Justice and Equity Centre

Gas Distribution Network Rule Change Request – Accelerated Depreciation and Redundancy

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About the Justice and Equity Centre

The Justice and Equity Centre is a leading, independent law and policy centre. Established in 1982 as the Public Interest Advocacy Centre (PIAC), we work with people and communities who are marginalised and facing disadvantage.

The Centre tackles injustice and inequality through:

- legal advice and representation, specialising in test cases and strategic casework;
- research, analysis and policy development; and
- advocacy for systems change to deliver social justice.

Energy and Water Justice

Our Energy and Water Justice work improves regulation and policy so all people can access the sustainable, dependable and affordable energy and water they need. We ensure consumer protections improve equity and limit disadvantage and support communities to play a meaningful role in decision-making. We help to accelerate a transition away from fossil fuels that also improves outcomes for people. We work collaboratively with community and consumer groups across the country, and our work receives input from a community-based reference group whose members include:

- Anglicare;
- Combined Pensioners and Superannuants Association of NSW;
- Ethnic Communities Council NSW;
- Financial Counsellors Association of NSW;
- NSW Council of Social Service;
- Physical Disability Council of NSW;
- St Vincent de Paul Society of NSW;
- Salvation Army;
- Tenants Union NSW; and
- The Sydney Alliance.

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1. Introduction

The Justice and Equity Centre proposes changes to the National Gas Rules (NGR). These include changes to the rules on depreciation schedules (rule 89) and on capital redundancy (rule 85). This rule change proposal promotes the long-term interest of consumers and is consistent with the National Gas Objective (NGO).

The JEC rule change proposal aims to ensure gas network redundancy risks and costs are more accurately identified and appropriately allocated between consumers and investors using an updated version of the specific rule on redundancy (rule 85), rather than using accelerated depreciation in isolation (rule 89).

In recent revenue determinations the Australian Energy Regulator (AER) has approved gas networks' requests to change the depreciation schedules of their assets under rule 89 of the National Gas Rules (NGR). In its approvals, the AER has stated it has allowed accelerated depreciation as a means of managing broad (undefined) potential future asset stranding risks, by increasing the costs borne by consumers.

Energy Consumers Australia (ECA) have submitted a suite of rule changes that will 'require gas distribution networks to proactively plan for the future of their networks and make decisions which will minimize any further non-critical investment' and 'ensure that consumer interests are adequately protected in the transition from gas'.

The ECA rule changes include a proposal to add conditions to the approval of accelerated depreciation by the regulator under rule 89, with a view to ensuring it does not result in consumers assuming unreasonable cost and risk.

The JEC supports the intent of the ECA rule changes, including those relating to accelerated depreciation, and proposes an alternative solution to the issue as defined in section 5.1 of the ECA rule change proposal. We request that our proposal be considered in conjunction with ECA's.

The ECA issue definition identifies among other matters that:

> *As used today, accelerated depreciation makes gas consumers pay the costs of stranded assets, while imposing no costs (or write-downs) to network investors. While the AER and the NGR cannot directly compel governments to help pay the costs of stranded assets, it still holds that AER decisions on accelerated depreciation make consumers pay for stranded assets while other do not.*

The JEC proposes that the AEMC alternatively consider changes to the rules to:

- Limit the use of accelerated depreciation for the purpose of sharing redundancy (stranded asset) risks and costs with consumers, under rule 89. This should ensure it can only be used for this purpose, in conjunction with a process for dealing with redundant assets.
- Redefine and expand the meaning of 'redundant assets' and introduce the concept of 'anticipated redundant assets' in rule 85(1).

- Provide a principles-based decision-making structure within rule 85 to ensure asset stranding costs can, if deemed appropriate, be equitably apportioned between investors and consumers according to the circumstances of the specific assets in question.

When utilised in response to broad, undefined risks (as it has been recently), granting accelerated depreciation is an inappropriate means by which to manage investors' future potential asset stranding risks. However, the issue of stranded gas network assets is a significant one, which will become more prevalent as the energy system transition accelerates. The AER must be given more robust and fit for purpose tools by which to manage redundancy risks and costs, and ensure the fair sharing of costs between investors, consumers and potentially governments. It is not fair on the regulator, investors or consumers to continue a situation whereby these issues are dealt with using inadequate tools. It is demonstrably not in the long-term interest of consumers for the current approach to continue.

In practice, accelerated depreciation has been applied in a manner which is inconsistent with fundamental principles of consumer interest which should guide such decisions – for example, that risks and costs should be borne by those best placed to manage them. Accelerated depreciation has been applied without sufficient transparency and robustness in determining what specific future risks are being addressed and how consumers' fair share of that future risk has been determined.

Accelerated depreciation has inappropriately been presented as a tool to manage intergenerational equity, often to the exclusion of any other consideration. We contend it is inherently inequitable for today's consumers to bear investors' potential future costs, particularly when there is no certainty as to what specific asset risks these costs relate to. If the fair cost to future consumers is not established, then it is not reasonable for existing consumers to assume an increased cost.

Beyond our assessment of the appropriateness of accelerated depreciation as it has been employed, the rules already provide a specific mechanism to deal with network asset redundancy (and actual asset stranding) in rule 85. We contend rule 85 is the appropriate mechanism to deal with actual asset redundancy, with any accelerated depreciation only being allowed in conjunction with such a mechanism. With changes to enhance the utility of the redundancy rules, it would be able to fulfil its function more transparently, without inviting the risk of inequitable costs being carried by consumers. We also propose rule 85 is extended to allow for situations where the circumstances of redundancy involve assets which are no longer efficient or economic to operate, and where redundancy is anticipated and able to be clearly demonstrated according to defined parameters.

This rule change will promote economic efficiency in the provision of gas services, and equitable management of redundant asset risks and costs by investors and consumers.

Part 2 of the proposal discusses the background to the proposal, before Part 3 addresses the nature and scope of the issue, and why the rule change proposal will address the issue. Part 4, along with the draft text in Annex 1, provides and discusses the detail of the proposed rule change.

We seek that the proposed changes apply to both distribution and transmission scheme pipelines in all jurisdictions in which the NGR apply, including Western Australia.

2. Background

The JEC adopts, in broad terms, the issue identification, reasoning and arguments provided in ECA's rule change proposal background section 4, detailing the issues facing gas networks and consumers as the energy transition accelerates and network use declines.[1] We also adopt, in broad terms, the ECA's discussion of policy issues concerning accelerated depreciation.

2.1 The climate-driven transformation of energy and its implications

Transformation in the energy system and the Australian Government's goal of reaching net zero emissions by 2050 create considerable uncertainties in future gas demand expectations, though with a certainty that future gas networks will be substantially smaller than those of today. A decline of gas demand is expected to accelerate, but there is uncertainty as to how quickly that will happen and what the path to small customer 'electrification' will look like. The recent AEMO Gas Statement of Opportunity predicted that the drop in the number of gas connections will be in the millions.[2] In the coming two decades AEMO forecast that 2.5-3.5 million of the homes that use gas today are likely to permanently disconnect from the gas network.[3] This is considered a conservative assessment.

One certainty is a decrease in demand and an increase in disconnections as consumers take advantage of the benefits of electrification (increasingly supported by government grants and incentives) including significant cost of living savings, reduced health risks and improved safety. As households and small businesses leave the network, there will be significant impacts for today's consumers, consumers remaining on the network, and network businesses. This includes issues of asset stranding and the equitable apportionment of risks and costs between both networks and consumers, but also among customers.

The capital base of distribution networks is approximately $10 billion, and transmission networks have a capital base of approximately $2 billion.[4] While not all assets will become redundant during the transition to net zero, these numbers indicate the scope of assets at risk of stranding. Allocating stranded asset costs of such materiality cannot simply be undertaken using rule 89 in isolation, with 'ad-hoc' changes to depreciation schedules to address an undefined risk. This is not a proper and efficient way to regulate the decline in use of networks, and the AER must be given more robust and fit for purpose tools to deal with this issue in the best interests of consumers.

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1 See ECA rule change proposal, *Gas Distribution Network Rule Change Requests*, 14 February 2025, https://www.aemc.gov.au/rule-changes/gas-distribution-networks-depreciation.

2 See AEMO, *2025 Gas Statement of Opportunities*, Figure 12, p.26, https://aemo.com.au/energy-systems/gas/gas-forecasting-and-planning/gas-statement-of-opportunities-gsoo, (*GSOO 2025*).

3 Ibid.

4 See Figure 5.10, AER, *State of the Energy Markets 2024*, p.229, https://www.aer.gov.au/system/files/2024-11/State%20of%20the%20energy%20market%202024.pdf

Risks to transmissions pipelines becoming redundant are perhaps less than areas of distribution networks but nonetheless exist, and it is entirely possible that scheduled transmission pipelines will also become redundant in some areas.

2.2 Existing gap in the gas rules

The fundamental issues identified arise from the fact the NGR do not envisage the possibility of network retreat and provide no robust mechanisms to enable or manage it efficiently in the consumer interest. Where all forecasts now expect accelerated electrification,[5] gas networks must retreat, or at the very least have the capacity to do so efficiently in order to protect and promote the interest of consumers. There is an urgent need to update the gas rules to enable this.

Under the current National Gas Law (NGL) and NGR, the revenue and pricing principles provide networks a reasonable opportunity to recover their investment costs, but this is not a guarantee of recovery of all costs in the case of asset redundancy. Rule 85 provides a specific rule for redundancy which indicates that at the time of redundancy investors bear any asset stranding costs unless the AER approves a mechanism for sharing stranding costs with consumers.[6]

In our view, the approval of network proposals for accelerated depreciation in response to broad and undefined future risks is inconsistent with the long-term interests of consumers, as they unfairly shift these unquantified investor risks and costs to consumers. This is not a measure of intergenerational equity between consumers, but an inequity between consumers and network businesses/investors.

The AER has stated in recent decisions that it believes governments, networks and consumers should 'discuss' how to pay for asset stranding costs as network use declines and assets become redundant. We agree and see this change to the gas rules, along with other changes, as an important contributor to that discussion. Our proposals are compatible with government involvement to support cost sharing but, importantly, do not rely upon it. Through our proposals, the AEMC has a key role in ensuring the rules contain robust mechanisms for businesses to identify redundant assets and provide the AER with the principles and direction it needs to determine - on an asset-by-asset basis - the appropriate cost sharing between networks and consumers.

The development of more robust rules is a critical part of the discussion the AER refers to, and should happen in parallel to any wider discussions of whether government will play any role. If governments decline to play a role (or even where they do), there will remain a need for the NGR to provide a robust mechanism for cost sharing.

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5 See for example *GSOO 2025*, Figure 12, p.26.

6 See, s 24(1) NGL; Rule 85 NGR; *AER Information Paper - Regulating gas pipelines under uncertainty*, November 2021, https://www.aer.gov.au/publications/reports/performance/regulating-gas-pipelines-under-uncertainty-information-paper, p. 29, (*Information paper 2021*); AER, *Jemena Gas Networks (NSW) access arrangement 2025 to 2030, Final Decision, Attachment 4 – Regulatory depreciation*, May 2025, https://www.aer.gov.au/documents/aer-final-decision-jgn-access-arrangement-2025-30-attachment-4-regulatory-depreciation-may-2025 (*Jemena Final Decision 2025-2030 Attachment 4*), p.20.

The lack of consistent and robust regulation on redundancy and apportionment of stranded assets risks and costs has implications for price and economic efficiency. In this context the provision of more detailed rules on redundancy will be in the consumer interest. (See the Expected benefits, impacts and costs section below).

3. The issue and proposed rule

3.1 Nature of the issue to be addressed

The current rules are unable to deal efficiently with increasing numbers of consumers leaving gas networks, and the increased risk of asset stranding and redundancy this creates. Currently future redundancy risks and costs are being inappropriately and inequitably allocated using changes to depreciation schedules in isolation (rule 89), in part because the specific rule on redundancy (rule 85) is not practical as it is currently framed.

The JEC broadly concurs with the issue definition provided in section 5.1 of the ECA's rule change proposal.

The ECA issue definition identifies among other matters that:

> *As used today, accelerated depreciation makes gas consumers pay the costs of stranded assets, while imposing no costs (or write-downs) to network investors. While the AER and the NGR cannot directly compel governments to help pay the costs of stranded assets, it still holds that AER decisions on accelerated depreciation make consumers pay for stranded assets while other do not.*

The JEC has consistently opposed the AER's decisions to grant accelerated depreciation in the manner it has been proposed. We contend it is an inappropriate means by which to manage investors' (unspecified) future potential asset stranding risks. It has inappropriately been presented only as a tool to manage intergenerational equity; an argument at least partly grounded in an assumption networks are guaranteed full recovery of the costs of investments.[7] We contend it is inherently inequitable for today's consumers to bear investors' potential future costs. Accelerated depreciation, used in this way, is inconsistent with the long-term interests of consumers. While accelerated depreciation is a potential tool by which to share or transfer costs, absent a robust measure to define those costs, it involves an unacceptable risk to consumers that they will be assuming an unreasonable share of costs.

In practical terms, accelerated depreciation, as it has been allowed by the AER, presents fundamental problems in that it is:

- Transferring both:
    - Investors' future potential redundancy risk to consumers, and doing so without robustly defining the scope of that risk; and

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[7] See Ausnet, *Our Gas network proposal, 2024-28*, https://www.aer.gov.au/documents/asg-gaar-our-gas-network-proposal-2024-28-july-2022, p.8.

    - The costs of potential future redundancy from investors to consumers, without demonstrating what that cost relates to, and how consumers' 'fair' share has been determined.

- Not properly recognising that investors, by default, bear redundancy risk and costs.
    - The AER has stated that while network companies are entitled to a reasonable opportunity to recover their investments, consumers are not required to guarantee full costs recovery.
    - The specific rule on redundancy costs (rule 85), does not automatically share investor redundancy risks and costs with consumers.

- Resulting in future potential redundancy costs being allocated to today's consumers using accelerated depreciation under rule 89 of the NGR. This is notwithstanding the specific rules on asset redundancy in rule 85 NGR.

- Administered on a number of occasions in a manner inconsistent with consumer interest principles which should otherwise apply. It has also involved a lack of transparency, clearly establishing which asset stranding risks are being dealt with, and how a fair consumer share of the related costs has been established.

- Based upon network proposals which provide inadequate detail of which specific assets will become redundant, when and why this redundancy will occur, the costs of these assets, whether these assets have already been paid down and if not what proportion of the asset remains to be paid for, whether it is equitable to apportion redundancy costs to consumers, and if so, what proportion of these costs it is equitable to transfer and why.

- Substituting as an inadequate and unjustifiable proxy for proper analysis, allocation of accelerated depreciation up to a level determined by modelling pricing impact on consumers. This approach has been adopted in place of determining a fair consumer share of the costs of a specified future stranding risk according to transparent and consistent principles. In any case, we highlight the fact that any allocation of accelerated depreciation has a negative impact on consumer bills, even if bills do not increase in real terms because of this allocation. That is, while a limitation of the impact of accelerated depreciation on bill is welcome, without the allocation of accelerated depreciation costs, bills would still have been lower.

- Occurring in a time of uncertainty about the future of networks. This is instead of waiting until a time when there is greater clarity regarding the time and scope of actual asset redundancy and utilizing rule 85 to fairly and accurately apportion redundancy costs. This approach, in effect, places the full 'impact' of uncertainty on consumers.

- Based on the unreasonable premise that should there be a later material change in circumstances, or assessments of potential redundancy, the additional costs can be returned to consumers.[8] We do not consider this a credible prospect. In any case, this assumption involves consumers carrying both the cost and the risk of such a return not eventuating.

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[8] See *Information Paper 2021*, pp. ix-x, 31.

Approving accelerated depreciations, via changes in depreciations schedules, such that the capital base is paid down earlier amounts in effect to the allocation of excess returns to network companies. There is little chance that in the future any misallocation would ever be realigned, particularly where the stranding risk the initial allocation related to is not quantified – that is, how can 'excess' be determined if the comparison point is not related to a specific and enumerated asset stranding risk? In the meantime, consumers bear all the cost of any risk such a misallocation it is not returned.

The existing NGR provide inadequate and inappropriate tools to the AER, which is currently being asked to share unspecified investor potential future redundancy risks and costs with consumers. Any arguable benefit this ostensibly affords future gas consumers is based on the false assumption that future consumers must repay all network companies investment costs. The result is that today's gas consumers are wrongly and inequitably being required to bear investors redundancy risks and costs.

Until there is a clear identification of which assets will become redundant and when, the value of these assets, and until the AER has applied a fair mechanism from the redundancy rule to share redundancy costs with investors and consumers, any bringing forward of future consumers' costs to today's consumers, and apportionment between different groups of consumers (over time) is inherently unfair.

In this context, the allocation of investor redundancy risks and costs using accelerated depreciation under rule 89 is inequitable until such a mechanism is used. That is, rule 89 is fundamentally an inappropriate tool for the purpose of dealing with future asset stranding risk, asset redundancy, and determining a fair apportionment of related costs without measures to defined the risks and costs involved.

The inequity, stemming from the AER's ongoing use of accelerated depreciation absent such a mechanism, will only grow as networks seek to shift many more millions of investors' costs to consumers. This issue must be resolved as a matter of urgency.

4. Scope of the issue to be addressed

The scope of the issue is:

- Future redundancy risks and costs are being inappropriately and inequitably allocated using changes to depreciation schedules in isolation (rule 89), notwithstanding the specific rule on redundancy (rule 85).

- Rule 89 on creating and altering depreciation schedules is the incorrect rule to deal with redundancy risk and costs on its own. Rule 89 does not require any meaningful assessment of which assets will become redundant, when they will become redundant, and the redundancy costs of these assets. Consequently, no allocation of investor redundancy risks and costs using accelerated depreciation under rule 89 will ever be equitable without such measures.

- The current definition of redundant assets in the NGR is inadequate and has limited practical utility. It does not currently enable the scope to efficiently and consistently consider the anticipated future redundancy of assets, or determine under what conditions an asset may be considered redundant (either in whole, or in relation to its efficient economic utility – that is, capacity to contribute to promotion of the consumer interest).

- There is no decision-making structure or guidance in place in the NGR or AER guidelines for the apportionment of redundancy costs from investors to consumers, either when they become redundant, or if it can be clearly demonstrated (according to established parameters) that they will become redundant in the near future.

5. How the rule change will address the issue

Our proposal will address the issue by ensuring that questions of asset stranding and redundancy are resolved according to consistent criteria at the time of redundancy, or when redundancy dates and circumstances can be accurately anticipated, with greater certainty of the assets involved and greater transparency in the method of determining consumers' 'fair' share of redundancy costs.

Our proposal will address the issue as follows:

- By prohibiting accelerated depreciation of redundant assets, or assets anticipated to become redundant (directly, or indirectly) under rule 89, unless undertaken in conjunction with the use of a mechanism to identify *redundant assets* and *anticipated redundant assets,* and for the cost sharing of *asset stranding costs,* under rule 85, and thereby prevent any scope for inequitable or unreasonable transfer of investor costs and risks to consumers by adjustments to depreciation schedules. An alternative would be to wholly prohibit any scope to deviate from straight-line depreciation.

- By providing an expanded and more detailed definition of redundancy to enable rule 85 to serve as a practical and efficient mechanism to determine which assets have become or are anticipated to become redundant.

- By providing a clear and principles-based decision-making structure to rule 85, and via AER Redundancy guidelines, enable investors' actual redundancy costs—where appropriate and equitable—to be apportioned fairly between investors and consumers.

We seek that the proposed changes apply in all jurisdictions in which the NGR apply, including Western Australia, and apply to both distribution and transmission scheme pipelines.

6. The proposed amendments

Draft text for the proposed amendments to rules 85 and 89 is provided in Annex 1. The draft text is provided as an example of how the intent of our proposal may be implemented. We understand alternative or additional measures could be considered.

7. Limiting accelerated depreciation in rule 89

Accelerated depreciation under the current rule

Accelerated depreciation involves altering depreciation schedules to bring forward the pay down by users of the capital base. This has been achieved in two ways (i) shortening the economic lives of assets and changing schedules so assets are paid down over a new shorter economic life, or (ii) writing down an asset by a specific amount, and requiring consumers to transfer this value to the service provider over an access arrangement period of 5 years. Requests for accelerated depreciation are premised on rule 89 and have been granted on the basis of rule 89(1)(c), and less commonly, rule 89(1)(a).[9]

In recent determinations accelerated depreciation has been sought for the purpose of reducing potential future asset stranding risk. However, rule 89 does not involve or require any assessment of which assets will become stranded, when they will become stranded, and what the costs of these assets are.

We contend it is not practical to add such criteria to rule 89 and that it is better that assessment of stranded asset costs only occurs within the ambit of rule 85, the redundancy specific rule, given that the question of asset stranding relates directly to asset redundancy. Such an approach would allow accelerated depreciation to be employed only as a mechanism to share costs determined under a process determined by rule 85.

Proposed rule 89 amendments

We propose that Rule 89 is amended to prohibit accelerated depreciation for the purposes of addressing asset stranding risk. That is, the rule should prohibit accelerated depreciation of redundant assets, anticipated redundant assets, or assets likely to become redundant assets.

Rule 89 could be amended to insert a new subrule 89(1A), for example:

> *(1A) Compliance with subrule (1) cannot involve the adjustment of the depreciation schedule of an asset that is a redundant asset, or is an anticipated redundant asset, or likely to become a redundant asset in the next 30 years,* unless undertaken in conjunction with the use of a mechanism to identify *redundant assets* and *anticipated redundant assets,* and for the cost sharing of *asset stranding costs,* under rule 85.

The rule change does not seek to limit the general ability of service providers to request, and the AER to approve, variation of depreciation schedules, though we regard this as a potential alternative to our proposal. Rather, the rule change is specific to the issue identified – namely prohibiting the use of rule 89 to change depreciation schedules to accelerate depreciation of assets so as to shift the risk and costs of stranded assets from investors to users, when there is a specific rule on redundancy (rule 85).

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9 See *Jemena Final Decision 2025-2030 Attachment 4*, pp.7-8, 10.

This change does not seek to change the current position in rule 89 that an asset is depreciated over its economic life. For any asset commissioned in the future, the AER remains able to approve depreciation schedules where the economic life is regarded as shorter than an asset's technical life.

Alternative options for amending Rule 89 could include:

- Prohibit outright any accelerated depreciation – by either shortening the economic life of assets, or front-loading depreciation with a lump sum payment, so there is a more rapid paydown of the capital base.
- Rule 89 is substantially amended, or possibly even deleted in its entirety, to create a requirement that only straight-line depreciation from the point of investment is allowed. The possibility to vary depreciation schedules is removed.

These alternatives are provided to demonstrate the intent of our proposal – that is, to ensure that variation of depreciation is not employed as a means of addressing potential or expected issues of future asset stranding risk, and that these are required to be addressed via amended redundancy rules.

Draft text for the proposed amendment of rule 89 is in provided in Annex 1.

8. Redefining 'redundant assets' in the national gas rules

The current definition

Currently, neither the NGL, nor NGR provide an adequate definition of "redundant asset" that can be used practically.

While there is no definition in the NGL, rule 85(1) NGR in effect defines redundant assets as, 'assets that cease to contribute in any way to the delivery of pipeline services'.

Rule 85(1) reads:

> (1) An access arrangement may include (and the AER may require it to include) a mechanism to ensure that assets that cease to contribute in any way to the delivery of *pipeline services* (redundant assets) are removed from the capital base.

'Pipeline service' is defined in the NGL section 2 definitions.[10]

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[10] Pipeline service is defined in the NGL, section 2 definitions as follows: pipeline service means—
(a) a service provided by means of a pipeline, including—
(i) a haulage service (such as firm haulage, interruptible haulage, spot haulage and backhaul); and
(ii) a service providing for, or facilitating, the interconnection of pipelines; or
(b) a service ancillary to the provision of a service referred to in paragraph (a),
but does not include—
(c) the production of a primary gas, a processable gas or biogas; or
(d) the sale or purchase of a covered gas, a processable gas or biogas; or
(e) a blend processing service;

The rule 85(1) definition is inadequate as assets only become redundant when they cease to contribute in any way.

This definition is too absolute to be practical or useful, and does not capture, for example, that a pipeline may effectively be redundant for its purpose (and contribution to the promotion of the consumer interest) when the pipeline's use is no longer economically efficient – i.e. it is no longer an 'asset' in terms of being an efficient contributor to consumer interest. For example:

- a pipeline between towns, which feeds multiple districts which is now only servicing one district with very low volumes of gas and sales; or
- a pipeline in a street in which there remains a handful of customers connected to the gas network.

We consider it necessary to have additional criteria for redundancy to capture such circumstances and provide a practical mechanism to deal efficiently with asset 'redundancy' in advance of the asset ceasing to contribute in any way.

The proposed definition

We propose that rule 85(1) is amended to add an additional definition of redundant assets which does not require assets cease 'to contribute in any way', but also defines redundant assets as those that 'are no longer economically efficient to use in the delivery of *pipeline services,'*

We propose that the parameters of the assessment of economic efficiency would be defined in AER Redundancy guidelines.

9. Adding 'anticipated redundant assets' to the redundancy rule

The current definition

Currently, neither the NGL, nor NGR provide any provision for cost sharing of gas assets which a network (with AER approval) anticipates will become redundant.

The proposed definition

We propose adding a definition of 'anticipated redundant assets'.

We propose that a network will be able to request for 'anticipated redundant assets' cost sharing for any stranded assets costs, ahead of the actual date of redundancy, where this is established according to the terms set out in AER Redundancy guidelines.

Providing a mechanism for service providers to identify anticipated redundant assets, seek to have these removed from the asset base, and enable cost sharing of assets assigned by the AER prior to redundancy will provide an incentive for networks to efficiently identify which assets are likely to become redundant – that is, which of their assets will no longer efficiently contribute to promotion of the consumer interest.

To incentivise networks to identify assets likely to become redundant in advance, it may be preferable for the AER Redundancy guidelines (and cost sharing mechanisms) to provide for a greater proportion of stranded asset costs to be able to be shared with consumers, where assets are identified (and clearly demonstrated) as anticipated redundant assets, as opposed to assets identified at the time of redundancy.

10. Principles-based decision making when apportioning stranded asset costs from investors to consumers.

Fair apportionment of redundancy costs and risks

In the present regulatory framework. redundancy risks and costs appropriately sit with investors.

The AER has stated that while network companies are entitled to a reasonable opportunity to recover their investments, consumers are not required to guarantee full costs recovery.[11] Further, the specific rule 85 on redundancy costs does not automatically share investor risks and costs with consumers; it merely makes provision for the AER to do so.

Redundancy Risk

Investors are the party best placed to bear the risk of future redundancy. No apportionment of investor redundancy risk should in any circumstances be assigned from investors to consumers.

It is of note that the use of accelerated depreciation by the AER in effect transfers future redundancy risk from investors to consumers.

Redundancy Costs

Presently, rule 85 (and arguably only rule 85 as a specific rule on redundancy) provides the AER power to apportion redundancy costs to consumers.

Rule 85 provides that an access arrangement may include a mechanism to remove redundant assets from the capital base and a mechanism to allow sharing of redundancy costs between the network and consumers. There is, however, no direction, principles or guidance to the AER on what form any mechanism should take, nor when it is either appropriate or equitable to apportion redundancy costs from investors to consumers, and how those proportions should be determined. This lacuna undermines the utility of the redundancy rule.

The use of accelerated depreciation by the AER in effect transfers redundancy costs from investors to consumers. This is not the appropriate mechanism or method by which to do this. Providing more direction in an expanded redundancy rule provides for a more consistent, appropriate and effective means of dealing with asset redundancy.

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[11] See *Information Paper 2021*, p. 29; *Jemena Final Decision 2025-2030 Attachment 4*, p.20.

Designing and implementing a principles-based decision-making structure

Rule 85 should be amended to add a detailed description of the decision-making mechanism which is to be set up, how it will operate, and how the AER will undertake principles-based decision making. This should guide the identification of redundant assets, and anticipated redundant assets, and the determination of the sharing of any appropriate redundancy costs between investors and consumers.

The details of our proposal on how a mechanism will work are set out in the draft text in Annex 1. Key aspects of the proposed mechanism and how it will function, include:

- That gas networks are required to prepare a *Redundancy assessment* as part of their access arrangement proposals, in which they identify in detail redundant assets and anticipated redundant assets according to criteria set out in the rules (and detailed in the AER *Redundancy guidelines),* including key financial information relevant to each individual asset. Gas network access arrangements may also include proposals to share the costs of assets that the AER has confirmed are redundant/anticipated redundant assets.

- That the AER approves assets as redundant assets or anticipated redundant assets according to the determined criteria and removes them from the capital base.

- That cost sharing with consumers is only approved where:
    - Sufficiently detailed information is provided in the *Redundancy assessment;*
    - The proportion of costs transferred is not greater than 50%; and
    - The AER is satisfied the cost sharing arrangement is equitable, where 'equitable' is determined according to the specific circumstances of the assets in question.

- In determining an equitable cost sharing the AER has regard to:
    - Specific economic information relating to that asset provided by the service provider (including, for example, costs already recovered, remaining asset life, expected utilisation);
    - Identified reasons the asset is redundant, or anticipated to become redundant;
    - Quantum of stranded asset costs for the identified assets;
    - The National Gas Objective; and
    - The relevant revenue and pricing principles.

We have included a requirement that the AER establish *Redundancy guidelines*, which sets out guidance on the content of a *Redundancy assessment*, the criteria for establishing redundancy, and on a mechanism established under this rule to identify and cost share redundancy costs.

Ordinarily, assets have been depreciated until the end of a standard asset life for that type of asset (for example trunk lines are depreciated over 70 years). This is often established with reference to an asset's technical life.

The proposed changes allow for networks—within the context of an approved redundancy mechanism—to identify assets which are either redundant or expected to become inefficient to

operate (according to defined criteria), and for which economic unviability is anticipated (according to those criteria) within a defined period.

The proposed rule 85 amendments would mean, where an asset becomes redundant (including no longer being economically efficient to operate), or is anticipated to become redundant, if the capital base for the asset has not been (or will not have been) paid down in full, the redundancy provisions of rule 85 would allow for the possibility of cost sharing of *asset stranding costs*.

Our proposal includes the requirement that the costs apportioned from investors to consumers does not exceed '50%'. Having a maximum will not preclude the mechanism assigning a smaller proportion, but it will be important to impose some limit on the share assigned to consumers. Importantly, this mechanism does not rely on or preclude future government support to share asset stranding costs.

Assisting consumers to leave inefficient parts of the network

Nothing in the proposed amended rule 85 would prohibit redundant assets (which are no longer economically efficient) or anticipated redundant assets, which have been removed from the capital base, from continuing to be utilised.

Similarly, nothing in our rule change proposal amounts to a requirement for gas networks to disconnect consumers. This includes no requirement to disconnect consumers from assets which have been identified as 'no longer economically efficient to use in the delivery of *pipeline services*.'

Networks could, however, separately be permitted (and required) to actively work in advance with gas consumers to assist them in identifying and implementing alternatives to network gas connections to meet their energy needs. This could for example include assisting the remaining few households in a street to electrify or source non-network gas options (stand-alone power systems in electricity may be regarded as a relevant example of how such an arrangement could be pursued). In effect, gas companies would be permitted, and provided some incentive, to efficiently manage network retirement. This would then mean the fuel switching of individual premises, or at a street level, on a faster timeline than would otherwise occur if the network waited for the last consumer to come forward and request disconnection.

No consumer would necessarily need to be forced off gas, but networks could seek to ensure maximum efficiency of shared assets and where these are only minimally used, the last remaining customers are given assistance in leaving a part of the network. This would allow for a more efficient use of the network and would be in the interests of gas consumers remaining on the network.

No proposed draft text has been provided on this part of the proposal.

We are aware that the ECA has proposed that gas networks are required to provide a detailed network plan over an extended forward-looking period, based on demand forecasts. The ECA proposes this plan identifies, among other things, opportunities for strategic decommissioning and what can be properly regarded as prudent capex spending, including for asset replacement needs. Our proposal is that rules could be added that focus on the more immediate time period. While these could share principles and overlap in part with any planning requirements adopted

following the ECA rule change, our proposal is more narrowly limited to the issue of allowing gas networks to plan to take active steps to encourage gas consumers to switch away from network gas.

Transferring stranded asset costs from users to service providers

As noted above, presently asset stranding risks and costs are being transferred from users to networks via the approval of accelerated depreciation and changes to depreciation schedules, without definition of what risks those cost relate to. This includes depreciation schedule changes to reduce an asset's economic life, or to make advance lump sum write down of the capital base, then paid for over the following 5-year access arrangement period. Crucially, this transfer is not occurring with reference to clear principles, or in relation to the circumstances and costs of specifically identified assets.

One potential mechanism for cost sharing could involve initiating a defined payment from consumers into a contingency fund from the time an asset is identified (and approved) as an anticipated redundant asset. Costs could then be shared immediately upon redundancy to the extent that sufficient funds have been collected in advance via the contingency fund. Any outstanding balance would be collected and paid in subsequent access arrangement periods. Such a fund could also be open to future government contributions, though would not be dependent upon them.

Under a mechanism such as this, for assets which are not identified as anticipated redundant assets, the AER-determined consumer proportion of stranded asset costs could be collected via reference tariffs and distributed to the gas network over future access arrangement periods.

Crucially, an AER approved share of costs could also involve application of accelerated depreciation for the specific assets identified and approved as redundant or anticipated to be redundant. That is accelerated depreciation as a means to deal with the stranding of defined assets.

In any case, any mechanism for cost sharing must embed principles consistent with those we have outlined and minimise the risk of consumers assuming unreasonable costs. Further, we regard it as important that the cost sharing mechanism incentivises networks for the early identification of assets (according to the guidelines) which they anticipate will become redundant. We regard this as an important part of ensuring that redundant assets are dealt with efficiently and progressively, in promotion of the consumer interest.

We have not provided any proposed text with respect to the mechanism by which costs are collected or transferred, including using any contingency fund.

11. The AEMC should adopt the proposed rule

12. AEMC rule making powers

The JEC request that the rule change proposals are made in respect of all jurisdictions in which the NGR apply and are also adopted in Western Australia.[12] We request they apply equally to scheme distribution and scheme transmission rules.[13] We request that the rule change commence immediately upon an AEMC final decision which adopts the proposal.

The AEMC has the power to make the proposed rule,[14] as provided by section 74 of the NGL, including subsections 74(1)(a)(ii), 74(1)(b), and subsection 74(2), (the rule concerns a matter set out in Schedule 1 of the NGL—namely Access arrangements, Regulatory economic methodologies, andAER economic regulatory functions or powers).

The key determination is whether the rule contributes to the achievement of the National gas objective. Section 291(1) requires the AEMC to be 'satisfied that the rule will or is likely to contribute to the achievement of the national gas objective'. Section 293 also requires consideration of the revenue and pricing principles given the rule arguably concerns a matter set out in items 45-53 of Schedule 1 of the NGL (Regulatory economic methodologies).[15]

13. Achievement of the national energy objective

The NGO as stated in s 23 of the NGL is:

> *to promote efficient investment in, and efficient operation and use of, covered gas services for the long-term interests of consumers of covered gas with respect to:*
>
> *(a) price, quality, safety, reliability and security of supply of covered gas; and*
>
> *(b) the achievement of targets set by a participating jurisdiction—*
>
> *(i) for reducing Australia's greenhouse gas emissions; or*
>
> *(ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.*

The rule change will introduce a principles-based mechanism by which network asset redundancies can be identified at the time of redundancy, and in anticipation of redundancy, and

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12 https://www.aemc.gov.au/regulation/energy-rules/national-gas-rules; https://www.aemc.gov.au/regulation/energy-rules/national-gas-rules/western-australia. Note: We have referenced the AER as regulator throughout our proposal and proposed draft text but acknowledge that the AER does not regulate access arrangements in Western Australia.

13 We note that the change of depreciation schedules and the issue of removing redundant assets from the capital base are issues relevant to scheme pipelines only. Non-scheme pipelines are not included in the capital base.

14 In all jurisdictions, including Western Australia.

15 Items 40-48 (Regulatory economic methodologies) of the applicable Western Australia Legislation, see s 293, and Schedule 1, *National Gas Access (WA) Act* 2009, (WA).

by which there can be proper consideration of the equitable sharing of stranded asset costs between investors and consumers. This will promote the NGO as:

- The rule promotes economic efficiency by providing clear criteria and mechanisms to identify and remove inefficient assets from the capital base. It further promotes efficiency by enabling the costs and risks of redundancy and stranded asset costs to be borne equitably (according to defined, consistent guidelines) between the by two primary beneficiaries of the gas network investments—the network companies and consumers.
- The rule change is in the long-term interest of consumers of gas in respect of price and achieving of emissions targets.

These benefits are discussed in detail below.

14. Expected benefits, impacts and costs

The proposed rule changes are targeted and fit for purpose. They address the very heart of the issue of expected declining demand, and potential redundant and stranded assets and costs. The proposed rules provide a clear definition of redundancy and anticipated redundancy, require networks to provide detailed assessment of individual redundant assets, and enable a principles-based mechanism to consider whether any sharing of costs with consumers is appropriate. This clear step by step, detailed and principled approach will be a clear improvement on the practice of utilising accelerated depreciation for this purpose.

Consequently, there will be greater stability and transparency in regulatory arrangements to enable consumers, market participants and investors to make efficient decisions. This will also serve as a robust basis for government policy in emission reduction, electrification, and the broader transition of network gas services.

14.1 Market efficiency

The rule promotes economic efficiency as it allows for the costs and risks of redundancy and asset stranding to be borne equitably between the two primary beneficiaries of the gas network investments—the network companies and consumers.

Network companies are best placed to bear the risk of gas network investments and asset stranding. They made their investments fully cognisant of the economic regulatory framework of the domestic gas system, as found in the NGL and NGR, which has remained largely unchanged since the 1997 Gas Code. Further, they were aware of commitments made by governments around the world, including those made under the UNFCCC framework from 1982 onwards. The reduction in demand for use of the domestic gas networks is an entirely foreseeable risk which any prudent business should seek to manage.

Network companies are, for the same reasons, the ones best placed to bear the costs of network redundancy and asset stranding. The only qualification to this is that governments, via their drafting of the 1997 Code and subsequent NGL and NGR, set out that gas companies were to be afforded a reasonable opportunity to recover their costs, and further specific rules on redundancy were provided. As the AER has observed, there is no automatic right for gas

companies to recover 100% of their investment costs. Nonetheless, rule 85 does envisage that at the time of redundancy the AER may create a 'mechanism for sharing costs associated with a decline in demand for pipeline services between the service provider and users'.

A consequence of the regulatory framework is therefore that while investor costs and risks sit with investors, , at the time of redundancy, cost sharing and transfer of investor risk from investors to consumers may be considered. The rule change, by providing for a principled mechanism by which possible cost sharing is considered, including where there are clearly identified anticipated redundant assets, will allow for greater market efficiency.

Further, the rule change proposal provides network companies the ability, and a mechanism by which, to identify *anticipated redundant assets*, and then allows for cost sharing of these assets ahead of the demonstrated redundancy. By providing networks with incentives to identify anticipated redundant assets ahead of time, networks can then more efficiently plan network investment in, operation of and use of networks.

The proposal also includes a recommendation that the rule change could include that networks be allowed (or required) to assist impacted consumers to leave the network–either by electrifying or accessing non-network gas services. This will cause greater network efficiency where a network asset is under-utilised and therefore not efficiently contributing to the promotion of the consumer interest. An example of such an under-utilised network asset is where only one customer remains connected in a street.

14.2 Impacts on long term consumer interests of price, safety, reliability, security of supply and emissions.

In addition to promoting economic efficiency and thereby driving down overall costs for providing gas services (and by extension, prices to consumers), the rule change will also better support equity and stability of prices for both current and future consumers.

It will assist mitigating price shocks as clear criteria will be available for the establishment of a mechanism to determine which assets are redundant, or are anticipated to become redundant, and when and how it is equitable to share investors stranded asset costs with consumers. While this rule does not rely on government involvement in resolving stranded asset costs, it does provide a robust mechanism for any possible involvement to occur in the future (as flagged by the AER).

The rule change will better ensure there are no inequitable transfers of investors' redundancy risk and possible future redundancy costs to today's consumers in a way that is inconsistent with principles of consumer interest, or without sufficient transparency and demonstration of the validity of the costs involved.

Future consumers will also benefit as when assets do become redundant investments, redundancy costs will only be shared with consumers to the degree they meet strict criteria, including on what is an equitable share of costs for that specific asset.

In the context of the achievement of the net-zero by 2050 target, the rule change will assist in ensuring an efficient and orderly retreat of high emissions intensity methane gas, or repurposing

of parts of the gas network, while efficiently maintaining the network for those who remain connected and dependant on it.

By providing a transparent, principled approach to redundancy and asset stranding, including potential cost sharing of asset stranding costs, the rule change will promote stability of gas networks, including allowing for continued investment in the safe, reliable and secure operation of the network for those customers remaining on the parts of the network which continue to be used.

Further, there will be an emissions benefit as the rule change will improve the regulatory framework for network asset redundancy. This will assist the orderly retreat and repurposing of the network, and help ensure the maintenance of social licence for the transition to net-zero, thereby assisting in the achievement of emissions targets.

14.3 Impact on gas network companies

The rule will have cost implications for service providers.

To the degree there has been an incorrect and unfounded assumption investors are entitled to 100% recovery of their capital base, it may appear that our rule change would cause investor costs to increase. We regard this as an unreasonable characterisation based on an incorrect assumption. The current NGL and NGR revenue and pricing principles only guarantee a reasonable opportunity to recover the capital base and redundancy costs (asset stranding costs) sit with investors, unless at the time of redundancy, the AER approves a mechanism whereby some costs are shared with consumers.

Decisions regarding accelerated depreciation to date have, arguably, been inequitably (and unreasonably) transferring costs from investors to consumers. The rule change's limitation of any future accelerated depreciation of assets likely to become redundant will foreclose any possibility of continuing this practice on a broad scale, with potential impact on network revenue. However, this impact is mitigated by the increased scope to utilise expanded redundancy rules as proposed.

Our proposal seeks to ensure improved redundancy provisions are properly used and regarded as the only appropriate means of dealing with the issue of asset redundancy, stranding and the management of related risks and costs. Investors stand to gain from the rule changes through improved certainty the provisions will provide. The definition of redundancy will be widened to include assets no longer economically efficient and will allow for sharing of costs of anticipated redundant assets, with principled-based decisions on any potential cost sharing. This places stronger obligations on networks but provides much greater clarity and certainty in the processes involved.

While there is a greater obligation to justify their requests for sharing of investor costs with consumers, this is proportionate to the issues the rule proposal is intended to address given the materiality of the dollar amounts involved for gas businesses and the significance of the issue to consumers.

14.4 Impact on market bodies

The AER will be required to develop new guidelines, and there could be a rush in the initial years with requests from network companies to set up mechanisms under rule 85 to identify redundant assets and share costs.

The AER will, however, benefit by having greater clarity in its roles and decision-making, and fit-for-purpose tools available to allow it to identify redundant assets and share costs equitably between investors and consumers. We consider this enables it to better conduct its role to promote market efficiency and equity in the interests of consumers.

15. Conclusion

The JEC rule change aims to ensure redundancy risks and costs are in future more appropriately allocated using the specific rule on redundancy (rule 85), rather than changes to depreciation schedules (rule 89).

The JEC requests that the AEMC consider adoption of the rule change proposal to:

- Prohibit any further accelerated depreciation using rule 89 for the purpose of sharing redundancy risks and costs with consumers, unless undertaken in conjunction with the use of a mechanism to identify *redundant assets* and *anticipated redundant assets,* and for the cost sharing of *asset stranding costs,* under rule 85.
- Redefine and expand the meaning of 'redundant assets' and introduce the concept of 'anticipated redundant assets' in rule 85(1).
- Provide a clear, principles-based decision-making structure within rule 85 to ensure asset stranding costs can, if deemed appropriate, be equitably apportioned and transferred in part from investors to consumers.

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Annex 1 - Proposed amendments to rules 89 and 85

This Annex provides extracts of the relevant existing rules marked up to indicate how the proposed changes may be enacted. We understand alternate means of implementing our intended proposals may be considered. Suggested amendments are shown in red.

Rule 69 proposed amendments

New definitions – add to Rule 69 which provides definitions for Part 9 of the gas rules.

69 Interpretation

Insert

Anticipated redundant assets has the meaning provided in subrule 85(1)(b).

Asset stranding costs has the meaning provided in subrule 85(3C).

Redundancy assessment means an assessment prepared by a service provider in accordance with subrule 85(3A)(a).

Redundant assets has the meaning provided in subrule 85(1)(a).

Rule 89 proposed amendments

Prohibit adjustment of depreciation schedules of redundant assets, anticipated redundant assets, or assets likely to become redundant assets

89 Depreciation criteria

[…]

(1A) Compliance with subrule (1) cannot involve the adjustment of the depreciation schedule of an asset that is a *redundant asset*, or is an *anticipated redundant asset*, or likely to become a *redundant asset* in the next 30 years, unless undertaken in conjunction with the use of a mechanism to identify *redundant assets* and *anticipated redundant assets,* and for the cost sharing of *asset stranding costs,* under rule 85.

[…]

Note: Rule 85 provides a mechanism for removing *redundant assets* and *anticipated redundant assets* from the capital base.

Rule 85 amendments

Expand the definition of redundancy, and provide a robust fit for purpose mechanism by which to remove redundant assets and anticipated redundant assets from the capital base, and equitably determine whether to share stranded asset costs from investors to consumers.

85 Capital redundancy

(1) An access arrangement may include (and the AER may require it to include) a mechanism to ensure that assets that:

(a) cease to contribute in any way to the delivery of *pipeline services,* or are no longer economically efficient to use in the delivery of *pipeline services,* (redundant assets), or
(b) a service provider identifies it anticipates will cease to contribute in any way to the delivery of pipeline services, or will be no longer economically efficient to use in the delivery of pipeline services (*anticipated redundant assets*),

are removed from the capital base.

(2) A reduction of the capital base in accordance with such a mechanism may only take effect from the commencement of the first access arrangement period to follow the inclusion of the mechanism in the access arrangement or the commencement of a later access arrangement period.

(3) An applicable access arrangement may include a mechanism for sharing costs associated with a decline in demand for pipeline services between the service provider and users.

(3A) A mechanism to identify *redundant assets* and *anticipated redundant assets,* and remove these from the capital base, and to transfer a service providers costs associated with *redundant assets* and *anticipated redundant assets* to users must meet the following principles:

(a) A service provider must prepare a *Redundancy assessment.*

This must:

(i) Identify individual assets clearly;
(ii) Identify the date of the initial investment;
(iii) Detail the original cost of the individual asset as assigned to the capital base must be identified;

(iv) Detail the proportion and amount of costs already transferred by users to the service provider for each individual asset;
(v) Detail the amount of remaining costs on the capital base for each individual asset (asset stranding costs);
(vi) Explain why redundant assets, are each individually no longer used in any way, or the use of the individual asset is no longer economically efficient;
(vii) Explain why the service provider believes *anticipated redundant assets*, are each individually anticipated within the next access arrangement period to, cease to contribute in any way to the delivery of pipeline services, or be no longer economically efficient to use in the delivery of pipeline services, and provide an anticipated redundancy date for each individual asset;
(viii) Provide the service provider's views on
(a) whether they have been given a reasonable opportunity to recover their efficient costs, and
(b) whether cost sharing will provide them an effective incentive in order to promote economic efficiency with respect to reference services they provide, and
(c) whether there has been over or under, investment or utilization of the asset; and
(ix) Provide the service provider's justification for why it is appropriate to transfer a proportion of asset stranding costs for each individual asset from investors to users, and explain what portion of cost transfer they consider equitable.

(b) The AER must review the *Redundancy assessment* and determine whether the *Redundancy assessment* contains sufficient information for it to make a proper assessment on whether assets are *redundant assets*, or *anticipated redundant assets*, the value of assets to be removed from the capital base removal, and cost sharing arrangements;

(3B) The AER must determine whether the assets are:

(a) *Redundant assets*;

(b) *Anticipated redundant assets*, and the anticipated redundancy date of the assets;

(3C) The AER must determine the remaining capital base of the assets, (*asset stranding costs*);

(3D) The AER must not approve any cost sharing arrangement in which there is a transfer to users of service providers *asset stranding costs*, unless:

(a) The *Redundancy assessment* meets the requirements of subrule (3A);
(b) the proportion of costs transferred does not exceed 50% of the *asset stranding costs*; and

(c) the AER are satisfied the cost sharing arrangement represents an equitable sharing of costs between the service provider and users.

(3E) In determining whether a cost sharing arrangement is equitable the AER should make an assessment with respect to each individual asset, and have regard to:

(a) The *Redundancy guidelines;*
(b) The original cost of the asset as assigned to the capital base;
(c) The date of the original investment;
(d) The proportion and amount of costs already transferred by users to the service provider for each individual asset;
(e) The quantum of the asset standing costs;
(f) The service providers explanation for the why an asset is redundant or anticipated to become redundant;
(g) The National Gas Objective;
(h) The service provider's views on relevant aspects of the Revenue and pricing principles, namely -
    (ii) whether they have been given a reasonable opportunity to recover their efficient costs, and
    (iii) whether cost sharing will provide them an effective incentive in order to promote economic efficiency with respect to reference services they provide, and
    (iv) whether there has been over or under, investment or utilization of the asset.
(i) The service provider's justification for why it is appropriate to transfer a proportion of asset stranding costs from investors to users, and explanation of what portion of cost transfer they consider equitable.

(4) Before requiring or approving a mechanism under this rule, the AER must take into account the uncertainty such a mechanism would cause and the effect the uncertainty would have on the service provider, users and prospective users.

(5) The AER must provide *Redundancy guidelines* which sets out guidance on the content of a *Redundancy assessment*, and on the establishment and use of a mechanism established under this rule.