



29 October 2025

To: Australian Energy Market Commission (AEMC)

Re: National Gas Rule Amendments 2026 (Gas Networks in Transition)

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

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.

In recent years, increasing certainty has emerged around the direction of reticulated gas demand in Australia, with most forecasts now pointing to a decline, particularly driven by residential customers. Nonetheless, uncertainty remains around the pace of this decline – which is likely to be influenced by a combination of underlying economic factors and government policies.

Declining customer numbers and gas volumes may place gas network assets at risk of becoming stranded. This has been recognised by gas distribution network operators and the Australian Energy Regulator. However, the existing National Gas Rules are not designed for such a scenario, and the response to these risks has so far been reactive, lacking consideration of prudent risk management principles.

IEEFA notes an emerging trend to address stranded asset risks by transferring them from networks to customers – whether via accelerated depreciation or changes to the broader form of regulation. This is problematic as a case has not been presented to suggest that gas networks are disadvantaged under the current risk allocation. Rather, there is evidence to show that the existing risk allocation has enabled the extraction of significant supernormal profits from consumers.

In broad terms, IEEFA considers the rule change requests proposed by Energy Consumers Australia and the Justice and Equity Centre are steps in the right direction. The additional matters identified in the AEMC's issues paper are also worthy of consideration. The National Gas Rules will need to become fit for purpose to enable an efficient, safe and equitable phase-down of gas infrastructure.

Specific points relating to the rule change proposals in this issues paper are outlined below.

Kind regards,

Jay Gordon
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Context and proposed scope

Question 1: What are the issues impacting consumers and gas distributors under the energy transition?

The future direction of residential gas demand is increasingly certain, with the market operator and most gas networks anticipating ongoing decline.

However, there remains considerable uncertainty as to the actual pace of gas demand decline. This uncertainty may recede over time as an increasing number of jurisdictions legislate policies impacting electrification.¹

The National Gas Rules (NGR) must be fit for purpose to ensure an efficient, safe and equitable electrification transition that serves the best interests of consumers, as well as supporting jurisdictional efforts to reduce greenhouse gas emissions. IEEFA agrees that the issues identified in the rule change requests made by Energy Consumers Australia (ECA) and the Justice and Equity Centre (JEC), and those additional matters identified in the Australian Energy Market Commission (AEMC)'s discussion paper, will be critical to achieving this.

Separately to any rule change requests, it is important that jurisdictional governments develop clear, coordinated plans to manage the electrification transition. Some governments are taking initial steps to prevent future growth of the gas network and encourage the orderly electrification of households. However, as the regulation of gas networks is a national affair, it would be helpful to develop a coordinated national plan for the phase-down of gas distribution networks. This plan should include:

- Principles for the management and allocation of stranded asset risks.
- Guidelines for a cost-efficient approach to physically decommission gas infrastructure.
- A plan to continue delivering safe and reliable energy services to all users of the gas network – including those who currently face barriers to electrification.

In the absence of such planning, we are likely to see increasing instances of, in the first instance, smaller gas networks becoming economically unviable without an advance plan of how to support consumers.

While such policy changes may be outside the control of the AEMC, it should still consider what rule changes may be necessary to empower governments to plan for the phase-down of gas – for example, ensuring the regulations enable networks and/or governments to support consumers to switch off gas if it becomes economically advisable to decommission sections of the network.

¹ For example, the Australian Capital Territory has set explicit timelines for the end of fossil gas use. Victoria has legislated a ban on new homes connecting to the gas network, as well as regulations and incentives likely to accelerate electrification in existing homes. New South Wales has committed to developing a 'Gas Decarbonisation Roadmap'.



Expenditure

Question 2: What changes, if any, should be made to the NGR capital expenditure criteria?

IEEFA agrees with ECA's concerns that recent capital expenditure proposals are inconsistent with the likely decline of gas. Gas distribution networks' existing assets face considerable stranding risks, as acknowledged in their requests for accelerated depreciation. Under such a scenario, a prudent approach should involve minimising additions to the capital asset base.

IEEFA supports ECA's proposal to include additional capital expenditure criteria in the NGR, including:

- Requiring analysis of the cost and benefits of alternative investments, and of inaction.
- Requiring more rigorous justification for any decision to prematurely replace an asset.
- Requiring networks to engage with regulatory agencies to explore lower cost options when there is an unavoidable regulatory driver for new expenditure.
- Prohibiting 'renewable gas' expenditure from being recovered across the broad consumer base.

Additionally, we urge the AEMC to consider the following:

- **'Alternative investments' must include alternatives to reticulated gas.** IEEFA's analysis finds that efficient electric appliances are generally far more cost-effective for consumers than gas appliances. In many circumstances, it is likely to be more economically efficient for a gas network to support some of its customers to switch to electricity, rather than investing in new gas assets that will become stranded. Similarly, converting consumers to bottled gas for small appliances like cooktops may be more economically efficient than providing the same service via reticulated gas.
- **Gas networks' expenditure proposals must be subject to greater scrutiny.** The benefit of more stringent capex criteria could be muted if the regulator does not provide adequate scrutiny over networks' expenditure proposals. As noted by ECA, the combination of the 'propose-respond' regulatory model and information asymmetry between networks and the regulator may inherently bias the final determination in the favour of networks. Indeed, IEEFA analysis identified a potential long-term trend of demand under-forecasting across gas distribution networks. It is likely that forecasts were not scrutinised adequately by the Australian Energy Regulator (AER), and this effect contributed to consumers paying an estimated \$1.5 billion more than necessary for gas network services between 2014 and 2022.²

² IEEFA. [Gas networks are making persistent and significant supernormal profits](#). 6 June 2024. Page 25.



ECA's 'planning requirements' rule change proposal may help to address information asymmetry concerns. However, it is also necessary to hold the AER to account to provide appropriate scrutiny over networks' proposals. This could involve greater performance evaluation and monitoring of the AER.

Question 3: Are any changes required for operating expenditure?

Any updates to the capital expenditure criteria should be matched via commensurate updates to operating expenditure criteria.

IEEFA notes that in previous regulatory decisions, the AER has effectively approved operating expenditure to be recovered from consumers for 'renewable gas' programs, including promotional campaigns.³ The Australian Competition and Consumer Commission (ACCC) has since launched federal court action against Australian Gas Networks (AGN) over such promotional campaigns, alleging that they include false and misleading representations around the likely role of 'renewable gas'.⁴

We also agree with ECA's view that expenditure incurred to increase long-term demand for pipeline services should be removed from the definition of operating expenditure. Such an increase in demand is no longer in the long-term interests of gas consumers.

Accelerated depreciation

Question 4: Does the current framework effectively manage and allocate risk and costs between consumers and network service providers in the context of uncertain demand?

While the NGR were not designed for a future with declining gas demand, it is important to acknowledge that they do contain an implicit allocation of stranded asset risks.

Gas networks are not guaranteed full cost recovery under the NGR.⁵ Rather, they are provided "with a *reasonable opportunity* to recover at least the *efficient costs*" [emphasis added] to provide regulated services and meet regulatory obligations.⁶ Provisions also exist within the NGR to deal with capital asset redundancy.⁷

What constitutes a "reasonable opportunity" and "efficient costs" may be subjective. Nonetheless, this implies that gas distribution networks have some degree of exposure to their own stranded asset risks. It is reasonable to expect that the owners of gas distribution networks understood this risk allocation when purchasing the business.

³ IEEFA. ['Renewable gas' campaigns leave Victorian gas distribution networks and consumers at risk](#). 17 August 2023. Page 22.

⁴ ACCC. [Australian Gas Networks in Court over alleged greenwashing in renewable gas campaign](#). 26 June 2025.

⁵ AER. [Final decision – Jemena Gas Networks \(NSW\) access arrangement 2025 to 2030 – Attachment 4 – Regulatory depreciation](#). May 2025. Page 20.

⁶ [National Gas \(South Australia\) Act 2008](#). National Gas Law – Section 24 – Revenue and pricing principles relating to scheme pipelines.

⁷ AEMC. [National Gas Rules](#). 85 – Capital redundancy.



A recent shift in practice has seen the AER grant networks considerable allowances for accelerated depreciation.⁸ This allows networks to recover a greater share of their asset costs from consumers over the course of an access arrangement period. The AER has described accelerated depreciation as a “temporary tool”; one of the few regulatory options it sees available under the NGR to manage stranded asset risks.⁹

The AER has also framed accelerated depreciation as a tool to “facilitate an equitable and efficient allocation of costs between current and future gas customers.”¹⁰ However, this is misleading, as it implies that consumers alone are liable for the cost of gas networks; as noted above, this is not technically the case under the NGR.

In practice, gas networks have liability over their stranded asset risks, and accelerated depreciation reallocates some of that risk to consumers. Such a reallocation would only be justified if there is a clear case to suggest that the existing allocation of risks has unfairly favoured consumers. No such case has been made.

Rather, a reasonable case could be made to suggest that the owners of gas distribution networks – including overseas state-owned corporations and multinational infrastructure investment firms – are better placed to manage asset stranding risks than gas consumers, including low-income households and renters who cannot electrify.

Further underwriting their ability to manage stranded asset risks, is the fact that regulated gas networks in Australia recovered an estimated \$1.8 billion in supernormal profits from consumers between 2014 and 2022.¹¹

Question 5: How does ECA’s proposal impact the recovery of capital costs for new and existing assets?

Question 6: How does JEC’s proposal impact the recovery of capital costs?

Gas networks are not guaranteed the ability to fully recover their costs under the NGR. Neither ECA nor JEC’s rule change proposal would appear to change this.

If gas networks were able to satisfy the conditions on accelerated depreciation proposed in either ECA or JEC’s rule change requests, they may in theory be able to recover the same level of capital costs as they otherwise would in a scenario where the AER continues its current approach to accelerated depreciation.

However, in practice, the introduction of more stringent conditions is likely to constrain networks’ accelerated depreciation allowances to more justifiable levels.

Both ECA and JEC’s rule change requests respond to a critical gap in recent accelerated depreciation decisions: a lack of rigorous methodology behind the final determination. In IEEFA’s view, gas networks should be required to provide a much more explicit justification for why

⁸ For example, see the latest access arrangement decisions for [Jemena](#) and [Victorian gas networks](#).

⁹ AER. [Draft decision – Jemena Gas Networks \(NSW\) access arrangement 2025 to 2030](#). November 2024. Page 11.

¹⁰ AER. [Regulating gas pipelines under uncertainty: Information paper](#). November 2021. Page ix.

¹¹ IEEFA. [Gas networks are making persistent and significant supernormal profits](#). 6 June 2024. Page 5.



particular assets should not be subject to the default life requirements and risk allocation implicit in the NGR.

Our view on the specific rule change proposals is as follows:

- **ECA and JEC’s alternative solutions** to effectively prohibit accelerated depreciation are the most preferable option. As discussed above, we do not believe a clear case has been articulated to explain why the stranded asset risk allocation should be altered in the favour of networks.
- **JEC’s central proposal** is the next preferable option. This would provide much-needed clarity on the conditions under which accelerated depreciation should be used by the regulator. This is currently unclear in the NGR, leading to a broad-brushed approach of approving lump sum amounts of accelerated depreciation.
- **ECA’s central proposal** represents an improvement compared to the current state, as it disincentivises networks from growing their stranded asset risks. However, it may not go far enough to protect consumers from seeing increased exposure to existing stranded asset risks.

Planning requirements

Question 7: Are new planning requirements necessary?

Increased planning requirements for gas networks would be helpful. There is currently an information asymmetry between gas networks and other parties (including the AER, jurisdictional governments and the public). This limits the AER’s ability to provide appropriate scrutiny over networks’ expenditure proposals, which is problematic given (as described by ECA) the “irresistible incentives” for networks to maximise their capex allowances.

It also limits jurisdictions’ ability to appropriately plan for the phase-down of gas. While defection from reticulated gas networks is currently occurring on a house-by-house basis, a much more efficient approach in the long term will be to consider strategically decommissioning sections of the gas network at a time. This will require reliable information on the spatial layout of the network, and on the age of specific assets.

IEEFA does not have a specific position on the best mechanism to convey this information. However, it will be critical to ensure useful information is conveyed at an appropriate level of detail. This would include mapping of individual assets on the network, asset ages, and connection and consumption statistics down to the necessary level of spatial granularity.

Information asymmetry is particularly stark for non-scheme pipelines, disproportionately impacting consumers in regional areas. Recent examples in Western Australia¹² and Victoria¹³

¹² SwitchedOn. [How the WA town of Esperance transitioned off gas in just 12 months](#). 24 June 2024.

¹³ ABC News. [Solstice Energy to cut gas supply to 10 regional Victorian towns](#). 5 August 2025.



have highlighted that smaller gas distribution networks in regional areas often have particularly fragile economics. A lack of oversight over the financial and operational performance of these networks means governments and consumers may be blindsided by sudden decisions by the operator to cease providing services.

Further considerations

Question 8: Would a longer-term outlook on the gas transition support better regulatory decision-making?

In practice, most gas distribution networks are already considering longer-term outlooks when preparing their access arrangement proposals, often with reference to the Australian Energy Market Operator (AEMO)'s *Gas Statement of Opportunities* forecasts.¹⁴

As discussed above, there is broad consensus on the direction of future reticulated gas demand – a decline. However, uncertainty remains in the specific long-term pace of that decline.

AEMO's *Gas Statement of Opportunities* provides one of the best available long-term forecasts of gas demand, incorporating the impacts of announced government policies. However, any forecast, including AEMO's, carries a significant degree of uncertainty. It is unclear whether requiring networks to produce their own longer-term outlooks would provide additional value. We also note that networks currently have incentives to under-forecast their demand, and therefore may not be best-placed to provide these outlooks.¹⁵

What is more important is to ensure that the NGR requires networks and the regulator to consider that long-term outlook in the decisions made for a given access arrangement.

Question 9: Are changes to reference tariff variation mechanisms necessary?

Gas networks have traditionally been regulated under a price cap tariff variation mechanism. However, recent trends have seen gas networks request alternative forms of tariff variation mechanisms – some of which have been approved by the AER.

A price cap approach allocates demand risk within an access arrangement period to networks. In other words, networks are expected to bear any additional or reduced revenue resulting from a difference in actual demand for their services, versus the approved forecasts.

In practice, networks in aggregate appear to have only experienced the upside of this risk – extracting an estimated \$1.5 billion in 'revenue over-recovery' between 2014 and 2022.¹⁶ In IEEFA's view, a likely driver for this was consistent under-forecasting of demand.¹⁷

¹⁴ AEMO. [Gas Statement of Opportunities](#). Accessed 23 October 2025.

¹⁵ IEEFA. [Gas networks are making persistent and significant supernormal profits](#). 6 June 2024. Page 5.

¹⁶ Ibid. Page 25.

¹⁷ Ibid. Page 19.



Demand under-forecasting may not be possible in a context of certain gas demand decline at uncertain pace. This motivates networks to shield themselves from demand risk via a revenue cap or hybrid approach, which reallocates some or all of that demand risk to consumers.

Such a reallocation of risk would only be justified if it were found that consumers were unfairly favoured under the existing risk allocation. However, the evidence suggests that the opposite is true, with consumers having paid more than necessary to access gas networks between at least 2014 and 2022.

As a minimum, the NGR should be adjusted to introduce explicit criteria to justify why a change to the tariff variation mechanism should be allowed, including an assessment of networks' and consumers' experience under the existing risk allocation. Changes to the tariff variation mechanism should not be allowed if this criteria is not met.

We consider it unlikely that there would be a strong case to convert networks to an alternative tariff variation mechanism under such criteria. A simpler approach may therefore be to explicitly require gas networks to be subject to a price cap mechanism.

Question 10: Are changes to the tariff rules necessary?

Objectively, we consider that a declining block tariff structure, commonly used by gas distribution networks, is inconsistent with the National Gas Objective (NGO) as:

1. It incentivises greater and prolonged use of gas at a time when gas networks assets may become stranded, which is against the interests of consumers.
2. It incentivises increased combustion of a fossil fuel, which is directly counterproductive to the achievement of jurisdictional greenhouse gas emissions targets.

Alternative tariff structures exist that would theoretically reverse these incentives – such as inclining block structures. However, in practice gas network tariffs are already highly complex. Block structures can vary considerably by retail offering, including the number, size and duration of blocks, the variability between peak and off-peak seasons, and the timing of those seasons.

As such, it is not clear whether small gas consumers are likely to be materially responsive to equally complex gas network tariff structures with different underlying incentives.

It may be appropriate to update the NGR to discourage declining block structures, and encourage networks to offer simplified structures – such as a fixed daily rate and single volumetric rate.

Question 11: Should the regulator be able to require shorter or longer access arrangement periods?

It is not clear to IEEFA whether this would result in a material benefit.

A shorter access arrangement period would allow gas distribution networks to reset their demand forecasts more frequently and respond more rapidly to a change in context. Under price cap



regulation, this would shield gas networks from some demand risks – but it would at the cost of exposing consumers to more frequent price changes.

While the AEMC notes that a longer access arrangement period could support a longer-term outlook in decision-making, we consider that such an outlook could be improved within the existing four-year access arrangement process, if other rule changes proposed in the issues paper were implemented well. These rule changes address some of the most material existing drawbacks of the short-term outlook – ensuring that risk allocation and capital expenditure properly considers the long-term declining outlook for reticulated gas demand.

Question 12: Are changes required to the re-opener provisions?

It is preferable to minimise the number of access arrangement re-openers. Changing the terms of an access arrangement in the middle of the period represents a considerable disruption, imposes a significant regulatory burden and materially changes the risk profile.

The current re-opener process is problematic as it is asymmetric between networks and consumers, who do not have a similar opportunity to reopen the access arrangement.¹⁸

These provisions were recently tested by AusNet Services, who requested to re-open its Victorian gas network access arrangement in response to state policy developments. This request was ultimately refused by the AER.

In IEEFA's view, access arrangement re-openers are not an appropriate tool to respond to most policy updates. We note that jurisdictional policy developments affecting reticulated gas are rarely abrupt or unforeseen. For example, Victoria's initial *Gas Substitution Roadmap* clearly communicated the state's intention to continue developing policies to support electrification.¹⁹

We broadly agree with the AEMC's proposal to provide the AER with the power to propose an access arrangement variation, and to constrain networks' ability to trigger a variation. However, this should be accompanied by stringent criteria outlining the limited set of circumstances under which an access arrangement re-opener might be necessary – explicitly excluding policy developments that ought to have been captured in the range of uncertainty that networks are required to consider in their access arrangements.

Question 13: Should there be changes to the existing or additional incentive mechanisms?

Evidence suggests that gas networks have made relatively limited use of their existing incentive mechanisms.²⁰ The AER has reviewed these schemes as recently as 2023, and it is unclear that there would be any material benefit from altering them further.²¹

¹⁸ AER. [Final decision: AusNet Gas Services \(Victoria\) 2023-28 access arrangement variation proposal](#). May 2025. Page 4.

¹⁹ Department of Energy, Environment and Climate Action. [Victoria's Gas Substitution Roadmap](#). 2022. Page 56.

²⁰ For example the AER's [Gas Network Performance Report \(2023\)](#) shows incentive schemes resulted had a negligible impact on the difference between networks actual and allowed real return on equity (page 52).

²¹ AER. [Review of incentives schemes for networks. Final decision](#). April 2023.



The AEMC contemplates the idea of additional incentive mechanisms to ensure the safe and reliable service of gas to customers as demand on the network declines, or to promote more efficient expenditure in the face of declining demand. However, we consider these aims could be achieved through other more reliable means. For example:

- Gas networks are already subject to federal and jurisdictional regulations that require them to deliver safe and reliable services to consumers; and
- Other rule changes considered in this consultation paper would likely be more effective at minimising expenditure in the context of declining demand.

Furthermore, there may be limited social appetite for increasing the incentives available to gas distribution networks, given they have recovered an estimated \$1.8 billion in supernormal profits from consumers between 2014 and 2022.²²

Question 14: Could the proposed changes inefficiently incentivise pipeline elections?

The AEMC notes that “there is a potential for changes to the regulatory framework to create incentives for non-scheme pipelines to elect to become scheme pipelines (for example, because they perceive the changes would provide better protection from the risks that capital costs for past efficient investments would be underrecovered).”²³

IEEFA agrees that such a situation would be undesirable, as it would represent a further shift in risk allocation from networks to consumers. It is also an asymmetric opportunity, as consumers of scheme pipelines are unable to trigger a change in that pipeline’s form of regulation. However, we also note that the implementation of the rule changes as proposed by ECA and JEC should not result in an increased guarantee that scheme pipelines will be able to recover their full costs.

Nonetheless it may be prudent to alter the framework for pipeline elections, to enable the AER to assess whether a non-scheme pipeline should become a scheme pipeline. Any such change should be subject to clear criteria, such that an election cannot proceed purely on the basis of networks wishing to adopt a more preferable risk allocation profile, when this may disadvantage consumers.

²² IEEFA. [Gas networks are making persistent and significant supernormal profits](#). 6 June 2024. Page 5.

²³ AEMC. [Consultation paper, National Gas Rule Amendments 2026 \(Gas networks in transition\)](#). 18 September 2025. Page 38.