

## **AEMC – GAS NETWORKS IN TRANSITION DIRECTIONS PAPER (GRC0082)**

**30 APRIL 2026**

### **INTRODUCTION**

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our members are the engine room of the Australian economy, producing many of the products that households and business use every day including bricks, glass, steel, aluminium, paper, food and beverages. Combined, our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

EUAA members are focussed on making products that meet their own customers' requirements where energy is just one input to the process albeit a critical one. Their expectation is that the energy industry continues to provide energy services that are fit for purpose and consistent with the National Gas Objective (NGO), enabling them to remain competitive and support long-term investment and employment.

The EUAA welcomes the opportunity to comment on the AEMC's *Gas Networks in Transition Directions Paper*.

Our priority is ensuring that regulatory frameworks remain fit for purpose during the transition and continue to deliver efficient, equitable and transparent outcomes for consumers. We support reforms that are grounded in evidence, improve the efficiency of regulatory decision-making, and allocate risks to those best placed to manage them. The Directions Paper represents a meaningful step toward aligning the gas regulatory framework with declining demand and the need for a managed, orderly transition. At the same time, the breadth of the proposed reforms underscores the importance of ensuring that new requirements are practical, proportionate and do not introduce unnecessary complexity or cost for consumers.

### **EUAA RESPONSE TO CONSULTATION QUESTIONS**

#### ***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?*

The EUAA supports the Commission's intent to place consumers at the centre of regulatory decision-making. We agree that the proposed package of reforms is better aligned with the long-term interests of consumers than either the status quo or the individual rule change proposals. We also support retaining the current five-year access arrangement (AA) period, which already imposes

significant resource demands on all parties and provides an appropriate balance between flexibility and regulatory certainty.

**Question 2: Implementation considerations**

1. *Do stakeholders consider that there are any barriers to implementing our proposed package 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?*

The EUAA considers that the breadth of the reforms may increase regulatory complexity and administrative burden, with associated costs ultimately passed through to consumers. Ensuring the final package improves clarity and consistency—without creating unnecessary layers of process—will be critical.

Given the scale of the reforms and the planned final determination date of December 2026, transitional arrangements may be required for some elements. Proposals relating to long-term outlooks, capital recovery tools and revised expenditure criteria will likely require new analytical processes, internal systems and regulatory guidance. These changes may impose material implementation costs on service providers and regulators. We encourage the Commission to carefully assess these impacts and consider staged or transitional approaches where appropriate.

**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)?*

We support applying the reforms to both distribution and transmission pipelines where relevant. Improved transparency across the gas supply chain is increasingly important as declining demand places upward pressure on tariffs for those who remain connected. Enhancing transparency in both transmission and distribution pricing would help consumers better understand unexpected increases and reduce bill shock during the transition.

**Question 4: Our proposed direction on a longer-term outlook**

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?*

The EUAA supports the Commission's intent to require service providers and the regulator to consider a longer-term outlook, as this should improve visibility of long-term costs to consumers and better align investment decisions with the realities of declining gas demand. However, for a 20-year outlook to be meaningful, it must be anchored by clear, prioritised long-term goals or targets that remain largely unchanged across access arrangement periods. Without a stable set of core assumptions, the outlook risks becoming a rolling set of shifting forecasts rather than a strategic planning tool. A

long-term outlook that materially changes every five years would undermine its purpose and could create uncertainty for consumers and large users making long-term commercial decisions.

If a 20-year outlook is adopted, clear guardrails will be essential to ensure it provides stability rather than introducing volatility. The Commission should consider which elements of the outlook must remain fixed across AA periods, and how changes to long-term assumptions will be managed to avoid sudden shifts in tariffs or investment plans.

We support requiring service providers to assess and report on capital cost recovery over the outlook period, including any unrecovered capital at the end of the period, and on their ability to efficiently provide, operate and invest in pipeline services. We also support long-term asset management and risk management plans, provided they are applied consistently and clearly inform five-year regulatory decisions.

Overall, while we support the intent of a longer-term outlook, we encourage the Commission to ensure the framework is practical, stable and supported by clear guardrails to avoid unintended consequences for consumers.

**Question 5: Our proposed direction on capital cost recovery**

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?*

The EUAA supports the Commission's decision not to adopt the capital recovery constraints proposed by the ECA and JEC. Constraining capital recovery in the manner proposed would not be in the long-term interests of consumers or consistent with the Revenue and Pricing Principles (RPPs). We also support improvements to capital cost recovery tools, including enabling accelerated depreciation to be used more effectively where assets are genuinely at risk of stranding.

In relation to the decision-making model for depreciation and the treatment of inflation, we recognise that Option C provides a balanced approach by allowing service providers to identify when assets may be at risk while ensuring the regulator retains discretion to assess proposals in a broader context. While we support this balance, we consider that the AER's assessment should explicitly account for the potential for inefficient opex/capex trade-offs. As we noted in our October 2025 submission, networks may be less likely to propose capex solutions where asset lives extend well beyond the transition horizon, which could lead to inefficient outcomes. This is particularly relevant where asset lives extend beyond transition horizons or legislated net-zero timeframes.

We support strengthening redundant capital and re-use provisions but remain concerned that the framework may not operate effectively without clearer definitions and safeguards. Economic

redundancy will often arise well before physical redundancy, yet the Directions Paper does not clearly define how economic redundancy should be identified or assessed. Without clarity, stranded capital may be under-recognised, exposing remaining consumers to rising costs.

The EUAA sees merit in enabling the regulator to initiate partial redundancy assessments, given that service providers have limited incentive to voluntarily write down their own capital base. However, our support for this reform is contingent on the development of clear and robust decision-making principles. These principles must ensure that economic redundancy is properly recognised, that long-term consumer costs are minimised, and that any regulatory action is proportionate and transparent.

At a high level, we also have concerns about provisions that would allow partially redundant capital to be added back into the Regulatory Asset Base (RAB). Any such mechanism should include strong safeguards to prevent double recovery or the cycling of assets in and out of the RAB. If an asset has been partially written down due to underutilisation, consumers have already paid for the remaining RAB value and for any accelerated depreciation or redundancy adjustment applied to the written-down portion. Allowing that capital to be reintroduced without strict tests risks consumers paying twice for the same asset.

More information is also required on the proposed demand-based test for re-use, noting that short-term increases in utilisation may not indicate structural recovery in a declining-demand system.

Finally, we support the proposal to provide guidance within the NGR on when different cost recovery mechanisms may be appropriate. We consider that this guidance should be developed collaboratively with industry, consumer groups, and the AER to ensure it is practical, transparent and centred on consumer outcomes. The EUAA would welcome the opportunity to contribute to this.

#### **Question 6: Our proposed direction on expenditure**

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 EUAA broadly supports the proposed amendments to the capex provisions. Requiring quantitative assessment of all credible options and basing investment decisions on forecast rather than existing demand are consistent with our view that capex must reflect the realities of declining gas consumption. We also support clarifying that safety related capex must be genuinely necessary for safe operation.

However, we remain conscious of the risk that tighter capex criteria could unintentionally push networks toward higher opex as a substitute for capex, which may not deliver efficient outcomes for consumers. We therefore support the direction of the reforms but encourage the Commission to ensure the amended provisions operate alongside the opex framework in a way that avoids inefficient opex/capex trade-offs.

We recognise that the Net Present Value (NPV) test was designed for a world in which gas networks were expanding, and that this is no longer the case for distribution networks in jurisdictions that have mandated an end to new small customer connections. However, we are hesitant to support the complete removal of rule 79(2)(b). As the Directions Paper notes, there remain circumstances, particularly in Western Australia (WA) and for scheme transmission pipelines, where the NPV test may still be needed to justify efficient augmentation or capacity-increasing investments. It could therefore be an option for the Commission to consider that any removal of the NPV test should be targeted to distribution networks, with further consideration required on whether an alternative justification pathway is needed for transmission and WA to avoid unintended constraints on efficient investment.

In relation to question 6.3 specifically, we support changing the definition of operating expenditure to exclude costs associated with increasing long term gas demand (rule 69) or supporting a network's transition to renewable gas.

***Question 7: Our proposed direction on tariff arrangements***

- 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?*

The EUAA supports moves toward more cost-reflective tariff structures such as higher fixed charges and the removal of declining block tariffs. We agree that customer impacts should be given greater consideration, particularly as declining demand will place upward pressure on tariffs for those who remain connected. In this context, greater transparency in tariff setting is essential.

As more consumers exit the network, remaining customers need clear visibility of the drivers of tariff increases, including how changes in demand, capital recovery, and operating costs contribute to bills. For instance, recent experience in New South Wales, where electricity transmission tariffs have increased independently of Roadmap charges, highlights the need for clearer information on what is driving tariff movements. Improved transparency, alongside robust communication, will help consumers understand and better prepare for unexpected increases.

At the same time, any changes should preserve the benefits of the current price cap mechanism, which we continue to strongly support as an important protection for consumers and a key tool for managing demand risk within an AA period.

***Question 8: Incentive mechanisms***

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

The EUAA's priority is ensuring that the existing framework operates effectively under declining demand, and that any incentives remain aligned with consumer interests. In our view, the immediate focus should be on ensuring the amended capex, opex and capital recovery provisions work coherently and do not create conflicting or duplicative incentives. We therefore support the Commission's proposal to consider the need for modified or additional incentives only after the broader package of reforms is settled and its interactions are better understood.

## **CONCLUDING REMARKS**

The EUAA appreciates the Commission's work in developing a comprehensive reform package that seeks to place consumers at the centre of the gas regulatory framework during a period of significant transition. While we support many elements of the proposed direction, we emphasise the need for clear guardrails, practical implementation pathways, and strong consumer protections to ensure the reforms operate as intended and do not inadvertently increase costs or uncertainty for those who remain connected to gas networks.

The EUAA welcomes further discussions around the issues raised in this submission. Do not hesitate to be in contact with EUAA Network Regulation Manager Shelby Macfarlane-Hill, should you have any questions.



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