

## Gas Networks in Transition - Directions paper

### **We have published a directions paper seeking your feedback**

The Australian Energy Market Commission (AEMC or the Commission) has published a directions paper in response to rule change requests from Energy Consumers Australia (ECA) and the Justice and Equity Centre (JEC). The proponents seek changes to the regulatory framework for gas distribution networks that are scheme pipelines due to declining residential and small commercial gas demand. We consider that declining and/or increasingly uncertain demand is creating challenges for the economic regulation of gas pipelines and risks for both gas consumers and gas distribution service providers (service providers), and that changes to the National Gas Rules (NGR) are necessary to ensure the economic regulatory framework remains fit for purpose.

The purpose of the directions paper is to set out the Commission's proposed policy direction for strengthening the gas pipeline economic regulatory framework to ensure it continues to promote the long-term interests of gas consumers through the energy transition. Stakeholder feedback to our direction paper will inform our policy approach for the draft determination and rule.

### **The changing demand outlook is creating risks for gas consumers and service providers**

Natural gas has played an important role in Australia's energy system for many decades, providing a reliable and affordable source of energy for residential, small commercial and industrial consumers. While gas will continue to play a role for some consumers, the energy transition is changing the outlook for gas demand, particularly in the residential and small commercial customer segment. Differences in jurisdictional policy settings, consumer preferences, technology uptake and the potential role of renewable gases contribute to this variation and uncertainty.

The gas pipeline economic regulatory framework in the NGR has promoted the long-term interests of gas consumers under stable and growing demand conditions by delivering safe, secure and reliable gas services and efficient reference tariffs. However, as demand becomes more uncertain, the ability of the existing regulatory framework to continue to promote the long-term interests of gas consumers is being tested.

Declining demand creates a shared risk dynamic for consumers and service providers. As demand and customer numbers fall, the largely fixed costs of the network must be recovered over a smaller customer base, placing upward pressure on reference tariffs. Higher reference tariffs may, in turn, accelerate customer exits, increasing the risk of further price escalation for remaining customers (including vulnerable customers, renters, and commercial customers) that are less able to switch to alternative energy sources due to financial, technical or other barriers. At the same time, service providers face increased risk that they may be unable to recover the efficient costs of past investments, leading to stranding risks and potentially undermining their incentives to continue to invest in, and to maintain and safely operate the network.

### **The Commission's proposed direction for reform seeks to strengthen the economic regulatory framework for gas pipelines to promote the long-term interest of consumers**

The Commission's proposed direction seeks to support and orderly transition, focussing on four key reform areas:

1. **Employing a longer-term outlook to manage uncertainty.** Requiring service providers and the regulator to demonstrate how they have considered long-term energy transition risks and impacts in the access arrangement (AA) period and beyond. This would support more efficient and internally consistent proposals and decisions and increase transparency over how service providers and the regulator have considered the longer-term implications of their AA proposals and decisions.
2. **Amending and guiding the use of capital cost recovery tools.** Providing clearer guidance on the use of depreciation, compensation for inflation, redundant capital and re-use of redundant capital provisions to support efficient capital recovery that promotes the long-term interests of consumers. Earlier and more transparent use of these tools, where justified, can help mitigate stranding risks, while preserving incentives for service providers to continue providing safe and reliable services. At the same time, our proposed package ensures consumers continue to face efficient network charges and only pay for assets that they are expected to continue using. If demand falls significantly and assets become underutilised, there may come a point where a service provider will be unable to fully recover some or all of its efficient costs. Our proposed package ensures that the cost of these 'stranded' assets are not transferred to consumers, consistent with what would occur in a competitive market, where firms also face the risk of stranding due to competition, consumer choices, technological or policy changes.
3. **Amending capital and operating expenditure provisions to minimise the risk of unnecessary and inefficient expenditure.** Amending the capex provisions and opex definition to reduce the risk of unnecessary or inefficient expenditure and to better align investment decisions with uncertain demand conditions and improve regulatory clarity. This includes removing references to demand growth, tightening justification requirements, and strengthening accountability for expenditure choices.
4. **Providing guidance on designing tariff arrangements that can accommodate a broader range of transition scenarios.** Enhancing guidance on how service providers and the regulator design and approve reference tariffs and tariff variation mechanisms so that they remain economically efficient while better reflecting consumer impacts under different demand scenarios, both within and beyond the AA period.

The Commission's proposed changes would apply to scheme transmission and distribution pipelines regulated under the NGR, as adopted in each jurisdiction. This includes scheme pipelines in the east coast gas system, regulated by the Australian Energy Regulator (AER), and scheme pipelines in Western Australia, regulated by the Western Australian Economic Regulation Authority (ERA).

The Commission is not proposing changes to AA period lengths or re-opener provisions at this stage, and does not propose to establish a decommissioning framework as part of this rule change process. However, the Commission recognises that decommissioning raises complex issues that may require coordinated action by governments, regulators and other stakeholders beyond the NGR.

### **Government will play a role to support gas consumers and service providers**

Government will play a role to support gas consumers and service providers through the energy transition. The Commission's analysis indicates that the NGR economic regulatory framework alone cannot fully address all the impacts of uncertain and declining gas demand on consumers and service providers. There will be a role for governments in supporting gas consumers and service providers through the energy transition, including through clearer jurisdictional policy signals, addressing service obligations, supporting consumers and planning for potential network decommissioning, where appropriate.

### **Next steps**

On 9 April we will hold a public forum to discuss the directions paper. We invite stakeholders to [register](#) for the public forum.

Written submissions responding to the directions paper must be lodged with the Commission by 30 April 2026.

Stakeholders' responses to this directions paper will help shape draft determinations and the draft rule, which we aim to publish by late August 2026.

**For information contact:**

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19 March 2026