

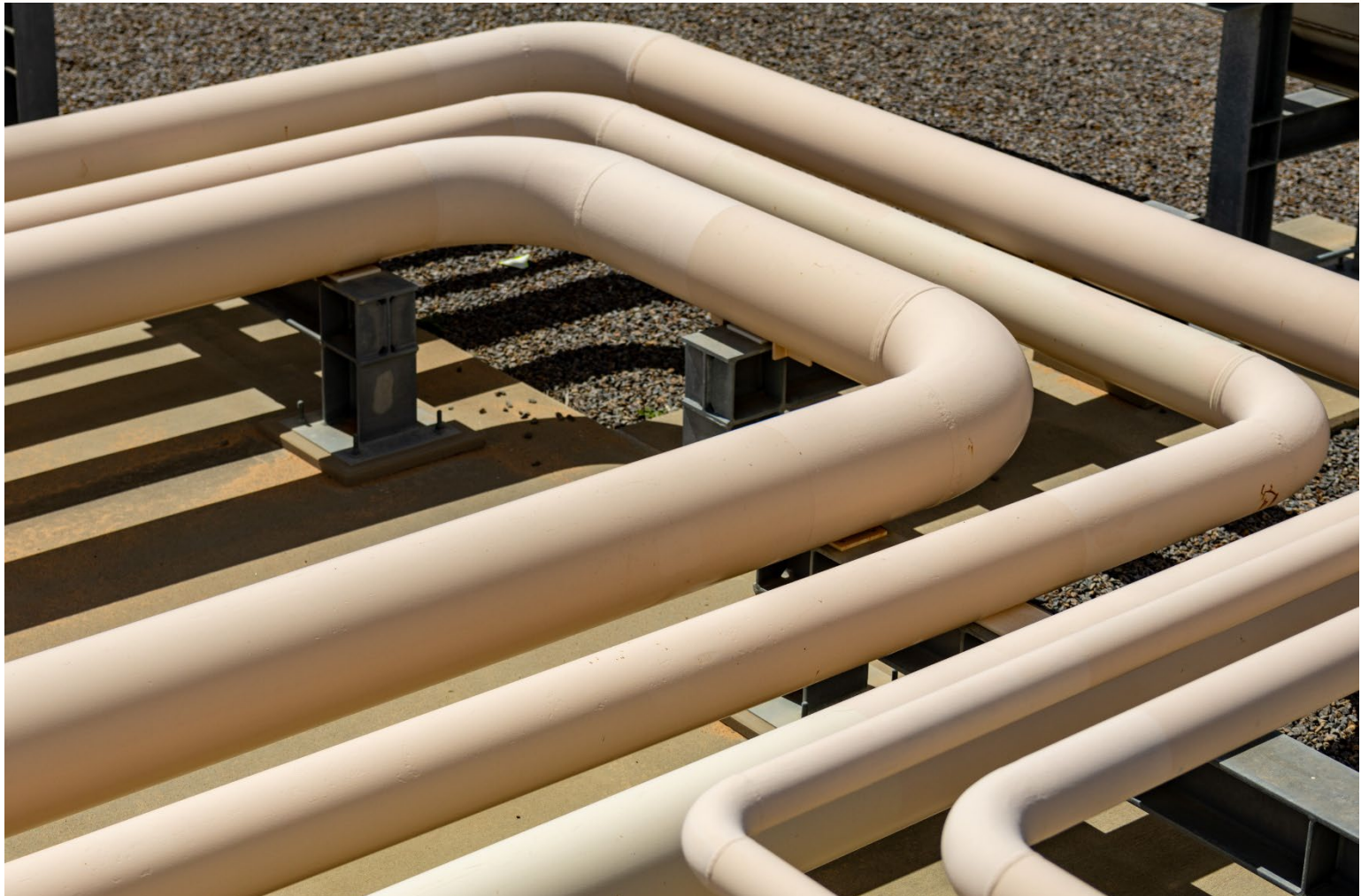
APA

Australia's energy
infrastructure partner

AEMC Networks in Transition Rule change package

APA Submission

30 April 2026



Anna Collyer
Chair
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
SYDNEY NSW 2000

30 April 2026

RE: APA Submission to the AEMC's Gas Networks in Transition directions paper (GRC0082)

Dear Ms Collyer,

Thank you for the opportunity to comment on the AEMC's Gas Networks in Transition (GNIT) directions paper (Directions Paper).

APA is an ASX listed owner, operator, and developer of energy infrastructure assets across Australia. Through a diverse portfolio of assets, we provide energy to customers in every state and territory. As one of Australia's leading energy infrastructure companies, we are keenly interested in policy processes that impact future gas supply and infrastructure development.

Gas infrastructure operators have a strong track record of delivering the necessary infrastructure to ensure customers have sufficient gas in the locations they need it. The proposed domestic reservation policy, announced in December 2025 as part of the Commonwealth Government's Gas Market Review, has improved investment signals for gas infrastructure investment.

Our submission below provides views on various aspects of the proposed framework.

First and foremost, it is essential that the GNIT framework supports market solutions and avoids inhibiting private sector investment.

Also, APA submits that it is inappropriate to apply a retail-based "switching point" concept to assess whether economic asset stranding has occurred for a transmission pipeline.

We look forward to continuing our engagement with the AEMC about these important reforms. If you have any questions about our submission, please contact Scott Young on 0435 968 631 or scott.young@apa.com.au.

Regards,

Natalie Lindsay
General Manager, Regulation and External Policy

1. Submission

Key Points







- accelerating depreciation is an important and useful tool to return capital to investors in the face of an uncertain demand future – and should be applied while load is high
- indexation of the capital base should not be mandatory
- the use of these tools should not be hampered by other constraints
- we accept that the NGL revenue and pricing principles do not provide an absolute guarantee that all prudently invested capital will be returned
- we accept that economic asset stranding is a feature of the national gas access regime – but it should not be applied lightly
- we accept that the GNIT reforms could apply to both distribution and transmission pipelines
- we are concerned over the application of the “switching point” concept to transmission pipelines

1.1. APA as a partner of choice in Australia's energy transition

APA is a leading ASX listed energy infrastructure business. Consistent with our purpose of securing Australia's energy future, our diverse portfolio of energy infrastructure delivers energy to customers in every Australian state and territory. For decades we have owned, operated, and maintained some of Australia's most important energy infrastructure.

Figure 1: APA's portfolio

Our diverse energy infrastructure portfolio

Gas infrastructure	Contracted power generation	Electricity transmission
 Transmission >15,000 km transmission pipelines	 Renewable energy 342 MW Wind 356 MW Solar 75 MW BESS	 >800 km high-voltage electricity transmission
 Storage 12,000 tonnes LNG 18 PJ gas	 Gas fired 884 MW	 including 290 km deep-sea cable

Our 15,000 kilometres of gas transmission pipelines connect sources of supply and markets across mainland Australia, bringing the benefits of natural gas to 1.5 million Australian homes and businesses. We also own or have interests in gas storage facilities and gas-powered generation (GPG).

We operate and have interests in 773 MW of renewable generation and battery storage infrastructure, while our high voltage electricity transmission assets connect Victoria with South Australia, New South Wales with Queensland, and Tasmania with Victoria.

APA actively supports the transition to a lower carbon future. In August 2025, we published our 2025 Climate Transition Plan. The refreshed plan outlines our commitments to support Australia's energy transition and pathway to net zero operations emissions by 2050.

With our extensive portfolio of assets and expertise across gas, electricity and renewables, APA is well-placed to support the energy transition towards net zero.

The gas transmission network is a flexible, affordable and safe store of energy, making it ideal to help support energy supply during extreme weather or periods of reduced supply. Locating GPG close to major demand centres also reduces exposure to electricity transmission constraints often experienced by the overconcentration of renewable generation in common areas of the grid. This advantage may become critical if there are delays in building the necessary transmission investment to support renewable energy.

As the penetration of variable renewable energy sources, such as wind and solar, increase, and ageing coal power stations retire or have unplanned outages, GPG will play a critical role in meeting electricity demand and maintaining security of the system.

1.2. Private sector investment has delivered public infrastructure

APA considers that Australia, as a small economy, relies on private sector investment to provide public infrastructure. This applies in the case of gas pipelines, which (save for the Victorian Transmission System) have always been provided by private enterprise, and also in the case of asset privatisations (airports, electricity networks), where the private sector has invested to allow governments to recycle its capital to focus on government services.

At the highest level in the context of this Rule change package, APA considers that the GNIT framework must maintain the confidence of private sector investors to ensure the continued availability of private capital to Australian public infrastructure. In this respect, APA welcomes the more moderate approach taken by the AEMC in its Directions paper relative to the original Rule change proposals.

Private sector investment has underpinned Australia's gas market. Gas infrastructure service providers have a strong track record of delivering the necessary infrastructure to ensure customers have sufficient gas in the locations they need it.

An advantage of pipeline infrastructure is that it can be readily expanded via compression, and later looping, with the use of existing easements and other supporting pipeline infrastructure. This is generally more cost effective than building a new pipeline and has far less delivery and investment risk.

This means that the incremental expansion of the East Coast Gas Grid (ECGG) and Victorian Transmission System is the most efficient solution to transport more gas from northern supply sources to southern markets to support renewable electricity generation in the transition to a lower carbon economy.

Under a contract carriage model, short- and long-term bilateral contracts with market participants support the operation of the market and the efficient expansion of transmission pipelines and other infrastructure when needed. AEMO's Gas Statement of Opportunities (GSOO) plays an important role in identifying gas shortfalls and acting as an investment signalling mechanism.

Final Investment Decisions (FID) on major new or expanded gas transmission developments are very challenging to progress without confidence that the policy and regulatory environment is stable, consistent and supportive of long-term investment. The announcement of a domestic reservation scheme in December 2025 has helped improve the investment environment for long term gas infrastructure by supporting the supply of sufficient quantities of gas to justify new infrastructure investment. Similarly, the GNIT Rule change process will play an important role in maintaining investor confidence.

In February 2026, we announced progression of Stage 3 of our ECGG Expansion Plan, which is expected to add approximately 30% additional transport capacity and address projected southern market gas shortfalls from 2028. When Stage 3 is completed, we will have added more than 50% capacity to the ECGG over the past 5 years, having already increased capacity by approximately 25% via Stages 1 and 2.¹

The Stage 3 expansion includes:

- FID on Stage 3A (ECGG 3A), with investment of \$260 million to increase north to south capacity, supplying essential Australian gas to southern markets for winter 2028; and
- \$220 million investment for Stage 3B (ECGG 3B) to enable continued early works and procurement of long lead items for the Bulloo Interlink, including purchase of 342km of line pipe and further pre-FID works to deliver additional capacity beyond winter 2028. FID will be subject to certain considerations, including policy and regulatory settings, progress with the Federal Government's Gas Market Review and final Board approval.²

The staged ECGG expansion plan is designed to minimise costs for customers by anticipating demand with a fit for purpose and responsive solution. The success of this approach is evidenced by strong contracting for earlier pipeline expansions already delivered.

Analysis undertaken by APA provides confidence that domestic gas delivered from northern supply sources can be delivered into southern markets at a cost, inclusive of transport, materially below the cost of imported LNG.

In the context of this Rule change process, APA considers that the GNIT framework must take care not to undermine the investor confidence in investing in Australian infrastructure – it must send enduring signals of confidence to investors, particularly at this juncture where significant investment is required to support the transition to a lower carbon economy.

¹ APA announced stages 1 and 2 of the ECGG expansion in May 2021, and these two compression projects were completed in mid 2023 and mid 2024 respectively. Stage 3A has reached FID, Stage 3B remains subject to final board approval.

² [APA to deliver pipeline capacity needed to solve projected east coast gas shortfalls](#), 19 February 2026

1.3. The GNIT framework must support market solutions

As demonstrated by history, the gas transmission industry is already well-equipped to respond to emerging supply-demand imbalances across the medium to long term. It is important that the GNIT framework does not displace or weaken these existing responses, particularly where commercial incentives and operational flexibility are already delivering reliable and lower-cost outcomes.

In the medium to long term, market-led solutions will remain the most efficient way to manage tightening conditions, depending heavily on the location and volume of future supply. As southern production declines, stable policy settings are essential to support timely investment in transport and storage.

The issue is not a lack of infrastructure or willingness to invest. As outlined in Section 1.2, APA has recently announced a ~\$500m expansion of its ECGG to help address projected southern market gas shortfalls. Gas infrastructure operators like APA have a strong track record of delivering the necessary infrastructure to ensure customers have sufficient gas in the locations they need it.

When designing a GNIT framework for the east coast gas market, it is important that the market fundamentals that have underpinned investment are maintained. This means that existing contracts between pipelines, shippers and producers should not be impacted, and the process through which parties negotiate under the contract carriage framework must be maintained.

It is also important to strike a balance between restriction of regulatory discretion and flexibility of application of the various tools to hand. APA's various pipelines have been constructed under different circumstances to address prevailing market conditions. It will be important to recognise that the application of a tool in one circumstance may lead to unintended consequences when applied in another circumstance.

In this respect, APA considers that the application of the various tools discussed in this Rule change process should be subject to the service provider proposing their application, rather than the regulator imposing their application.

1.4. Comments on elements of the GNIT framework

APA has participated in developing the submissions lodged by Energy Networks Australia (ENA) and by the Australian Gas and Pipelines Association (APGA). On the matters discussed below, we direct the AEMC's attention to the greater level of detail found in those submissions.

We have reviewed the AEMC directions paper and provide the following commentary on the key elements of that paper. Many of these comments interact, for example the removal of the procedural requirement to index the capital base and the removal of the "no real price increase" limitation on accelerating depreciation.

1. We agree that accelerating depreciation is an important and useful tool to return capital to investors in the face of an uncertain demand future

Accelerated depreciation is best implemented while load is at its highest, to reduce the price impacts on existing and future consumers.

This is the foundation of the WOOPS model developed by Crew and Kleindorfer.³ In this context, the WOOPS model identifies a Window Of Opportunity (WOO) in which regulators and regulated businesses can act early to increase depreciation to return capital to investors while load is at its highest. This delivers a very small price impact to a large number of existing customers. It also “grinds down” the capital base applicable to future periods, in which it is expected there will be fewer customers, and lower volumes over which to spread a fixed return on and of capital. This lower level of remaining investment reduces the price impacts on those remaining customers relative to the counterfactual of deferring depreciation until the Window Of Opportunity has PaSsed (WOOPS), maintaining a higher capital base, and forcing higher prices on a smaller number of (captive) customers in the future.

This model aligns with the Commission’s view expressed in the Directions Paper (p iv) that “We do not consider that consumers’ long-term interests would be promoted if there was a disorderly energy transition that resulted in consumers facing escalating prices and/or the service provider deciding to cease providing services leaving customers without access to gas.” The WOOPS model has been extensively discussed in regulatory submissions⁴ on the Australian public record.

In some respects, this recommendation is more about providing greater direction to the regulator than a required Rule change. Rule 89(1)(b) clearly requires that an asset should be depreciated over its economic life, and Rule 89(1)(c) contemplates that the depreciation schedule should be adjusted to reflect changes in the expected economic life from time to time. It would be reasonable to argue that the current Rules would provide for changes to depreciation schedules to reflect the changed market circumstances of the current initiatives to decarbonise the economy.

What the current Rules do not adequately contemplate is that customer numbers and load may decline, and that this circumstance should be considered in developing depreciation schedules with an aim to promoting longer-term tariff stability over time.

In this respect, APA recommends re-framing Rule 89(1)(a) to equally promote longer-term stability in reference tariffs over time in circumstances of declining demand. Rule 89(2) should similarly be modified to acknowledge that compliance with Rule 89(1)(a) may involve an advancement of depreciation, assessment of remaining economic lives, or flexible design of depreciation schedules, in circumstances of declines in load and demand.

We note that there does not appear to be anything in the Rules to mandate straight line depreciation, or to preclude a non-linear depreciation schedule. There may be

³ Crew, M and Kleindorfer, P, 1992, “Economic Depreciation and the Regulated Firm under Competition and Technological Change”, *Journal of Regulatory Economics*, 4(1), 1992, 51-61

⁴ See, for example, AGN, Revised Final Plan 2021/2021-2025/26 [sic] Attachment 9.6, and DBNGP, Final Plan 2021-25 Attachment 9.2.

merit in the Rules more explicitly recognising that it is open for the service provider to propose, and the AER to accept, a non-linear depreciation schedule. As above, this appears less a limitation of the current Rules themselves and more a constraint arising from current regulatory practice.

2. Indexation of the capital base should not be mandatory

Under the AER's building block approach, the capital base is indexed for inflation. As the AER applies a nominal rate of return to the indexed value of the capital base, it must take some action to remove the double-counting of inflation. This is achieved by reducing the depreciation building block by the amount of the indexation of the capital base.

This approach may be non-harmful in conjunction with an expectation that the assets (or their replacements) will provide service in perpetuity, but this Rule change process is clear evidence that this service-in-perpetuity assumption no longer holds.

The Rules do not *require* indexation of the capital base – this is a feature adopted in current regulatory practice. This practice introduces the perverse circumstance in which the composite depreciation rate can be lower than the CPI, in which case the depreciation becomes negative and the capital base grows through depreciation.

Indexation of the capital base defers the return of capital to investors, which runs contrary to initiatives to accelerate depreciation as a tool to dealing with demand uncertainty.

In this regard, we agree with the Directions Paper that the access arrangement proposal should include a service provider election as to whether the capital base is to be indexed in the relevant access arrangement period.

3. The use of these tools should not be hampered by other constraints, for example, the AER's observed "no real price increases" constraint. This should be stated explicitly in the AEMC Final Rule Determination.

We are concerned with the AEMC's concept of the "no impediment" measure of the switching point, as described on p123 of the Directions Paper. This does not appear to have been described in the CEPA report commissioned by the AEMC in the context of this Rule change process. APA considers that using a "no impediment" measure to set the "switching point" would act in the same way as the AER's "no real price increase" constraint. Our broader concerns with the "switching point" concept are discussed below.

4. We accept that the NGL revenue and pricing principles do not provide an absolute guarantee that all prudently invested capital will be returned

APA recognises that, as would be the case in any workably competitive market, some investment may indeed be stranded by movements in the market or consumer preferences. Having said that, the complex concerns raised in this Rule change

process are more around circumstances in which those market movements and changes in demand are driven by changes in government policy.

However, as discussed above, it is important to the broader Australian economy that we maintain private sector investor confidence in the provision of public infrastructure, and we acknowledge that Government has a role to play in this regard.

While the Rule change process cannot direct government policy, APA considers it is important that the regulatory framework provides as much clarity and support as possible in enabling the recovery of investor capital. In doing so, the framework should avoid placing regulators in a position where outcomes are driven by deferring to government rather than through clear regulatory principles.

5. We accept that economic asset stranding is a feature of the national gas access regime

As discussed above, APA accepts that the risk of stranded investment is a feature of any workably competitive market.

But the very existence of an economic regulatory framework is a clear indication that the gas distribution businesses do not operate in a workably competitive market – if they did, there would be no need for a regulatory framework.

Asset stranding is therefore a mechanism imposed by the regulatory framework as a way (an imperfect way) to attempt to replicate the outcomes of a workably competitive market.

But regulatory asset redundancy and stranding is not a tool to be used lightly. APA agrees with the AEMC that this should be a “last resort” tool to manage customer pricing impacts when asset stranding is inevitable – when observed prices are lower than regulated tariffs.

In the transmission sector, in which bilateral contracting is more prevalent than in the distribution sector, economic stranding can be demonstrated by the regulated pipeline *systemically* agreeing to Gas Transmission Agreements at tariffs below the reference tariff – only then should investment be moved into a redundant capital account to deliver tariffs at observed levels.

6. We accept that the GNIT reforms could apply to both distribution and transmission pipelines

In principle, APA accepts that the National Gas Rules refer to “pipelines” rather than specifying separate Rules for transmission and distribution pipelines. While we anticipate that the gas transmission businesses will have an enduring future, we do not object to the Commission’s view that these Rules should apply to both transmission and distribution pipelines (Directions paper para 18). However, we must recognise that transmission and distribution pipelines have different economic drivers and play a different role in the market. This is discussed in more detail below in relation to the “switching point”.

7. We are concerned over the application of the “switching point” concept

The Directions Paper contemplates that economic stranding has taken place where the (distribution) business’ regulatory tariff is greater than the price at which a customer is enticed to abandon the gas system and switch to an all-electric household.

The CEPA report is clear that the “switching point” is not a point that can be measured with clear precision, and we acknowledge that observation.

One of the factors raised by CEPA is that the “switching point” relates to the delivered cost of gas to a residential customer relative to the delivered cost of electricity and the cost of conversion. The analysis, and its application as a network stranding measure, is complicated by the fact that the customer bill is made up of a combination of the distribution charge, an energy charge, and a retail charge. Where the cost of the gas commodity increases, this concept will suggest economic stranding has occurred for the network.

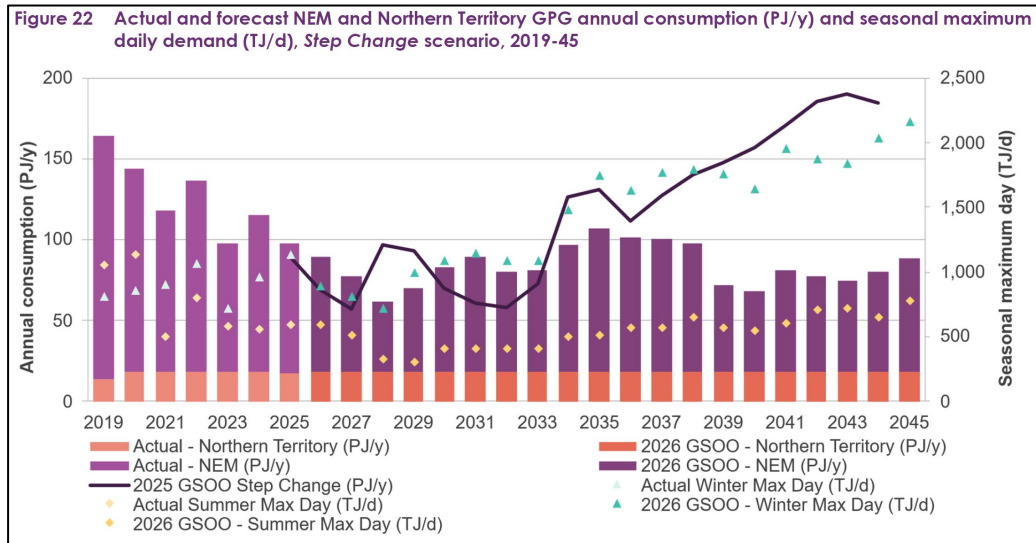
This concern is magnified in the case of gas pipelines, making the “switching point” concept even more difficult to apply. Gas transmission charges make up a very small proportion of the residential gas bill – it would be inappropriate to apply the residential “switching point” concept as an indicator of economic stranding for the transmission pipeline.

This is particularly relevant given that the CEPA report focuses on residential customers, as opposed to the large industrial and GPG sectors served by the transmission pipelines. While there may be some learning from developing a “switching point” focusing on the large industrial customers, this is not the focus of the CEPA report – it assumes that large industrial and GPG customers are hard to switch, and therefore excludes them from the analysis.

It is also important to note that, except for the VTS, transmission pipelines sell *capacity*, in contrast to the volumetric service of gas distribution networks. So long as peak demands remain stable, capacity reservation on the transmission pipelines is unlikely to exhibit the same declines as volumetric throughput or residential customer numbers.

Indeed while AEMO’s 2026 GSOO⁵ forecasts an ongoing decline in customer numbers and consumption in the residential and small commercial sector, it shows sharp increases in peak demands for the GPG sector in particular:

⁵ AEMO, 2026 Gas Statement of Opportunities, pp27-29, 39-42.



In summary, the foundation of the “switching point” concept is based on a different market sector than dominates the service provision of the gas transmission pipelines. APA submits that it is inappropriate to apply a retail-based “switching point” concept to assess whether economic asset stranding has occurred for a transmission pipeline.

It should also be noted that, under the national gas access regime’s negotiate-arbitrate model, there is a much higher prevalence of bilateral contracting in the transmission sector (excluding the VTS) relative to the distribution sector. This may result in observed bilateral contract pricing departing from the regulated tariff. As all actual prices payable are reported publicly under Rule 101E, it is possible to observe the circumstances in which a service provider is charging less than the regulated tariff, rather than attempting to infer it from a “switching point” analysis conducted for a different market.