

Natural Gas Rule Amendments 2026 (Gas Networks in Transition) (GRC0082)

30 October 2025

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our members are the engine room of the Australian economy, producing many of the products that households and business use every day including bricks, glass, steel, aluminium, paper, food and beverages. Combined, our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

EUAA members are focussed on making products that meet their own customers' requirements where energy is just one input to the process albeit a critical one. Their expectation is that the energy industry continues to provide energy services that are fit for purpose and consistent with the NEO/NGO so that our members can continue to provide a fit for purpose product for their customers.

We welcome the opportunity to provide this submission on ECA/JEC proposed rule changes applying the regulation of gas distribution networks.

Introduction and Summary

As the Consultation Paper discusses, the gas market, like the wider energy market, is experiencing a period of profound change. While gas demand from commercial, residential and industrial sectors is forecast to continue to decline, demand for power generation is forecast to increase, particularly from the early 2030s. This decreasing residential and commercial demand is putting upward pressure on distribution network tariffs as there is less consumption to spread the high fixed costs over. This increase may increase the incentive to leave the network as a 'death spiral' develops. While the Paper notes (p. ii):

“Unless governments and businesses develop transition plans, households and small commercial customers that choose not to, or are unable to, electrify will bear a greater portion of costs to meet changes in gas usage. The disparity in how small consumers engage with the energy market creates the risk of growing inequities that must be carefully managed to avoid undermining confidence in the energy market.”

we argue that these inequities also extend very much to large gas C&I gas consumers who are in 'hard to abate' sectors that are, currently at least, technically or commercially unable to electrify.

We agree with the way the Commission has presented the issues facing gas networks and their consumers. Network assets were built on a regulatory framework designed to support increased gas consumption to improve asset utilisation and put downward pressure on tariffs. Under the so-called 'regulatory compact', network owners believed that framework gives them the right to recover, from consumers, return on and of the prudent and efficient capex and opex approved by the AER for the economic life of the assets. Based on this AER approval, consumers implicitly promised to pay that return on and of capital. However, consumers are now changing their

minds due to a combination of personal decisions and responding to Government policies designed to reduce gas consumption.

While some may support re-purposing of the gas network for renewable gases like hydrogen and biomethane, we do not see evidence that they will be available in sufficient economic quantities to 'rescue' the gas distribution network. This is why we believe that the current gas regulatory framework, developed in the context of expanding gas demand, may not be completely 'fit for purpose' for a gas future of declining consumption for distribution network connected customers. The Commission's recent draft decision implementing full cost connection charges for residential customers is an important first step to ensure the framework is able to adapt to the changing market. But much more needs to be done so we support the Commission's decision to consolidate the ECA and JEC rule changes into the one comprehensive process.

While we agree that falling demand (connections and consumption) on the distribution network will impact on the transmission network, the size of that impact is unclear given the forecast increase in gas consumption for power generation that is connected to the transmission network. So our comments focus on the distribution network.

We also note that the varying jurisdictional approaches to gas connections and consumption e.g. ACT/Victoria vs South Australia with NSW somewhere in the middle, make it difficult to develop a common regulatory approach across the country. Given the aim is to develop a long term fit for purpose policy, our responses assume that sometime in the short to medium term that jurisdictional policies will align with at least discouraging increased consumption and supporting electrification.

We appreciate the longer than standard rule change process for this project. The submission presents our preliminary views and we look forward to reading other stakeholder submissions to help inform our views as the consultation proceeds. In a number of areas we have indicated where additional information from the proponents would assist in our evaluation of their proposals.

Finally, we look forward to the Commission giving their view on what is possible within the existing rules and what requires a rule change. This would assist consumer advocates in how they respond to the proposed rule changes.

Response to questions

Question 1: What are the issues impacting consumers and gas distributors under the energy transition

The major issue impacting EUAA members is outside of the scope of this review – the availability and commodity price of gas given:

- the rundown in Longford production and the Victorian Government's restrictions on exploration and development to replace it
- the need to expand north-south (non-scheme) pipeline capacity to enable greater supply from Queensland, and
- the possibility of LNG imports, which we oppose

Our members in 'hard to abate' industries are also very aware of their stranded asset risk which is why we have historically supported greater up front accelerated depreciation on the basis of intergenerational equity.

Question 2: What changes, if any, should be made to the NGR capital expenditure criteria?

The ECA's rule change provided a number of examples from the Victorian gas distribution networks Access Arrangements for 2023-28 and Jemena for 2025-30 to support their proposed changes¹. We were involved in detailed engagement on both resets. We can see consumer benefit in networks being required to base capex on forecast demand and providing rigorous cost benefit analysis for their expenditure. We can also support the exclusion of any capex associated with increasing demand or supporting a network's transition to renewable gas (as AGN South Australia has proposed in its 2026-31 Access Arrangement²).

As for additional changes to the capex criteria, our experience in those resets was that the AER applied its usual detailed rigor to assessing the prudence and efficiency of proposed capex. We look forward to reading the AER's submission to see if they share the ECA's concerns and see the need for more prescription in the rules they apply.

One concern we do have with the ECA's proposal is that it may lead to an inefficient opex/capex trade-off. Consider the following situation – the AEMC approves the requirement for detailed long term forecasts and these show a significant decline in demand in say 10-20 years' time. This may mean the networks are less likely to propose capex solutions where that capex has an asset life significantly longer than 20 years as they consider that capex may not be approved. As a result they propose considerably increased opex as a 'short term, band aid' measure. Opex flows immediately to the bottom line resulting in tariffs higher than they would have been with capex and the opex solution is a potentially inefficient method of accelerated depreciation. But that increased opex may not meet the opex criteria and be rejected by the AER resulting in the network having insufficient funds to ensure long term safe and reliable network operation.

The AER may then have two options – make it clear the circumstances under which it will approve shorter asset lives to support an efficient capex/opex trade-off and/or change the opex criteria to allow increased opex which may not be the most efficient outcome for consumers. We look forward to the rule change proponents explain which they prefer and why.

Question 3: Are any changes required for operating expenditure?

Consistent with our view on capex, we support changing the definition of operating expenditure to exclude costs associated with increasing long term gas demand (rule 69) or supporting a network's transition to renewable gas as AGN is proposing in its 2026-31 AA³.

It is unclear from the ECA proposal how the AER will be able to make an efficient opex/capex trade-off if capex is very hard to justify or risky for the network that is not sure about getting full recovery proposes a lot more opex instead of capex. We look forward to reading the AER's submission to see if they share the ECA's concerns on this matter and what changes they would recommend to given them additional powers.

Question 4: Does the current framework effectively manage and allocate risk and costs between consumers and network service providers in the context of uncertain demand?

Question 5: How does the ECA's proposal impact the recovery of capital costs for new and existing assets?

¹ See pp 15-17 <https://www.aemc.gov.au/sites/default/files/2025-10/ECA%20Capex%20criteria%20%281%29.pdf>

² See Chapter 9 <https://www.aer.gov.au/documents/agn-sa-2026-2031-final-plan>

³ See Chapter 8 <https://www.aer.gov.au/documents/agn-sa-2026-2031-final-plan>

Our answer to Question 4 is no. There are three stakeholders that can bear stranded asset risk – consumers, networks and Governments (taxpayers). The assumption in the rule changes from both ECA and JEC is that consumers should bear that risk only in very defined circumstances. In the absence of any knowledge of what role Government’s will play⁴, networks are to be the bearer. This seems to apply to both past ‘sunk’ costs and future costs with no distinction made on whether capital cost recovery should be different in each. The legal basis is their interpretation of ‘reasonable opportunity’ to recover return of and on capex in the rules.

In our submission supporting full cost connection charges, we explored the ‘regulatory compact’ concept and argued capital cost recovery should be different in each. Given the Draft Determination to support full cost connection charges, we would propose three periods:

- (i) ‘Sunk’ or historical capex spent up to some recent date e.g. the end of the Access Arrangement (AA) period ending after around 2020 when the likelihood of future stranded assets became widely recognised, and
- (ii) Future replacement capex to sustain existing connections made in the ‘sunk’ capex period
- (iii) Future augmentation capex for new customers and then replacement capex to support those new customers

We think it is reasonable for networks to recover return on and return of both categories of ‘sunk’ capex over approved asset lives (including decommissioning costs). They made the investment allowed by the AER on the basis of the generally accepted interpretation of rule 89 which sets out the depreciation criteria through which service providers can recover their RAB. Network owners built and maintained the approved capex providing pipeline services to customers. Customers connected over time expecting to be able to safely, reliably and efficiently source their gas through the network for as long as they remained connected. The current gas rules incentivised networks to seek new customers to replace those leaving and to increase asset utilisation to reduce costs for everyone.

Implicitly, both the network owners and consumers accepted that there were market and regulatory risks of building and connecting to a long-life asset in a price cap regulatory framework. We see these risks as part and parcel of the existing regulatory compact that meant consumers paid for approved capex and opex. When gas networks sought a higher WACC to reflect their potential stranded asset risk, they were given the same equity beta as electricity networks reflecting perceived similar systematic risks. The AER concluded in the most recent RORI review⁵:

“We maintain the view that asset stranding risks faced by gas networks should be addressed through the broader regulatory framework (for example, accelerated depreciation).”

So asset stranding risk is not already compensated for in the WACC. Given these rule changes are seeking to limit or even stop the ability of the AER to utilise accelerated depreciation, this issue should be reconsidered in the current RORI review. Perhaps not for all capex but perhaps only category (iii) which would have a higher WACC.

We think there is an arguable case for considering a different approach for capex in category (iii) and this is why the EUAA supported the ECA rule change on full cost connection charges. This change could be seen as a revised regulatory compact’. The ECA proposed conditions to be met for accelerated depreciation to be allowed for all

⁴ The ACT Government as 50% owner of the Evoenergy gas network has implicitly said it will bear 50% of the stranded asset risk of that network which will close in 2045.

⁵ See the discussion at pp183-4 https://www.aer.gov.au/system/files/AER%20-%20Rate%20of%20Return%20Instrument%20-%20Explanatory%20Statement%20-%202024%20February%202023_1.pdf

three capex categories. Were the Commission's Draft Determination on connection costs to become the final then one condition has already been met with connecting customers effectively paying for new connections stranded asset risk. The ECA has only provided a qualitative discussion of its conditions. It would be helpful to understand what that would mean quantitatively e.g.:

- what is the current estimate of division of stranded asset risk between consumers and networks associated with the \$12b RAB for scheme pipelines in Table 1 of its rule change proposal?
- Is the ECA proposing that the AER make a decision every five years on what assets *might* become stranded at some time in the future and then effectively force the network to take that asset loss immediately without any accelerated depreciation? How does the ECA proposal address the risk to networks from a later forecast drawing on the AEMO forecasts that has higher long term demand⁶? Does the AER reverse its earlier decision on the level of accelerated depreciation?

We await more information from the ECA/JEC to be able to fully consider their proposal.

Question 6: How does the JEC's proposal impact the recovery of capital costs?

The JEC proposal seems designed to ensure networks bear most, if not all, stranded asset risk by only allowing it following a 'redundancy assessment' to be approved by the regulator. The proposal provides insufficient detail on how they would define economic redundancy e.g.:

- a network could be full but still be stranded in an economic sense if the price does not support the required level of operating, maintenance and replacement capex costs
- does it differentiate between a part of the network that is redundant and not being used and a part of the network that is economically stranded but still being used?

We look forward to hearing gas network views on how the 'redundancy assessment' might work. Our initial view is that a network might be very unlikely to decide an asset is redundant so there would be no accelerated depreciation apportioned to consumers. Even though consumption is falling, all or most parts of the network are likely to be still required to service the few remaining customers.

At this stage we do not support the JEC proposal on redundancy assessment. We do not support the JAC alternative provision to outright prohibit the use of accelerated depreciation

Question 7: Are new planning requirements necessary?

While there may be benefits in having some form of Gas Annual Planning Report to increase the amount and frequency of information to assist in planning the gas transition, we agree with the Commission's note that (p.29):

"...there is a need to consider both the extent and the quality of the planning information that gas distributors would be required to publish under this rule change. Releasing more information by itself may have limited value if it does not enable stakeholders and policy makers to fully understand, assess and input into gas distributors' decisions. Therefore, any planning document would need to be based on a transparent planning methodology set out in the rules to ensure effectiveness plus consistency across the networks."

⁶ AEMO's forecasting accuracy is variable since 2020. See Appendix A.1 in the 2025 GSOO https://www.aemo.com.au/-/media/files/gas/national_planning_and_forecasting/gsoo/2025/2025-gas-statement-of-opportunities.pdf?rev=209c6536e82a4be9aec35360d93f272b&sc_lang=en

For example, gas networks draw heavily on the AEMO forecasts because they are the ones the AER tends to accept⁷. So we are unsure of the consumer benefit of networks commissioning (and consumers paying for) forecasts that are an alternative to AEMO's. We can see the potential benefit of the network using the AEMO forecasts to provide much more granular and location specific forecasts across their network recognising that AEMO's variable forecasting record. While the ECA's primary aim for this information is to inform decisions on strategic decommissioning, we are unsure how this would work in practice. How is decommissioning to be decided? Does it require unanimous agreement for all the remaining customers on a particular part of the network that can technically be closed?

Question 8: Would a longer term outlook on the gas transition support better quality regulatory decision making?

Maybe. Those details suggested in the Consultation Paper - demand and expenditure forecasts, changes in consumer usage patterns and pricing options are potentially of benefit but we doubt the usefulness of forecast beyond 10 years given the uncertainty of demand and jurisdictional policy. And then how do the rule change proponents propose the AER handle the situation where the AER makes asset life/accelerated depreciation decisions on the basis of a five yearly forecast for the next 10 years that changes significantly at the next AA reset cycle? Does the ECA/JEC support networks still having access to the right to submit a variation under rule 65 of the NGR?

Question 9: Are changes to tariff variation mechanism necessary?

The EUAA is a strong supporter of the current price cap tariff mechanism to ensure that demand risk within an AA period is borne by the network.

Question 10: Are changes to the tariff rules necessary

Yes. We support the rules enabling higher fixed charges and the gradual removal of declining block tariffs. We leave it to the Commission to decide if that option is already available to the AER and does not require a rule change.

Question 11: Should the regulator be able to require shorter or longer access arrangement (AA) periods

Question 12: Are changes required in the re-opener provisions?

The uncertainty in the gas transition means an AA period longer than the current 5 years is not in consumers' interests. As a stakeholder that participates at depth in gas network resets for scheme pipelines across the NEM, we would prefer more flexibility within an AA period to seek a variation rather than shorten the length of the AA period.

The AER's propose/response model for a 5 year AA reset is very resource intensive process of nearly two years for both the networks and consumer advocates. There are limited consumer advocate resources to engage in these processes. The proposed rule changes will significantly increase the amount and skill level required from consumer

⁷ The AER did not accept AusNet Services revised demand forecast submitted as part of AusNet's application to vary its 2023-28 AA due to a change in Victorian Government policy: <https://www.aer.gov.au/system/files/2025-05/AER%20-%20AusNet%202023-28%20Access%20arrangement%20variation%20proposal%20-%20Final%20decision%20-%20May%202025.pdf>; we understand that actual consumption in the last year has been below even the AusNet revised forecast.

advocates. It would be much more efficient for these limited resources to be able to engage on changes within the AA period rather than have a shorter AA period.

Question 13: should there be changes to the existing or additional incentive mechanisms?

Currently gas networks face the potential for asset stranding as a result of the AER's decisions on accelerated depreciation and rule changes like the current ones. There is also the risk of wanting too much accelerated depreciation that increases prices to a level encouraging the 'death spiral'.

New incentive mechanisms might be required depending on the outcome of these rule changes, but they need to reflect the gas network circumstances as does the scheme cited in Spain, rather than a replication of what applies to electricity networks. We would caution about the potential for conflicting incentives e.g. if the JEC change effectively removes the network from having accelerated depreciation, the network may not get the revenue required to meet a service standard and so is effectively penalised twice.

Question 14: Could the proposed changes inefficiently incentivise pipeline elections?

It is difficult to imagine a non-scheme pipeline seeking to be a fully regulated scheme pipeline were the ECA/JEC rule changes to be accepted by the Commission and they would have the risk of their assets being declared redundant.

Question 15: What can we learn from other jurisdictions?

As the Consultation Paper notes, jurisdictions around the world are grappling with the same problem – who should pay the stranded networks costs when gas demand is declining. There is not yet substantial precedent or an established process (p.44). We offer the following comments:

- It seems that the overseas experience is more around overseas responses to actual stranded asset risk, not 'might be' stranded asset risk based on this years' demand forecast.
- These rule changes argue that the network only has a 'reasonable opportunity', not a 'guarantee' to recover their efficient costs through the rate of return or depreciation. The proponents are silent on whether networks should be compensated through the WACC for bearing this additional risk. New Zealand and Austria offer an ex ante risk premium in the WACC in recognition of the risk of asset stranding. This is where the regulator considers that the network is unlikely to fully recover its past prudent and efficient investments via other mechanism like accelerated depreciation. These rule changes seek to limit that recovery through accelerated depreciation.
- A number of jurisdictions utilise shortened asset lives. This should be seriously considered for at least new investments e.g. the asset life does not go beyond the jurisdictions net zero target date.

Do not hesitate to be in contact with EUAA Director Policy and Regulation Mark Grenning, should you have any questions.



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