To: Australian Energy Market Commission (AEMC)

30 October 2025

Gas networks in transition

We appreciate the opportunity to comment on the AEMC's *Gas networks in transition* discussion paper, incorporating the two National Gas Rule (NGR) amendments proposed by Energy Consumers Australia (ECA) and the Justice and Equity Centre (JEC). We welcome the AEMC's recognition of the need to reform gas network regulation in the context of energy change and climate action.

About Environment Victoria

Environment Victoria is the leading not-for-profit environmental advocacy organisation in Victoria. With more than 40 grassroots member groups and over 200,000 individual supporters, we've been representing Victorian communities on environmental matters for over 55 years. Through advocacy, education and empowerment, Environment Victoria seeks significant and enduring solutions that will safeguard the environment and future wellbeing of all Victorians.

Introduction

The need for reform is especially pressing in Victoria. Victoria's gas infrastructure and practices formed around historically abundant and affordable local gas supplies, but today those supplies are running out and alternatives for new gas supply (including renewable gas, unconventional onshore gas, liquefied natural gas (LNG) import terminals, and pipeline expansions) incur high costs, are not clearly aligned with climate pollution targets, and in many cases do not have the support of local communities.

Gas demand is decreasing rapidly in Victoria as consumers repsond to high gas prices and take up electric alternatives. Residential and small commercial (tariff V) demand per connection in Q2 has dropped 33 percent since 2020, and the previously strong correlation between winter weather and residential gas use is breaking down.[1] This trend is not surprising given the tripling of gas prices over the last decade since the commencement of LNG exports from Queensland.[2]

[1] Joshua Runciman, 'Slump in Eastern Australia Gas Demand Shows No Signs of Easing', accessed 23 October 2025, https://ieefa.org/resources/slump-eastern-australia-gas-demand-shows-no-signs-easing.
[2] Kevin Morrison and Amandine Denis-Ryan, *LNG Exports Prompt Fall in East Coast Gas Demand* (IEEFA, 2024), https://ieefa.org/sites/default/files/2024-12/LNG%20exports%20prompt%20fall%20in%20east%20coast%20gas%20demand_Dec24.pdf.

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We note that a complicating factor in Victoria has been government-led gas pipeline expansions over the past two decades. These expansions, which included both scheme and non-scheme pipelines, tend to have marginal business cases and have left some areas vulnerable to (or already subject to) strategic decommissioning.

We have previously engaged with energy market bodies on the issue of gas network regulation. Environment Victoria's submission to the Australian Energy Regulator regarding AusNet Services' proposal to vary their access arrangement argued that a transition away from gas has been foreseeable for many years and gas networks have already had reasonable opportunity to recover their efficient costs. Uncertainty about the speed of the transition, as well as the existing problem of networks making supernormal profits[3], means that the modelling that underpins the networks' access arrangements is increasingly inaccurate. We argued for ex post evaluation of modelling assumptions and for regulators to require networks to reinvest supernormal profits. We also noted a need for formal planning of how the costs of gas network redundancy should be fairly apportioned.

Summary of this submission

<u>There is already an unfair allocation of risk to the detriment of consumers</u>

- Consumers are at a stark information disadvantage compared to gas networks when it comes to investments and decision-making.
- Investors in gas networks are not guaranteed full cost recovery and have already factored risk into their decision-making.
- Gas networks are systematically advantaged by regulatory settings, resulting in consistent superprofits over and above risk-reflective returns.
- Gas networks need to be accountable for their underforecasting of demand in access arrangements. Currently they receive only benefit and bear no risks from underforecasting. This is especially pressing as demand is declining at an uncertain pace and becoming harder to accurately predict.

<u>Reforms can improve consumer fairness</u>

- Accelerated depreciation is not justified while risks are overallocated to consumers. Accelerated depreciation is only justified if consumers are receiving excessive benefits.
- Similarly, price cap mechanisms should be reviewed and options that further overallocate demand risk to consumers should not be allowed.
- We support the ECA and JEC rule changes regarding accelerated depreciation. A benefit of the JEC's rule change is that it strengthens network accountability by requiring them to identify redundant assets. If additional costs must be borne by consumers, this should result in real-world action.
- Networks should be limited in their ability or disincentivised to connect new customers while claiming accelerated depreciation and vice versa.

[3] Jay Gordon, *Gas Networks Are Making Persistent and Significant Supernormal Profits* (IEEFA, 2024), https://ieefa.org/sites/default/files/2024-06/Gas%20networks%20are%20making%20persistent%20and%20significant%20supernormal%20profits_May24.pdf.

Planning is needed to protect and inform consumers

- Gas networks should be required to produce annual gas planning reports.
- Governments at all levels need access to the information required to plan for change, including asset and consumer data. Data should be made public, to the extent customer confidentiality allows, for use in analysis and advocacy.
- Reforms need to be fit for parts of the network that are vulnerable to strategic decommissioning and those less vulnerable but subject to long-term increases in network costs.

Electrification is the only credible decarbonisation pathway for the vast majority of consumers

- Renewable gas is not a credible decarbonisation pathway for the vast majority of consumers, and the AEMC should be wary of greenwashing by gas networks.
- Gas networks should not be able to assume future growth for renewable gas on the one hand and redundance or depreciation on the other, in relation to both capital and operating expenditure.

Information asymmetry and vulnerability to strategic retreat

In this current consultation we are asked to consider how gas networks might recover the costs of their efficient capital investments. However, consumers have also made investments, from the point of connection downstream to the appliances behind the meter. These decisions may have been based on incorrect advice from gas companies (and, at times, government) and with zero visibility of the ongoing economic viability of the gas network.

Recently the retailer Solstice Energy announced the closure of the compressed natural gas (CNG) networks owned by Tasmanian Gas Networks to 10 regional Victorian towns. Although these are non-scheme pipelines and hence not subject to full regulation, the example is instructive as it highlights the ongoing information asymmetry between gas networks and consumers.

The networks were built as part of the Ballieu-Napthine government's *Energy For The Regions* program. These extensions were never economic; distributors were induced to participate by being offered subsidies and allowing trucked CNG. Residents and businesses were promised—in 2014, one year before east coast LNG exports kicked off price rises and three years before the first warning of winter shortfalls—that their "energy bills will be slashed" and that Victoria had "abundant offshore gas reserves".[4] As we know now, neither claim was true, however consumers connected to the new service on this basis.

Since the Solstice Energy shut down announcement it has emerged that some consumers connected to this network only recently and spent large sums on gas appliances.[5]

Measures to phase out certain gas appliances under the Victorian government's Gas Substitution Roadmap are very positive steps that better align consumer decision-making with the direction of the gas market. However, large gaps remain and different rules are in place in different parts of Victoria and Australia.

[4] '"Priority Towns" Cooking with Gas', 30 September 2014, https://www.weeklytimesnow.com.au/news/opinion/victorias-priority-towns-cooking-with-gas-under-energy-for-the-regions-program/news-story/4febf340316d58c5e92387c79ac51e38.

[5] This included people who have shared stories with Environment Victoria, callers into ABC local radio and posts on Facebook groups formed in response to the announcement.

While much of this context is outside the control or remit of the AEMC, we argue that reforms need to err on the side of reducing costs to consumers and ensuring they have accurate, timely information on which to base decisions, rather than focusing on gas networks' ability to recover their costs. This is because consumers have been basing their investment decisions on either incorrect information or no information at all, whereas the gas networks have full visibility.

Gas network extensions also occurred two decades ago under the Bracks government's *Natural Gas Extension Program* which extended scheme pipelines to East Gippsland, the Macedon Ranges, Yarra Ranges and other part of Victoria. This program relied on customers to opt in which may have led to a lower customer density compared to other areas and hence greater vulnerability to strategic retreat.

The AEMC should ensure that reforms cater to areas such as these which may be more vulnerable to strategic retreat by gas networks.

The role of planning and community engagement

We agree with ECA's proposal that networks should be required to publish annual gas planning reports. As part of this, far more data should be made public.

Presently there is little publicly available and sufficienctly granular data on gas demand, connections and disconnections, hardship and electrification. It is essential that consumer advocates have access to data with which to inform and engage, particularly at times when gas supply is a controversial issue. Gas data should be made public to the extent that consumer confidentiality allows.

Data needs to be available to all spheres of government, including local councils. Local government has an important role to play in preparing communities for the energy transition, for example in encouraging and guiding electrification and energy efficiency improvements, advocating for better energy reliability and informing householders and businesses about emerging trends and issues.

Capital expenditure and asset depreciation/redundancy

The ECA and JEC proposals would both be positive reforms that better protect consumers, and we support both. A particular benefit of the JEC proposal is the prohibition of accelerated depreciation unless it is done in conjunction with a mechanism for identifying and fairly apportioning the cost of redundant assets.

We would also like the AEMC to consider mechanisms that could better balance the interests of consumers. For example, applications for accelerated depreciation could consider recent patterns of customer connection. Networks should be limited in their ablity (or disincentivised) to connect new customers while claiming accelerated depreciation and vice versa. This could improve the existing information asymmetry and take greater consideration of customers' downstream investments.

We support the ECA's suggested changes to capital expenditure criteria, and further suggest that the networks are required to forego future accelerated depreciation (and other apportionment of risk onto consumers) of approved new capital expenditure.

Consideration of alternative gases

We note the discussion paper states that "If a critical mass of customers leave the network, then the option of repurposing the gas network to supply renewable gases may no longer be feasible, potentially prompting inefficient decisions around the decommissioning of the gas network."

Reforms to gas network regulation should be fit for different potential futures; however, the application of renewable gases is likely to be confined to a subset of industrial consumers. Biomethane is not expected to be viable for the vast majority of consumers due to availability and cost, while hydrogen injection into the network is not a credible option on any basis.[6]

The only stakeholders advocating for a wholesale transition to renewable gas delivered through pipelines are those with a vested interest in doing so, whereas renewable electricity, electrification and energy efficiency is a pathway to net zero emissions that has broad acceptance and credibility across diverse stakeholder groups.

We encourage the AEMC to be wary of gas networks' track record in relation to communications on renewable gas. Much of the gas networks' promotion of renewable gas has been identified or is under investigation for greenwashing.[7] Gas networks have also attempted to pass the cost of renewable gas-related lobbying onto consumers via access arrangements.[8]

You are welcome to contact me on the details below, should you wish to discuss this submission in more detail.

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[6] Refer to our report for citations: Environment Victoria, *A Pipeline of Profits: How Gas Lobbyists Are Keeping Us Hooked on Expensive, Climate-Wrecking Gas Appliances* (2024), https://environmentvictoria.org.au/2024/07/24/a-pipeline-of-profits/.
[7] Matthew Ryan, 'Why Are Gas Companies Trying to Sell Us Hydrogen?', The Australia Institute, 6 December 2023, https://australiainstitute.org.au/post/why-are-gas-companies-trying-to-sell-us-hydrogen/; Australian Competition and Consumer Commission, 'Australian Gas Networks in Court over Alleged Greenwashing in Renewable Gas Campaign', Text, 26 June 2025, Australia, https://www.accc.gov.au/media-release/australian-gas-networks-in-court-over-alleged-greenwashing-in-renewable-gas-campaign; Ad Standards Community Panel, *Case Report 0108-25* (2025), https://adstandards.com.au/wp-content/uploads/2025/06/0108-25.pdf.
[8] Australian Energy Regulator, *Multinet Access Arrangement 2023-28 - Draft Decision* (AER, 2022), https://www.aer.gov.au/system/files/AER%20-%20MGN%202023-28%20-%20Draft%20Decision%20-%20Overview%20-%20December%202022.pdf; Australian Energy Regulator, *AGN Access Arrangement 2023-28 - Draft Decision* (AER, 2022), https://www.aer.gov.au/system/files/AER%20-%20AGN%202023-28%20-%20Draft%20Decision%20-%20Overview%20-%20December%202022.pdf.