 44.

There is no relevant Ministerial Council on Energy (MCE) statement of policy principles for this rule change request.[116]

B.4 Making gas rules in Western Australia

Under the *National Gas Access (WA) Act 2009* (WA Gas Act), a modified version of the NGL was adopted, known as the National Gas Access (Western Australia) Law (WA Gas Law). Under the WA Gas Law, the NGR applying in Western Australia is version 1 of the NGR, as amended by rules made by the South Australian Minister for Energy[117] and rules made by the AEMC in accordance with its rule-making powers under section 74 and 313 of the WA Gas Law.[118]

The draft rule amends Part 12A of the NGR which does not apply in the Western Australian version of the NGR.

Accordingly, the draft rule will not apply in Western Australia.

B.5 Civil penalty provisions and conduct provisions

The Commission cannot create new civil penalty provisions or conduct provisions. However, it may recommend to energy ministers that new or existing provisions of the NGR be classified as civil penalty provisions or conduct provisions.

The more preferable draft rule does not amend any provisions that are currently classified as civil penalty provisions or conduct provisions under the National Gas (South Australia) Regulations.

The Commission does not propose to recommend to energy ministers that any of the amendments made by the more preferable draft rule be classified as civil penalty provisions or conduct provisions.

116 Under s. 73 of the NGL, the AEMC must have regard to any relevant MCE statement of policy principles in making a rule. The MCE is referenced in the AEMC's governing legislation and is a legally enduring body comprising the Federal, State and Territory Ministers responsible for energy.

117 The Statutes Amendment (National Energy Laws) (Binding Rate of Return Instrument) Act 2018 and the National Gas (South Australia (Pipelines Access—Arbitration) Amendment Act 2017.

118 See our website for further information at https://www.aemc.gov.au/regulation/energy-rules/national-gas-rules/western-australia.

Abbreviations and defined terms

Add or delete as appropriate.

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AEC	Australian Energy Council
AER	Australian Energy Regulator
AGIG	Australian Gas Infrastructure Group
AGN (SA)	Australian Gas Networks (South Australia)
Commission	See AEMC
Distributors	Gas distribution network operators
ECA	Energy Consumers Australia
ENA	Energy Networks Australia
ESCV	Essential Services Commission Victoria
GSOO	Gas Statement of Opportunities
IEEFA	Institute for Energy Economics and Financial Analysis
JEC	The Justice and Equity Centre
MCE	Ministerial Council on Energy
NERL	National Energy Retail Law
NERO	National Energy Retail Objective
NERR	National Energy Retail Rules
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
NPV	Net present value
Proponent	The proponent of the rule change request - Energy Consumers Australia
RAB	Regulatory asset base
SSROC	Southern Sydney Regional Organisation of Councils