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To: Australian Energy Market Commission
Re: Gas Networks in Transition (GRC0082) – Directions paper

Thank you for the opportunity for the Institute for Energy Economics and Financial Analysis (IEEFA) to provide input to the *Gas Networks in Transition* directions paper.

IEEFA is an independent energy finance think tank that examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy.

We commend the AEMC for undertaking this detailed review of gas network regulations. Gas networks face a certain decline in demand across residential and small business customers in coming years, and recent regulatory decisions have exposed the gap in the regulations' ability to address this.

While there are several positive steps in the proposed directions – including broadening the capital redundancy provisions and applying stricter requirements to expenditure proposals – we are concerned that key aspects of the proposed directions are misaligned with the National Gas Objective (NGO), and do not address the core problems identified in the JEC and ECA's rule changes.

Chiefly, we are concerned about the proposal to use accelerated depreciation as the primary regulatory tool to address stranded asset risk. We disagree with the Commission's characterisation that this will not shift costs or risks to consumers. We also disagree with some of the underlying logic behind this decision – including the premise of electrification as a primarily financially driven decision, and the premise that gas networks' incentives align with the NGO.

We appreciate the Commission's transparency about the boundaries of the regulatory system, and agree with the need for complementary policy reform alongside these measures. We also consider that the National Gas Rules cannot be used to fully mitigate the risk of gas network businesses ceasing to meet their regulatory obligations. Jurisdictional governments will need to play a role in managing this risk, as opposed to simply offering already profitable gas networks increased incentives.

We have provided a summary of our response below, in addition to specific responses to the consultation questions. Please do not hesitate to contact me to discuss this submission further.

Kind regards,

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Summary of IEEFA's position

The proposed directions include significant positive steps

IEEFA commends the Commission for considering the complex issues facing gas networks in such detail. Several of the proposed directions are significant steps in the right direction

We hope the proposed amendments to capital redundancy provisions will allow regulators to more clearly delineate risk exposure between networks and consumers.

Similarly, tightening the criteria for capital expenditure is necessary to ensure network proposals are consistent with the likely future of gas demand reduction, and do not create additional unjustified risk for consumers.

We also acknowledge the Commission's points regarding the boundaries of the regulatory framework, and the need for broader policy consideration of these issues.

The proposed directions do not adequately address the issues raised by JEC and ECA

Both the Justice and Equity Centre's (JEC's) and Energy Consumers Australia's (ECA's) proposals raised concerns about the status quo approach to managing stranded asset risks.[1] The most pertinent example is accelerated depreciation, which JEC and ECA both argue shifts costs and risks from networks to consumers.[2] Multiple stakeholders, including IEEFA, have expressed agreement with this view.[3]

In submissions to the Commission's initial consultation paper, the only stakeholder groups we found that explicitly disagreed with this view were gas network businesses or their industry associations.[4] The AER's submission expressed neither explicit agreement nor disagreement.[5]

The Commission's view echoes that of the gas networks, stating that it "does not accept the view that acceleration of this [depreciation] payment involves a transfer of costs and risks to consumers", on the basis that "absent any decline in demand, consumers would have paid the same capital costs in net present value terms; acceleration changes only the timing of the recovery, not the total".[6]

However, this position is internally inconsistent with the rest of the directions paper.

It is not possible or relevant to consider this issue "absent any decline in demand". The commission has acknowledged that both the Australian Energy Market Operator (AEMO) and gas network businesses expect a long-term decline in gas demand.[7] This is a key context of this rule change request.

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[1] JEC. Gas Distribution Network Rule Change Request – Accelerated Depreciation and Redundancy. 4 June 2025. Page 4; ECA. Gas Distribution Network Rule Change Requests. 14 February 2025. Page 15.
[2] Ibid.
[3] For example, see Alinta Energy (page 1), Environment Victoria (page 4), GCCN (page 6), ASBEC (page 9), SACOSS (page 5), IEEFA (page 5).
[4] AGIG (page 30). ATCO (page 6), AusNet Services (page 7), ENA (page 6), Evoenergy (page 1), Jemena (page 6).
[5] AER. Submission: Gas networks in transition. 30 October 2025. Page 7.
[6] AEMC. Directions paper: National Gas Amendment (Gas Networks in Transition) Rule. 19 March 2026. Page 66.
[7] Ibid. Page 4.

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Additionally, the Revenue and Pricing Principles (RPPs) do not provide a complete guarantee of cost recovery for gas networks.[8] It is therefore possible (and likely in a declining demand scenario) that the total costs paid by consumers will vary depending on regulatory settings and their implementation.

Finally, the Commission has claimed that its proposed changes to depreciation rules "should reduce service providers' risk exposure by reducing the capital at risk of stranding".[9] This can only be possible by increasing the capital costs that are recovered from consumers – therefore increasing customers' risk exposure.

IEEFA therefore maintain our view that accelerated depreciation transfers costs and risks from networks to consumers. We disagree with the Commission's suggestion that accelerated depreciation should be a primary tool to manage gas networks' electrification risks.

We are also concerned by the Commission's proposed decision-making model for accelerated depreciation, which may reduce the level of discretion the regulator can apply when approving proposals. We do not agree that networks' incentives to propose appropriate levels of accelerated depreciation align with the National Gas Objective (NGO). Gas networks effectively have a large "captive" consumer base that cannot switch to electricity, such as renters, and there is very little to prevent networks from passing on higher prices to those consumers.

The proposed directions do not adequately consider emission reductions

The Commission has argued that its proposed directions would support the NGO. However, for the long-term gas outlook and capital cost recovery directions, the paper makes no reference to the emissions reductions component of that objective.[10,11]

The Commission has expressed concerns about the potential for a "disorderly" transition away from gas, driven by an acceleration in gas network prices.[12] While "disorderly" is not explicitly defined – we infer one aspect of this to be a more rapid transition. This naturally implies a more rapid reduction in emissions, as more consumers cease to combust gas in their homes.

However, a "disorderly" transition should not be defined by speed alone, but rather by the experience of gas consumers and preparedness of governments and regulators to manage the transition.

This concern appears to underpin many of the proposed directions – including on the use of accelerated depreciation – on the basis that a "smoother" time profile of prices may contribute to a more orderly transition.[13]

[8] AEMC. Directions paper: National Gas Amendment (Gas Networks in Transition) Rule. 19 March 2026. Page 81.
[9] Ibid. Page 71.
[10] Ibid. Page 36.
[11] Ibid. Page 79.
[12] Ibid. Page 8.
[13] Ibid. Page 67.

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IEEFA understands that the Commission must consider trade-offs between emissions reductions and the long-term interests of consumers under the NGO. However, it must be explicit about how these trade-offs are made. It is not acceptable to simply ignore one component of the NGO over another.

In this instance, considering the emissions component of the NGO may highlight preferable approaches that would better support both the long-term interests of consumers and relevant emissions objectives. This could include broader treatment of the capital redundancy provisions as a primary tool for managing risk, as opposed to a "last resort" tool to be used after accelerated depreciation.

The proposed directions do not adequately consider cost lock-in

IEEFA also considers that a slower transition off gas is misaligned with the long-term financial interests of consumers.

Gas appliances often have long expected lifetimes, of up to 25 years.[14] Slowing the electrification trajectory will inevitably result in consumers purchasing new gas appliances that otherwise might have been electric. This locks them into higher running costs over the lifetime of the appliance that could exceed $1.2 billion a year in total, IEEFA's analysis has found.[15]

The CEPA modelling is useful, but has limitations

IEEFA commends the Commission for commissioning detailed modelling of the impacts of electrification on gas network prices. We consider this type of modelling useful, and note the level of depth applied by CEPA in the analysis.

However, we are concerned that the Commission has drawn implications from the analysis that are too conclusive, given the necessarily simplified assumptions on consumer behaviour.

The CEPA modelling relies on the premise of a "switching point" where, once electrification becomes more cost-effective than remaining on gas, consumers will electrify at an accelerated pace.[16] While this is an interesting scenario to model, it is problematic to use as the basis for designing regulatory changes for several reasons.

1. The switching point is defined arbitrarily, in terms of electrification paybacks reaching a four- to six-year range.[17] There is a lack of evidence as to why this particular threshold would drive changes in consumer behaviour.

2. The approach fails to recognise that electrification is already far more cost-effective than this range in many cases. Efficient electric appliances have far lower running costs than gas appliances. In Victoria, for example, the cost of efficient electric appliances after state government incentives is often the same as equivalent gas

[14] EnergyConsult. Product profile: Gas ducted heaters. January 2011. Page 17.
[15] IEEFA. Appliance standards are key to driving the transition to efficient electric homes. 23 April 2024. Page 5.
[16] CEPA. Gas networks in transition: Modelling results. 17 March 2026. Page 6.
[17] Ibid. Page 8.

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appliances. This leads to a near-instant payback on electrification when gas appliances reach their end of life.[18]

3. This approach does not recognise that consumers rarely behave as rational economic decision-makers. For example, survey data from Energy Consumers Australia reveals only three in 10 consumers know how their electricity bill is calculated.[19] Many consumers lack the bandwidth or motivation to track the shifting financial implications of electrification, and what it means for their appliance choices.

4. This approach does not recognise the very large portion of consumers who cannot electrify. This includes renters (over 30% of households), who have no legal ability to change their fixed appliances, and many apartment residents who face space limitations or have centralised gas hot water systems.[20] Those consumers cannot respond to an economic "switching point".

5. This approach fails to acknowledge that electrification is influenced not only by economics, but by policy. For example, Victoria has implemented policies that would prohibit the installation of new gas hot water systems in most homes, and gas heaters in most rentals, from March 2027.[21] This could result in a considerable acceleration in electrification that occurs independently of any changes to its financial savings.

Additionally, the CEPA modelling has not tested several alternative regulatory scenarios. For example, it lacks a scenario where partial capital redundancy provisions are used as the primary tool with limited accelerated depreciation.[22] The "growth" demand scenario does not appear credible, as it conflicts with forecasts by gas networks, AEMO, and with some jurisdictional policies and recent trends.

IEEFA therefore has concerns about the direct use of the CEPA modelling to inform positions on solutions such as accelerated depreciation.

Gas networks should not be given new incentives to meet their regulatory obligations

The Commission has raised the concern that "a loss of confidence in the reasonable opportunity to recover efficient costs could adversely affect service providers' incentives to continue to efficiently operate and/or invest in the pipeline to maintain safety, security and reliability of services".[23]

IEEFA does not seek to downplay the challenges such a scenario would present. However, the National Gas Rules cannot, and should not try to, completely mitigate the risk of gas network businesses choosing to stop meeting their regulatory obligations.

[18] IEEFA. A focus on homes, not power plants, could halve energy bills. 9 July 2025. Page 26.
[19] ECA. The Consumer Energy Report Card. 4 December 2025. Page 5.
[20] ABS. Housing: Census 2021. 28 June 2022. Accessed 22 April 2026.
[21] Victorian Department of Energy, the Environment and Climate Action. Building electrification for residential buildings in Victoria. August 2025.
[22] CEPA. Gas networks in transition: Modelling results. 17 March 2026. Page 17.
[23] AEMC. Directions paper: National Gas Amendment (Gas Networks in Transition) Rule. 19 March 2026. Page 80.

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Jurisdictional governments, including those that set safety and reliability obligations, have a part to play in managing this risk. Arguably, governments have more options at their disposal that would support the long-term interests of consumers. This could include, for example, directly purchasing gas network assets at an appropriate discount.

Furthermore, the existing regulatory approach has allowed gas networks to enjoy financial returns far in excess of the regulatory allowance, and are remarkably high even when compared with non-regulated businesses. This amounted to $1.8 billion in supernormal profits from 2014 to 2022, with some networks regularly achieving a return on regulated equity over 10%, or as high as 30% in some years.[24,25] It is not apparent that adding new incentives would materially influence their motivation to meet regulatory obligations.

Response to consultation questions

Table 1: Further detailed responses to selected consultation questions

Question		Response
1	What are stakeholder views on our assessment of the proposed direction and how it better promotes the NGO and is consistent with the RPP, in comparison to the status quo and the ECA and JEC rule change proposals?	The proposed direction on **improving transparency and accountability** may promote the NGO better than the status quo, but less than ECA's proposal, which incorporates broader information requirements. The proposed direction on **capital redundancy provisions** may promote the NGO better than the status quo, but will be limited if promoted only as a "last resort" tool. The Commission did not model the impacts of broader application of these provisions. As assets become redundant, Effective use of this tool as assets become redundant could limit gas price rises for consumers. The proposed direction on **accelerated depreciation** will promote the NGO worse than JEC or ECA's proposals, and worse than the status quo. Networks may be encouraged to submit larger accelerated depreciation proposals, and regulators may have less scope to reduce them. As we discussed above, this would transfer more risks and long-term costs to consumers. It may also result in a slower electrification transition, contravening the emissions reduction component of the NGO. The proposed direction on **expenditure proposals** will promote the NGO better than the status quo if it successfully lowers costs for consumers.
2		*No response*
3	What are your views on our proposed direction that reforms should apply to distribution and	Both distribution and transmission pipelines will be affected by the electrification transition. However, their financial and physical operations are different. After residential gas volumes decline, gas transmission networks may have prolonged

[24] IEEFA. Gas networks are making persistent and significant supernormal profits. 6 June 2024. Page 11.
[25] AER. 2025 Electricity and Gas Networks Performance Report. Financial Performance Data 2025 – Gas distribution networks – Public. 18 December 2025.

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	transmission pipelines (where relevant)?	demand from large industrial customers or gas power generators. This should be considered, as it does not make sense for small consumers to subsidise these future customers through measures such as accelerated depreciation.
4 (1)	What are your views on our proposed direction to require service providers and the regulator to consider a longer-term outlook and longer-term consequences?	The proposed direction is notably more limited in scope than ECA's Gas Annual Planning Report proposal. Gas networks are already considering longer-term outlooks in some areas of their proposals. The Commission should consider whether this rule change adds additional value The Commission should provide guidance on how the outlook should be produced and how regulators should assess consistency with this outlook across networks' proposals. We encourage the Commission to engage with regulators and networks to understand the data they already hold that could be published at minimal cost for the benefit of consumers.
4 (2)	Do you have any views on the information or analysis that should be included in a service provider's 20-year outlook?	Networks should provide credible forecasts of gas demand and connections by customer group. These forecasts should be standardised across networks (e.g. linked to GSOO forecasts), and networks should clearly articulate the underlying assumptions – e.g. government policies – of these scenarios. Any data that supports governments to make robust decisions to manage the phase-down of gas networks should be given priority; for example, greater locational data on asset lives and gas demand forecasts.
5 (1)	What are your views on our proposed direction for capital cost recovery tools in the NGR?	Proposed changes to capital redundancy provisions are a positive step. However, IEEFA disagrees with the Commission's aim to "point the regulator to seeing this as a last resort tool".[26] These tools should be used at the regulator's discretion when assets legitimately become partially redundant. We are concerned that the Commission's proposed direction on accelerated depreciation will worsen, rather than address the problems identified in the initial rule change requests. We do not believe it supports either the long-term interests of consumers, or the achievement of emission reduction targets. IEEFA maintains that accelerated depreciation results in a transfer of costs and risks to consumers, for reasons outlined above.
5 (2)	Do you have any views on the decision-making model options explored for: (a) depreciation and treatment of inflation? (b) redundant capital provisions?	IEEFA disagrees with the proposed decision-making model for depreciation, which may lessen the regulator's ability to reduce accelerated depreciation proposals, therefore exposing consumers to more costs and risks. Decision-making model D or E are preferable. We disagree that networks are well placed to determine appropriate levels of accelerated depreciation. Networks are not inherently exposed to a loss of revenue between access arrangements if demand or customers decline, as they can continue recovering costs from a diminishing customer base.

[26] AEMC. Directions paper: National Gas Amendment (Gas Networks in Transition) Rule. 19 March 2026. Page 77.

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		Many users of the network – including the 30% of households that rent – cannot electrify in response to price rises. For similar reasons, we agree with decision-making model D for redundant capital provisions.
5 (3)		*No response*
6	What are your views on our proposed direction to amend the NGR capex provisions? What are your views on the need for the NPV test in rule 79(2)(b)? What are your views on our proposed direction to amend the NGR opex definition?	IEEFA agrees that the assumption of future growth should be removed from expenditure definitions, and that regulators should more strictly require expenditure to be justifiable under a declining demand scenario. Successful implementation of these changes will require strong enforcement action from the regulator. We agree with the Commission's approach not to distinguish between fossil-based methane or "renewable gas" in the rules, and note it is highly unlikely most distribution networks will experience demand growth due to biomethane or hydrogen.[27]
7	What are your views on our proposed direction for amending the reference tariff arrangements? What are your views on our proposal to provide guidance on applying the concepts of long-run marginal cost, standalone and avoidable costs? What are your views on our proposal to require service providers and the regulator to give greater consideration to customer impacts in setting tariffs and tariff variation mechanisms?	IEEFA acknowledges the proposed directions on reference tariff arrangements include some positive steps. However, more broadly, we are concerned by gas networks' ability to request changes to their tariff variation mechanisms, as has happened in recent access arrangements. This changes the allocation of demand risk between networks and consumers within an access arrangement. Gas networks have almost universally benefited from their demand risk exposure under price caps, which may have been influenced by under-forecasting.[28] They have a natural incentive to lower this risk exposure in an environment where demand is declining at an uncertain pace. However, consumers do not have an equal opportunity to opt for one tariff variation mechanism over another. The Commission should consider embedding price cap regulation as a requirement under the NGR, or require networks to meet stricter criteria in order to change their tariff variation mechanism – for example, justifying the risk transfer to consumers.
8	Having regard to our proposed direction, do you consider there is a need for additional or modified incentive mechanisms for service providers?	IEEFA does not consider it necessary or useful to increase incentive mechanisms for gas network operators. See our detailed comments above *('Gas networks should not be provided with new incentives to meet their regulatory obligations'*).

[27] IEEFA. 'Renewable gas' campaigns leave Victorian gas distribution networks and consumers at risk. 17 August 2023. Page 30.
[28] IEEFA. Gas networks are making persistent and significant supernormal profits. 6 June 2024. Page 5.