

30 October 2025



EnergyAustralia

LIGHT THE WAY

Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Lodged electronically: www.aemc.gov.au (GRC0082)

Dear Commissioners

EnergyAustralia Pty Ltd
ABN 99 086 014 968

Level 19
Two Melbourne Quarter
697 Collins Street
Docklands Victoria 3008

Phone +61 3 9060 0000
Facsimile +61 3 9060 0006

enq@energyaustralia.com.au
energyaustralia.com.au

**Gas networks in transition — consultation paper —
18 September 2025**

EnergyAustralia is one of Australia's largest energy companies with around 2.2 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

EnergyAustralia is pleased the Commission has commenced this review and applauds Energy Consumers Australia (ECA) and the Justice Equity Centre (JEC) for lodging their rule change proposals.

The AER and regulated gas networks have muddled through so-called 'death spiral' type price and asset stranding issues in recent determinations. Jurisdictional policies that impact this have been fragmented but are evolving in line with legislated commitments to reduce economy-wide emissions to net zero. This necessarily requires electrification of heating, appliances, and most commercial and industrial applications that currently use gas. Various policy targets now form part of the national energy law objectives, alongside the Value of Emissions Reduction, which are intended to influence the decisions of regulated entities, the AEMC and the AER. It is therefore opportune to review the National Gas Rules (NGR) with respect to stranding risk. Rule amendments alone are unlikely to address this issue and we urge the Commission to explore and make clear recommendations to policymakers for change in other areas where necessary.

The Commission has usefully reviewed regulation in other countries and sectors to provide guidance on how to deal with this issue. The role of government is a common theme. Another other aspect of interest is knowing the extent of the problem, with Ofgem quantifying at least £4 to £5 billion of stranding for the UK's gas distribution networks by 2050.¹ Regulated gas networks in Australia have presented various scenario analyses to the AER, suggesting that customer prices can be maintained at stable levels with their proposals for accelerated depreciation. See example chart below from AGN.² We expect the materiality of long-term price impacts and risk exposure differs across each network. We would, however, have concerns if network businesses were understating customer

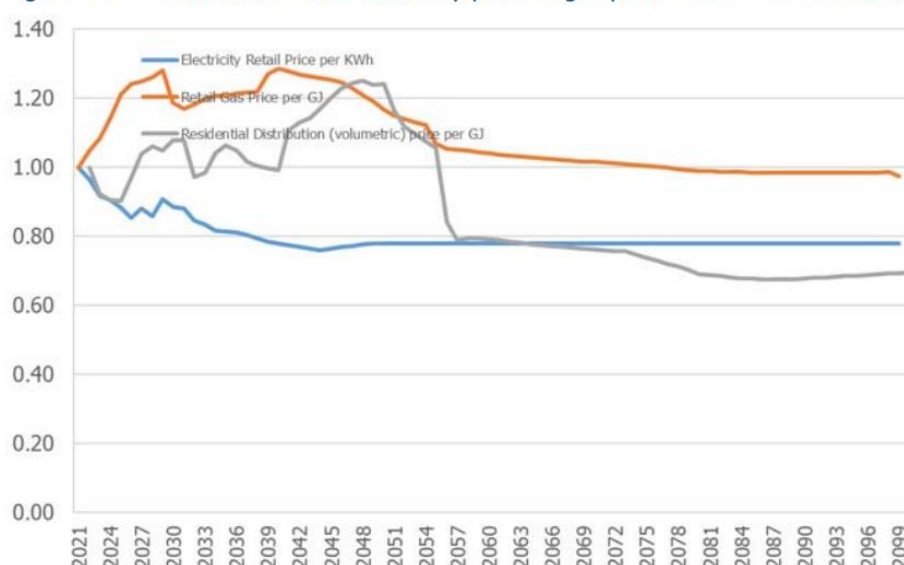
¹ AEMC, *Gas networks in transition - Consultation paper*, 18 September 2025, p. 49.

² AGN (Victoria & Albury) - Attachment 6.1 - Future of Gas - Our approach to accelerated depreciation - July 2022.pdf

impacts, and this delayed comprehensive resolution of these issues. The Commission must assess if and how pricing pressures can be feasibility alleviated through less intrusive and prospective measures, or whether there is a need to go further to address the effects of historic spending. The second chart below reflects analysis prepared for the ECA³ which suggests that Jemena's situation (as an example) is unlikely to be resolved without more fundamental interventions.

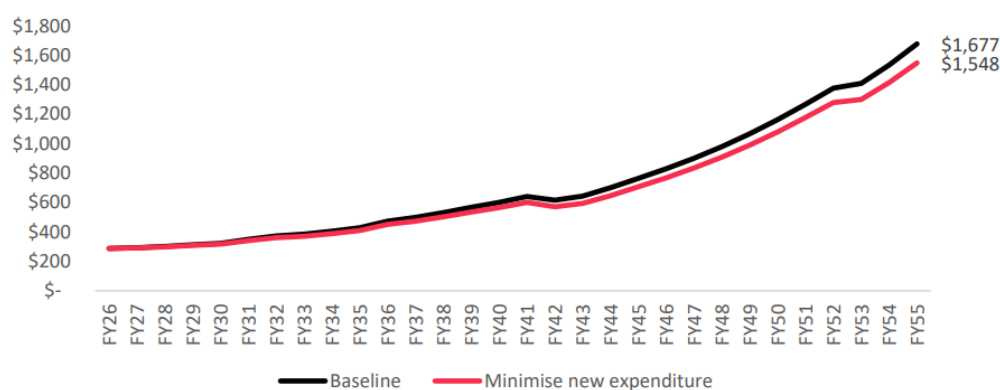
The Commission should be careful in presenting the quantum and timing of cost pressures faced by customers, in order to elicit more considered and comprehensive policy responses from governments. As might be inferred from the charts below, it is more useful to present this information in ways that customers and other stakeholders can relate to e.g. bill impacts for different customer types. Communicating the underlying assumptions in these types of analyses and their impact on results is also critical.

Figure 17: Residential retail electricity price vs gas price index – with accelerated depreciation



Source: AGN.

Figure 1 – Projected gas network bill for a typical small customer (\$, real 2025)



Source: Dynamic Analysis for ECA.

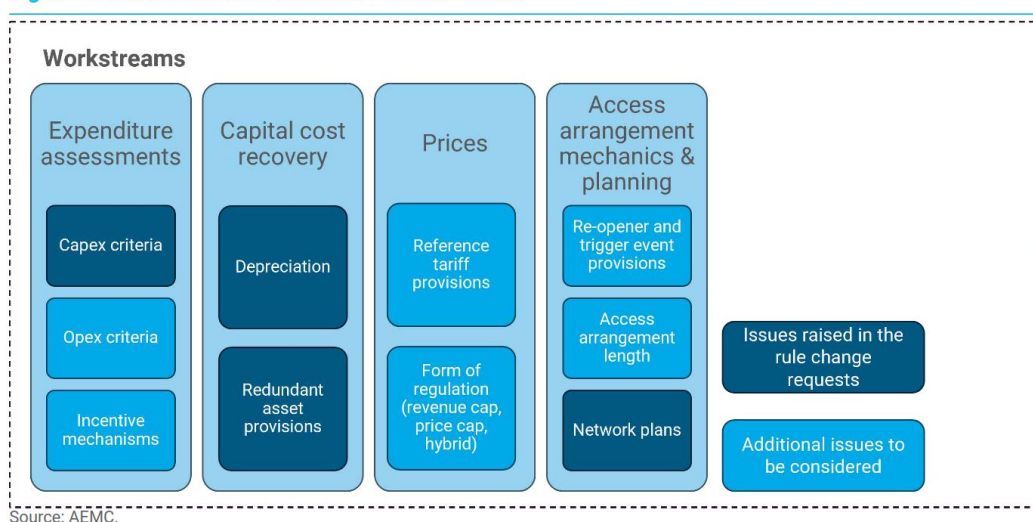
³ New rule change proposal - Energy Consumers Australia - Gas distribution networks - Creating additional criteria for the applica (1).pdf p. 17. Turning down the gas: Reducing consumer risk | Energy Consumers Australia

The ECA and JEC proposals covered in the Commission’s consultation paper target key areas that affecting cost recovery of network investments, namely:

- demand forecasts, to the extent demand drives new investment in long-lived assets
- depreciation
- planning arrangements, including the ability to identify and strategically decommission sections of gas networks where these are redundant.

We support the Commission taking on a broader set of issues. Its schematic below highlights that much of the regulatory framework contributes to, or can help address, stranding risk.

Figure 1: Gas networks in transition - workstreams



Our views on the Commission’s potential workstreams are:

- **customer protections** — there is a fundamental need to ensure customers are made aware of material price changes and are assisted in avoiding impacts to affordability. Customers that are slow to electrify, or cannot electrify, will be disadvantaged. The role of and obligations on retailers as well as network businesses need to be considered in this. Governments may need to provide targeted assistance in addition to overarching policy guidance.
- **expenditure criteria** — the ECA has proposed several amendments that could result in avoiding inefficient expenditure, notably requirements that allow spending on the basis of increasing demand and developing the market for pipeline services. Another amendment of interest is the requirement on the network service provider to explore lower cost options with the relevant regulator for compliance-related spending.⁴ The Commission should focus on the effect of safety regulations, as this has been a driver for significant asset renewal expenditure for some networks.

⁴ ECA Capex criteria (1).pdf page 20.

There is scope for government agencies to collaborate on the impact of safety and reliability drivers of expenditure.

- the Commission should explore how the NGR require networks and the AER to have regard to the specific wording in safety legislation, and how these are interpreted. These requirements can be characterised as non-discretionary, with references to threats to life and public safety as a consequence. In other cases, projects are driven by a combination of safety and demand drivers, which while opportunistic, may complicate the AER's assessment of potentially avoidable investment.
 - it may not be possible for safety regulators to explicitly comment on cost and risk trade-offs, or how they would enforce discretionary elements in legislation. Safety regulators may also be conservative or legally constrained in their functions, and push for higher cost outcomes if consulted. In 2022, Energy Safe Victoria was requested to comment on different methods relating to gas disconnections, at the time suggesting that permanent abolishment, rather than cheaper temporary solutions, was required to meet safety obligations.⁵
- **network plans** — we generally support the ECA's proposals in this area. Contrasting to the electricity rules, and while noting gas infrastructure and operations have important differences, planning appears to be a broad area where the NGR are lacking. We have seen a push to better integrate gas and electricity sectoral planning by having the Integrated System identify strategic gas infrastructure.⁶ Gas network businesses also refer to ISP demand forecasts however there is scope to formalise this. There is scope for the NGR to recognise the different transitional pathways and planning requirements for transmission versus distribution pipelines, given the likely need to continue servicing a small group of transmission-connected customers for much longer (e.g. those relying on gas as a chemical feedstock, and gas-fired generation), making 'death spiral' issues more acute.
- **emissions reduction** — we understand networks are undertaking various activities to reduce scope one emissions, however asset stranding comes from mitigating all emissions sources. The Commission should explore how gas networks are (or could be) applying the Value of Emissions Reduction to different emissions sources, as well as complying with the Targets Statement.
- **forms of price control** — regulation via price cap type arrangements incentivised networks to implement cost reflective pricing to manage risk associated with uncertain and declining demand. In practice, our belief is that price caps create perverse incentives and opportunities for regulated entities to understate volume growth at the time access determinations are made, following which networks can then rebalance prices to revenue maximise, rather than align prices to underlying costs. Control mechanisms that link revenues to out-turn volumes also encourage networks to promote additional gas consumption.
- **incentive mechanisms** — following from the above we expect that gas networks face strong disincentives to curb gas usage and allow customers to disconnect. The Commission's paper also highlights the need for incentives to encourage efficient

⁵ Energy Safe Victoria Letterhead template

⁶ AEMO | 2025 Gas Infrastructure Options Report Consultation

decommissioning prior to end of life. There may be scope to reward or compensate gas networks for efforts that encourage these activities and in promoting gas switching. Similarly there should be penalties or prohibition of network activities that encourage customers to renew their gas appliances or increase their gas consumption. As suggested by the ECA, the Commission should consider whether the NGR needs to specifically treat marketing and other activities around renewable gas. The issues raised above around safety requirements suggests these should be subject to appropriate incentives or at least detailed monitoring if network owners are to be generally discouraged from spending on asset renewal.

- **Trade-offs between capex and opex** — we support the ECA’s proposed amendment to rule 79(2)(c)(v) that encourages non-capex solutions where this is more efficient, particularly where this provides real option value in the face of demand uncertainty. The Commission would also be aware of analyses exploring the extent to which networks face uneven incentives across expenditure types.⁷ There are many reasons why incentives are not balanced in reality, with a risk of inefficiencies if capex is preferred. Network businesses argue that erring in favour of investment is a desirable feature of the regulatory framework, since underinvestment can result in worse consequences for consumers than overinvestment. There is opportunity to test whether networks (and the AER) have a genuine grasp of asset condition and risk tolerances in order to minimise the extent of erring when setting expenditure allowances.
- **Depreciation** — in addition to accelerated depreciation, the Commission should explore how depreciation schedules are prepared by network businesses, and policed by the AER. We consider that modelling depreciation on the basis of asset classes is susceptible to gaming, and also gives a false sense of precision and comfort that assets are only depreciated once. In exploring expenditure bias e.g. via a ‘totex’ arrangement, the Commission should explore the use of a uniform time period relating to ‘slow money’ rather than detailed depreciation schedules that have multiple (and in our view, arbitrarily defined) asset classes.
- **Valuation of the regulatory asset base** — a large portion of ‘sunk’ asset values are prescribed in the NGR (via reference to the earlier Gas Code) and should be within the scope of the Commission’s analysis. This might also be explored in reviewing the application of rule 85 and JEC’s proposal for redundancy guidelines. Whether or not reconsideration of sunk asset values is necessary can be informed by independent quantitative assessment of the materiality of ‘death spiral’ type outcomes. Asset revaluation is a complex topic, and we expect stakeholders to take different views on whether network businesses should enjoy complete immunity from the effects of policy commitments or associated technology change.
 - This topic may require a reconsideration of core regulatory principles including emulating the conditions or outcomes of workably competitive markets. As the rule change proponents and others have noted, the pricing principles in the energy laws only provide a ‘reasonable opportunity’ for regulated networks to recover efficient costs, not a guarantee under any circumstances.

⁷ CEPA Report - Expenditure Incentives Reforming the economic regulation of Australian electricity networks May24

- There may be merits in exploring the suggestion from Dr Ron Ben David of sharing of burden of asset write downs between networks and customers, including electricity customers.⁸
- Proposals from the ECA and JEC regarding the application of accelerated depreciation and redundancy provisions involve also network investors bearing some “fair” share of risk and ultimately financial loss compared to the status quo.
- Any strategic decommissioning of sections of gas networks would presumably give rise to visible equity issues and become politicised if adjacent customers we expected to pay for these assets without any benefit i.e. were merely and explicitly compensating networks’ equity holders.
- **cost of capital and systematic risk** — the Commission’s paper notes that most regulators agree that the cost of capital should not compensate asset owners for stranding risk as this is non-systematic in nature. Network businesses have also argued that revaluation of assets in a regulatory setting would need to be accompanied by increasing the regulated WACC (by up to 260 basis points in an extreme case).⁹ There could be means to mitigate risk perception of asset write downs, in combination with accelerated depreciation and other compensatory adjustments. The Commission’s case study of a WACC uplift in Chorus’s telecommunications network (i.e. of 10 basis points) seems relevant in this regard.¹⁰ Like Ofgem, the Commission should approach credit rating agencies and others involved in pricing financing costs in relation to long term policy and regulatory settings. Ofgem’s expansion of beta comparators is also of interest¹¹, particularly if this was done with the effect or intention of increasing the WACC.
- **Form of control mechanism** — as an extension of ideas around strategic decommissioning, there may be large portions of gas networks where all customers face viable electrification alternatives, and could be subjected to separate lighter handed regulation and pricing arrangements i.e. without the need to base prices on asset values, depreciation etc. The Commission highlights that the NGL allows service providers to voluntarily opt into heavy handed regulation as a scheme pipeline, without any assessment of whether this is appropriate, which seems anomalous.

The Commission’s work on gas asset stranding and mitigants may be applicable to electricity network service providers as well. For example, electricity networks could also be compelled to engage with safety and other regulators to seek cheaper alternatives before approaching the AER. Addressing any expenditure bias, and improvements to depreciation schedules and incentives should also apply for all network types.

We agree with the Commission’s proposal to explore these rule changes under an extended timeframe. We see opportunities for the Commission to host public forums and use other engagement channels whereby the views and roles of jurisdictional governments and other public agencies can be openly discussed.

⁸ [Ron-Ben-David-The-500lb-gorilla-of-the-gas-transition-May-2025.pdf](#)

⁹ [written-down value august 2014.pdf](#)

¹⁰ AEMC, p. 55.

¹¹ AEMC, p. 51.

On some of the specific questions posed by the Commission on the ECA and JEC proposals that are not addressed above:

- **The value of longer-term outlooks** — gas networks and the AER appear to be squarely engaged on pricing pressures arising from recovery of asset costs, including via longer term modelling and assessment of accelerated depreciation under different demand scenarios. Some of the benefits listed by the Commission of prescribing longer term outlooks appear to be captured by the ECA's proposal on preparing and publishing network plans e.g. options and pathways involving decommissioning. There may be value in prescribing minimum requirements around scenarios and demand forecasting, for example consistent with those in the ISP or the AER's related cost-benefit analysis guidelines.
- **Tools for managing demand risk and unforeseen events** — we note that the recent Victorian access arrangement process was impacted by announcements of the Victorian Government, spurring some providers to resubmit information to the AER late in the process. There may be a need for the NGR to provide specific reopeners or powers for the AER to intervene to accommodate new and material policy announcements. It is not clear to us that other 'underlying' demand factors would materially change over the space of several years, such that the length of access arrangement periods should be reconsidered. Proposals to align reset timings for electricity and gas networks have been considered previously. We understand that the current 'staggered' set of timings helps avoid administrative bottlenecks for the AER, as well as several regulated businesses. While there may be benefits in jointly determining aspects of electricity and gas demand if resets were aligned, the transitional costs of moving access arrangements into a new set of timings would also be material.

We look forward to engaging with the Commission on these topics in the coming months. If you would like to discuss this submission, please contact me on 03 9060 0612 or Lawrence.irlam@energyaustralia.com.au.

Regards

Lawrence Irlam

Group Manager Regulatory Policy