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Australian Energy Market Commission

INFORMATION

# Updating the regulatory framework for gas connections

## The Commission has made a final rule to require gas network distributors to charge newly connecting retail gas customers cost-reflective connection charges

The Commission has decided to make a more preferable final gas rule (final rule) in response to the rule change request submitted on 14 February 2025 by Energy Consumers Australia (ECA). The Commission's final rule will require gas network distributors (distributors) 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).

## The final rule will address connection risks associated with the projected decline of residential and commercial gas demand

The National Gas Rules (NGR) were drafted with the expectation of either steady or ongoing growth of gas demand. However, this expectation has been challenged by electrification policies in some jurisdictions and the projected continued decline in average demand for gas from residential and small commercial customers due to customers choosing to electrify and increased energy efficiency. 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.

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. The Commission's final rule 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 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.

## The final rule will lead to more cost-reflective connection charges, while largely retaining the existing framework in Part 12A of the NGR

The Commission's final rule requires all newly connecting retail gas customers to pay upfront cost-reflective charges for their gas connection. This will 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.

Our rule amends 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

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of costs that can be included in connection charges. The final rule will mean that the distributor can only recover the prudent and efficient directly attributable costs of providing the connection service.

The final rule will 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.[1] It will also only apply to retail customers in these jurisdictions. The new connection charge arrangements will form part of the existing retail customer connection framework, which recognises three different types of connection services: basic, standard and negotiated.

The final rule will also require the Australian Energy Regulator (AER) to publish its decisions on whether 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.

## The final rule contributes to the achievement of the NGO

The Commission's final rule will better contribute to the achievement of the NGO by:

- promoting 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
- improving outcomes for consumers through the use of more efficient and equitable cost recovery arrangements for retail connections
- supporting emissions reduction by enabling 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.

## Implementation of the final rule

To provide sufficient time for distributors to implement changes to connection charges for all newly connecting customers, the final rule has a commencement date of 1 October 2026.

Our final rule will require Australian Gas Networks South Australia (AGN SA), Evoenergy and Jemena to submit revised model standing offers to the AER for approval by 1 May 2026. These model standing offers must be in line with the rule that commences on 1 October 2026. The AER must make its assessment on the submitted model standing offers by 1 August 2026 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 October 2026.

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.

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