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10 July 2025

To: Australian Energy Market Commission
Re: Consultation on rule change requests:

Updating the regulatory framework for gas connections

Establishing a regulatory framework for gas disconnections and permanent abolishments

Thank you for the opportunity for the Institute for Energy Economics and Financial Analysis (IEEFA) to provide input to the aforementioned rule change requests proposed by Energy Consumers Australia (ECA) and the Justice and Equity Centre (JEC).

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.

AEMO has forecast strong declines in residential and commercial gas consumption in coming years, and recent trends point to an acceleration in policy-driven and voluntary shifts from household gas appliances towards efficient electric alternatives, which offer lower running costs.

Australia's gas network regulations were never designed for the eventuality that large numbers of consumers might leave the network. There is an urgent need to address the questions raised in these rule change requests, to ensure that gas network regulations will enable a cost-efficient and equitable phase-down of residential gas consumption.

Some issues around the phase-down of gas will require broader policy consideration that is beyond the scope of these rule change requests. Specifically, there is a need for co-ordinated federal planning for the phase-down of gas distribution networks – with decisions made as to how stranded asset risks will be allocated, the most cost-efficient approach to physically decommission the existing residential network, and how best to serve any industrial or commercial customers that don't yet have the ability to electrify.

Nonetheless, IEEFA's opinion is that both ECA and JEC's proposed rule change requests are logical, important minimum actions.

Our response to several of the consultation questions are outlined in the following pages. Please do not hesitate to contact me if you have further questions regarding this submission.

Kind regards,

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Upfront connection costs (ECA proposal)

Question 1: How should connection charges be treated in the context of the projected decline of residential and commercial demand?

Forecasts increasingly point towards an acceleration in residential and commercial electrification, and major gas-consuming jurisdictions have increased policy support for electrification. This leaves gas distribution networks facing significant stranded asset risks.

The question of who bears these stranded asset risks, and ultimate liability for gas networks' Regulated Asset Base (RAB), is unresolved. Currently, this is largely borne by consumers. However, there is no guarantee of this arrangement continuing, as gas networks are not explicitly guaranteed full cost recovery under the National Gas Rules.[1]

There is a broader need to address the question of how this stranding risk should be allocated. Previous IEEFA analysis suggests a case for gas networks to bear a portion of this risk, although this is beyond the scope of this consultation.

Continued socialisation of new connection charges would lead to continual growth of the RAB and associated stranded asset risks. This is counter to the interests of any party that may have to bear that risk – whether it be consumers, gas network businesses or taxpayers.

ECA's proposal would limit the growth of the RAB and future stranded assets, and is therefore a logical first step to address this issue.

Question 2: Would the ECA proposed solution address the issue of inequitable cost sharing?

In IEEFA's opinion, ECA's proposal provides a far more equitable arrangement in relation to the cost of new gas infrastructure. Under their proposal, the party that wishes to commission the new connection will be liable for its full cost and any stranded asset risks. Existing gas consumers, who have no say in the decision to create a new connection, and are not beneficiaries of the connection, are shielded from those risks.

We note that this rule change proposal does not address the cost-sharing arrangements for the existing gas network RAB. This is a separate topic that warrants close attention.

Question 4: What are your views on the costs and benefits of ECA's proposed solution?

IEEFA views the costs and benefits of ECA's proposal through the lens of specific stakeholders (Table 1).

Table 1: IEEFA's view of key costs and benefits for stakeholder groups

Stakeholder	Likely costs and benefits
Existing gas consumers	ECA's proposed solution will avoid future costs for existing gas consumers, as they will not be expected to contribute to the capital costs associated with connecting new users to the network.

[1] Justice and Equity Centre. Jemena Gas Networks access arrangement 2025-30: Issues paper. 20 September 2024. Page 14.

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Prospective new gas consumers	ECA's proposed solution will increase costs for new consumers who choose to commission a new gas connection. However, the requirement to pay the full upfront cost of the connection is likely to deter some prospective consumers from connecting to the gas network altogether. This is likely to be the case for many residential customers, and may be the case for commercial customers who have viable alternatives to reticulated gas, such as electricity or LPG. The choice not to connect a new home to the gas network will generally reduce future costs for the household, as efficient electric appliances have far lower lifetime costs than gas appliances.
Gas distribution network businesses	As the existing NGR do not explicitly entitle gas distribution networks to full cost recovery, gas networks could be exposed to unrecovered costs in the event their assets become stranded. ECA's proposed solution therefore may reduce costs for gas distribution network businesses, as they would be able to immediately recover the cost associated with the new gas infrastructure, rather than having this rolled into a RAB that may not be fully recovered in future.

Overall, ECA's proposed solution would likely lead to net benefits due to the cost-reflective price signal of commissioning new gas infrastructure disincentivising new consumers from connecting to the network.[2]

Not only will this reduce net expenditure on new gas infrastructure, it will likely lead to overall lower energy costs for consumers, as efficient electric appliances are far more cost-effective over their lifetime than gas appliances.[3]

Question 6: Are there alternative, more preferable solutions to address the issues with the existing gas connection arrangements?

There is a broader case to be made that commissioning new gas connections is no longer in the best interests of consumers, and no longer compatible with the National Energy Objectives. Gas distribution networks face stranded asset risks, and gas appliances consume much more energy, have higher running costs, and generate more greenhouse gas emissions to perform the same tasks as efficient electric appliances.[4]

Several jurisdictions (Victoria, ACT and several local governments in NSW) have implemented provisions to prevent the growth of new gas connections. Such provisions would benefit consumers in all jurisdictions.

In lieu of a national approach to limit future growth of the gas distribution system, ECA's proposed solution is a logical first step to improve existing connection arrangements.

[2] In the case of residential customers, the decision to commission a new gas connection often lies with the developer – who may be reluctant to pass this upfront cost onto prospective buyers.
[3] IEEFA. Appliance standards are key to driving the transition to efficient electric homes. 23 April 2024. Page 5.
[4] Ibid. Page 2; and IEEFA. Managing the Transition to All-electric Homes. 2 November 2023. Page 13.

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Disconnections and abolishments (JEC proposal)

Question 7: Do you consider there is a regulatory gap in relation to gas disconnection/abolishment?

Question 8: Do you agree with the JEC proposal to introduce a framework for disconnection/abolishment in the rules?

We broadly agree with JEC's assessment of the regulatory gap, and the need for greater clarity over disconnection and abolishment services.

Recent AER decisions in Victoria[5] and NSW[6] have established gas abolishment as a regulated reference service. However, there is limited clarity about what this service entails.

The AER has broadly accepted networks' proposed cost of abolishment without an independent assessment of what that fee includes, and whether it represents the lowest reasonable cost to safely decommission a property's gas connection.

In many jurisdictions, gas abolishment is not yet a regulated reference service, with networks free to set their own charges for the services. Western Australia's ATCO network charges more than $1,200 per abolishment,[7] and there are reports of consumers on South Australia's AGN network being quoted up to $2,500.[8]

A managed transition away from gas in the built environment is generally in alignment with the consumer and emissions goals of the National Gas Objective. However, high abolishment fees create an unnecessary disincentive for customers to move off gas – potentially slowing the progress to a decarbonised, lower-cost built environment.

Alternatively, consumers may opt to avoid high abolishment fees by simply cancelling their gas account with their retailer, leaving live gas assets on their property, which is not recommended by most energy safety regulators.

Question 9: How should costs for disconnection/abolishment services be recovered?

At this stage, IEEFA does not have a view of the single best approach to recovering disconnection/abolishment costs. However, we suggest several key principles the AEMC should consider in its decision.

As discussed above, abolishment fees can present a significant upfront cost barrier to consumers wishing to switch off gas, potentially locking them into unnecessary ongoing costs. This cost barrier should be minimised as much as possible.

Minimising the cost of the abolishment service itself is one part of this solution. JEC's proposal to more strictly define the abolishment service is likely to assist with this, as would the development of a more cost-efficient approach to decommissioning gas infrastructure (see our response to Question 14 below).

[5] AER. AER decision supports Victorian gas consumers in energy transition. 2 June 2023.
[6] AER. Final decision: Jemena Gas Networks (NSW) access arrangement 2025 to 2030. May 2025. Page 39.
[7] ATCO. Permanent Disconnections Service. Accessed 8 July 2025.
[8] One Step Off The Grid. Ombudsman backs customer told it would cost $2,500 to cut gas connection. 20 May 2021.

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Furthermore, the AEMC should consider alternative solutions to subsidise abolishment fees that do not impose unfair costs on existing gas consumers. For example, regulated gas distribution networks in Australia made $1.8 billion in supernormal profits between 2014 and 2022 – making their total profits nearly double their regulated allowance.[9]

Most of these profits were enabled by the fact that, under "price cap" regulation, gas distribution networks are exposed to volume risks, and have benefited from actual gas demand being consistently higher than their forecasts.

The experience of this risk has been largely one-sided, benefiting the networks at the expense of consumers. However, as customer numbers are now expected to decline, it may be reasonable for those networks to bear some of the downside risk.

Abolishment costs may be one way gas networks could compensate consumers for their past supernormal profits. However, the AEMC should consider this in the broader context of managing stranded asset risks. For example, supernormal profits could be accounted for when assessing applications for accelerated depreciation.

Question 14: Can the problem be solved in a different way?

AEMO forecasts that residential and commercial gas demand may decline by nearly 40% in the next decade. This implies large numbers of users may leave the network in coming years.[10]

Abolishing gas infrastructure for a large number of individual properties is not an efficient way to manage a large-scale phase-down of the gas network.

It would be more cost-efficient, for example, to disconnect the pipeline serving a wider area, such as a residential street, from the remainder of the network versus disconnecting each individual household on that street from the mains pipeline.

The issues raised in this consultation paper highlight a broader need for co-ordinated planning for the phase-down of gas distribution networks. In the absence of this planning, the cost to decommission the network may end up being much higher than necessary, to the detriment of energy consumers.

Nonetheless, the JEC proposal is an appropriate interim step, and would be compatible with a long-term, more co-ordinated approach to phasing down the gas distribution network.

Overarching comments

Question 3: What distribution networks and customers should ECA's proposed solution apply to?

Question 11: What distribution networks and customers should the proposed JEC solution apply to?

[9] IEEFA. Gas networks are making persistent and significant supernormal profits. 6 June 2024. Page 5.
[10] Based on residential and commercial gas forecasts from the 2025 GSOO (*Step Change* scenario). (AEMO gas forecasting data portal).

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Some gas distribution pipelines are excluded from full regulation under the justification that their services are contestable – i.e. gas is a "fuel of choice".

IEEFA's analysis validates the fact that, in all jurisdictions, efficient electric appliances provide a sensible alternative to household gas appliances that is far more cost-effective, reduces emissions, and provides broader benefits, such as mitigating gas supply gaps.[11]

However, for many households, "choice" has very little role in driving their consumption of gas. Rental properties comprise approximately one-third of households in Australia, and have no ability to upgrade to efficient electric appliances, with rental providers having no incentive to do so. It is often difficult for low-income households to make the upfront capital investment in efficient electric appliances.

All the issues at the core of ECA and JEC's rule requests – the decline in residential gas consumption and resultant stranded asset risks for gas networks – affect non-scheme distribution pipelines as much as they do scheme pipelines.

We therefore consider there is a strong case for consumers on both "scheme" and "non-scheme" gas distribution networks to be shielded from connection-driven growth of the RAB, and to have access to regulated abolishment and disconnection services.

Question 5: What implementation considerations should the AEMC contemplate for the ECA proposal?

Question 13: What implementation considerations should the AEMC contemplate for the JEC proposal?

The nature of the AER's Access Arrangement timelines means it can take many years for new rules or approaches to filter through to all gas distribution customers, resulting in inequities between networks.

For example, gas abolishment is a regulated service in Victoria and NSW following recent Access Arrangement decisions. However, there are very few regulations governing the amount gas distribution networks in other regions can charge consumers for the service.

This lag in timing is problematic given the potentially rapid nature of gas demand reduction from consumer electrification.

It is relatively unique for the AEMC to consider a group of concurrent rule changes with a focus on gas distribution network regulations. Therefore, it may be more appropriate, and efficient, for any resulting changes to be implemented across all gas distribution networks with co-ordinated timing, rather than waiting to implement them at the point of each networks' next access arrangement proposal.

[11] For example, see IEEFA. Appliance standards are key to driving the transition to efficient electric homes. 23 April 2024; and IEEFA. Electrification regulations in Victoria would lower energy bills and reduce gas supply gaps. 2 April 2025.