AEMC
Australian Energy Market Commission

INFORMATION

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Draft determination on gas networks in transition

The Commission has decided to make a more preferable draft rule (the draft rule) in response to four rule change requests submitted by Energy Consumers Australia (ECA) (on 14 February 2025) and The Justice and Equity Centre (JEC) (on 4 June 2025):

- **Depreciation**. ECA propose stronger conditions on when gas transmission and distribution pipeline service providers (service providers) and the regulator can accelerate the recovery of capital costs through changes to the depreciation criteria.
- **Capital and operating expenditure**. ECA propose changes to the capital expenditure (capex) provisions and operating expenditure (opex) definition to ensure that only efficient expenditure is incurred and paid for by gas consumers in the context of uncertain and/or declining demand.
- **Planning requirements**. ECA propose new planning reporting obligations on all service providers (that own and operate scheme and non-scheme gas pipelines) to provide regulators, governments, electricity networks, and other stakeholders with information required to understand the opportunities to minimise expenditure and energy system costs.
- **Accelerated depreciation and redundancy**. JEC propose changes to the depreciation and redundant asset provisions. Their proposed changes would prohibit the use of accelerated depreciation to manage stranding risks unless used in combination with the capital redundancy provisions. JEC further propose to cap the customer contribution to 50 per cent, in the case of a cost sharing arrangement.

We are seeking stakeholder feedback by 8 October 2026.

The regulatory framework must evolve to manage transition risks

The energy transition is creating shared risks between consumers service providers.

As gas demand and customer numbers decline, the costs of providing pipeline services would need to be recovered from fewer consumers, placing upward pressure on prices. At the same time, service providers face increasing uncertainty about future pipeline utilisation and the recovery of efficient costs from long-lived pipeline assets.

Left unmanaged, these shared risks could contribute to a disorderly transition, where consumers are exposed to inefficiently high and escalating prices. For service providers, uncertainty of cost recovery may result in a lack of incentives to continue investing, meaning consumers may experience less reliable services or service providers decide to cease operations prematurely.

It is important to address these challenges now. Delaying action increases the likelihood that transition risks become larger, more difficult to manage, and more costly to address over time.

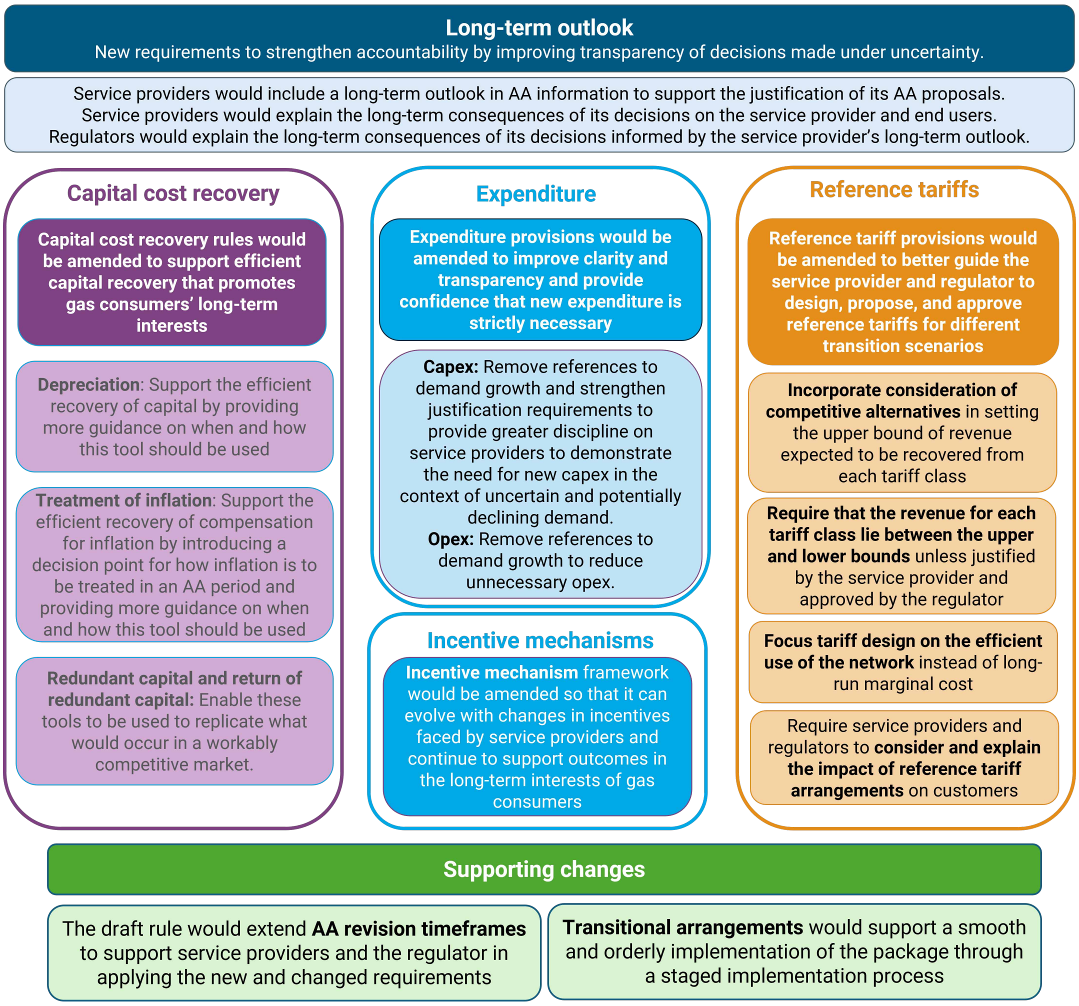
Our reform package seeks to support more forward-looking and consumer-focused decision-making, provide sufficient transparency over how long-term transition risks are identified and managed while preserving the core economic principles that underpin the existing framework.

The Commission's reform package represents a balanced approach to address the challenges of the energy transition

The draft rule represents a coordinated package of reforms to the gas pipeline economic regulatory framework to support more efficient outcomes for consumers, improve transparency over future risks, and help promote an orderly energy transition. The

Commission considers that, as a package, the reforms would better promote the National Gas Objective (NGO) than the rule changes proposed by ECA and JEC, by better supporting efficient investment in, and efficient operation and use of, gas services in the long-term interests of consumers. The reforms would apply to scheme transmission and distribution pipeline service providers.

It is important to note that our draft reform package alone cannot completely address all transition challenges. Governments will continue to play an important role in supporting consumers through the energy transition, including through broader energy policy, consumer support programs, and future decisions regarding decommissioning and transition pathways.



Improving transparency and accountability in decision-making under uncertainty by employing a longer-term outlook

The draft rule would introduce a new long-term outlook framework to provide a more structured basis for considering the impact of long-term transition risks on consumers and service providers in the access arrangement (AA) process. The reforms would bring emerging risks to light earlier while a broader range of options remains available to manage those risks efficiently. It would also support more informed decision-making by service providers, the regulator, consumers and governments before risks become larger, more costly, or more difficult to address.

Supporting efficient capital recovery that promotes the long-term interests of consumers

The draft rule would clarify how the existing capital cost recovery tools can be used to respond to uncertain and potentially declining demand. The reforms would amend the depreciation and inflation tools to better align the recovery of costs with the expected use of the network, to promote efficient tariff outcomes for consumers over time while preserving the incentives on service providers to continue to provide safe and reliable services, for as long as consumers continue to rely on gas. The reforms would also enable redundant capital to be removed from a service provider's capital base where it is necessary to respond to competition or to reflect what would occur in a workably competitive market. The amount of capital to be removed would be determined by the prices that consumers who can readily switch would pay for alternative energy sources, providing an important protection for consumers that continue to rely on gas throughout the energy transition.

Strengthening transparency and accountability for expenditure decisions

The draft rule would strengthen expenditure assessment requirements to ensure it is future focused for an environment of uncertain and potentially declining demand. The reforms would provide for more discipline, transparency and accountability, to provide confidence that new expenditure is prudent, efficient, and strictly necessary to provide safe and reliable pipeline services. The draft rule would require greater justification and scrutiny of proposed capex, minimising future growth of the capital base and reducing future stranding risk.

Supporting a broader range of incentive mechanisms

The draft rule would broaden the scope of incentive mechanisms that may be proposed by service providers or required by the regulator by allowing mechanisms that contribute more broadly to the achievement of the NGO. The reforms recognise that future circumstances may require new or modified incentive mechanisms to encourage outcomes such as efficient operation of ageing assets, efficient use of pipeline services, or other behaviours that promote consumers' long-term interests.

Guiding the design of efficient tariff arrangements for different transition scenarios

The draft rule would update tariff arrangements so they remain effective across a broader range of transition scenarios. The reforms would amend distribution pipeline reference tariff arrangements to better recognise competition from alternative energy sources and focusing tariff design on the efficient use of networks. The draft rule would also require gas transmission and distribution pipeline service providers to consider and explain the impacts of reference tariff arrangements and tariff variation mechanisms on consumers over the AA period.

Supporting reforms

The package also includes:

- extended AA timeframes to allow service providers and regulators more time to consider the new requirements
- transitional arrangements to support a smooth and orderly implementation of reforms.

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