

## Explainer:

### **Gas regulation reform can't wait**

**The National Gas Rules (NGR), set by the Australian Energy Market Commission (AEMC) exist to facilitate safe, reliable and efficient gas services in Australia. They weren't designed to deal with shrinking gas networks, and they aren't fit to promote consumer interests through the energy transition.**

The current gas regulatory framework is founded on an assumption that gas networks will continue as they are and that promoting growth and supporting ongoing network viability are in the consumer interest. The energy system transition, emissions reduction requirements and increasing electrification means that assumption is no longer viable. Gas networks face the certainty of a different, smaller role in the future.

As a result, gas network assets are at increasing risk of becoming uneconomic and inefficient to maintain. The rules were never intended to deal with this. But network businesses and regulators continue to act as though the future of gas networks will be largely unchanged over the short and long term.

There has been a focus on cost-recovery through accelerated depreciation, reducing risks to network businesses of unrecovered investment costs by making consumers pay more now. This is unfair.

#### **The Commission's direction paper misses the mark**

When the JEC and ECA proposed changes to the NGR we explained how the rules are not fit to manage the decline already under way, and that consumers are being asked to pay unfair costs as a result. Our proposals aimed to ensure gas businesses are planning and investing for the declining future they are facing. This includes fairer handling of future risks of uneconomic assets and only allowing accelerated depreciation where risks were quantified and businesses were sharing some of the cost.

The AEMC's [Gas Networks in Transition](#) directions paper sets out the regulator's proposed direction for reform of the NGR. It covers four key areas:

- 1. Planning with a longer-term outlook**
- 2. Capital cost recovery provisions**
- 3. Limiting capital and operational expenditure**
- 4. Reference tariff setting**

But it misses the central problem. It seeks to continue the status quo, assuming the 'switching point' for rapid decline of gas networks is in 2035, 2040 or beyond. It attempts to prolong network viability by entrenching accelerated depreciation rather than limiting it.

This means people still on the gas network will be left with higher bills, while gas businesses share none of the cost of future risk to their investments.

#### **What needs to happen**

We need reforms that recognise the decline of gas networks won't be happening years in the future, it's happening now. Gas networks need to plan for and enable this future. Investors should be reasonably exposed to the risks their investments face and share some of the cost burden from assets as they become uneconomic to maintain. This means rule changes creating:

1. Stronger requirements for network businesses to plan for network retreat
2. More robust regulations to limit new gas network investment
3. A mechanism to identify uneconomic assets and share related costs
4. Limitations on accelerated depreciation

We urge the AEMC to ensure its proposals tackle the problems that are clear to us and many other stakeholders. We also encourage the AEMC to support gas law reforms that promote consumer interests in the most efficient way. This includes making changes so gas network businesses can decommission a gas network with limited use and pay for any customers still relying on the network to electrify at home, when it is more economic than maintaining their connection to the gas network.