Understanding consumer perspectives on accelerated depreciation and financeability

For

Energy Consumers Australia

By

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August 2025

Acknowledgement of country

We acknowledge the Traditional Custodians of the various lands on which we work and the lands on which Energy Consumers Australia represents and advocates for energy consumers. We honour the customs and traditions and special relationship of those Traditional Custodians with the land as well as those where this report is being prepared. We respect the elders of these nations, past and present.

Acknowledgements

We acknowledge the support of the various energy consumer advocates, regulatory representatives, networks and who so willingly gave their time and support to this project through interviews, informal and formal discussions. We also acknowledge the financial support we received from Energy Consumers Australia to undertake this work

We trust our report and the resulting recommendations fairly and reasonably reflects the views of contributors and we hope it will help improve outcomes for energy consumers even in a small way.

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Document Details

Understanding consumer perspectives on accelerated depreciation and financeability	
3-Aug-2025	AD & Financeability Report.docx
Prepared by Helen Bartley, Bartley Consulting Pty Ltd & Kieran Donoghue, Newgrange Consulting Pty Ltd	

Distribution

Status	Issued to	Organisation	Date	Format
FINAL	Dr Michael Dello-Iacovo	Energy Consumers Australia	3-Aug-2025	PDF by email

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1 Summary

1.1 Overview

Increasingly throughout Australia and elsewhere, gas network operators are seeking to accelerate depreciation of their gas assets on the premise that they have a shortened asset life due to the energy transition away from fossil fuels and increasing electrification. At the same time, electricity transmission network operators are looking for ways to finance the expansion of electricity transmission networks to support the energy transition. When network operators prepare their regulatory proposals, they are expected to support their proposals with evidence of consumer preferences, including accelerated depreciation and potentially financeability.

To date, this engagement has been driven by network operators and is narrowly focused to lend support to regulatory proposals. Different approaches have been used, and the outcomes of the engagement have informed regulatory decisions in different ways.

With respect to consumer engagement on accelerated depreciation and financeability, this report documents the findings of an Energy Consumers Australia funded project to:

- Consider the economic and policy contexts for engagement on these topics
- Document the existing evidence of consumer engagement including the purpose, approach and outcomes
- Consider the strengths, challenges and opportunities to improve that engagement
- Provide some recommendations to improve consumer engagement

1.2 Methodology

This project comprised two components:

- Desktop research to establish the regulatory basis and context for consumer engagement on accelerated depreciation and financeability, and document and review the history of consumer engagement on the topics and associated regulatory responses.
- A total of 18 interviews with 26 individuals including consumers and consumer representatives, energy network operators, and regulators chosen for their diversity of perspectives. All feedback was anonymised to encourage participants to speak freely.

The conclusions and recommendations below are based on our synthesis of these two components.

1.3 Conclusions

1.3.1 Accelerated depreciation

Purpose of engagement

- Regulators expect network operators to engage with consumers on material aspects of their regulatory proposals.
- Regulators value sound evidence of consumer preferences to help inform regulatory decisions.
- As consumers electrify their homes and businesses, gas networks are increasingly seeking accelerated depreciation to recover the cost of their assets faster in response to likely shortened asset lives.
    - Consequently, since around 2019 to inform their regulatory proposals gas network operators have been engaging with consumers and consumer representatives on accelerated depreciation to gather evidence of consumer preferences.
- The current engagement purpose may not be fulfilling the goals of regulators and consumer representatives, who are seeking greater understanding of consumer views on broader issues, such as fairness and alternatives to accelerated depreciation, to give context and meaning to consumer preferences.

Effectiveness of engagement

- Regulators, networks and informed consumer representatives have a relatively consistent understanding of the concepts of accelerated depreciation and financeability in the contexts of gas asset stranding and financing transmission projects to support the energy transition, however the way they would explain these concepts to consumers varies.

- Stakeholders agree accelerated depreciation and financeability are difficult concepts to explain and contextualise to end consumers.
    - End consumers require simple explanations and time to develop their understanding.
    - While analogies can help explain complex concepts there is no agreement as to the most appropriate analogy to present a consistent and accurate explanation of accelerated depreciation.
    - We have found limited evidence that consumer understanding of explanations is validated, including their understanding of the bill implications of network tariff increases.
- Consumers are not necessarily interested in engaging on technical topics, particularly if the benefit is difficult to understand.
- Informed consumer advocates are better placed to engage on detailed technical accelerated depreciation and financeability proposals.
- Network operators' engagement with end consumers on accelerated depreciation is typically narrowly focused to establish consumer support for a particular amount of accelerated depreciation and does not commonly include an option for no accelerated depreciation.
    - This lack of context diminishes the value of consumer engagement on accelerated depreciation for regulators and consumer representatives.
- Regardless of the quality of consumer engagement, regulatory decisions may not reflect the consumer preferences elicited from the engagement, prompting network representatives to question the value of the engagement.

1.3.2 Financeability

- The financeability of fast-tracked electricity transmission projects is an emerging topic, and so consumer engagement on the topic is yet to be tested.
- The rule that enables financeability adjustments requires the AER to carry out a prescribed financeability test which does not include scope for accounting for consumer views.
- Nonetheless there is value in ensuring consumers are at least informed about the implications for the prices they pay, and how the benefits of these projects will manifest (what's the "value for money" proposition). There may also be value in consulting on the different options for remedying a financeability issue, if there are material differences between the options.
- A broader issue exists around the affordability and value for money of transmission investment programs regardless of the financeability question, due to the piecemeal nature of regulatory approvals.

1.4 Recommendations

1.4.1 Accelerated depreciation

- Engagement on accelerated depreciation needs to consider consumer perspectives on fairness and equity. This includes, but is not limited to, intergenerational equity.
- Co-design and co-delivery between network operators, consumer representatives and regulators (if they are willing to do so) would engender trust and confidence in the engagement process. At a minimum, networks should incorporate countervailing evidence and perspectives gathered by non-network parties in their engagement
- Regardless of the approach, it is important to have confidence that consumers understand what is being asked of them. At a minimum, asking consumers the reason for their views is a useful cross-check for their understanding
- Engagement effectiveness will be improved if network operators and other parties seeking to engage with consumers on accelerated depreciation should incorporate the AER's guidance given in its JGN decision (see Section 4.3).
- Regulatory precedents have been established on how much accelerated depreciation a regulator will allow and the criterion that support its decision. In most cases this has been a lower amount than proposed by the business. Networks should consider confining the range of any options proposed to

what will be plausibly acceptable to a regulator, including testing an option for no accelerated depreciation.

1.4.2 Financeability

- Electricity transmission network operators should elicit stakeholder views on the cumulative effect of all the projects they have been approved to invest in, for example by establishing ongoing reference groups/panels and presenting to them.
    - This could aid consumer understanding of why the electricity transmission network operator is seeking a financeability adjustment as well as building trust by being fully transparent about the overall transition costs for consumers.

1.4.3 Broader engagement guidance

- While this project has only examined one aspect of consumer engagement to inform network operator proposals, the issues highlighted by this project including differing expectations between different stakeholder groups indicate it may be timely for regulators to more broadly review and update their expectations of energy network operators on what to engage on and how this could occur.
- Consumer representatives would reasonably expect to contribute the development of any revised guidance, whether this be a review of the Australian Energy Regulator's *Better Resets Handbook*, published in 2021 with some minor changes in 2024, or for the WA Economic Regulation Authority this could involve developing a guidance document.

2 Project overview

2.1 Context

The energy transition represents a fundamental change in energy systems from fossil fuel to renewable energy sources and from centralised to decentralised systems. Importantly, government policy aims to drive these changes faster than the market might naturally deliver them. These forces have the potential to put energy networks under financial stress with significant potential implications for consumers, albeit in two quite different ways:

1. **Stranding of gas network assets:** With the energy transition, demand for gas is declining and this raises the risk to gas networks of stranded assets (unused or underutilised parts of the network) as well as a diminishing customer base from which to recover the costs of those assets. Gas network operators still need to be able to invest in their networks to keep them safe and reliable, but this investment may become harder to finance as the stranded asset risk increases, and fewer customers remain on gas networks to contribute to the cost of maintaining gas networks.
2. **Accelerated expansion of electricity transmission networks**: To support the energy transition, governments are creating Renewable Energy Zones (REZ) where the generation of renewable energy will be concentrated. The Australian Energy Market Operator (AEMO) has also identified a need to strengthen the existing transmission network and improve interconnection of electricity networks between states. This has created a large pipeline of investments that have tight timeframes relative to electricity transmission operators' existing asset base, which may make these new investments harder to finance compared to a transmission network's business as usual operations.

The Australian Energy Regulator's (AER's) regulatory framework requires networks to engage with customers and other relevant stakeholders to demonstrate support for their regulatory proposals, including any elements of the proposal that support the network's ability to finance itself on an ongoing basis. These requirements are detailed in the AER's *Better Resets Handbook,*[1] which recognises that genuine engagement with consumers will lead to better regulatory outcomes in line with the long-term interests of consumers. Although the requirements are less formal for Western Australian network operators than those that operate within the National Energy Market and are regulated by the AER, the Economic Regulation Authority of Western Australia (ERA WA) recognises the value of evidence of consumer preferences in regulatory proposals.

Engagement on accelerated depreciation and financeability to date has been from a network perspective and is narrowly focused to inform regulatory proposals.

From a research perspective, we have observed considerable variability in the way consumers are introduced to challenging topics such as accelerated depreciation and financeability of fast-tracked capital projects. There are also questions as to the extent consumers genuinely understand the information that is presented to them and therefore their ability to form a reasonably informed view on the subject. We see this issue as particularly important, as a common approach to ensuring consumer understanding of accelerated depreciation and financeability and testing their preferences would also help streamline the regulator's assessments of these issues and ensure decisions at least from a consumer input perspective are fair and more consistent between networks (notwithstanding for jurisdictional differences associated with the energy transition). Little attention has been given to the bigger questions such as who should pay, or from a regulatory perspective establishing some objective principles to assess network engagement on these issues.

These observations are not to criticise networks directly as the subject matter is new; policy settings are changing, and all parties are learning. We also recognise the challenges in engaging customers on complex financial trade-offs.

Further we are not aware of any research that has not been led by network operators that could either independently support or challenge network approaches. Such information would be invaluable to network consumer panels that are appointed to challenge networks and other parties such as the AER's Consumer Challenge Panel and the AER itself.

[1] AER, July 2024, *Better Resets Handbook*

Before any non-network led research is considered, it is important to establish the existing evidence on consumer understanding and attitudes to the issues of accelerated depreciation of stranded assets and financeability of accelerated expansion of electricity transmission networks as well as identifying any gaps and limitations. This will inform an approach to designing better practice consumer research on this topic which would be valuable in assisting any future contemplating consumer engagement on these subjects as well as assisting parties seeking to evaluate a network reset proposal and associated engagement that included accelerated depreciation and/or financeability.

2.2 Purpose and objectives

The purpose of this project, with respect to the issues of accelerated depreciation of stranded assets and financeability of accelerated expansion of electricity transmission networks, was to develop a broader understanding of these issues from a consumer perspective by considering:

- The economic and policy contexts for engagement on these topics
- Document and review existing evidence of consumer engagement including the purpose, approach and outcomes
- Consider the strengths, challenges and opportunities to improve that engagement
- Develop some principles around better research and consumer engagement

2.3 Approach

This project was informed by:

- A review of contextual economic and policy information and recent gas distribution and transmission and electricity transmission regulatory proposals focusing on accelerated depreciation and/or financeability decisions (Section 3 of this report)
- A review of the history of consumer engagement accelerated depreciation and financeability decisions that informed regulatory proposals and decisions (Section 4)
- Interviews with selected consumer representatives, network engagement and regulatory decision makers and independent research and engagement practitioners who have supported network engagement activities[2] (Section 5)
- Consideration of regulatory engagement expectations, and principles of good research and engagement practice (Section 6)

[2] Appendix A contains further details of this aspect of our project, including a deidentified participant profile and our broad lines of questioning.

3 Economic and policy context

3.1 Regulatory framework

Depreciation plays an important role in energy network regulation as practiced in Australia and elsewhere, as it is one of the key "building blocks" that regulators use to determine the maximum revenue that these natural monopoly businesses can charge consumers.

Depreciation is "the amount by which something, such as a piece of equipment, is reduced in value in a company's financial accounts, over the period of time it has been in use"[3]. It recognises that such assets are used over multiple accounting periods (years) and as such have value across their useful life. Depreciation can represent one or more of the following: [4]

(a) expected physical wear and tear;

(b) technical obsolescence; and

(c) economic obsolescence, for example due to legal or other limits on the use of the asset.

The building blocks referred to above contain three components based on the value of long-lived, or capital assets.[5] The Regulatory Asset Base (RAB) represents the stock of capital investment over time. Each year's capital expenditure (capex) is added to the RAB. From the RAB, two of the elements that are summed to determine allowed revenue are calculated. One of these is the return on capital, also known as the rate of return or the Weighted Average Cost of Capital (WACC).

The other is the return of capital, i.e. depreciation, which is deducted from the RAB. The RAB is periodically revalued for the effect of inflation, and in the revenue calculation, the same amount is deducted from depreciation to avoid double counting.

If a business cannot raise all the revenue it needs to fund capital expenditure projects when the expenditure is required, it needs to finance its investment with a combination of equity and debt, so the concept of depreciation is associated with the need to finance a business. A regulator typically must have regard to the network operator's ability to finance itself, i.e. its *financeablity*.

Alternatively, and theoretically, today's customers could be asked to pay for today's investments (pay-as-you-go); noting that in a "steady state" customers would pay a similar amount either way. However, this alternative violates the important regulatory principle of *intergenerational equity*, whereby capex spent today benefits customers for many years into the future and so the cost of the investment should be paid back over its useful life. Hence, we have the RAB, the WACC and depreciation.

In practice, networks never seem to be in a "steady state". Accordingly, issues may arise when the rate of growth or shrinkage of the RAB falls outside certain parameters. These parameters cannot be objectively determined, and hence whether a business is in a situation where it needs additional financeability support is highly contested. As the AER has explained:[6]

> *"Financeability tests aim to assess whether a business can raise debt capital at a given credit rating. In practice these assessments are undertaken by rating agencies and are informed by subjective judgements and financial metrics. Therefore, it is not possible to undertake a hypothetical assessment for a benchmark firm with precision. As such, regulators typically condense their analysis to a review of financial metrics against a benchmark rule of thumb."*

[3] Cambridge online dictionary, accessed 16 June 2025

[4] Australian Accounting Standards Board, August 1997, *AAS4 Depreciation*

[5] Other components include operating expenditure (opex), tax and adjustments for the outcomes of incentive schemes.

3.2 Possible causes of financeability issues

There are various potential causes of a financeability issue – or at least a potential financeability issue. It is beyond the scope of this project to consider them all. Instead, we focus on the two possible causes of most relevance:

1. Future of gas networks - stranded asset risk

A combination of government policies and technological changes are resulting in a decline in the consumption of reticulated natural gas (i.e. gas that is supplied to households and businesses through a network of pipelines, rather than bottles or tankers). Not all gas networks are price-regulated, but most of those that are price-regulated have developed scenarios that illustrate the risk that further decline in consumption and a fall in customer numbers may leave them unable to recover the full value of their RAB (i.e. the assets are "stranded").

As a partial protection[6] against this risk, network operators seek approval from regulators to increase the rate of depreciation of their assets, which reduces the RAB more quickly (or in the first instance, arrests its growth). Other things being equal, this *accelerated depreciation* increases prices paid by today's customers to protect against a potential future risk. Whether this represents intergenerational equity or not depends on how this protection is interpreted. One perspective is that without sufficient confidence that their investment is recoverable, gas network businesses will not have the confidence to invest *today* to keep today's gas network safe, secure and reliable. Another is that investors will be reluctant to lend or invest more equity *today* (or will require a higher return on their investment). Questions of fairness as to who should pay, and how much, also emerge. We return to these issues later in our report.

2. Transmission expansion

Financeability of capital projects, has become an increasingly important topic with governments approving accelerated transmission projects to support the energy transition, such as those fast-paced transmission projects approved by the NSW Government to support the development of NSW REZ. To deliver on these projects over short time frames, networks are looking to consumers to contribute a greater share of the funding sooner, rather than spread it over a standard asset life. This concept is relatively new and has not been widely tested in a regulatory context.

The regulatory framework and its assumptions about financing are constrained by a large, rapid increase in RAB that needs to be financed deliver these accelerated transmission projects to support the energy transition. The current regulatory approach of applying straight line depreciation over the full technical life of the asset implies that consumers receive the same benefit from the asset in each year of its life. However, this assumption may not be applicable for large network extensions, where the benefits arise early (although not immediately), as new low emissions generation and storage connects to the network. To the extent this is true, intergenerational equity is arguably improved by bringing forward some of the cost recovery to help finance the investment. Given that the specific rule under which this financeability adjustment is applied is designed to only make the minimum necessary adjustment, it is likely that the impact of accelerated depreciation of transmission investments will be lower than in the case of gas stranded assets. This will become clearer as the rule is applied in practice.

The implication or potential implication for consumers centres on issues of apportionment of risk and fairness between networks wanting to maintain their credit ratings, the consumer benefit of fast-tracking these projects consumers, and affordability at least in the shorter term.

3.3 National Energy Rules

While Section 3.1 above describes the key concepts of depreciation and financeability, their application in network regulation must take account of the legal definitions set out in the National Gas Rules (NGR) and the National Electricity Rules (NER).[7]

The NGRs allow gas network operators a reasonable opportunity to recover their efficient costs through depreciation of their assets over their expected economic life. Importantly they also allow networks to adjust the depreciation rate "to reflect changes in the expected economic life of an asset, or a particular

[6] See for example quotes from AER and ERA in Section 3.4.1 of this report.

[7] Note that the National Energy Rules are not truly "national". While WA has largely adopted the NGR, and so the gas stranded assets scenario is relevant there, it has not adopted the NER. Accordingly, accelerated depreciation as a regulatory solution to financeability is currently only relevant to the east coast NEM jurisdictions. Whether it could be a consideration in WA in the future if large-scale transmission expansion is proposed in WA is beyond the scope of this report.

group of assets" (Rule 89 (1) (c)).[8] This aspect of the rules allows for accelerated depreciation, although the specific term is not used in the NGR. While financeability is not cited directly, the depreciation criteria also include a provision that allows for "the service provider's reasonable needs for cash flow to meet financing, non-capital and other costs" (Rule 89 (1) (e)).

Another relevant rule in the context of stranded asset risk is the Capital Redundancy Rule 85, which allows for:

> *"a mechanism to ensure that assets that cease to contribute in any way to the delivery of pipeline services (redundant assets) are removed from the capital base" (Rule 85(1)) and also a mechanism for sharing costs associated with a decline in demand for pipeline services between the service provider and users"* (Rule 85(3)).

The NER do not define financeability as a standalone term. However, the concept is encapsulated within the Revenue and Pricing Principles set out in the National Electricity Law (extract below):

> *"A price or charge for the provision of a direct control network service should allow for a return commensurate with the regulatory and commercial risks involved in providing the direct control network service to which that price or charge relates.*
>
> *Regard should be had to the economic costs and risks of the potential for under and over investment by a regulated network service provider in, as the case requires, a distribution system or transmission system with which the operator provides direct control network services."*[9]

The financeability test is set out in Clause 6A of the NER. The relevant definitions are linked and serve the purpose of specifying the financeability test, rather than providing a layperson's definition of financeability.

There is an inevitable tension between the specific and technical wording of the Laws and the Rules and the simplified, everyday explanations of the issues that are understandably required for effective consumer engagement. It is of course, good practice to present topics in language easily comprehensible to a layperson, but there is always a risk of loss of nuance.

[8] All NGR citations in this section are sourced from Australian Energy Market Commission (AEMC), May 2025, *National Gas Rules, Version 85.*

[9] Section 7A of the NEL.

3.4 Implications for consumers

3.4.1 Stranded gas assets

Under the NER, gas distribution businesses may seek to accelerate the depreciation of their assets, while there are sufficient customers on their networks from whom they can recover their costs.

As more customers leave the gas networks, eventually there will be too few customers from whom gas networks can recover the cost of their assets. Aside from gas dependent industrial businesses, those customers who are most likely to remain on the gas networks are those who can least afford to participate in the energy transition, but those fewer gas customers could be subject to much higher prices than they are paying today.

Network operators and others including the AER[10] contend that at least small steps should be taken now to equitably manage the recovery of costs, rather than the increasing the burden for the continually declining number of gas customers. This issue is at the heart of the concept of intergenerational equity. However, regulators are clear that accelerated depreciation on its own cannot fully address this issue. The AER has stated:

> *"Addressing the broader issues in the gas sector requires a holistic policy response. While accelerated depreciation can be used as a tool for reducing asset stranding risk, it has limitations and on its own cannot resolve the issues faced by the gas networks and customers from anticipated declining demand. Declining demand is ultimately the key driver of rising future network prices. So long as demand continues to decline, no affordable amount of accelerated depreciation will achieve long-term price stability.11"*
>
> *The ERA has noted that a balanced approach is necessary, observing that "the provision of excessive accelerated depreciation can increase stranding risk. This highlights that it is possible to provide too much accelerated depreciation, whereby the resulting increased prices perversely intensify the problem that accelerated depreciation sought to address"12.*

As previously mentioned, from a consumer and regulatory perspective, consumers should have a say as to how much they should pay over a regulatory period, if anything. Importantly, the AER's *Better Resets Handbook* expects networks to engage with consumers, and on topics that have the most significant impact on consumers.

3.4.2 Transmission expansion

When an electricity transmission business is preparing its regulatory proposal and accelerated depreciation is being proposed, the relevant major project, such as those transmission projects associated with the NSW REZ, has essentially been approved by the relevant authority (AEMO Services in the NSW case).

As a result, engagement on accelerated depreciation is not a question of *consulting* consumers on whether the project should go ahead, or what local communities think about the installation of the physical infrastructure in their locality, but simply on whether some of the cost recovery should be brought forward compared to the status quo.

Additionally, whether a transmission network operator's credit rating is under threat from an incremental investment is a technical matter, and is assessed against regulatory benchmarks, rather than real world outcomes. It is also a mechanistic assessment and so there is no scope for the AER to consider consumer sentiment in applying the threshold test.

Accordingly, the role of consumer engagement in the issue of transmission financeability is likely to be limited to *informing* consumers level engagement, in which the transmission business explains to customers an intent to seek a financeability adjustment and why they consider it is necessary. There may be scope to seek consumer preferences on which of the adjustment tools allowed in the Rules are most appropriate, but given the AER will be making the minimum necessary adjustment, it seems unlikely that the price differentials between each of them would be sufficiently material to elicit a strong opinion from

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10 AER, June 2023, *Final decision AusNet Gas Services Gas distribution access arrangement 1 July 2023 to 30 June 2028 Overview,* Jp. 8

11 AER, May 2025, *Final Decision Jemena Gas Networks (NSW) Ltd Access Arrangement 2025 to 2030 Attachment 4 Regulatory depreciation*, p9

12 ERA, November 2024, *Final decision on access arrangement for the Mid-West and South-West Gas Distribution Systems (2025 to 2029) Attachment 6: Depreciation*, p28

customers. In any case, it would be unreasonable to expect end consumers to be able to meaningfully engage in such technical discussions and would be better suited to well-informed consumer representatives. These issues are considered further in Section **Error! Reference source not found.**.

Alternative approaches

The two examples above represent opposing financeability challenges (decline versus rapid growth) and yet they share a common potential solution – accelerated depreciation, and proposals to accelerate depreciation are allowable under the National Energy Rules. Consequently, networks seeking to accelerate depreciation tend to focus their engagement on seeking customer support for a preferred level of accelerated depreciation.

However, accelerated depreciation is not the only solution, and the alternative solutions will differ according to the situation. In the case of stranded gas asset risk, the AER published a discussion paper in November 2021 examining a range of options, listed below.

Stranded asset risk options[13]

- Option 1: Adjusting regulatory depreciation
- Option 2: Compensating for stranded asset risk
- Option 3: Removing capital base indexation
- Option 4: Sharing costs under capital redundancy provisions
- Option 5: Revaluation of asset base
- Option 6: Introducing exit fees
- Option 7: Increasing fixed charges

Financeability of major transmission projects options

- Concessional finance
- Contestability
- Beneficiary pays
- Rate of return changes (gearing, weighting the trailing average return on debt)
- Removing capital base indexation

These alternatives have various sources and are discussed further in Section 4.4.

3.5 Consumer engagement – regulatory expectations

The *Better Resets Handbook* sets out the AER's expectations as to how network businesses should engage with consumers and how that engagement should be reflected in their proposals. The AER identifies a set of principles around the nature of and breadth and depth of engagement and the evidenced impact of that engagement. The nature of engagement includes sincerity, collaborating with consumers on an ongoing basis, equipping consumers to ensure they can effectively engage and accountability. The AER also expects network businesses' engagement to be accessible, transparent and clear. Beyond these principles, the AER encourages networks to engage with customers via multiple complementary channels and to aim to understand and represent the balance and interests of all customer cohorts.

Notably, although the Western Australia ERA considers consumer perspectives, unlike the AER it has not formalised its engagement expectations of network businesses.

Accordingly, network businesses (at least those within the NEM) that are seeking to accelerate depreciation, tend to focus their engagement on seeking customer support for a preferred level of accelerated depreciation. We discuss the value and effectiveness of this consumer engagement in more detail in Chapters 4 and 5.

Although some alternatives to accelerated depreciation and financeability may require legislative or rule changes, this does not necessarily mean that such alternatives should be excluded as topics for engagement with consumers and other stakeholders. Consumer perspectives on alternative approaches would provide valuable context for understanding consumer support for accelerated depreciation over potential alternatives. We return to this issue in Chapter 6.

4 Consumer engagement history

4.1 2015: AusNet transmission engages on accelerated depreciation

At least for networks within the NEM, the AER's website was an obvious starting point to track the evolution of consumer engagement on accelerated depreciation and financeability. Interestingly the earliest references we located related to accelerated depreciation of transmission network assets, associated with uncertainty about the future of the transmission network.

In October 2015, when AusNet Services submitted its Electricity Transmission Revenue Review 2017-22 proposal to the AER it included as an appendix a consultation paper raising the option of accelerating depreciation on the whole of the transmission network or new transmission assets as a means of improving intergenerational equity.[13] Following the AER's public forum AusNet heard there was some support for the principles behind accelerated depreciation. AusNet subsequently interviewed five representatives from consumer advocacy groups to understand their perceptions and acceptance of accelerated depreciation to help inform its revenue proposal. The findings were inconsistent, with some advocates suggesting consumers would be sceptical that AusNet was simply looking for a means of capturing more revenue, while others suggested that AusNet's proposed accelerated depreciation amount of less than $7 per annum for residential customers would be acceptable to consumers.[14] Significantly at that time AusNet acknowledged the issue of accelerated depreciation was complex.[15] The AER accepted AusNet's proposal to create new asset class for assets removed, or expected to be removed, from service over the 2017–22 regulatory period, such that their full remaining value could be depreciated over the five years. However, the AER rejected AusNet's accelerated depreciation proposal associated with the forecast closure of the Yallourn Power Station in 2025 as there was too much uncertainty about the timing of the closure.[16] The AER did not reference AusNet's consumer engagement in its determination.

4.2 2019: Gas distributors begin to engage on accelerated depreciation

From 2019, gas network operators began to seek an allowance for accelerated depreciation in their access arrangement proposals to help recover the costs of assets that are likely to be stranded because of the energy transition. In line with the AER's expectations, gas networks have engaged with consumers to seek support for their gas access arrangement proposals.[17]

In 2019, Jemena Gas Networks (JGN) with the support of an independent engagement consultant consulted with a range of customer groups comprised of "everyday customers" over multiple sessions, to inform its access arrangement proposal. JGN sought to understand customer support for JGN to speed up the recovery of investments in new medium pressure mains and service assets. JGN initially sought customer views on the concept of fairness with customers, and in the context of intergenerational equity, customers were asked:[18]

> "Would it be fairer for current customers to pay more for new investments we make on the network relative to future customers?"

While the consultant's report concludes that customers value "fairness", customers' definitions were diverse: some considered intergenerational equity, others considered affordability and others considered smooth and stable bills. Fairness aside, in a subsequent session customers were asked to vote on whether

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13 AusNet Transmission Group Pty Ltd, October 2015, *Transmission Revenue Review, 2017-2022, Appendix 3B: Consultation Paper - Accelerated Depreciation*

14 It is not clear in the report if this the $7 proposed by AusNet is expressed in real or nominal dollars.

15 AusNet Transmission Group Pty Ltd, October 2016, *Transmission Revenue Review 2017-2022, Revised Revenue Proposal Appendix 1B: Engagement Overview – TRR Accelerated Depreciation*

16 AER, April 2017, *Final Decision, AusNet Services transmission determination, Attachment 5 – Regulatory depreciation*

17 Current expectations are outlined in the AER's *Better Resets Handbook*, July 2024, borne out of the AER's Better Regulation program and the NewReg trial.

18 Jemena Gas Networks, June 2019, *Jemena Gas Networks (NSW) Ltd 2020-25 Access Arrangement Proposal Attachment 2.3, Engagement materials*, p. 4

they would prefer JGN to depreciate its assets earlier (to 30 years instead of 50 years),[19] which would increase the network charge for residential customers by $7 per annum, or whether they would prefer JGN to continue with its asset investment strategy (50 year asset life).[20] Notably, customers showed strong support for the reduced asset life option.

Between the AER's draft and final decision, JGN commissioned UK regulatory law academic Cosmo Graham to provide advice on how regulators should consider customer views. Graham argued that:

> *"When dealing with expressed views of consumer preferences, there are few reasons for regulators rejecting them. This is especially the case when dealing with consumer views of their own preferences."*[21]

Graham argued that JGN's consumer engagement had been objective, the consumer feedback was representative of consumer views, and did not conflict with policy or legislation, and therefore should be accepted by the regulator. He also warned of negative consequences for rejecting consumers' express views, arguing that companies would be deterred from serious engagement with consumers and consumers would also be less inclined to engage.[22]

Not all stakeholders supported JGN's accelerated depreciation proposal. Public Interest Advocacy Centre (PIAC) (now the Justice Equity Centre) identified a concern that stranded asset risk should be considered as a broader policy issue and thus stated:

> *"While PIAC is generally supportive of the analysis Jemena has done in arriving at its proposal and the engagement it has conducted to minimise negative impacts on consumers, we suggest that doing the 'least bad' version of accelerated depreciation doesn't necessarily make it good."*[23]

ECA also had some fundamental concerns about JGN's accelerated depreciation proposal "and its potential to set a precedent that could negatively impact the long-term interests of consumers in both JGN's footprint and across other Australian gas markets"[24].

From the early days of networks seeking accelerated depreciation for stranded asset risk, the tensions and ambiguities of the consumer engagement are evident. Consumer advocate concerns about the validity of the customer engagement were not based so much about the engagement method, but more about the underlying assumptions of the engagement. Consumer representatives had also identified broader policy choices that they believe should be considered before attempting to resolve the split of cost and risk between gas network consumers and investors. Additionally, neither the NSW government nor the Commonwealth government had at that time set out specific targets or policies to move consumers away from reticulated gas use.

From a network perspective JGN's focus on options that they understood to be consistent with the NGR are understandable. Although JGN presented evidence of customer support for its proposed shorter asset lives, the AER concluded it had no basis to shorten the economic lives of JGN's assets based on claims about underutilisation of its network.

While the AER did not explicitly reject JGN's consumer engagement evidence, implicitly the AER put no weight on the apparent consumer support for accelerated depreciation because it did not agree with JGN's characterisation of the risks that were the basis of consumer deliberations. The AER considered JGN's current and forecast penetration rates for the 2020–25 period at the time did not demonstrate any changed competitive pressures compared to its operating environment at that time.[25]

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[19] Reducing the economic asset life to 30 years from 50 years on the basis that the future of gas was uncertain, it was unlikely to be viable beyond 2050 and a declining number of customers was forecast

[20] Jemena Gas Networks (NSW) Ltd, June 2019, *2020-25 Access Arrangement Proposal Attachment 2.2 JGN's customer engagement*

[21] Cosmo, G., January 2020, Regulatory decision making and consumer voices, Leicester Law School, University of Leicester, attachment to Jemena Gas Networks (NSW) Ltd. *Revised 2020-25 Access Arrangement Proposal, Attachment 8.4 Response to the AER's draft decision - Regulatory decision making and consumer voices,* p. 3

[22] Ibid

[23] PIAC, August 2019, *Submission to Jemena Gas Networks' 2020 Plan,* p. 8

[24] ECA, August 2019, *Jemena Gas Networks (NSW) Access arrangement 2020-25 Proposal Submission to the AER,* p. 13

[25] AER, June 2020*, Final Decision Jemena Gas Networks (NSW) Ltd Access Arrangement 2020 to 2025 Attachment 4 Regulatory depreciation,* p. 22

4.3 Since 2019: Gas distributors have continued to engage on accelerated depreciation

Regardless of the AER's decisions and consumer advocate concerns associated with JGN's 2020 to 2025 access arrangement, gas networks (including JGN) have continued to elicit consumer views on accelerated depreciation, perhaps on the basis that they believe the AER sees consumer support as a minimum requirement for proposing accelerated depreciation, as increasing numbers of customers are choosing to electrify their homes and businesses.

Evoenergy's proposal for accelerated depreciation in 2020 was predicated on a clearer jurisdictional government policy to phase out reticulated gas, albeit the policy evolved during the access arrangement process and continues to evolve. There was an additional complication in that part of their gas network is in NSW, and so not subject to the ACT's policy. Evoenergy carried out a deep dive workshop after the draft decision, both to provide an opportunity for stakeholders to understand the potential for stranded assets in the gas network and to elicit their feedback on Evoenergy's proposal to address the associated risks[26].

That feedback included several parties not supporting any of the options and a clear message from some participants of a role for government. This was an early signal that consumers and other stakeholders wanted the discussion about accelerated depreciation to be part of a broader policy discussion.

The AER's final decision was to allow accelerated depreciation on new assets only. This had a very modest financial impact as the ACT's policy direction meant that Evoenergy's capex program was significantly lower than previous periods. The AER did apply the decision to the whole network, reversing its previous view that only ACT-based assets should be considered at risk.

In 2020, APA Gas Transmission Victoria (APA) argued for accelerated depreciation in its revised proposal based on intergenerational equity and supported by scenarios developed by its consultant ACIL Allen. APA sought to engage its informed stakeholder group on accelerated depreciation during various round-table sessions. However as noted by the AER's CCP, the engagement left people confused as there was no clear narrative to support the accelerated depreciation proposal. While the AER acknowledged CCP and other stakeholders' concerns over APA's engagement on accelerated depreciation and limited APA's analysis were not sufficient reasons to disallow any accelerated depreciation. Consequently, the AER approved APA's revised proposal for $29 million (4.3%) over the 2023–27 period, although this was a more modest amount than the 5% APA originally proposed.[27]

Simultaneously, and in contrast, AGN SA's proposal did not include any accelerated depreciation due to stranded asset risk (there was and is no jurisdictional policy to phase out reticulated gas, and the SA State Government has been supportive of renewable gas development). However, AGN SA proposed a large increase in depreciation ($300m over the five-year period) resulting from its safety-driven mains replacement program. AGN SA argued the replacement program made the old assets obsolete before the end of their expected life, and so it required them to be written down in the RAB. Despite the materiality of this proposal, AGN SA only *informed* customers of this item when it sought customer feedback on the Access Arrangement proposal as a whole; i.e. it did not specifically engage with its customers on the proposed accelerated depreciation. The AER's consideration appeared limited to a technical assessment of whether the assets were genuinely obsolete (noting that the replacement process entailed inserting the new pipe inside the old pipe), before accepting that element of the proposal. The point is that the relevance of engagement on changes to asset lives appears to be dependent on the reason for the change.

Meanwhile, in Western Australia, the Dampier Bunbury (DBP) Natural Gas Pipeline access arrangement also contained a proposal for accelerated depreciation. This was on a subtly different premise from the eastern distribution network proposals. The DBP proposal did not consider that the pipeline assets were at risk of full stranding; rather their utilisation would fall, as the electricity transition changed the consumption patterns of its main customers, gas powered generators. DBP considered that they would run less frequently, but that maximum demand for gas might not fall so far, so the pipeline would still be needed at something like its current size. It considered that it would be in its customers' interests to bring forward some depreciation to mitigate the increase in the $/GJ it would have to charge them in a future with lower gas consumption (and which it may not in practice be able to do so, if that meant that substitute fuels could be procured cheaper than pipeline gas). This aspect was included in discussions with

[26] Communication link, October 2020, Evoenergy stranded asset risk deep dive workshop-September 2020

[27] AER, December 2022, *Final Decision APA VTS access arrangement 2023 to 2027, (1 January 2023 to 31 December 2027) Overview*, p. 17

DBP's stakeholder group (mostly shippers) but not as an item for stakeholder input. The final decision allowed most of the DBP proposal on accelerated depreciation.

In November 2021, the AER published its *Regulating Pipelines Under Uncertainty* paper on its thinking on regulatory approaches to the risk of gas stranded assets. As noted in Section 0 above, accelerated depreciation was just one of the options canvassed. The AER expressed a "preliminary view" that it was their preferred tool if circumstances merited it, while noting broader concerns as to whether the current rules and framework were able to appropriately address the risk[28].

The next major milestone was the Victorian gas network access arrangement reviews for 2023-2028. The three gas distribution networks developed joint scenarios on the future of gas, with the review taking place in the context of government policy development - the Gas Substitution Roadmap was developed while the reviews were in progress. The Roadmap forecast natural gas use in the state would fall by about half by 2030, whereas without government policy, Victorian gas consumption would "remain broadly at today's levels for at least a decade"[29]. The AER's final decision implemented a price path-based approach, where gas price increases were limited to 1.5% pa in real terms. While the AER consulted on its draft decision (which was a 0% real increase) neither the AER nor the networks tested this outcome with consumers directly. The CCP's view was "Customer engagement may provide the overall direction of consumer sentiment on future price paths, however the conclusions are not robust".[30]

More recently, JGN sought a significant amount of accelerated depreciation in its NSW 2025-30 Access arrangement proposal. Unlike the Victorian and ACT cases, NSW currently does not have policies in place aimed at reducing gas demand. JGN's customer engagement included testing support for various levels of accelerated depreciation (not including an option for no accelerated depreciation) with a broadly representative consumer group (its People's Panel) and subsequently retested consumer support for its accelerated depreciation via an online survey of a separate sample of customers. The AER's Consumer Challenge Panel, while commending JGN on its attempt to validate consumer preferences had various concerns with JGN's approach that it expressed in its advice to the AER.[31] The AER's final decision was to apply its price-path approach, with a limit of 1% per annum ($real). The AER did not put significant weight on Jemena's consumer engagement due to issues with the engagement approach, commenting that:

> "consumers who participated in the survey may not be fully aware of the limitations of accelerated depreciation for reducing long-term bills. Therefore, we do not consider the survey results provide sufficient evidence of customer support for JGN's revised proposed accelerated depreciation of $230 million".[32]

Importantly the AER's depreciation report provided some guidance regarding how networks should engage on this issue[33]. Key elements of the guidance include:

- Presentation of multiple scenarios to reflect the uncertainties around the rate of decline of consumer demand
- An explanation of the limitations of accelerated depreciation as a risk management tool
- Projections of the potential price impacts of accelerated depreciation over multiple regulatory periods,
- Consistency between the inputs and assumptions across all aspects of a proposal, including pairing a claim for accelerated depreciation with a minimisation of capex.

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28 AER, November 2021, *Regulating Gas Pipelines Under Uncertainty, Executive summary*

29 Victorian government, July 2022, *Gas Substitution Roadmap*

30 Consumer Challenge Panel 28, February 2023, *Advice to the AER Victorian Gas Distribution Network Access Arrangement 2023–28 Draft Decision and Revised Access Arrangement Proposals,* p. 11

31 Consumer Challenge Panel 31, February 2025, *JGN Gas Network CCP31 Advice to the Australian Energy Regulator AER Draft Decision (November 2024) and JGN Gas Networks NSW Revised Access Arrangement Proposal* (January 2024)

32 AER, May 2025, *Final Decision Jemena Gas Networks (NSW) Ltd Access Arrangement 2025 to 2030 Attachment 4 Regulatory depreciation*, p. 21

33 Ibid., p22

Meanwhile in WA, the ERA has continued to allow accelerated depreciation for gas networks, albeit at lower levels than sought by the businesses[34]. The businesses provided limited evidence of consumer engagement on the specific issue of accelerated depreciation in their proposals, consequently the ERA's decisions were predicated on a technical assessment of the merits of the proposals.

Evoenergy and AGN SA are currently preparing their access Arrangement proposals for the 2026-31 regulatory period. It is premature to comment on their engagement on accelerated depreciation, but we will read their proposals with interest when they are published, particularly given their different approaches for their 2021-26 access arrangements and the jurisdictional differences.

Earlier this year, ECA lodged a set of rule changes to amend the rules for gas network regulation[35]. One of these rule changes seeks to constrain the application of accelerated depreciation to cases where the gas network operator is demonstrably taking a range of steps to minimise new expenditure, manage stranded asset risks and advocating for supportive policy reforms. The AEMC has yet to initiate this rule change project.

4.4 Financeability

The Australian Energy Market Operator's publication of the inaugural Integrated System Plan (ISP) in 2018 was a catalyst for a program of large-scale transmission expansion projects across the NEM, comprising REZs, interconnectors and major upgrades to the existing grid. Since these projects were on a larger scale than previous investments under the regulatory framework, electricity transmission network operators and other stakeholders raised concerns about whether the framework supported the businesses' ability to finance these investments. Several potential solutions were explored.

In 2020, the two electricity transmission network operators that were developing Project Energy Connect (the first of the major projects) lodged similar rule change requests with the Australian Energy Market Commission (AEMC). They argued that the existing regulatory framework "defers revenue recovery through two mechanisms: indexation of the Regulatory Asset Base; and delay of the recovery of revenue for depreciation to when the investment is commissioned rather than incurred"[36] and that for a major investment this put their credit ratings at risk which in turn would cause a financeability problem (as a lower credit rating would mean that debt finance would incur a higher interest rate than assumed by the AER in the Rate of Return Instrument (RoRI)). Accordingly, they sought two adjustments to the rules, to be applicable to ISP projects:

- Remove indexation of the RAB. This would have the effect of moving from a real to nominal rate of return model; and
- Allow depreciation to apply "as incurred" as compared to "as commissioned".[37]

Consumer representative groups that made submissions did not support the proposal, expressing doubts that a financeability problem had been established by the proponents[38] and the AEMC ultimately decided against the rule. The two electricity transmission network operators proceeded with their sections of the project.

In 2022, the newly elected Federal Labor Government implemented its Rewiring the Nation (RTN) policy, which provides concessional debt and equity finance to priority transmission projects[39]. The policy explicitly stated that this would reduce costs to consumers and so a new rule was implemented to ensure the AER could pass the benefits of concessional finance on to consumers.

From 2020-23, the AER's RoRI review considered using a weighted trailing average cost of debt (instead of the simple average approach it had been using) which could better tailor the RoRI to electricity transmission network operators' investment profiles and thus their financing arrangements. The AER's final decision retained the simple trailing average noting that they "identified a number of issues that

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34 ERA, November 2024, *Final decision on access arrangement for the Mid-West and South-West Gas Distribution Systems (2025 to 2029) Attachment 6: Depreciation* and ERA, December 2024, *Final decision on access arrangement for the Goldfields Gas Pipeline (2025 to 2029) Attachment 6: Depreciation*.

35 ECA, February 2025, *Gas Distribution Network Rule Change Requests*

36 Transgrid, September 2020, *Rule Change Proposal – Making ISP Projects Financeable*, p. 1

37 AEMC, April 2021, *Participant derogation – financeability of ISP projects (TransGrid) project page*

38 AEMC, April 2021, *Final Decision*, *Participant Derogation - Financeability of ISP Projects (Transgrid),* Appendix B

39 https://www.dcceew.gov.au/energy/renewable/rewiring-the-nation

could mitigate potential benefits provided by a weighted trailing average, while adding significant complexity".[40] The AER's Consumer Reference Group agreed that a change was not warranted (and in fact Marinus Link was the only electricity transmission network operator to support the idea)[41].

In 2024, the AEMC made a new rule based on a rule change proposal from Minister Bowen to enhance the financeability of Electricity transmission network operators undertaking large investments, noting that:

- electricity transmission network operators may face challenges in raising finance to proceed with ISP projects, and
- the existing revenue-setting framework is not sufficiently flexible to address financeability challenges[42].

The rule is intended to be applied mechanistically. If an electricity transmission network operator applies to the AER for a financeability adjustment the AER applies a threshold test. If the test is met, then the AER adjusts revenues using one of the following tools:

- Applying depreciation "as incurred" rather than "as commissioned"
- Adjusting depreciation rates, such as a profile other than straight-line depreciation or shorter asset lives
- Smoothing revenue within a period

The AER published a guideline in late 2024 explaining how it would process applications[43]. The guideline does not require an electricity transmission network operator to engage customers on its decision to apply for a financeability adjustment. There has yet to be an application by an electricity transmission network operator for a financeability adjustment.

Direct consumer engagement was not a feature of any of the potential solutions described above. The rule changes and the RoRI review all included stakeholder consultations and several consumer groups made submissions to these review processes. In general, consumer groups provided limited support for financeability adjustments. Some groups suggested other approaches such as PIAC's submission to the 2024 rule change which suggested two alternatives:

- **Contestability** – if an incumbent electricity transmission network operator considered it couldn't finance a major project, then it could be tendered out to find another party that could.
- **Beneficiary pays** – the cost of the major project could be shared with generators/storage providers connecting to the network extension. These parties could pay their share up front (as they currently do with their connection charges) which would reduce the amount to go into the RAB and that would thus require financing[44].

40 AER, February 2023, *Explanatory Statement - Rate of Return Instrument*, p. 22

41 Ibid., p. 237

42 AEMC, March 2024, *Accommodating financeability in the regulatory framework final determination*, p. (i)

43 AER, November 2024, *Financeability guideline*

44 PIAC, August 2023, *Finance changes for transmission projects*

5 Stakeholder insights

5.1 Stakeholder definitions

The regulatory framework is determined by rules and laws, as described in Section 3.3 of our report. It follows that definitions matter to regulators and regulated network businesses and it also follows that consistent understanding of concepts and their purpose is needed to ensure consumer engagement is meaningful and outcomes can appropriately inform regulatory decision making.

In this context, we asked participants[45] to explain accelerated depreciation and financeability in their respective contexts. We were mainly interested in establishing:

- Whether a consistent definition for each concept exists, on the basis that it is easier to engage in a subject including ensuring consistent information is provided to consumers, and the reported outcomes have a common basis when there is a common understanding among stakeholders.
- How stakeholders would explain the concepts to lay consumers, such as those consumers who are recruited to participate in broad consumer engagement activities by gas distribution network operators, to establish the extent these concepts can be readily explained, and the extent consumers are receiving consistent information to enable them to understand the topics.

5.1.1 Accelerated depreciation

Stakeholder explanations

Most participants offered relatively technical or economically focused explanations of accelerated depreciation, using terms such as "shortening asset lives", "change from straight line depreciation" and "tool to balance asset stranding risk" that may not be well-understood by consumers. Nevertheless, there appears to be a broadly consistent understanding of the concept of accelerated depreciation and its purpose from consumer, regulatory and network perspectives. Key themes that emerged include:

- Accelerated depreciation is a **regulatory tool** to allow energy network operators to recover the cost of their investments more quickly over time because of an event or events that mean their assets' lives have been shortened:
  - *"The rules require parties to have reasonable chance to recover the cost of their assets."* (Regulator)
  - *"It's the only tool we have."* (Network representative)
  - *"A change to the straight line approach to recover costs more quickly because something has happened and the normal regulatory deal no longer applies, such that an asset that is going to be in use for a long time will no longer be used."* (Consumer representative)
- Climate change policy (the energy transition) is a key reason for gas networks to seek accelerated depreciation as they argue it has effectively **shortened the life of gas network assets**
  - *"Some assets may be shut earlier due to climate change policy so they [network operators] want to recoup costs earlier"* (Consumer representative)
- Accelerated depreciation is a tool to help **manage the risk of asset stranding** associated with uncertainty around the future of gas
  - *"In the absence of policy networks tend to put 2050 (except ACT) [as the end point for their asset lives] and being risk adverse their perception is faster is better to mitigate their risk."* (Regulator)
  - *"It's the transfer of risk/cost from networks to consumers, recovering more from consumers today to leave lower RAB for future consumers."* (Consumer representative)
- Accelerated depreciation is a method for networks to **recover a greater share** of the cost of investments **while more there are more consumers on the network to share the cost**
  - *"Networks say it's unfair if we have 20 years of an asset's life that we can't recover, [they say] it's a risk to them or unfair if they keep recovering costs in the same way and they are running out of customers"* (Regulator)

[45] Depending on their background we focused our discussion either on accelerated depreciation or financeability, or both.

- Accelerated depreciation **provides an incentive** for gas networks to continue to invest in necessary replacement infrastructure as it gives them confidence in their ability to recover this new investment
    - *"It's about retaining incentive for networks to provide services"* (Regulator)

How to explain accelerated depreciation to consumers

There were some clear differences of opinion as to whether consumers should be directly asked to form views on the amount of accelerated depreciation they would be willing to pay. Some consumer representatives consider the engagement focus should be broader and even occur outside a regulatory reset. Importantly they considered such engagement should focus on consumer views regarding the fairness and equity of accelerated depreciation and help inform policy options around who should bear the risk of stranded assets and fund the cost and even whether accelerated depreciation is fair.

Some consumer advocates also argue that consumer views can be shaped by the way questions are framed, which regardless of when it occurs limits the value of the engagement. We return to the merits or otherwise of engaging on accelerated depreciation later in our report.

In contrast to the view of some consumer representatives, most network operators and regulators we interviewed see value in engaging with customers on accelerated depreciation, but they generally consider consumers in general require simpler explanations than those we described earlier to engage effectively on accelerated depreciation.

- *"Accelerated depreciation needs a simplified approach, but you need to get concept of risk across."* (Regulator)
- *"Strip back and simplify"* (Network representative)

Most also suggested an analogy would help consumers understand the concept. The analogy of a mortgage and choosing when to pay it off was most common mentioned, for example:

- *"Mortgage payment: currently say you have a 30-year mortgage, you have uncertainty about paying it off in the future, so you pay more up front so you don't default." (Regulator)*
- *"It's like a mortgage, repaying the interest and principal quicker"* (Consumer representative)
- *"Paying off a house or a car loan more quickly."* (Consumer representative)

Other analogies included:

- *"A rental property, if an investor builds rental home and assumes they have 40 years to pay off loan which would be the base case. If they are then told house the house will be demolished in 10 years, they would have to pay money back quicker"* (Consumer representative)
- *"You have a coffee shop, you invest $100 over 50 years, $x a year if no more coffee shop after x years, you squish the $100 in a shorter period. It may be wrong – but it's easily understood."* (Consumer representative)
- *"Share house - if housemates bailed out would it affect a decision to pay to have the property upgrade"* (Consumer representative)
- *"it's like driving a car over hilly terrain and looking to the road ahead – you can accelerate or decelerate as you need to"* (Network)

This last analogy was the only one that incorporated the idea that depreciation rates may be slowed down in the future as uncertainties resolved. This highlights a range of expectations amongst stakeholders about how quickly the energy transition will take place, and uncertainty around the opportunity for ongoing provision of network services post 2050 (e.g. renewable gas delivery), noting that not every network is in the same set of circumstances.

Stakeholders also considered that consumer understanding of the subject should be built over time.

One non-network participant also challenged the way network operators have explained accelerated depreciation in the past, particularly in relation to the "promise" of price stability in the future if consumers agree to pay more accelerated depreciation today, on the basis that behavioural insights show that consumers will place less value on future or longer-term gains than immediate gains.

5.1.2 Financeability

Stakeholder explanations

Compared to accelerated depreciation, we engaged with fewer participants about financeability in the context of financing fast paced electricity transmission projects. Although some participants were involved in electricity transmission regulatory proposals and consumer engagement, financeability had not received a lot of attention as a topic of discussion.

Consequently, explanations of financeability were relatively basic:

- *"The ability to raise capital to finance projects." (Network representative)*
- *"The ongoing ability to 'efficiently' fund investments now and in the future (Network representative)*
- *"The ability of the utility (transmission business) to pay for infrastructure that is necessary to provide the service they provide."* (Consumer representative)

One consumer representative provided a more detailed explanation that considers implications for consumers:

- *"Consumers need businesses to build essential infrastructure, and businesses expect to earn a reasonable return on it … shareholders are being asked to find the money for a riskier proposition – financeability. The shareholders cry poor and need assistance. They either get assistance or new shareholders with different expectations. A financeability problem occurs if a credit rating is at risk."* (Consumer representative)

As with accelerated depreciation, participants considered that the subject of financeability was complex, particularly for the broader consumer population to understand; knowledge and understanding of the subject matter needs to be built over time.

- *"You would want to spend some time on [building their] knowledge base - building blocks and depreciation's role in that."* (Network representative)
- *"Network operator, it's a somewhat complex topic and ingrained in way we are regulated. You would need to build up base knowledge of building blocks."* (Network representative)
- *"In financeability – the terms of investments are clear to investors and the rewards are clear to investors only, not so to consumers. It is difficult for consumers to understand future finance risks they are being asked to underwrite investors for."* (Consumer representative)
- *"Back to bare metal, providing digestible and simple information and not overwhelming them."* (Network representative)
- *"Financeability needs more transparency, show price impacts over a longer time period"* (Regulator)

Another emerging theme was the piecemeal nature of decision-making on transmission investments which meant that no single process incorporated the cumulative impact of all the different investments. This has implications for any engagement on price impacts and network operators' financeability requirements.

- *"We try to spell out contingent project implications for consumers; [but there are] separate frameworks for REZ and considered differently."* (Regulator)
- *"What is missing for consumers is an overall narrative to bring together."* (Consumer representative)

5.2 Perceptions of consumer engagement

5.2.1 Overview

Most consumer representatives and network representatives we interviewed had been directly involved in consumer engagement on accelerated depreciation with end consumers, either as a contributor to the design, as an observer or as a user of the outcomes of the engagement. Only a small minority had any experience of electricity transmission network engagement on financeability, and some of that is in progress and only involves consumer representatives; i.e. it does not include engagement with end consumers.

All the consumer engagement we heard about was initiated by gas distribution businesses to establish consumer support for accelerated depreciation proposals. In Section 4 we provided an overview of gas

network consumer engagement on accelerated depreciation and electricity transmission engagement on financeability based on network proposals, supporting documentation and the AER's decisions.

Our purpose in seeking stakeholder views anonymously was to allow stakeholders to speak candidly about their perceptions of the engagement, those aspects that worked well and areas where they consider engagement could improve.

Network engagement with gas distribution customers (end customers) has tended to focus on either asking consumers whether they support a predetermined amount of accelerated depreciation, such as in APA's engagement to inform its 2022-27 Transmission Access Arrangement, or customers were presented with options (a small, moderate or relatively large amount of accelerated depreciation) such as in JGN's engagement to inform its 2026-31 Access Arrangement.

5.2.2 Perceptions

Perceptions of the quality and effectiveness of consumer engagement varied considerably. Network representatives generally considered their engagement on accelerated depreciation worked well and was informative, although some questioned its value when regulatory decisions were not necessarily consistent with their proposals. In contrast consumer representatives, and to some extent regulatory representatives, predominantly identified limitations or concerns with the engagement they observed (with end customers), participated in (as informed consumer representatives) or assessed (from a regulatory perspective).

Network operator perspective

Network representatives were generally comfortable that customers understood what they were being asked to engage on, although they acknowledged accelerated depreciation was a complex topic, it could be difficult to explain to consumers (particularly online), and customers are probably not even interested in the subject.

- *"It's a big issue, customers don't understand, real challenge, customers don't want to engage"* (Network representative)

When asked to comment on their confidence in the engagement on accelerated depreciation, we heard that asking customers to comment on a flat or increasing price path over time was not complex, compared to engaging on the specifics of accelerated depreciation.

We also heard that consumer understanding was judged by the questions and feedback from customers:

- *"They get it and understand it - we know because of the feedback afterwards: two rounds of consultation and they remembered it in the second round*." (Network representative – who even indicated that they explain the economics of accelerated depreciation to consumers!)
- *"You know they get it when they ask a question or make a statement in the negative, [such as] 'you made that investment as a business...'"* (Network representative)
- *"The mortgage framework is useful but not perfect … customers got it, and they were capable of saying things like 'Couldn't government pay some of this?'"* (Network representative)

Regardless of networks' judgement of the success of their approach in eliciting customer preferences, they also expressed an underlying frustration in the feedback they receive in submissions:

- *"We will get caned for it - if we talk too much on the topic [of accelerated depreciation] we get told off; if we talk too much on price paths but did not inform customers on time value of money. It's a disheartening topic to engage on."* (Network representative)

Further, regardless of the engagement, some network representatives were also frustrated at a seeming lack of correspondence between what they heard in the engagement about consumer preferences and the AER's decisions, for example:

- *"It feels like the engagement does not have any impact. The AER has been backsolving all decisions for zero [sic] price rises."* (Network representative)

Consumer representative perspective

Consumer representatives commonly commented on limitations with the information provided to consumers, and particularly that networks were predominantly informing consumers on the subject matter and this influenced the outcome:

- *"The engagement is not as rigorous as might be portrayed; you could get the outcome you aim for depending how you present it."* (Consumer representative)

- *"There's a bit of a problem with gas networks leading the engagement, given their vested interest."* (Consumer representative)
- *"Gas companies would tailor their engagement to gain support, not balanced. If people were fully informed, they might get different responses."* (Consumer representative)
- *"Context was mostly provided by [the network operator] rather than third parties. There is lots of up-front learning ... when [consumers] made a statement that was incorrect, no-one stepped in to correct their misapprehension. I understand that [the business] does not want to lead the witness, but a third party could do that. There is too much reliance on one party to run these sessions."* (Engagement representative)

One engagement specialist emphasised the need to consider the audience for the engagement, comparing the knowledge and experience of an informed consumer advisory group with a broader customer group, in relation to financeability discussions:

They also reflected on the complexity of the subject:

- *"It's so hard to state an opinion if you haven't got lots of facts and theory to hand."* (Consumer representative)
- *"It's complex, hard because people need to be given context and information – you need to spend some time engaging, not just a two-hour session."* (Consumer representative)

Consumer representatives were also concerned that the way consumers are presented with options to choose from also influences their responses:

- *"Regulators to say consumer engagement is important but it is so easy to game, depending on the explanation provided – consumer engagement not as rigorous as might be portrayed."* (Consumer representative)
- *"Forced choice [methods] point consumers in one direction."* (Consumer representative)

Several consumer and regulatory representatives noted that consumer engagement on accelerated depreciation using these approaches did not usually include a zero dollar or no accelerated depreciation option; the underlying assumption presented to consumers being the business presumed it was entitled to recover the costs of potentially stranded assets earlier than straight line depreciation allowed. However, from a consumer representative and even a regulatory perspective a lack of context around whether accelerated depreciation was fair or acceptable to consumers limited the value of the engagement.

Consumer representatives consider they are better equipped than end consumers to engage on technical topics such as accelerated depreciation, as they can have deeper discussions and ask more probing questions.

- *"There is less of a power imbalance when they talk to advocates."* (Consumer representative)

However as one network operator noted:

- *"There are stakeholders who won't engage in processes but make AER submissions and have outsized impacts; some stakeholders are co-ordinating themselves to align on positions and put in aligned submissions*." (Network representative)

Regardless, some consumer representatives also questioned networks' intentions when consumer representatives did provide genuine challenge:

- *"When you do give feedback, they push back and argue rather than listen to your perspective"* (Consumer representative)

Several consumer representatives also commented that networks will report the results of engagement to suit their proposals, for example:

- *"There is a spectrum of how honest the engagement is - they might say they had support for their proposal from consumer engagement that they didn't have."* (Consumer representative)
- *"It's tricky to generalise consumer preferences from a small group of consumers, even if the engagement process with them is well run. Engagement changes people's perspectives. Engagement doesn't override prudency. Diversity of views is critically important; the culture of the network is important. They tend to go in with an answer they want. Some businesses better than others, sometimes that's predicated on particular individuals."* (Consumer representative)

Reading between the lines, while some consumer representatives had concerns about how engagement was carried out, the bigger issue seems to be how it is set up and whether the full range of potential options are on the table for consumers to consider. Until policymakers address the broader question of how risk is shared between consumers, taxpayers and investors, many consumer representatives are reluctant to legitimise an approach that seems to them to seek to put as much of the risk as possible onto consumers before the risk sharing issue has been addressed.

Regulatory representative perspective

Although the regulatory representatives we interviewed had not directly observed network engagement, they had reviewed the evidence of consumer preferences provided by networks, and in submissions. Like consumer representatives they consider networks should explore options to accelerated depreciation in more detail with consumers, for transparency and context, for example:

- *"Networks have not provided all the options to their stakeholders. They only couched intergenerational equity, and costs foregone. Network shareholders could wear some of the costs."* (Regulatory representative)
- *"It's appropriate to put all options on the table. It should not be a problem for the network to out all options, whether or not they are applicable. They should be there in the public domain. It is not beyond reasonable [for a network?] to comment on other solutions; tried to highlight limitations."* (Regulatory representative)

5.3 Considerations for future consumer engagement

Beyond seeking feedback on perceptions of engagement we sought participants' views on the future of consumer engagement on accelerated depreciation. We were interested in exploring ways to improve engagement to address stakeholders' key concerns with the engagement to date. The discussions focused on who should design and lead the engagement, and the substance of the engagement.

5.3.1 Who should lead the engagement

A key concern raised by consumer representatives was that network led engagement was narrowly focused and risked producing biased outcomes (see Section 5.2.2). We asked participants whether there was value in non-network organisations engaging with end consumers on accelerated depreciation and/or financeability.

Some network representatives believe that engagement is best conducted by the businesses. They suggested that the AER does not have the relationship with the customers; although they acknowledged that customer and stakeholder representatives have relationships with consumers.

In contrast, most consumer and regulatory representatives consider there is value in consumer engagement from a non-network perspective:

- *"I think network engagement should one counterbalanced with independent research - network engagement should not be the be all end all."* (Consumer representative)
- *"It would be useful to have a countervailing set of views."* (Regulatory representative)
- *"Ideally - an independent body should carry out this work to minimise subjectivity* (Consumer representative)

Several consumer representatives and one network operator even considered the AER should engage directly with consumers:

- *"Ideally an independent body should carry out this work to minimise subjectivity. Maybe AER or their consultants could do it."* (Consumer representative)
- *"The AER should test with consumers whether they support consequences of their price-path decision. I don't think they currently have grounds for their approach, except perhaps as an interim approach."* (Network representative)

Others considered the AER is not well placed to engage on specific regulatory proposals but may have a role as a national body on understanding broader issues, such as consumer perspectives on fairness.

Several network and consumer representatives also considered consumer groups should engage on accelerated depreciation and/or financeability, although not exclusively:

- *"Consumer groups, especially since the AER is not listening to us! Could ECA start testing some of these ideas in their consumer survey, with the right context."* (Network representative)
- *"Consumer organisations also have a role - ECA consumer sentiment surveys."* (Network representative)

- *"It's problematic if consumers do it all. Policy/regulatory change engagement should be done jointly. Also, if [an issue] has national reach - why should an individual business be driving this engagement?"* (Engagement representative)

5.4 Fairness and equity

Feedback from consumer and regulatory representatives highlights their concerns around the narrow focus of consumer engagement on accelerated depreciation. Several consumer representatives talked to the need to understand consumer views on fairness:

- *"Fairness on both sides – there are customers who no longer wants to have the service, fairness around socialising costs; intergenerational equity; [risks to] shareholder investments - is that fair?"* (Regulatory representative)
- *"It's a question of fairness - networks say it's unfair if we have 20 years of an asset life that we can't recover: it's a risk to them or is it unfair if we keep recovering our costs in the in the same way and we are running out of customers."* (Consumer representative)
- *"In many ways accelerated depreciation is a non-topic ... it's about how much, who wears the cost and is it fair and reasonable?"* (Consumer representative)
- *"You always need to engage to determine what is a fair balance, there is no single concept, a decision is based on a trade off on preferred balance, e.g. everyone pays the same, consumers now pay the same as in the future."* (Consumer representative)

From a consumer perspective, consumers have a right to know:

- What are the risks (asset stranding, networks not being able to recover the cost of assets over their technical lives)/consumers paying more than they should/accelerating death spiral)
- How those risks can be reduced or mitigated (shorten asset lives; accelerate depreciation on stranded assets; curtail investment in new assets that are likely to become stranded)
- Who is best placed to control the risks (networks/investors; governments/taxpayers; consumers)

6 Conclusions

We have formed our conclusions considering the evolving economic and policy contexts for accelerated depreciation and financeability, our review of the history of consumer engagement on these subjects and feedback from consumer, regulatory and network representatives.

6.1 Accelerated depreciation

Purpose of engagement

- Regulators expect networks operators to engage with consumers on material aspects of their regulatory proposals.
- Regulators value sound evidence of consumer preferences to help inform regulatory decisions.
- As the regulatory framework allows gas network operators to reasonably recover the costs of their assets, gas networks are increasingly including amounts of accelerated depreciation to recover the cost of their assets in response to likely shortened asset lives as consumers electrify their homes and businesses. Consequently, since around 2019 gas network operators have been engaging with consumers and consumer representatives on accelerated depreciation to gather evidence of consumer preferences to inform their regulatory proposals.
- The current purpose may not fulfil the goals of regulators and consumer representatives, who are seeking greater understanding of consumer views on broader issues, such as fairness and alternatives to accelerated depreciation to give context and meaning to consumer preferences.

Effectiveness of engagement

- Regulators, networks and informed consumer representatives have a relatively consistent understanding of the concepts of accelerated depreciation and financeability in the contexts of gas asset stranding and financing transmission projects to support the energy transition, however the way they would explain these concepts to consumers varies.
- Stakeholders agree accelerated depreciation and financeability are difficult concepts to explain and contextualise to end consumers.
    - End consumers require simple explanations and time to develop their understanding.
    - While analogies can help explain complex concepts there is no agreement as to the most appropriate analogy to present a consistent and accurate explanation of accelerated depreciation.
    - We have found limited evidence that consumer understanding of explanations is validated, including their understanding of the bill implications of network tariff increases.
- Consumers are not necessarily interested in engaging on technical topics, particularly if the benefit is difficult to understand
- Informed consumer advocates are better placed to engage on detailed accelerated depreciation and financeability proposals.
- Network operators' engagement with end consumers on accelerated depreciation is typically narrowly focused to establish consumer support for a particular amount of accelerated depreciation and does not commonly include an option for no accelerated depreciation.
    - This lack of context diminishes the value of consumer engagement on accelerated depreciation for regulators and consumer representatives.
- Regardless of the quality of consumer engagement, regulatory decisions may not reflect the consumer preferences elicited from the engagement, prompting network representatives to question the value of the engagement.

Opportunities to improve engagement

- Engagement on accelerated depreciation needs to consider consumer perspectives on fairness and equity, i.e. who should pay. This includes but is not limited to issues of intergenerational equity There are challenges in assuming current consumers can also "stand in the shoes" of future consumers.
- Consumer perspectives on accelerated depreciation would be better understood if countervailing evidence and perspectives gathered by non-network parties was available. To this end, genuine co-design and co-delivery between network operators, regulators and consumer representatives may be the best way to engender trust and confidence in the engagement process.
- Regardless of the approach, it is important to have confidence that consumers understand what is being asked of them.
- Networks and other parties can ensure they incorporate the guidance given by the AER in its JGN decision (see Section 4.3).
- In both the eastern states and in West Australia regulatory precedents have been established on how much accelerated depreciation a regulator will allow and the criterion that support its decision. In most cases this has been a lower amount than proposed by the business. Networks should consider confining the range of any options proposed to what will be plausibly acceptable to a regulator.
    - In the case of networks regulated by the AER, a precedent of using a price path approach to balance affordability and stranded risk mitigation has been set.
    - While networks may not agree with this approach, it may support a more effective process if they include such an approach in their future engagement.

6.2 Financeability

- The financeability of fast-tracked electricity transmission projects is an emerging topic, and so consumer engagement on the topic is yet to be tested.
- The specific rule that enables financeability adjustments requires the AER to carry out a specific financeability test which does not include scope for accounting for consumer views.
- Nonetheless there is value in ensuring consumers are at least informed about the implications for the prices they pay, and how the benefits of these projects will manifest (what is the value for money proposition?).
- Ambiguity remains whether there is value in consulting with consumers on their preferences between the different tools available if the financeability test determines a cashflow adjustment is warranted. If there was a material difference between the options then customer views should be a relevant input to this decision.
- A broader issue exists around the affordability and value for money of transmission investment programs regardless of the financeability question: this relates to the fact that project approvals occur under multiple processes (five yearly resets for maintenance and operation of existing network, regulatory investment tests and contingent project applications for major new investments and jurisdictional processes such as the NSW roadmap REZs)
    - There is no one process that aggregates the impacts of these multiple processes to show stakeholders the overall impacts.
- Electricity transmission network operators could create opportunities to elicit stakeholder views on the cumulative effect of all the projects they have been approved to invest in, for example by establishing ongoing reference groups/panels and presenting to them.
    - This could aid understanding of why an electricity transmission network operators is seeking a financeability adjustment, as well as building trust by being transparent about the overall transition costs for consumers.

6.3 Broader considerations

- While this project has only examined one aspect of consumer engagement to inform network operator proposals, the issues highlighted by this project including differing expectations between different stakeholder groups indicate it may be timely for regulators to more broadly review and update their expectations of energy network operators on what to engage on and how this could occur.

- Consumer representatives would reasonably expect to contribute the development of any revised guidance, whether this be a review of the AER's *Better Resets Handbook*, published in 2021 with some minor changes in 2024, or for the WA Economic Regulation Authority this could involve developing a guidance document.

Appendix: stakeholder interviews

Purpose

To understand different stakeholder [consumer representative, network and regulatory] perspectives on consumer understanding and attitudes to the accelerated depreciation of stranded assets and financeability of accelerated expansion of electricity transmission networks and how best engage with consumers on these challenging issues.

Interview topics

The following is a guide to our discussion areas. We tailored our questions according to the participant's role, background, interests and engagement experience.

Theme	Discussion area
Contextual information	• Whose interests the participant represents, e.g. energy networks, regulatory, consumer interests (general or specific groups) • Participant's role, e.g. engagement, regulatory economics, decision maker • Involvement in gas access arrangement reviews/electricity transmission resets
Interest in and understanding of accelerated depreciation/ financeability	• Understanding of accelerated depreciation in relation to gas assets • How would you explain "accelerated depreciation" to consumers? • Understanding of "financeability", particularly in relation to electricity transmission • How would you explain "financeability" to consumers?
Interest in and involvement in consumer engagement on gas access arrangement reviews/electricity transmission resets	• Consumer engagement experience, e.g. designed observed, facilitated, reviewed, consumer engagement, used outcomes to contribute to submissions, inform regulatory proposals and decisions etc. • Objectives of the consumer engagement on accelerated depreciation/financeability • Who was engaged (e.g. customer advocates or broader customer group/end user customers) • Approach to engagement (e.g. open-ended discussion or fix choice options • Information provided to customers
Perceptions of consumer engagement	• Detail and balance of information provided • Participant understanding of the information • Generally, what worked well and what could be improved • Importance of asking consumers explain the reasoning behind their preferences
Future engagement possibilities	• Views on providing consumers with broader contextual information to inform a view on accelerated depreciation/financeability, e.g. government policy information, uncertainty about the future • Advice to a transmission business seeking consumer views on a proposal to improve its financeability by accelerating depreciation [or profiling revenue within a period] • Whether network service providers should always engage consumers on any proposed changes to depreciate network assets, or only in certain circumstances

Theme	Discussion area
	• Whether other parties than networks should seek consumer input on issues such as accelerated depreciation and financeability, and if so which other parties and the format • Other issues or potential options (including any that might require a rule/law change/government funding) related to these topics where would be worth seeking consumer views on • Key recommendations for good or better consumer engagement on accelerated depreciation/financeability to inform regulatory proposals and better support regulatory decisions

Interview participants

Over approximately three weeks from 28 May 2025 to 17 June 2025, we conducted 18 interviews with 26 individuals including consumers and consumer interest representatives, energy network operators, and regulators. We identified potential participants with relevant knowledge and experience through our professional networks and referrals. Our choice of participants was not intended to be exhaustive; rather we sought to obtain a diversity other than perspectives with respect to experience and interests, with respect to roles, organisation and location. To encourage participants to speak freely and openly we undertook to interview participants anonymously and to only refer to them throughout our report in the broad context of their roles.

In summary we interviewed:

- 10 consumer advocates and other consumer representatives
- 10 individuals from gas distribution and electricity transmission businesses who work in a combination of consumer engagement and regulatory roles, responsible for engagement design and oversight and using engagement outcomes to inform regulatory proposals
- 6 individuals who are employed by energy regulators (the AER and ERA Western Australia)
- 4 engagement specialists (internal network and specialist consultants)
- 6 participants with a focus on electricity transmission, 5 participants with a focus on gas distribution