Gas Networks in Transition

Submission to Directions Paper

6 May 2026

Justice and Equity Centre
ABN 77 002 773 524
www.jec.org.au

Gadigal Country
Level 5, 175 Liverpool St
Sydney NSW 2000
Phone + 61 2 8898 6500
Email contact@jec.org.au

About the Justice and Equity Centre

The Justice and Equity Centre is a leading, independent law and policy centre. Established in 1982 as the Public Interest Advocacy Centre (PIAC), we work with people and communities who are marginalised and facing disadvantage.

The Centre tackles injustice and inequality through:

- legal advice and representation, specialising in test cases and strategic casework;
- research, analysis and policy development; and
- advocacy for systems change to deliver social justice.

Energy and Water Justice

Our Energy and Water Justice work improves regulation and policy so all people can access the sustainable, dependable and affordable energy and water they need. We ensure consumer protections improve equity and limit disadvantage and support communities to play a meaningful role in decision-making. We help to accelerate a transition away from fossil fuels that also improves outcomes for people. We work collaboratively with community and consumer groups across the country, and our work receives input from a community-based reference group whose members include:

- Affiliated Residential Park Residents Association NSW;
- Anglicare;
- Combined Pensioners and Superannuants Association of NSW;
- Energy and Water Ombudsman NSW;
- Ethnic Communities Council NSW;
- Financial Counsellors Association of NSW;
- NSW Council of Social Service;
- Physical Disability Council of NSW;
- St Vincent de Paul Society of NSW;
- Salvation Army;
- Tenants Union NSW; and
- The Sydney Alliance.

Contact

Kira van Os
The Justice and Equity Centre
Level 5, 175 Liverpool St
Sydney NSW 2000

T: +61 2 8898 6500
E: kvanos@jec.org.au

Website: www.jec.org.au

The Justice and Equity Centre office is located on the land of the Gadigal of the Eora Nation.

South Australian Council of Social Service

The South Australian Council of Social Service is the peak representative body for the non-government community, social and health sectors.

Contents

Recommendations

Recommendation 1

That the preferable rule more closely reflect the intent of the initial proposal, to identify uneconomic assets in advance, with a mechanism to determine equitable sharing of redundancy costs between consumers and network businesses. A part of this mechanism should be a robust redundancy assessment of the network's asset base, with reference to current levels of cost recovery. Asset redundancy should not be regarded as a last resort or subsequent to cost recovery through accelerated depreciation.

Recommendation 2

That the AEMC reconsider ECA's initial GAPR proposal. Any rule should match the intent of the initial proposal to remove gas network discretion, increase granular transparency and actively support and enable the managed decline of gas networks. The final rule should ensure networks provide an accurate, updated and granular forecast of demand and asset utility.

Recommendation 3

That the AEMC appropriately consider achievement of emissions reduction targets in its consideration of fit-for-purpose rules. This should include analysis of the emissions impact of proposed rules.

Recommendation 4

That the AEMC re-assess the assumptions underpinning its analysis with a focus on ensuring they appropriately recognise the impact of policy, the drivers of electrification and the broader range of equity considerations. The intent should be to ensure proposals are capable of promoting the consumer interest in the range of most likely actual future states of gas networks.

Recommendation 5

That the AEMC build on comments in the directions paper and make specific recommendations regarding the Gas law changes and jurisdictional legal and regulatory changes required to enable a fit for purpose gas regulatory framework which best promotes the consumer interest. At a minimum, this should include changes to enable the consideration of the interests of energy consumers holistically, and changes to the obligations for service provision.

1. Introduction

The Justice and Equity Centre (JEC) and South Australian Council of Social Service (SACOSS) welcome the opportunity to respond to the Directions Paper (the Paper) for the Australian Energy Market Commission's (AEMC) Gas networks in transition rule change project.

The Directions Paper makes important steps to addressing the issues set out in the proposals by JEC and ECA. However, in critical areas we consider the directions do not correctly recognise the problems identified. And in several areas the proposals do not match the intent of the initial rule changes. Our submission focusses on reiterating the central problem, identifying issues with the AEMCs assumptions, and noting where further changes are necessary to appropriately reflect the initial intent of the JEC and ECA proposals.

We note submissions by Energy Consumers Australia (ECA), Environment Victoria and Institute for Energy Economics and Financial Analysis (IEEFA) and broadly support the perspectives, analysis and recommendations their submissions provide in response to the Directions Paper. We strongly encourage the AEMC to give further consideration to the ECA submission and its discussion of decisions on gas planning, capital expenditure and cost recovery.

The identified problem

We welcome the AEMC's recognition that the current gas network regulatory framework is not fit for purpose in the context of declining gas demand. This is the central problem identified across ECA and JEC rule change proposals. The National Gas Rules (NGR) were designed for an 'indefinite' and growing network, where growth was assumed to be inherently efficient and in the long-term interest of consumers.

While AEMC has recognised the need for reform, it has not properly recognised that this central problem stems from the fact gas networks are already experiencing – and can be expected to continue to experience – a decline which is not compatible with the fundamental assumptions the current rules are based upon. Some of the AEMC's assumptions and proposals – such as those relating to cost recovery – place the impact of decline (and incompatibility of the current approach in the rules) at some point in the future, attempting to prolong a 'status quo' which is already obsolete. This would not be in the interests of consumers.

A narrower uncertainty

The Paper continues to characterise the future of gas networks as one of general uncertainty, with the AEMC's directions proposed to "help manage uncertainty".[1] But this is based on an inaccurate characterisation of uncertainty. It fails to recognise a central point raised in both rule change proposals; there is no uncertainty in the direction of the transition, only uncertainty in the degree and pace of change in networks. Emissions policy at every level involves targets and commitments which can only be met with reductions in gas use.[2] Many jurisdictions have explicitly stated policy to ban and retreat gas networks, yet all jurisdictions have suites of policies

---

1 AEMC, 2026, Directions paper - Gas Networks in Transition, p ii.

2 Commonwealth Department of Climate Change, Energy, the Environment and Water, 2025, Trajectory for Low Energy Buildings: Implementation Plan 2026-27, p 12.

which assume and promote electrification. This is a crucial distinction relating to uncertainty and must frame the AEMC's response.

Problematic assumptions underpinning the directions

The AEMC's proposals appear to be founded on a set of assumptions that do not consistently reflect current circumstances or likely futures. This fundamentally undermines some of the AEMCs key proposals in our view.

The 'switching point' presents a linear relationship between consumers leaving the network, increased network costs and further network defection. While this is a useful tool for understanding the relationship between network costs and declining customers, it is not a fit basis for making assumptions about the likely path of network decline and how best to manage the risks involved in the consumer interest. It is, for example, potentially more likely that events such as the current energy cost crisis may drive a mass defection from the network well before any meaningful change can be made to the risk of asset stranding.

The 'switching point' analysis also seems to imply consumers electrify for narrowly rational economic reasons, and the point at which gas connections no longer 'make sense' for consumers can be delayed by prolonging the financial sustainability of gas networks. This is flawed on multiple levels. Critically, it fails to recognise that consumers are electrifying for many reasons, only some of which are related to the direct cost of maintaining a gas connection. It does not recognise the influence of government policy, the importance of emissions reduction or health, or the attractiveness of solar and the ability to benefit from more efficient electric appliances.

The analysis also assumes the 'switching point' is some point in the relatively distant future. On the contrary, there is a reasonable argument it has already occurred given the relative economics of gas appliances versus electric ones already substantially favours electrification in almost every circumstance. In any case, it would be more appropriate to set any 'switching point' on a more objective basis – that is, the point at which the future of gas networks was no longer assured, or the point at which the assumptions of the existing regulatory framework no longer held. In other words, that the 'switching point' has already been passed.

The Paper also makes assumptions that vulnerable consumers, unable to leave the network, are the group who will otherwise be left connected and facing unreasonable costs after the 'switching point' occurs. This is a critical assumption as it is the foundation for the 'equity' argument' justifying accelerated depreciation. We argue this is an oversimplification.

These assumptions, which will be further explored in this submission, must hold true for the proposed direction to be able to be presented as promoting the consumer interest. The risk of a disorderly transition resulting from these narrow assumptions is significant enough to warrant significant changes in the AEMC's direction.

The AEMC's proposals

While we welcome changes to expenditure criteria to limit expenditure in light of growth assumptions no longer holding, we support ECA's opinion that more needs to be done to reflect the intent of the initial proposals.

Similarly, the long-term outlook requirements represent an improvement on the status quo, but do not substantively address the issues highlighted by ECA in their initial proposal. We support their contention that cost burden is not a sufficient reason to reject their proposal where the potential benefits to an orderly transition are substantial.

We are concerned the AEMC's directions on redundancy and accelerated depreciation do not capture the intent of the initial proposals. Indeed, they invert the intent of both the ECA and JEC proposals, entrenching accelerated depreciation and inequitably shifting costs and risks onto consumers. Rather than providing the regulator with a more diverse set of appropriate tools, this proposal further narrows the regulator's discretion to the consumers' detriment.

2. The directions paper does not capture the intent of the rule change proposals

The rule changes from JEC and ECA were framed in response to gas rules which were not 'fit for purpose'. They proposed to address specific issues with the current regulatory framework where this fundamental problem is presenting and driving outcomes contrary to the consumer interest. The AEMC's direction fails to properly reflect the identified problem and in several areas has not captured the fundamental intent of the proposals in responding to it.

The fundamental 'problem' defined in both proposals is a gas regulatory framework which is no longer fit for purpose, because it is only capable of promoting the consumer interest in a context of a growing or at least perpetual network future. Neither of these are now the case. The future of certain network decline – to whatever degree and at whatever pace – requires reform of the rules to protect and promote the consumer interest through shrinking networks, where efficient network investment and operation involve network retreat.

Rather than recognising this central problem and intent, the AEMC has proposed directions which make incremental changes. In critical areas the AEMC directions have the intent to artificially prolongs the viability of networks, at the expense of consumers. This is not in the consumer interest.

2.1 Incentivising effective planning for redundancy

A disorderly transition is not in the long-term interests of consumers nor network investors. We consider a disorderly transition to be one in which consumers and taxpayers are left with unsustainable costs or left without services when they need them. It is also one in which network business are not able to efficiently transition to the differently structured and smaller future they face without imposing unreasonable risk and cost on consumers.

Avoiding a disorderly transition means effective planning for and management of future redundancy risks must start as early as possible. But this cannot be limited to simply seeking to 'avoid' these risks by increasing cost burden to consumers. It must involve the more granular transparency and planning envisaged by the ECA rule change to provide business, governments and consumers with the information they need to identify uneconomic assets, design policy and regulatory measures, and invest in managed network retreat.

2.1.1 Redundancy

While the AEMC's proposed changes to the definition and treatment of redundant assets make improvements on the current mechanism, they do not match the intent of the initial JEC proposal.

We are concerned with the framing of redundancy provisions as a last resort. The JEC's rule change proposal sought to incentivise active planning for redundancy, identifying uneconomic and inefficient to maintain assets as early as possible, by making the use of accelerated depreciation contingent upon a robust and transparent redundancy assessment. The AEMC's proposal does the opposite, which in practice will mean the redundancy provisions will continue to go unused.

Positive aspects of redundancy proposal

The proposed amendments to capital redundancy provisions make some positive steps in allowing regulators to more clearly delineate risk exposure between networks and consumers. The changes to provide more clarity in the redundancy criteria and differentiate between full and partial redundancy go some way to reflect the JEC's initial intent to identify 'uneconomic' assets. Effective identification of assets at risk of stranding helps to promote the consumer interest by providing for a robust mechanism to identify assets which are inefficient to maintain and enact fair cost allocation for their 'redundancy.

Issues to be resolved

Rather than addressing the identified issue of a lack of incentive for gas networks to use redundancy provisions, the proposed direction places the decision with the regulator, but with restrictions which undermine the intent. In practice, this leaves the disincentive for networks to actively manage demand risk in place. Most importantly, the condition that the (partial) redundancy tool can only be used if "the service provider has already been given a reasonable opportunity to recover its capital costs (e.g. through accelerated depreciation)"[3] effectively renders the redundancy tool as impractical as it is under the existing rules.

No gas business is likely to determine it has 'had a reasonable opportunity' to recover its costs and it is hard to see a scenario in which such an assessment can be definitively made by a regulator. In any case, this indicates a concerning bias toward facilitating inefficient cost recovery from consumers, which is contrary to the intent of the initial rule proposal. The proposed ability to add redundant capital back to the capital base further reduces the actual risk faced by networks.

The proposal also does not reflect the problem identified in the initial proposal that redundancy risk cannot be treated as a whole-of-network issue because doing so results in unsubstantiated and generalised risks being realised as 'real' cost increases for consumers.

Grouping assets or treating the network as a single entity for the purpose of redundancy or stranded asset risk is no longer appropriate in the context of a declining gas network. With declining demand and retreat from the network, assets become 'uneconomic' unevenly, on a geographic or local level. Efficient management of this requires a gas business to be able to identify and deal with asset redundancy (either total or partial redundancy/uneconomic assets) on a more granular basis.

---

3 AEMC, 2026, Directions paper - Gas Networks in Transition, p 77.

While we understand this is not current practice, we contend current practice is no longer 'fit for purpose' and does not best promote the consumer interest. We understand it may not always be feasible to deal with asset redundancy on an individual asset basis but highlight opportunity to undertake much more granular approach to dealing with the redundancy and cost recovery of assets. We again note the ECA proposal for planning and reporting would help enable such an approach.

Recommendation 1

That the preferable rule more closely reflect the intent of the initial proposal, to identify uneconomic assets in advance, with a mechanism to determine equitable sharing of redundancy costs between consumers and network businesses. A part of this mechanism should be a robust redundancy assessment of the network's asset base, with reference to current levels of cost recovery. Asset redundancy should not be regarded as a last resort or subsequent to cost recovery through accelerated depreciation.

2.1.2 More robust and accurate network planning for a longer-term outlook

The longer-term outlook proposed by the AEMC improves on existing provisions but does not reflect the intent of the initial ECA proposal to enable more granular reporting and planning.

As we noted in our submission to the consultation paper, the redundancy and Gas Annual Planning Report (GAPR) mechanisms were intended to place greater visibility and planning expectations on the gas network service provider and address the need to identify assets at risk of redundancy and underutilisation.

The intended role of the GAPR was to provide an accurate and transparent multi-year forecast at a granular level within the network. While this would introduce an administrative burden to network businesses, this is far outweighed by the utility of this granular information in strategic planning of the network. As ECA notes in their submission, the benefit of this reporting extends to all stakeholders, with consumers and governments also having a more transparent view of the future of the network to enable policy interventions supporting smooth transition.

The longer-term outlook proposed by the AEMC is limited in scope. Gas network businesses are already considering longer term outlooks in some areas of their proposals, and this rule change adds limited additional value. We note that without robust direction, such as required under ECA's proposal, a longer-term outlook is likely to be subject to significant inaccuracies and even manipulation.

As shown by the significant shifts between demand forecasts in annual Gas Statements of Opportunity, small consumer gas demand is systematically overestimated. We note that networks have also consistently under forecast demand.[4] The requirements of the proposed longer-term outlook are too broad to place any meaningful incentive on network businesses to provide the accurate, granular and transparent outlook intended by the initial proposal.

---

4 IEEFA, 2024, Gas networks are making persistent and significant supernormal profits, p 16.

We encourage the AEMC to reconsider ECA's initial proposal and take a more practical approach to planning requirements, to ensure meaningful improvements to transparency which deliver on the intent that this transparency support policy formation and the actively managed retreat of networks. As part of this, it should consider what type of information will already be held by network businesses under the proposed regulatory framework, and the public benefit of sharing this information in a transparent and timely fashion.

Recommendation 2

That the AEMC reconsider ECA's initial GAPR proposal. Any rule should match the intent of the initial proposal to remove gas network discretion, increase granular transparency and actively support and enable the managed decline of gas networks. The final rule should ensure networks provide an accurate, updated and granular forecast of demand and asset utilisation.

2.2 Emissions reduction

The initial rule change proposals sought to embed proper recognition of emissions-reduction objectives in the gas rules. They recognised electrification of gas appliances is the most efficient pathway to meet emissions commitments and that a fit-for-purpose regulatory framework enables networks to efficiently reduce in size and be repurposed where this is the most efficient way to promote the consumer interest.

The AEMCs directions raise two significant concerns in an emissions context:

- They effectively act to prolong the life of gas networks, and
- This choice has been made without any clear consideration of the achievement of emission reduction targets, or proper analysis of the emissions impact of the proposed directions as is required.

The AEMC has argued its proposed directions support the NGO. While we appreciate the balance to be struck between multiple aspects of the NGO, it is still necessary for the AEMC to be explicit in how it has considered the different aspects, including emissions reduction.

Consideration of the NGO should extend to not merely emissions impact per se, but rather the achievement of emissions targets. All levels of government have clear net zero emission targets. While the Commonwealth, New South Wales, the Northern Territory, Queensland and South Australia have net-zero targets of 2050, in ACT and Victoria the target is net-zero by 2045, and Tasmania has a target of 2030. Further, the states of New South Wales, Queensland and Victoria also have targets for 2035 of between 70-80% reductions.[5]

The AEMC has, not provided detailed consideration of how the proposed directions sit alongside, or assist with ensuring the emissions trajectory of domestic gas networks relative to the achievement of net-zero emissions targets. Very worryingly the proposal looks to use accelerated depreciation to prolong the life of networks beyond 2040 which has a direct negative impact on the likelihood of achieving those targets.

---

5 AEMC, Emissions Target Statement, https://www.aemc.gov.au/regulation/targets-statement-emissions.

The AEMC modelling points to networks continuing until a 'switching point'. It is not clear what is envisaged after this 'switching point'. The sudden closure of networks of gas networks at this time would not be a realistic prospect. While the AEMC is not in a position to speculate, it is more likely that unacceptably high prices will require some form of government intervention, perhaps in advance of this point.

What is clear is that the AEMC has not modelled the emissions path up to or beyond the 'switching point', let alone to the implications for the achievement of net zero targets. Consequently, the directions proposals cannot be confidently presented as enabling a fit for purpose regulatory system aligned with the achievement of Commonwealth, State and territory emissions targets.

Preferable rules supporting the NGO must enable networks to most efficiently reduce emissions. In most cases, this is done by reducing gas consumption through electrification. The evidence is extremely clear that emissions reduction in the built environment sector relies upon electrification.[6,] In any case, the rules must not actively contribute to delayed emissions reduction, including through attempting to prolong fossil gas networks, at scale, further into the future.

Further, the AEMC has not provided analysis on the emissions reduction impact of their directions. The statement asserting the neutral emissions impact of their proposal[7] is not sufficiently robust and is not credible where the directions seek to prolong the life of networks at a larger scale.

The draft determination should provide a quantitative - or at the very least qualitative - analysis of the impact of any draft rule change on emissions. A quantitative analysis could be achieved by using the value of emissions reduction in a cost benefit analysis of different proposed regulatory options, and the different emissions profiles of these. Only once an emissions analysis is undertaken can the impact of the proposed package of reforms on emissions be known, and the emissions impact be properly weighed against the other considerations in the NGO.

Recommendation 3

That the AEMC appropriately consider achievement of emissions reduction targets in its consideration of fit-for-purpose rules. This should include analysis of the emissions impact of proposed rules.

2.3 The intended framework to determine equitable cost sharing

Central to the 'unfitness' of the current framework identified in the initial proposals, was the lack of any mechanism to identify, quantify and fairly share and recover the costs of uneconomic and redundant assets. A key focus of the proposals was significant limitation of the use of accelerated depreciation, with the intent of implementing more transparent and fairer means of recovering

6 Commonwealth Department of Climate Change, Energy, the Environment and Water, 2025, Trajectory for Low Energy Buildings: Implementation Plan 2026-27, p 12; NSW Net Zero Commission, Advice for the Net Zero Plan to 2035, pp 6-9.

7 AEMC, 2026, Directions paper - Gas Networks in Transition, p 131.

and sharing the costs of investments, particularly those which are expected to become uneconomic or redundant.

2.3.1 Issues with the AEMC directions on cost sharing

The AEMC's mechanism does not properly respond to the problem identified in the initial proposals, or the intent of the proposed solutions. Indeed, in designating an upgraded redundancy mechanism a 'last resort', the AEMC proposals would have the opposite effect to that intended by the initial proposals. Gas networks would first be required to maximise cost recovery from consumers through accelerated depreciation. This is directly contrary to the initial rule change proposals.

The paper characterises there being a trade-off between the long-term interests of consumers, as per the National Gas Objective (NGO), and networks' reasonable opportunity to recover efficient costs, as per the Revenue and Pricing Principles (RPP). We disagree with this assessment. Rather than operating in conflict, the RPP and 'reasonable opportunity' should operate consistently with the NGO. That is, the specific definition of 'reasonable opportunity' should be subject to a consideration of the long-term interests of consumers. To do otherwise is to effectively give priority to the opportunity for network businesses to recover costs over a solution aligned with the long-term interests of consumers.

The AEMC has also stated it "does not accept the view that acceleration of this [depreciation] payment involves a transfer of costs and risks to consumers" and that "acceleration changes only the timing of the recovery, not the total".[8] This is an inaccurate generalisation (as explored elsewhere in this submission and in ECA's submission to this process), it also indicates the AEMC has not adequately engaged with the issue of cost sharing in our view.

Instead, the proposal has been justified by needing to allow networks to have a reasonable opportunity to opportunity to recover costs, without defining what does and does not constitute a "reasonable" opportunity in the specific circumstances gas networks face.

An effective bias toward enabling cost recovery does not expose networks to sufficient risk to incentivise prudent planning and investment in the context of network and demand decline. This is not in consumers' interest, especially when many consumers do not have the choice to be price responsive.

The argument to continue the status quo hinges on providing networks with incentives to maintain safety, security and reliability of a service which is already regulated to ensure it is safe, secure and reliable. The NGR are not the appropriate avenue to manage the risk of network businesses ceasing to meet their regulatory obligations, as these are mostly set by jurisdictional governments.

2.3.2 What is required

As detailed in ECA's and JEC's rule change proposals, a fit-for-purpose gas regulatory framework includes a principled mechanism to determine equitable cost sharing between

---

8 AEMC, 2026, Directions paper - Gas Networks in Transition, p 66.

consumers and networks. This mechanism would by design also include an approach to quantify stranding risks – ideally on an asset or geographic basis – in advance of their becoming uneconomic or stranded, as a prerequisite.

The draft rule must respond to the problem as defined by the initial rule, and in any case should reflect the intent of the rule to create a proactive, robust, consistent and fair mechanism to determine cost sharing between consumers and networks in advance of accelerated depreciation (cost sharing). We reiterate our recommendation for a principles-based mechanism to support the regulator to determine the most equitable split of costs between networks and consumers, which should also provide a framework for considering what constitutes a reasonable opportunity to recover efficient costs on a case-by-case basis.

2.3.3 Determining what is "reasonable"

The status quo and AEMC's direction are set up to enable network business' cost recovery, beyond a degree which is reasonable.

Given the rule changes are being assessed for consistency with the RPP, we recommend the AEMC present further consideration for how a "reasonable opportunity" may be determined under various circumstances which may apply, noting that what is reasonable will vary according to circumstances. That is, 'reasonable' does not apply to the network and all its investments and assets generally.

We note that under all circumstances a reasonable opportunity to recover efficient costs does not constitute a guarantee. However, a lack of specificity in determining what constitutes a reasonable opportunity, has the effect of consumers guaranteeing all costs by default – as we argue unlimited use of accelerated depreciation without determined cost-sharing does – because it sets no limit at the outset.

3. The AEMC direction is dependent on problematic assumptions

The proposed direction is framed around a number of fundamental assumptions which are problematic, inaccurate or otherwise not based in evidence. In many cases the AEMC's direction depends on these assumptions holding true or being likely. This is inherently problematic, as the AEMC has identified a need for changes to the NGR to be flexible and fit for purpose in different scenarios. We strongly encourage the AEMC to reexamine its assumptions and the impact they have on the effectiveness of proposed rules.

3.1 Analysis and assumptions of the future state of the gas network

The direction hinges upon key assumptions around the future state of the network, most importantly who may remain on the network and what an orderly transition looks like. The "orderly" transition envisaged by the AEMC's direction appears to be drawn from the economic modelling undertaken. It is linear and gradual, responding to a pure economic signal related to network charges. Those 'most vulnerable' are assumed to be the final remaining users on the network.

While this modelling is a useful tool to identify a 'problem', it is an inappropriate foundation for informing proposed regulatory reform and embeds a number of problematic aspects.

3.1.1 Jurisdictional policy

As noted in earlier sections, jurisdictional policy either explicitly aims to retreat gas or otherwise supports electrification of smaller gas consumers to enable achievement of jurisdictional emissions reductions targets, and support energy affordability and efficiency goals. The AEMC's analysis does not sufficiently recognise the significance and direction of policy and overstates the jurisdictional variation.

We encourage the AEMC to more holistically consider jurisdictions' policy on electrification, especially since this is a rapidly developing area. For example, the NSW Government has committed to setting electrification targets for homes and small businesses "to help guide policy and ensure [it] can achieve its objectives"[9] and it is updating a range of other policies to support electrification. Additionally, the NSW Net Zero Commission has also explicitly highlighted electrification of the built environment as an urgent priority for meeting emission reduction targets.[10] Other jurisdictions, even those without stated policies on gas networks, are similarly placed.

It is therefore unreasonable to assume that the absence of an explicit complete phase-out policy means no action will be taken that will materially reduce gas demand in the near future.

3.1.2 Switching point framing

The switching point framing is problematic on many levels.

The proposed directions are justified largely by CEPA modelling and its 'switching point' analysis. While we recognise the modelling is only illustrative, we are concerned with the apparent significance it has in shaping and justifying the AEMC's proposed direction for reform.

The switching point in this modelling is defined arbitrarily according to a narrowly economic and 'rational' reference to network costs. It relies on the assumption that consumer price sensitivity is not problematic until network charges exceed this arbitrary switching point – that is the point at which mass defection is likely because the cost of electrification is less than the cost of maintaining a network connection.

The first problem is that it sets the 'switching point' in the future and does so economically. There is a reasonable argument the 'switching point' has already occurred when the future of networks switched from one of growth, to one of decline. Even on economic grounds the switching point may have occurred on the basis that electrification is already economically preferable in almost all circumstances.

In any case, this analysis involves an unreasonable oversimplification which is not reflective of reality. Network costs are one of many economic drivers of people's choices to electrify, which

---

9 NSW Government, 2024, NSW Consumer Energy Strategy, p 29.
10 NSW Net Zero Commission: Advice for the Net Zero Plan to 2035, pp 6-9.

also include the cost of gas itself, the superior efficiency of electric appliances and the ability to benefit from solar (your own or other peoples) through electrification. These factors are further influenced by world events and jurisdictional policies which cannot be assumed to be static and are already rapidly changing the balance of decisions.

Beyond this, consumers are electrifying for many other non-economic reasons including health, contribution to emissions reduction and increasing distrust of gas businesses.

In the context of current world conditions, it is possible – if not likely – that any pathway to electrification will not be linear at all but involve a sudden change well before it can be predicted economically. Arguably there is at least a reasonable likelihood this occurs sooner rather than later.

Regardless, in reality, we have seen and will continue to see consumers disconnecting from the network in a non-linear, accelerating rate. The AEMC's response to this modelling is not 'flexible' enough to deal with these outcomes. If reality substantially departs from the assumed path, under the AEMC's proposals consumers will have been burdened with extra costs for little benefit to anyone other than network investors.

We strongly recommend the AEMC reconsider its response to this work in order to ensure any preferable rules informed by this analysis are capable of promoting the consumer interest under a range of likely circumstances.

3.1.3 Consumer characteristics and behaviour

It is not reasonable to assume only vulnerable people will be left on the network after any 'switching point'. This assumption is particularly problematic where it is the justification for enabling accelerated depreciation on the basis of 'generational equity'.

Given the direction of government policy – which is either explicitly to retreat gas, or otherwise supportive of electrification – it is likely that many vulnerable cohorts will be actively supported to electrify. In any case, it is possible that a significant proportion of those left on the network after any switching point are businesses or wealthier households for whom gas is a 'choice'.

Given the relative proportions of gas demand stemming from households – who have efficient, supported electrification solutions – and business/industrial users who are more likely not to have good economic electrification solutions, it is likely a significant proportion of those left on the network after a 'switching point' are actually large industrial users.

The focus on assuming 'vulnerable users' are those who will be left on the network seems to have disproportionately defined the AEMC's direction. A large part of the justification for the proposals on accelerated depreciation is mitigating future price burden for these 'vulnerable consumers. This narrow framing has been employed by gas networks and distorts fair consideration of all factors.

For example – if the assumption was that most of those remaining on the network were a relatively small number of large industrial gas users, or mostly wealthy homes who prefer gas cooking, it is likely accelerated depreciation and higher costs for all consumers now would be less acceptable.

The point is the assumptions are material to the assessment of the solutions alignment with the consumer interest. Accordingly, the AEMC should ensure their modelling, and the proposals which are shaped by them, are not founded on narrow and potentially biasing assumptions.

Recommendation 4

That the AEMC re-assess the assumptions underpinning its analysis with a focus on ensuring they appropriately recognise the impact of policy, the drivers of electrification and the broader range of equity considerations. The intent should be to ensure proposals are capable of promoting the consumer interest in the range of most likely actual future states of gas networks.

3.2 Maximising cost recovery from consumers

The proposed direction to make accelerated depreciation the primary tool to manage future gas demand risk is not only contrary to the intent of the initial rule change proposals, but it implies current approaches to managing risk are sustainable.

The analysis which underpins the AEMCs directions does not sufficiently explore alternatives to accelerated depreciation. Instead, limited analysis is used primarily to demonstrate that accelerated depreciation could be a preferable approach to straight-line depreciation because it marginally reduces assumed asset stranding risk. We disagree with this preference and strongly recommend the AEMC consider the issue more holistically.

3.2.1 Assessment of accelerated depreciation and its impact on consumer share of cost and risk is wrong

We are concerned with the AEMC's contention that accelerated depreciation does not shift cost and risk onto consumers. This is justified "absent any decline in demand". We find this nonsensical given declining demand is the very circumstance gas networks face and the central premise of the problem definition.[11] The suggestion is also internally inconsistent, with the paper noting the proposed changes "should reduce service providers' risk exposure by reducing the capital at risk of stranding"[12] which requires increasing the capital cost recovered from consumers.

The AEMC's contention would only hold true if it is assumed that the asset(s) subject to accelerated depreciation will remain part of the capital base for its entire expected physical life. Depending on the future state of the network, this could also amount to a cross-subsidy between different classes of consumers.

In any case, it is clear that accelerated depreciation, as it would be used under the AEMC proposal, would result in consumers assuming cost and risk from network investors.

3.2.2 Accelerated depreciation is a largely purposeless cost to consumers

While accelerated depreciation creates a large bill impact to consumers, it typically does not meaningfully mitigate asset stranding risk which makes it a poor response to the problem.

---

11 AEMO, 2026, Gas Statement of Opportunities.
12 AEMC, 2026, Directions paper - Gas Networks in Transition, p 71.

Analysis of Australian Gas Networks' (AGN) access arrangement in Australia shows that accelerated depreciation accounted for 5% of average bills, while only decreasing the value of the regulatory asset base (RAB) by 2.8% over the access arrangement period.[13] This creates material affordability issues for limited benefit in resolving the 'problem' which justifies its use. At best this makes it a poor solution to any problem, at worst it is effectively a purposeless cost which does nothing to serve the interest of consumers. In any case it is hard to argue it best promotes the consumer interest.

3.3 Incentives for networks to act in consumers' interests

It cannot be taken as a given that network businesses' incentives are aligned with the NGO.

We do not consider the regulatory framework to have delivered good outcomes for consumers, with gas networks consistently making profits above those allowed by the AER while emissions reduction targets are at risk of not being achieved.[14]

Networks have consistently proposed accelerated depreciation at a quantum above what the regulator has eventually granted.[15] The more costs continue to escalate, the more the remaining customer base is made up of people who by choice or lack thereof are not price sensitive. In practice, this means networks have limited incentive to manage affordability risks in their pricing.

Overall, the AEMC's proposed direction sets a strong precedent for future regulation, entrenching accelerated depreciation with less regulatory flexibility on the part of the AER to determine whether accelerated depreciation is in the interest of consumers.

We disagree that networks are well placed to determine appropriate levels of accelerated depreciation in line with the NGO and RPP. The regulatory framework does not sufficiently expose them to demand risk, especially with a substantive proportion of consumers facing material barriers to electrify.

4. Changes to enable a fit for purpose framework

In the interests of ensuring the regulatory framework is fit for purpose, we urge the AEMC to build on the wider recommendations raised in the Directions Paper. Specifically, we strongly support the AEMC identifying specific changes to the National Gas Law required to enable a wider range of regulatory measures to more efficiently promote the consumer interest.

We appreciate that preferable rules proposed by the AEMC cannot be contingent upon law changes, however the scope of this project can and should include recommendations of broader changes to enable more effective rules in the consumer's best interest. Given this process has enabled the AEMC to identify a clearer set of specific limitations which result from the nature of

---

13 Dynamic Analysis, 2026, SA Residential Gas Customers Long Term Analysis, pp 6-10.
14 IEEFA, 2024, Gas networks are making persistent and significant supernormal profits.
15 See Australian Energy Regulator submission to Gas Networks in Transition Consultation Paper, 2026, pp 6-7.

the Gas Law or jurisdictional legal frameworks, the AEMC is in the best position to identify and recommend priorities for potential reform

Alignment of electricity and gas distribution decisions is a key part of a fit for purpose regulatory framework. We encourage the AEMC to recommend changes to the National Electricity Objective (NEO) and NGO to refer to the long-term interests of consumers of energy rather than electricity and covered gas respectively. It is important for regulators and businesses to be able to holistically consider the interests of energy consumers as a whole during the transition.

To enable a fit for purpose regulatory framework, the AEMC should recommend changes to the obligations for service provision, with the view to enable the most efficient decision-making from gas network businesses.

To support efficiency and the interests of consumers, the regulatory framework should allow gas network businesses to appropriately provide electrification or alternative services as more efficient options where the network becomes uneconomic or redundant. Research shows it can often be more efficient for gas networks to provide electrification services for customers remaining on the network, which will only become more apparent over time.[16] While the current regulatory framework may not currently accommodate this type of action easily, it is in the interest of consumers for it to do so and we encourage the AEMC to identify, recommend or otherwise support reforms which would enable it.

Recommendation 5

That the AEMC build on comments in the directions paper and make specific recommendations regarding the Gas law changes and jurisdictional legal and regulatory changes required to enable a fit for purpose gas regulatory framework which best promotes the consumer interest. At a minimum, this should include changes to enable the consideration of the interests of energy consumers holistically, and changes to the obligations for service provision.

5. Answers to consultation questions

This section provides answers to the paper's consultation questions, with reference to earlier sections of this submission.

Question 1: Our proposed package of reforms
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?

- We disagree that the proposed direction better promotes the NGO and RPP consistency compared to either the status quo or the rule change proposals. We consider the proposed direction has the potential to exacerbate the issues with the initial ECA and JEC proposals sought to address.

16 Energy Consumers Australia, 2026, Power Move, p 42.

- The AEMC's proposed package of reforms does not address the fundamental issues that the ECA and JEC rule change proposals were aimed at remediating with the intent set out in the initial proposals.

- The central concern is that the current framework can only promote the consumer interest in a context of a growing or ongoing network. The intent of the initial proposals was to create a framework capable of promoting the consumer interest in the context of decline, the AEMC has proposed a direction which seeks to prolong the economic viability of networks, at the expense of consumers. As this increases the risks for a disorderly transition and the exposure of consumers to risk, we regard it as an unacceptable solution.

Question 2: Implementation considerations
1. Do stakeholders consider that there are any barriers to implementing our proposed package of reforms considering the planned publication of the final determination in December 2026? Do you consider some form of transitional arrangements are required for any element?
2. Do stakeholders consider there are any significant implementation costs associated with our proposed package of reforms that the Commission should consider?

- Reforms to the gas regulatory framework must be implemented as swiftly as possible, given the costs associated with a disorderly transition significantly outweigh implementation costs.

Question 3: Application to transmission and distribution
1. What are your views on our proposed direction that reforms should apply to distribution and transmission pipelines (where relevant)?

- We agree that reforms should apply to both distribution and transmission pipelines.

Question 4: Our proposed direction on a longer-term outlook (detailed in appendix A)
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?
Do you have any views on the information or analysis that should be included in a service provider's 20-year outlook?

- We refer to ECA's submission to this process and support their recommendations.

- The AEMC's proposed direction on a longer term outlook does not provide material benefit compared to the current requirements on gas network businesses and do not reflect the intent of the initial proposal to meaningfully increase the granularity, robustness and transparency of gas network planning and reporting.

- The requirements of the proposed longer-term outlook are too broad to place any meaningful incentive on network businesses to provide a more accurate and transparent outlook which delivers on the intent of the initial rule.

- See section 2.1.2 of this submission for further detail.

Question 5: Our proposed direction on capital cost recovery (detailed in appendix B)
1. What are your views on our proposed direction for capital cost recovery tools in the NGR?
2. Do you have any views on the decision-making model options explored for:
a. depreciation and treatment of inflation?
b. redundant capital provisions?
3. In relation to our proposed direction for redundant capital, do you have any views on:
a. the materiality threshold that should apply to partial redundancy?
b. the constraints that could apply to the regulator's use of partial redundancy?

- We do not support the proposed direction and strongly disagree with its apparent restriction of the range of regulatory tools available.

- It also does not provide the intended mechanism to determine in advance the share of redundancy costs/risks between consumers and network investors on a transparent and consistent basis. A regulatory framework without a mechanism to identify redundancy cost sharing will continue to require consumers to pay a maximum "affordable" share of future undefined stranding risks.

- The proposed amendments to capital redundancy provisions are a small positive step to allowing regulators to more clearly delineate risk exposure between networks and consumers. While welcome the proposed changes to provide more clarity in the redundancy criteria and differentiate between full and partial redundancy we strongly disagree with redundancy – whether full, or partial - being framed as a last resort. This is the contrary to the intent of the JEC rule change proposal which required identification and consideration of uneconomic or redundant assets up front, prior to any potential cost sharing through accelerated depreciation.

- Overall, the AEMC's proposed direction entrenches accelerated depreciation as the first and only tool. It appears to reduce the discretion of the regulator to determine whether accelerated depreciation is in the interest of consumers. Decision making model D or E are preferable but we recommend the AEMC reconsider the intent and purpose of the JEC's and ECA's original rules before proceeding.

- See sections 2 and 3.3 of this submission for further detail.

Question 6: Our proposed direction on expenditure (detailed in appendix C)
1. What are your views on our proposed direction to amend the NGR capex provisions? For example:

a. **Clarifying that service providers must justify all capex through a quantitative assessment of all credible options that support the provision of regulated pipeline services.**
b. **Amending the justification for safety-related capex to be necessary for the safe operation of pipelines and use of services in NGR rule 79(2)(c)(i).**

c. **Amending the justification for capex to maintain capacity to meet forecast (instead of existing) demand for services under NGR 79(2)(c)(iv).**

2. What are your views on the need for the NPV test in rule 79(2)(b)?

3. What are your views on our proposed direction to amend the NGR opex definition?

- We support the recommendations in ECA's submission to this process.
- We welcome the restrictions placed on capital and operational expenditure to remove the assumption of future growth from expenditure decisions.
- Successful implementation of these changes will require strong enforcement action from the regulator.
- The requirement to assess alternatives lacks substance in the current law framework (see section 4) where the network can only considered pipeline services as alternatives.

Question 7: Our proposed direction on tariff arrangements (detailed in appendix D)

1. What are your views on our proposed direction for amending the reference tariff arrangements?

2. What are your views on our proposal to provide guidance on applying the concepts of long run marginal cost, standalone and avoidable costs?

3. What are your views on our proposal to require service provider and the regulator to give greater consideration to customer impacts in setting tariffs and tariff variation mechanisms?

- While tariff arrangements should be explored in light of the rule change package, we consider the AER is best placed to do this interpretation rather than implementing changes in the rules.
- There is no evidence AER has not already sufficiently considered customer impacts in its recent decisions.
- We maintain that price cap regulation is the most appropriate form of tariff regulation for gas networks, to ensure that consumers do not take on more demand risk than is efficient and equitable.

Question 8: Incentive mechanisms (detailed in appendix F)

1. Having regard to our proposed direction, do you consider there is a need for additional or modified incentive mechanisms for service providers?

- There is no need for additional or modified incentive mechanisms.
- The NGR are not the appropriate avenue to manage the risk of network businesses ceasing to meet their regulatory obligations, as these are mostly set by jurisdictional governments.

- The current regulatory approach has already allowed gas network businesses to allow returns above their regulatory allowance, as demonstrated by IEEFA analysis on supernormal profits.[17]

6. Further engagement

We welcome the opportunity to meet with the AEMC project team and other stakeholders to discuss these issues in more depth. Please contact Kira van Os at kvanos@jec.org.au regarding any further inquiries.

[17] IEEFA, 2024, Gas networks are making persistent and significant supernormal profits