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Mr Arek Gulbenkoglul
General Manager
Australian Energy Regulator

By email: JGN2025@aer.gov.au

Dear Mr Gulbenkoglul,

AER Draft Decision - Jemena Gas Access Arrangement 2025-2030

The City of Sydney (the City) welcomes the opportunity to provide this submission to the Australian Energy Regulator's (AER) draft decision regarding Jemena Gas Networks' access arrangement proposal for the period 1 July 2025 to 30 June 2030.

The City has long advocated for energy infrastructure that supports our goals of reducing greenhouse gas emissions, enhancing energy efficiency, and maintaining affordability for all residents, including renters, people on low incomes, and apartment dwellers.

We acknowledge the AER's efforts to balance the need for Jemena to invest in the gas network and keep prices affordable for consumers. The draft plan and decision acknowledge that demand for gas will decline, albeit with uncertainty around the timing.

Significantly more needs to be done by governments, regulators, and energy businesses to transition away from gas in a way that is fair and coordinated, which will have likely implications within the 5-years covered by this decision.

Summary of recommendations

Recommendation 1. The AER consider any proposals by Jemena to supply renewable gas directly to large industrial customers and reject the proposal for injecting renewable gas into the grid.

Recommendation 2. The AER work with Jemena to refine the proposal for cost-effective methane leak detection and rectification.

Recommendation 3. The AER regularly check that the hybrid pricing mechanism is delivering equitable outcomes during the transition.

Recommendation 4. The AER work with state and federal governments to communicate future gas bill scenarios to customers, including connection costs beyond the current determination period.

Recommendation 5. The AER add a significant surcharge to new gas connections to disincentivise new connections, with Jemena to allocate all additional revenue to future decommissioning costs of the transition.

Recommendation 6. The AER update the regulatory framework to remove the obligation to connect new gas customers, and to ensure that the costs associated with new gas connections are comparable to electricity infrastructure upgrades.

Recommendation 7. The AER identify and implement ways to facilitate gas abolishment by entire apartment buildings at a reduced cost to the individual abolishment costs proposed.

Recommendation 8. The AER and/or Jemena publish clear guidance about the process and costs involved in abolishing gas connections in apartment buildings.

Recommendation 9. The AER investigate opportunities for embedded networks to facilitate the transition, and ways to incentivise gas, hot water, and electricity embedded network operators to abolish gas connections and switch customers to renewable electricity where it is fair, feasible and cost-effective.

Recommendation 10. The AER and Jemena provide constructive input into the NSW gas decarbonisation roadmap in line with recommendations by the Grattan Institute and Energy Consumers Australia on least cost ways for transitioning away from gas and sharing the costs equitably.

About the City of Sydney

The City has a target for net zero emissions across its local area by 2035 and to reduce emissions by 70 per cent based on 2006 levels by 2030. As of June 2023, greenhouse gas emissions for the local government area were 41 per cent below our 2006 baseline.

Our community supports action to reduce emissions. More than 80 per cent of our residents live in apartment buildings, many are renters, and we have a high share of social housing.

We have gathered significant insights into the challenges and opportunities faced by residents and owners corporations through our [Smart Green Apartments](#) program. We are also investigating planning controls to prevent gas being combusted inside new residential buildings.

Many businesses in our [Better Buildings Partnership](#) and [CitySwitch](#) programs are actively moving away from gas and switching to renewable electricity for a multitude of reasons including better NABERS energy ratings, investor expectations, and better tenant retention rates.

Our Lord Mayor has also been in correspondence with the NSW Premier advocating for the NSW government to develop a plan to incentivise or provide rebates to help transition homes and businesses from gas to renewable energy.

For more information about City of Sydney sustainability targets, progress, and programs - see the latest annual [Green Report](#).

Key points of the Jemena 2025 draft plan

The Jemena Plan focusses on affordable and reliable gas services while supporting the energy transition. It aims to support vulnerable customers, invest in renewable gas

technology, and to introduce a hybrid tariff to remove the incentive to achieve greater returns by increasing the volume of gas.

The plan is underpinned by customer and stakeholder engagement. It also proposes accelerated depreciation to mitigate the risk of stranded assets. Changes are also proposed to the Model Standing Offer (connections policy) that would increase the price for new gas connections.

Key points of the AER draft decision

The AER's draft decision allows Jemena to recover \$3,082.5 million over the 2025-30 period, \$50.2 million less than proposed. Jemena's proposed volume (small) customer abolishment tariff has been reduced from \$1,472 to \$1,104 to align with other networks, with most of that cost socialised across all customers to reduce the tariff to \$250.

The AER forecasts a lower rate of disconnections and abolishments for residential customers than proposed by Jemena, as well as a slower decline in usage per customer. The draft decision does not accept the full accelerated depreciation of assets proposed by Jemena. The hybrid tariff variation has also been approved, whereas capex for renewable gas connections and leak detection have not.

Renewable gas

The proposal and determination reflect the recent addition of an emissions reduction objective to the National Energy Objectives. In practice, this means rapidly switching away from fossil gas to renewable electricity.

The electricity grid is currently around 40% renewable and is decarbonising at a rapid rate with significant new additions of renewable energy and storage. The Australian Energy Market Operator and Australian Government envisage an electricity grid that is 82% renewable as soon as 2030.

By comparison, the emissions intensity of the gas grid has not improved at all, and there is limited potential and high costs associated with reducing emissions by injecting renewable gas into the distribution grid.

The injection of renewable gas into the gas distribution network is unlikely to compete with renewable electricity for myriad reasons including high infrastructure and production costs, technical and regulatory barriers, limited supply, and scalability.

The Jemena proposal refers to facilitating 6.7 petajoules of renewable gas equivalent to 0.4% and 1.0% of the Australian and NSW government's 2030 emission reduction targets.

The proposal uses a counterfactual argument of burning renewable gas to generate electricity to support claimed economic benefit. This is an inefficient and costly application for renewable gas and should not be accepted.

Instead, renewable gas has an important role for higher-order applications in sectors such as manufacturing and chemical processing, where viable alternatives are currently lacking. Jemena seeks to play its part in reducing emissions by enabling renewable gas which could be achieved by working directly with large industrial customers.

The AER reviewed Jemena's proposal to invest in renewable gas connections and determined that it did not meet the necessary criteria or provide sufficient justification for the proposed expenditure. The City supports this determination.

- **Recommendation 1.** The AER consider any proposals by Jemena to supply renewable gas directly to large industrial customers and reject the proposal for injecting renewable gas into the grid.

Methane leaks

Methane (i.e. fossil gas) is an incredibly potent greenhouse gas; it traps much more heat per molecule compared with carbon dioxide. It is however shorter lived in the atmosphere, meaning that avoiding methane emissions now is critical for lowering the rate of global heating, sooner.

The Jemena proposal included allowance for better methane leak detection. The methane detection proposal is lacking detail and there appears to be a significant mismatch between the cost of the technology and the funding requested.

Given the significance of methane as a greenhouse gas, the proposal to detect methane loss should be revisited and not rejected outright.

- **Recommendation 2.** The AER work with Jemena to refine the proposal for cost-effective methane leak detection and rectification.

Tariffs

The AER's decision aims to balance the need for Jemena to invest in the network with the need to keep gas prices affordable for consumers during a period of demand uncertainty.

The City emphasises the importance of designing tariffs that encourage energy efficiency and the adoption of renewable energy sources whilst being fair and equitable.

The proposed hybrid pricing mechanism accepted by the AER is supported as a way reduce the incentive to grow the volume of gas carried by the network.

Where gas volumes are within 5% above or below forecast volumes, the weighted average price cap regulation applies. If gas volumes deviate beyond this, a revenue cap applies, effectively sharing the volume risk between Jemena and its customers.

By decoupling revenue from the volume of gas transported, the hybrid mechanism encourages Jemena to focus on efficiency and cost-effective operations rather than simply increasing gas throughput.

This aligns with broader goals of reducing gas consumption and transitioning to cleaner energy. It should also distribute costs of the energy transition more equitably and shield vulnerable customers from being disproportionately affected as gas volumes decline.

- **Recommendation 3.** The AER regularly check that the hybrid pricing mechanism is delivering equitable outcomes during the transition.

The hybrid mechanism is a welcome approach to more equitable cost sharing; however it isn't clear whether it will continue to be fit for purpose as gas volumes decline. Other

approaches such as accelerated depreciation and government support will be necessary to manage the transition.

The AER estimates a nominal increase of \$11 per annum for a residential customer, or \$112 for a small business customer. This price signal is unlikely to accelerate customers to transition away from gas, however it reduces cost of living pressures.

Beyond the current determination period, gas bills are likely to increase significantly, due to fixed costs spread across a diminishing customer base. The AER and governments have a responsibility to inform customers about this, to make early decisions accordingly that are in their best interests.

Jemena's plan also includes provisions for support programs aimed at assisting low-income and vulnerable households. These programs may include financial assistance, rebates, and energy efficiency measures to help reduce overall energy costs.

Arguably the best way to support vulnerable customers would be to help them to electrify, which is more efficient, healthier, and avoids duplicate network charges. However, this is beyond the remit of the AER and a gas company like Jemena would need to develop a new business model.

- **Recommendation 4.** The AER work with state and federal governments to communicate future gas bill scenarios to customers, including connection costs, beyond the current determination period.

New gas connections

As outlined in the Jemena proposal and AER draft determination, the future gas supply will need to diminish in the context of state and national net zero targets, however there is uncertainty around the timing.

Allowing new gas connections makes the goal of achieving net zero emissions more challenging and costly. The priority should be to prevent new connections, except where there are compelling reasons to allow them.

Gas assets are long lived, and buildings that are connecting to the gas network today will likely remain connected for decades due to the cost and complexity of retrofitting. The most cost-effective time for buildings to electrify is at the design/build stage.

The National Construction Code, the NSW Sustainable Buildings SEPP, and various local government planning instruments increasingly require new buildings to be all-electric ready.

It is therefore clear that allowing new gas connections at this time will lead to significantly greater and avoidable social costs. Examples include:

- Duplicate network costs to customers (gas and electricity)
- Costly electrification retrofits
- New mains and gas meters
- Stranded or accelerated depreciation of gas assets
- Costs to safely decommission the gas network.

The Jemena proposal forecasts 70,000 new connections between 2025-2030 (down from 125,000 over the current 2020-2025 period). At the same time, it estimates that by 2030, disconnection rates will be 10 times higher than those observed in 2023.

The AER commissioned modelling that is more conservative about the forecast rate of disconnections and decline in gas volumes. Irrespective, allowing such a significant number of new connections at the same time as existing customers are leaving the network seems at odds.

Jemena outline that approximately 70% of new connections are 'basic' which do not require significant augmentation to the network and are provided free of charge. This has led to a perverse incentive for developers to connect gas to new buildings at no cost to them, even if it locks customers into higher ongoing charges.

By comparison, developers often need to contribute to costly electricity network augmentation, which is location specific, but more likely for large new developments that are all electric.

Jemena proposes revisions to their Model Standing Offer so that fewer customers qualify for a free connection, with the specific aim to reduce the growth in their asset base and lower the risk of asset stranding. This is a very welcome initiative as it would be a disincentive for some new customers to connect.

The City recommends that the new gas connection contribution charges should be set at a high level that is cost reflective and contributes to the cost of future decommissioning of the network.

- **Recommendation 5.** The AER add a significant surcharge to new gas connections to disincentivise new connections, with Jemena to allocate all additional revenue to future decommissioning costs of the transition.

The Jemena proposal also identifies a flaw in the regulatory framework which places an obligation on it to connect customers wanting access to the gas network (see information box).

Proposed changes to our Model Standing Offer (MSO)

The regulatory framework within which we operate is an open access regime. That means that we have obligations to connect customers wanting to access our network (provided that it is safe to do so). We are required to publish an MSO, which sets out the terms and conditions for the establishment of basic residential connections to our gas distribution network.

If a customer decides that they wish to connect to our network, our obligations within the NGR specify that we are only able to charge an upfront contribution if the cost to connect the customer exceeds the revenue we will earn over the life of the connection.

At present, our MSO provides four basic connections services free of charge. Basic connections are those that satisfy specific requirements and do not require significant augmentation of our network. Approximately 70% of new connections are basic connections.

As part of our drive to reduce our capex and minimise the growth of our asset base, we engaged our customers to understand whether they support us making changes to our MSO to require more customers to make an upfront contribution to connect to our network. Asking new customers to make an upfront payment is likely to mean that some customers choose not to connect to our network.

Our Advisory Board was supportive of us testing this initiative with our customers, noting that it would help to minimise the growth in our asset base.

We engaged a number of stakeholders as well as our Customer Forum. We heard a mixture of views—while most were in support, there was also some circumspection.

There is a significant opportunity for the AER to correct the regulations, remove the perverse incentive for new gas connections, and level the playing field for electrification.

- **Recommendation 6.** The AER update the regulatory framework to remove the obligation to connect new gas customers, and to ensure that the costs associated with new gas connections are comparable to electricity infrastructure upgrades.

Abolishment of gas connections

The AER proposal to reduce the cost for customers for permanent abolishment of a gas connection, through the removal of network assets and disconnection from the mains, is strongly supported.

This brings the NSW area serviced by Jemena in line with Victoria whereby customers are more likely to choose permanent abolishment of the connection rather than opting simply to close off the supply of gas at the meter.

Reducing the price gap between temporary and permanent disconnection services reduces risks associated with having a pressurised gas pipe on the property, such as gas leaks and excavation strikes. It also avoids later inevitable costs of rectification.

As noted by [AER chair Clare Savage](#), socialising the abolishment costs helps to address the safety risk, yet further work is required. As the number of customers leaving the network increases, there will be upwards pressure on prices for remaining customers.

Significance for apartment buildings

Residents of apartment buildings face unique challenges related to gas service costs and abolishment of gas infrastructure. The [Environmental Defenders Office](#) has documented case studies where apartment buildings have opted for temporary disconnections due to the prohibitive cost of abolishment.

The AER's decision to reduce the volume customer abolishment tariff and socialise a portion of these costs is particularly beneficial for these residents, who may otherwise face disproportionately high costs for gas disconnections.

However, the proposed new abolishment charge is per meter, which for apartment blocks is a considerable cumulative fee, especially when factoring in potential significant cost savings to remove all meters at the same time.

In addition to the individual abolishment tariffs proposed, the AER also needs to consider the specific needs of apartment residents in its final decision, ensuring that tariff structures and cost allocations do not unfairly burden this group.

For example, there could be a single, and lower fee for an entire building to disconnect compared with individual abolishment costs for each apartment. Alternatively, individual fees could be reduced based on the number of disconnections within a building.

There are significant economies of scale. Some apartment buildings have more than 500 units.

By enabling a more coordinated and orderly process for disconnection at a whole building scale, the AER can support the transition and reduce the cost and complexity of future decommissioning of the gas network.

- **Recommendation 7.** The AER identify and implement ways to facilitate gas abolishment by entire apartment buildings at a reduced cost to the individual abolishment costs proposed.

Additionally, we encourage the AER to support initiatives that promote energy efficiency and renewable energy adoption in apartment buildings, helping to reduce overall energy costs and environmental impact.

Irrespective of the final determination, clear guidance is needed for Strata Managers, Building Managers, and Strata Committees to better understand the process and costs involved in abolishing gas connections. The guidance also needs to articulate that hot water is the essential service, not the gas connection.

- **Recommendation 8.** The AER and/or Jemena publish clear guidance about the process and costs involved in abolishing gas connections in apartment buildings.

Embedded networks

The NSW Government and the AER are looking at ways to ensure that customers who are connected to embedded networks have similar choices and consumer protections as customers who are connected directly to the energy grid.

Done well, embedded networks can facilitate the transition, for example by enabling a more timely and efficient abolishment of gas connections for an entire building that is connected to an embedded gas or hot water network and/or switching multiple customers to renewable electricity as a block.

The Jemena proposal and AER draft determination do not specifically address the implications for embedded network operators or customers.

- **Recommendation 9.** The AER investigate opportunities for embedded networks to facilitate the transition, and ways to incentivise gas, hot water, and electricity embedded network operators to abolish gas connections and switch customers to renewable electricity where it is fair, feasible and cost-effective.

Gas decarbonisation roadmap

The NSW Government has committed to deliver a gas decarbonisation roadmap to provide clarity to communities and industry on fossil gas decarbonisation and the role of gas in the future of the energy system by late 2026 with consultation this year.

The roadmap is urgently needed to facilitate a safe, reliable, and least cost transition and a consistent approach for governments, networks, regulators, and investors. It will need to outline the fairest way to recoup the costs of past investments and the most efficient and orderly way to decommission the gas network.

Without guidance, the system is at risk of stranded assets and a declining and more vulnerable customer base. The Jemena proposal and AER draft determination are important first steps in managing the equitable recovery of costs.

Whilst the scale of the transition is significant, there are precedents such as when gas networks switched from town gas to natural gas. There are also opportunities for repurposing parts of the gas network to transport water, electricity cables, or compressed air energy storage.

The City commends two key reports about least cost ways for transitioning away from gas and sharing the costs equitably to governments, regulators, and businesses

involved in the transition - the Grattan Institute [Getting off gas: why, how, and who should pay](#), and Energy Consumers Australia [Stepping Up: A smoother pathway to decarbonising homes](#).

Key recommendations:

- Support energy efficiency, electrification, renewable energy, and storage with a focus on low-income and vulnerable groups
- Ban new gas connections and phase out the sale of gas appliances
- Phased approach to disconnections, prioritising areas with the highest readiness
- Distribute costs of disconnection and decommissioning across all stakeholders, including government, utilities, and consumers
- Engage with communities to ensure the transition is inclusive and addresses local issues
- Educate consumers about the benefits and how to transition away from gas
- Policies and regulations to guide the transition safely and reliably
- Pilot programs to test and refine disconnection and decommissioning.

The NSW Government should apply these recommendations, to develop a comprehensive and equitable plan for transitioning away from gas, ensuring that all stakeholders share the benefits and burdens of the transition fairly.

- **Recommendation 10.** The AER and Jemena provide constructive input into the NSW gas decarbonisation roadmap in line with recommendations by the Grattan Institute and Energy Consumers Australia on least cost ways for transitioning away from gas and sharing the costs equitably.

The City of Sydney appreciates the AER's efforts to engage with stakeholders through public forums and the submission process. We encourage the AER to continue this inclusive approach and ensure that the final decision reflects the diverse perspectives of all stakeholders.

We look forward to continued collaboration with the AER and other stakeholders to achieve our shared goals of sustainability and affordability.

Thank you for considering our submission.

Should you wish to speak with a Council officer about this submission, please contact Nik Midlam, Manager Carbon Strategy on [REDACTED] or at [REDACTED]

Yours sincerely

[REDACTED]
Monica Barone PSM
 Chief Executive Officer