To: Australian Energy Market Commission

21 April 2026

Gas networks in transition discussion paper

We appreciate the opportunity to provide comment on the Australian Energy Market Commission (AEMC) discussion paper, *Gas networks in transition*, that proposes updates to the rules that govern how gas distribution networks are regulated.

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.

The gas transition is underway now

We welcome the AEMC's attention to the urgent issue of gas network transition. The transition away from gas is not a future problem; it is already well underway in Victoria. In the decade from 2016 to 2025, Victoria's Declared Transmission System (DTS) gas consumption dropped 19.3 percent.[1] Residential and small business (Tariff V) demand during Q2 and Q3, adjusted for cold weather, dropped 18 percent.[2] The total count of Tariff V gas customers in Victoria is turning downward.[3]

Even as gas demand forecasts are revised downward each year, actual gas consumption has been consistently lower (Figure 1). Over the next 10 to 20 years there is a high degree of certainty that gas will be phased out due to the rapidly eroding economics of using gas and the need for Victoria and Australia to cease burning fossil fuels and meet our climate commitments.

[1] Australian Energy Market Operator, *Victorian Gas Planning Report* (AEMO, 2026), https://www.aemo.com.au/energy-systems/gas/gas-forecasting-and-planning/victorian-gas-planning-report.
[2] Q2 and Q3 Tariff V consumption was 0.078 PJ/effective degree day (EDD) in 2016 and 0.64 PJ/EDD in 2025.
[3] 'Energy Market Dashboard | Essential Services Commission', accessed 11 November 2024, https://www.esc.vic.gov.au/electricity-and-gas/market-performance-and-reporting/victorian-energy-market-report/energy-market-dashboard.

PO BOX 12575 A'BECKETT STREET, VICTORIA, AUSTRALIA 8006 LEVEL 2, 60 LEICESTER STREET, CARLTON, VICTORIA, AUSTRALIA 3053
Tel (03) 9341 8100 Email: admin@environmentvictoria.org.au **www.environmentvictoria.org.au** ABN 84 495 053 605 Reg No A0023095M

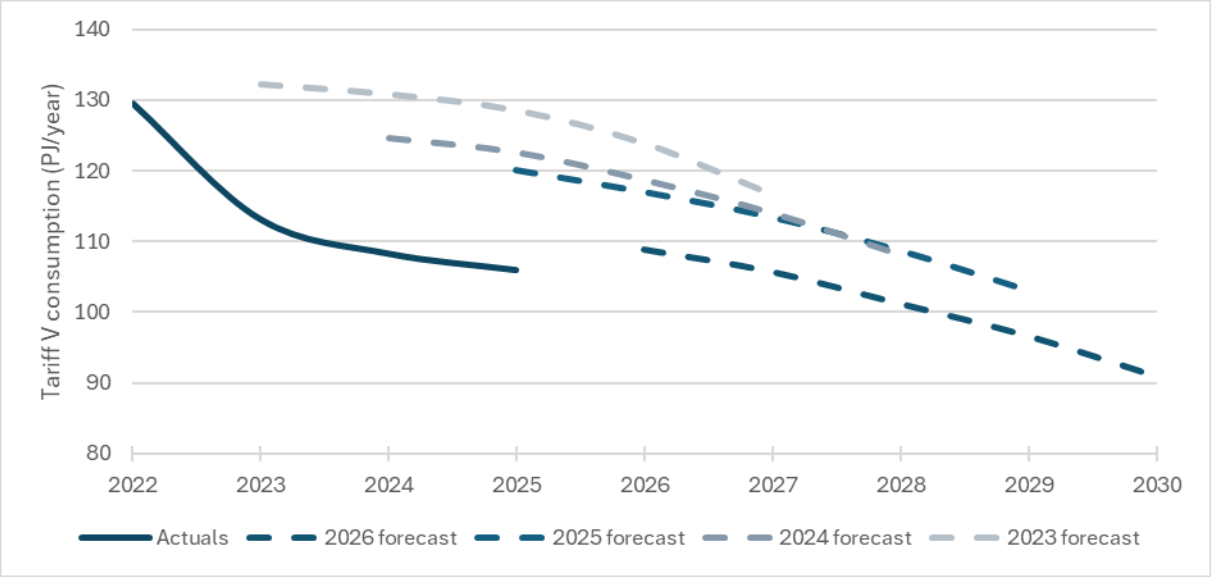

Figure 1: Tariff V consumption forecasts vs actuals from the Australian Energy Market Operator (AEMO) 2023-2026 Victorian Gas Planning Reports, showing systemic overestimation of forecast gas consumption.

Households respond to high gas prices in different ways: those on limited incomes may reduce their use of gas appliances such as heaters, even if this means going cold. Renters and others may leave their gas connection dormant and use plug-in electric appliances instead. Those who are not price sensitive may do nothing. Homeowners with sufficient capacity replace their gas appliances with electric alternatives at end of life, one at a time. Some may be motivated by environmental concern, or wanting to get the most out of their solar and batteries, and switch earlier. A permanent disconnection (abolishment) is a lagging indicator; it is the last step. Simplifying gas exits as an economic 'switching point' triggering a mass exodus obscures most of the real world context that the AEMC should be considering.

In Victoria, the number of residential Tariff V connections is slowing, but the proportion which are dormant connections is steadily rising, from 3.2 percent in mid-2022 to 4.4 percent at the end of 2026 (Figure 2). Victoria's new regulations which will phase out gas appliances and bring electric alternatives into rental homes are yet to commence, and will futher accelerate gas demand reduction, dormant connections and abolishments.

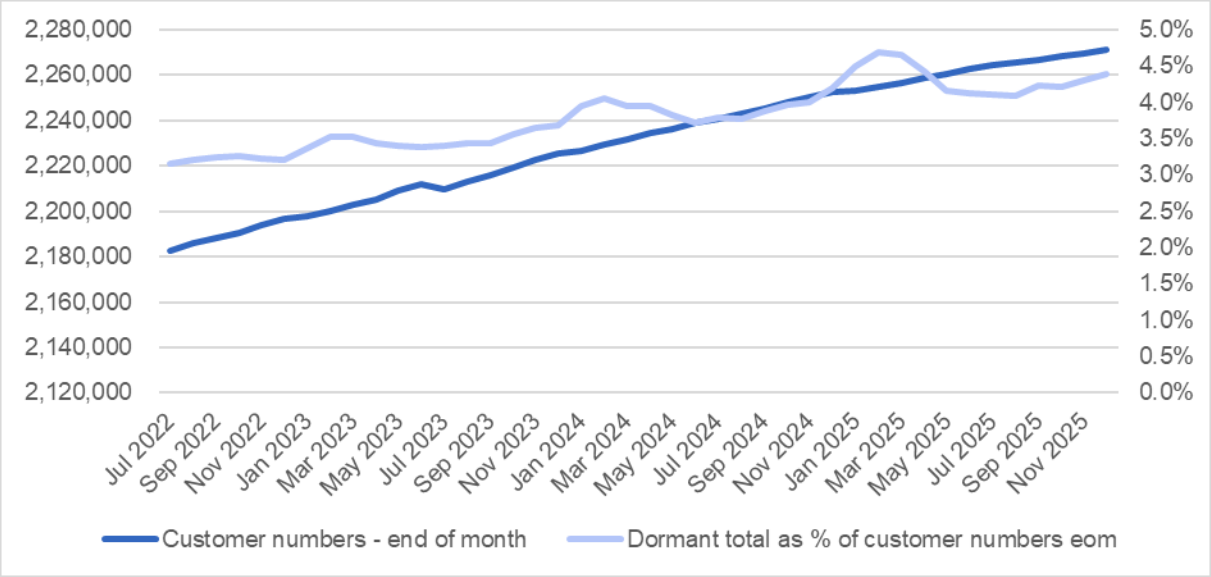

Figure 2: Victorian residential Tariff V customer numbers at end of month and proportion which are dormant. Source: AER.

The AEMC needs to treat this issue with sufficient urgency. We appreciate that this complex issue raises important questions about the role of economic regulators and rulemakers versus the role of governments. However, gas network regulation is already unfit for purpose and will remain that way as long as it is assumed that gas networks will persist for the foreseeable future and that growth is desirable and efficient. These assumptions are putting the prospect of an orderly transition at risk, with serious implications for those consumers least able to afford it.

Jurisdictional pathways are not materially different

The discussion paper argues that some states and territories are pursuing electrification while others are pursuing continuation of gas through the adoption of alternative gases such as hydrogen blends and biomethane, and that gas network regulation needs to accommodate both transition pathways. This, however, is a false dichotomy.

Hydrogen blending is not a plausible future option for gas networks, as we have shown previously.[4] The discussion paper cites South Australia's five-year-old Hydrogen Action Plan as influencing the proposed regulatory approach. However, most of the initiatives in that plan have since been abandoned or have not progressed from the pilot/demonstration or feasibility phase.[5]

[4] 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/.
[5] Energy &. Mining, 'Hydrogen Projects in South Australia', Text, Energy & Mining, Energy & Mining, 5 May 2025, South Australia, https://energymining.sa.gov.au/industry/hydrogen-and-renewable-energy/hydrogen-in-south-australia/hydrogen-projects-in-south-australia; Giles Parkinson, 'South Australia Counts the Cost of Its Cancelled Green Hydrogen Power Plan', *Renew Economy*, 27 October 2025, https://reneweconomy.com.au/south-australia-counts-the-cost-of-its-cancelled-green-hydrogen-power-plan/.

The case of biomethane is more nuanced, as it may have a role for some industrial gas users, but it should not be considered as an alternative transition pathway to electrification. Notably, the bioenergy industry and gas networks often cite Denmark's biomethane push as an example to follow.[6] However, they only tell half the story: whilst it is true that Denmark has aggressively and successfully incentivised biomethane in its gas grid, it has also slashed its overall gas use by around 70% since 2005 (Figure 3) through an ambitious program that includes the full phase out of gas and oil heaters in homes and a plan to decommission unprofitable parts of the gas network.[7]

Arguments from gas network businesses that transition reforms are premature, or that accelerated depreciation is warranted due to policy uncertainty on alternative gases, should not be given weight.[8] As public policy experts have explained, fossil fuel utilities are well-known for "…paint[ing] an optimistic picture about the ability for niche or unproven technologies to decarbonize the use of fossil fuels, thereby downplaying the need to transition away from incumbent energy systems."[9] By trying to accommodate "uncertain" transition pathways, the AEMC has created a solution that would significantly increase risks to consumers.

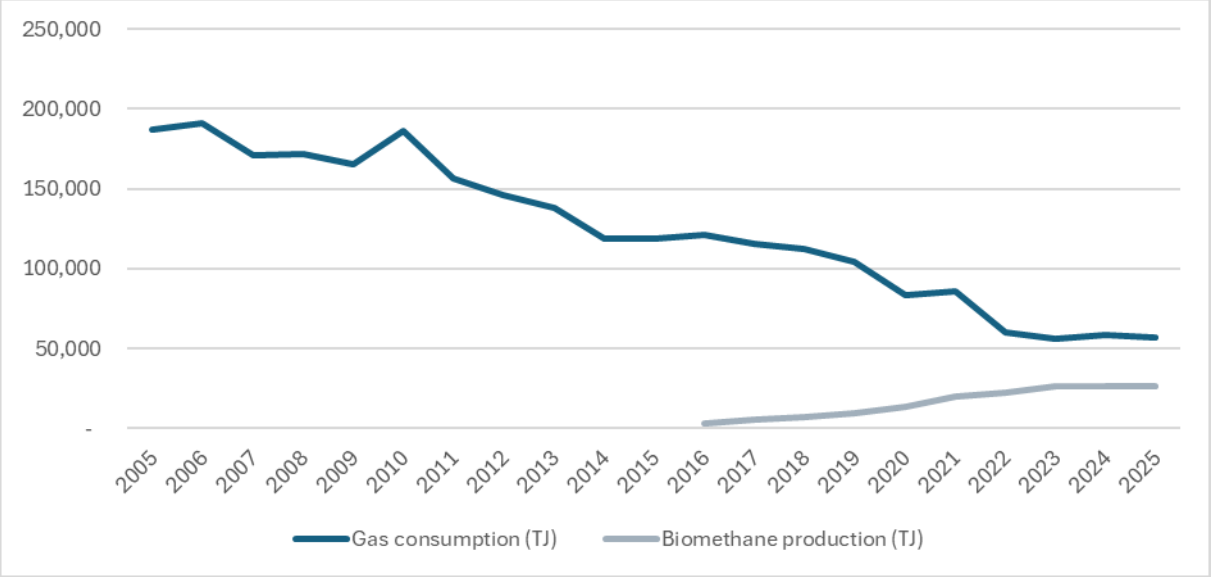

Figure 3: Denmark gas consumption and biomethane production since 2005.[10]

[6] Deloitte, *Unlocking Renewable Natural Gas to Enhance Energy Security and Maintain Australia's Manufacturing Sector* (Bioenergy Australia, 2025), https://cdn.revolutionise.com.au/cups/bioenergy/files/0utdgum1meyoizrw.pdf.

[7] Ivan-Petar Yovchev, *Nationalisation and Wind-down: Regulation of Disconnections and Decommissioning of the Gas Distribution Grid in Denmark* (Regulatory Assistance Project, 2025), https://www.raponline.org/wp-content/uploads/2025/11/rap-yovchev-nationalisation-and-wind-down-nov-2025.pdf.

[8] 'Who Will Carry the Can for Stranded Gas', accessed 25 March 2026, https://theenergy.co/article/who-will-carry-the-can-for-stranded-gas.

[9] J. Timmons Roberts et al., eds, *Climate Obstruction: A Global Assessment* (Oxford University Press, 2025), https://doi.org/10.1093/oso/9780197787144.001.0001.

[10] 'Annual and Monthly Statistics | Energistyrelsen', 2 December 2024, https://ens.dk/en/analyses-and-statistics/annual-and-monthly-statistics.

A narrow focus on drivers relating to jurisdictional policies underestimates the factors that are already driving consumers to reduce their gas consumption and then disconnect from gas. Sociotechnical transitions are driven by innovation in concert with user experimentation, citizenship and legitimisation, which coincide with destabilising forces – such as the gas price rises that have already happened – and compel institutions such as the AEMC to reconfigure rules around the new normal.[11] The AEMC needs to urgently reconfigure new rules around electrification. It does not need to reconfigure new rules around hydrogen and biomethane.

How regulators can support a customer-centred orderly transition

The AEMC discussion paper emphasises the importance of an orderly transition, which we strongly agree should be the aim. The AEMC has not stated a preferred definition of 'an orderly transition' in the discussion paper, but based on what is in the paper as well as discussion in the AEMC webinar on 9 April 2026, we understand it to be *avoiding a situation where consumers bring forward their decision to exit the gas network, which in turn prompts gas businesses to withdraw services because they cannot recover their capital*.

Clearly, the aim is to have a definition of an orderly transition that is relevant to the regulatory environment, and most of the settings that can support an orderly transition are up to governments. The AEMC perspective essentially seeks to give the networks a chance to recover their costs before there is a major uptick in customers exiting the network. However, based on recent events in Victoria it is apparent that this would create a disorderly transition from the perspective of consumers. There are other regulatory measures that can effectively support an orderly transition for consumers.

Environment Victoria recently surveyed a number of customers affected by the Solstice Energy shutdown in regional Victoria – a disorderly transition that is happening now.[12] We found that from a customer perspective, an orderly transition for consumers includes the following features:

- Customers have knowledge of the future viability of the gas network so they can make informed decisions about appliances
- Customers have time to plan and save for replacement appliances, and to replace gas appliances when they reach end of life. Again, this requires forward notice
- The local electricity network is reliable. This requires reliability standards that don't obscure localised poor reliability through averaging. We note that some regional locations where the gas network is least profitable may also be those with poor electricity reliability.

These points help understand the 'sweet spot' where regulators can find the right balance between investor and consumer interests. Therefore, regulators can contribute to an orderly transition by:

- Publishing geographically specific information about gas network profitability and economic lifespan so that customers can be informed and assisted to plan ahead and make efficient purchasing decisions

[11] Frank W. Geels, 'Socio-Technical Transitions to Sustainability: A Review of Criticisms and Elaborations of the Multi-Level Perspective', *Current Opinion in Environmental Sustainability*, Open Issue 2019, vol. 39 (August 2019): 187–201, https://doi.org/10.1016/j.cosust.2019.06.009.

[12] Full details including results and methods are available on the Environment Victoria website: https://environmentvictoria.org.au/2025/11/10/submission-for-inquiry-into-decommissioning-of-oil-and-gas-infrastructure/.

- Making reforms that will identify and improve electricity reliability in specific areas where it is below standard, with weighting given to areas where the gas network is becoming unprofitable.

These measures will also inform governments which locations require timely policy action to support an orderly transition. This does not only apply to federal and state governments – local governments have an essential role in facilitating orderly transitions and need to be kept informed.

Gas network investors were always meant to shoulder the risk

When Victoria's gas networks were privatised, the government of the day argued that the risk of owning these assets would be shifted from consumers and taxpayers onto investors.[13] In return, the investors were entitled to reasonable cost recovery, including profits, for providing a safe and reliable service. Customers would be free to choose what energy services are essential for them.

Now that the ownership risk is materialising, this promise is looking farfetched, as the costs are being pushed back onto consumers. If the rules are to be consistent with the commitments made to the public at the time of privatisation, networks should be entitled to a reasonable opportunity to recover their efficient costs, but should not imply a guarantee. Networks are not entitled to payment for the *risk* of capital redundancy, especially when there is uncertainty on when or how the risk might materialise.

Accelerated depreciation shifts costs onto consumers by loading up uneconomic costs onto consumers in advance of asset stranding. Rules that are weighted too far towards ensuring that service providers recover their costs will simply mean that consumers pay more.

The rules need to effectively address asset stranding risk

Capital expenditure assessments are an essential tool in reducing the risk of asset stranding. Fundamentally, assessments must not be built upon assumptions of network growth or perpetuation, as the reality is that the networks will retreat or become increasingly economic. Regulation must empower networks to address asset stranding risk via retreat, write down and eventual removal. Likewise, there is no process for consumers on a specific part of the network to reach consensus to collectively disconnect from gas. While we do acknowledge that network decommissioning is out of scope for this consultation, we urge the AEMC to, firstly, maximise the extent to which the rules can address asset stranding risk, and secondly, make recommendations to progress aspects that are deemed out of scope of the rule change process (such as further rule changes on strategic decommissioning).

One of the key issues in reducing asset stranding risk is the need to assess the gas networks in fragments. As we have raised earlier in this submission, geographic specificity is also important for an orderly transition from the consumer perspective. Without fragmented assessments the proposed asset redundancy provisions will never be used and the over-recovery of costs will continue.

[13] Alan Stockdale, 'Privatisation of Victorian Gas and Electricity Industries: Did We Get Where We Thought We Were Going?', *Australian Mining and Petroleum Law Association Yearbook*, 2001, https://www.austlii.edu.au/cgi-bin/viewdoc/au/journals/AUMPLawAYbk/2001/10.html.

Alignment with the National Gas Objective (NGO)

Relying on the gas networks to provide 20-year forecasts with no incentive to be accurate and realistic is not aligned with the long-term interests of consumers, nor is it aligned with the emissions reduction objective. Victoria has a legislated net zero emissions target of 2045 – less than 20 years from now – and meeting it necessitates a mass shift off gas.

Gas networks are self-interested and have a track record of opposing measures aligned with the NGO and that are essential for an orderly transition for consumers; for example, in March 2025, in direct response to the Victorian government's proposal to cut emissions and bills by regulating some gas appliances, Australian Gas Infrastructure Group (AGIG) threatened to increase network access costs for 1.4 million Victorian gas customers by between 16 and 20 percent per annum.[14]

The proposed reforms focus on incentivising networks to keep providing services and avoiding a situation where networks become unsafe. However, networks have no choice but to maintain system safety – they cannot withdraw services. Assets might need to be written down and sold at a discount, but this is not necessarily a bad outcome for consumers, as it provides the opportunity for governments to step in and play a more active role in managing the gas transition.

Dormant connections, however, are potentially a safety issue. In the ACT over 13 percent of connections are now dormant, and more than 11 percent of these have been dormant for over 12 months. The cost of keeping these sections of pipeline are not being recovered, and customers have no incentive to pay for abolishment. Because these fall outside of disconnection frameworks, there is no plan for determining which dormant connections should be abolishments and who should pay for them, and then abolishing them.

Closing remarks

We very much commend the AEMC for taking on this issue.

We know that there is only so much regulators can do to support an orderly transition. Even so, the AEMC occupies a privileged position in overseeing the transition away from gas and needs to take action and make recommendations where others need to act. Consumers are transitioning now; gas demand is contracting rapidly and gas networks will follow. It is vital to distinguish between industry delay tactics and technology neutrality and it is not realistic to expect that consumers can be kept in a holding pattern while waiting for multiple governments to align their policy settings.

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

Dr Kat Lucas-Healey
Senior Climate and Energy Advisor
Environment Victoria
k.lucashealey@environmentvictoria.org.au
0404 571 605

[14] Australian Gas Infrastructure Group, *'Building Electrification' Regulatory Impact Statement - AGIG Submission* (AGIG, 2025), https://www.agig.com.au/-/media/files/agig/media-release/rental-ris/250307-building-electrification-ris-submission_agig-final-v2.pdf.