ENERGY CONSUMERS AUSTRALIA

Updating the regulatory framework for gas connections (GRC0085)

ECA Submission to the AEMC's draft determination and draft rule

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Energy Consumers Australia is the national voice for household and small business energy consumers. We advocate for a fair, affordable, and reliable energy system that meets everyone's needs and leaves no one behind on the journey to net zero.

1.1 Introduction

Energy Consumers Australia (ECA) welcomes the opportunity to comment on the Australian Energy Market Commission's (the Commission) draft determination and draft rule for *Updating the Regulatory Framework for Gas Connections*.

We commend the Commission for responding constructively to ECA's rule change proposal and for taking significant steps toward modernising the connection-charging criteria for gas distribution networks. The draft rule represents a meaningful and timely reform that will help ensure that connection policies remain fair, transparent, and economically efficient as the energy system transitions.

The Commission rightly recognises that the existing National Gas Rules (NGR) were written for an environment of stable or growing gas demand, and that this assumption no longer holds. Electrification, decarbonisation targets, and changing consumer behaviour are reshaping the outlook for gas use, creating uncertainty for networks and consumers alike. In this context, the regulatory framework must ensure that:

- costs and risks are allocated efficiently and fairly;
- households and small businesses are protected from paying for network investments that primarily benefit others; and
- connection charging criteria remain fit for purpose under conditions of uncertain future gas demand.

ECA notes that the Commission has substantially adopted the intent of our original rule change request. The refinements outlined in this submission are not intended to reopen settled questions but to ensure that the rule operates effectively for consumers in practice, particularly through the Australian Energy Regulator's (AER) implementation and oversight.

ECA's assessment of the draft determination focuses on three key areas:

1. **ECA strongly supports the removal of the Net Present Value (NPV) test and the move to up-front cost-reflective charging.**

This change would correct a structural flaw in the current framework that exposes existing consumers to the costs and risks of new connections. Requiring connection charges to reflect directly attributable, prudent and efficient costs ensures a clearer link between who pays and who benefits, and that risks sit with those best placed to manage them.

2. **ECA supports limiting the rule to retail customers at this stage but recommends monitoring non-retail and non-scheme connections to ensure consistent consumer outcomes.**

While the exclusion of non-retail and non-scheme pipelines is reasonable given jurisdictional differences, these connections remain less transparent and subject to weaker safeguards. The AER should monitor whether these arrangements lead to residual cross-subsidies or inequities between customer types and jurisdictions.

3. ECA accepts the Commission's decisions to retain model standing offers but emphasises that their success depends on strong regulatory oversight and transparency.

Standardised model standing offers can simplify administration, but their effectiveness will hinge on clear cost definitions, publication of underlying assumptions, and reconciliation between forecast and actual costs. Without these measures, the reform risks reintroducing cost averaging and hidden cross-subsidies.

With these refinements, the final rule will ensure that the updated connection charge criteria support an orderly and equitable gas transition where it will deliver cost-reflectivity and fairness for households and small business energy consumers.

Thank you for considering this submission. If you have any questions, please contact Claire Ohk at Claire.Ohk@energyconsumersaustralia.com.au.

Assessment of the Commission's Draft Determination and draft rule

Upfront connection charges for retail customers

ECA welcomes the removal of the NPV test and strongly supports the introduction of clear principles requiring connection charges to reflect the directly attributable, prudent, and efficient costs of providing the connection service.[1] This is a significant and necessary reform that aligns with the intent of ECA's rule change request and will help ensure that those who choose to connect bear the true cost of their decision, rather than existing gas consumers who may have limited ability to electrify or disconnect.

From a consumer perspective, this reform is not only about sending efficient price signals but about ensuring that risk sits with those best able to manage it rather than households who remain dependent on gas as the network scales down. The new approach aligns with the Victorian Essential Services Commission's (ESCV) Gas Distribution Code of Practice[2] and with ECA's original proposal.[3] It promotes efficient investment decisions, equitable cost allocation, and a more transparent allocation of risk.

The AEMC's draft rule adopts a hybrid approach, combining principles-based guidance with defined cost categories. The new criteria strike a reasonable balance between providing guidance and allowing flexibility to accommodate different types of connections. ECA supports this approach as a practical first step toward modernising the connections charges criteria and embedding the principle of cost-reflectivity in the rules. At the same time, the framework remains highly reliant on how the AER and distributors interpret and apply these criteria in practice. Without clear definitions and consistent cost-allocation methods, there remains a risk that cost averaging or shared overheads could still be included in connection charges, re-introducing the kind of implicit socialisation our rule change aimed to prevent.

ECA therefore encourages the AER to operationalise the new criteria in a way that preserves both transparency and discipline. In particular, the AER should:

- develop additional guidance that clarifies allowable cost categories (including the treatment of "incidental" costs and overheads);
- explore options to improve consistency in the key cost assumptions used to develop model standing-offer prices; and

[1] AEMC, *Gas Connections,* Draft rule determination, p.20
[2] ESCV Gas Distribution Code of Practice Review: Final decision, p. 25
[3] ECA, Connections: Rule Change Request, pp. 17–18

- consider publishing comparative information on how distributors apply the connection-charge criteria across jurisdictions.

These matters are primarily for the AER's implementation. However, the Commission should signal in its final determination that the AER should develop guidance or comparative reporting consistent with the intent of this rule change. Such guidance could clarify allowable cost categories, the treatments of overheads, and expectations for demonstrating prudency and efficiency. Comparative reporting such as periodic publication of connection-charge assumptions and outcomes across distributors and jurisdictions would also provide transparency on how the new criteria are being applied in practice. These types of information would help organisations and consumer advocates identify where connection costs differ materially between networks or customer type, enabling them to raise emerging issues early and engage more effectively in AER reset processes.

Scope of coverage

The draft rule applies only to retail customers under Part 12A in NECF jurisdictions (NSW, ACT, SA and QLD) while excluding non-retail customers and non-scheme pipelines.[4] The Commission's rationale is that Part 6 of the NGR already governs non-retail connections and that non-scheme operators are incentivised to recover costs up front.

ECA accepts the Commission's reasoning that non-retail customers and non-scheme pipelines continue to be governed by Part 6, which requires interconnecting parties to fund interconnection costs directly. However, Part 6 does not provide equivalent consumer safeguards to those established in Part 12A for retail customers.

- Rule 37(b) requires the interconnecting party to fund its own connection, but it does not address how downstream augmentation costs are treated.
- Rule 38(3) requires interconnection fees to reflect "directly attributable cost," yet lacks a prudency or efficiency test and any prohibition on downstream cost socialisation.
- Unlike Part 12A, as amended by the draft rule, Part 6 contains no transparency or AER oversight requirements, leaving outcomes opaque to other users.

While non-scheme and non-retail pipelines primarily serve large industrial or commercial users,[5] ECA recognises that a small number of households and small businesses, particularly in regional or remote areas, may also be supplied through privately owned or non-scheme distribution systems. These consumers may not receive the same transparency or regulatory oversight in connection charging that applies under Part 12A.

That said, ECA acknowledges that the scale of this issue is likely limited, and there is currently no clear evidence of consumer harm. For this reason, we are not seeking to expand the scope of the draft rule and support the Commission's decision to limit the rule to retail customers at this stage but recommends that the AER monitor whether non-retail connections under Part 6 lead to residual cross-subsidies or inequities. Should evidence of such inequitable outcomes emerge, ECA would support further amendments to align outcomes for non-retail and retail customers under Part 12A, consistent with the

[4] Draft rule determination, p.2

[5] See Australian Gas Infrastructure Group, "Pipelines" (describing the South Gippsland Non-scheme transmission pipeline, part of which operates at distribution pressure), available at: Pipelines | AGIG. The reference to segments operating at distribution pressure (<1050 kPa) indicates that this non-scheme pipeline supplies gas beyond a single industrial customer and is capable of serving multiple small-scale users, such as households or small businesses, within regional towns along its route. This suggests that while non-scheme pipelines primarily serve industrial or commercial customers, some also support mixed-use or small-customer supply in regional contexts.

intent of our proposed Part 12B to extend equivalent safeguards to non-retail customers. Any such review should occur in a timely manner to ensure that all households and small businesses experience fair and transparent outcomes as the gas market transitions.

Model standing offers

The AEMC's decision to retain model standing offers for basic and standard connection services recognises the administrative burden that would arise from requiring individually costed connections.[6] ECA recognises that this approach is a practical way to manage administrative effort and predictability for both distributors and customers.

ECA's original proposal sought to ensure that new connections were priced as accurately and transparently as possible by requiring distributors to calculate and charge the actual, directly attributable cost of each connection. This approach would have provided stronger cost-reflectivity and clearer signals to customers about the true cost of connecting to the network while ensuring that no connection costs were added to the RAB.

The AEMC broadly accepted the principle of cost-reflectivity but replaced the mechanism with a continuation of model standing offers which are standardised, AER-approved schedules of forecast connection prices. Given this approach appears to achieve the same outcome of preventing cross-subsidisation between connecting customers and existing customers and ensuring transparency, ECA supports the Commission's decision.

Under the existing NGR, distributors must have a model standing offer for basic connection services (connections that do not require significant augmentation) and may develop one for standard connection services (more complex but still typical connections such as small commercial sites or multi-dwelling developments).[7] The draft rule retains this distinction, but as the Commission notes, no distributors currently have a model standing offer for standard connection services.[8] The practical implications of the draft rule are therefore modest and its effectiveness will depend on how the AER implements and regulates the framework.

ECA considers that the AER will be able to monitor and avoid cross-subsidisation in this framework, but we caution that standardised pricing still carries a risk of "back-door" cross subsidisation if oversight is not rigorous. The key concern is ensuring that existing customers are not subsidising the cost of new connections, and that significant cost differences between connection types are not averaged in ways that unfairly shift costs between connecting customers. We acknowledge, however, that some degree of averaging is practical and efficient where it reduces administrative complexity.

We encourage the Commission and the AER to be explicit about how they will monitor and enforce this principle.

The draft rule also specifies that distributors are not required to refund customers if actual connection costs are lower than the model standing-offer charge and cannot recover any shortfall through the RAB.[9] ECA supports the prohibition on addition of connection costs to the capital base, which closes an important pathway for cost socialisation. However, the absence of a refund or reconciliation mechanism means that distributors retain any surplus collected through conservative pricing. This might create an incentive to set standing-offer prices above expected costs, enabling over-recovery of the connection

[6] Draft rule determination., p.12
[7] NGR Part 12A, Rules 119B(1)–(2) (basic connection services) and 119E(1) (standard connection services).
[8] Draft rule determination, p.26
[9] Ibid., p.20

charge itself. We recognise that there may be countervailing incentives to add customers to the network, but as a point of principle, we consider it important that consumers have safeguards against excess connection charges, especially given they cannot choose another provider to carry out this service.

The AEMC's preferred decision to retain model standing offers continue to rely on a "top-down" framework in which forecasts costs are averaged and revenues are managed through the AER's price path rather than from the bottom up based on the actual cost of each connection. ECA encourages the Commission and the AER to remain alert to these dynamics and to consider, over time, whether complementary measures could strengthen cost discipline with the standing-offer framework. For example, modest caps on annual connection price increases could reinforce efficient cost recovery while maintaining fairness for consumers.

ECA strongly supports the new transparency requirements for the AER to publish its decisions when approving or rejecting model standing-offer proposals.[10] These publications are an essential accountability measure that will give consumers and advocates valuable visibility into how cost-reflective principles are being applied in practice.

To build on this, ECA encourages the AER to further enhance transparency and oversight, by:

- publishing the cost build-ups and key assumptions underlying model standing-offer prices; and
- regularly comparing forecast and actual connection costs, reporting any material variances.

These safeguards would ensure that the new framework genuinely fulfils its purpose by placing connections costs where they belong, on those who choose to connect, while providing the transparency and accountability required to protect consumers as gas demand declines.

Conclusion

ECA welcomes the Commission's draft determination and rule as an important step toward modernising the connection charge criteria and improving how connection costs are allocated in a changing energy landscape. The removal of the NPV test and the introduction of upfront, cost-reflective charging represent meaningful progress toward ensuring that costs and risks are more closely aligned with those who create them. The draft rule's revised connection charge criteria, publication requirements, and focus on prudent and efficient investment have the potential to deliver fairer outcomes for consumers. With some additional clarity and AER guidance, particularly on allowable cost categories, model standing-offer pricing, and transparency, these reforms could provide a stronger foundation for consistent and equitable implementation across jurisdictions.

Ultimately, the effectiveness of the final rule will depend on how it operates in practice. ECA encourages continued collaboration between the Commission, the AER, and stakeholders to ensure that the new arrangements protect consumers by maintaining transparency, avoiding unnecessary cross-subsidies, and supporting efficient decision-making as gas networks evolve.

ECA appreciates the opportunity to provide this submission and looks forward to continuing to engage with the Commission and the AER as these reforms progress and the broader gas network transition framework evolves.

[End of submission]

[10] Ibid., p.27

The national voice for residential and small business energy consumers

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