

30 October 2025

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Chair, Australian Energy Market Commission
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Dear Ms. Collyer,

AusNet welcomes the opportunity to respond to the AEMC's consultation on Gas Networks in Transition (**Reference GRC0082**). We recognise the importance of this review to consider if the regulatory framework remains fit for purpose through the energy transition.

Although reasonable minds will differ on their extent, gas networks must consider new scenarios to promote an orderly transition. While uncertainty remains, demand for gas is changing, and this will have implications on the gas infrastructure used to deliver energy to customers today and in the future.

Despite these changes, AusNet's position is clear: the current National Gas Rules provide sufficient flexibility to manage current transition risks, including the ability to adjust depreciation schedules and assess prudent capital expenditure. The existing framework provides the tools to respond as gas demand declines and network roles evolve. The AER must continue to act early in the long term interests of customers and adapt decisions to reflect jurisdictional policy environments. At the same time, networks must continue to demonstrate efficiency and prudence through changing circumstances, justified by clear evidence and engagement.

The regulatory compact between investors, regulators, and customers remains fundamental. It provides the balanced and enduring arrangement necessary to sustain investment confidence while enabling regulatory discretion. The integrity of that compact must be preserved through the transition, and networks should continue to be given the opportunity to recover their efficient costs in providing essential services. We are concerned that the rule change proposals seeking new rule-based mechanisms for identifying redundant assets or prescriptive cost sharing allocations would foreclose this opportunity.

The proposals also risk fragmenting accountabilities and pre-empting policy decisions that properly rest with governments. The gas transition involves economic, safety and social dimensions that economic regulatory reforms cannot resolve alone. Until governments define the long-term future of reticulated gas and renewable gas pathways, rule amendments of this nature are premature. Decisions to decommission or repurpose network infrastructure must only occur under explicit government policy guidelines, supported by safety regulations, consumer protection, and economic transition mechanisms. Networks cannot, and should not, act unilaterally in the absence of clear legislative and policy authority.

AusNet therefore supports the AEMC in maintaining the current framework and focusing on:

- Consistent regulatory interpretation and application of existing tools to new gas network challenges;
- Transparent, evidence-based application of depreciation rules to manage price paths; and
- Clear delineation between policy direction, regulatory authority, and network accountability.

Our objective is to promote an orderly, customer-centred transition — one that safeguards reliability, affordability, and safety, while maintaining confidence in the integrity of Australia's regulatory system. We welcome dialogue and innovation to deliver the best outcomes for customers in the long term.

We look forward to continuing constructive engagement with the AEMC and other stakeholders throughout this review. Please do not hesitate to contact me at moyo.tian@ausnetservices.com.au with any questions about this submission.

Sincerely,

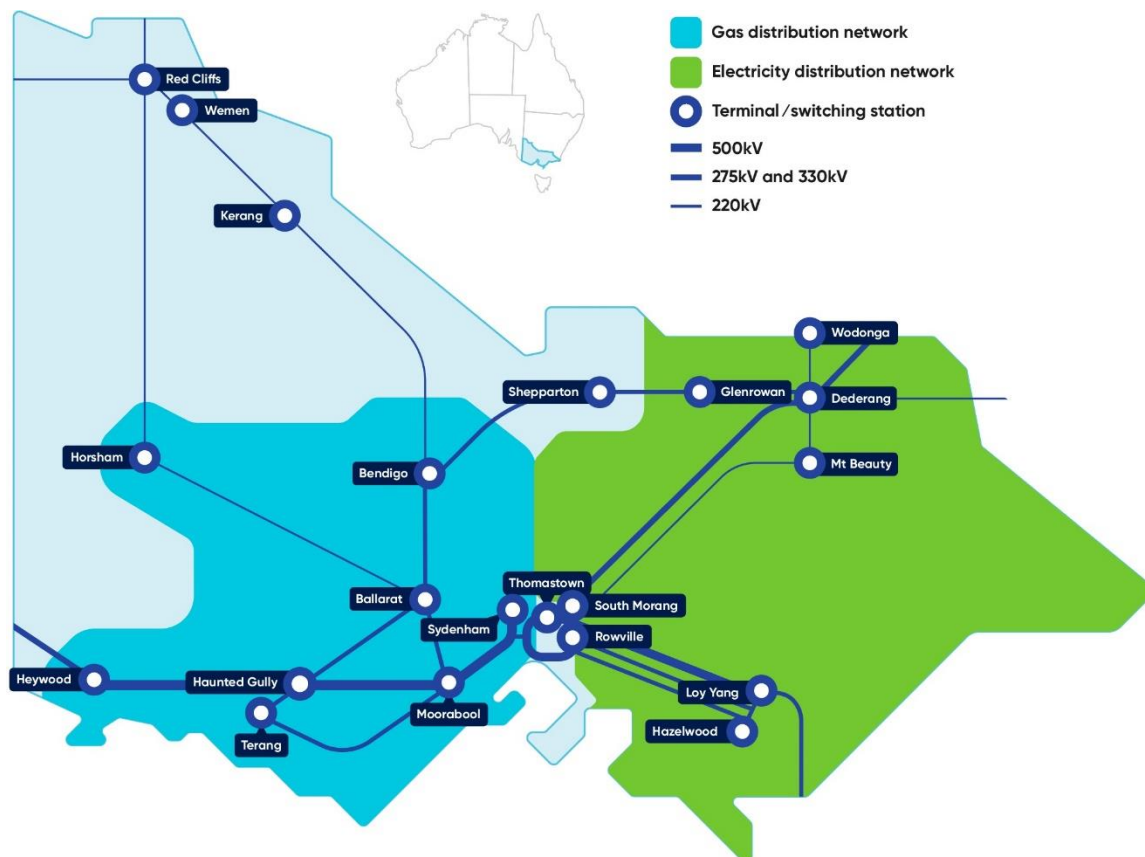


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About AusNet

AusNet is the largest diversified energy network business in Victoria—we own and operate three regulated networks: electricity distribution, gas distribution and the state-wide electricity transmission network, delivering energy to more than six million Victorian households and businesses. As owners and operators of both gas and electricity distribution infrastructure we have a unique perspective on the challenges and opportunities unfolding due to changing customer energy profiles through the transition.

AusNet's gas network supplies affordable, safe and reliable energy to over 820,000 homes and businesses across western and central Victoria, including the outer-northern and north-west metropolitan areas of Melbourne and major population centres, such as Geelong, Ballarat and Bendigo. Approximately 4 in 5 households in our service area are connected to the gas network.



Contents

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1. Challenges for gas distribution networks

1.1. Changing demand

Customer behaviour and jurisdictional policy are driving changes in demand for gas distribution networks. In the past years, AusNet's gas network is experiencing several trends:

- Customer behaviour across appliance preferences and usage trends is reducing residential demand.
- Policy in Victoria will stop the network from growing and require electrification of some uses for gas.
- Energy efficiency and changing weather patterns, to a lesser extent, are also contributing factors.

Existing and incoming policies are key drivers of these trends. From 2024, the Victorian Government restricted gas connections for new residential dwellings requiring a planning permit, and from 2025 introduced upfront charging for new gas connections. From 2027, all residential and commercial gas connections will be banned, gas hot water boilers must be replaced with electric ones when they break, and rental providers must electrify gas hot water and gas heating when they break.¹

Customer behaviour is also changing for both new and existing customers. Customers continue to choose to connect to AusNet's gas network, including through 2025 despite the introduction of upfront charging in Victoria.² We observe that new connections are 24% less likely to install gas heating versus historical trends. Existing customers are also changing their usage, with over 75,000 of our customers likely to have electrified their heating in the last five years.³

While weather was historically the primary driver of trends in gas demand, these consumer patterns are the largest contributors to lower gas demand in recent years. Improved energy efficiency of appliances and buildings continue to play a minor role in lowering energy usage.

Declining demand is likely to impact network users because of several factors, including:

- Expenditure will continue to be necessary to operate and maintain the network (see section 2.2), the costs of which are spread across a smaller number of customers;
- The cost of unpaid past investments is shifted to remaining customers;
- Adjustments of depreciation schedules to due shorter than expected economic lives increase near-term prices for current customers (accelerated depreciation).

These impacts, if unmanaged, are not in the interests of gas network customers in the long term, particularly those who remain on the network through no fault of their own. Industrial customers who have no near-term options to electrify and households who cannot afford the upfront cost of electrification will be disproportionately impacted. Those who have the options, means, and preference to leave the gas network – or required by policy to reduce their usage – will not bear the impact of their choice to depart.

1.2. Economic asset stranding

The outcome of these impacts could be that – at a certain point – networks are no longer able to charge the regulated building block price for the reference services provided to its users. This is economic asset stranding: the primary challenge the gas regulatory framework must address. In its information paper *Regulating gas pipelines under uncertainty* from 2021, the AER defines economic asset stranding:

With the prospect of a shrinking customer base and increasing competitiveness of alternative energy sources, regulated gas businesses face a risk that they may not be able to recover the costs of their efficient investments. There is a risk of network assets becoming economically stranded.

Stranded assets are investments that are no longer able to earn an economic return prior to the end of their economic life as assumed at the investment decision point. Their economic life may be curtailed due to either changes in technology, regulation, market changes, or some combinations of these.⁴

This is the most pressing challenge to address because of the significant impact early action has on long-term customer outcomes. If a jurisdiction is facing material risk of declining demand, the number of connected customers will begin to decline and reduce rapidly. Consequently, the average cost borne by those customers remain who increases, unless

¹ Victorian Building Electrification policy announced as part of the Gas Security Statement, June 2025.

² From 1 January 2025, the Victorian Essential Services Commission's new Gas Distribution Code of Practices requires all connections to be paid fully upfront. The cost of a basic connection (for most residential customers) in AusNet's region is \$1,960 plus GST (July 2025 – June 2026).

³ AusNet analysis of AusNet residential customer usage from 2019 to 2024. Please contact us for further discussion of this analysis.

⁴ AER, *Regulating gas pipelines under uncertainty*, November 2021, p.25.

the service provider materially reduces its operating expenditure and/or its capital base. The magnitude and steepness of these price impacts can be moderated if the service provider aligns the depreciation trajectory and network usage by setting depreciation at higher level while the network has many customers and reducing it as customers leave. This manages the cost impact on the remaining customers and continues to provide the service provider with a reasonable opportunity to recover its network investment, in accordance with the revenue and pricing principles.

2. Target outcomes for gas networks through an orderly energy transition

2.1. New scenarios

Although reasonable minds will differ on their extent, gas networks must now contemplate new scenarios to promote an orderly transition for gas networks. These are, at the highest level:

- (1) **Continue ongoing operations:** Gas is an essential service, and it will be for decades to come. Our priority is to maintain safe and reliable supply for any customers connected to the network, both current and future. This involves ongoing expenditure, including operational expenditure to operate, maintain, and support our customers, as well as replacement or augmentation capital expenditure to support safe and reliable services. While the objective remains the same, gas service providers should begin to consider whether new approaches to achieve these outcomes are appropriate. This includes trade-offs between capex and opex solutions, as well as consideration of any impact the utilisation of the asset has on the asset management approach.
- (2) **Repurposing infrastructure where possible:** As recognised in the recent Energy and Electricity and Industry sector plans, renewable gases like biomethane can play a key role to decarbonise industry, especially for hard-to-abate processes that require high temperatures and complex production methods. If existing infrastructure can be to carry renewable gas, this would lower the total cost of the energy transition for consumers.
- (3) **Decommissioning assets where no longer needed:** While gas will continue to play a role in the energy system, we understand the role gas networks play and the shape of the asset may change. Where ongoing operations or repurposing is not viable, and the stated policy direction is towards network closure, networks may need to consider potential decommissioning of network assets that are no longer needed. Any such approach must consider different approaches to remediation to maximise safety and minimise costs.

Policymakers will drive the energy system towards a particular mix of outcomes to achieve jurisdictional targets. We consider that the most likely outcome through the transition is not that each network will follow a single scenario, but that a combination of scenarios will play out across different parts of a single network.

2.2. Expenditure in new scenarios

Each scenario requires expenditure by networks. As such, there is significant value for gas customers and the wider energy system from policy driving an efficient combination of scenarios and regulation incentivising an efficient approach to each scenario.

Ongoing operational expenditure will remain largely fixed, despite lower customer numbers. This is because most of our operating costs are proportional to the size of the network and the number of regions we service. We estimate only less than 10% of our operating costs in our current AA are directly proportional to customer numbers, notwithstanding any significant regional closures in the future.⁵

Replacement expenditure has been a significant driver of capital expenditure for AusNet in recent AA periods as we have undertaken major safety and integrity programs on our assets. We are looking to reduce this through mature our approaches to prioritising replacement expenditure on a risk and performance basis. However, over the coming decades, this replacement expenditure will still be significant over the coming decades for AusNet to maintain a safe and reliable service.

We believe that a decarbonised gas network can play a vital role in the future energy mix and that keeping this possibility open is in the best interests of our customers and Victoria as a whole. Networks may consider funding connections to renewable gas producers through the regulatory regime, as proposed by Jemena in its most recent AA.⁶ Even where connections are fully funded by producers, there may be other expenditure required to manage the operational control for a renewable gas facility, or for compression to enable reverse flows. The rules cannot

⁵ AusNet analysis of our 2023-2028 Gas Access Arrangement Revision operating expenditure allowance.

⁶ Jemena Gas Networks, [Access arrangement 2025-30](#), 14 May 2025.

discriminate against this expenditure. However, the regulator should rigorously scrutinize it in the context of jurisdictional circumstances to determine if funding through the regulated regime is in the long term interests of consumers.

At the same time, it may be the case that assets or sections of the network become disused and must be safely decommissioned. The current criteria on expenditure forecasts requires the AER to accept costs only if they are reasonably expected to be incurred in the relevant AA period. Consequently, recovering decommissioning costs through the regulatory framework is theoretically possible but practically challenging since costs are incurred when too few customers remain.

Clear measures to recover costs will support networks and governments to proactively plan and enable equitable recovery. Decommissioning costs should be explicitly included within the regulatory framework for gas networks as the sector transitions, in some jurisdictions, to the phased closure of the gas network.

2.3. The role of regulatory reform

The regulatory framework through the energy transition must target the National Gas Objective (NGO):

The objective of this Law 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 AEMC may only make a Rule if it is satisfied that the Rule will or is likely to contribute to the achievement of the national gas objective.

As discussed, policymakers will drive the energy system towards a particular mix of outcomes. Unless there is policy which provides clarity on the physical outcomes for the gas network required to achieve jurisdictional targets, the regulatory framework should remain neutral. It should provide tools that can accommodate the diverse outcomes emerging across jurisdictions. These tools should incentivize efficient investment and disincentivizes overinvestment across the range of new scenarios outlined in the previous sections.

3. The regulatory compact

As an essential service, AusNet has built the network over decades with long term investments. These investments were consistently made despite stable low returns because the regulatory regime clearly defines the opportunity for capital recovery of efficient costs through customers tariffs.

The AER describes this 'regulatory compact':

The national gas regulatory framework in the National Gas Law (NGL) and National Gas Rules (NGR) essentially provides that, in exchange for supplying safe and reliable gas network services to customers at a reasonable cost, regulated gas businesses should be provided with, amongst other things:

- a reasonable opportunity to recover at least the efficient costs the service providers incur in providing reference services;*
- effective incentives to promote economic efficiency with respect to reference services the service provider provides;*
- a return commensurate with the regulatory and commercial risks involved in providing the reference services.⁷*

The reasonable opportunity to recover at least its efficient costs is central to the operation of the regulatory framework, included in the revenue and pricing principles:

A scheme pipeline service provider should be provided with a reasonable opportunity to recover at least the efficient costs the service provider incurs in—

- (a) providing reference services; and*

⁷ AER, [Regulating gas pipelines under uncertainty](#), November 2021, p.27.

(b) complying with a regulatory obligation or requirement or making a regulatory payment.⁸

The regulatory compact is not a guarantee of cost recovery. Rather, it requires that the service provider be given a reasonable opportunity to recover the costs that have been identified as the efficient costs of performing regulated functions. This reflects the ex-ante nature of revenue and price regulation under the NGL / NGR and recognises that, even where a reasonable opportunity has been provided by the regulator, a service provider may not fully recover all its efficient costs. This reflects the nature of the regulatory framework as a balanced and enduring arrangement that supports the investment in, and provision of, essential services in the public interest. It follows that no rule should foreclose a reasonable opportunity for service providers to recover their efficient costs.

The principle of being provided with a reasonable opportunity to recover efficient costs should therefore be applied consistently and predictably at multiple levels of decision-making by the AEMC designing the regulatory framework in the NGR, and by the AER when applying the NGR. Specifically, and without limitation:

- it must be taken into account by the AER when exercising a discretion in approving or making those parts of an AA relating to a reference tariff;
- the AER must have regard to it (among other matters) when making a rate of return instrument;
- the AEMC must take it into account when making a rule relating to the economic regulation of scheme pipelines.

In all cases, the cost recovery principle is one of several principles that must be considered in these decisions. It is not discretionary and must be given appropriate weight when determining whether regulatory changes or decisions are consistent with the NGO.

AusNet considers that the proposals by the JEC and the ECA on asset redundancy and accelerated depreciation would endanger the opportunity to recover gas distribution network service providers' efficient costs and therefore would be inconsistent with the revenue pricing principles and the regulatory compact that underpins the regime. This is discussed in further detail in section 4.

In the next section, we address our observations and concerns regarding the proposed rule changes by the ECA and the JEC. We consider these rule change requests in two groups:

- ECA's request on depreciation and JEC's request on accelerated depreciation and redundancy
- ECA's requests on capital expenditure and planning requirements.

4. ECA's and JEC's proposals on accelerated depreciation and capital redundancy

4.1. Accelerated depreciation

We consider ECA's request on depreciation and JEC's request on accelerated depreciation and redundancy amount to alternative approaches to manage the core challenge of economic asset stranding.

Accelerated depreciation remains the most suitable option to manage economic asset stranding. This is the practice of adjusting economic lives under rule 89 to reflect market circumstances, such as jurisdictional energy policies, or by adjusting the rate of depreciation to create a front-loaded profile, rather than a flat depreciation profile over time.

Under the NGR, regulatory depreciation is determined by:

- the level of efficient capital expenditure that is incorporated into the RAB (conforming capital expenditure).
- the economic life or the time taken until the asset is fully depreciated.
- the depreciation profile or pattern of depreciation over time.

The NGR leaves it to service providers to design and propose the schedule that it considers is consistent with this objective and the remaining depreciation criteria. This approach is approved by the AER through the AA revision process every five years. These subrules indicate that the NGR expressly contemplates situations arising which warrant varying the depreciation profile due to the market circumstances. The AER has recognised the need to balance the effect on both sides when adjusting the depreciation schedules, considering consumers' willingness to pay and the regulated business' incentives to invest.⁹

⁸ National Gas Law, section 24(2).

⁹ AER, [Regulating gas pipelines under uncertainty](#), November 2021, p.30.

Accelerated depreciation remains the most suitable option to manage economic asset stranding because it:

- **Allows networks and regulators to take early action:** By enabling early action, accelerated depreciation helps mitigate long-term risks while preserving the integrity of the existing access arrangement process. Other mechanisms, including the proposed asset redundancy provisions in the JEC proposal, will necessarily delay action on the impact of changing economic asset lives.
- **Maintains flexibility should conditions change:** Accelerated depreciation is a practical and adaptable mechanism to respond to changes in market conditions, including policy. It allows networks to adjust recovery profiles time to time, as necessary to reflect changes in economic asset lives. This flexibility is critical during the energy transition, where the pace of change and trajectories for demand can change rapidly. This is not possible in ECA or JEC proposal which effectively trigger permanent write-downs of the networks' asset base.
- **Accommodates different jurisdictional pathways:** Regulators have approved accelerated depreciation for service providers experiencing a range of market conditions. The AER acknowledged that levels of accelerated depreciation should reflect the outlook and strength of policy signals in different jurisdictions. This approach respects differences in transition pathways while providing a common framework for managing economic stranded asset risk. The ECA and JEC proposals cannot apply broadly across this range, since they require a range of conditions consistent with a clear network decline and government-defined shutdown to be true before the regulator can approve accelerated depreciation.
- **Maintains consistency with international best practice:** International regulatory practice demonstrates that accelerated depreciation is a widely accepted, legitimate and effective tool for addressing economic asset stranding risk. The case studies in Appendix A demonstrates jurisdictions facing similar decarbonisation challenges are adopting this measure to balance customer equity, price stability, and effective incentives. Meanwhile, no jurisdiction is applying the premature mechanisms proposed by the proponents.

Contrary to the problem statement presented by the ECA and JEC, accelerated depreciation does not represent an inappropriate transfer of stranded asset risk entirely onto consumers. Under rule 89(1)(d), each asset can only be depreciated once, meaning that accelerated depreciation necessarily reduces future regulated revenue rather than increasing overall recovery.

Recent adjustments to economic lives in access arrangements have accelerated only a small proportion of the existing RAB for gas distribution networks. Consequently, existing consumers currently bear only a limited share of economic stranding risk, with the greater share of the risk retained by future consumers and networks. We consider that adjusting depreciation schedules to reflect expected economic lives across pricing periods is a more practical and flexible approach than attempting to proportion risk precisely between investors and customers while the speed and extent of demand decline remain uncertain.

Importantly, we agree with the view of the AER that accelerated depreciation, on its own, cannot solve the full range of physical and financial challenges posed to gas networks through the energy transition. That a residual risk of asset stranding remains is not a tenable justification for the AER limiting legitimate updates to depreciation schedules. It remains the best way to:

- Protect customers' long-term through early action on stabilising long-term risk.
- Enable networks to continue managing the network safely and reliably for as long as it is needed.
- Provide networks with a reasonable opportunity to recover costs deemed efficient in previous AA decisions.

Stabilising the long-term price, recovering sunk costs and managing the impacts of a network that is declining are best addressed while the customers for which the sunk investment was made remain on the network. Putting off decisions around sunk cost recovery for some future point is no longer tenable – it is markedly unfair to knowingly place most of the recovery on the future customer base, most likely to be those that are least able to transition through no fault of their own.

4.2. Implementation concerns on the JEC's rule change proposal

Additionally, we do not consider the JEC's proposal on asset redundancy can be practically implemented.

First, it is not practical to model which specific assets within the network could become redundant as demand declines. While we undertake long-term customer and demand modelling to support our expenditure proposals, how the transition will unfold across regional attributes remains highly uncertain. This uncertainty is compounded by the ongoing evolution of policy settings, technology adoption rates, and customer behaviour, all of which influence network utilisation. As a result, any attempt to pinpoint redundant assets at this stage risks being speculative and potentially inaccurate, leading to poor decisions which materially impact prices and investment signals for consumers and service providers, respectively.

Second, determining the precise value of these assets in the RAB presents another major challenge. The RAB contains growth and replacement assets with varying ages, partially depreciated due to different depreciation schedules and capital contributions. Disaggregating (recreating) these values to isolate the value of specific streets or regions would be administratively burdensome and costly, which is not in the best interest of customers. Further, it is unclear the extent to which historical upstream augmentation or connecting assets should be included in the value deemed redundant. As such, there is a clear cost to customers from requiring service providers to attempt this exercise.

5. ECA's proposals on capital expenditure criteria and planning

We consider ECA's requests on capital expenditure and planning requirements amount to proposed solutions to achieving the lowest cost to consumers to transition to a particular physical end state, including across some of the new scenarios proposed in section 2.1. While we agree that there are new solutions that must be considered through the transition, many of these scenarios can be properly assessed through the existing review of capital expenditure by the AER, and the burden of proof on the service providers to present consistent plans which support the long term interests of consumers. We support additional data sharing where it carries clear value for stakeholders and are working to voluntarily publish network data to support collaboration on new approaches.

5.1. Capex criteria

We interpret the rule change proposals on capital expenditure criteria and planning are in pursuit of ultimately:

- Reducing the additional cost to customers of additional capital expenditure in the future
- Promoting planning for new scenarios, either by gas distributors or as identified by stakeholders

These are both pursued under the implicit assumption that all gas networks will undertake a significant shutdown of parts of the gas network.

Many of the issues perceived can be addressed through the existing framework, including:

- Rigorous assessment of efficient capex, including consideration of alternative, lower cost options
- Limitations of the regulator to consider implications of declining demand
- Lack of information provided to stakeholders to input into regulator's considerations

The AER has the tools to examine service proposals and require additional rigorous assessment of expenditure to determine efficiency. While there is no requirement to consider alternatives to investment or lower costs, the regulator is empowered to propose, through regulatory questioning and in the draft decision, that the service provider provide additional evidence to support expenditure proposals, if it considers these are not justified.

On the other hand, it is not appropriate for the regulatory framework to explicitly include impacts of declining demand, as long-term demand forecasts are specific to a jurisdiction and may change over time. Service providers are already incentivized to align expenditure proposals to relevant demand forecasts. Many gas distribution networks, including AusNet's reopener, have already proposed lower capital investment in recent access arrangements.

5.2. Planning and policy clarity

Adapting the framework to manage some scenarios, such as ceasing supply to existing gas customers, cannot be contemplated without clear policy direction. No jurisdiction has defined a policy direction with sufficient clarity to progress broad economic framework reforms, new safety regulations, and strong consumer protections required to manage such a scenario. Policy clarity is required in advance of changes to the National Gas Rules to accommodate these scenarios, even if this will be necessary to some extent in the future.

The Commission, in the consultation paper, considers case studies for regulatory approaches other jurisdictions are taking to manage demand uncertainty. We urge the Commission through this process to also consider how policy direction, ownership of service providers, and overlapping service areas between gas and electricity influence the regulatory approaches possible for the future of the gas system.

For example, in some states in the United States (Massachusetts, Colorado, and California, not included in Appendix A of the consultation paper), gas utilities are required to include consideration of 'non-pipeline alternatives' as part of

their rate cases.¹⁰ This is similar to the intention behind the ECA capital expenditure rule change proposal. Critically, many utilities in the United States own overlapping gas and electricity networks, allowing an integrated perspective on planning, cross-fuel investment optimisation, and customer experience that is not possible in nearly all service regions in Australia. Importantly, utilities commissions in these jurisdictions carry both policy- and rule-making powers.

As an additional example, in the UK gas distribution network case study (included in Appendix A of the consultation paper), the Commission references the policy paper issued by the UK government on 30 June 2025 on the midstream gas market. This statement is as an example of what 'policy clarity' could look like in Australia to support further work on reforms required to regulate gas networks in transition.¹¹

In the meantime, we encourage stakeholders and service providers keen to consider new approaches that are not possible in the current regulatory framework to propose these as trial projects to understand the potential costs and benefits for consumers. Where regulatory hurdles exist today, these could be overcome through a trial waiver, in accordance with the innovative trial principles. In advance of engagement on our Gas Access Arrangement Review 2028 – 2033, beginning in 2026, AusNet is open to hearing proposals from our stakeholders and communities keen to trial new approaches.

5.3. Transparency

AusNet actively shares data with stakeholders in response to any inquiries and to promote decision-making on the future of gas networks. In addition to quarterly reporting on gas connections, disconnections, and dormancy through the AER, we regularly share gas usage insights with government and other stakeholders. Through our unique perspective operating both gas and electricity networks in Victoria—although non-overlapping—we are working together to identify electrification trends, understand the impact on both networks, and use this to inform better forecasting for the coming periods.

We also actively support working with stakeholders to understand new approaches to managing the gas network. We are currently working with the State Electricity Commission (SEC) to support community engagement to accelerate electrification and avoid a minor gas augmentation in the township of Ballan, Victoria, originally planned in our 2023-2028 access arrangement. Although at a small scale, this approach could be deployed at a wider scale to avoid other areas of inefficient gas expenditure.

We have also shared data and collaborated on the approach for Brotherhood of St. Lawrence's Balancing Act research. This project, funded by ECA, is investigating the potential for strategic decommissioning of sections of gas networks which become unused. This includes a cost benefit framework, social research on community sentiments, safety considerations, with the aim of promoting a more coordinated approach.

6. Other related issues raised by the AEMC

The Commission considers additional regulatory tools may be required, including changing the length of access arrangement periods, reference tariff variation mechanisms, or other mechanisms to manage unforeseen events.

All these mechanisms may need to be deployed, and it is already possible for the AER to make these decisions under the existing regulatory framework. However, the regulator must consider jurisdictional circumstances when deciding to use these tools. They will not be appropriate to use in all jurisdictions, and it must also remain possible to react to changes in jurisdictional circumstances as the transition unfolds.

An orderly transition will require all parts of the energy system to collaborate on new challenges. AusNet is committed to working with our customers, policymakers, and regulators through these new challenges. We are open to dialogue, new ideas, and testing approaches to promote the best outcomes for our customers and the energy system.

¹⁰ Massachusetts [Department of Public Utilities Issues Order 20-80](#), December 6, 2023.

California Public Utilities Commission, [Decision Adopting Gas Infrastructure General Order](#), Rulemaking 20-01-007, November 30, 2022.

Colorado Public Utilities Commission, [Commission Decision Adopting Rules](#), Proceeding No. 21R-0449G, December 1, 2022.

¹¹ Department for Energy Security & Net Zero, Policy paper, [Midstream gas system: update to the market](#), 30 June 2025.

A. Appendix: Consultation questions

A.1. Questions on proposed scope of the project

Question 1: What are the issues impacting consumers and gas distributors under the energy transition?

AusNet proposes the review should be anchored in the specific challenges the regulatory framework may face through the energy transition for gas networks — as outlined in Section 2.1. Across these scenarios, most pressing challenges can be managed through the existing tools in the regulatory framework. Until governments define the long-term future of reticulated gas and renewable gas pathways, rule amendments of this nature are premature.

A.2. Questions on ECA's and JEC's rule change proposals

Question 2: What changes, if any, should be made to the NGR capital expenditure criteria?

No changes are required to the expenditure criteria. The existing criteria contain sufficient flexibility for the AER to adapt as circumstances change. This does not mean network capital expenditure proposals should not change – service providers must continue to underpin their plans with evidence-based justification and engagement.

Question 3: Are any changes required for operating expenditure?

The current definition for operating expenditure is fit for purpose. Expenditure increasing long-term demand for pipeline services may not be appropriate in all jurisdictions due to the policy direction set by jurisdictional governments; however, it should not be removed from the rules.

As discussed in section 2.2, decommissioning costs should be recognised in the regulatory framework to allow early provision for these in cases where there is a clear government mandate for network closure.

Question 4: Does the current framework effectively manage and allocate risk and costs between consumers and network service providers in the context of uncertain demand?

Yes, please see discussion in sections 3 and 4.

Question 5: How does ECA's proposal impact the recovery of capital costs for new and existing assets?

AusNet considers that the proposals by the JEC and the ECA on asset redundancy and accelerated depreciation would endanger the opportunity to recover gas distribution network service providers' efficient costs and therefore would be inconsistent with the revenue pricing principles and the regulatory compact that underpins the regime.

Please see discussion in sections 3 and 4.

Question 6: How does JEC's proposal impact the recovery of capital costs?

AusNet considers that the proposals by the JEC and the ECA on asset redundancy and accelerated depreciation would endanger the opportunity to recover gas distribution network service providers' efficient costs and therefore would be inconsistent with the revenue pricing principles and the regulatory compact that underpins the regime.

Please see discussion in sections 3 and 4.

Question 7: Are new planning requirements necessary?

While we support data sharing where it delivers clear benefits, the additional planning requirements proposed at this stage do not serve the long-term interests of customers. As the benefits proposed by the proponents relate to specific physical outcomes for the network, these may be more appropriate to consider on a jurisdictional basis. We are working with our stakeholders, including government and regulators, to voluntarily publish network data to support innovation and transparency applicable to the policy settings and the pace of the transition in Victoria.

Please see discussion in section 5.2.

A.3. Other issues that may impact the effectiveness of the overall economic regulatory framework

Question 8: Would a longer-term outlook on the gas transition support better regulatory decision-making?

What do you consider would be the costs and benefits of requiring service providers to provide demand and expenditure forecasts over a longer period than the relevant access arrangement period? What would be an appropriate longer-term period (e.g. 10, 15 or 25 years)?

Service providers are already incentivised to provide demand forecasts over a long-term period to support proposals which affect customers in the long-term, such as changes to depreciation schedules. All service providers who have requested accelerated depreciation have provided such forecasts.

AusNet considers long-term expenditure forecasts are not in customers' best interest due to the additional capacity required for our engineering teams to prepare, at additional expense or reprioritised from current projects or near-term plans. We do not consider there is benefit for customers for service providers to prepare these.

Question 9: Are changes to reference tariff variation mechanisms necessary?

Please see section 6.

Question 10: Are changes to the tariff rules necessary?

Please see section 6.

Question 11: Should the regulator be able to require shorter or longer access arrangement (AA) periods?

Please see section 6.

Question 12: Are changes required to the re-opener provisions?

In response to this question, we discuss learnings from AusNet's GAAR (2023-2028) Reopener, including reflections of the outcomes of the re-opener provisions, and links between the process and the rule change proposals.

On 30 September 2024, AusNet submitted a Variation proposal to our approved 2023-28 Access Arrangement ('GAAR Reopener') in response to new policy announcements by the Victorian Government since the AER's final decision on its 2023-28 access arrangement period, released on 2 June 2023. This included restrictions on new residential connections, full upfront charging for all new gas connections, and new proposed consultations on appliance bans.

In response to these material changes in long-term outlook in our jurisdiction, we submitted a lower demand forecast for the period, along with lower expectations of new connections and related new connections capex. Given the implications of material changes in the long-term outlook on economic asset stranding, we proposed an increased amount of accelerated depreciation AusNet could recover from customers over the 2023-28 period from A\$105 million to A\$175 million. The AER considered that the variation proposal was material in October 2024.

On 31 January 2025, the AER released its draft decision not to accept the variation proposal. The core reasons proposed included that the revised demand forecast, following adjustments to assumptions by the AER's consultants, was immaterially different to the demand forecast in the 2023 final decision. Other reasons included that proposed changes in opex were accounted for in existing allowances and tariff variation mechanisms.

On 14 March 2025, AusNet wrote to the AER accepting the draft decision. While we maintain that our Variation Proposal provided strong evidence to vary our accelerated depreciation decision, we acknowledged the AER's preference to assess these matters in the next full review.

The GAAR reopener process highlighted challenges in the current approach to apply accelerated depreciation for gas networks, including:

- The limitations of the re-opener criteria to respond to new policy which materially impacts long-term changes in circumstance, but which may not materially impact the current AA period.
- The issues in the 'real price path' approach, including:

- The inflexibility to translate evidence-based changes in economic stranding risk into changes in depreciation schedules. An approach with a clear relationship between long-term risk and ultimate accelerated depreciation decisions could be more responsive to unavoidable change.
- The unintended consequences for service prices with lower starting prices. AusNet, due to past efficiency, was given the same price path as our peers in Victoria, meaning that we are recovering a smaller proportion of our capital base in comparison, despite facing the same risks. Differential price paths must be accommodated to ensure all businesses have a fair opportunity to recover.

The result of the limitations in the reopener criteria and the issues in the current approach resulted in delaying action to manage economic asset stranding risk. This will have significant consequences for consumers in the coming period. Including specific variation triggers as part of an AA decision could support the regulatory framework to better manage policy changes within a period which do not have a material in-period impact but require early action to manage material impacts to long term consumer interests.

Additionally, we observe several elements of our reopener which are relevant to the ECA and JEC rule change proposals. Our revised proposals included:

- Removal of all remaining augmentation expenditure to reflect materially lower long-term demand;
- No new connections capex, reflecting new regulations to require upfront gas charging;
- No capex associated with renewable gas; and
- Voluntary consideration of new approaches to further minimise capital expenditure, through our trial to avoid a gas augmentation in the township of Ballan, without policy requirements to do so.

This demonstrates the existing flexibility in the regulatory framework to allow networks to propose alternative approaches in the context of changing jurisdictional circumstances.

Question 13: Should there be changes to the existing or additional incentive mechanisms?

No, the existing incentive mechanisms remain appropriate and are flexible enough to accommodate the anticipated changes in demand through the energy transition.

Question 14: Could the proposed changes inefficiently incentivise pipeline elections?

AusNet does not own any non-scheme pipelines.

Question 15: What can we learn from other jurisdictions/sectors?

Please see the discussion of other international examples from the United States and the United Kingdom in section 5.2.

A.4. Proposed Assessment Criteria

Question 16: Assessment framework

AusNet agrees with the proposed assessment criteria.