PO Box 7182
Cloisters Square WA 6850
Tel: +61 8 6163 5400
atco.com.au

30 April 2026

Geoffrey Rutledge
Chief Executive
Australian Energy Market Commission (AEMC)
submitted via website: www.aemc.gov.au
Reference: GRC0082

Dear Mr Rutledge

Re: Gas Networks in Transition Directions Paper

ATCO welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) *Gas Networks in Transition* Directions Paper, prompted by rule change requests from Energy Consumers Australia and the Justice and Equity Centre. We acknowledge and commend the AEMC's extensive engagement with stakeholders and its efforts to consider a wide range of views in shaping the proposed reform directions.

Clarity in regulatory change needed to support investment confidence

The initiation of this broad review has created uncertainty for network service providers. While the Directions Paper recognises the importance of preserving incentives for service providers to continue investing in safe and reliable networks, many of the proposed changes introduce greater regulatory discretion and uncertainty around the future recovery of efficient capital.

Changes to the regulator's role in areas such as accelerated depreciation, treatment of inflation, and capital redundancy mechanisms increase perceptions of regulatory risk. Proposals by AEMC to balance the interests of all stakeholders and address concerns of a growing regulatory asset base by incorporating the use of additional tools to manage inflation through nominal modelling is acknowledged and supported. However, use of the concept of a "switching price" to place constraints in the regulatory framework is highly subjective. This uncertainty undermines confidence that service providers will have a reasonable opportunity to recover efficient costs over time.

Service providers are best placed to manage their assets and are already constrained by market pressures and existing incentives to operate them efficiently. The rules framework must continue to provide flexibility and maintain relevance for the operating environment in which ATCO delivers its services. Clear guidance on the reforms and transitional arrangements will be needed to maintain confidence for efficient investment in the future and during the transition period.

Proposed reforms heighten asset stranding risk and shift the risk balance

The proposed changes fundamentally alter the risk profile for gas networks. The existing framework was designed on the assumption that gas networks would operate in perpetuity and did not include mechanisms to contemplate and compensate for asset-stranding risk. The introduction of proposed reforms for redundant capital cements this stranding asset risk and creates an immediate, tangible concern for networks.

Many historical gas investments were made to meet reliability, access, coverage or public policy expectations at the time. The current (and proposed) framework does not provide offsetting compensation for this new risk, leaving networks exposed to financial uncertainty that was not contemplated when the regulatory regime was originally established. There may be unintended consequences to the proposed direction of AEMC changes which may have implications to the Rate of Return Instrument that have not been considered in parallel.

The National Gas Objective requires consideration of more than price

The reform package places a strong emphasis on managing price trajectories and mitigating price-driven customer exits. While important, this sole focus on price does not fully reflect the broader dimensions of the National Gas Objective, including quality, safety, reliability, security of supply and emissions outcomes. Customers should have the ability to choose the energy option that best meets their needs, and this may not be driven by price.

The Directions Paper recognises that declining demand may create cost-cutting pressures that impact service providers' incentives or ability to maintain networks and invest in safety-critical assets. Proposed reforms do not clearly articulate how the framework will ensure that expenditure minimisation does not unintentionally compromise safety, security of supply or emissions outcomes over the long-term. Further, it does not recognise the value that customers may place on non-price considerations in maintaining their gas connections.

Given the long-lived nature of gas assets and their interaction with other parts of the energy system, stronger articulation of how these non-price outcomes will be protected would improve confidence that the reforms support the full suite of customer interests, not just price alone.

Jurisdictional differences will shape transition pathways

The Directions Paper acknowledges that jurisdictions are on different transition pathways, reflecting variations in government policy, customer preferences, availability of alternatives and the potential role of renewable gases. These differences will materially influence the pace of demand decline and the timing of stranding risks.

While the proposed reforms aim to apply consistently across pipelines, the uniform regulatory approach may not sufficiently accommodate these jurisdictional differences. Networks experiencing growth but still facing uncertainty may wish to accelerate their depreciation profile, and the framework must remain flexible enough to allow. There is a risk that reforms calibrated to manage rapid decline in some jurisdictions could be inappropriate or inefficient in others where demand declines more gradually or where policy settings continue to support a role for gas and renewable gases.

For example, the Net Present Value test remains relevant in Western Australian, where gas demand continues to grow, and costs can be spread over a growing customer base. The rule framework should remain flexible and proportionate to differing jurisdictional circumstances to support an orderly transition across all regions.

About ATCO

ATCO is a global integrated energy, housing, transportation, and infrastructure company that has been operating in Australia since 1961. Our Australian footprint includes the ownership and operation of Western Australia's largest natural gas distribution network and power stations in Karratha, WA and Osborne, SA. We have a long history of partnering with communities and Indigenous groups, energising industries, and delivering customer-focused infrastructure solutions.

Should you have any queries or would like to discuss any of these issues further, please contact Kiran Ranbir, Principal Policy Advocacy on 0432 158 656.

Yours sincerely

John Ivulich
Chief Executive Officer and Country Chair

ATTACHMENT 1 ATCO RESPONSE AEMC GAS NETWORKS IN TRANSITION

1. PROPOSED PACKAGE OF REFORMS

KEY MESSAGES

- ATCO supports AEMC's broader approach in considering the ECA and JEC rule change proposals. However, we have several concerns with the underlying assumptions and the basis for the proposed direction.
- Declining demand should not be treated as a uniform national trend only driven by price.
- The CEPA modelling is too narrow to justify the proposed reforms.
- The proposed reforms may not suit networks experiencing growth.

1.1 What are stakeholder views on our assessment of the proposed direction and how it better promotes the NGO and is consistent with the RPP, in comparison to the status quo and the ECA and JEC rule change proposals?

ATCO supports AEMC's broader approach in considering the ECA and JEC rule change proposals. The Directions Paper is thorough in its analysis and appropriately acknowledges the role of governments, regulators, service providers and consumers in managing the risks of the energy transition. We also welcome the AEMC's acknowledgement that accelerated depreciation is not a transfer of costs and risks to consumers, but a legitimate means to recover capital invested affecting the timing of recovery.[1]

ATCO has several concerns with the underlying assumptions and the basis for the proposed direction.

1. **Declining demand should not be treated as a uniform national trend driven only driven by price.**

   ATCO remains concerned that the directions paper assumes declining demand is a given across Australia and that consumers use of the gas network is only driven by price. This overlooks the non-price value that gas networks provide and the evidence that consumers value choice in energy options.

   ATCO's own market experience, supported by AEMC's projections of increasing volumes and connections, shows that demand in Western Australia (WA) continues to grow.

   Our initial response to the consultation paper in October 2025 indicated that price was not the only driver in a consumer's energy decision[2] and consideration of other factors need to be addressed by AEMC.

2. **The CEPA modelling is too narrow to justify the proposed reforms**

   The CEPA modelling uses price as the sole determinant for the "switching point", which then becomes the foundation for several proposed rule changes. This approach has limitations:

   - The "switching point" is a new concept which is not defined in the NGR, yet it is being used to justify critical reforms relating to redundant capital, accelerated depreciation, nominal modelling and standalone costs. Greater clarity is needed on its calculation and application, as both can be subject to debate. Basing regulatory decisions on a subjective concept of switching point is not appropriate and could be challenged.

[1] AEMC Gas Networks in Transition Directions Paper p 23

[2] https://www.aemc.gov.au/sites/default/files/2025-11/20._atco_-_grc0082_cp_submission.pdf

- Calculating a precise switching point figure is very difficult, due to the precise forecasting of energy prices is highly uncertain and contestable.

- If a switching point is used to set a cost ceiling that constrains what service providers can charge, then networks are being regulated against a benchmark derived from forecasts that they have no ability to influence or verify. Instead of using switching points, observing ex-post market trends provides a more reliable and verifiable signal than modelled price forecasts.

- The NGO notes additional considerations beyond price, including quality, safety, reliability, security and emissions. These dimensions do not appear to be reflected in the modelling.

- Applying the workable competition concept may be flawed as some of the identified attributes to the market, flexible pricing and low barriers to entry, are not apparent for gas pipeline services.

- Importantly, CEPA's comparison of demand scenarios[3] shows minimal change in the timing of the switching point because of the proposed reforms, which weakens the case for significant rule amendments.

3. The proposed reforms may not suit networks experiencing growth

AEMC's proposed direction is largely framed around declining and uncertain demand. It is unclear whether the proposed rule amendments would continue to provide the flexibility needed for networks that are growing and investing to meet long-term consumer needs. ATCO is concerned that the reforms may unintentionally constrain efficient investment in jurisdictions where demand is stable or increasing.

[3] Gas Network in Transition: Modelling results, CEPA, p 21

2. IMPLEMENTATION CONSIDERATIONS

KEY MESSAGES

- **Transitional arrangements are essential** because several proposed reforms cannot be implemented by 2026 without creating material regulatory and investment risks.
- New forecasting, capital-recovery and expenditure-assessment requirements **must apply only to future AAs** to preserve regulatory certainty and avoid retrospective impacts.
- **The reforms will increase implementation costs**, and consistent long-term forecasting inputs from AEMO or regulators would help minimise duplication and consumer impacts.

2.1 Do stakeholders consider that there are any barriers to implementing our proposed package of reforms considering the planned publication of the final determination in December 2026? Do you consider some form of transitional arrangements are required for any element?

ATCO proposes that there are material barriers to implementing the proposed reforms by December 2026 and that transitional arrangements will be essential. Additionally, reforms should apply on a forward-looking basis only and must not retrospectively affect capital or expenditure decisions already made or approved under existing rules.

1. **Long-term forecasting requirements create implementation risks**

   The proposed reforms rely on 20-year outlooks, which are inherently uncertain. There is also a risk that hindsight or ex-post judgement could be applied to forecasts that were reasonable at the time. To manage this risk any longer-term outlook (or requirement to justify expenditure against a long-term outlook) should apply from the next full Access Arrangement (AA) reset, and not mid-cycle.

2. **Capital cost recovery reforms require clarity**

   The main barrier to implementing the capital recovery reforms is the lack of clarity on how and when partial redundancies would be determined, and the extent of regulatory discretion in these decisions. Any changes to capital cost recovery should apply only from the next AA period to avoid reopening past investment decisions.

3. **New expenditure assessment criteria should apply only to future expenditure**

   Revised expenditure assessments should only apply to new expenditure proposed in future AA periods. They should not apply to committed programs, previously approved expenditure, or ex-post reviews of the current AA period. Applying new criteria retrospectively would undermine regulatory certainty and investor confidence.

2.2 Do stakeholders consider there are any significant implementation costs associated with our proposed package of reforms that the Commission should consider?

ATCO considers the proposed reforms will create additional implementation costs. The requirement for expanded long-term modelling every five years will require more resources, and these costs will eventually be passed onto consumers.

The overall cost of producing long term outlooks may be eased by providing service providers with assess to consistent forecasting information already collected or produced by AEMO or regulators through their respective market oversight roles. This could also assist in minimising duplication.

3. APPLICATION TO TRANSMISSION AND DISTRIBUTION

3.1 What are your views on our proposed direction that reforms should apply to distribution and transmission pipelines (where relevant)?

No response

4. LONGER TERM OUTLOOK

KEY MESSAGES

- **A 10-year outlook is more proportionate and less uncertain than a 20-year requirement**, as assumptions beyond a decade become even more speculative and risk distorting regulatory decisions.
- **Long-term demand decline does not automatically reduce sustaining network costs**, and modelling must avoid creating unrealistic expectations of cost reductions.
- **A 20-year, scenario-based outlook materially increases regulatory complexity and cost**, with limited decision value and costs ultimately borne by consumers.
- **Forecasting relative energy prices is inappropriate** because gas networks cannot credibly predict electricity prices, technology costs or policy interventions outside their control.
- **Any long-term reporting obligation must clearly demonstrate consumer value** to outweigh the additional cost and administrative burden it imposes.

4.1 What are your views on our proposed direction to require service providers and the regulator to consider a longer-term outlook and longer-term consequences?

AEMC's proposed direction to include long term considerations within the existing access arrangement framework strikes a more proportionate balance than the ECA's suggested Gas Annual Planning Report but will still come with additional costs.

ATCO supports AEMC's objective to promote transparency, identify transition risks, and improve decision-making. Our support is conditional on the design and implementation of a long-term outlook requirement being targeted, proportionate and clearly value-adding for consumers. ATCO would prefer that a 10-year outlook be considered due to the inherent uncertainty in the later 10 years of a 20-year outlook given it will be linked to decision making on many aspects of the regulatory framework.

1. A 10-year outlook is more appropriate than a 20-year requirement

ATCO recommends a 10-year outlook rather than the proposed 20-year requirement given it will be linked to decision making on many aspects of the regulatory framework. Beyond a 10-year horizon, forecast assumptions become increasingly speculative and subject to challenge due to uncertainty in areas such as government policy, appliance regulation, technology development, fuel markets, and consumer sentiment.

Requiring service providers to model and report outcomes across long horizons risks embedding low-confidence assumptions into regulatory decision-making. This does not necessarily improve outcomes for consumers and may create a false sense of certainty around inherently uncertain futures.

A 10-year outlook, by contrast, strikes a more appropriate balance. It aligns with two regulatory periods and allows service providers to reasonably link forecasts to asset condition, safety obligations and known regulatory/policy settings.

2. A 20-year outlook risks creating self-fulfilling regulatory outcomes

Mandating a 20-year outlook with emphasis on long-term demand decline and price comparisons risks creating self-fulfilling regulatory outcomes. For example, if long-term modelling assumptions anticipate significant consumer exits, fuel switching or reduced throughputs:

- regulators may place greater weight on accelerated cost recovery or steeper price paths earlier
- higher near-term prices may then actively drive consumer exits, rather than simply respond to them
- this dynamic could accelerate the very demand decline the framework is seeking to manage.

AEMC has explicitly acknowledged this risk in its own analysis of feedback loops between prices and consumer exits. A longer forecasting horizon amplifies this risk by embedding speculative assumptions into regulatory decisions today.

3. Declining demand does not necessarily reduce network costs

While declining demand may result in a reduction in growth related capital expenditure (capex), there should not be an implicit assumption that declining throughput or utilisation will lead to materially lower sustaining costs over time.

For gas distribution networks in particular:

- A significant proportion of sustaining expenditure is driven by safety, integrity, compliance and asset condition, not volume throughput, e.g., a typical established network would require similar levels of sustaining capex and opex, regardless of whether consumer throughput decreases by 20% over 10 years.
- Even with declining volume, operation and maintenance requirements remain largely unchanged, i.e., risk of damage to the network will be the same.
- End-of-life replacement and integrity-driven capex do not materially reduce simply because less gas flows through the network.
- For brownfields networks, reduction in throughput will organically result in lower reinforcement expenditure. Note: Reinforcement projects refer to capital works required to ensure networks meet demand and maintain minimum pressures with organic growth (e.g., regulator set capacity upgrades or mains extension/upgrades). Network capacity is modelled annually with reinforcement projects only implemented on an as-required basis when capacity constraints are realised. Reduced consumer throughput will therefore result in a lower volume of reinforcement projects.

A longer-term outlook that encourages high-level extrapolation of declining demand risks may mischaracterise investment drivers. This has the potential to create unrealistic expectations of cost reductions that cannot be achieved without compromising safety and reliability.

4. Scenario-based planning is appropriate but increases complexity and cost

While AEMC's paper refers most explicitly to demand-based scenarios, ATCO notes that demand uncertainty flows through to all other elements of the framework, including asset utilisation, capital planning, depreciation profiles, redundancy risk and tariff outcomes. Over a 20-year horizon, relying on a single central view would not capture these uncertainties, and a range of scenarios would need to be established. For example, the WA GSOO's 'slower growth', 'step change', and 'accelerated transition' scenarios is a more robust approach. Our view is that adopting a scenario-based approach to the longer-term planning is the correct approach to adequately capture outcomes, however, creating multi-scenario models materially increases regulatory complexity and cost, with those costs ultimately borne by consumers.

5. Implementation costs may outweigh decision value

Extending asset management planning and financial modelling from 10 to 20 years would require:

- additional resourcing and increased modelling capability;
- extensive scenario development with low confidence assumptions subject to challenge; and
- increased administrative burden for both service providers and regulators.

The associated costs of this activity will not be borne by service providers in isolation and ultimately will be passed through to consumers via higher network tariffs.

Given the growing uncertainty beyond 10 years, the decision value of this additional modelling is low. ATCO considers this is inconsistent with principles of proportionality and good regulatory practice.

In summary, ATCO's recommended approach would be to:

- Adopt a 10-year outlook requirement, rather than 20 years.
- Ensure the framework recognises that declining demand does not, of itself, imply lower network costs or reduced capital requirements.
- Maintain a proportionate, evidence-based approach that supports long-term alignment without imposing unnecessary cost or complexity.

A disciplined, proportionate and evidence-based outlook will support informed decision-making and maintain focus on safety, reliability and efficient service provision for consumers who remain connected to the gas network.

4.2 Do you have any views on the information or analysis that should be included in a service provider's 20-year outlook?

ATCO considers that an outlook period of 20 years poses significant uncertainty and continues to recommend a 10-year horizon as a more practical and meaningful basis for long-term planning.

The indicative reporting requirements in Table A.1 are extensive. While ATCO already monitors some areas, such as forecast demand, other proposed disclosures, such as revenue requirement and reference tariffs, will be new requirements. The proposed long-term outlook will require consistent forecast information from AEMO or regulators to reduce duplication and lower the cost of preparing them.

1. Forecasting relative energy prices is inappropriate and impractical

ATCO strongly opposes the proposed requirement to forecast how delivered gas prices will compare with alternative energy sources over the outlook period. Gas networks are only one part of a broader supply chain and cannot reasonably be expected to generate forecasts on:

- electricity network pricing
- future costs of alternative technologies (e.g. electrification, storage, renewable fuels)
- policy interventions, subsidies or bans
- innovation and technology adoption rates.

These factors are outside the control of network service providers and highly uncertain over long horizons. Requiring service providers to assess the competitiveness of other utilities is an unjustified and onerous obligation that risks attributing external outcomes to gas networks.

2. Price comparisons alone do not reflect consumer decision making

Consumer energy choices are influenced by more than price. The NGO requires consideration of quality, safety, reliability and security of supply. A narrow focus on relative price competitiveness risks misrepresenting the broader value consumers place on gas supply.

3. Long-term reporting must deliver clear consumer value

Any new long-term reporting requirement needs to provide clear and measurable consumer value, which should offset the cost attributed to compiling the long-term view.

5. CAPITAL COST RECOVERY

KEY MESSAGES

- Service providers must retain autonomy to propose depreciation, inflation treatment and redundancy approaches, as networks are best placed to assess their own risk profiles and operating conditions.
- Redundant capital provisions carry significant and irreversible investment risks and must clearly distinguish economic stranding from physical stranding to avoid inappropriate regulatory intervention.
- Capital redundancy should only occur when genuine, observed economic stranding has materialised, not as a forward-looking tool to manage hypothetical switching behaviour or price trajectories.
- Regulators should not use redundancy mechanisms to pursue social policy objectives or estimate "switching prices," which are impractical, highly uncertain and risk regulatory error.
- Clear, simple and symmetrical criteria are required for any partial redundancy framework, ensuring capital is removed only when unrecoverable under observed market conditions and re-added when recovery becomes feasible.

5.1 What are your views on our proposed direction for capital cost recovery tools in the NGR?

ATCO supports AEMC's direction on the capital cost recovery framework and agrees that the framework needs to better accommodate uncertainty while continuing to promote the long-term interest of gas consumers.

However, ATCO has concerns that the full and partial redundancy provisions could have irreversible impacts on the network and investor confidence.

5.2 Do you have any views on the decision-making model options

ATCO considers that service providers should retain autonomy to propose the most appropriate approach to depreciation, treatment of inflation and redundancy provisions, based on the circumstances of their networks. For this reason, ATCO supports **Option B (network determines approach)** as the preferred decision-making model framework.

5.2.1 Depreciation and treatment of inflation?

1. Networks should determine the depreciation approach

ATCO supports AEMC's proposed changes on depreciation provisions of the NGR by removing references to demand growth with more neutral language and providing guidance on the circumstances on when accelerated depreciation should be used.

The current depreciation provisions give regulators broad discretion in their decisions with limited guidance. This has led to decisions to constrain network depreciation to balance the impacts of price increases against affordability for consumers.

AEMC acknowledge that networks are in a better position than regulators to make optimal decisions in depreciation schedules. ATCO proposes that the depreciation rules should be premised on accepting the network providers proposal.

2. No evidence of misaligned incentives under current practice

ATCO does not agree with the suggestion that networks have incentives to bring forward depreciation where there is no stranding risk. Nearly 30 years of regulatory practice shows that networks have consistently adopted long economic lives aligned with asset technical lives and expected demand. Short-term price pressures also discourage bringing forward cost recovery. This behaviour is consistent with the NGO, Revenue and Pricing Principles, and current NGR depreciation criteria, and there is no reason to expect it would change in the absence of stranding risk.

3. Neutral language better reflects current market conditions

ATCO supports replacing references to demand growth with more neutral language that recognises declining utilisation or emerging stranding risk. This is consistent with the ERA's final decision on ATCO, which demonstrated that accelerated depreciation can be applied in a targeted and justified manner under the existing framework, particularly where there is emerging risk around future demand and asset utilisation. AEMC's proposal to adopt more neutral language better reflects current market conditions while remaining consistent with established regulatory practice.

4. A nominal framework for inflation compensation provides flexibility under uncertainty

ATCO supports AEMC's proposal to introduce a decision point in the rules for how compensation for inflation is to be recovered. In an environment of demand uncertainty, a nominal approach is more appropriate to avoid deferring inflation compensation to future periods where fewer consumers remain.

Allowing a nominal (unindexed) approach effectively provides an alternative pathway to shift revenue and limit the inflationary add-back to depreciation, helping service providers manage stranding risk when flexibility on depreciation itself is restricted[4].

Further, the rules for the treatment of inflation should not mandate either a real indexed or nominal approach but instead allow for the service provider's proposed method to be accepted.

Finally, careful considerations should be made for the transitional mechanics from shifting from one framework to the next (i.e. PTRM into nominal) and that the correct RAB is carried forward and that there is no stranding of the asset base that investors are entitled to recover Grandfathering arrangements in the rules to preserve the value of the RAB prior to shifting from one framework to next will be needed .

5.2.2 Redundant capital provisions?

ATCO supports **Option B (network determines approach)** as the preferred decision-making model but has several concerns with the redundancy provisions proposed by AEMC.

1. Clear distinction is needed between economic and physical stranding

The issue addressed in the Directions Paper is economic asset stranding, not physical stranding. Economic stranding arises where competition from substitutes constrains prices below the level required to recover costs. This is distinct from physical asset stranding, where assets cease to be used before costs are recovered. The rules should clearly differentiate these concepts and be clear that economic asset stranding is the relevant concept for any redundant capital provisions.

2. Capital redundancy decisions should be proposed by networks, not imposed by the regulator

[4] Gas Network in Transition: Analysis of the AEMC's Proposals for Capital Recovery, Incenta Economic Consulting, p 20

Capital redundancy should remain a matter for the networks to propose. ATCO does not support Option D, which allows regulators to remove capital from the asset base independently of the network's proposal, represents a significant departure from the long standing regulatory compact and could introduce significant investment risk.

3. Existing tools available in the NGR manage declining volumes and stranding risk

Networks already have tools that can (and should) be used to manage declining volumes and economic stranding risks, through use of depreciation. AEMC acknowledges any use of redundancy should only be carried out after other considerations such as depreciation and moving into a nominal framework have been used.

4. Vulnerable customers require government support, not regulatory intervention

Customers who are unable to transition away from gas (i.e. vulnerable customers) will require government support rather than relying on network pricing to address equity concerns. Embedding social policy objectives into the NGR creates inefficient price signals. While network tariffs need to consider impacts on customers, the notion of vulnerable customers should be dealt with in a decommissioning framework, and not through the current directions on partial redundancies.

5. Greater clarity is needed on "last resort" intervention

The framework must clearly define:

- What constitutes a last-resort redundancy decision
- How much accelerated depreciation or inflation adjustment must be attempted first
- What are the implications of a switching point, noting that distribution networks are only a small part of the overall gas retail bill

Without clarity, network service providers may be deemed to have exhausted options prematurely, triggering unnecessary redundancy measures.

6. Re-adding capital is uncertain and asymmetric

While AEMC has proposed mechanisms to re-add previously removed capital, it is unclear whether these would operate effectively in practice. There is no clear symmetry between the thresholds or timing for removing and re adding capital. This creates a material downside risk for service providers while leaving any potential upside recovery highly uncertain.

5.3 In relation to our proposed direction for redundant capital, do you have any views on:

5.3.1 The materiality threshold that should apply to partial redundancy?

ATCO supports AEMC's direction that materiality should be observed ex post, once stranding risk has clearly materialised. However, ATCO is concerned about AEMC's assessment of materiality, which focuses on using redundancy provisions to prevent future inefficient prices, particularly prices that exceed what would prevail in a workably competitive market or contribute to price-driven consumer exit.

Under the current regulatory framework, service providers already have incentives to charge lower than reference tariffs when they face credible stranding risk. Capital redundancy should therefore be considered when 'revealed redundancy' is observed, i.e., when a service provider has been

setting prices below regulated levels over the previous AA period, and is reasonably expected to continue for structural (not transitory) factors[5].)

AEMC reasons that by making part of the value of the capital base redundant it will reduce regulated service prices, maintain demand, and keep consumers connected to networks for longer. This implicitly assumes that service providers would blindly charge regulated prices regardless of market circumstances. This is inconsistent with commercial incentives and competitive pressures. In practice, service providers would reduce prices to maximise cost recovery when facing market competition from substitutes. These existing incentives are already consistent with the NGO and Revenue and Pricing Principles and there is no need to use redundancy provisions to prevent inefficient pricing. The constraints that could apply to the regulator's use of partial redundancy?

ATCO considers that clear constraints are needed on the regulator's ability to apply partial redundancy.

1. Distinguish full vs partial redundancy (physical vs economic)

As noted above, AEMC should clearly distinguish between full and partial redundancy, with full redundancy referring to physical redundancy (assets no longer used) and partial redundancy to economic redundancy (assets in use, but unable to recover capital costs)[6].

2. Redundancy should not be used as a customer-protection tool

AEMC's proposed role for the regulator in making capital redundant appears to be a customer-protection tool premised on the view that service providers would not already have reduced service prices to levels necessary to retain customers. Decisions of the regulator are not necessary to prompt service providers to make efficient pricing decisions[7].

3. 'Switching price' concepts are impractical and risky

AEMC's suggestion that partial redundancy could align regulated prices with a "switching price" to electricity is not workable. In practice, estimating a switching price for gas and a corresponding net back price for pipeline services includes consideration of a large range of factors which will be difficult to predict. Switching behaviour varies widely across consumers due to:

- different perceptions of the gas prices that might motivate a switch
- different perceptions of gas vs electricity as substitutes
- appliance purchase and replacement cycles
- other non-price preferences and consumer choices

Attempting to estimate a single switching price would be highly imprecise and risks regulatory error[8]. Any threshold for redundancy needs to be based on economic measures that can be determined with precision as indicated in analysis by Incenta commissioned by Energy Networks Australia.

4. Risk of overshooting and undermining investment

It would be overly simplistic and risky for a regulator to be tasked with determining an amount of the capital base to be redundant simply based on equating a pipeline service price with a netback

5 Gas Network in Transition: Analysis of the AEMC's Proposals for Capital Recovery, Incenta Economic Consulting, p 30
6 Gas Network in Transition: Analysis of the AEMC's Proposals for Capital Recovery, Incenta Economic Consulting, p 26
7 Gas Network in Transition: Analysis of the AEMC's Proposals for Capital Recovery, Incenta Economic Consulting, p 30
8 Gas Network in Transition: Analysis of the AEMC's Proposals for Capital Recovery, Incenta Economic Consulting, p 30

switching price. Imprecision (and therefore errors) by regulators risks "overshooting" actual economic stranding with consequent risks for service providers in cost recovery and disincentives for new investment.

A clear objective for capital redundancy needs to be established, consistent with the NGO and Revenue and Pricing Principles. This could be, for example, adjusting the value of the capital base to align with the ability of the service provider to recover capital costs in prices for pipeline services under prevailing or observed market conditions[9].)

5. Redundancy should not be used to address vulnerable customer impacts

As noted in response to Q5.2.2, supporting vulnerable customers is a matter for government policy, not capital redundancy provisions.

6. Clear, simple criteria are needed

ATCO recommends establishing simple criteria consistent with the concepts of financial redundancy:

- Capital is removed from the RAB only when it is not recoverable under observed market conditions
- Capital is added back when it is recoverable
- Any amounts that are "parked" in the partial redundancy account should be carried forward at the regulatory WACC.

These principles provide transparency and symmetry while avoiding unnecessary regulatory intervention[10].

[9] Gas Network in Transition: Analysis of the AEMC's Proposals for Capital Recovery, Incenta Economic Consulting, p 30
[10] Gas Network in Transition: Analysis of the AEMC's Proposals for Capital Recovery, Incenta Economic Consulting, p 32

6. EXPENDITURE

KEY MESSAGES

- Capex assessment rules must continue to allow both quantitative and qualitative analysis, as many safety and environmental benefits cannot be meaningfully quantified in financial terms.
- Safety related capex should not be narrowed to "necessary for safe operation," as this conflicts with WA's regulatory requirement to continuously reduce risk in so far as reasonably practicable.
- Any amendment to capex justification for forecast demand must not restrict efficient network expansion or limit consumer energy choice in growing areas.
- The NPV test must be retained in WA because it is required in jurisdictions that are not party to NECF, supports efficient growth investment, and protects consumers by spreading costs across a growing customer base.
- The current operating expenditure definition is fit for purpose in WA and removing growth-related references risks may constrain investment needed to integrate emerging renewable gas markets.

6.1 What are your views on our proposed direction to amend the NGR capex provisions? For example:

6.1.1 Clarifying that service providers must justify all capex through a quantitative assessment of all credible options that support the provision of regulated pipeline services.

ATCO agrees that service providers should justify capex through a clear assessment of credible options. However, mandating a quantitative assessment in the NGR will require further clarification on level of analysis expected.

ATCO already conducts cost analysis for all reasonable options to demonstrate that the selected solution is in line with good industry practice while meeting the intent of the NGO. While cost comparisons can be quantified, the benefits of each option (e.g., safety, environmental outcomes) often rely on qualitative assessment unless robust data exists. Any rule change must allow both quantitative and qualitative analysis to be weighed together. ATCO would not support a requirement that only includes a quantitative assessment of benefits (e.g. associating dollar values to non-monetary benefits) due to the subjectivity of associating financial values with safety or environmental outcomes.

6.1.2 Amending the justification for safety-related capex to be necessary for the safe operation of pipelines and use of services in NGR rule 79(2)(c)(i).

ATCO does not support the proposed amendment to narrow the justification for safety-related capex and would prefer that no change is made to NGR rule 79(2)(c)(i). The proposed amendment risks misalignment with the regulatory safety obligations of gas network service providers.

In WA, regulations inherently do not permit network service providers to operate to a minimum or static safety threshold, and we are required to demonstrate that we are continuously reducing risk so far as is reasonably practicable. This obligation is embedded in:

- Gas Standards (Gas Supply and System Safety) Regulations 2000
- Work Health and Safety (WHS) legislation.

These frameworks require network service providers to:

- conduct ongoing assessment of risk and evolving risks
- implement reasonably practicable controls even where existing arrangements are ”technically compliant”
- adopt improvements where risk reduction is reasonably achievable.

Safety improvement is not discretionary and is an obligation under technical regulations. Improvements may be expected by safety regulators but not immediately trigger compliance breach. Limiting safety related capex to only that is “necessary for safe operation” risks embedding a threshold-based interpretation of safety that is inconsistent with other regulatory instruments for gas safety and WHS and contrary to public interest.

The potential consequences of adopting a narrower view on the justification of safety-related capex could create regulatory tension between economic regulation and technical regulation; as well as discourage proactive industry best practice safety investments.

6.1.3 Amending the justification for capex to maintain capacity to meet forecast (instead of existing) demand for services under NGR 79(2)(c)(iv).

The AEMC’s proposed amendment is not clear on how it would apply in practice. Prudent service providers already limit capex to what is necessary to meet peak current demand and only invest in additional capacity when constraints are realised.

It is unclear whether the proposed change could unintentionally restrict capex needed to support network expansion or consumer choice. For example, significant growth is expected around the suburb of Ellenbrook in metropolitan WA over the next 20 years. The connection of abutting networks will require significant capex and ATCO’s position is that the capex required to service this new demand must not affected by the amendment.

Basing capex decisions solely on forecast demand introduces uncertainty and may limit consumers’ ability to access gas where growth is expected but not yet realised. This would be inconsistent with the role of the NGR, which should not constrain energy choice or prevent efficient expansion where justified.

6.2 What are your views on the need for the NPV test in rule 79(2)(b)?

The Net Present Value (NPV) test in NGR 79(2)(b) must be retained because it is still relevant in WA.

1. The NPV test remains legally required in WA

Western Australia has not adopted the National Energy Consumer Framework (NECF) and continues to operate under a state-based regulatory framework[11]. As a result:

- The final determination on 11 December 2025 on the *National Gas Amendment (Updating the regulatory framework for gas connections) Rule 2025 No.4* does not apply in WA.[12]

[11] The Second Reading speech from the National *Energy Retail Law (South Australia) Bill 2010 (Hansard Daily: Legislative Council - Wednesday, November 10 2010)* states: *“The Customer Framework will be applied in all jurisdictions which are part of the National Electricity Market, namely, South Australia, Victoria, New South Wales, the Australian Capital Territory, Tasmania, Queensland and the Commonwealth by application Acts which apply the framework for the purposes of those jurisdictions.”* – Note Western Australia is not mentioned.

[12] Rule Determination National Gas Amendment (Updating the regulatory framework for gas connections) Rule 2025, Australian Energy Market Commission, p33

- The NGR as applied in WA through the National Gas Access (WA) Act includes Rule 79(2)(b). There remains the need to retain NGR 79(2)(b) in WA to ensure that the NGR is consistent and applicable to WA pipelines/networks.

Any change to implementing charges for connections is a policy matter for the WA Government, who have previously chosen not to adopt the consumer facing elements of the National Gas Rules.

2. The NPV test provides clear consumer benefits in a growing network

The NPV test maintains relevance and consumer benefits in WA as the network continues to grow. Growth allows for costs to be spread across a larger consumer base, and the NPV framework enables ATCO to demonstrate that new connections will have a positive net reduction in costs to all existing users of the network.

The ERA's recent decision on ATCO's Access Arrangement 6 (AA6) demonstrates the ongoing value of the NPV test. As part of this final determination, the ERA approved $178M of growth capex (greenfields capex)) after the ERA and their technical consultant scrutinised the NPV assessment provided by ATCO.

The ERA requires ATCO to maintain ongoing assurance that greenfields connections remain economically justified over the AA period, including where necessary revisiting NPV assessments as circumstances change. This expectation is reinforced through the ERA's ex-post review of capex under NGR 79. Together, these processes create a strong incentive for ATCO to ensure greenfields investments continues to satisfy NGR 79.

3. Removing the NPV test would disadvantage consumers and restrict energy choice

Removing or narrowing the NPV pathway would increase the likelihood that more connection-related costs would need to be recovered upfront through developer contributions, or builder/homeowner surcharges.

This would shift the cost of new gas connections in an already high-cost building environment. It would also shift connection decisions away from homeowners and towards developers, effectively reducing consumer choice, contrary to the WA Government's stated policy that they will not stop people from connecting to gas.

Research in WA shows strong, resilient demand for gas and clear consumer preference for energy choice.[13] Removing the NPV test would undermine these preferences and reduce gas access for new households.

6.3 What are your views on our proposed direction to amend the NGR opex definition?

ATCO does not support the proposed amendments to the NGR opex definition. The current definition is fit for purpose, supports the efficient provision of pipeline services, and remains appropriate for the WA market.

The WA market continues to experience growth in gas demand and amending the definition to reflect circumstances not present in WA may affect the delivery of pipeline services. ATCO acknowledges that the opex definition does not need to distinguish between renewable gas or other fuels. However, the development of markets for renewable gases like biomethane and hydrogen are still in their infancy. These markets have more dispensed production sources than natural gas and will potentially require new pipelines to enable their transport.

[13] Refer to Page 4 of ATCO's 30 October Gas Networks in Transition Submission on consumer choice and independent consumer research conducted by ATCO.

The current opex definition supports expenditure to develop the market for pipeline services, which is critical for integrating renewable gases into the network. Removing growth-related references from the opex definition could limit investment in initiatives that promote the adoption of renewable gases, which are important for the energy transition.

7. TARIFF ARRANGEMENTS

KEY MESSAGES

- AEMC's proposed changes to reference tariff arrangements are unnecessary and risk undermining the regulatory compact and flexibility already embedded in the current framework.
- Replacing cost-based pricing principles with behavioural constructs such as "switching points" is inappropriate, subjective and inconsistent with the role of LRMC, standalone cost and avoidable cost in NGR 94.
- Consumer impact considerations are already embedded in the WA framework, and further amendments risk imposing a one-sided, declining-demand lens that does not reflect WA's stable or growing market.
- No changes are required to NGR 97, as the current tariff variation provisions already provide sufficient flexibility for efficient and consumer-focused tariff design.

7.1 What are your views on our proposed direction for amending the reference tariff arrangements?

ATCO has concerns with AEMC's proposed direction to introduce greater prescription and justification requirements into the reference tariff framework. Any changes should consider the additional risks from other proposed rule changes, the differences between jurisdictional frameworks, the flexibility already embedded in the current rules, and the regulatory compact under which current tariffs were constructed. ATCO considers the current framework already addresses the challenges AEMC have raised. The proposed direction will:

1. **Remove flexibility and replicate existing disclosure requirements**

   Section 115 of the NGL already allows networks and users to negotiate access terms different from reference tariffs, and NGR 101E already requires disclosure of prices actually paid. The proposed new provisions are therefore unnecessary.

2. **Inappropriately link standalone cost to other energy sources**

   Using another energy source as a default cap on tariffs ignores existing mechanisms for responding to price competition. DCCEEW's 2023 public consultation on NGO amendments highlighted stakeholder concerns about ambiguity, complexity and information asymmetry in cross-sector comparisons – risks that AEMC does not appear to have addressed.

7.2 What are your views on our proposal to provide guidance on applying the concepts of long run marginal cost, standalone and avoidable costs?

ATCO does not support AEMC providing guidance on the application of long run marginal cost (LRMC), standalone and avoidable costs. The NGR 94 framework is robust, conceptually valid and remains fit for purpose under flat or declining demand.

1. **NGR 94 already provides a coherent hierarchy of pricing principles**

   LRMC promotes economic efficiency by informing consumption, investment and asset management decisions over time. Standalone cost and avoidable cost operate as upper and lower bounds to protect consumers from monopoly pricing and prevent cross-subsidisation between tariff

classes. Residual costs are recovered through tariff design in a manner intended to minimise distortions to efficient consumption.

2. **Replacing standalone costs with a "switching point" is inappropriate**

   The "switching point" is a modelled construct reliant on assumptions about fuel prices, appliance costs and payback periods. It is not defined in the NGR and should not be reframed as a behavioural price ceiling. Doing so creates a level of subjectivity that will arbitrarily limit service providers ability to set tariffs with flexibility.

3. **Consumer switching behaviour is multi-dimensional**

   While switching behaviour and competition from alternative energy sources may inform pricing incentives in some declining-demand contexts, they should not replace standalone costs as the governing constraint. Consumer energy decisions reflect willingness to pay and attributes such as reliability, safety and security of supply, not just relative prices.

4. **Network service providers cannot reliably forecast alternative energy prices**

   Service providers do not have access to reliable information on alternative energy prices or consumer switching decisions. Broader assessments of energy competition and fuel switching are more appropriately undertaken by governments and market bodies like AEMO.

5. **LRMC remains applicable even under declining demand**

   Established methodologies remain capable of producing meaningful LRMC estimates in declining demand scenarios. ATCO also notes that aspects of AEMC's reasoning appear informed by jurisdiction specific access arrangement assumptions premised on sustained demand decline. Regulatory guidance should not be generalised from circumstances that do not apply in all jurisdictions.

6. **Avoidable cost should remain a lower bound, not a tariff design objective**

   Reframing avoidable costs to test whether tariff revenue can be sustained during low demand periods risks overstating its role and distorting tariff design away from economic efficiency.

Overall, NGR 94 already provides a robust and flexible framework capable of accommodating evolving demand conditions. The issues identified by AEMC can be addressed through regulatory guidance rather than rule amendments that risk undermining the integrity of the pricing framework.

7.3 What are your views on our proposal to require service provider and the regulator to give greater consideration to customer impacts in setting tariffs and tariff variation mechanisms?

ATCO considers that service providers and regulators already have an obligation to consider consumer impacts in setting tariffs and tariff variations. AEMC's proposal risks creating an asymmetrical focus on declining demand scenarios that does not reflect WA's market conditions.

1. **Consumer impact considerations already exist**

   In WA, the ERA is explicitly required to consider the impacts of ATCO's proposed tariffs on small-use customers, including non-economic impacts. The existing WA framework already embeds a broader consumer-interest lens than a purely price-based assessment.

2. AEMC's framing is one-sided

The Directions Paper implicitly frames long-term consumer interest analysis through a declining-demand lens. In WA, where demand is stable or growing, this framing risks amending the rules with an asymmetrical lens.

3. No change is required to NGR 97

For reference tariff mechanisms, ATCO considers no change is required under NGR 97 as the current framing of the rule provides flexibility for all types of tariff variation mechanisms

8. INCENTIVE MECHANISMS

KEY MESSAGES

- The current incentive mechanisms in the NGR are already working as intended.
- Changing incentive mechanisms at a time where there are several major structural reforms in play would create unnecessary uncertainty.

8.1 Having regard to our proposed direction, do you consider there is a need for additional or modified incentive mechanisms for service providers?

ATCO does not consider that additional or modified incentive mechanisms are needed. The current mix of explicit and implicit incentives in the gas regulatory framework is fit for purpose and already supports efficient and safe service provision as demand becomes more uncertain during the energy transition.

1. Introducing new incentives now would add uncertainty

The reforms proposed in the Directions Paper will materially influence service providers' behaviour and introducing new or modified incentive schemes in parallel risks adding unnecessary complexity and regulatory uncertainty before the impacts of these reforms are understood.

2. The existing incentive framework is working effectively

In relation to explicit incentives, ATCO does not support making additional incentive mechanisms mandatory or materially expanding existing schemes at this stage. The current framework already allows incentive mechanisms to be proposed on a case-by-case basis, and observed outcomes, particularly ATCO's demonstrated efficiency performance, suggest this flexibility is working as intended.

3. Implicit incentives are becoming stronger under the proposed reforms

Implicit incentives, particularly stranding risk and demand risk, already provide strong discipline on investment and operational decisions. AEMC's proposed reforms, which include capital redundancy, will create an even more powerful incentive to avoid capex.

4. Timing concerns

AEMC has indicated that any suggested changes to incentive mechanisms would be considered at the draft determination stage. This would not provide stakeholders with adequate time to understand the implications of such changes. If AEMC wishes to explore incentive mechanisms further, this should occur later, after the effectiveness of these reforms can be assessed.

9. INAPPLICABILITY OF CEPA MODELLING TO WA GAS NETWORKS

KEY MESSAGES

- CEPA's demand scenarios are based on eastern states policy settings and decline trajectories that **do not reflect WA's growth outlook, regulatory environment or government policy**.
- **CEPA's switching-point methodology relies on unrealistic assumptions** about household gas bills and electrification costs, leading to overstated stranding and disconnection risks.
- **The illustrative networks, financial parameters and capex assumption used in CEPA's modelling do not make any reference to the unique policy, regulatory**, and customer preferences in WA, limiting the relevance of the modelling results for ATCO.

CEPA's modelling used in the Directions Paper reflects policy settings and service providers network characteristics in the eastern states, not WA. If the proposed rule changes are drafted based on the conclusions drawn out in the CEPA modelling report, the amendments risk lacking jurisdictional neutrality and being better suited to the different levels of demand decline occurring in other jurisdictions.

1. CEPA's modelling should include more Western Australian data to appropriately capture all jurisdictions

Given the proposed reforms are intended to apply across all jurisdictions, it is important that the supporting analysis appropriately reflects jurisdictional variation. AEMC's conclusions rely heavily on the CEPA modelling; however, that modelling does not include WA specific data. As acknowledged in the Directions Paper, demand trajectories, policy settings and transition pathways vary materially across jurisdictions, including Western Australia. In the absence of WA-specific calibration or sensitivity testing, there is a risk that the modelling does not adequately capture the characteristics of WA networks or customers. The AEMC should place less weight on the modelling when assessing reforms intended to apply uniformly across jurisdictions.

2. CEPA's switching threshold and modelling results are inapplicable to WA

The switching assumptions underpinning CEPA's modelling simplify household energy decision-making and do not adequately reflect how consumers assess the value of gas in practise.

- CEPA's modelling understates the role of non-price (value-based) preferences in consumer choice and potentially overstates the speed and likelihood of switching.
- Box 2[14] defines a switching threshold range of $2,461 to $3,000 (2025 prices), based on an AEMC-quoted average residential gas bill of $2,338 "*across all capital cities*". But the AEMC has clarified to ATCO that Perth was not included in the analysis underpinning this estimate. In 2025 the average household residential retail bill for ATCO's residential customers was $750, a fraction of AEMC's estimate.[15]

CEPA's assumptions lead to an overestimate of the speed and likelihood of households switching behaviour. ATCO considers that switching thresholds and related regulatory guidance should be applied with caution, especially in WA which was excluded from the analysis in deriving the switching threshold.

[14] CEPA Gas Networks in Transition: Modelling Results, Page 8

[15] This estimate is based on AA6 Final Decision average residential consumption and retail gas tariffs sourced from Energy Policy WA (available here).

3. CEPA's modelling results are inapplicable to ATCO

While the modelling is illustrative, ATCO considers the outcomes and conclusions are not representative under WA's framework and circumstances and should be applied with caution.

- The CEPA illustrative networks, regulatory parameters and capex assumptions do not reflect ATCO's network characteristics or the WA operating environment.
- The illustrative networks are based on RAB per GJ and % residential/commercial demand using data from eastern states networks (e.g. Evoenergy, AusNet, Jemena, Multinet, AGN). ATCO does not align with these profiles, limiting the relevance of the results.
- Key modelling inputs differ from WA settings: CEPA assumes a WACC of 6.5% and inflation of 2.5%, compared to the ERA's 2022 Rate of Return Instrument (6.99% WACC and 2.24% inflation). These differences affect both the level and timing of MAR recovery.
- CEPA assumes no new connections or augmentation capex (consistent with eastern states rules requiring upfront customer contributions), which is not applicable in WA.