

30 April 2026

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

Lodged electronically: <https://www.aemc.gov.au/contact-us/lodge-submission>

Dear Ms Collyer,

**RE: GAS NETWORKS IN TRANSITION – DIRECTIONS PAPER**

Origin Energy (Origin) appreciates the opportunity to provide a submission to the Australian Energy Market Commission's (AEMC) Gas networks in transition – directions paper (GRC0082).

The current National Gas Rules (NGR) were largely developed in an environment of stable or growing demand. This is no longer the case. It is vital the emerging risks associated with declining gas consumption, are appropriately reflected in the Rules to ensure customer impacts are managed both efficiently and equitably

The transition of gas networks will directly affect customer affordability, retail pricing and the long-term viability of gas supply. For these reasons, we support the greater focus on the longer-term outlook because it is likely to improve regulatory decision-making and reduce asset stranding risk.

In this regard, we support the introduction of a 20-year outlook horizon, enhanced expenditure assessments and revised tariff frameworks. We also consider adopting greater flexibility to determine appropriate depreciation is appropriate in this environment of uncertain future demand and therefore asset utilisation and capital recovery outcomes. This is important because capital cost recovery directly affects network tariffs and customer bills. While some short-term tariff impacts may occur as the framework adjusts to declining demand, we anticipate the proposed direction is expected to support more gradual and predictable tariff outcomes over time.

While we consider the proposed reforms will strengthen the regulatory framework and support more forward-looking decision-making, effective implementation, clear guidance and consideration of government transition policies will be important to ensure efficient outcomes and avoid unintended impacts on customers and industry stakeholders.

Our response to stakeholder questions is provided at Attachment A.

If you have any questions regarding this submission, please contact Gary Davies in the first instance at [gary.davies@originenergy.com.au](mailto:gary.davies@originenergy.com.au).

Yours sincerely



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## Question 1: Our proposed package of reforms

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?

Origin supports the proposed package of reforms and agrees that the proposed direction is likely to better promote the NGO and be more consistent with the RPP than the status quo. The proposed framework will strengthen the focus on efficient investment, forward-looking regulatory decision-making and customer impacts, which aligns with the long-term interests of consumers in terms of price, quality, safety and reliability of gas services.

The current framework does not necessarily require service providers or the regulator to explicitly consider long-term demand decline or transition risks in developing access arrangements, which could lead to over-investment in assets that may not be fully utilised over time. The proposed reforms, particularly those relating to longer-term outlooks, capital cost recovery and expenditure justification, are likely to improve regulatory decision-making and reduce asset stranding risk.

Origin considers that the AEMC's proposed reforms represents a more practical approach than the ECA and JEC rule change proposals. The AEMC's proposal focuses on strengthening existing regulatory tools and improving transparency rather than introducing more prescriptive mechanisms. This approach provides the regulator with flexibility to respond to different network circumstances while maintaining a focus on efficient investment and customer outcomes.

The proposed reforms are likely to better support the NGO by reducing the risk of unnecessary increases in network charges, which ultimately flow through to customer bills. Retailers are directly exposed to the impacts of rising network costs, including affordability pressures, increased hardship cases and higher bad debt risk. A regulatory framework that prioritises efficient investment and cost recovery is therefore critical to maintaining affordable gas services for customers during the transition.

Origin also considers that the proposed direction is broadly consistent with the RPP, particularly in supporting efficient cost recovery, appropriate risk allocation and incentives for service providers to promote economic efficiency while protecting consumers from excessive or inefficient expenditure. In a declining demand environment, there is an increased risk that remaining gas customers could face increasing network charges as costs are recovered from a smaller customer base. The focus on longer-term demand outlooks, capital efficiency and tariff flexibility is therefore important in balancing efficient cost recovery with the long-term interests of consumers and supporting a more sustainable transition of gas networks.

## Question 2: Implementation considerations

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

Origin considers the proposed implementation timeline is reasonable and provides sufficient time for the amended rules to be incorporated into upcoming access arrangements and the current regulatory cycle.

Nevertheless, we recognise that networks may need time to develop new modelling, forecasting and reporting practices, and the AER will need to establish guidance and assessment frameworks to ensure consistent application across networks. The AEMC should consult with stakeholders to develop clear guidance, transitional arrangements and implementation timelines to support smooth adoption of the reforms.

The proposed reforms are likely to introduce some implementation costs for networks and the AER, particularly in relation to developing 20-year outlooks, enhanced expenditure assessments and revised

tariff frameworks. These costs will ultimately be recovered from customers through network charges, and it will therefore be important to ensure that costs are minimised, and reforms deliver clear benefits for customers.

Retailers may also incur implementation costs through changes to network tariffs and adjustments to pricing and billing systems. Retailers will need to incorporate new tariff structures and network charges into customer offers and manage customer communications.

Clear guidance, standardised methodologies and alignment with existing access arrangement processes will help minimise unnecessary costs and support efficient implementation.

### **Question 3: Application to transmission and distribution**

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

Origin agrees that the reforms should apply to both distribution and transmission pipelines where relevant, as declining gas demand and transition risks affect the entire gas supply chain. A consistent regulatory approach will support coordinated planning and efficient investment outcomes across the supply chain. Applying the reforms across the full network will help ensure aligned cost recovery and reduces the risk of pricing distortions that ultimately flow through to customer bills.

We consider that flexibility should be retained in applying the proposed reforms, recognising that transmission and distribution networks face different transition challenges and demand profiles. A principles-based approach allowing tailored application where appropriate will support efficient outcomes and improve long-term planning across the gas supply chain.

### **Question 4: Our proposed direction on a longer-term outlook (detailed in appendix A)**

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

Origin considers that networks should already be considering long-term demand to inform expenditure decisions. However, we note that the current Rules do not provide sufficient guidance on what long-term means and what should be considered in a network's expenditure forecast.

For this reason, we support the proposed direction to require service providers and the regulator to consider a longer-term outlook and longer-term consequences in access arrangements.

A longer-term outlook would help ensure network investment decisions reflect realistic demand expectations and avoid placing unnecessary cost burdens on remaining customers as gas demand declines and the risk of over-investment increases. The requirement to explicitly consider transition risks and long-term consequences when proposing capital expenditure and tariff structures also provides the AER with a clearer basis to assess whether proposed investments are prudent and efficient under the circumstances.

Consistent with the AEMC's approach, Origin considers the outlook should include clear and transparent demand scenarios, forecasts of network capacity and asset use, and projections of capital expenditure, operating costs, and the capital base. It should also outline expected revenue requirements, reference tariffs, and how gas prices are expected to compare with electricity over time, supported by clear assumptions on electrification, policy settings, and declining demand.

The outlook should also include a long-term asset and risk management plan, covering future investment plans, potential repurposing or decommissioning of assets, demand risks, and the use of capital recovery and tariff tools. Clear analysis of future tariffs and bill impacts would help retailers understand likely price changes, support customer communication, and plan pricing and transition strategies more effectively.

Origin considers the outlook should be subject to stakeholder consultation to ensure assumptions are credible and aligned with broader energy transition policies. Collaboration between networks, the AER, retailers and governments will help ensure the outlook reflects realistic transition scenarios and supports efficient decision-making.

**Question 5: Our proposed direction on capital cost recovery (detailed in appendix B)**

1. What are your views on our proposed direction for capital cost recovery tools in the NGR?
2. Do you have any views on the decision-making model options explored for:
  - a. Depreciation and treatment of inflation?
  - b. Redundant capital provisions?
3. In relation to our proposed direction for redundant capital, do you have any views on:
  - a. The materiality threshold that should apply to partial redundancy?
  - b. The constraints that could apply to the regulator's use of partial redundancy?

Origin supports the AEMC's proposed direction to strengthen capital cost recovery tools in the NGR to better manage stranded asset risks in a declining demand environment, including the proposed changes to depreciation, inflation treatment, and redundant capital provisions. These reforms would improve how the regulatory framework responds to declining demand and provide clearer mechanisms for balancing prudent and efficient capital recovery with customer protection.

The proposed direction provides a more structured approach to managing underutilised and stranded assets and gives the AER greater flexibility to determine appropriate depreciation and capital recovery outcomes. This is important because capital cost recovery directly affects network tariffs and customer bills. While some short-term tariff impacts may occur as the framework adjusts to declining demand, we anticipate the proposed direction is expected to support more gradual and predictable tariff outcomes over time.

With respect to the depreciation framework, Origin considers that Option C(ii) is preferable as it provides the AER with discretion to approve an alternative depreciation approach where it better promotes the NGO and RPP, rather than accepting a service provider's proposal unless it is inconsistent with them (as in Option C(i)). It allows the AER to select a depreciation profile that better aligns cost recovery with actual network use and declining demand, helping to avoid inefficient capital recovery and reduce the risk of higher tariffs for remaining customers. Origin supports removing references to demand growth in the depreciation framework as gas demand is expected to decline, and depreciation should reflect realistic network use and support prudent and efficient capital recovery.

In relation to the application of inflation, Option C(ii) is also preferred as it gives the AER greater flexibility to adopt an alternative approach where it better promotes the NGO and RPP, rather than only rejecting a service provider's proposal if it is inconsistent with them. This supports more efficient and forward-looking decisions and helps ensure inflation treatment does not lead to unnecessary increases in network tariffs and customer bills. Origin supports clearer NGR guidance on when different inflation approaches, such as real or nominal treatment, may be appropriate.

Origin supports the proposed redundancy framework because it provides a balanced approach to managing stranded asset risks in a declining demand environment. It allows the AER to assess redundant assets on a case-by-case basis and determine how remaining investment should be treated, ensuring customers are not required to keep paying for assets that no longer provide meaningful services while still allowing service providers to recover prudent and efficient investment where appropriate. Notwithstanding, we would appreciate further information on the process for service providers to recover remaining investment in redundant or partially redundant assets.

Origin considers that a clear and practical materiality threshold for partial redundancy is important to ensure the framework operates efficiently and does not create unnecessary regulatory burden. The threshold should be set at a level that captures material stranded asset risks while avoiding excessive administrative complexity for minor or immaterial assets. In determining the threshold, the AER should consider factors such as the value of the asset relative to the total regulatory asset base, the expected impact on network tariffs and customer bills and the extent and duration of underutilisation. This would help ensure that partial redundancy provisions are applied only where the financial and customer impacts are significant enough to warrant regulatory intervention.

We consider that Option D supports a more structured and transparent approach by allowing the regulator to determine when partial redundancy should apply based on clear and consistent criteria. This would focus regulatory effort on decisions that materially affect tariffs and customer bills, improve consistency across networks, and provide greater certainty to service providers and stakeholders.

Origin considers that appropriate constraints on the regulator's use of partial redundancy are important to provide certainty and consistency in decision-making. Clear criteria and guidance would help ensure decisions are transparent and aligned with the NGO and RPP, while supporting stable tariff outcomes and reducing uncertainty for customers and industry stakeholders.

**Question 6: Our proposed direction on expenditure (detailed in appendix C)**

1. What are your views on our proposed direction to amend the NGR capex provisions? For example:
  - a. Clarifying that service providers must justify all capex through a quantitative assessment of all credible options that support the provision of regulated pipeline services.
  - b. 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).
  - c. Amending the justification for capex to maintain capacity to meet forecast (instead of existing) demand for services under NGR 79(2)(c)(iv).
2. What are your views on the need for the NPV test in rule 79(2)(b)?
3. What are your views on our proposed direction to amend the NGR opex definition?

The AEMC proposes targeted amendments to the NGR capex provisions to better reflect declining demand and transition risks. This includes strengthening requirements for service providers to justify capital expenditure with clearer evidence of need, improved demand forecasting (including long-term outlooks), and greater consideration of asset utilisation and alternatives to new investment. The amendments are intended to support more disciplined, forward-looking investment decisions and reduce the risk of inefficient or unnecessary capex being recovered from customers.

Origin supports the proposed requirement for service providers to justify all capital expenditure through a quantitative assessment of credible options. As the energy transition progresses, this approach is likely to strengthen regulatory scrutiny and ensure that investment decisions are based on robust and transparent analysis.

We also support clarifying that safety-related capital expenditure must be necessary for the safe operation and use of pipelines services. This provides greater clarity around the scope of safety-related investment and helps ensure that safety expenditure is appropriately justified. We consider that safety should remain a key priority in network investment decisions, and the proposed clarification can support transparent and consistent regulatory assessment while ensuring safe and reliable gas services.

We agree that capital expenditure justification should be aligned with forecast demand rather than existing demand. This reflects the reality of declining gas consumption and ensures that investment decisions are based on forward-looking demand expectations. We consider this will reduce the risk of over-investment in network capacity that may not be required in the future, which could otherwise increase network charges for remaining customers.

We consider that the NPV test remains a useful tool in assessing capital expenditure and supporting efficient investment decisions. The NPV framework helps ensure that investments deliver net benefits to consumers and supports transparent regulatory assessment. It is important that the NPV test remains flexible and practical to apply in a declining demand environment, particularly where long-term uncertainties exist.

Origin supports clarifying the operating expenditure definition to ensure only prudent and efficient costs are recovered through tariffs. Clearer definitions will improve transparency and reduce the risk of inefficient expenditure, while strong expenditure controls remain important to limit unnecessary increases in network charges and protect customers from rising bills.

**Question 7: Our proposed direction on tariff arrangements (detailed in appendix D)**

1. What are your views on our proposed direction for amending the reference tariff arrangements?
2. What are your views on our proposal to provide guidance on applying the concepts of long run marginal cost, standalone and avoidable costs?
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?

Origin broadly supports the proposed direction to allow more flexible reference tariff arrangements to better reflect declining demand and changing customer profiles. Greater flexibility in tariff structures can support more efficient cost recovery by enabling tariffs to better align with how customers use the network, including changes in consumption patterns and asset utilisation over time. This is particularly important in a declining demand environment, where traditional tariff structures may no longer reflect underlying cost drivers.

At the same time, Origin considers that tariff flexibility should be carefully balanced with affordability considerations. Changes to tariff structures or cost allocation can have material impacts on customer bills, particularly for vulnerable customers or those with limited ability to adjust their usage or transition away from gas. As such, tariff reforms should be implemented in a gradual and transparent manner, with clear assessment of customer bill impacts, to avoid sudden or significant increases in network charges.

Origin supports providing additional guidance on the application of long run marginal cost, standalone cost and avoidable cost concepts. More detailed guidance would help clarify how these principles should be applied in practice, particularly in a declining demand environment where cost allocation and pricing signals become more complex.

Clear and consistent application of these concepts would help ensure that tariffs remain cost-reflective and economically efficient. This is important to minimise the risk of cross-subsidies between customer groups and to ensure that pricing signals support efficient usage and transition decisions.

Origin strongly supports greater consideration of customer impacts in tariff setting. As gas demand declines, fixed network costs are likely to be recovered from a smaller customer base, increasing the risk of higher network charges and customer bills. Careful assessment of tariff and bill impacts, including distributional effects across different customer groups, will be critical to protecting customers and supporting an orderly and equitable transition.

From a retailer perspective, transparent and well-justified tariff decisions will support clearer communication with customers, help build trust, and enable retailers to better explain price changes and support customers in making informed energy decisions.

**Question 8: Incentive mechanisms (detailed in appendix F)**

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

We note that the AEMC does not propose entirely new incentive schemes but signals targeted refinements to existing mechanisms to ensure they remain fit for purpose in a declining demand environment. This includes reviewing how current incentives (e.g. capital/operating expenditure efficiency and service performance schemes) operate so they continue to promote efficient costs and reliability, while avoiding incentives for unnecessary capital investment and better supporting asset optimisation, utilisation and transition-related decisions (such as decommissioning).

Origin considers that the existing incentive framework remains broadly appropriate but may require refinement to reflect declining demand and emerging transition risks. Incentive mechanisms should continue to promote efficient investment, cost efficiency and service reliability, while also recognising the changing role of gas networks and the need to avoid over-investment in assets that may become underutilised or stranded over time.

In particular, incentives should avoid rewarding service providers for expanding or maintaining unnecessary capacity and instead encourage efficient asset management. Incentives should also remain aligned with long-term transition objectives and customer outcomes, including affordability and efficient cost recovery.

Origin encourages the AEMC to ensure that incentive mechanisms remain focused on delivering efficient outcomes and do not unintentionally encourage unnecessary capital expenditure in a declining demand environment, while maintaining appropriate incentives for safety, reliability and service quality. We encourage ongoing stakeholder consultation to ensure incentive settings are practical, transparent and aligned with customer outcomes during the transition.