AEMC
Australian Energy Market Commission

INFORMATION

# Gas networks in transition

## We are seeking feedback on four rule change requests relating to the economic regulatory framework for gas distribution networks

We are seeking feedback on four rule change requests from Energy Consumers Australia (ECA) and the Justice and Equity Centre (JEC) relating to the economic regulatory framework for gas distribution networks. ECA and JEC have submitted rule changes seeking to amend the National Gas Rules (NGR) to ensure that the economic regulatory framework that applies to gas distribution networks supports the long-term interests of consumers in the context of the energy transition.

This consultation paper is the first stage of the rule change process. We are seeking stakeholder submissions to the consultation paper by **30 October 2025**.

## Gas distribution networks are facing an uncertain outlook under the energy transition

The energy sector in Australia is experiencing a period of profound change. All Australian governments have committed to a net zero emissions target by 2050 (or earlier). A key part of achieving this target is the need to manage the emissions produced from the combustion of natural gas by reducing our use of natural gas, either through electrification or substituting natural gas with renewable gases.

As the energy transition progresses, an increasing number of residential and small commercial gas users are expected to electrify, replacing gas appliances with electric ones. In some jurisdictions, government policies are driving the electrification trend. In other jurisdictions, consumers are leading the electrification trend as they seek to maximise the value of their consumer energy resources, such as rooftop solar and batteries. This outlook is driving projections by the Australian Energy Market Operator (AEMO) and gas distributors, indicating a significant decline in gas demand in the residential and small commercial customer segment into the future.

Projected changes in future gas demand are likely to impact both the volume of gas used by consumers and, potentially, the number of connections to the gas network. While there appears to be general consensus that the volume of gas demand in the residential and small commercial customer segment will decline, based on AEMO and gas distributors' own forecasts, there is a significant degree of uncertainty surrounding both the rate and extent to which it will decline. In part, this is due to differences in jurisdictional decarbonisation policies. But it also reflects differences in consumer preferences and a recognition that some consumers will find it difficult to electrify. Some gas distributors also envisage a future in which their gas networks are repurposed to supply renewable gases.

## The regulatory framework must be flexible and capable of adapting to an uncertain future.

The increasingly complex and uncertain gas transition poses the question of whether the gas regulatory framework set out in the NGR continues to be fit for purpose to manage gas networks in transition. By 'fit for purpose' we mean: is the current regulatory framework, which is predicated on the assumption of growing gas demand, flexible enough to support the long-term interest of consumers throughout the transition, or are changes needed?

It is in this context that ECA and JEC have submitted rule change requests to address issues with particular elements of the regulatory framework in relation to gas distribution networks. We note that the current NGR framework regulates scheme and non-scheme

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pipelines and does not specifically distinguish between transmission and distribution networks.

The changes proposed by ECA and JEC would predominantly affect scheme pipelines (i.e. gas networks subject to the economic regulatory framework in the NGR). However, we note that some of the proposed changes would also affect non-scheme pipelines.

## We are proposing to consolidate the rule change proposals and consider related issues as part of this rule change process

We are jointly consulting on the ECA and JEC rule change requests due to the interrelated nature of the issues raised and the solutions proposed. We consider that the breadth of issues and potential solutions means there is value in taking a holistic approach.

The economic regulatory framework for gas pipelines in the NGR comprises various interrelated elements that operate as a package to promote the national gas objective (NGO). Therefore, we are jointly consulting on the ECA and JEC rule change requests. We are also seeking stakeholder feedback on interrelated aspects of the NGR economic regulatory framework.

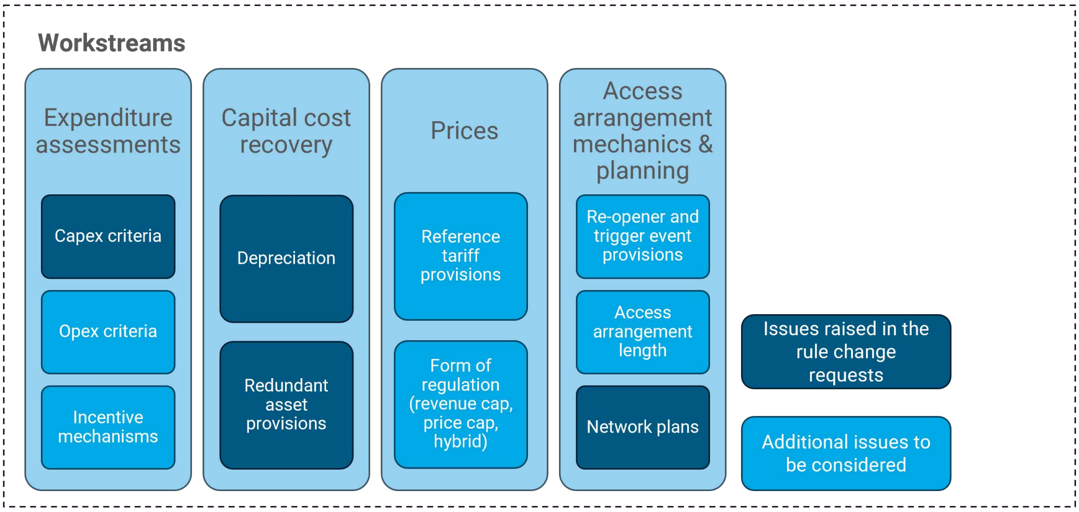
The rule change requests considered in our consultation paper are:

- **Capital expenditure criteria (GRC0083).** ECA propose changes to the criteria used by scheme pipelines that are gas distribution networks to propose, and the regulator to determine, whether capital expenditure is justifiable. ECA consider that the current criteria do not adequately account for uncertain demand outlooks and could result in investment in new assets that subsequently risk becoming underutilised.
- **Depreciation (GRC0082).** ECA propose changes to the depreciation criteria to impose stronger conditions on when scheme pipelines that are gas distribution networks can propose, and the regulator can approve, the accelerated recovery of the capital base. ECA consider that the current use of accelerated depreciation shifts all risk and costs for assets at risk of becoming increasingly underutilised to gas consumers, while imposing no costs or risks to gas distributors.
- **Accelerated depreciation and redundancy (GRC0088).** JEC propose changes to prohibit the use of accelerated depreciation to manage capital cost recovery for assets at risk of becoming increasingly underutilised unless the regulator has undertaken a redundancy assessment. On this basis, service providers and the regulator can only use accelerated depreciation if the asset meets the proposed definition of a redundant asset, or anticipated redundant asset, and the regulator has determined how the redundant asset costs should be shared between users and a gas distributor. JEC has proposed this as an alternative to ECA's proposal to amend the depreciation criteria.
- **Planning requirements (GRC0084).** ECA propose changes to impose new planning and reporting obligations on all gas distribution networks. ECA consider that stakeholders currently have limited information to understand the opportunities to minimise expenditure and energy system costs, including through the strategic decommissioning of (parts of the) gas distribution networks.

To explore the need for change to interrelated elements of the economic regulatory framework, we are asking the following questions:

- ***Would a longer-term outlook support better decisions?*** We are interested in understanding whether a long-term outlook period for demand and expenditure forecasts would improve regulatory decision-making.
- ***Are additional regulatory tools needed to manage demand risk?*** We are interested in understanding whether the regulatory tools available to manage demand risk are appropriate.
- ***Are additional regulatory tools needed to manage unforeseen events or material changes?*** We are interested in understanding whether existing access arrangement variation mechanisms to manage these risks remain appropriate.
- ***Are the existing incentives appropriate to support the transition?*** We are interested in understanding whether changes to the existing or additional incentives are required for gas distributors to maintain service levels in the context of uncertain gas demand.

The figure below illustrates the issues that we are seeking feedback on:




## The National Gas Objective will guide our decision-making

Our objective is to ensure that, as a whole, the regulatory framework remains fit for purpose through the energy transition and continues to support the long-term interests of energy users. The national gas objective will guide our decision-making process.

We propose to assess the solutions proposed by ECA and JEC in their rule change request/s and any alternative solutions to address the issues resulting from declining gas demand against the following six assessment criteria:

- **Outcomes for consumers**. Would the solution protect small customers from unnecessary cost burdens, including vulnerable and 'hard to electrify' consumers that remain on the gas network? Importantly, we will consider whether a solution is consistent with our work on equity for energy consumers. An energy system that supports equitable outcomes across households regardless of their energy choices will empower households to choose if, how, and when to participate in energy markets.
- **Safety, security and reliability**. Would the solution preserve incentives on service providers to efficiently invest in their assets to provide a safe, secure, and reliable gas service in the context of a projected decline in gas demand and increasing uncertainty as to the prospect of recovering efficient costs?
- **Emissions reduction**. Would the solution support emissions reduction?
- **Principles of market efficiency.** How would different solutions to address cost recovery risk balance incentives on service providers to invest efficiently in their networks and potentially plan for strategic decommissioning? We will assess how different solutions would result in an efficient allocation of risks and costs to appropriate parties: whether a solution would provide for service providers to continue to invest efficiently in their networks or whether a solution would inefficiently bring forward the closure of pipeline assets.
- **Implementation considerations.** The changes to the gas economic regulatory framework could profoundly change how scheme pipelines are regulated. We will need to consider the appropriateness of the regulatory framework during different stages of the energy transition. We will also consider how our reforms interact with other energy transition-related reforms and, importantly, how they interact with specific jurisdictional policies and gas transition pathways. We will also ask what would be the impacts of a solution on investment in the industry more broadly, including in the electricity market?
- **Principles of good regulatory practice**. We will assess how the solution contributes to a predictable and stable regulatory framework and how it aligns with the broader direction of gas market reform. Importantly, we will consider if a solution provides the regulator with sufficient flexibility to adapt its approach accordingly as the energy transition progresses.

## Submissions are due by 30 October 2025

Written submissions responding to this consultation paper must be submitted to the AEMC by **30 October 2025** via AEMC website, https://www.aemc.gov.au/. Please use the project code **GRC0082** when lodging a submission.

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