



Gas networks in transition

Submission to the Australian Energy Market Commission (AEMC) directions paper

Brotherhood of St. Laurence

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Summary

The Brotherhood of St. Laurence (BSL) is a social justice organisation working towards an Australia free of poverty. Our purpose is to advance a fair Australia through our leadership on policy reform, our partnerships with communities and the quality of our services. Our approach is informed directly by people experiencing disadvantage and uses evidence drawn from our research, together with insights from our programs and services, to develop practical solutions that work.

This submission responds to the Australian Energy Market Commission (AEMC) directions paper on gas networks in transition. We propose reforms to prepare for an equitable phase-out of gas that is consistent with state/federal emissions targets and supports people facing disadvantage.

Recommendations

1. BSL recommends combining the National Gas and Electricity objectives to enable emissions reduction.
2. BSL recommends the AEMC pursue a decommissioning framework as a priority.

3. BSL recommends the Energy and Climate Change Ministerial Council (ECMC) change the National Gas Law to enable non-pipeline alternatives to gas expenditure.
4. BSL recommends the AEMC require networks to compare capital expenditure with non-pipeline alternatives and proceed where certain criteria are met (e.g. the non-pipeline alternative is economic and technically viable).

1 Introduction

BSL welcomes this opportunity to comment on the AEMC’s directions paper on the National Gas Amendment (Gas Networks in Transition) Rule. Responses to selected questions from the paper are presented below.

2 Comments on selected questions

Question 1 – proposed package of reforms

Question 1-1: What are stakeholder views on our assessment of the proposed direction and how it better promotes the National Gas Objective (NGO) and is consistent with the Revenue and Pricing Principles (RPP), in comparison to the status quo and the Energy Consumers Australia (ECA) and Justice and Equity Centre (JEC) rule change proposals?

BSL considers that the AEMC proposals improve on the status quo, however, the ECA and JEC proposals offer further gains – particularly in reducing unnecessary gas spending, reducing the transfer of risk and cost to customers (including customers experiencing disadvantage) and supporting emissions reduction.

The AEMC’s proposed direction improves on the status quo by removing the presumption of gas network growth and strengthening scrutiny on capital expenditure. These are welcome and necessary steps, and partly reflect earlier recommendations from BSL and others (shown in the table below).

BSL recommendation	Has the AEMC taken this up?
Capex scrutiny and non-pipeline alternatives	Partially – increased transparency but not in line with ECA proposal and excluding non-pipeline alternatives
Decommissioning framework	Not in this process but suggested for future
Decommissioning and electrification costs as capex	Deferred to decommissioning framework
Remove growth incentives	Yes

BSL recommendation	Has the AEMC taken this up?
Better public information and planning, related to emissions	Partially, not related to emissions
Ability for third parties to reopen access arrangements	No
Review obligation to serve	Deferred to state and territory governments

While the AEMC has acknowledged many of the issues raised by BSL, the proposed reforms primarily shape how gas networks are regulated during decline, rather than enabling the exit, substitution or decommissioning pathways needed to lower emissions.

JEC and ECA’s proposals are preferable

In BSL’s view, JEC and ECA’s rule changes better promote the NGO and are more consistent with the Revenue and Pricing Principles than the AEMC’s proposed package.

Our view is that accelerated cost recovery does transfer costs and risks to consumers. The Commission acknowledges that accelerated depreciation ‘reduc[es] the capital at risk of stranding’ (p. 67). Bringing forward cost recovery means a greater share of that risk is borne by current consumers even if networks are not fully ‘immunised’ from risk.

While the JEC and ECA proposals seek to avert unnecessary gas spending and prevent the transfer of risk to customers, the AEMC’s proposal relies more on customers paying more in the short term to reduce gas networks’ stranding risk. This approach concentrates risk and cost on current consumers, including households least able to exit the gas network, rather than addressing the underlying drivers of declining demand.

More ambition is needed on emissions

The AEMC’s proposal does not do enough to advance the NGO’s emissions reduction objective nor promote a transition consistent with climate policy. The paper does not substantively engage with climate change, despite climate change being the primary reason for the gas transition.¹

Missed opportunities to lower emissions include the following:

- The AEMC proposal is likely to slow emissions reduction by aiming to keep gas bills low to discourage/defer electrification.
- Three of four demand scenarios considered by the AEMC involve residential gas use beyond 2050, which is inconsistent with the net zero targets set by the Commonwealth and every state/territory.
- While the proposal requires networks to assess ‘options’ for new gas infrastructure, there is no requirement to consider alternatives consistent with emissions goals. The AEMC’s interpretation

¹ ‘Climate change’ appears 11 times in the paper, but 10 instances are references to the names of organisations or laws. One instance is a quote from the AER referring to ‘climate change policies’ in passing.

of the gas laws is that considering non-pipeline alternatives is prohibited. BSL recommends the Energy and Climate Change Ministerial Council change this rule and the AEMC support this.

- A gas decommissioning framework is ruled out for this workstream, though decommissioning is essential to lower emissions efficiently (see below).

Achieving emissions reductions will be easier if the National Gas and Electricity objectives are considered together, rather than separately. For example, electrification may be the best possible outcome for a customer facing unaffordable gas bills. Efforts to promote the long-term interests of gas consumers are essentially incompatible with emissions reduction if non-gas alternatives such as electrification are excluded from consideration.

Recommendation

1. BSL recommends combining the National Gas and Electricity objectives to enable emissions reduction.

Net zero means Australia needs rules for decommissioning

To reduce household gas emissions at scale, electrification and eventually decommissioning gas networks are the only realistic ways forward. Biomethane is too scarce to serve households at scale and hydrogen is uncompetitive with electricity for home use (Grattan Institute 2023). Even in a future where hydrogen is taken up, Infrastructure Victoria (2022) assumes thousands of kilometres of gas pipes will have been decommissioned, so decommissioning policy is needed regardless.

Australia's net zero targets therefore imply that the vast majority of households will no longer be gas customers within 24 years.

In this context, it is not coherent to consider the long-term interests of gas customers in isolation. Even if some households become hydrogen consumers, it would not make sense to regulate hydrogen as an extension of gas, because it is a different fuel requiring a largely new network.

BSL welcomes the future work on a decommissioning framework foreshadowed in the paper, and notes that decommissioning is not a far-off problem. Rather, at least 11 Australian towns are already slated for gas decommissioning², which highlights the need for regulation that supports an orderly and equitable transition, rather than delays it.

Recommendation

2. BSL recommends the AEMC pursue a decommissioning framework as a priority.

² These are the 10 Victorian towns served by Solstice, plus Albany in Western Australia. Esperance (WA) has already been decommissioned.

Question 6 – expenditure

Question 6-1: What are your views on our proposed direction to amend the NGR capex provisions? [...]

BSL supports increased scrutiny on gas networks' capital expenditure and welcomes the AEMC's moves in this direction – although in our view the AEMC's proposal should go further.

The AEMC argues that stronger regulation is not needed to constrain networks' spending because stranding risk gives networks a disincentive to spend. This may be accurate to an extent, but it conflicts with two considerations:

1. The AEMC proposes to reduce networks' stranding risk through accelerated depreciation. Logically this also reduces the disincentive for networks to make imprudent investments.
2. Networks are required to spend money on safety upgrades, which are likely to occur even if they are uneconomic or will be stranded.

Q6-1 continued: [...] 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.**

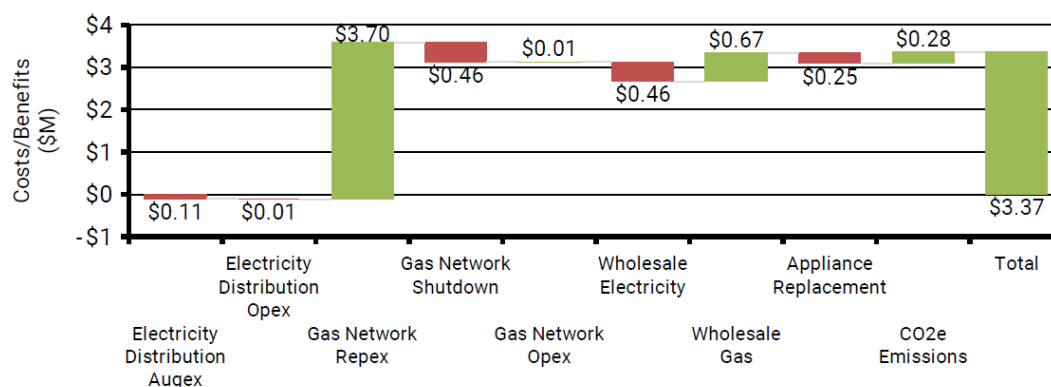
Requiring gas networks to consider options and justify their spending is a welcome step, but it is a missed opportunity to require assessment of non-pipeline alternatives – and excludes the lowest-cost option in some cases.

BSL has commissioned the first Australian cost–benefit analysis of a non-pipeline alternative. With Energeia, we identified a site in suburban Melbourne slated for real mains replacement in the coming years and gathered data to estimate the cost. Energeia compared it with a scenario where, instead of completing mains replacement, all buildings and appliances in the area were electrified and the local gas infrastructure was decommissioned.

We found that the electrification option was over \$3.3 million cheaper than business as usual, shown below. This assumes a whole-gas-network shutdown in 2042, based on Victoria's 2045 net zero date, but electrification is more economic (by \$2.48 million) even with no assumed whole-network shutdown. Energeia used a 20-year analysis period.

Our case study, and the savings quoted, are for a small area with around 800 residents. At a larger scale, the savings would be considerable.

Figure 1: Costs and benefits of pruning scenario compared to business as usual with gas network shutdown in 2042 (source: Energeia)



If non-pipeline alternatives such as this are not allowed, then gas networks faced with capital expenditure necessary for safety but uneconomic will have no choice but to make uneconomic investments the cost of which will be borne by customers.

BSL’s Balancing Act report, detailing these findings, will be published in coming weeks. The report also details social research focusing on low-income households conducted by researchers at the University of Melbourne’s Life Course Centre. This research found that people were generally open to the idea of strategic decommissioning when it was explained, albeit with questions about difficult issues like holdouts and funding for appliances.

Recommendations

3. BSL recommends Energy and Climate Change Ministerial Council (ECMC) change the National Gas Law to enable non-pipeline alternatives to gas expenditure.
4. BSL recommends the AEMC require networks to compare capital expenditure with non-pipeline alternatives and proceed where certain criteria are met (e.g. the non-pipeline alternative is economic and technically viable).

Q6-1 continued: [...]

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).

BSL supports this change, although we note that enforcement may be challenging given the information asymmetry between networks and regulators, which leaves networks a potentially easy justification for new spending.

Electrification eliminates gas safety risks and should be allowed as a safety measure (as a non-pipeline alternative). For example, in the BSL study above, electrification would be far cheaper for

society than replacing gas pipes, and it would lower risks more effectively than building new pipes, as well as avoiding installing new stranded assets.

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

BSL supports the AEMC's proposal to remove references to growth in operating expenditure.

Note on engagement

As the AEMC acknowledges in its strategy, 'two way dialogue' is 'critical in building trust and transparency' (AEMC 2021), especially in policy processes that have broad implications like this one. We encourage the AEMC to engage and discuss these issues thoroughly with stakeholders, noting that the forum of 9 April did not enable discussion because participants were muted. Organisations without the capacity to make submissions should also have their voices heard, as these issues affect all consumers.

References

Australian Energy Market Commission [AEMC] 2021, 'AEMC | Our priority initiatives', *AEMC - Corporate Strategy*, viewed 13 April 2026. <https://strategic-plan.aemc.gov.au/priority-initiatives>

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