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Gas Networks in Transition Directions Paper

AGL Energy (**AGL**) welcomes the opportunity to respond to the AEMC's *Gas Networks in Transition: Directions Paper* (**Directions Paper**).

Key points in response to the Directions Paper

- AGL strongly supports a **customer-first approach**, with a particular focus on consumers unable to electrify. Transition costs disproportionately borne by a shrinking residual customer base would be inequitable and inconsistent with the National Gas Objective. Instead, unavoidable legacy costs should be absorbed and smoothed by gas networks through appropriate regulatory tools to mitigate bill shock and regressive outcomes.
- AGL supports reforms to **clarify and strengthen** the regulatory treatment of depreciation, inflation, redundant and reused assets. We support accelerated depreciation being used only as a **temporary, evidence-based tool, with clear safeguards and limits**.
- AGL encourages the AEMC to explore a **bond-style or sinking-fund mechanism** to align incentives for gas network owners to operate networks safely and reliably through to closure. Under this approach, accelerated depreciation receipts could be recoverable only if defined operating and decommissioning standards are met.
- AGL supports **tightening capital and operating expenditure provisions** by removing assumptions of demand growth, requiring robust quantitative justification, and ensuring expenditure is efficient and necessary under demand uncertainty. Network spending should be limited to what is required to **safely operate networks for as long as they are needed**, and then to decommission them.
- AGL welcomes clearer guidance on reference tariff design, consistent with principles that tariffs be **simple, fair, actionable and customer-centric**.
- AGL acknowledges the AEMC's decision not to include a decommissioning framework in this Directions Paper but urges continued work with jurisdictions and stakeholders to address the regulatory gap and develop clearer guidance to enable an orderly transition.
- AGL emphasises the need for **government leadership and clarity** on electrification policy, timelines and expectations for gas network decommissioning.
- AGL contends that policy and regulatory changes arising from this Directions Paper should **exclude gas transmission pipelines**, given their distinct role in maintaining peak capacity, system security and reliability as average demand declines.

AGL supports reforms that help customers electrify, save money, and reduce emissions. Our goal is to connect customers to a sustainable future by supporting their efforts to decarbonise how they live, move, and work. Electrification is the most likely decarbonisation pathway for residential consumers and is a key enabler for the

industrial, transport, and other sectors to achieve net zero emissions. Where electrification is not feasible, AGL supports the development of low-carbon alternatives such as biomethane to support the transition to a low-carbon economy.

As noted in the Directions Paper, AEMO's 2025 Gas Statement of Opportunities projects a 70% decline in distribution-connected residential and commercial gas demand over the next 20 years, with a 30% reduction expected in the next decade. Considering this, we agree that elements of the current regulatory framework are no longer fit for purpose and must evolve to reflect declining demand.

As outlined in our previous submission to the AEMC's *Consultation Paper on Gas Distribution Networks: Connection and Permanent Abolishment Charges*, we encourage the Commission to prioritise stakeholder engagement—including with network owners, operators, and customers—to develop a coordinated approach to managing gas assets with declining utilisation.¹

Investment decisions must reflect changing demand and customer preferences. A key challenge will be balancing risks between consumers and networks. Ensuring a fair allocation of fixed costs among remaining gas users is essential to achieving the National Gas Objective (NGO). As network utilisation declines, fixed costs may need to be recovered from fewer customers, potentially impacting those unable to electrify or reduce consumption.

Cost recovery concerns should be assessed against principles of efficiency, equity, reliability, security, and environmental sustainability, and should be informed by robust evidence. The AEMC should also ensure that any changes to the gas regulatory framework align with broader energy market reforms and support the transition to a low-carbon economy.

Importance of Customer Centric Approach

The Directions Paper reflects a material shift from an expansion-oriented regulatory framework toward one that explicitly recognises long-term demand decline and the need for an orderly, equitable transition for consumers. This shift is particularly important for consumers who are unable to electrify due to structural constraints such as rental tenure, apartment living, heritage overlays or affordability barriers. Evidence consistently shows that these cohorts are disproportionately lower-income and disadvantaged, and therefore least able to respond to price signals or avoid rising gas network charges through fuel switching. Government has a key role to play here, which we discuss further below.

In this context, placing a greater share of transition costs onto gas networks, rather than accelerating tariff impacts on a shrinking residual customer base, supports the NGO by mitigating bill shock, reducing regressive outcomes and ensuring access to essential energy services during the transition. Network-led absorption and smoothing of unavoidable legacy costs, supported by appropriate regulatory tools, is therefore critical to preventing inequitable outcomes while demand decline is managed in a customer-centric manner.

Requiring a longer-term outlook

The Commission's proposal to require service providers to develop a 20-year outlook would improve transparency about how pipeline capacity, tariff structures and investment decisions are expected to evolve over time. We consider this requirement would be strengthened by explicitly requiring networks to develop multiple scenarios, including stress-testing against faster transition pathways, rather than relying solely on a policy-neutral or status quo base cases.

However, application to transmission pipelines is not appropriate in the way it may be for distribution networks. Demand decline would likely overweight short-duration system critical peaking demand.

¹ For further information, please see [AGL's submission](#) to the AEMC's *consultation paper on Gas distribution networks: Connection and permanent abolishment charges*

Transmission pipelines are increasingly required to demonstrate higher peak flows over fewer hours which is not well captured by long term average throughput. If access arrangement proposals are required to demonstrate tight consistency with long range demand outlooks, the necessary pipeline augmentation for peaking and firmness may be judged as inconsistent with declining annual demand.

In preparing and assessing the 20-year outlook, transmission pipelines should be explicitly excluded, in recognition of the requirement to meet peak and system-security driven demand, recognising that declining average throughput does not necessarily imply reduced capacity requirements.

Reform capital cost recovery

AGL supports the Commission's proposal to clarify and strengthen the regulatory treatment of depreciation, inflation, and redundant and re-use of redundant capital. In particular, AGL supports enabling earlier and more transparent use of these tools where demand is declining, to better align cost recovery with asset utilisation, mitigate the risk of sharper price increases later in the transition, and preserve incentives for the safe and reliable provision of services.

With respect to accelerated depreciation, AGL supports its use as a temporary, evidence-based regulatory tool where policy and demand conditions justify it, and only where appropriate safeguards are in place to limit consumer impacts and allow for reassessment if transition pathways materially change. Accelerated depreciation cannot be relied upon indefinitely to manage stranded-asset risk. As demand declines and depreciation accelerates, higher network charges increase gas bills, driving customer switching and further accelerating demand decline. If charges rise beyond the effective customer switching threshold, accelerated depreciation risks triggering a disorderly contraction of gas networks, to the detriment of both consumers and network businesses. It is therefore in the interests of all parties that accelerated depreciation be applied only within clear, proportionate and well-defined limits.

We also consider that a bond-like mechanism could help align incentives for gas networks to operate toward an orderly decline, while still providing confidence that assets will be operated safely and reliably. As the RAB declines, a substantial bond or equivalent financial mechanism may be necessary to reduce incentives for owners to exit early and socialise costs after profits have already been recovered. One option could be to direct accelerated depreciation into a sinking fund, recoverable by the owner only as they meet defined operating standards through to closure and progressively through decommissioning.

Finally, AGL notes the importance of ensuring that the final framework remains sufficiently flexible to reflect jurisdiction-specific circumstances, recognising that each state and territory faces different conditions and is at a different stage of the transition away from gas.

Tighten capital and operating expenditure rules

AGL supports the proposed amendments to the capital and operating expenditure provisions, as they would strengthen regulatory discipline, improve transparency, and better align expenditure assessment with the long-term interests of consumers in the context of uncertain and declining demand.

In particular, AGL supports the Commission's proposal to amend the capex and opex provisions to:

- remove implicit or explicit assumptions of ongoing demand growth;
- require robust, quantitative justification for all proposed capital expenditure; and
- ensure that approved expenditure is demonstrably efficient, necessary and appropriate having regard to uncertainty in demand trajectories and the potential for structural decline.

Given the current forecast decline in gas demand, networks expenditure should be limited to only what is absolutely required to safely operate the network for as long as it is needed, and then to decommission it.

Improve reference tariff design

AGL welcomes the Commission's proposal to provide clearer guidance under the National Gas Rules (NGR) to support the development of efficient and appropriate tariffs across a range of energy transition scenarios.

AGL has consistently advocated for tariffs to be designed in accordance with the principles of being simple, actionable and fair, and has emphasised the importance of customer-centric design to ensure tariffs are understandable, equitable, and supported by tools that enable customers to respond effectively.

Decommissioning framework

AGL agrees with the Commission that clear regulatory guidance on decommissioning would support an orderly energy transition, and that there is currently a gap in the regulatory framework. As acknowledged in the Directions Paper, many provisions of the NGR were developed on the assumption of stable or growing demand and were, in part, intended to support demand growth. Under the current framework, customers in most jurisdictions generally have a right to connect to the gas network, while service providers have limited rights to disconnect customers, typically only in circumstances such as non-payment or safety concerns. As a result, networks are effectively prevented from disconnecting customers for the purpose of decommissioning, even where continued operation is no longer efficient or viable.

As highlighted in the Directions Paper, decommissioning a gas network is a complex, multi-phased process involving a range of interrelated activities that require coordinated national and jurisdictional action. National reform in this area is inherently complex given the fragmented and uneven pace of electrification across states and territories, with differing policy commitments, investment settings, building standards and consumer protections driving divergent gas demand trajectories.

Considering this complexity, AGL understands the Commission's decision not to include a decommissioning framework as part of the Directions Paper. However, AGL strongly encourages the Commission to continue engaging with jurisdictions and service providers to progress work on an appropriate framework to support the orderly and efficient decommissioning of gas networks.

Role of government

AGL considers that governments have a critical role in providing clear and coordinated policy direction on electrification and the future role of gas, including transparent timelines, requirements, and pathways for the potential decommissioning of gas networks.

To enable residential and small-business electrification at pace and at scale, sustained government leadership and support are essential. Appropriate incentives, regulatory frameworks, and policy settings are required to ensure electrification is a feasible and affordable alternative for consumers and to facilitate an orderly and equitable transition away from gas.

In particular, governments should:

- continue to introduce and expand incentives, regulatory frameworks, and policy settings to help address the barriers faced by consumers who are unable to electrify due to structural constraints such as rental tenure, apartment living or affordability.
- develop high-level guidelines or standards addressing matters such as which equipment may be left in situ, site remediation obligations, customer safety requirements, and clear delineation of responsibilities.
- commission studies to quantify the expected costs of decommissioning individual distribution networks, noting that such estimates would need to be updated over time.



Governments also have a critical role in providing clarity on which parts of the gas network are likely to be required, and for how long. This would help define the expected life of individual networks and provide greater certainty around what network expenditure is genuinely required.

Finally, it is essential that governments and regulators actively engage with stakeholders—including network owners, operators and customers—to develop a coordinated and transparent approach to managing gas assets under conditions of declining utilisation.

Distribution Networks vs Transmission Pipelines

Any policy or regulatory changes arising from the Directions Paper should explicitly exclude gas transmission pipelines. While AGL acknowledges that there are transition-related issues relevant to transmission assets, these should be considered separately rather than within the scope of the current Directions Paper.

Transmission assets play a fundamentally different role in the energy system to distribution networks, including the need to maintain sufficient capacity to meet short-duration but critical peaking demand, support system security, backstop electricity reliability during high risk periods and store and transport any additional gas supplied to the East Coast Gas Market by means of the domestic gas reservation policy. These requirements are expected to persist—and in some cases intensify—even as average gas demand declines.

Despite an expected decline in total demand, a greater reliance on peak capacity and firm transport will be required to support gas fired generation and further renewable penetration. Transmission pipelines have also been subject to material regulatory uncertainty following the 2023 pipeline reforms which has significantly delayed planned and necessary expansion investments across the system. Further reforms that increase stranding risk or apply distribution focused transition mechanisms to transmission assets, would risk undermining investment certainty and system resilience.

A clear and deliberate exclusion of transmission pipelines is therefore necessary to avoid compounding regulatory risk and to ensure that assets essential for peak supply and system reliability remain viable and investment continues throughout the transition.

Should you have any questions in relation to this submission, please contact Leilani Kuhn (Policy Manager) on 03 8633 6934.

Yours sincerely,

AGL Energy

[About AGL](#)

Proudly Australian since 1837, AGL delivers around 4.6 million gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. AGL operates the largest electricity generation portfolio in Australia of any ASX-listed company, with a total operated generation capacity of almost 8000 MW across Australia. AGL is Australia's largest privately-owned hydro power station operator and operates the largest portfolio of renewables and storage assets of any ASX listed company. Since 2006, AGL has invested billions of dollars in the construction and delivery of over 2 GW of renewable and firming capacity in the National Electricity Market.