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Australian Energy Market Commission
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Directions paper: National Gas Amendment (Gas Networks in Transition) Rule (GRC0082)

Alinta Energy is pleased to provide comment on the directions paper, released by the AEMC to test its proposed policy direction for improving the gas pipeline economic regulatory framework under the National Gas Rules (**NGR**) to ensure that it will continue to promote the long-term interests of gas consumers through the energy transition.

Our key recommendation in our earlier submission on the AEMC's consultation paper, which considered the rule change requests proposed by Energy Consumers Australia and the Justice and Equity Centre, was that the framework must appropriately balance the allocation of risk by supporting the long-term interests of gas customers while providing service providers with a reasonable opportunity to recover their efficient costs. We believe the proposed package of reforms outlined in the AEMC's subsequent directions paper will work to achieve this balance. However, as noted by the AEMC, there will also be a role for governments to play in managing and supporting customers and service providers through an orderly transition in an environment of uncertain/declining gas demand.

Regarding the AEMC's proposed package of four key reform areas, we support:

- A longer-term outlook of 20 years for access arrangement (**AA**) proposals, which should promote more efficient expenditure, better economic use of capital cost recovery tools and more effective reference tariff arrangements than is currently achieved under the traditional 5-year AA period;
- Amendments that support efficient capital cost recovery and appropriately share the costs and risks between gas customers and service providers. Capital cost recovery tools, including accelerated depreciation, should be targeted and evidence-based and must not operate as a de facto guarantee of full cost recovery or materially shift foreseeable demand and stranding risk onto customers. Where accelerated depreciation is proposed, it should be tightly constrained by clear criteria and strong safeguards, including:
    - demonstrating a material and credible stranding risk;
    - limiting the extent and duration of acceleration;
    - transparent disclosure of assumptions; and
    - ensuring service providers retain an appropriate share of residual risk;
- Justification of proposed capital expenditure (**capex**) through a quantitative assessment of all credible options, providing greater transparency to stakeholders. In the context of uncertain/declining demand, we would support the removal of references to the presumption of demand growth and to safety-related enhancements; and
- Reference tariff provisions that explicitly require consideration of the impact of tariff classes, structures and variation mechanisms on customers so that tariffs reflect the underlying risks and costs of service specific to those customers. We would advocate for specific guidance on the application of tariff variation mechanisms between AA periods, where inflation data may not be available at the time of the regulator's final decision.

These reforms would ensure that the economic regulatory framework continues to support gas consumers through the energy transition, recognising that this journey will differ for customer classes and jurisdictions as each progresses toward its own transition targets. Critically, the reforms reinforce appropriate risk allocation. Accelerated depreciation must not be treated as a guarantee of full cost recovery or be used to shift foreseeable demand and stranding risk onto customers. Its use should be exceptional, strictly evidenced and tightly constrained so that service providers retain a meaningful share of residual risk and customers are protected from unjustified cost transfers. Done well, these changes will support more predictable outcomes and a more orderly transition for all parties.

We would welcome the opportunity to discuss our comments further with the AEMC.

Yours sincerely

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Question 1: Our proposed package of reforms

Alinta Energy supports the AEMC's proposed package of four key targeted reforms to strengthen the NGR regulatory framework: employing a longer-term (20-year) outlook to manage uncertainty; amending and guiding the use of capital cost recovery tools to support efficient capital recovery; amending capex and operating expenditure (**opex**) provisions to minimise expenditure; and amending reference tariff arrangements to accommodate a broader range of transition scenarios. Together, these reforms should ensure the gas pipeline economic regulatory framework continues to both support the long-term interests of gas consumers with respect to price, quality, safety, reliability, security of supply and emissions reduction as set out in the National Gas Objectives (**NGO**) and provide scheme pipeline service providers with a reasonable opportunity to recover at least the efficient costs of providing reference services, as set out in the National Gas Law revenue and pricing principles (**RPPs**).

We agree with the AEMC that retaining the status quo could, in the context of uncertain/declining demand, result in inefficient expenditure, uneconomic use of capital cost recovery tools and ineffective reference tariff arrangements. The proposed reforms would better promote the NGO and RPPs by supporting a more comprehensive and transparent consideration of how customer interests are best served, while maintaining efficient use of the network and giving service providers a reasonable opportunity to recover at least their efficient costs in this period of energy transition.

Question 2: Implementation considerations

We would support commencement of the rule change package from publication of the final determination in December 2026, so that it applies to the next round of AA reviews.

We do not consider any transitional arrangements are required, however note that the AEMC will engage separately with Victorian gas distribution service providers, who must submit their reference service proposals shortly on 1 June 2026, ahead of their AA proposals on 1 June 2027.

Question 3: Application to transmission and distribution

As the NGR framework applies to both distribution and transmission pipelines, we agree that the proposed reforms should also apply, where relevant, to both scheme distribution and scheme transmission pipelines.

Any decline in gas distribution demand will have a flow-on effect, with transmission pipeline costs also needing to be recovered over a smaller volume of demand.

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

We agree with the AEMC's proposed direction to require service providers and regulators to consider a longer-term outlook of 20 years for AA proposals. As noted in the directions paper, whilst a longer-term outlook is usually considered when making decisions regarding capital cost recovery, the same approach is not commonly applied to other aspects of an AA, which could result in inefficient decisions with lasting consequences.

Aligning the outlook period with that used by AEMO in its Gas Statement of Opportunities (**GSOO**) is practical, noting that the 2025 Western Australia GSOO extended the outlook period from 10 to 20 years for the first time in response to 'the government and industry stakeholder need for insights to support long-term investment decisions and understand future supply and consumption as Western Australia transitions towards net zero'.[1]

[1] AEMO, December 2025, *2025 Western Australia Gas Statement of Opportunities*, p. 3

We agree that the 20-year outlook could include the service provider's forecasts for demand, revenue building blocks and reference tariffs; asset management plan, including any proposed investment, repurposing and/or decommissioning; and an assessment of risks and uncertainties facing both customers and the service provider and how those risks will be managed.

This information, particularly important in an environment of uncertain/declining demand, will deliver better long-term visibility than what is currently provided in any given AA period (usually 5 years) and in doing so promote more efficient expenditure, better economic use of capital cost recovery tools and more effective reference tariff arrangements.

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

We support the AEMC's proposal to amend the capital cost recovery provisions in the NGR to ensure they support efficient capital recovery. However, it is essential that the provisions appropriately share the costs and risks between consumers and the service provider.

As stated in our submission on the AEMC's consultation paper, network investors must be willing to accept the reasonable risks associated with owning regulated gas infrastructure, including inflation, changes in demand and stranded asset risk; the RPPs provide that a service provider should be given 'a reasonable opportunity to recover at least the efficient costs' of its service provision, not a guarantee or complete insulation from the risks of doing business. The directions paper notes similar views by the Australian Competition and Consumer Commission (**ACCC**) where, in its 2002 final decision on the AA proposal for the Amadeus Basin to Darwin Pipeline, it stated that in a competitive market, firms must manage stranded asset risk and it is therefore not appropriate to shield monopolies totally from business risk; rather, the risk of redundancy is an incentive to take more care when making initial investments.

We agree with the ACCC's view that capital provisions concerning depreciation and redundancy should be complementary and that, as the service provider is in a good position to identify well in advance any assets at risk of stranding, there is no need for the write-off of assets if compensation is provided through accelerated depreciation. Where it is simply not possible to avert stranding risk, we would support rules enabling both full and partial redundancy, noting that this may involve the removal of a value that reflects the redundancy rather than the removal of the asset itself from the capital base.

Robust capital redundancy provisions will ensure that a service provider continues to be exposed to the risks of doing business – including the risks posed by alternate fuels, consumer preferences and technological changes – while the risk of stranding remaining capital is minimised by keeping reference tariffs below the point at which a disorderly customer exit may be triggered, replicating what would occur in a workably competitive market.

While CEPA modelling for the AEMC demonstrates that there are limits to what the regulatory framework can do to meet the challenges posed by the energy transition, it also highlights opportunities for improvement, including the timely use of redundant capital tools, which could benefit both service providers and consumers.

In the absence of clear energy transition policies in all but two jurisdictions, we support providing regulators with a variety of flexible tools to ensure that the framework remains fit for purpose until an orderly gas market exit can be completed. We acknowledge the AEMC's assessment that accelerated depreciation is an important regulatory tool that does not immunise service providers from stranding risk but rather ensures cost recovery better aligns with the period in which demand exists. Accordingly, we would accept accelerated depreciation but with clear rules around its use, including ensuring it is applied only where risk is clearly demonstrated and cost is equitably shared between customers and the service provider.

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

We agree with the AEMC that it is increasingly important in an environment of uncertain future demand that service providers give sufficient justification to support proposed expenditure. Prudent service providers would already be conducting quantitative assessments for proposed capex, including consideration of a range of credible, long-term options extending well beyond the AA period. Incorporating these requirements in the NGR as proposed by the AEMC would ensure both service providers and regulators clearly articulate their capex evaluations, providing greater transparency to stakeholders.

We agree that expenditure options should be limited to those related to the provision of regulated pipeline services, such as capex and opex solutions. However, we would support future consideration of other options including electrification and bottled LPG where it becomes apparent that network decommissioning is the only economical solution.

We support the AEMC's proposal to amend the justification for safety-related capex in NGR 79(2)(c)(i) from 'necessary to maintain and improve the safety of services' to 'necessary for the safe operation of pipelines and use of services', providing consumers with confidence that capex will not exceed what is necessary to provide a safe and secure network. We also support the proposed amendment to NGR 79(2)(c)(iv) to replace the reference to justifiable capex necessary for maintaining capacity to meet *existing* levels of demand with that necessary for maintaining capacity to meet *forecast* levels of demand. The current component of the rule which explicitly excludes capex for maintaining capacity to meet projected demand that is dependent on an expansion of capacity should be maintained.

While newly connecting retail gas customers in other jurisdictions must now pay the cost-reflective charges for their gas connection upfront, there is currently no such requirement in WA. We would therefore support retaining the net present value test in NGR 79(2)(b), noting this is just one of several assessments that can be used to determine whether capex is justifiable.

Lastly, in the context of uncertain/declining demand outlook, we would support the removal of references to the presumption of demand growth in both the capex provisions and opex definition.

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

We agree with the AEMC that the current reference tariff provisions lack guidance on how to apply efficiency concepts when designing reference tariff arrangements for a wider range of customer demand scenarios and jurisdictional policies. While efficiency concepts should remain the primary consideration when designing tariff classes, structures and variation mechanisms, adopting a context-specific approach will ensure reference tariff provisions continue to promote tariffs that reflect the underlying risks and costs of service for a particular customer or customer group, without transferring those risks or costs to other customers or customer groups. We therefore support the proposal to amend the reference tariff provisions to require service providers and regulators to explicitly consider how tariff classes, structures and variation mechanisms would impact customers both within and beyond the AA period and provide guidance on the use of long run marginal cost, avoidable costs and standalone costs when designing reference tariffs.

Providing greater consideration to the impact of tariffs and tariff variation mechanisms on customers would support tariff classes, structures and variation mechanisms that fit the specific circumstances of a service provider, rather than imposing a one-size-fits-all approach. Specifically with respect to the application of tariff variation mechanisms, we would advocate for more guidance concerning the use of 'proxy' inflation mechanisms between AA periods where actual CPI data is not available at the time of the regulator's final decision. If applied incorrectly, these inflation mechanisms can result in over-recovery by the service provider, producing an outcome inconsistent with NGR 97(3(a) which requires that the regulator, in deciding whether a particular reference tariff variation mechanism is appropriate, 'must have regard to the need for efficient tariff structures'.

Question 8: Incentive mechanisms (detailed in appendix F)

We do not consider there is a need for additional incentive mechanisms currently, however as consumer demand decreases and the bills of remaining residential customers rise above the gas to electricity 'switching point', specific incentives may be required to keep the network running, such as incentivising the ongoing operation of fully depreciated assets to avoid new investment.