

Updating the regulatory framework for gas connections

Draft determination

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About the Justice and Equity Centre

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

The Centre tackles injustice and inequality through:

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

Energy and Water Justice

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

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

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Recommendations

Recommendation 1

That the AEMC consider how changes resulting from its Final Determination on this rule change interact with other concurrent rule change processes and ensure these processes are informed by a consistent intent to create a fit for purpose gas regulatory framework.

Recommendation 2

That gas connection services should be limited to basic connection services and actual cost connection services – both set according to mandatory guidelines as to what costs must be included - to offer greater clarity on when service costs should be levied on an ‘actual’ basis.

1. Introduction

The Justice and Equity Centre (JEC) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) draft determination on updating the regulatory framework for gas connections. This rule is an important step in ensuring the regulatory framework for gas networks is fit for purpose.

Australian governments have established emissions reduction commitments and targets. All credible evidence and advice indicates achievement of these targets requires the rapid retreat and electrification of residential reticulated gas use. This is not currently capable of being efficiently accommodated within the existing regulatory framework, which is predicated on 'perpetual' networks with growing demand. The result is inefficient gas network decision-making, slower action on emissions reduction and consumers paying more than is necessary or fair.

Current practice sees the costs of new gas connections effectively 'socialised' among all gas users. This practice is predicated on efficiency assumptions which depend on growth. This exacerbates cost increases for existing consumers, more so as demand declines and disconnections increase. This 'socialisation' is also a unique characteristic of gas network regulation, as parties seeking new electricity and water connections are broadly required to carry the reflective costs resulting from installing and connecting new assets. This difference results in an inefficient incentive for new connections to the gas distribution network.

Customer connection costs also often represent the largest single component of a gas distribution network's capital expenditure. This means that more fairly recovering connection-related costs from the causer¹ of those costs is a significant opportunity to reduce costs for the wider consumer base over the long term.

We advocate for and anticipate that jurisdictions in Australia will phase out new residential gas connections over the coming years. However, we consider that a shift to fairer cost-reflective recovery for connections costs is justified regardless of the expected future for gas networks, as it contributes to efficient decision making and ensures the relative cost-benefit of new gas connections is clearly and accurately signalled.

In this context, we broadly support the draft determination and note that the concept of upfront cost-reflective connection charges received broad support from stakeholders. We consider that the draft rule provides for improved outcomes for gas consumers, but provide comment regarding further improvements for the costing of connection services. This submission outlines the benefits of the draft rule as well as areas for further consideration.

2. The draft rule improves on the current framework

We consider the principles of the preferable rule align with the original rule change proposal. As noted in previous submissions, we consider the gas rules should:

¹ See table at the end of this document for an outline of how a beneficiary/causer-pays principle should be applied to gas network costs.

- Enable the most efficient decisions regarding gas networks, including efficiently enabling retreat;
- Support the equitable recovery of costs through the transition of gas networks required to enable the most rapid, efficient decarbonisation;
- Promote the long-term interests of energy consumers;
- Ensure consumers facing barriers to electrify are not required to carry additional costs associated with connection decisions of others; and
- Enable consumers to make informed and efficient decisions on connecting, using and disconnecting from the gas network.

In light of these principles, we reiterate that the key benefits of this rule change include:

- Ensuring potential connecting entities are provided with upfront information to make efficient decisions about whether to connect to the gas network. This signal of the full cost of gas connections in turn encourages consumers to choose more efficient, electric alternatives or be fully aware of the relative costs of not doing so.
- Ensuring connection costs are determined, regulated and transparently signalled on a consistent and efficient basis.
- Protecting existing gas consumers from exposure to the cost of new connection decisions made by others. This is important to help mitigate long-lasting increases in gas network costs for existing consumers, which is particularly beneficial to those facing barriers to electrification or other disadvantage.
- Mitigating future asset stranding risks, as the rule change adds guardrails to help prevent inefficient network growth and the associated growth in the regulated asset base.
- As a secondary effect, disincentivising new connections which undermine efficient emissions reduction and lower energy costs for consumers, as efficient electric appliances are much more cost-effective (and lower emissions) over their lifetime than gas appliances.²

This rule change is an important positive step as part of the suite of rule changes through which the AEMC can facilitate reform to the gas regulatory framework with the intent of ensuring it is fit for purpose.

We recommend the AEMC carefully consider how the changes resulting from this rule change interact with concurrent gas network rule change reviews. Collectively these rule changes have a great potential to create improved outcomes for consumers if considered with an integrated and consistently principled approach.

² Institute for Energy Economics and Financial Analysis, 2024, [Appliance standards are key to driving the transition to efficient electric homes](#), p 5.

Recommendation 1

That the AEMC consider how changes resulting from its Final Determination on this rule change interact with other concurrent rule change processes and ensure these processes are informed by a consistent intent to create a fit for purpose gas regulatory framework.

2.1 The timeline for implementation

We commend the AEMC for setting an implementation timeline that gives rapid effect to the rule change. Implementing the rule change by July 2026 will provide a well overdue end to the inequitable cost sharing of new connections. The final rule could consider making provisions for a process for networks to voluntarily commence implementation of full-cost recovery connections in advance of this date should they be able to.

The AEMC should also consider requiring advance communications to clearly signal the changes to consumers and connecting entities, including requiring clear guidance and communication to consumers about the long-term risks and costs of connecting to the gas network.

2.2 Newly connected customers should not pay different tariffs

We strongly support the AEMC's conclusion that newly connecting customers not be required to pay different tariffs.

While we agree with the reasoning that tariff variation would be costly and complex to implement, we also highlight the complexity and unfairness that arises when this logic is applied to existing customers. As the reasoning for creating separate network tariffs for new and existing customers relies on new customers who paid upfront connections not paying for existing customers' connections, the same argument could apply to customers who have been connected for a long period of time.³ Lower ongoing charges may also dampen the price signal effect that supports consumers to make informed decisions about the efficiency of new gas connections.

3. Getting guidance on connection charges right

The largest deviation between the ECA's original proposal and the AEMC's preferable draft rule change appears to be the approach to setting the cost of connection charges. The AEMC has determined to:

- Retain the model standing offer and negotiation framework, rather than individually costed charges as proposed by Energy Consumers Australia (ECA); and
- Reduce prescription in the rules around the specific costs that can be included in the connection charges than what was proposed by ECA.

We acknowledge the intent behind the AEMC's preferable rule change is providing transparency and simplicity for newly connecting gas consumers. It is important for prospective new consumers to be able to easily discover a cost estimate for new connections, especially given there is

³ Essential Services Commission, 2024, [Gas Distribution System Code of Practice review: Final decision](#), p 24.

currently no transparency over the true cost of connections. Given this uncertainty, we consider it may be overly simplistic to assign an efficient average cost rather than individually calculated costs. In essence, averaging could still mask price signals for connection services which have extra costs not accounted for in a distributor's offer conditions.

The AEMC proposes maintaining the existing NGR categorisation of connection charges, where a distribution service provider could develop one or more model standing offers. It notes that this aligns with the approach recently adopted by the Essential Services Commission Victoria. There are limitations in comparing to Victoria given the Victorian Government has prohibited new gas connections for most new dwellings. Specifying the option for multiple classes of charges could allow for some flexibility in theory, however evidence from Victoria shows that distribution service providers only adopt one standard connection service type.⁴ If this approach is retained, a more forceful requirement will be necessary to ensure it is delivered.

Customers should be able to get an estimate of the cost of establishing a new connection without facing significant barriers. Where new connections are established for a single dwelling, we support the use of a model standing offers as per the conditions proposed by the AEMC. However, we do consider that more prescriptive guidelines regarding what costs must be included in the formulation of that offer is required.

We note that most new connections are for new residential developments of subdivisions which have sufficient scale to require individually calculated costs for connection services, with regulation regarding the full suite of costs which must be included. The issue of administrative burden is negated if a connection cost is determined for several dwellings within a subdivision at once. Economies of scale mean that charging a standard offer per dwelling to provide connections to a multi-dwelling subdivision would not be cost-reflective. In this case, the rule change intention of cost-reflective connection charges is better achieved if actual costs were calculated for that connection.

For these key reasons, the option to develop standard model offer connection services should be removed, leaving options for basic connection services and actual cost connection services, with both being subject to mandatory guidelines governing what costs must be included. In this case gas distribution service providers would maintain the option to develop model offers for basic connection services, but anything more complex should be based on actual costs. There is no need to offer flexibility if it is unlikely to be utilised. We based this assessment on our assumption that removing the option for standard connection services:

- Creates a greater likelihood of connection services being truly cost-reflective;
- Gives greater clarity of when a model standing offer should apply and when services should be based on actual costs;
- Is a more consistent approach to model standing offers, offering greater regulatory simplicity;

⁴ See Australian Gas Networks, [Service Connection Request \(SCR\)](#); Multinet Gas Networks, [Service Connection Request \(SCR\)](#); Tas Gas Networks, [Gas Networks Victoria](#).

- Maintains transparency for the costs of connections which are simple to facilitate;
- Still achieves less administrative burden compared to ECA's original proposal if this is determined to be preferable

Recommendation 2

That gas connection services should be limited to basic connection services and actual cost connection services – both set according to mandatory guidelines as to what costs must be included - to offer greater clarity on when service costs should be levied on an 'actual' basis.

The AEMC has appropriately balanced the needs for prescription and flexibility in the cost inclusions to calculate connection charges. A principled-based approach could be appropriate given the diversity in connection services. The principles and types of costs that the AEMC has suggested are broadly sound, though we do consider there is value in having mandatory guidelines to ensure that these principles are reflected in guidelines regarding the suite of costs which must be included in standard and actual connection costs.

Asset / Service / Cost item	Beneficiary / Causer (proponent)	Who should pay	Who should carry risk of under-recovery
Cost of dedicated new connection	The consumer connecting	The consumer connecting	N/A – cost should be recovered up front
Cost of shared new pipes for developments	Developer (proponent) and future consumers (beneficiary)	Developer	N/A – cost should be recovered up front
Cost of shared new pipes for network expansion	Gas network business shareholders (proponents) and future consumers of that portion of network (beneficiaries)	Future customers of that portion of network (limited to the fair and efficient cost to serve them)	Shareholders
Cost of augmenting existing network for renewable gases.	Shareholders (proponent) Consumers remaining on the gas network approaching 2040/50 (as beneficiaries of longer use of the network asset than they would in absence of renewable gas)	All consumers (limited to the fair and efficient cost to serve them) and shareholders	Shareholders
Opex for existing network	All consumers	All consumers (limited to the fair and efficient cost to serve them)	Shareholders
Opex for future expanded network	Future consumers of that portion of network	Future customers of that portion of network	Shareholders
Recovery of existing RAB (and capital cost of maintaining existing network)	A mix of (1) all consumers (beneficiaries); (2) shareholders (proponents of historical expansion and beneficiaries through investment returns); and (3) state government (as proponent and seller of privatising gas networks and as proxy for society as beneficiary)	All consumers (limited to the fair and efficient cost required to serve them)	Shareholders and Government

Cost of permanently disconnecting dedicated assets (abolishment)	The customer disconnecting	Preferably government, otherwise the customer disconnecting	Government
Remediation costs of shared assets	N/A	Shareholders and/or Government	Government
Write-down of RAB (or other measure to shift transition cost from consumers)	All consumers Shareholders (when Government pays down portion of RAB not recoverable from consumers)	Shareholders and/or Government	N/A – realised risk
Lost future shareholder profit	N/A	Shareholders	N/A – realised risk

4. Continued engagement

We welcome the opportunity to meet with the AEMC project team and other stakeholders to discuss these issues in more depth. Please contact Kira van Os (kvanos@jec.org.au) regarding any further inquiries.