

Gas Distribution System Code of Practice review

Final decision

9 May 2024

Acknowledgement

We acknowledge the Traditional Owners of the lands and waterways on which we work and live.

We acknowledge all Aboriginal and Torres Strait Islander communities, and pay our respects to Elders past and present.

As the First Peoples of this land, belonging to the world's oldest living cultures, we recognise and value their knowledge, and ongoing role in shaping and enriching the story of Victoria.

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Summary

The Essential Services Commission has made a new Gas Distribution Code of Practice. The objective of making the new code of practice is to update the rules for new gas connections and to provide additional consumer protections for Victorian gas network customers.

Gas distributors own and operate the network of pipelines that deliver gas to homes and businesses across Victoria. The new code practice is necessary to keep pace with recent changes in the Victorian energy landscape.

The Victorian Government made commitments and regulatory changes for the gas sector to achieve the state's net-zero emissions targets. This includes a ban on new gas connections for homes that require a planning permit from 1 January 2024 and incentives for replacing gas appliances with electric ones.

National regulators also made recent changes to rules and access arrangements that govern gas distributors. The Australian Energy Regulator (AER) lowered the fee that Victorian gas distributors may charge customers for abolishing their connections. The Australian Energy Market Commission (AEMC) made changes to the National Gas Rules to allow facilities which will produce renewable gases to take part in Victoria's gas market.

Our new code of practice follows over 12 months of engagement with stakeholders. We considered current rules and processes for connecting new customers and for abolishing the connections of those who no longer use gas. We also considered a range of other issues to improve the code of practice and remove overlaps with other regulatory instruments.

The obligations in the new code of practice are enforceable, and we can take regulatory action against a gas distributor for breaching the code of practice.

Upfront charges for new gas connections

A key element of the new code of practice is to update the rules for how new gas connections are funded. To date, most new residential gas connections have no upfront charges and are funded through gas network tariffs. Their costs are spread out over 20 years and recovered by gas distributors through a return on their regulated asset base.

The new code of practice will require gas distributors to charge the full costs of new connections upfront. This is a critical change to current practice which will help set appropriate incentives for new connections. It will also manage the risk that customers may electrify their appliances and

reduce or stop using gas over the next two decades.¹ This change will take effect from 1 January 2025.

Distinguishing disconnections and abolishments

In June 2023, the AER decided to lower the fees Victorian gas distributors may charge customers for abolishing their gas connection.² However, current legislation and the code of practice do not distinguish between disconnections and abolishments.

To address this, the new code of practice will define temporary disconnection and permanent abolishment. It will also set out basic obligations for a gas distributor to abolish a connection when directed by a retailer (at the request of a customer) or when directed to do so in accordance with energy safety legislation due to immediate safety risks.

The new code of practice will set a timeframe for a gas distributor to complete abolishment requests. A gas distributor will be required to use best endeavours to abolish a connection within 20 business days of receiving a request. This aims to deter unreasonable delays when a customer who is no longer consuming gas requests an abolishment.

New provision of information and reporting requirements

We received feedback during our consultation process that customers lack clear information related to their use of gas networks.

The new code of practice will require a gas distributor to publish on its website information on:

- new connections and connection charges
- disconnection, reconnection and abolishment
- unaccounted for gas
- changes in the type of gas supplied
- customer complaint handling.

A gas distributor will be required to publish this information on its website in a clear, simple and concise manner.

¹ The Australian Energy Market Operator (AEMO) forecasts residential and commercial gas consumption to decline by 71 per cent from 2023 to 2043 and Victorian gas production to reduce by 48 per cent from 2024 to 2028. See: Australian Energy Market Operator, [Gas Statement of Opportunities](#), March 2024, p. 29; and Australian Energy Market Operator, [Victorian Gas Planning Report Update](#), March 2024, p. 4.

² This fee is now set at \$220 and applies to residential customers.

The new code of practice will also include performance reporting obligations. From November 2024, a gas distributor will have to report annually to the commission on guaranteed service levels data, unaccounted for gas, and the number of abolishments completed.

Updating the code of practice and streamlining regulation

The new code of practice will remove overlaps with the national regulatory framework and clarify obligations on gas distributors and customers.

To streamline regulations for gas metering, we removed requirements which overlapped with similar requirements in the National Gas Rules. We retained those requirements which have no equivalent in the National Gas Rules. This will result in a more streamlined framework for gas metering in Victoria.

The new code of practice will set out basic obligations for customers when using the gas network. It will also require gas distributors to notify customers of any failure to comply with obligations that may impact them.

We also removed provisions which overlapped with other regulatory instruments, such as those referring to heating values and technical standards, to clarify the regulatory framework.

Implementing the new Gas Distribution Code of Practice

The new code of practice will take effect on 1 October 2024. This will allow sufficient time for a gas distributor to adapt its systems and processes so that it can comply with the new obligations.

Upfront charges for new connections will take effect in 2025. They will apply to any connection application made from 1 January 2025. This will allow developers, builders and customers to consider the new charges in their decisions to connect to the gas network after that date. It will also allow sufficient time for a gas distributor to calculate the new charges, including standard charges (where appropriate) for similar categories of customers.

1. Introduction

Why we are remaking the Gas Distribution System Code of Practice

Our decision to remake the Gas Distribution System Code of Practice (current code of practice) was driven by several changes in the legislative and regulatory environment of the Victorian energy sector.

The new Gas Distribution System Code of Practice (new code of practice) will:

- allow us to better monitor compliance and enforce obligations on gas distributors
- update rules for new gas connections to keep pace with regulatory developments
- align with recent changes to the National Gas Rules.

We are also required to review and remake the current code of practice by the end of 2025.³

Effective compliance monitoring and enforcement

The *Essential Services Commission (Compliance and Enforcement Powers) Amendment Act 2021* broadened the commission's investigative and enforcement powers. These powers include the ability to obtain information, documents and search warrants, to examine witnesses on oath, issue penalty notices and undertake civil litigation or criminal prosecution.

Our energy codes transitioned to subordinate legislative instruments as 'codes of practice' as part of this enforcement framework. We have been reviewing and remaking these codes of practice since 2021 to allow us to effectively monitor compliance and enforce the obligations in them.

The current code of practice has a limited number of reporting obligations and few obligations listed as civil penalty requirements.⁴

A key purpose of this review was to align the new code of practice with our enforcement framework by specifying obligations on gas distributors as civil penalty requirements. We will also move reporting requirements from our Compliance and Performance Reporting Guideline to a schedule of the new code of practice. Consolidating obligations for gas distributors into a single instrument will support compliance and oversight.

³ Section 76(3) of the *Essential Services Commission Act 2001*.

⁴ These are limited to life-support equipment provisions and to the obligation to make Guaranteed Service Levels payments. See clause 1.6 of the Gas Distribution System Code of Practice (version 16).

Updating the rules for new gas connections

The [Gas Substitution Roadmap](#) sets out a path for Victoria's gas sector to achieve net zero emissions targets.⁵ It outlines the ways in which Victoria will use energy efficiency, electrification, renewable hydrogen and biomethane to reduce emissions from gas use. An update to the roadmap in December 2023 reinforced the Victorian Government's commitment to electrification and outlined commitments which have already been delivered.⁶

Recent measures implemented to achieve these targets include:

- In July 2023, the Victorian Government announced a plan to [phase out gas for new homes](#) by amending Victorian Planning Provisions.⁷ The changes mean that new homes and subdivisions which require a planning permit are prohibited from connecting to gas if the planning permit application was lodged after 1 January 2024.
- Since 2021, the 7-Star Homes program has been underway to help Victorian residential builders prepare to meet new 7-star efficiency standards as part of an amendment to the [National Construction Code](#) which came into effect on 1 May 2024.⁸ These new standards require new home builds to meet higher energy efficiency standards based on thermal efficiency (energy required to heat or cool the house) and annual energy use.
- The Victorian Energy Upgrades program has phased out previous incentives for gas appliances and expanded the incentives to electrify homes. The program offers incentives of up to \$3,600 to install efficient electric appliances such as heat pumps, reverse cycle air conditioners and electric cooktops.⁹

The Victorian Government has also made a broader commitment to climate action and reducing greenhouse gas emissions. The current targets for emissions reduction are 45–50 per cent below 2005 levels by 2030, 75–80 per cent by 2035 and net-zero emissions by 2045.¹⁰

⁵ Department of Energy, Environment and Climate Action, [Gas Substitution Roadmap](#), July 2022.

⁶ Department of Energy, Environment and Climate Action, [Gas Substitution Roadmap Update: Victoria's Electrification Pathway](#), December 2023.

⁷ [Amendment VC250](#) to Victoria Planning Provisions, 1 January 2024.

⁸ '[7-Star Homes Program](#)', Sustainability Victoria, accessed 23 February 2024; '[7 star energy efficiency building standards](#)', Department of Energy, Environment and Climate Action, accessed 23 February 2024.

⁹ Department of Energy, Environment and Climate Action 2023, [Gas Substitution Roadmap Update: Victoria's Electrification Pathway](#), State Government of Victoria, Melbourne.

¹⁰ '[Climate action targets](#)', Department of Energy, Environment and Climate Action, accessed 25 February 2024; Australian Energy Market Commission 1 February 2024, [Emissions targets statement under the National Energy Laws](#), p. 1.

The current code of practice contains obligations that supported the expansion of gas networks and encouraged new connections. These obligations are no longer aligned with recent legislative and regulatory developments such as those listed above and net-zero emissions targets. We have updated these obligations to more appropriately incentivise new connections, and help manage longer-term risks for customers and gas distributors.

Aligning the code of practice with changes to the National Gas Rules

Upcoming changes to the National Gas Rules have also influenced our review of the current code of practice.

The Australian Energy Market Commission conducted two recent reviews that are particularly relevant:

- [Extending the national gas and retail regulatory framework](#) to enable the use of hydrogen and renewable gases.
- [Allowing the participation of distribution connected facilities](#) in Victoria's Declared Wholesale Gas Market (DWGM).

Following the conclusion of these reviews, the National Gas Rules were amended to allow the use of hydrogen and renewable gases in Victoria's gas market.¹¹ The gas metering framework that applies to gas distributors in Victoria was also restructured and strengthened.

The Australian Energy Market Operator (AEMO) also reviewed and made changes to its procedures in Victoria. This is relevant to our review as some elements of these procedures related to metering requirements and unaccounted for gas interact with obligations in our code of practice.¹² Our updates will prevent conflict between regulatory instruments and provide clarity for businesses.

Our approach to remaking the code of practice

Our focus in remaking the current code of practice was to:

- review the connections framework for gas retail customers
- consider new provision of information requirements
- remove inconsistencies, redundant provisions and duplication with other instruments

¹¹ See the [National Gas Amendment \(DWGM distribution connected facilities\) Rule 2022 No. 3](#), the [National Gas Amendment \(Other Gases\) Rule 2024](#) and the [National Energy Retail Amendment \(Other Gases\) Rule 2024](#).

¹² '[Amendments to Victorian Declared Wholesale Gas Market and Retail Market -1 May 2024 release](#)', Australian Energy Market Operator, accessed 04 March 2024.

- update definitions, terminology and improve the structure of the code of practice
- specify civil penalty requirements for our enforcement framework.

Making a new code of practice also required a review of other related regulatory instruments. As part of this review, we made changes to:

- update gas distribution licences
- move gas distributors' reporting obligations from the Compliance and Performance Reporting Guidelines to a schedule within the code of practice
- repeal the Gas Industry Guideline No. 17
- make consequential amendments to the Energy Retail Code of Practice.

Legislative considerations when remaking the code of practice

In developing our final decision, we considered the legal framework relevant to gas distribution services in Victoria, including:

- the objectives of the commission and the matters the commission must have regard to under Part 2 of the *Essential Services Commission Act 2001*
- the purposes of the *Gas Industry Act 2001* and the *Essential Services Commission Act*
- the requirements of Part 6 of the *Essential Services Commission Act* for making codes of practice
- the relevant requirements of the *Subordinate Legislation Act 1994*.¹³

How we engaged with stakeholders

The current code of practice has been reviewed and remade taking into consideration stakeholder feedback on:

- an [issues paper](#) released in March 2023¹⁴
- a [draft decision](#) (including a draft code of practice) released in November 2023.¹⁵

We sought stakeholder feedback via written submissions, Engage Victoria survey responses, direct one-on-one meetings, and a public stakeholder information session.

¹³ We note that the new code of practice has been made as an exempt legislative instrument under item 41.3 of Schedule 3 of the [Subordinate Legislation \(Legislative Instruments\) Regulations 2021](#).

¹⁴ Essential Services Commission, [Gas Distribution System Code of Practice review: Issues Paper](#), 21 March 2023.

¹⁵ Essential Services Commission, [Gas Distribution System Code of Practice review: Draft Decision](#), 14 November 2023.

[Consultation summaries](#) for the issues paper and draft decision can be found on our website.

Issues paper

On 21 March 2023, we released an [issues paper](#) which asked stakeholders questions about the key areas we proposed to review for our new Gas Distribution Code of Practice. The six-week consultation period ended on 4 May 2023.

We received 20 submissions in response to the issues paper. A range of stakeholders made submissions, including gas distribution companies, gas retailers, industry peak bodies, consumer protection groups and community and climate action groups as well as individuals. We used these responses to help draft our new version of the Gas Distribution Code of Practice released along with the draft decision.

Draft decision

On 15 November 2023, we released a [draft decision](#) which outlined our proposed changes to the current code of practice and other relevant regulatory instruments. The five-week consultation period ended on 21 December 2023.

We received 136 submissions in response to the draft decision including 17 submissions from organisations which we have published on our website. One submission was provided orally, two via the Engage Victoria survey and 14 were separate written submissions.

The organisations who made submissions included gas distribution companies, gas retailers, consumer protection groups and community and climate action groups. The organisations which commented on our draft decision were:

- Australian Gas Infrastructure Group (AGIG)
- AGL Energy (AGL)
- AusNet Gas Services (AusNet)
- Bass Coast Climate Action Network
- Brotherhood of St Lawrence
- Darebin Climate Action Now
- EnergyAustralia
- Energy Consumers Australia
- Environment Victoria
- Energy and Water Ombudsman (Victoria) (EWOV)
- Gas Networks Victoria
- Housing Industry Association
- Lighter Footprints

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- Master Plumbers and Mechanical Services Association of Australia (Master Plumbers)
- Momentum Energy (Momentum)
- Origin Energy (Origin)
- Victorian Council of Social Services.

We received 19 confidential submissions which we have not published. Of the remaining Engage Victoria survey answers, we published the submissions from 64 named individuals and 36 anonymous individuals.

How we assessed changes to the code of practice

Along with stakeholder feedback, the new code of practice was made applying our key assessment criteria based on our legislative framework. Our assessment criteria included examining incentives for efficiency, appropriate consumer protections, health, safety and environmental and social factors, and decarbonisation.¹⁶

Our overarching objective is to promote the long-term interests of Victorian consumers. In exercising our power to make a new code of practice, we have had regard to the price, quality and reliability of gas services provided to Victorian consumers in seeking to achieve this objective.

We also considered various regulatory and implementation factors. This included examining the proportionality, clarity, consistency, and flexibility of the changes to the current code of practice.

We explain in the following sections how we considered these criteria together with stakeholder feedback in making our final decisions.

Updating gas distribution licences

As part of this final decision, we will also make variations to gas distribution licences to account for our enforcement powers and the making of the new code of practice.

These variations will simplify gas distribution licences and will make licence conditions consistent across all gas distributors. The key changes to licences will be to:

- simplify licence conditions
- remove redundant licence conditions
- update terms and definitions to align with the broader regulatory framework

¹⁶ Our full assessment framework is on the Appendix to this final decision and was outlined on pages 15–16 of our [draft decision](#): Essential Services Commission, [Gas Distribution System Code of Practice review: Draft Decision](#), 14 November 2023.

- improve consistency with other licences issued by the commission.

We will vary gas distribution licences in accordance with the template gas distribution licence at **Annex C**. The variations will be made, for the most part, with the consent of gas distributors. In instances where gas distributors have not consented to the variation, they will be made by notice, on the basis that the commission is satisfied the variation is necessary having regard to the objectives of the commission.¹⁷

Structure of this document

We have structured this final decision into the key topics and obligations contained in the new code of practice. Each chapter outlines our draft decision, stakeholder feedback and our final decision.

| Chapter | Topics |
|---------------------------|--|
| Chapter 1 | Introduction |
| Chapter 2 | A new framework for gas connections |
| Chapter 3 | Distinguishing disconnections and abolishments |
| Chapter 4 | Provision of information requirements |
| Chapter 5 | Streamlining regulation and removing duplication |
| Chapter 6 | Enforcement, compliance and reporting obligations |
| Chapter 7 | Implementation |
| Chapter 8 | Updating gas distribution licences |
| Chapter 9 | Changes to other instruments |
| Appendix | Our assessment framework |
| Annex A | Gas Distribution Code of Practice (version 1) |
| Annex B | Comparison table of the Gas Distribution System Code of Practice (version 16) with the new Gas Distribution Code of Practice (version 1) |
| Annex C | Template gas distribution licence |
| Annex D | Consequential amendments to the Energy Retail Code of Practice and to the Compliance and Performance Reporting Guideline |

¹⁷ Sections 38(1)(b) and (c) of the *Gas Industry Act 2001*.

2. A new framework for gas connections

Our final decision is to reform the framework for new gas connections. The new Gas Distribution Code of Practice will:

- remove a gas distributor's obligation to connect customers in the minor or infill extension area (within 1 km of nearest distribution mains)
- require a gas distributor to charge new customers upfront for the full costs of new connections.

Upfront charges for new connections will apply from 1 January 2025.

Removing the requirement to connect customers on the fringes of gas networks

Our draft decision

Our draft decision proposed to remove the obligation to connect a customer in the minor or infill extension area (within 1 km of nearest distribution mains). In its place, we proposed a requirement to connect a customer who requests a connection that would involve minimal or no extension or augmentation of the distribution system.

We proposed to retain other conditions for new connections, such as the requirement that a customer's gas equipment complies with regulatory requirements. We also proposed a new provision allowing a gas distributor to refuse a new connection if it is not technically feasible or if it is inconsistent with the safe and reliable supply of gas to customers.

The Victorian Government has recently [amended Victorian Planning Provisions](#) to prohibit new gas connections to new dwellings, apartments and residential subdivisions. The prohibition applies to planning permit applications lodged on or after 1 January 2024. The new framework for gas connections under the new code of practice will apply to gas connections not captured by the planning prohibitions and to customers who may wish to connect to gas networks.

Stakeholder feedback

Most stakeholders supported the new connections framework.

Environment Victoria welcomed eliminating the obligation of gas distributors to connect new customers within a one-kilometre radius from distribution mains.¹⁸ Origin noted that limiting a distributor’s obligation to connect a customer to situations where the connection would involve minimal, or no extension or augmentation of the distribution system would help to limit uneconomic connections. However, it considered the code of practice should provide guidance on what defines a ‘minimal’ extension or augmentation of the network.¹⁹

Master Plumbers disagreed with the new connections framework. It was of the view that the proposition that renewable gas is unlikely to have a significant role in providing energy to homes and businesses is premature and that more weight should be given to the fact that every gas connection is also a potential renewable gas connection.²⁰

Our final decision

Our final decision is to maintain the new connections framework as proposed in the draft decision.

We note Master Plumbers’ submission that hydrogen, biogas and synthetic methane may have the potential to play a major role in residential and commercial gas use. However, we consider there is great uncertainty about the large-scale substitution of renewable hydrogen and biomethane for natural gas, particularly given the economic, technical, and logistical constraints. AEMO does not expect these distributed supply resources to produce significant volumes in the upcoming years. AEMO and industry expect demand for hydrogen or biomethane to be focused on hard-to-electrify and high-temperature applications.²¹

In making this decision, we have also considered the extensive international research that suggests that electrification is often a more appropriate choice to hydrogen, especially for residential and commercial buildings.²² Biomethane is currently available in limited quantities and

¹⁸ Environment Victoria, submission to ‘Gas Distribution System Code of Practice review: Draft decision’, 21 December 2023, p. 3.

¹⁹ Origin Energy, submission to ‘Gas Distribution System Code of Practice review: Draft decision’, 21 December 2023, p. 1.

²⁰ Master Plumbers and Mechanical Services Association of Australia, submission to ‘Gas Distribution System Code of Practice review: Draft decision’, 1 December 2023, pp. 1–2.

²¹ Australian Energy Market Operator, [Victorian Gas Planning Report Update](#), March 2024, p. 62; Australian Energy Market Operator, [Gas Statement of Opportunities](#), March 2024, p. 32.

²² Grattan Institute: Tony Wood, Alison Reeve and Esther Suckling, [Getting off gas: Why, how, and who should pay?](#), June 2023, pp. 10–13; Grattan Institute: Tony Wood, Alison Reeve and Richard Yan, [Hydrogen: hype, hope, or hard work?](#), December 2023, p. 19; Rosenow, J., [‘Is heating homes with hydrogen all but a pipe dream? An evidence review’](#), *Joule*, 2022; International Energy Agency, [The Future of Heat Pumps](#), 2022; Enertek International, [Research into leakage rates of hydrogen blends](#), 11 April 2024.

is unlikely to meet Victoria's natural gas demand.²³ The Victorian Government has also recently consulted on future uses of renewable gas. It emphasised that renewable gases are unlikely to have a role in residential and most commercial buildings and should be reserved for the hard-to-abate industrial sector.²⁴

Relevantly, renewable gas connections will still be possible under the new connections framework. The new code of practice will remove any technical or regulatory barriers for such connections. However, it will consider the uncertainties about the costs and the timely development of 100 per cent renewable gas supply as a viable and safe product for customers. Accordingly, our final decision removes the inefficient obligation to extend the gas network.

The new code of practice will limit the obligation to connect to where there is minimal or no extension or augmentation to distribution pipelines. Extensions will still be allowed, if permitted under planning regulations and considered economically viable by new customers.

We note Origin's suggestion that the code of practice should provide guidance on what is a 'minimal' extension or augmentation of the network. The same expression is used in the National Gas Rules and in the National Electricity Rules to define a 'basic connection service'. This term has long been applied in practice by several distribution networks, and to our knowledge, has not been a source of confusion such that the rules have required further specification.²⁵

We also consider that defining a specific measure for what constitutes 'minimal' (e.g. a defined measure such as 10 metres) could lead to inequitable outcomes and difficulties in implementation. For example, two customers may request a connection to a gas distributor where one property is 9 metres away from the distribution pipeline and the other is 11 metres away. In this scenario, the gas distributor would be required to connect the first customer but not the second, which could create a perceived inequity.

²³ Enea Consulting, [Sustainability Victoria – Assessment of Victoria's biogas potential](#), December 2021, p. 2; Institute for Energy Economics and Financial Analysis (IEEFA): Jay Gordon and Kevin Morrison, '[Renewable gas' campaigns leave Victorian gas distribution networks and consumers at risk](#)', 17 August 2023, pp. 12–14.

²⁴ Department of Energy, Environment and Climate Action, [Victoria's Renewable Gas Consultation Paper](#), September 2023, p. 13.

²⁵ See rule 119A of the National Gas Rules and rule 5A.A.1 of the National Electricity Rules.

Upfront charges for new gas connections

Our draft decision

Our draft decision proposed to require a gas distributor to charge a new customer the full costs of a new connection upfront. This aimed to bring the experience of a customer connecting to the gas network in line with that of connecting to electricity and water networks, where an upfront contribution is normally expected. It also intended to correct current over-incentives for distributors and customers to establish new gas connections.

The current code of practice requires a gas distributor to undertake an 'economic feasibility test' on each new connection, to determine whether an upfront contribution is required from the new customer. This has resulted in most new residential connections requiring no upfront charges, as the cost of the connection would be recovered from all customers. This is not the case for new electricity and water connections in Victoria, where the customer would usually pay some of the costs for the installation of new assets upfront.²⁶

Under our draft decision, we proposed that a gas distributor charge a customer who requests a new connection the sum of:

- the cost of purchasing and installing dedicated assets to that customer
- the cost of purchasing and installing any upstream assets required to support the additional load from a new customer.

We proposed that the new rules for connection charges should apply from 1 January 2025.

Stakeholder feedback

All stakeholders supported introducing upfront charges for new connections, except AGIG, AusNet, the Housing Industry Association and Master Plumbers.²⁷

²⁶ Unlike for new residential customers, larger commercial and industrial customers often pay the costs of new gas connections upfront (given the size and complexity of connecting to the gas network).

²⁷ Australian Gas Infrastructure Group, submission to 'Gas Distribution System Code of Practice review: Draft decision', 21 December 2023; AusNet Gas Services, submission to 'Gas Distribution System Code of Practice review: Draft decision', 20 December 2023; Master Plumbers and Mechanical Services Association of Australia, op. cit.; Housing Industry Association, submission to 'Gas Distribution System Code of Practice review: Draft decision', 13 December 2023.

Community and climate action groups supported the draft decision and considered that the introduction of upfront charges should begin earlier.²⁸ Their submissions included the following suggestions:

- Upfront connection charges should commence earlier, on 1 July 2024.²⁹
- An initial minimum charge could be set to expedite implementation.³⁰
- The commission should reserve the power to prescribe the method to calculate charges.³¹

Gas retailers supported the introduction of upfront charges. Most agreed with the proposed implementation date of 1 January 2025. However, AGL suggested an implementation date of 1 July 2025 to align with financial years and internal system processes, minimising the implementation burden on industry.³² AGL also recommended replicating the experience of customers in the electricity sector, where there are set price ranges listed publicly for new connections.³³ Momentum cautioned against averaging out to provide a uniform cost for all new gas connections. Its view was that this would not act as a deterrence for new gas connections.³⁴ EnergyAustralia similarly recommended treating the majority of new connections as negotiated services, to limit any cost pass through to existing gas network customers.³⁵

²⁸ Bass Coast Climate Action Network, submission to 'Gas Distribution System Code of Practice review: Draft decision', 21 December 2023, p. 2; Darebin Climate Action Now, submission to 'Gas Distribution System Code of Practice review: Draft decision', 21 December 2023, p. 2; Victorian Council of Social Services, submission to 'Gas Distribution System Code of Practice review: Draft decision', 21 December 2023, pp. 1–2; Lighter Footprints, submission to 'Gas Distribution System Code of Practice review: Draft decision', 21 December 2023, pp. 2–3; Environment Victoria, op. cit., p. 2;

²⁹ Environment Victoria argued that the proposed commencement of 1 July 2025 is excessively generous and that as a comparison the Victorian Government's ban on new connections for new homes, whose impacts are far more significant for industry, were introduced five months ahead of commencement. See: Environment Victoria, op. cit., p. 3. See also: Darebin Climate Action Now, op. cit., p. 2; Bass Coast Climate Action Network, op. cit., p. 2;

³⁰ Bass Coast Climate Action Network, op. cit., p. 2.

³¹ Darebin Climate Action Now, op. cit., p. 2.

³² AGL Energy, submission to 'Gas Distribution System Code of Practice review: Draft decision', 21 December 2023, p. 1; Origin Energy, op. cit., p. 1; Momentum Energy, submission to 'Gas Distribution System Code of Practice review: Draft decision', 21 December 2023, pp. 1–2; EnergyAustralia, submission to 'Gas Distribution System Code of Practice review: Draft decision', 21 December 2023, p. 1.

³³ AGL Energy, op. cit., p. 1.

³⁴ Momentum Energy, op. cit., p. 2.

³⁵ EnergyAustralia, op. cit. p. 1.

A new framework for new connections and connection charges

Gas Networks Victoria (which operates small gas networks in regional towns) supported the draft decision. It stated that it already charges customers upfront for new connections and that it wants to ensure charges for new connections can cover all costs incurred.³⁶

AGIG and AusNet opposed the introduction of upfront charges. AGIG submitted that the economic feasibility test remains appropriate and that the proposed upfront charges could lead to adverse consequences such as:

- a potential increase to gas distribution prices due to a lower number of future connections
- the introduction of cross subsidies, as new customers could be paying for existing customers' connection assets through network tariffs in addition to the upfront charge
- increased asset stranding risks due to the impact of upfront charges on inline developments.³⁷

AGIG also argued that the draft decision conflicts with the commission's objectives and matters it must consider in seeking to achieve its objectives, including the objective to promote a consistent regulatory approach between the gas industry and the electricity industry. AGIG further stated that the draft decision had a narrow focus of achieving emissions reduction through electrification of potential gas load, favouring one specific technical solution to achieve decarbonisation over others.³⁸

AusNet considered that the introduction of large upfront connection charges is not warranted at this time and would be inconsistent with the transitional arrangements under the Gas Substitution Roadmap. It argued that applying upfront charges to disincentivise connections to recent developments could increase asset stranding risk for the existing customer base. In AusNet's view, the economic feasibility test, with modifications, would remain appropriate to manage the speed of the transition off gas.³⁹

Both AGIG and AusNet also claimed that the requirement to charge connection fees upfront from 1 January 2025 would be challenging. They suggested they would have to assess the need for variations to existing access arrangements and potentially introduce a separate (lower) tariff for

³⁶ Gas Networks Victoria, submission to 'Gas Distribution System Code of Practice review: Draft decision', 19 December 2023, p. 1.

³⁷ Australian Gas Infrastructure Group, op. cit., pp. 1–2.

³⁸ Ibid., pp. 8–9.

³⁹ AusNet Gas Services, op. cit., pp. 3–6.

new customers to recognise the different contributions of new and existing customers to capital recovery.⁴⁰

In respect to the implementation of upfront charges, AGIG opposed specifying further how upfront charges should be calculated. AusNet considered that the proposed drafting could lead to inequitable outcomes because it did not indicate whether the application of costs is customer specific or an average cost for similar connections. AusNet suggested ensuring equity between customers by supporting averaging of costs as appropriate.⁴¹

Our final decision

Correcting over-incentives for new gas connections

Currently, customers may be over-incentivised in considering a gas connection when building a new property.

The current framework results in many customers (particularly residential customers) not paying or contributing upfront charges for a new gas connection in Victoria. This is not the case for new electricity and water connections, where residential customers usually pay some of the costs for installing new assets upfront.

The lack of upfront costs is an incentive for new gas connections. However, gas networks are accelerating the recovery of pipeline costs due to the uncertain future of natural gas. This may lead to existing customers paying for infrastructure that may not be needed in the long term.

Victorian consumers also have incentives to transition to alternative sources of energy. In contrast, Victorian gas distributors have an incentive to stimulate gas consumption under the current economic regulatory framework. The AER observed this incentive, and that it appears inconsistent with the Victorian Government's net-zero objectives (unless the gas is sourced from low carbon alternatives – for example, green hydrogen or biogas).⁴²

The new requirement to charge for new connections upfront will correct this over-incentive. It will also prevent these costs from being added to a gas distributor's regulated asset base, limiting the recovery of the costs of future connections through gas network tariffs.

⁴⁰ Australian Gas Infrastructure Group, op. cit., p. 5; AusNet Gas Services, op. cit., pp. 6–7.

⁴¹ Australian Gas Infrastructure Group, op. cit., p. 11; AusNet Gas Services, op. cit., p. 8.

⁴² Australian Energy Regulator, [Gas Network Performance Report](#), December 2023, p. 10.

We note that some new commercial customers would already face upfront charges under the current framework, but this will depend on the distribution area and other factors. The distance from the new connection to the existing gas network is a key factor – the longer the distance, the higher the cost.

Currently, a new small business in the AusNet distribution area located alongside an existing gas main, could face a cost from \$0 to \$6,000. A business located approximately 500m from its nearest gas main, could face a cost of up to \$30,000.⁴³ This is a rare scenario, which would likely involve a new commercial development on a greenfield site. In this scenario, the charge for a new gas connection would likely be relatively small compared to the cost of construction.

Most owners of small businesses would seek (or rent) a premise with an existing gas connection if access to gas is especially needed, and would not face an upfront charge. Larger commercial businesses who specifically require gas in new premises would also require specialist equipment and have complex requirements for a connection – these customers are likely to already be contributing a part of or all connection costs upfront.

We also note the broader framework of incentives and regulations for commercial gas customers to electrify or to transition to renewable gas. The Victorian Government has started consultation on incentives for renewable gas and will soon consult on phasing out gas connections to buildings such as offices, retail premises (including food and drink premises), some education facilities and other accommodation (such as residential aged care facilities).⁴⁴

Other relevant legislative and regulatory developments include:

- a change to Victorian regulations prohibiting gas connections in new homes from 1 January 2024⁴⁵
- an increase in minimum energy efficiency building standards for new homes from 6 to 7 stars under changes to the National Construction Code 2022
- the phasing out of incentives under the Victorian Energy Upgrades program for gas appliances, with new incentives for electrifying homes being considered⁴⁶

⁴³ Estimates based on the '[Gas connection cost calculator](#)', AusNet Services, accessed 17 April 2024.

⁴⁴ Department of Energy, Environment and Climate Action, [Victoria's Renewable Gas Consultation Paper](#), September 2023; Department of Energy, Environment and Climate Action, [Gas Substitution Roadmap Update: Victoria's Electrification Pathway](#), December 2023, p.40.

⁴⁵ [Amendment VC250](#) to Victoria Planning Provisions, 1 January 2024.

⁴⁶ Department of Energy, Environment and Climate Action, [Gas Substitution Roadmap Update: Victoria's Electrification Pathway](#), December 2023.

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- incentives by Solar Victoria for electrification and energy efficiency improvements.⁴⁷

Our final decision will correct over-incentives for new gas connections, and limit extensions of the gas network being funded by all customers in the long term.

The 'economic feasibility test' for new connections is no longer appropriate

The current code of practice requires a gas distributor to conduct an 'economic feasibility test' on a new connection, which will determine the amount that a customer needs to contribute for that new gas connection. In practice, the current test results in no upfront contributions for most new customers (particularly residential customers).

We consider the economic feasibility test is no longer appropriate for the regulatory framework in Victoria, for the following reasons:

- **The test was historically appropriate in supporting the expansion of Victoria's gas network.** An underlying assumption for the test is that new customers benefit from lower connection charges, while existing customers benefit from more connections to share in the recovery of network costs. The economic feasibility test remains effective in sectors with expanding network infrastructure, such as electricity and water. However, AEMO has forecasted a decline in residential and commercial gas consumption by 71 per cent from 2023 to 2043, and a reduction in effective gas connections in the east coast gas market from 4.9 million in 2023 to 1.9 million in 2042.⁴⁸
- **Gas distributors have considerable discretion on key assumptions in the test.** Distributors estimate the future gas consumption for each new connection, to calculate expected costs and revenues for that connection. If the actual consumption at a new connection is greater than the estimate, the distributor can earn more revenue (and vice versa). The rules also require the calculation to consider a 20-year period for residential connections and a 15-year period for commercial industrial customers.⁴⁹ This means that for each new residential gas connection made in 2024, a gas distributor makes a judgment about its future

⁴⁷ [Solar Victoria](#) currently offers solar panel (PV) rebates, hot water rebates, interest-free solar battery loans and residential electrification grants to enable bulk installations of solar PV and energy efficient hot water systems.

⁴⁸ Australian Energy Market Operator's forecast decline in residential and small commercial users is based on the ISP 'Orchestrated Step Change (1.8°C) scenario' from 175 PJ to 50 PJ between 2023 to 2043. See: Australian Energy Market Operator, [Gas Statement of Opportunities](#), March 2024, p. 29. The forecast of the 'effective' number of connections represents the number of connections if those connections maintained historical levels of consumption. See: Australian Energy Market Operator, [Gas Statement of Opportunities](#), March 2024, p. 25.

⁴⁹ A different period for industrial and commercial customers may be used if there are grounds to consider that the life of the connection may be less than 15 years. See clause 4 of Schedule 2 of the Gas Distribution System Code of Practice (version 16).

A new framework for new connections and connection charges

consumption until 2044. This includes whether a new customer's future gas appliances could be replaced with electric alternatives in the next 20 years.

These assumptions must be precise, as customers bear the risks of errors. We note that Victoria's three largest distributors use different assumptions leading to different outcomes in estimating connection charges. AusNet's modelling indicated that connection charges would rise from 9.5 per cent to 50 per cent over the 2023–28 access arrangement period, while Australia Gas Networks' and Multinet Gas Network's modelling suggested a lower rise.⁵⁰

- **The test does not consider other externalities.** This means that current connection charges do not consider the potential future cost of abolishing individual gas connections, and the health, environmental, and social costs of increased gas consumption. We recognise these as key considerations for the long-term interests of Victorian consumers.

We consider that these uncertainties and differences in assumptions undermine the effectiveness of the economic feasibility test.

Promoting the long-term interests of Victorian consumers

We considered stakeholder feedback relating to the commission's objectives in the context of connection charges. The objective of the commission is to promote the long-term interests of Victorian consumers. That includes, but is not limited to, consideration of the price, quality and reliability of essential services.

Our decision will not impact the quality or reliability of essential services. In terms of price, Victorian network tariffs will not change unless distributors apply to the AER to revise their access arrangements. We understand distributors may consider revising their access arrangements because of new demand forecasts. This is due to a range of factors, such as consumer behaviour change, and legislative and regulatory changes (the introduction of upfront connection charges being only one of the contributing factors). This is also a matter for AER to consider, including whether there is a valid reason for revising access arrangements based on material changes.

⁵⁰ Australian Energy Regulator, [Draft Decision: AusNet Gas Services Access Arrangement 2023 to 2028 – Attachment 5: Capital expenditure](#), December 2022, p. 7; Australian Energy Regulator, [Final Decision: AusNet Gas Services Gas Distribution Access Arrangement 2023 to 2028 – Attachment 5: Capital expenditure](#), June 2023, pp. 5–6; Australian Energy Regulator, [Final Decision: Australian Gas Networks \(Victoria & Albury\) Gas Distribution Access Arrangement 2023 to 2028 – Attachment 5: Capital expenditure](#), June 2023, p. 6; Australian Energy Regulator, [Final Decision: Multinet Gas Networks Gas Distribution Access Arrangement 2023 to 2028 – Attachment 5: Capital expenditure](#), June 2023, p. 6.

We have also considered the risk of Victorian consumers funding new connections in the long term. Given the uncertainty of gas demand forecasts, we consider it is an inappropriate risk for existing customers to continue funding new connections from 2025 onwards.

Gas distributors also argued that upfront charges for current developments could increase asset stranding risks. This is because developments with existing gas distribution mains may have fewer customers connecting than initially expected. While we recognise there is a risk fewer new customers connect, there is also a counter risk that newly connected customers could stop using gas within the next 20 years (and the remaining customers may have to pay part of the decommissioning costs of these customers).⁵¹

It is also in the long-term interests of Victorian consumers to have efficient price signals when opting between competing energy sources. New all-electric homes are cheaper to run than dual-fuel homes. The Victorian Government has estimated that for new homes, going all-electric can save around \$1,000 per year and over \$2,200 with solar installed.⁵² The Climate Council and the Grattan Institute have estimated similar savings.⁵³ New customers connecting to the gas network without paying upfront charges may be locked into higher energy costs for the next ten to twenty years (if they choose to stay connected), or have to pay additional costs for electrifying their appliances in this period.

Consistent with our objectives under both the Gas Industry Act and the Essential Services Commission Act, the new code of practice will lead to more efficient price-signals to customers for both gas and electricity connections. Under the new rules, if a customer wants a new gas connection (where it is still permitted) they will have to pay an upfront contribution. This is similar to how customers may pay an upfront contribution for a new electricity connection.

We also considered the commission's objective under the Gas Industry Act to promote a consistent regulatory approach between the gas industry and the electricity industry, to the extent that it is efficient and practicable to do so. However, we note that specific rules may be required to support the unique differences between the Victorian gas and electricity sectors. For example:

⁵¹ Assuming the continuation of current arrangements where the bulk of small customer abolishment costs are socialised and recovered via haulage reference service charges. For example, for Australian Gas Networks (Victoria & Albury), the socialised abolishment costs are \$730 out of a total of \$950 (\$2022–23) – the remaining \$220 being an ancillary reference service charge. See: Australian Energy Regulator, [Final Decision: Australian Gas Networks \(Victoria & Albury\) Gas Distribution Access Arrangement 2023 to 2028 – Attachment 6: Operating expenditure](#), June 2023, p. 6.

⁵² ['Save with an all-electric home'](#), Department of Energy, Environment and Climate Action, accessed 25 February 2024.

⁵³ Grattan Institute: Tony Wood, Alison Reeve and Esther Suckling, [Getting off gas: Why, how, and who should pay?](#), June 2023, pp. 14–15; The Climate Council, [Switch and save: how gas is costing households](#), 2022.

- Unlike in other states and for electricity networks, the AER approved accelerated depreciation requests for Victorian gas distributors.⁵⁴
- Victorian gas production is quickly declining and is expected to reduce by 48 per cent from 2024 to 2028.⁵⁵ No similar decline is expected in electricity supply.
- There are differences in methodology for the economic regulatory framework of the gas sector compared to electricity.⁵⁶
- There has been a phase out of incentives under the Victorian Energy Upgrades program for gas appliances, with new incentives for electrifying homes being considered⁵⁷
- The Victorian Government implemented a ban on new gas connections for homes and subdivisions which require a planning permit from 1 January 2024, and is considering options to extend this ban to buildings such as offices, retail premises and education facilities.⁵⁸

Given these factors, we consider that the new rules requiring an upfront charge for a new gas connection are consistent with our objectives under the Gas Industry Act and the Essential Services Commission Act.

Implementing upfront charges for new connections

Some distributors suggested creating separate network tariffs for new customers to implement upfront connection charges effectively. Distributors claimed that new customers who paid upfront connection charges should not need to pay for other customers' connections. However, the same logic would suggest separate tariffs are needed for existing customers connected for a long period of time (for example, more than 20 years), as they would have covered the cost of their original connection. We also note that retailers would not be required to pass separate tariffs on to new customers. These are ultimately matters for the AER to determine.

We have also considered the potential effect of new upfront charges to developers and customers who may have already decided to connect to gas networks based on the current framework.

⁵⁴ The AER has approved a combined total of \$333 million in accelerated depreciation for all three major Victorian gas distributors. To date, besides Victorian gas distributors, only Evoenergy in the Australian Capital Territory has had accelerated depreciation proposals approved by the Australian Energy Regulator.

⁵⁵ Australian Energy Market Operator, [Victorian Gas Planning Report Update](#), March 2024, p. 4.

⁵⁶ For example, gas networks are subject to weighted average price caps and electricity distribution networks are subject to revenue caps, see: ['Put a cap on it – but what sort of cap?'](#), Energy Networks Australia, accessed 9 April 2024.

⁵⁷ Department of Energy, Environment and Climate Action, [Gas Substitution Roadmap Update: Victoria's Electrification Pathway](#), December 2023.

⁵⁸ Department of Energy, Environment and Climate Action, [Gas Substitution Roadmap Update: Victoria's Electrification Pathway](#), December 2023, p. 40.

A new framework for new connections and connection charges

Our final decision is for the new charges to take effect from 1 January 2025. We have clarified that the new upfront charges will only apply to connection applications made from 1 January 2025. Developers and customers will have at least eight months to consider these changes.

Calculating connection charges

Stakeholders provided feedback on whether connection costs should be customer specific or set as an average cost for similar connections.

We consider that requiring connection costs to be customer specific on every occasion may be impracticable given the number of new connections that may still happen in the coming years. It could also lead to unnecessary additional implementation costs, which could be passed on to customers. In addition, calculating specific costs for every new connection could lead to inequitable results where customers with similar connections could be end up paying significantly different amounts (for example, depending on which side of the street their property is on).

Our final decision clarifies that a gas distributor must calculate standard charges to provide basic connection services for residential customers. Basic connection services are those that involve minimal or no extension or augmentation of a distribution pipeline.⁵⁹ The final decision permits a gas distributor to calculate standard charges for different classes of connection services or different categories of customers. For all other connections, a gas distributor will be required to provide individual quotes for a new connection.

A gas distributor must calculate all connection charges to reflect the sum of the estimated direct costs of purchasing and installing dedicated facilities to a customer and the cost of augmentation of the shared distribution system which may be required to support the additional load of that customer. The intent of these provisions is to prohibit the recovery of the cost of new connections through network tariffs.

It will be a matter for each gas distributor to determine the specific upfront charges for new connections, according to the rules in the new code of practice. We note that these new charges may eventually be included in future access arrangements, if a gas distributor proposes connection services as new reference services to the AER.

A gas distributor will also be required to publish in its website how it calculates connection charges, including any applicable standard charges.

⁵⁹ These are equivalent to 'basic connection services' under the National Gas Rules applicable in other jurisdictions. See rule 119A of the National Gas Rules.

3. Distinguishing disconnections and abolishments

The new Gas Distribution Code of Practice will:

- set out definitions of disconnection and abolishment
- require a gas distributor to abolish the connection of a small customer when directed by a retailer (at the request of a customer) or required to do so under the *Gas Safety Act 1997*
- require a gas distributor to use best endeavours to abolish a connection within 20 business days of receiving a request.

We will also consult further on processes and information between retailers, distributors and customers to reduce barriers for gas abolishments. This will be part of our upcoming review of the Energy Retail Code of Practice.

Clarifying obligations for disconnections and abolishments

Our draft decision

The current regulatory framework does not distinguish between a temporary disconnection and the permanent abolishment of a gas connection. This makes processes unclear, particularly as there are no clear obligations for gas distributors or retailers related to abolishments. This means that customers who want to abolish their gas connections may face unnecessary barriers.

In our draft decision we distinguished between and defined ‘disconnection’ and ‘abolishment’. We considered that these definitions would bring the new code of practice up to date with the services proposed by the major gas distributors in their gas access arrangements for 2023–28 approved by the AER.⁶⁰

Our draft decision also set basic obligations for distributors to abolish a connection:

- at the direction in writing of a retailer
- where the customer requests the distributor to do so

⁶⁰ AusNet Gas Services 2023, [Gas Access Arrangement Revision 2024-2028 Part A](#), p. 13; Australian Energy Regulator 2023, [Multinet Gas Access Arrangement – Victorian Distribution Network 2023/24 – 2027/28](#), pp. 6–8; Australian Energy Regulator 2023, [Australian Gas Networks Access Arrangement – Victorian Distribution Network and Albury Distribution Network 2023/24- 2027/28](#), pp. 5–7.

- where the distributor is directed to do so under the *Gas Safety Act 1997*.

Stakeholder feedback

Stakeholders generally supported our draft decision to distinguish permanent abolishments from temporary disconnections. Most stakeholders also supported our draft decision to impose obligations on a gas distributor to carry out abolishment requests.

Gas distributors disagreed with certain aspects of our proposed processes for disconnection and abolishment.⁶¹ They submitted that small customers should not directly request the distributor for an abolishment.

AusNet supported the retailer-customer process for an abolishment request, but did not agree with a distributor-customer process as there is currently no such relationship.⁶² Likewise, AGIG did not support the proposed requirement that a 'distributor must abolish a connection where a customer requests the distributor to do so', due to this being a significant departure from current practice.⁶³

On the issue of unused or dormant connections, distributors reiterated their proposal to explicitly allow distributor-initiated abolishments for safety reasons. They also encouraged the commission to hold further discussions with stakeholders to address distributor-initiated abolishments and related safety issues.⁶⁴ Distributors also suggested more clarity on the process for confirming ownership of a property for an abolishment where the property might be rented.⁶⁵

Retailers gave wide support for distinguishing disconnections and abolishments.⁶⁶ They also supported longer-term reforms to address the issue of customers choosing cheaper temporary disconnections over more expensive but safer abolishments, leaving the responsibility for maintaining unused connections to the financially responsible market participant.⁶⁷

⁶¹ AusNet Gas Services, op. cit., p. 9; Australian Gas Infrastructure Group, op. cit., pp. 11-12; Gas Networks Victoria, op. cit., p. 2.

⁶² AusNet Gas Services, op. cit., p. 8.

⁶³ Australian Gas Infrastructure Group, op. cit., pp. 11-12.

⁶⁴ AusNet Gas Services, op. cit., p. 9, Australian Gas Infrastructure Group, op. cit., pp. 11-12.; Gas Networks Victoria, op. cit., p. 2.

⁶⁵ Australian Gas Infrastructure Group, op. cit., pp. 11-12, Gas Networks Victoria, op. cit., p. 2.

⁶⁶ Momentum Energy, op. cit., pp. 2-3, EnergyAustralia, op. cit., p. 2, AGL Energy, op. cit., p. 2, Origin Energy, op. cit., pp. 1-2.

⁶⁷ AGL Energy, op. cit., p. 2.

Distinguishing disconnections and abolishments

EnergyAustralia did not support changes to its existing processes, such as placing an obligation on a retailer to check whether the customer requesting an abolishment is the property owner.⁶⁸ It stated that retailers would incur unreasonable costs for something that is not their responsibility. Origin supported the clarification of a distributor's obligations in abolishing a connection, given the expected increase in abolishment requests in response to regulatory changes.⁶⁹

The Brotherhood of St Laurence supported the definitions of disconnection and abolishment as consistent with recent access arrangements. However, it held the view that there is a risk that the definitions may become prescriptive and prevent alternative abolishment methods.⁷⁰

Climate action groups such as Darebin Climate Action Now supported the proposed definitions and processes for disconnection and abolishment. They commended the commission's focus on ensuring consumers understand the costs of disconnections and abolishments while noting the AER's role in setting the charges for these services.⁷¹ Other groups such as Bass Coast Climate Action Network and Lighter Footprints also supported distinguishing between temporary disconnections and permanent abolishments.⁷²

Our final decision

Defining temporary disconnections and permanent abolishments

The new code of practice will set out definitions for disconnection and abolishment.

Disconnection will be defined as the temporary closing of a connection to prevent the withdrawal of gas by using locks or plugs or by removing a meter (without removing the service line).

Abolishment will be defined as the permanent removal of a connection by either cutting and capping the service line and removing above ground assets, or by removing the meter and service line.

⁶⁸ EnergyAustralia, op. cit., p. 2.

⁶⁹ Origin Energy, op. cit., pp. 1–2.

⁷⁰ Brotherhood of St Laurence, 'Draft Gas Distribution System Code of Practice, Submission to the Essential Services Commission', 21 December 2023. Brother of St Laurence implied that there are 'alternative abolishment methods', that is, other than individual abolishments or abolishing gas connections one customer at a time.

⁷¹ Darebin Climate Action Now, op. cit., p. 2.

⁷² Bass Coast Climate Action Network, op. cit., p. 2; Lighter Footprints, op. cit. p. 3.

Distinguishing disconnections and abolishments

These definitions will align with descriptions of distributors' services under access arrangements approved by the AER for the 2023–28 regulatory period.⁷³ We consider that adding these definitions in the new code of practice will provide clarity to customers and industry about these processes.

We understand there was concern that these definitions may prevent alternative abolishment methods. However, we consider the definitions appropriate to the extent they account for current established abolishment processes and are also sufficiently broad to allow for larger-scale decommissioning of connections. We also note that the new code of practice, including these definitions, will be updated from time to time to account for any future changes in practice that may be necessary.

Obligation to abolish small customers' connections at the direction of a retailer

Our final decision is to introduce an obligation for a gas distributor to abolish small customers' connections at the direction of a retailer.

We removed the proposed provision allowing customers to request abolishments directly from gas distributors. As a result, we will limit the obligation to abolish connections to small customers (residential and small business customers) when directed to so in writing by retailer, as large customers may negotiate abolishments directly with a gas distributor.

Small customers must request an abolishment from their gas retailer. The retailer then issues a service order for the relevant gas distributor to abolish the gas connection. We received feedback from gas distributors that changing this process would require investment in customer management and operational systems which are not current practices for gas distributors. We consider requiring gas distributors to invest in such systems as currently unnecessary and that retailers are better placed to receive requests from customers.

Our final decision removes the proposed provision requiring gas distributors not to abolish a connection unless the retailer provides confirmation in writing that the customer is the owner of the premises and has agreed to pay applicable charges. We considered feedback that this provision could complicate abolishment requests and require additional costs to implement. We also note that these proposed obligations that were removed relate to processes that occur more often between customers and retailers.

⁷³ AusNet Gas Services 2023, [Gas Access Arrangement Revision 2024-2028 Part A](#), p. 13; Australian Energy Regulator 2023, [Multinet Gas Access Arrangement – Victorian Distribution Network 2023/24 – 2027/28](#), pp. 6–8; Australian Energy Regulator 2023, [Australian Gas Networks Access Arrangement – Victorian Distribution Network and Albury Distribution Network 2023/24- 2027/28](#), pp. 5–7.

We will soon commence a review of the Energy Retail Code of Practice where these issues may be explored. We will consult with stakeholders on whether we can improve obligations on gas retailers related to processes and provision of information for gas abolishments. This may include issues related to:

- providing adequate information for customers requesting disconnection or abolishment
- billing arrangements and clarity regarding any additional abolishment charges
- notifying customers of timeframes and completion of abolishment works.

Obligation to abolish connections under the Gas Safety Act

Our final decision is to clarify that a gas distributor must abolish a connection when required to do so under the Gas Safety Act. This refers to the directions powers to address immediate safety risks under energy safety legislation.⁷⁴

We considered gas distributors' requests to include provisions on distributor-initiated abolishments of unused or dormant connections in the new code of practice. However, we consider it may create unwanted incentives for customers if the commission specifies a time after which a distributor may initiate the abolishment of an unused connection.

As stated in our draft decision, setting a time limit (e.g. three years) could encourage customers to keep unused connections for such period, in the expectation that gas distributors would then abolish those connections. This could increase safety risks rather than reduce them.

The new code of practice will not prevent a gas distributor from minimising general risks from having unused gas connections through its own processes, in line with its safety case. The new code of practice will outline circumstances where a distributor *must* abolish a connection. It will remain silent on the situations where a distributor *may* abolish a connection, providing the distributor the flexibility to do so when it considers necessary.

Timeframes to complete gas abolishments

Following our draft decision, we consulted key stakeholders on the introduction of a provision requiring a gas distributor to abolish a gas connection within a specific timeframe when requested. Our aim was to provide a timeframe for customers and for gas distributors to complete abolishments in a timely manner.

⁷⁴ See Division 1 of Part 6 of the *Gas Safety Act 1997*.

We received feedback from gas distributors that abolishing a connection within 20 business days would be appropriate under normal circumstances. However, it would be challenging if there were large increases in abolishment requests in a short space of time.

Given this feedback, our final decision is to include a provision requiring a gas distributor to use its best endeavours to abolish a connection within 20 business days when requested. This provision accounts for operational constraints and uncertainties. It requires a gas distributor to do all that is reasonably necessary to complete an abolishment request within 20 business days. We consider it will provide clarity for customers and retailers as to these timeframes. We note that this is similar to current obligations which require a gas distributor to use its best endeavours to connect a new customer within 20 business days, if no other date is agreed.

Future work

We acknowledge that the issue of unused connections and the processes between customers, retailers and gas distributors for gas abolishments are not fully resolved in the new code of practice. However, we consider that more work needs to be done before any further reforms are made.

We consider that longer-term reforms are needed to assist customers disconnecting from gas networks safely and affordably. This will be particularly relevant if there is an increasing number of customers who wish to abolish their connections. We intend to organise an industry workshop later in 2024 to consider improvements to processes and to provision of information for customers.

As we noted above, we will also soon commence a review of the Energy Retail Code of Practice. This will be another opportunity to explore some of the issues related to gas abolishment, such as provision of information to customers by gas retailers, billing arrangements, timeframes and notification requirements.

We will continue to collaborate with industry, consumer groups, the Victorian Government and other regulators in finding sustainable solutions and improving outcomes for Victorian consumers in respect to gas abolishment.

4. Provision of information requirements

The new Gas Distribution Code of Practice will require a gas distributor to provide information on:

- new connections and connection charges
- disconnection, reconnection and abolishment
- unaccounted for gas
- changes in the type of gas supplied
- customer complaint handling.

A gas distributor will be required to publish this information on its website in a clear and concise manner, and in a format that makes it easy for customers to access and understand.

New provision of information requirements

Our draft decision

The current code of practice contains few requirements for gas distributors to provide information to customers. This may lead to customers having difficulty in finding adequate information related to issues such as how to install or abolish a gas connection, what types of gas may be supplied, and how a complaint can be made.

In our draft decision, we proposed that a gas distributor should provide information on its website on:

- new connections and connection charges
- disconnection, reconnection, and abolishment
- unaccounted for gas
- changes in the type of gas supplied
- customer complaint handling.

Stakeholder feedback

Stakeholders generally supported introducing new provision of information requirements.

Some individual submissions noted that consumers would make more informed choices if gas distributors were required to provide complete and clear information.⁷⁵

AusNet supported the provision of information requirements as they would improve consumer awareness of available options.⁷⁶ Gas Networks Victoria welcomed including standard industry wording on their website.⁷⁷

AGIG noted that stakeholders should be aware that unaccounted for gas consists of metering inaccuracies and theft in addition to fugitive emissions.⁷⁸ Momentum suggested that provision of information related to unaccounted for gas should mention the greater contribution of metering inconsistencies compared to fugitive emissions.⁷⁹

Bass Coast Climate Action Network, Brotherhood of St Laurence and Darebin Climate Action Now supported provision of information requirements for unaccounted for gas.⁸⁰

Environment Victoria and Origin supported provision of information requirements relating to changes to the type of gas provided.⁸¹

EnergyAustralia supported aligning the code of practice with the requirements established in the Australian Energy Market Commission's review of extending the gas regulatory framework to hydrogen and renewable gases.⁸²

AGL noted that provision of information requirements on the type of gas supplied should only apply to permanent changes to the blend of gas.⁸³ Momentum noted that these requirements may cause unnecessary concern as small gas consumers may not be able to control or adapt their appliances

⁷⁵ Don Stokes, submission to 'Gas Distribution System Code of Practice review: Draft decision', 19 December 2023, p. 108; Daniel Caffrey, submission to 'Gas Distribution System Code of Practice review: Draft decision', 19 December 2023, p. 117; Anonymous 25, submission to 'Gas Distribution System Code of Practice review: Draft decision', 20 December 2023, p. 198; Anonymous 26, submission to 'Gas Distribution System Code of Practice review: Draft decision', 20 December 2023, p. 201; Francis Castellino, submission to 'Gas Distribution System Code of Practice review: Draft decision', 20 December 2023, p. 222; David Hudspeth, submission to 'Gas Distribution System Code of Practice review: Draft decision', 21 December 2023, p. 297.

⁷⁶ AusNet Gas Services, op. cit., p. 1.

⁷⁷ Gas Networks Victoria, op. cit., p. 2

⁷⁸ Australian Gas Infrastructure Group, op. cit., p. 15

⁷⁹ Momentum Energy, op. cit., p. 4.

⁸⁰ Bass Coast Climate Action Network, op. cit., p. 2; Brotherhood of St Laurence, op. cit., p. 3; Darebin Climate Action Now, op. cit., p. 2.

⁸¹ Environment Victoria, op. cit., p. 4; Origin Energy op. cit., p. 2.

⁸² EnergyAustralia, op. cit., p. 2.

⁸³ AGL Energy, op. cit., p. 2.

for changes in gas type. However, it supported aligning these requirements with the National Energy Retail Rules.⁸⁴

Darebin Climate Action Now and Lighter Footprints suggested requiring gas distributors to publish data identifying classes of users by consumption level for each postcode. They noted that this information would be useful to guide the energy transition and to assist the identification of low-income households facing high gas bills.⁸⁵

EWOV recommended that:

- The code of practice should consider how distributors will engage with culturally and linguistically diverse customers.
- Customers deciding to connect to gas should receive more information about the viability and cost of arranging a gas connection compared to electricity.⁸⁶

Energy Consumers Australia noted that provision of information obligations should consider the fact that retailers are usually a customer's point of contact.⁸⁷

Our final decision

Our final decision is to retain the provision of information requirements proposed in our draft decision.

Gas distributors will be required to publish on their websites:

- Information on new connections, including the basis and assumptions for calculating connection charges and any standard charges.
- Information on disconnection, reconnection and abolishment, including processes, timeframes, applicable charges, and the number of abolishments completed each year.
- Data on unaccounted for gas, including the most recently available data for the previous five years.

⁸⁴ Momentum Energy, *op. cit.*, p. 3.

⁸⁵ Darebin Climate Action Now, *op. cit.*, p. 2; Lighter Footprints, *op. cit.*, p. 3.

⁸⁶ Energy and Water Ombudsman (Victoria), submission to the 'Gas Distribution System Code of Practice review: Draft Decision', pp. 1–2.

⁸⁷ Energy Consumers Australia, submission to the 'Gas Distribution System Code of Practice review: Draft Decision', 21 December 2023, p. 1.

- Information on the type of gas that may be supplied through a distribution system, and the transition date if there is a change to the type of gas supplied.⁸⁸
- Information about customer complaint handling.

We note feedback by Momentum that providing information about changes to the type of gas supplied may cause unnecessary concern to small customers. However, we consider that the provision of this information will make small customers better informed and assist them in making informed choices about their energy use (including considering electrification).

We also considered the recommendation by AGL to limit information that has to be provided about changes to the type of gas to information about permanent changes to the blend of gas. The new code of practice will require notices to specify whether the change of gas type is for a fixed period or ongoing basis.⁸⁹ This provision will be consistent with the recently made rule 147D of the National Energy Retail Rules. Consumers will benefit from being informed about temporary and permanent changes to the type of gas, as both changes may affect them.

The new obligations to notify and inform customers about changes in the type of gas that may be supplied by a gas distributor will replicate those recently introduced in the National Energy Retail Rules.⁹⁰ This means that a gas distributor in Victoria will have the same obligations as those in other eastern states. We consider this alignment will be beneficial for customers and for industry. It will make the rules clearer and easier to apply to projects which may cover customers in two states, such as the [Hydrogen Park Murray Valley](#).

AGIG and Momentum discussed the role of metering inaccuracies for unaccounted for gas. The definition of unaccounted for gas in the code of practice includes 'other actual losses' and 'discrepancies related to metering inaccuracies'.⁹¹ Additionally, the new obligations will not prevent a gas distributor from including information about the role of metering inaccuracies or other losses for unaccounted for gas when providing such information.⁹²

As noted by EWOV, we recognise that customers from culturally and linguistically diverse backgrounds often have more difficulty in obtaining clear information about the use of gas

⁸⁸ These rules replicate those introduced in the National Energy Retail Rules by the [National Energy Retail Amendment \(Other Gases\) Rule 2024](#).

⁸⁹ See subclause 11.1.2.(b)(iii) of the Gas Distribution Code of Practice (version 1).

⁹⁰ See [National Energy Retail Amendment \(Other Gases\) Rule 2024](#).

⁹¹ See clause 2 of the Gas Distribution Code of Practice (version 1).

⁹² See clauses 3.4.6 and 3.4.7 of the Gas Distribution Code of Practice (version 1).

networks.⁹³ We considered introducing a requirement for gas distributors to provide access to interpreter services to meet the reasonable needs of its customers, similar to the requirement in the Electricity Distribution Code of Practice.⁹⁴ However, unlike electricity distributors, gas distributors do not have a direct relationship with small customers in Victoria. Small customers who connect to gas mainly interact with their retailer. Therefore, obligations relating to providing information on gas connections and access to information for customers from culturally and linguistically diverse backgrounds may be better addressed in the Energy Retail Code of Practice.

We also considered EWOV's suggestion that customers deciding to connect to gas should receive more information about the viability and cost of arranging a gas connection compared to going all-electric. We do not consider gas distributors to be best suited to provide this information to customers. Under the current economic regulatory framework, gas distributors have incentives to stimulate gas consumption and the costs of going all-electric can vary depending on a customer's specific circumstances. We consider that customers should continue to obtain information from consumer advocacy groups and governments, who are better placed to provide such advice.⁹⁵

Stakeholders raised further suggestions for provision of information and reporting requirements about:

- identifying classes of users by consumption level for each postcode
- capital expenditure for customer connections
- emissions from gas networks, gas leaks and expenditure on pipework replacements.

We note that some of this information is already provided to the AER, as part of regulatory information notices and of access arrangements. We consider that the new provision of information requirements proposed in our draft decision balance minimising implementation costs for gas distributors with enhancing current provision of information requirements. We also note that the commission can require additional information from gas distributors from time to time, if necessary for our regulatory functions.

⁹³ Energy and Water Ombudsman (Victoria), op. cit., p. 2.

⁹⁴ See clause 25.8 of Electricity Distribution Code of Practice.

⁹⁵ See Energy Consumers Australia, [Household Energy Consumer Information Research](#), November 2023, p. 25. The Victorian Government provides such information in factsheets and websites such as: '[Save with an all-electric home](#)', Department of Energy, Environment and Climate Action, accessed 31 March 2024.

5. Streamlining regulation and removing duplication

The new Gas Distribution Code of Practice will:

- set clear timeframes for guaranteed service levels payments
- set out basic obligations for customers when using gas networks
- remove the overlap of metering requirements with the National Gas Rules
- update requirements for customer complaint handling
- update definitions to allow the operation of distribution connected facilities
- remove provisions on heating values and technical standards.

Setting timeframes for guaranteed service levels payments

Our draft decision

In our draft decision we proposed to specify timeframes for guaranteed service levels (GSL) payments.

The current code of practice states that GSL payments must be made as soon as practicable. We noted that this language does not impose a clear limit for when these payments must be made.

We proposed that a gas distributor would be required to determine at the end of each quarter whether it must make a GSL payment. Where such payment is required, we proposed that the payment must be made as soon as practicable and in any event within two retail billing periods following the completion of the quarter.

We also proposed to address the difference between retail billing periods for electricity and gas. We proposed a definition of gas retail billing period as two calendar months, or another period agreed between a distributor and a retailer.

Stakeholder feedback

Most stakeholders did not comment on our proposal to specify timeframes for GSL payments.

EWOV supported consistency between GSLs for electricity distributors and for gas distributors.⁹⁶ Momentum also agreed with the proposed amendments to specify timeframes for when GSL payments must be made.⁹⁷

Our final decision

Our final decision is to maintain our proposal to specify timeframes for GSL payments and our proposed definition of retail billing period.

We do not intend to change current practice, where GSL payments must be made as soon as practicable. The new code of practice will establish a maximum period of two retail billing periods for when a gas distributor must make a GSL payment. This period is counted from the completion of the quarter in which a customer became eligible to the GSL payment.

Basic obligations for customers when using the gas network

Our draft decision

We proposed to set out minimum customer obligations in the new code of practice. This was intended to align it with the Electricity Distribution Code of Practice, which lists minimum obligations that customers must follow when using the electricity network. It also aimed at clarifying customer obligations when using the gas network.

We also proposed a new obligation for a gas distributor to notify a customer who may be breaching the code of practice, specifying actions the customer could take to remedy the non-compliance.

Stakeholder feedback

Most stakeholders did not provide feedback on setting obligations for customers when using the gas network.

Momentum supported our amendments to streamline the code of practice and to set minimum customer obligations.⁹⁸ There was no opposition to setting these obligations in the new code of practice.

⁹⁶ Energy and Water Ombudsman (Victoria), op. cit., p. 2.

⁹⁷ Momentum Energy, op. cit., p. 4.

⁹⁸ Ibid.

Our final decision

Our final decision is to set out minimum customer obligations in the new code of practice.

These obligations will require customers to use best endeavours to:

- provide a distributor access to premises for the connection or disconnection of supply, inspection, testing, maintenance or repairs and collection of metering data
- maintain the gas installation in a safe condition
- protect the distributor's equipment from damage and interference
- inform a distributor as soon as possible of gas leaks or changes to the safety or quality of gas supply, or of changes affecting access to meters or the purpose of gas usage
- take reasonable precautions to minimise the risk of loss or damage to any equipment, premises or business of the customer which may result from poor quality or reliability of gas supply.

The obligations for customers will also include requirements to use best endeavours not to:

- allow gas supplied by a distributor to be used at other addresses, by other persons or for other purposes than those permitted or agreed by a distributor
- tamper with or bypass meters
- allow unqualified persons to perform works on gas installations
- use gas supply in a manner that may interfere with or cause damage to third parties or to the gas network.

Streamlining gas metering requirements

Our draft decision

Our draft decision proposed to remove the overlap in the regulation of metering requirements between the National Gas Rules and the new code of practice.

We also considered including a provision for those distribution systems not directly connected to the Declared Transmission System (DTS), which are not covered by the metering requirements in

the National Gas Rules.⁹⁹ This provision would require gas distributors operating those distribution systems to comply with the same requirements in the National Gas Rules.

Our draft decision proposed to retain provisions in our current code of practice which have no equivalent in the National Gas Rules. These relate to compliance with error limits and minimum pressure requirements set out in the current code of practice.

We also sought stakeholder feedback on the retention of provisions in the code of practice related to meter accreditation, certification, testing and correction.

Stakeholder feedback

Stakeholders generally supported streamlining gas metering requirements by removing the overlap of metering obligations in the National Gas Rules and in our code of practice.¹⁰⁰

AusNet supported the removal of the overlap of metering obligations.¹⁰¹

AGIG supported removing duplication of metering obligations unless they are required for clarity or for market operation. It also noted that parts of the code of practice are not covered by Part 19 of the National Gas Rules. AGIG further suggested that the commission host a forum with distributors and operators to further elaborate on these issues.¹⁰²

Gas Networks Victoria agreed with our proposal but highlighted that given the peculiar nature of their networks, obligations should not be imposed which would require substantial investment.¹⁰³

Our final decision

Our final decision is to remove provisions on metering requirements which overlap with requirements in the National Gas Rules. The new code of practice will retain those provisions which are required for market operation and those which have no equivalent in the National Gas Rules.

⁹⁹ This was due to a change in the definition of 'declared distribution systems' in Part 19 of the National Gas Rules. The distribution systems which are not covered by the metering requirements in the National Gas Rules are: Australian Gas Network's Bairnsdale network, Multinet's South Gippsland network, and AusNet's Grampians network. See: Australian Energy Market Operator, [Guide to understanding the scope of the Victorian Retail Gas Market, the Declared Wholesale Gas Market and AEMO's and directions powers](#), December 2023, p. 6.

¹⁰⁰ AusNet Gas Services, op. cit., p. 10; Australian Gas Infrastructure Group, op. cit., p. 14; Gas Networks Victoria, op. cit., p. 3; EnergyAustralia, op. cit., p. 3; Bass Coast Climate Action Network, op. cit., p. 3.

¹⁰¹ AusNet Gas Services, op. cit., p. 10.

¹⁰² Australian Gas Infrastructure Group, op. cit., p. 14.

¹⁰³ Gas Networks Victoria, op. cit., p. 3.

Streamlining regulation and removing duplication

We conducted a detailed review of the overlap between Part 19 of the National Gas Rules and the current code of practice. As a result, we have retained provisions related to standards of metering installations and testing of metering installations which have no equivalent in the National Gas Rules.

The metering requirements in the new code of practice are to be read in conjunction and consistently with the National Gas Rules. To make this clear, we included a provision on the scope of metering requirements in the new code of practice. This provision states that the metering requirements in the new code of practice do not apply to settlement metering points, as the requirements for these points are covered by the National Gas Rules.¹⁰⁴

We included a provision clarifying that the metering requirements in the new code of practice do not apply to a distributor that is exempt from registering with AEMO under the National Gas Law. This provision is relevant for Gas Network Victoria's regional networks. It removes the overlap between the new code of practice and the metering requirements set out in Gas Networks Victoria's [Customer Transfer and Reconciliation Code](#).¹⁰⁵

Our final decision will also remove the proposed provision which would require distribution systems not directly connected to the DTS to comply with the same metering requirements in the National Gas Rules. We consider that such provision would be contrary to the intention of the Australian Energy Market Commission to exclude from the operation of Part 19 of the National Gas Rules distribution systems that are either not directly connected to the DTS or are not connected to a wider network.¹⁰⁶ We also note that these distribution systems are covered by 'agreed service agreements' with AEMO.¹⁰⁷

Customer complaint handling

Our draft decision

We proposed to update the provisions on customer complaint handling to refer to the latest relevant Australian Standard.

¹⁰⁴ See rule 200 of the National Gas Rules and Subdivision 4, Division 3 of Part 19 of the National Gas Rules.

¹⁰⁵ Gas Networks Victoria is required to comply with their Customer Transfer and Reconciliation Code under its gas distribution licence.

¹⁰⁶ Australian Energy Market Commission, [Rule Determination: National Gas Amendment \(DWGM Distribution Connected Facilities\) Rule 20222](#), 8 September 2022, p. 6.

¹⁰⁷ See Australian Energy Market Operator, [Guide to understanding the scope of the Victorian Retail Gas Market, the Declared Wholesale Gas Market and AEMO's and directions powers](#), December 2023, p. 7.

Streamlining regulation and removing duplication

Stakeholder feedback

Stakeholder supported the updated provisions on customer complaint handling.¹⁰⁸

EWOV suggested requiring its contact details on correspondence with consumers.¹⁰⁹

Our final decision

Our final decision maintains our proposal to update provisions on customer complaint handling. The new code of practice requires a gas distributor to handle a complaint by a customer in accordance with Australian Standard AS ISO 10002-2018 (Customer satisfaction – Guidelines for complaints handling in organisations).

We considered the feedback from EWOV that the inclusion of its contact details in correspondence with consumers would be valuable in the context of growing abolishment and disconnection of gas connections. We amended the provision requiring EWOV's contact details to be included on any disconnection warning notice issued by a gas distributor to refer to any notice issued by a gas distributor to a customer in relation to a disconnection or an abolishment. We consider this change is necessary given the distinction between disconnection and abolishment.

Aligning the code of practice with changes allowing distribution connected facilities

Our draft decision

Our draft decision proposed to update the definition of 'gas' in our code of practice and other terms such as 'distribution delivery point', 'receipt point' and 'unaccounted for gas'. Our intention was for the new code of practice to be consistent with updates to the National Gas Rules which allow distribution connected facilities to participate in Victoria's gas market.

Stakeholder feedback

Stakeholders supported updating definitions in the new code of practice to remove inconsistencies with the distribution connected facilities rule change.

AGIG supported changes to remove regulatory barriers to enable renewable gases.¹¹⁰

¹⁰⁸ AusNet Gas Services, op. cit., p. 10; Brotherhood of St. Laurence, op. cit., p. 3; Momentum Energy, op. cit. p. 4.

¹⁰⁹ Energy and Water Ombudsman (Victoria), op. cit., p. 2.

¹¹⁰ Australian Gas Infrastructure Group, op. cit., p. 13.

Bass Coast Climate Action Network and Darebin Climate Action Now stated that blending hydrogen into gas distribution networks is undesirable for economic and environmental reasons. However, they supported avoiding conflicts between our code of practice and national regulations.¹¹¹

Our final decision

Our final decision is to maintain our proposal to update definitions so that the new code of practice will be consistent with changes to the National Gas Rules which allow the operation of distribution connected facilities.

We have changed the definition of ‘gas’ in the new code of practice so that it will be aligned with the definition of ‘gas’ in the Gas Industry Act. This definition is subject to an Order in Council.¹¹² The new code of practice will avoid potential conflicts with other regulatory instruments, while also avoiding extending the code of practice’s applicability to other gases before the Victorian Government makes a decision to do so.

Heating values and technical standards

Our draft decision

Our draft decision proposed to remove provisions on heating values and the schedule on technical standards in the new code of practice.

Stakeholder feedback

Most stakeholders supported our proposals to remove references to heating values and to technical standards.¹¹³

AGL recommended that the commission implement a two-year post implementation review of the change from a statewide heating value to zonal heating values to understand its impact on unaccounted for gas.¹¹⁴

¹¹¹ Bass Coast Climate Action Network, op. cit., p. 3; Darebin Climate Action Now, op. cit., p. 3.

¹¹² An [Order in Council](#) under section 8 of the *Gas Industry Act 2001* currently declares that a gaseous fuel other than natural gas is not to be gas for the purposes of Parts 3 and 4 of that Act.

¹¹³ AusNet Gas Services, op. cit., p. 10; Australian Gas Infrastructure Group, op. cit., p. 13; Gas Networks Victoria, op. cit., p. 3; Darebin Climate Action Network, op. cit., p. 3. Momentum Energy, op. cit., p. 4.

¹¹⁴ AGL Energy, op. cit., p. 2–3.

Our final decision

Our final decision is to remove provisions on heating values and the references to technical standards which have no relation to obligations in the new code of practice.

We consider these decisions are uncontroversial and will clarify the regulatory framework.

We acknowledge AGL's suggestion that we review the impacts of the change to zonal heating values on unaccounted for gas. We will continue to monitor volumes of unaccounted for gas and consider the need for further reviews in due course. We also note that we are including new provision of information and performance reporting requirements related to unaccounted for gas in the new code of practice.

6. Enforcement, compliance and reporting obligations

The new Gas Distribution Code of Practice will:

- specify obligations on a gas distributor as civil penalty requirements
- relocate a gas distributor's compliance and performance reporting obligations from the commission's Compliance and Performance Reporting Guideline into a schedule of the new code of practice.

Civil penalty requirements

Our draft decision

Our draft decision specified the majority of obligations on gas distributors as civil penalty requirements.

Stakeholder feedback

Gas distributors were generally against expanding the number of obligations specified as civil penalty requirements. AusNet noted that electrification will reduce the number of customers on the gas network and their reliance on gas appliances, and that the burden of regulatory obligations should reflect these changes.¹¹⁵

AGIG and Gas Networks Victoria considered that when classifying obligations as civil penalty requirements, focus should be on areas of potential harm to customers or safety impacts.¹¹⁶

Community climate action groups supported expanding the number of obligations specified as civil penalty requirements. Darebin Climate Action Now stated there should be strong penalties for gas distributors, especially in their obligations to operate distribution systems, metering, connections

¹¹⁵ AusNet Gas Services, op. cit., p. 5.

¹¹⁶ Australian Gas Infrastructure Group, op. cit., pp. 9-10; Gas Networks Victoria, op. cit., p. 4.

and disconnections.¹¹⁷ Friends of the Earth Melbourne supported civil and criminal penalties for breaches and reporting failures.¹¹⁸

Our final decision

Our final decision is to increase the number of obligations specified as civil penalty requirements.¹¹⁹ This will broaden the range of enforcement tools available for us to oversee the obligations in the new code of practice.

This approach is consistent with the remaking of the Energy Retail Code of Practice and the Electricity Distribution Code of Practice. The rationale behind these decisions is that the commission should be able to effectively enforce obligations in its codes of practice.

Reporting obligations

Our draft decision

Our draft decision was to move gas distributors' compliance and performance reporting obligations from the commission's Compliance and Performance Reporting Guideline into a schedule of the new code of practice.

We also proposed to introduce new annual performance reporting obligations on gas distributors on unaccounted for gas, guaranteed service level payments and gas abolishments.

Stakeholder feedback

Darebin Climate Action Network, Gas Networks Victoria and AGIG supported shifting compliance and performance reporting obligations to a schedule in the code of practice.¹²⁰ Gas Networks Victoria noted that reporting obligations should be proportionate to their consequences whereas AGIG specified that these requirements should not be duplicated or unnecessarily increase compliance costs.¹²¹ AusNet noted that reporting requirements should reflect the anticipated shift

¹¹⁷ Darebin Climate Action Now, op. cit., p. 5; see also Bass Coast Climate Action Network, op. cit., p. 6.

¹¹⁸ Friends of the Earth Melbourne, op. cit., pp. 5-6.

¹¹⁹ Civil penalty requirements are listed in Schedule 1 of the new Gas Distribution Code of Practice.

¹²⁰ Darebin Climate Action Now, op. cit., p. 5; Gas Networks Victoria, op. cit., p. 4; Australian Gas Infrastructure Group, op. cit., p. 10.

¹²¹ Gas Networks Victoria, op. cit., p. 4; AGIG, op. cit., p. 10.

from gas to electricity with a declining burden of regulatory obligations for gas distributors.¹²²

Our final decision

Our final decision is to consolidate gas distributor reporting obligations and performance indicators into a schedule of the new code of practice. Reporting obligations will continue to be enforceable as a civil penalty requirement under Part 7 of the Essential Services Commission Act.

We classified reportable obligations using the same approach as in our Compliance and Performance Reporting Guideline. These classifications are type 1 obligations, type 2 obligations and material adverse breaches. These classifications address differences between customer impacts and how impacts of non-compliance increase over time. Breach classifications also have different reporting requirements.

Type 1 reporting obligations

Type 1 reporting obligations are those where non-compliance may or could potentially have a critical impact on customers. The impact of type 1 breaches potentially increases over time if not rectified. A distributor must report potential or actual type 1 breaches within two business days of detecting the issue. This provides the commission with timely visibility of the matter, including any remediation actions. Where an incomplete type 1 report is submitted because the matter is still under investigation, the gas distributor must submit an updated report within 20 business days of its initial report.

Type 2 reporting obligations

Type 2 reporting obligations are those where non-compliance may or could potentially have a significant or moderate impact on customers. The impact of type 2 breaches may potentially increase over time. A distributor must report potential or actual type 2 breaches within 30 calendar days of detection.

When determining which obligations are reportable as type 2 breaches, we considered risks of customer harm, resourcing, compliance priorities, the ease of verifying compliance and whether a distributor would be required to create a reporting framework for minimal customer benefit. Stakeholder recommendations were taken into consideration when specifying clauses as type 2 reportable breaches.

¹²² AusNet, op. cit., p. 5.

Breaches that may give rise to a material adverse impact

Distributors must, as soon as practicable, report potential breaches of any other regulatory obligations, including licence conditions, that may give rise to a material adverse impact on consumers or the Victorian energy market. The reporting obligation arises when a distributor has reasonable grounds to believe that a potential breach may have occurred and may have a material adverse impact on consumers or the market. The distributor should not wait until confirmation of either the breach or the materiality of harm before reporting.

Annual compliance breach report

A gas distributor must submit an annual summary of all type 1 and 2 breaches and any other breaches identified during the financial year. The Chief Executive Officer or Managing Director of the distributor must sign these annual reports. A distributor must submit a nil compliance report in instances where the distributor has no breaches to report for a relevant annual reporting period.

Annual compliance breach reports must be submitted to the commission by 31 August each year.

Gas distributors' performance indicators

In addition to reporting breaches, a gas distributor must report each financial year on their performance regarding:

- guaranteed service level payments
- unaccounted for gas
- gas abolishment.

Annual performance reports must be submitted to the commission by 30 November each year. Gas distributors' performance data on the above parameters may be included in our Victorian Energy Market Reports.

7. Implementation

The new Gas Distribution Code of Practice will take effect on 1 October 2024.

The new rules on connection charges will apply for connection applications made from 1 January 2025.

Allowing time for gas distributors to adapt processes and systems

Our draft decision

In our draft decision we proposed an implementation date of 1 May 2024. We intended to align the commencement of the new code of practice with the commencement of changes to the National Gas Rules which allow the participation of distribution connected facilities in Victoria's gas market.¹²³

Stakeholder feedback

AusNet requested an implementation date of 1 January 2025, to ensure it could put appropriate systems and structures in place to manage the obligations in the new code of practice.¹²⁴

AGIG also advised it required more time. AGIG suggested a transitional period of at least six months to make changes to its IT systems, resources and procedures.¹²⁵

Our final decision

Our final decision is that the new code of practice will take effect on 1 October 2024. This will allow around five months for gas distributors to adapt their systems and procedures to comply with the new code of practice.

¹²³ See the Australian Energy Market Commission's [distribution connected facilities rule change](#) and the Australian Energy Market Operator's [Amendments to Victorian Declared Wholesale Gas Market and Retail Market -1 May 2024 release](#), accessed 15 February 2024. We note these changes have been made through the following instruments: the [National Gas Amendment \(DWGM distribution connected facilities\) Rule 2022 No. 3](#), the [National Gas Amendment \(Other Gases\) Rule 2024](#) and the [National Energy Retail Amendment \(Other Gases\) Rule 2024](#).

¹²⁴ AusNet Gas Services, op. cit., p. 11.

¹²⁵ Australian Gas Infrastructure Group, op. cit., p. 15.

Stakeholders have confirmed that there are no distribution connected facilities expected to begin operating in Victoria before 2025. We consider that the implementation of the new code of practice can be delayed from our proposed date of May 2024.

We considered feedback by gas distributors related to the need for a transitional period. We consider that five months is sufficient time for adjusting systems and processes and preparing for compliance with the new code of practice. This is the case particularly in circumstances where besides a new structure and new clause numbering, most of the new obligations in the new code of practice are provision of information requirements (which require updates to distributors' websites) and reporting requirements.

We consider that 1 October 2024 is an appropriate date balancing the needs of distributors for a transitional period and the benefits for customers of implementing new provision of information and reporting requirements as soon as possible. Our decision also considers the benefits of unlocking our enforcement powers over a broader range of obligations in the new code of practice at the earliest reasonable date.

In addition, we note that the main changes made by this final decision – upfront connection charges – will only take effect in 2025. A gas distributor will be required to charge customers according to the new rules for connection applications made from 1 January 2025. This staggered approach to implementation will allow enough time for a smooth implementation of the new code of practice.

Future reviews

We note that the current review prioritised critical issues which required our attention in the short term. As a result, we have not addressed all matters raised by stakeholders in response to our issues paper and our draft decision.

We have identified issues which may be the subject of the next review of the new code of practice. These include:

- technical requirements for operating gas networks (for example, minimum pressure requirements)
- a substantial review of metering requirements retained in the new code of practice
- alternative arrangements for setting unaccounted for gas benchmarks

- a review of life support equipment obligations.¹²⁶

We will also soon commence a review of the Energy Retail Code of Practice where we intend to consult further on issues related to gas abolishment processes and provision of information.

¹²⁶ We note that such review would need to be conducted in cooperation with the Victorian Government, given that obligations for gas retailers, which interact with those in the Gas Distribution Code of Practice, are contained in the *Gas Industry Act 2001*.

Implementation

8. Updating gas distribution licences

Our final decision is to update all gas distribution licences in accordance with the template gas distribution licence at Annex C.

Updating gas distribution licences

Our draft decision

In our draft decision, we proposed to update gas distribution licences to account for the enforcement powers granted to the commission under the *Essential Services Commission Amendment Act 2021*. Similar updates have been made for energy retail and electricity distribution licences.

In general, we proposed to:

- remove conditions which have been superseded by developments in the regulatory framework
- remove conditions that relate to matters common to all distributors and which could be addressed in the new code of practice
- update outdated terms, definitions and references to other regulatory instruments
- review remaining conditions so that they are enforceable and aligned with the new code of practice.

We proposed to retain specific licence conditions unless they had become redundant or needed updating.

Stakeholder feedback

Few stakeholders commented on the proposed changes to gas distribution licences in their submissions to our draft decision.

AusNet estimated that it would take them 6–12 months to establish a deemed distribution contract and encouraged further stakeholder consultation on the nature and scope deemed distribution

contract obligations.¹²⁷ Gas Networks Victoria supported further consultation on licence variations, especially given the unique nature of their licence.¹²⁸

Following stakeholder feedback on the draft decision, we considered additional proposed changes to the new licences. These changes were to update definitions and terminology. However, given the ban on new gas connections through planning permits, we also proposed removing the condition which specifically required gas distributors to notify the commission of potential changes to the gas distributor's distribution area.

We sent each gas distributor the proposed updated version of their licence(s) and a table outlining changes. We provided each gas distributor an additional opportunity to comment on our proposed variations.

AGIG agreed with most proposed changes, but suggested including in the licences:

- a variation procedure
- a reference to the circumstances under which the commission may exercise its revocation power.

AusNet supported most changes but considered that the licence condition on notification to the commission of extensions to the gas network would still be required. It also suggested that the new licence include the circumstances where revocation may be appropriate and criteria for the exercise of this power.

Both AGIG and AusNet suggested minor corrections to the draft new licences.

Our final decision

Our final decision is to make variations to gas distribution licences to account for our enforcement powers and the making of the new code of practice.

These variations will simplify gas distribution licences and will make licence conditions consistent across all gas distributors.

The key changes to licences will be to:

- simplify clauses describing conditions for licence variation and revocation, compliance with other regulatory instruments, dispute resolution, and payment of licence fees

¹²⁷ AusNet Gas Services, op. cit., p. 10.

¹²⁸ Gas Networks Victoria, op. cit., p. 3.

- remove unnecessary conditions for compliance with laws, and operational and compliance audits
- update terms and definitions to ensure consistency with other commission issued licences, such as electricity distribution licences
- update clauses on provision of information and record keeping.

We will vary gas distribution licences in accordance with the template gas distribution licence at **Annex C**. We note that the template will be populated to include the details specific to each distributor.

We will also make variations to specific licence conditions for Gas Networks Victoria and Australian Gas Networks Limited, where necessary to update terminology and remove redundant provisions. At AusNet’s request, we will keep in its licence the condition on notification about extensions to the gas network which may require a change in the licensee’s distribution area.

The variations will be made, for the most part, with the consent of gas distributors pursuant to section 38(1)(b) of the Gas Industry Act. In instances where gas distributors did not consent to the variation, it is made by notice pursuant to section 38(1)(c) of the Gas Industry Act, on the basis that the commission is satisfied the variation is necessary having regard to the objectives of the commission under the Gas Industry Act and under the Essential Services Commission Act.

Table 1 identifies the provisions that will be varied by notice for AGIG and for AusNet.

Table 1. Licence variations made by notice

| Licence condition | Gas distributor’s feedback | Commission response |
|---------------------------|--|---|
| Clause 4 Variation | AGIG suggested the inclusion of a variation procedure in this condition. | We consider it necessary to make the variation to clause 4 (as set out in Annex C) to ensure consistency with legislation and with other licences issued by the commission. The Gas Industry Act (s 38(2)(a) and (b)) requires that a licensee be given an opportunity to make representations on a matter and also requires that a threshold test of ‘necessity’ to the commission’s satisfaction be met before a variation occurs. This approach is consistent with the final decisions of the Energy retail licences review 2022 , of the Making the Electricity Distribution Code of Practice 2022 , and with our retail and electricity distribution licences. |

**Clause 6
Revocation**

AGIG and AusNet requested that this clause specifies the circumstances where revocation may be appropriate and the commission's approach in deciding whether to exercise its power. They suggested the criteria in [Guideline 5 \(2022\): Revocation of electricity or gas licences](#) should be listed in the licence.

We consider it necessary to make the variation to clause 6 (as set out in Annex C) to ensure the licence is consistent with the legislation. The Gas Industry Act provides the commission with a power to revoke a licence that may be exercised in its discretion. The exercise of that power must be made consistently with the general principles and limits of administrative decision-making. This includes having regard to the statutory objectives for which the commission's powers have been granted.

This decision is consistent with the final decisions of the [Retail licence review 2022](#) and of the [Making the Electricity Distribution Code of Practice 2022](#) (for electricity distribution licences). The legislation contemplates the licence may identify the procedures to be followed in the event of a revocation of a licence (sections 29(o) and 38(3) of the Gas Industry Act), but the legislation does not contemplate that the licence conditions will fetter the commission's discretion.

AGIG and AusNet's suggestions have not been adopted, but we note that the commission would always have regard to its statutory objectives in the exercise of any revocation decision. We also acknowledge the serious impact of licence revocation. This is reflected in our [Guideline 5 \(2022\): Revocation of electricity or gas licences](#). We consider that the contents of this guideline should not be in the licence itself, as the licence is intended to contain licence conditions, not to provide guidance on how revocation, as a licence condition, may be appropriate or exercised.

We further note that our [Compliance and Enforcement Policy](#) already identifies that, from an enforcement perspective, removal from the industry, through revocation, is a last resort measure that will only be exercised in the most severe cases or repeated instances of serious non-compliance.

9. Changes to guidelines and to the Energy Retail Code of Practice

Our final decision is to:

- repeal the Gas Industry Guideline No. 17
- make consequential amendments to the Energy Retail Code of Practice
- remove a gas distributor's reporting obligations from the Compliance and Performance Reporting Guideline.

These changes will take effect on 1 October 2024.

Gas Industry Guideline No. 17

Our draft decision

In our draft decision, we proposed to repeal [Gas Industry Guideline No.17 - Regulatory Accounting Information Requirements](#) (Gas Industry Guideline No. 17), which specifies requirements for collecting and recording gas distributors' business data.

Stakeholder feedback

Stakeholders did not oppose repealing Gas Industry Guideline No. 17.

Darebin Climate Action Now expressed concern that our proposed repeal might lead to a loss of critical information relevant to future policy decisions about gas networks. It suggested we ensure that relevant information is not lost, or that it can be required in other ways.¹²⁹

Our final decision

Our final decision is to repeal Gas Industry Guideline No. 17.

We consider that the AER collects comprehensive regulatory accounting information from Victorian gas distributors. The AER does this annually by regulatory information notices, as part of its performance monitoring functions. The ring-fencing provisions of the National Gas Law also

¹²⁹ Darebin Climate Action Now, op. cit., p. 4.

requires gas distributors to maintain separate accounts.¹³⁰ Accordingly, we do not consider that repealing Gas Industry Guideline No. 17 will lead to loss of information, or to loss of the power to obtain information from gas distributors.

Consequential amendments to the Energy Retail Code of Practice and to the Compliance and Performance Reporting Guideline

Our draft decision

Our draft decision proposed to make consequential amendments to the Energy Retail Code of Practice, to reflect changes to clause numbering that arise from the making of the new Gas Distribution Code of Practice.

Stakeholder feedback

Stakeholders did not have feedback in relation to these consequential amendments.

Our final decision

Our final decision is to update the Energy Retail Code of Practice to make consequential amendments resulting from the making of the new Gas Distribution Code of Practice.

We will also remove gas distributors' reporting obligations from the Compliance and Performance Reporting Guideline. As explained in Chapter 6, those reporting obligations will be moved into a schedule of the new code of practice. This change will facilitate compliance monitoring and enforcement, as obligations will be contained in a single instrument.

These amendments are set out in detail in **Annex D** to this final decision.

¹³⁰ See section 141 of the National Gas Law.

Appendix – Our assessment framework

In exercising our power to make a new code of practice, our objective is to promote the long-term interests of Victorian consumers.¹³¹ For this final decision, we have applied an assessment framework based on our legislative framework, which includes the following criteria:

| Promoting the long-term interests of Victorian energy consumers | Assessment criteria |
|---|---|
| Quality, price and reliability of gas services | <p>Do the proposed code changes provide a clear allocation of roles and responsibilities in relation to the quality and reliability of the supply of gas?</p> <p>Would the proposed code changes have unjustified effects on the price and affordability of gas services?</p> |
| Incentives for efficiency | <p>Do the proposed code changes promote efficiency in the delivery of gas distribution services?</p> <p>Are the costs and benefits of proposed code changes appropriately allocated between distributors, retailers and consumers?</p> |
| Appropriate protections for consumers | <p>Do the proposed code changes provide appropriate and effective consumer protections?</p> |
| Health, safety, environmental and social factors | <p>Do the proposed code changes sufficiently consider any relevant health, safety, environmental and social legislation?</p> |
| Decarbonisation | <p>Do the proposed code changes support the decarbonisation of the energy market and the achievement of Victoria’s climate action targets?</p> |
| Regulatory and implementation considerations | Assessment criteria |
| Proportionality | <p>Are the proposed code changes targeted, fit for purpose and proportionate to the issues they address?</p> |

¹³¹ Section 8 of the *Essential Services Commission Act 2001*.

| | |
|--------------------|---|
| Clarity | Do the proposed code changes promote clarity for businesses, customers and regulators, supporting effective compliance monitoring and enforcement? |
| Consistency | Do the proposed code changes promote consistency in regulation between States and between the Victorian and national frameworks, as well as between electricity and gas regulation (where appropriate)? |
| Flexibility | Are the proposed code changes flexible enough to adjust to changing market conditions and to future policy developments? |