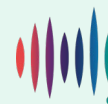


Submission to the AEMC on Gas Network in Transition Draft rules and determination

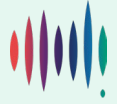
Energy Consumers Australia submission
to the AEMC

DATE: 8/10/2026



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Submission to the Australian Energy Market Commission (AEMC)

Energy Consumers Australia is the national voice for household and small business energy consumers. We advocate for a fair, affordable, and reliable energy system that meets everyone's needs and leaves no one behind on the journey to net zero.

Energy Consumers Australia (ECA) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) draft determination and draft rules for the *Gas Networks in Transition* rule change process (GRC0082) initiated by ECA and the Justice and Equity Centre (JEC).

The draft determination gets the diagnosis right. The regulatory framework was built for networks that were growing, and household and small business gas demand is now falling. ECA supports much of the Commission's response. Assessing capital expenditure against forecast rather than historical demand, requiring networks to assess credible alternatives and introducing a long-term outlook will all help keep unnecessary investment out of the regulatory asset base. In a declining network, that is an essential aspect of protecting consumers.

The draft rules front-load risk onto consumers

Our primary concern with the draft rules is that they allocate the risk that some network costs can no longer be recovered onto consumers. The proposed framework allows networks to shift this burden early while maintaining structural insulation until demand experiences a severe decline.

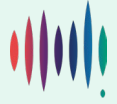
The Commission describes accelerated depreciation as a change in the timing of cost recovery, rather than a transfer of risk. Yet its own rationale reveals otherwise: acceleration is justified precisely to recover costs 'while there remains a relatively large customer base'.¹ If recovery were guaranteed, timing would not matter. Acceleration matters because it front-loads capital recovery onto today's bills, de-risking network balance sheets at the direct expense of current consumers. To the extent the mechanism succeeds, it insulates investors by shifting stranding risk onto energy users.

The draft rules then make that transfer easy to obtain and hard to offset:

- Acceleration can be approved on the strength of a 20-year outlook, with a presumption that the AER will accept the network's proposal. A write-down for partial redundancy, by contrast, can only respond to competition expected within the five-year access arrangement period, and is treated as relevant mainly once the switching price is already binding.
- The only ceiling on prices is the 'switching price', the price at which customers who can readily leave would do so. As described below, the switching price concept sets a cap on prices that acts similarly to how an unregulated monopoly would charge. It caps price rises but gives networks no reason to stay below the cap. Evoenergy recently proposed to nearly double network charges over five years while 39 per cent of its household customers said they planned to disconnect.² It is hard to see if or how the switching price would have constrained that proposal.

¹ AEMC, *Gas networks in transition, Draft determination*, August 2026, p. 77; see also pp. 9–10, 45 and 81.

² Evoenergy, *Evoenergy's five-year gas plan 2026–31: overview*, June 2025. See the case study in section 3.



- The judgements that drive these outcomes, such as future demand, customers' propensity to switch and remaining asset lives, are proposed by networks. Networks have no particular informational advantage on these questions, and a clear interest in the answer.

Under the draft rules, consumers who cannot easily electrify, including renters, apartment residents and lower-income households, bear the most cost and risk. They pay more now and remain exposed to further increases later.

What we are asking the Commission to change

ECA asks the Commission to make three changes in the final rule:

- **Restore the AER's discretion over capital recovery.** The AER, not the network, should decide on accelerated depreciation, any move to a nominal asset base and partial redundancy. In doing so it should consider the combined effect of these tools on consumers' bills, rather than assess each in isolation (rules 73, 85, 89 and 94).
- **Require acceleration to be accompanied by a write-down.** Where a network seeks accelerated depreciation because demand is expected to decline, the AER should first write down capital that the long-term outlook shows cannot be recovered even at the price ceiling and allow acceleration only of what remains. Capital that can be recovered only through acceleration should be shared between consumers and investors, not loaded entirely onto today's bills (rules 85, 86 and 89). This is how impairment works in every other business: assets are written down to what can be recovered, and only the remainder is depreciated.
- **Make the long-term outlook a working planning tool.** Add an annual update between access arrangements, consistent with the Commission's recent decision for electricity distribution; allow scenarios rather than a single forecast; and require utilisation data detailed enough to show where redundancy is emerging (rule 45 and a new rule 45A).

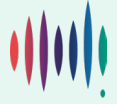
Section 1 explains why these changes matter. Sections 2 to 5 respond to the draft rules in detail, and **Appendix A** sets out proposed drafting.

None of these changes would deny networks a reasonable opportunity to recover efficient costs. They would make sure that the decisions with the longest-lasting consequences for consumers are made by the regulator, on the evidence, and with their combined effect in view.

Thank you for considering this submission. For further discussion, please contact Claire Ohk, Manager, Consumer Advocacy.

Kind regards,

Dr Brendan French
Chief Executive Officer
Energy Consumers Australia



1. The draft rules shift transition risk to consumers

The regulatory framework has not kept pace with declining gas demand

Declining demand is neither new nor unforeseen. An ENA-commissioned study in 2014 concluded that the gas network sector faced a “high level of uncertainty relating to future demand,” identified “clear evidence of substitution away from gas across water heating, room heating, cooking and industrial applications,” and warned of a potential “downward demand spiral” where price increases reduce demand, demand reductions increase network tariffs, and higher tariffs further weaken demand.³

In 2021, the AER observed that the regulatory framework was developed on the assumption that future demand for gas would be stable or growing, but that assumption was being challenged by decarbonisation policies, increasing competitiveness of electricity, improvements in energy efficiency and changing consumer preferences.⁴

Consumers are now responding to cheaper and more efficient electric alternatives, often gradually, by using less gas while staying connected. They do not decide how much networks invest, what asset lives are assumed, or whether replacement proceeds in the face of falling demand. The question for this rule change is therefore not whether networks should have a reasonable opportunity to recover efficient costs. It is who bears the risk that some of those costs can no longer be recovered, and whether the rules do enough to stop those costs being incurred in the first place.

Accelerated depreciation transfers risk; it does not just change timing

The Commission’s case for accelerated depreciation is that the customers who remain on gas in the future are likely to be those with the fewest alternatives, and that competition from electricity will limit what they can be charged. Recovering more capital now, ‘while there remains a relatively large customer base’, is presented as protecting those future customers.⁵

ECA accepts the premise but not the conclusion. The Commission also describes acceleration as ‘a change in the timing’ of cost recovery rather than a transfer of risk.⁶ If recovery were certain, timing would not matter. Acceleration is valuable to networks precisely because it frontloads recovery and reduces the risk of them not recovering more of their capital in the future. It raises today’s bills so that the network is more likely to be kept whole later. Consumers therefore take on a larger share of stranding risk than they would under a standard depreciation profile.

ECA does not argue that acceleration is never appropriate.⁷ The draft rule provides that:

"acceleration of depreciation may be appropriate where the use of an asset or group of assets is expected to decline over the remaining economic life of that asset or group of assets"⁸

³ ENA energynetworks.com.au/resources/reports/ena-i-gas-network-sector-study/

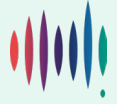
⁴ [Regulating gas pipelines under uncertainty - Information paper | Australian Energy Regulator \(AER\)](#)

⁵ AEMC, *Gas networks in transition, Draft determination*, August 2026, pp. 9–10, 45 and 81.

⁶ AEMC, *Gas networks in transition, Draft determination*, August 2026, p. 77.

⁷ ECA, [Submission to the AEMC on Gas Networks in Transition consultation paper](#), 2025.

⁸ AEMC, *Gas networks in transition, Draft rules r89(4)(b)*



We agree that it may be. Our disagreement is about the conditions under which accelerated depreciation is appropriate. Under the draft rules, forecast decline is enough to justify acceleration, and the AER must generally approve a network's proposal unless an alternative would better achieve the National Gas Objective (NGO). The same forecast decline is not enough to justify a write-down.

The AER can only require partial redundancy in response to competition expected within the access arrangement period, and the draft determination treats redundancy as relevant mainly once the switching price is already binding. Capital that is written down and later returned to the asset base earns the full allowed rate of return.⁹ Network forecasts are treated as good enough to raise prices but not good enough to reduce the asset base. The better approach is to treat both accelerated depreciation and partial redundancy as one decision: write down what cannot be recovered and share the risk on what can be recovered only by raising prices now.

Maintaining the asymmetry proposed by the Commission in the draft rules is a mistake because networks will use it. A network offered the option of recovering capital sooner has every reason to take it, because doing so lowers its investors' risk at little cost to them. The only limit the draft rules impose is the switching price. That limit caps price increases, but it gives networks no reason to keep increases below it. In practice it allows risk to be moved onto consumers up to the point at which they leave.

The objective should be to minimise transition costs before determining how unavoidable costs should be allocated. Consumers should not be required to preserve network cost recovery at the expense of affordability, particularly where those costs could have been avoided through lower expenditure, better planning or strategic decommissioning.

The costs to consumers are certain; the benefits are not

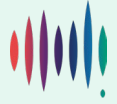
Recent network proposals indicate that, under the draft rules, consumers are likely to pay significantly higher prices, while still not significantly reducing stranding risk. Take the analysis of AGN South Australia's accelerated depreciation proposal.¹⁰ That analysis estimated that accelerated depreciation would increase customer bills by approximately \$170 over the 2027-31 regulatory period while reducing the regulatory asset base by only around \$57 million, equivalent to approximately 2.8 per cent of the opening asset base. The analysis concluded that accelerated depreciation did not materially reduce future stranding risk. Analysis of Jemena's NSW proposal reached a similar conclusion: proposed accelerated depreciation would add approximately \$130 to a typical residential customer's bill over the 2026 to 2030 period, yet reduce the regulated asset base in 2055 by around 10 per cent.¹¹ For consumers, this raises an important question: what level of increased cost today is justified by what level of reduction in future risk?

The framework should not continue to provide gas networks with the privilege of proposing the regulatory regime. Evoenergy's 2026–31 proposal shows what a network does when the framework leaves the choice to it. Facing the expected loss of 39 per cent of household customers within five years, it proposed real price increases of 10 per cent a year, full depreciation of its asset base by 2045 and no write-down (see the case study in section 3). Jemena Gas Networks' 2025–30 access arrangement process shows why this discretion should not rest with networks. Jemena initially proposed \$300 million in accelerated depreciation, later revising this to \$230 million. The AER's final decision allowed only \$115

⁹ Ibid., r89(3)–(4), 85(5) and 86(4)–(5); Draft rule determination, pp. 64 and 73–74.

¹⁰ Dynamic Analysis, [Managing the transition from gas for South Australians](#), commissioned by ECA, March 2026

¹¹ Dynamic Analysis, [Turning Down the Gas: Reducing consumer risk](#), commissioned by ECA, September 2024



million, reflecting its assessment of stranded-asset risk, price impacts and the outlook for the NSW gas network.¹² The AER also rejected Jemena's revised demand forecast, substituting a forecast with higher residential connections and usage per connection, and reduced its proposed capex by 14 per cent.¹³ This demonstrates why decisions about how the regulatory framework responds to declining gas demand should not be left to networks: their proposals on demand, depreciation and investment require independent assessment against consumer interests.

The Commission's concern regarding premature cessation of service underpins much of the draft determination.¹⁴ However, it ignores the fact that there are currently no regulatory mechanisms supporting a decision to cease providing services to customers.¹⁵ Presumably, the Commission is contemplating circumstances involving severe financial distress rather than ordinary exposure to commercial demand risk. If so, greater attention should be given to how consumers would be protected in those circumstances, rather than assuming that additional cost recovery from consumers is the primary solution. For example, UK regulators have a financial ringfence in place designed to protect customers when networks are in financial distress and to ensure that they can continue operating even if they have called the receivers in while the business is recapitalised. By contrast, the draft determination places considerable emphasis on protecting future cost recovery but devotes comparatively little attention to how consumer interests would be protected if the risks it identifies were ever realised.

We understand the Commission's intent: to keep the network viable for customers who rely on it, and to avoid a disorderly exit. ECA shares that goal. But a network that stays open longer because its remaining customers pay more for it is not necessarily a better outcome for those customers. The draft determination appears to proceed from an assumption that consumer interests are best served by maintaining gas network operations for as long as possible. While this may be true for some consumers who find it hard to switch or who don't want to, many are likely to be better off if switching happens sooner (providing switching is supported by appropriate policy) because of the lower costs and emissions of electrification.¹⁶

Commission staff have suggested that network contraction and decommissioning may be dealt with through separate reform. We accept that a full framework is beyond this rule change. But the absence of that framework should not delay recognising redundancy that is already emerging. The final rule can allow – and should require – partial redundancy to be identified on the same forecasts used to justify acceleration. It can and should also require long-term outlooks to identify the parts of each network where utilisation is falling fastest. Any future decommissioning framework will need that information, and the Commission can require it now, enabling future rule changes to provide benefits more quickly, as there will not be a need to similarly wait for data to be gathered and shared.

The points above explain the three changes we ask for: restoring the AER's discretion, requiring acceleration to be accompanied by a write-down, and strengthening the long-term outlook. Sections 2 and 3 set out the detail.

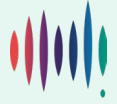
¹² Australian Energy Regulator, *Final decision – Jemena Gas Networks (NSW) access arrangement 2025–30*, Overview, May 2025, p.iv

¹³ Ibid., p.vi

¹⁴ AEMC, Gas networks in transition, Draft determination, August 2026, p.79

¹⁵ Proximity, Regulatory barriers to decommissioning the ACT's gas network by 2045 Final Report

¹⁶ Energeia/Aurecon, *Gas Transition Pathway to Net Zero – Final Report*



2. The AEMC should require stronger planning and transparency

Better information is essential for an orderly transition

The transition of gas networks is not solely a regulatory exercise. It is also a planning challenge that requires coordination between governments, regulators, gas networks, electricity networks, local communities and consumers. Decisions made today regarding network expenditure, asset replacement, capital recovery and future network operation will influence the costs borne by consumers for decades. Effective decision-making therefore depends on stakeholders having access to timely, transparent and sufficiently detailed information regarding the future of gas networks.

ECA's original planning rule change request was founded on a simple proposition: better planning decisions require better information. As gas demand declines and network utilisation changes, stakeholders need visibility of where those changes are occurring, the scale of those changes, and their implications for future expenditure and network operation. Without that information, there is a risk that investment decisions continue to be made based on assumptions that no longer reflect the likely future use of the network.

This challenge extends beyond the economic regulation of gas networks. Governments require information to design electrification programs and assess future policy options. Electricity networks require information to prepare for changing demand patterns and increased electrification. Communities require information to understand how the transition may affect them. Regulators require information to assess whether expenditure remains prudent and efficient in a declining network environment. Consumers require information to understand the likely future costs and viability of remaining connected to gas.

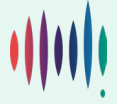
The AEMC has recognised many of these challenges. The Commission considers that consumers, service providers, governments and regulators would benefit from "greater clarity regarding how the transition may affect tariffs, the safety and reliability of services and future network utilisation" and that stakeholders should be able to understand "how regulatory decisions made today may affect future tariffs and service outcomes".¹⁷ It also recognises that decisions made within an access arrangement period can have implications well beyond that period and that existing arrangements provide limited visibility of those longer-term consequences.¹⁸

Visibility requires more than passive transparency. Information only provides true visibility if it is sufficiently granular, timely, and accessible to inform decisions across a broad range of stakeholders. Highly aggregated, infrequent, or regulatory-centric disclosures may satisfy reporting requirements, but they fail to provide the functional visibility needed for effective system planning.

In ECA's view, stronger planning requirements can improve consumer outcomes in several ways. They can reduce information asymmetry between service providers and other stakeholders. They can improve coordination between gas and electricity network planning. They can help identify opportunities to avoid inefficient replacement expenditure, support future decommissioning decisions and reduce the risk that consumers continue to fund assets that are unlikely to be needed over the longer term. Most importantly, they can help stakeholders identify transition risks early, when a broader range of responses remains available.

¹⁷ AEMC, Gas networks in transition, Draft determination, August 2026, p.6

¹⁸ AEMC, Gas networks in transition, Draft determination, August 2026, p. 21



The question is therefore not whether additional planning information has value. The Commission has already recognised that it does. The question is whether the planning framework proposed in the draft determination provides the level of information necessary to support an orderly transition and avoid inefficient consumer outcomes. ECA considers that it does not.

The proposed long-term outlook is an improvement on the status quo

ECA welcomes the Commission's proposal to require service providers and the regulator to develop and consider a long-term outlook. The introduction of a longer planning horizon represents a significant improvement on a framework that has historically focused primarily on the upcoming access arrangement period. Better visibility of future demand, utilisation, expenditure and pricing outcomes has the potential to improve decision-making and increase transparency regarding the longer-term consequences of current regulatory decisions.

Importantly, ECA considers that with some targeted changes to the draft rules, the proposed long-term outlook could deliver many of the benefits sought through ECA's original planning proposal. The Commission has primarily designed the long-term outlook as a regulatory transparency and decision-support tool. ECA supports that objective. However, the same information can also serve a broader purpose by assisting governments, electricity networks, local communities and other stakeholders to understand how gas network decline is occurring and where opportunities may exist to minimise future costs through expenditure avoidance, electrification and strategic decommissioning.

The principal limitation of the current proposal is the extent to which the information it contains is sufficiently granular, regularly updated and accessible to support decision-making beyond the access arrangement process. The final rules should therefore be strengthened in four key areas: update frequency, scenario analysis, information granularity, and transparency regarding future risks and uncertainties.

The final rules should provide more granular, accessible and regularly updated planning information

ECA supports the Commission's proposal to introduce a long-term outlook. However, several aspects of the proposed framework must be strengthened to provide information that is useful not only for regulatory decision-making, but also for governments, consumers, network businesses and other stakeholders navigating the transition.

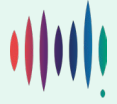
Scenario analysis rather than a single forecast

ECA is concerned by the requirement that service providers provide only a single long-term outlook.

The single long-term outlook requirement conflicts with some gas networks' current scenario approach, which recognises that uncertainty levels are sufficiently high that picking a single "most likely" scenario is not an objective decision. This risks gas networks selectively picking a forecast that suits them and presenting it as the most likely scenario.

This decision seems to be in part, predicated on the Commission's view that "without a single reference point, stakeholders may find it difficult to identify the future assumptions that underpin a service provider's proposal, or assess the consequences."¹⁹ We are unclear on the basis for this view. Actual engagement goes both broad and deep. Customers and other stakeholders who participate in deep

¹⁹ AEMC, *Gas networks in transition, Draft determination*, August 2026, p.25



engagement are fully capable of sophisticated understanding of analyses such as multiple scenarios. Accordingly, we do not consider this should be a reason to require a single long-term outlook. Experienced evaluators of customer engagement, such as the AER's consumer challenge panel (CCP) are well able to assess whether the long-term outlook has been engaged with effectively, whether it is based on a single trajectory with sensitivities or a range of varying scenarios, and report on that to the AER accordingly.

When the future is uncertain, a single forecast is likely to be wrong, and the decisions built on it will be wrong in the same way. That risk is high for gas networks over a 20-year horizon, where outcomes depend on electrification rates, government policy, appliance turnover and customer disconnections. Scenario planning deals with this by setting out several plausible futures rather than predicting one. Regulators and broader stakeholders can then test investment and depreciation decisions against each scenario and identify "no regrets" actions that hold up in all of them. They can also see where commitments would create stranded-asset risk if a less favourable future arrives.

Pierre Wack's work at Shell showed that the point of scenarios is to change decision-makers' assumptions and prepare them to recognise change as it happens, not to get the forecast right.²⁰ RAND's work on robust decision-making makes a related point: under deep uncertainty, the better strategy is one that performs acceptably across many futures, not one that is optimal for a single expected case.²¹ Indeed, AEMO's Integrated System Plan already plans the electricity system this way, across its multiple scenarios.

Given that there are, in many ways, greater sources of variability and uncertainty in the medium-term future of gas, scenarios are likely to be even more beneficial here than they are in the ISP, where the AEMC has already required them. In their most recent access arrangement, Jemena created four distinct scenarios focused on the future of gas and electrification, demonstrating that this type of approach is well within the capability of existing gas network businesses.

Add annual updates to the long-term outlook

The final rule should add an annual update between access arrangements. This would follow what the Commission decided in July for electricity distribution network planning.

In its *Enhancing Distribution Network Planning and Reporting* final determination, the Commission requires DNSPs to prepare a 20-year Distribution Network Development Plan every five years alongside their regulatory proposals.²² It also requires a targeted annual update covering "key changes to planning outcomes in the previous year and since the DNDP was published."²³ The Commission described the annual update as "the primary mechanism for reporting material changes that arise after publication" of the plan, including changes to IASR inputs. It accepted stakeholder views that annual updates are "a proportionate mechanism for maintaining near-term transparency between DNDP cycles ... without the regulatory burden of preparing a significant document."²⁴ The draft gas rule borrows the five-yearly half of that design but leaves out the annual half.

The case for an annual update is stronger in gas than in electricity, for three reasons.

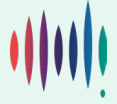
²⁰ Wack, "Scenarios: Uncharted Waters Ahead," *Harvard Business Review*, 1985

²¹ Lempert, Popper & Bankes, *Shaping the Next One Hundred Years*, RAND, 2003

²² AEMC, *Final Determination for Enhancing distribution network planning & reporting*, 2026

²³ *Ibid.*, p.ii; ERC0410 - Amending Rule - National Electricity Amendment (Enhancing Distribution Network Planning and Reporting) Rule 2026 No. 7, r5.13.2, p.6

²⁴ *Ibid.*, p.5.



First, gas has more uncertainty, and it moves faster. The Commission says the purpose of the outlook is "not prediction, but transparency," and that it should "bring emerging risks to light earlier while a broader range of regulatory options remains available."²⁵ A five-yearly outlook only does that once every five years. The outlook is prepared well before the access arrangement period starts. A change in jurisdictional policy, appliance bans, faster abolishments or a shift in AEMO's gas forecasts could therefore go unreported in the regulatory framework for up to six years. In a declining network, that lost time is exactly when the options narrow.

Second, the draft rule makes the outlook carry decisions. Under the draft rule, accelerated depreciation is approved on the basis of the 20-year outlook. The AER's power to require a write-down is limited to competition expected within the access arrangement period. That means consumers start paying more based on forecasts made at the start of the period, with no structured way to see whether those forecasts are holding. An annual update comparing actual demand, customer numbers and abolishments against the outlook gives the AER, governments and consumers the evidence they need for the next decision, including whether a write-down should be reversed under rule 86. It also means the next access arrangement starts from a known baseline, not a surprise.

Third, gas has no annual baseline to fall back on. In electricity, the annual update replaces the Distribution Annual Planning Report, so the Commission's concern was not to reduce how often information is reported. Gas distribution has never had an annual planning report. ECA's original request for a Gas Annual Planning Report (GAPR) was intended to fill that gap. The Commission said the outlook achieves "many of the information and transparency benefits identified by ECA."²⁶ An annual update would deliver most of the rest, at much lower cost than a full GAPR.

Alongside the annual update, the long-term outlook itself should be revised between access arrangements where there has been a material change to key assumptions, forecasts or policy settings, such as a jurisdictional decision on the future of a network.

The information must be useful to stakeholders

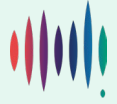
The long-term outlook should not be designed solely for use by service providers and regulators. It should also contain information in a format and at a level of detail that allows other stakeholders to assess how transition risks are emerging and what those risks may mean in practice.

For example, stakeholders may need data for purposes such as, but not limited to:

- Assessing when a gas network service provider may seek to cease supply in their part of the network (regardless of whether policy development to support strategic decommissioning occurs, we consider it unlikely that an entire network will shut down at once, noting the large differences in scale between regulated networks and the small non-scheme networks that have closed or announced their closure). This appears to be anticipated by the phrase "investment and expected material repurposing or decommissioning of **parts** of the relevant pipeline" (emphasis added) in clause (2)(e).
- Assessing whether the gas network service provider has correctly interpreted the asset redundancy rules, which in turn entails being able to assess the level of utilisation of parts of the network.
- Identifying which neighbourhoods and streets are connected to the gas network, so that governments (including local councils) and service providers who are interested in helping particular

²⁵ AEMC, Gas networks in transition, Draft determination, August 2026, pp.9, 15.

²⁶ Ibid., p.15.



cohorts, such as low-income homeowners or apartment dwellers, to electrify first know where to target their offers of assistance. This issue has already been raised by CARE Financial in the ACT, who needs this information to more effectively target the electrification support it helps provide.

The practical value of granular energy data is already well established. Stakeholders frequently use geographically disaggregated energy information to inform planning, investment and engagement decisions that would not be possible using only aggregated, network-wide information. The same principle applies to gas network planning. If stakeholders are expected to assess utilisation trends, redundancy risks, future decommissioning pathways, or the implications of declining demand, they require information that reflects local conditions rather than whole-of-network averages.

The experience of local governments in Sydney provides a useful example. As provided in the case study below, councils consistently report that the value of the data lies in its local relevance and granularity, allowing them to understand where energy use is changing and where interventions are likely to have the greatest impact.

Crucially, gas network businesses previously made portions of this underlying dataset available to the Resilient Sydney platform before subsequently withdrawing access. Their prior provision confirms that publishing recurring, disaggregated gas data is both practical and achievable within existing network capabilities. Without ongoing access to actual, granular reporting, local policy interventions across metropolitan areas will become fragmented, inefficient, and reliant on imprecise estimates.

Case study: How granular energy data drives place-based transition and local policy

The Resilient Sydney environmental data platform demonstrates how granular energy disclosures directly support local government planning and policy execution. Over two-thirds of Sydney's councils (25 local government areas representing 36% of New South Wales emissions) have established net zero targets aligned with state ambitions. The NSW Department of Climate Change, Energy, the Environment and Water estimates that councils influence up to 70% of state emissions, making local government an essential delivery partner for the energy transition.

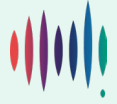
To exercise this influence effectively, local councils require annual, geographically disaggregated data grounded in actual consumption rather than top-down modelling. Across Greater Sydney, local governments rely on this granular data to inform statutory community strategic plans, environmental strategies, and local policy settings. For example, Sutherland Shire Council utilised localized gas consumption data to underpin its municipal Climate Strategy, establishing clear baselines for community-wide energy reduction.²⁷

Beyond high-level strategy, granular data is essential for transparent community engagement and targeted intervention. Councils such as Hawkesbury City Council²⁸ and Ku-ring-gai Council²⁹ publish localized emissions profiles directly to public platforms and community programs, such as Net Zero Ku-ring-gai, to clearly communicate primary emission drivers and build public consensus for transition initiatives. Similarly, access to postcode-level data allows councils to deploy resources with precision, such as Penrith City Council targeting specialised residential energy workshops specifically at suburbs identified with the highest household emissions.

²⁷ Sutherlands Shire Council, Climate Strategy 2050, available at: https://www.sutherlandshire.nsw.gov.au/_data/assets/pdf_file/0009/104202/Climate-Strategy-2050-Thrive-Design-Lead.pdf

²⁸ Available at: [Sustainability Landing Page — Hawkesbury City Council](#)

²⁹ Available at: [Net Zero Ku-ring-gai Net Zero Ku-ring-gai](#)



Most importantly, granular gas data directly enables regulatory and planning controls that reduce future gas dependence. Ten NSW councils have already implemented electrification clauses within their local planning frameworks. The analytical foundation and business cases supporting these planning controls rely explicitly on LGA-level gas connection and volume data, allowing councils to quantify local gas intensity and design viable decarbonisation pathways for new developments.

Proposed amendments

Rule 45(2)(a)(ii) should be amended to require:

- (ii) pipeline capacity and utilisation of pipeline capacity, **at an appropriate level of detail to allow for an understanding of the basis of any full or partial asset redundancy, or of any expected material repurposing or decommissioning of parts of the relevant pipeline;**

To this end, we do not consider the statement in the draft determination that “service providers are not expected to include more granular and detailed information in the long term outlook than what is already being provided by some service providers”³⁰ to be either helpful or consistent with the apparent intent of the new rules. The usefulness of the long-term outlook will ultimately depend on whether stakeholders can assess local utilisation trends, redundancy risks and potential decommissioning pathways. Experience from other energy datasets demonstrates that granularity is often the difference between information that is merely informative and information that is genuinely useful for decision-making.

To give rise to an annual update, the Commission should create a new rule 45A – Annual update on the long-term outlook.

45A Annual update on long-term outlook

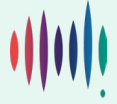
(1) Each year, by the applicable date in subrule (2), a service provider must publish a report setting out, for the previous year and since its most recent long-term outlook:

- (a) a comparison of actual outcomes against the forecasts in the long-term outlook for:**
 - (i) the demand for each reference service;**
 - (ii) the number of end users by tariff class, including new connections, disconnections and abolishments;**
 - (iii) conforming capital expenditure;**
 - (iv) depreciation and the capital base;**
 - (v) pipeline capacity and utilisation of pipeline capacity at an appropriate level of detail to allow for an understanding of the basis of any full or partial asset redundancy, or of any expected material repurposing or decommissioning of parts of the relevant pipeline; and**
 - (vi) reference tariffs for each reference service and tariff class;**

(b) any material change to the inputs and assumptions referred to in rule 45(2)(b), including changes in jurisdictional policy, AEMO forecasts and the forecast costs of alternative energy sources;

(c) any material change to the risks and uncertainties referred to in rule 45(2)(c), or to the service provider's approach to managing them;

³⁰ AEMC, Gas networks in transition, Draft determination, August 2026, p.27



(d) any material change to expected future investment, repurposing or decommissioning referred to in rule 45(2)(e);

(e) an explanation of whether, having regard to paragraphs (a) to (d), the service provider expects any material difference from the forecasts in the long-term outlook over the remainder of the long-term outlook period, including in relation to depreciation and reference tariffs, and the reasons; and

(f) any other information specified in guidelines made by the AER under subrule (4).

(2) A service provider must publish the report required under subrule (1):

(a) by the date specified in guidelines made by the AER under subrule (4); or

(b) if no date is specified, by 31 December each year.

(3) Despite subrule (1), a service provider is not required to publish a report under subrule (1) in a year in which it submits a long-term outlook with an access arrangement revision proposal or access arrangement variation proposal.

(4) The AER may, in accordance with the standard consultative procedure, make and publish guidelines specifying the format, timing and content of the report required under subrule (1), having regard to the need to minimise duplication with information the service provider is otherwise required to provide to the AER.

(5) To avoid doubt, a report under subrule (1) is not required to contain a revised long-term outlook.

Additionally, there would likely be a number of consequential amendments required in other parts of the rule, including:

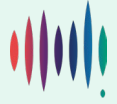
- Rule 45(2)(f): Require the next outlook to explain material differences from the forecasts in the previous outlook as reported in any annual updates under 45A, linking the annual reports to the next access arrangement;
- Rule 72(1): Add a requirement for the access arrangement information to include a summary of the annual updates published and how they've informed the proposal;
- Add a transitional provision that requires the first annual update to fall due in the year after the first long-term outlook is published.

Additional safeguards

Finally, ECA considers that the draft rules should include additional safeguards to reduce the risk of conscious or unconscious bias in the preparation of long-term outlooks.

In the electricity sector, key planning documents are required to align with emissions reduction objectives and broader policy settings. ECA considers that a similar requirement should apply here. Long-term outlooks should be consistent with relevant jurisdictional and national emissions reduction policies so that stakeholders can have confidence that planning assumptions appropriately reflect the policy environment in which networks will operate.

In addition, while ECA agrees there is limited value in extending the outlook period beyond 20 years, the draft rules do not currently require service providers to identify the level of unrecovered capital expected to remain at the end of that period. Including this information would improve transparency around future stranding risks and provide stakeholders with a clearer understanding of the implications of different demand pathways and cost recovery strategies.



Modest changes to the long-term outlook would significantly improve its value

ECA welcomes the Commission's proposal to introduce a long-term outlook and considers it has the potential to deliver many of the benefits sought through ECA's original planning proposal. However, the usefulness of the long-term outlook will ultimately depend on the quality, relevance and transparency of the information it provides.

A long-term outlook that is updated infrequently, based on a single forecast, or presented only at a whole-of-network level risks becoming a regulatory reporting exercise rather than a meaningful planning tool. By contrast, more regular updates, greater use of scenario analysis, improved visibility of local utilisation trends and future stranding risks, and stronger alignment with emissions reduction pathways would significantly enhance its value for consumers, regulators, governments and other stakeholders.

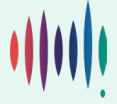
Importantly, these changes do not require a fundamentally different framework. They are modest amendments that would improve transparency, reduce the risk of bias, and make the long-term outlook a more practical tool for identifying expenditure risks, redundancy issues and future network decline.

With these changes, the long-term outlook could become one of the most valuable reforms arising from this rule change process and deliver many of the planning benefits the Commission has acknowledged are necessary to support an orderly transition. More granular, transparent and regularly updated planning information is not an end in itself. Its value lies in improving the decisions that follow from it. Better information can help identify opportunities to avoid inefficient expenditure, improve coordination between gas and electricity network planning, enable earlier consideration of redundancy and decommissioning options, and provide greater visibility of future consumer impacts.

Recommendations

ECA recommends that the Commission:

1. Require an annual update to the long-term outlook between access arrangements (new rule 45A), and an updated long-term outlook whenever there is a material change to key assumptions, forecasts or policy settings.
2. Replace the requirement for a single long-term outlook with a central forecast supported by alternative scenarios and sensitivity analysis.
3. Require utilisation and demand information to be reported at a sufficient level of granularity to support assessment of redundancy, decommissioning opportunities and local transition risks.
4. Require long-term outlooks to align with relevant jurisdictional and national emissions reduction policies.
5. Require disclosure of expected unrecovered capital at the end of the 20-year outlook period and an assessment of the likelihood of its recovery. This figure should be the starting point for the write-down that must accompany any accelerated depreciation.
6. Ensure long-term outlook information is published in a format that is accessible and useful for governments, regulators, consumers, electricity networks and other stakeholders.



3. The final rules should allocate transition costs and risks more fairly

ECA considers the draft rules suffer from both some conceptual and implementation challenges. These are set out below. Unless they are addressed, we do not consider the rules will deliver the outcomes the Commission intends.

Conceptual issues

Monopoly pricing

The proposed “ceiling” on prices of the “equivalent price of the reference service necessary to keep the retail price of gas competitive with alternative sources of energy for a hypothetical end user who can readily switch to such alternatives, taking into account the cost of switching to those alternative sources”³¹ (hereafter referred to as “the switching price” for convenience) is inappropriately high for a regulated monopoly.

The foundational rationale for price regulation is to protect consumers from market power by constraining prices below what an unconstrained monopoly would charge. Gas distribution networks are natural monopolies. Consumers served by a given network have no alternative physical distributor. Absent effective price regulation, a monopoly gas network will maximise profits by pricing up to the point at which customer attrition reduces net revenue, which is precisely the profit-maximizing threshold an unregulated monopoly targets.

In practice the AEMC’s draft determination proposes an equivalent process for price regulated, monopoly gas networks. The draft is comfortable with regulated gas networks charging as much as an unconstrained monopoly would. This begs the question, why bother with all the expense of the access arrangement if the end result is the same as under unregulated monopoly pricing?³²

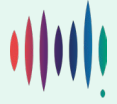
This framework also places a high degree of faith on the switching price acting as an effective bulwark against poor outcomes for customers. By contrast, in the pricing review, the AEMC’s analysis and conclusions were based on a view (which we broadly agree with), that in retail electricity, many customers suffered poor outcomes due to the existence of barriers to switching. This is despite it being manifestly easier to switch electricity retailers than it is to electrify all one’s gas appliances, and despite there being multiple retailers competing to offer customers discounted pricing.

We do not have an in-principle objection to the inclusion of the new draft rule 94 (3) (ii) as a new upper bound on tariffs, but there must be stronger protections for consumers than this clause alone provides.

One source of greater protection is to give the AER a greater role than the draft rules currently do in the decisions that determine prices, in particular the treatment of inflation, accelerated depreciation and the switching price itself. To this end we also think that the new clause 94 (3A) should not allow for the revenue expected to be recovered for a tariff class to exceed the upper bound (though if a service provider chose to charge a tariff below the lower bound, they should be free to do so), as we see no case in which this would better achieve the NGO.

³¹ AEMC, *Gas networks in transition, Draft rules r94 (3) (ii)*

³² For the avoidance of doubt, we are not advocating for the removal of price regulation, rather we are advocating for greater regulatory constraint on pricing.



Proposed rule amendment to Draft Rule 94(3A)

(3A) The revenue expected to be recovered for a tariff class ~~may exceed the upper bound referred to in subrule (3)(a)~~ or may be less than the lower bound referred to in subrule (3)(b) if:

- (a) the service provider proposes the recovery of a greater or lesser amount;
- (b) the service provider explains why the recovery of that greater or lesser amount would contribute to the achievement of the national gas objective; and
- (c) the AER approves the recovery of that ~~greater or lesser amount~~ having regard to the national gas objective.

For the avoidance of doubt, the revenue expected to be recovered for a tariff class must not exceed the upper bound determined under subrule (3)(a).

Interpretation of the switching price

Generally, there are today end users who can readily switch and who would be economically better off doing so (see Evoenergy case study below).

Case study: Evoenergy

In its 2026-31 proposal, Evoenergy noted that 39 per cent of its household customers planned to disconnect in the next five years. Winter demand had already halved with analysis of this trend pointing to electrification of heating loads as a key reason for declining demand. In other words, customers were already switching part of their load as they realised that electric heat via their (existing) reverse cycle air conditioners) was cheaper than running their gas heating.

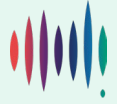
Despite the evidence that many customers could “readily switch” already and a large proportion of existing customers were planning to leave in the next few years, Evoenergy was not disincentivised from proposing massive tariff increases to protect its investors from stranded assets. It proposed 10 per cent real tariff increases per year – 62 per cent over five years or 91 per cent in nominal terms (assuming standard inflation forecasts were borne out). Evoenergy did not propose to accept any stranding of its asset base, instead preferring to target depreciating the RAB in full by 2045 in line with ACT government policy that the gas network would be closed by that date.

Evoenergy also proposed a revenue cap. This would insulate its revenue from changes in demand versus forecast. But it would also mean that if demand was below forecast it could put its prices up even more to maintain its revenue, potentially triggering even more disconnection/demand reduction and requiring further price rises.

Source: Evoenergy, Evoenergy’s five-year gas plan 2026–31: overview, June 2025

Where they do not do so, AEMC infers this is due to some value of utility that they place on gas versus competing energy sources³³ (and assumes that this dollar value can be reasonably estimated). Attaching utility to gas use *may* be one reason for customers not switching when they would gain financially, but there are well-founded alternative explanations for a customer not switching even when they could be

³³ AEMC, Gas networks in transition, Draft determination, August 2026, p27



financially better off. These include risk aversion, loss aversion, status quo bias, information barriers, limited awareness of alternatives, and a lack of clear advice or support to navigate the transition, amongst others.

These explanations have very different implications on the future trajectory of the gas network from a "utility value" of gas. If customers stay on gas because they value it, that preference is stable, and the network can rely on it to support prices above the cost of alternatives. If they stay because switching is a hassle, needs capital they don't have, or isn't their decision to make, their staying is temporary and conditional. Transaction costs explain delay, not lasting preference. They tend to be overcome at predictable trigger points, such as an appliance failing, a renovation or a change of tenancy. They are also falling as installers, products and government support for electrification mature. Behavioural biases can also give way once peers, landlords or new standards shift the default. On this view, the reluctance the AEMC observes is a lag that is likely to unwind, possibly quickly, not a margin of pricing power that networks can draw on.

The case for accelerated depreciation rests on recovering costs "while there remains a relatively large customer base," and on competition with electricity capping future gas prices. If that customer base is held in place by frictions rather than preference, the demand forecasts underpinning acceleration are less reliable. The customers who remain longest will be those least able to switch: renters and households without the capital to electrify.

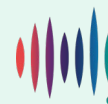
These alternative explanations are important for understanding that even if customers appear reluctant to switch it is possible that once they are on the other side of the switch they will be satisfied. This in turn goes to the issue of how overall welfare is maximised. Maintaining as many customers as possible on gas for as long as possible may not be the welfare maximising outcome. In any case it is presumably contrary to the emissions limb of the NGO. The draft determination does not seem to even recognise this, let alone consider how this should be balanced against the other limbs.

Redundancy provisions should follow standard impairment practice

Every business that owns long-lived assets faces the problem this rule change is trying to solve: what to do when an asset is expected to earn less than its book value. Accounting standards have a settled answer. Under AASB 136 *Impairment of Assets*, an asset is written down to the amount that can be recovered as soon as there are signs its value has fallen. Its remaining value is then depreciated over its remaining life. If conditions improve, the write-down can be reversed, but only up to the value the asset would otherwise have had. The draft rule takes a different path. It allows networks to recover capital faster from consumers when demand is expected to decline, and treats writing down capital as a last resort. ECA considers the draft rule unfair to consumers. The final rule should follow the standard impairment approach.

ECA supports the Commission's recognition of partial redundancy as a distinct regulatory tool and agrees that the regulator should be able to initiate its use where appropriate. However, we are concerned that the proposed framework presents two different concepts of redundancy without adequately reconciling them.

The first is a physical concept of redundancy based on utilisation. Under this approach, assets become fully or partially redundant because they are no longer being used, or are increasingly underutilised, as demand declines. However, the draft determination provides little clarity regarding what level of utilisation



constitutes partial redundancy as opposed to full redundancy, or how these concepts should be assessed in practice.

The second is price constrained redundancy. This is an economic test, reflecting the AEMC's view that the switching price could act as a ceiling on prices even when the building blocks (potentially including accelerated capital recovery) imply a higher price.

While the two will have some connection they are clearly not the same. The switching price could, in principle, be reached at relatively high levels of utilisation if the expected prices of alternative fuels were low enough to drive significant demand reduction/customer exit in the next few years. Conversely, if the switching price was high enough, it might not be reached even at low levels of physical utilisation (on some parts of the network). For the avoidance of doubt, ECA considers the former to be the more realistic scenario.

Importantly, the draft determination appears to treat price-constrained redundancy as the primary determinant of when redundancy should be recognised.³⁴ In effect, the economic test "trumps" the physical test. It is not clear why this should be the case, nor why redundancy should only become relevant once the switching price has been reached and future capital recovery is already being constrained. This approach risks making redundancy a tool of last resort. The regulator is effectively expected to rely first on accelerated depreciation and other cost recovery measures, with redundancy considered only once stranding risks become sufficiently acute. In ECA's view, this places too much emphasis on preserving recovery and too little emphasis on recognising emerging evidence of declining network value.

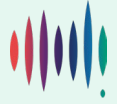
In non-price regulated industries, the test for impairment of assets is whether the full value of the asset will (or is expected to) be recovered over its lifetime. Once it has been determined that an asset is impaired, even if it is due to future events, it is recognised *now*.³⁵ This is in part in recognition that if the event does not transpire, the impairment can be reversed. Effectively, the new rule 86 does the same thing as it allows for redundant capital to be returned to the RAB.

Table 1 outlines the difference between standard impairment practice, the AEMC's draft rule and our proposal:

	Standard Impairment Practice (AASB 136)	Draft rule	ECA proposal
When	When there are signs of impairment, including significant adverse changes in the market, assessed at each reporting date	Partial redundancy only in response to competition during the access arrangement period	On the forecasts in the 20-year long-term outlook, updated annually

³⁴ AEMC, Gas networks in transition, Draft determination, August 2026, p.64

³⁵ See, for example, IAS 36 and AASB 136 for the relevant accounting standards



	Standard Impairment Practice (AASB 136)	Draft rule	ECA proposal
How much	Written down to the amount that can be recovered	No write-down accompanies accelerated depreciation	Capital that cannot be recovered at the upper bound is removed before accelerated depreciation is approved.
What happens to remaining value	Depreciated over the remaining life	Consumers pay accelerated depreciation on the full capital base	Acceleration only applies to the remaining capital base, but any value recoverable only through acceleration is shared
Possibility of reversal	Allowed, but capped at the depreciated value the asset would have had; no catchup for the impaired period	Returned capital rolled forward at the allowed rate of return	Returned capital indexed for inflation only (still more generous than the accounting standard).

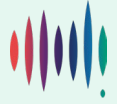
The draft rule already accepts the core logic of our proposal. It allows capital to be removed for partial redundancy, and rule 86 allows it to be returned. What it does not do is apply that logic at the right time or in the right order.

Because rule 86 allows a write-down to be reversed, there is no good reason to delay recognising partial redundancy once it has been identified as a likely outcome. Rule 86 means a write-down is not a permanent loss to the network: if demand holds up better than forecast, the capital is returned to the asset base. For the same reason, we see no need for clause 85(8)(b).

The same logic applies when a network seeks accelerated depreciation. Acceleration is justified only where use of the assets is expected to decline, which means some capital is at risk of not being recovered on the standard depreciation profile. That capital has two parts. Some cannot be recovered under any depreciation profile, because the prices needed would exceed the upper bound in draft rule 94(3)(a)(ii). The rest can be recovered only by raising prices now, while the customer base is larger.

Capital in the first category should be written down before any acceleration is approved, consistent with the impairment approach above. Consumers should not pay a return on capital that will never be recovered. Acceleration should then apply only to the remaining capital base.

Capital in the second category is where the draft rule shifts risk to consumers. Under the draft, consumers bear all of it through higher prices now. ECA considers it should be shared, partly recovered



through acceleration and partly written down, with the AER determining the split having regard to the impact on consumers. Any write-down that proves unnecessary can be reversed under rule 86.

This approach depends on the price ceiling, because the ceiling defines what is recoverable. That is one more reason the ceiling should be set by the AER having regard to consumer impact, rather than proposed by the network (see "Monopoly pricing" above).

ECA therefore considers that redundancy and depreciation should operate as complementary tools rather than sequential mechanisms. They should be decided together. Accelerated depreciation determines how quickly consumers repay capital. Redundancy determines whether they should repay all of it in the first place. The draft rule uses acceleration early and leaves redundancy as a last resort, so consumers repay capital faster before anyone has asked whether all of it should be repaid. Standard impairment practice works the other way: an asset is first written down to what can be recovered, and only the remainder is depreciated. The final rule should follow the same order.

We anticipate several objections to this approach. Below, we address each objection and outline why our proposed approach serves the long-term interest of consumers.

The regulatory asset base isn't a market value, and networks are promised a reasonable opportunity to recover their costs.

The Commission may say that the regulatory asset base is not a market value, and that the revenue and pricing principles give networks a reasonable opportunity to recover at least their efficient costs. ECA agrees on both counts. But a reasonable opportunity is not a guarantee, and the draft rule already provides for capital to be removed for redundancy and returned under rule 86. ECA is not proposing a new approach. We are asking that the approach already adopted in the draft rules be applied consistently, protecting consumers before financial losses are incurred rather than attempting remediation after the fact.

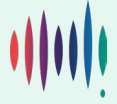
What's recoverable in a regulated business is circular: it depends on the prices the regulator allows.

The draft rule resolves this itself. Rule 94(3)(a) sets an upper bound on the revenue that can be recovered from each tariff class. That bound defines what is recoverable. The long-term outlook already requires the information needed to apply it: forecast redundancy and a comparison of gas prices with the cost of alternatives (rules 45(2)(a)(i)(C) and 45(2)(a)(ix)). This is also why the upper bound must be a real ceiling, and why rule 94(3A) should not allow it to be exceeded.

Mandatory write-downs raise regulatory risk, and so should increase the cost of capital consumers pay.

Network businesses may contend that mandatory write-downs elevate regulatory risk and ultimately drive up the cost of capital borne by consumers. We disagree. Asset stranding risk already exists within the transition; the draft rules simply shift that existing risk entirely onto consumers. A framework that identifies stranding early, through a public 20-year outlook updated annually, and allows write-downs to be reversed, is more predictable for investors than one that leaves losses to crystallise when the switching price binds. The AER would also have regard to networks' cash-flow needs in deciding how capital that is recoverable only through acceleration is shared (proposed rule 85(6C)).

Write-downs threaten networks' viability and risk the premature end of supply.



Writing down capital that cannot be recovered at the upper bound would no more threaten a network's viability than the status quo. By definition, that capital never would have been recovered from customers. Recognising it earlier reduces the return consumers pay on it in the meantime, but does not reduce the network's ability to recover the capital that remains. If the Commission's concern is the financial distress of a network, that is better addressed through specific protections, such as the financial ring-fencing used in the UK, than by asking consumers to fund capital that cannot be recovered.

Misapplication of the propose-respond model

A recurring theme throughout the draft determination is the Commission's preference for a propose-respond model in areas such as depreciation, inflation treatment and other capital recovery decisions. Under the proposed framework, service providers would develop proposals, and the regulator would generally be required to approve them unless it determines that an alternative approach would better contribute to the achievement of the NGO.

More broadly, ECA considers that the AEMC has put undue weight on the value of a propose-respond model in situations where it is not appropriate. Propose-respond suffers from a number of serious drawbacks because it advantages the gas network through factors such as anchoring, first mover advantage, bounded rationality and the status quo bias. These are all well-understood concepts of behavioural economics, although for convenience, we have included further explanation and cited some of the landmark works on each in **Appendix B**. These effects are one reason why independent regulatory scrutiny remains important, particularly where decisions have significant consequences for consumers.

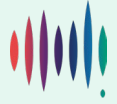
The reason economic regulation often relies on propose-respond despite these limitations is that regulated businesses possess information that is not readily available to regulators or other stakeholders. Networks are generally best placed to understand their own operating costs, asset condition and expenditure requirements. In those circumstances, there is a clear rationale for networks making proposals in the first instance.

However, many of the key decisions underpinning the draft determination do not depend on information that service providers uniquely possess. They instead depend on uncertain assumptions regarding future demand, future customer behaviour, future electricity and gas prices, electrification rates, technology uptake, policy settings and customer propensity to switch. These are not questions that can be answered objectively, nor are they areas in which service providers necessarily possess a genuine informational advantage.

ECA believes that this distinction is important. Forecasting future demand or switching behaviour is not the same as estimating network operating costs. The former necessarily involves judgement, assumptions and uncertainty. As uncertainty increases, so too does the scope for conscious or unconscious bias. Yet many elements of the draft framework rely on exactly these types of assumptions.

Some elements of a regulatory proposal under the national energy rules and laws have already been taken out of the propose/respond model. The rate of return is an obvious example. Networks' presentation of evidence of the applicable return on equity was recognised to be subject to bias, because:

- a. they had an interest in the outcome being higher and



- b. return on equity estimates are necessarily subjective, there was ample scope to be upwardly biased.

The value of customer reliability (VCR) is another input that is estimated in an AER process, rather than by networks. Of course, in both cases, networks are able to participate in the process and make representations on the appropriate parameter value.

The same principle already applies to network planning in electricity. The need for major new transmission is not established by the businesses that would build and own it, but by AEMO through the Integrated System Plan, using scenarios and inputs developed through public consultation. The forecasts that drive accelerated recovery of gas network capital, including future demand, switching and electrification, are of the same kind and warrant the same independence.

It is clear that the AEMC's framework for managing stranded asset risk while limiting price increases entails the use of several parameters that cannot be determined objectively, and arguably entail information that gas networks don't inherently have expertise or an informational advantage in. This is especially with respect to the data underlying customer propensity to switch, which plays an important role in the framework. In this light, a propose respond model does not appear to be an appropriate choice.

This is particularly important because many of the proposed capital recovery tools interact with one another. Accelerated depreciation, inflation treatment, tariffs, redundancy and expenditure decisions all affect the pace and distribution of cost recovery. Assessing these mechanisms individually risks understating their combined effect on consumer prices and affordability.

For these reasons, ECA considers that the AER should retain broad discretion over depreciation, inflation treatment, redundancy and related capital recovery decisions.³⁶ Greater transparency and guidance can improve predictability, but they should not come at the expense of independent scrutiny where outcomes depend on uncertain forecasts, subjective assumptions and judgements about the future.

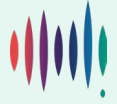
Implementation issues

Lack of objectively determinable thresholds

A key challenge in implementing the draft rules is the significant uncertainty surrounding many of their core elements. Several of them are arguably undiscoverable. These include critical components of the AEMC's proposed framework such as:

- Future demand - especially when policy impacts are likely to have an impact
- Future prices of alternative fuels
- Future costs of the other elements of the delivered gas price, including commodity, retail and transmission
- What the threshold is for different customer types to switch beyond a simple financial net benefit
- What the cause of that threshold is: behavioural barriers versus an enduring preference for gas

³⁶ See proposed rule amendments to address this issue in **Appendix A**.



- The threshold for commercial and industrial customers to leave the gas network – these will vary substantially by industry and could be based either on fuel switching or on business closure or relocation. Accordingly, this is even harder to model than household switching.

The AEMC's emphasis on propose-respond thus means that gas networks have wide discretion to include input assumptions that suit their interests rather than their customers'. There is simply no basis for assuming that network and customer interests are inherently aligned, especially in a context of declining demand. An obvious example is abolishment costs. It suits the network to propose high abolishment costs both to improve cost recovery for abolishments they do carry out but also as a deterrent to customers electrifying. But customers' interests are in achieving the lowest possible abolishment charge (noting that cross-subsidising abolishment charges has already been determined not to be in the interests of remaining customers). This is why the AER, rather than the network, should make the key judgements that rely on these uncertain inputs, as set out in our recommendations below. The case study of Evoenergy's proposal for its 2026-31 access arrangement demonstrates the lack of constraints on gas networks:

- Switching was and is already financially viable for many of the gas network's customers.
- A gas network facing sharp demand decline was not constrained from proposing very large price increases by concerns about these price rises contributing to a disorderly transition.
- The gas network did not consider that asset write downs were appropriate despite facing significant levels of customer disconnection. It also didn't recognise partial redundancy despite some parts of its network experiencing very low utilisation in the run up to closure in 2045.

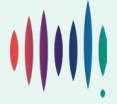
While some of the outcomes from the Evoenergy case may have been different under the new proposed rules, it seems unlikely that it would have materially affected the proposal. If a potential 39 per cent customer loss in five years and a proposed almost doubling of distribution charges in that period were not enough to trigger the price switching constraint on Evoenergy, it is hard to imagine what circumstances would trigger it. This bears out ECA's view that the price switching constraint is a wholly inadequate basis for the protection of customers.

Throughout the draft determination, preserving future cost recovery is frequently presented as promoting economic efficiency. ECA does not consider that relationship is self-evident. In a declining network, efficient outcomes may instead involve avoiding expenditure, recognising redundancy earlier, facilitating electrification or supporting orderly decommissioning. The Commission should be cautious about treating longer asset recovery and longer network utilisation as proxies for consumer welfare.

Recommendations

Apart from the specific drafting recommendations above, ECA considers three key elements are necessary to protect customers of gas networks:

- AER must be fully empowered to make decisions on key elements of the proposal that require subjective judgment and are based in uncertain inputs. In particular, the AER should determine the treatment of inflation, the switching price that forms the upper bound on tariffs, and, where a service provider proposes accelerated depreciation, the depreciation approach. It should also be able to require partial or full redundancy on the basis of the long-term outlook. As noted above, analogous examples elsewhere in the energy rules and laws include the rate of return and VCR, and the relevant drafting for these parameters should assist with drafting the gas rules accordingly.



- The matters to which AER (or the gas networks if the propose respond model is retained) are required to have regard in clauses 89(1)(a) on depreciation schedules, 73(6) on smoothing of revenues on a change to the nominal approach and 94(4) on tariffs, should include “*having regard to the economic impact on the users of the pipeline service*” [or of the users belonging to that tariff class, in 94(4)]. While capable of wide interpretation, this requirement is no more ambiguous than that of economic efficiency in the context of these clauses.
- Acceleration must be accompanied by a write-down. When the AER approves accelerated depreciation, it must first remove from the capital base any capital that the long-term outlook shows cannot be recovered at the tariff upper bound. It must also determine how capital that is recoverable only through acceleration is shared between consumers and the service provider, having regard to the economic impact on users. Clause 85(8)(b) should be deleted, and any write-down that proves unnecessary can be reversed under rule 86.

These safeguards are especially important in the context of multiple tools being available to accelerate capital recovery, and so their impacts on customers need to be considered holistically rather than independently, which is a risk under the current drafting. The tools include not only accelerated depreciation and nominal versus real framework as discussed in the draft determination, but also changes in overhead capitalisation policies and a switch from proactive replacement (capex) to reactive maintenance (opex).

4. ECA supports the direction of the proposed expenditure reforms

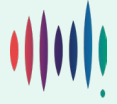
ECA welcomes the Commission's proposed amendments to the capex and opex frameworks set out in Chapter 4 of the Draft Determination. In particular, we support:

- requiring a quantitative assessment of credible alternatives (Rule 79(1)(a1));
- replacing capacity justifications based on historical peak demand with forecast demand (Rule 79(2)(c)(iv));
- limiting safety-related capital expenditure to what is genuinely necessary for safe operation of the network (Rule 79(2)(c)(i));
- removing demand growth and marketing activities from the definition of operating expenditure; and
- strengthening the relationship between expenditure proposals and the requirements of the National Gas Rules.

Collectively, these changes recognise an important principle: in a declining network, consumers are best protected when unnecessary expenditure is avoided before it enters the regulatory asset base.

Renewable gas expenditure requires stronger safeguards for household and small business consumers

ECA remains concerned about proposals involving investments intended to facilitate future renewable gas pathways. While we acknowledge that the regulator retains discretion to determine whether expenditure is prudent and efficient under the conforming capex criteria, we encourage the Commission



to more explicitly recognise the risks this may create for household and small business consumers if those investments proceed without a clear understanding of who will ultimately benefit from them.

While renewable gases may play a role in some future energy scenarios, particularly for large industrial users and hard-to-abate sectors, significant uncertainty remains regarding:

- future demand;
- future production costs;
- technology development; and
- the sectors most likely to use renewable gases.

For this reason, ECA does not consider that speculative investments intended primarily to facilitate potential future renewable gas markets should automatically receive the same regulatory treatment as expenditure required to provide existing regulated services.

Previous ECA submissions argued that costs associated with renewable gas development should not automatically be recovered from consumers through regulated returns. Consumers should not be required to underwrite speculative investments whose future beneficiaries remain uncertain.

The AER has raised an alternative possibility whereby some renewable gas related costs may ultimately be more appropriately recovered from the customer groups most likely to benefit from future renewable gas services, rather than from all consumers. We encourage the Commission to consider this further. However, regardless of the approach ultimately adopted, ECA considers that stronger safeguards are required to ensure consumers are not exposed to unnecessary risks associated with highly uncertain future technologies and markets.

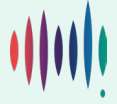
5. Other reforms should be refined to support consumer outcomes

Changes to inflation treatment should not become an additional pathway for accelerated cost recovery

ECA is concerned about the interaction between the proposed inflation framework and the broader capital recovery framework. While the draft determination considers the treatment of inflation largely in isolation, consumers will experience any change through its combined impact with depreciation, tariffs, redundancy and other cost recovery mechanisms.

Under the proposed Rule 73, service providers may propose a move from a real to a nominal approach where utilisation is expected to decline over the remaining economic life of the pipeline. As with the proposed depreciation framework, declining demand is effectively treated as a reason to bring forward cost recovery. ECA does not agree that this conclusion necessarily follows.

A move to a nominal approach may improve future recovery prospects by reducing the amount of capital exposed to future demand uncertainty. However, it does not address the underlying causes of declining demand or future stranding risk. Instead, it functions as an additional mechanism that can increase recovery from current consumers.



This is particularly important because use of one tool does not preclude use of another. A service provider may seek both accelerated depreciation and a change to a nominal inflation approach within the same access arrangement. The Commission's assessment considers each mechanism individually, but consumers will ultimately bear their cumulative effect through higher prices.

The experience of Evoenergy illustrates this concern. Evoenergy's proposed depreciation profile was already designed to fully depreciate the regulatory asset base by 2045. A move to a nominal approach in addition to that proposal would have accelerated recovery further while doing little to alter the underlying drivers of future stranding risk. In practical terms, Rule 73 has the potential to operate as an additional capital recovery mechanism sitting alongside accelerated depreciation, rather than as a neutral accounting choice.

ECA is also concerned that the proposed framework introduces another area in which outcomes depend heavily on uncertain forecasts and assumptions. Moving to a nominal approach requires future inflation expectations to be incorporated into regulatory calculations rather than relying on actual observed inflation outcomes. This introduces additional scope for forecast error and disagreement regarding assumptions.

For these reasons, ECA considers that the treatment of inflation should not be assessed in isolation from other capital recovery tools. Where service providers propose changes to inflation treatment, the regulator should be required to consider the combined impact of those changes alongside depreciation, tariffs and other capital recovery mechanisms, as well as the overall effect on consumers. A move to a nominal approach on the basis of expected decline is another way of bringing recovery forward. The same requirement should apply: capital that cannot be recovered at the upper bound should be written down before any such move is approved.

Consistent with ECA's broader position, the AER should retain broad discretion over inflation treatment decisions.

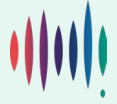
Incentive mechanisms should remain directed towards consumer outcomes

ECA supports retaining flexibility in the incentive framework. Given the uncertainty surrounding the future role of gas networks and the pace of the transition, it is sensible for the regulatory framework to accommodate new incentive mechanisms if they become necessary.

However, the draft rule significantly broadens the potential scope of future incentive mechanisms by moving from incentives that encourage efficiency in the provision of services to incentives that encourage the provision of services in a manner that contributes to the achievement of the NGO. This change creates greater flexibility but also creates greater ambiguity regarding the types of incentives that may emerge in future.

The key question is how future incentive mechanisms will be assessed. ECA is concerned that declining demand could create pressure for incentive mechanisms that prioritise preservation of network utilisation, customer retention or future cost recovery rather than consumer outcomes. In a declining network, these objectives will not always be aligned.

Any future incentive mechanism should therefore be assessed against a clear consumer interest test. In particular, the Commission and the AER should be cautious of mechanisms that primarily seek to preserve network revenues or delay structural transition without clearly demonstrating benefits to consumers.



ECA supports the requirement for service providers and the AER to explain how incentive mechanisms are consistent with the Revenue and Pricing Principles. However, given the broader scope of future incentive mechanisms under the draft rule, the Commission should introduce an additional requirement for both service providers and the AER to explicitly explain the expected impacts of proposed incentive mechanisms on users of the relevant pipeline service. This would not constrain future flexibility but would provide an important safeguard by ensuring that future incentive mechanisms are assessed not only against broad objectives, but also against their practical implications for consumers.

Proposed rule amendment to Draft Rule 98(3) and (4)

Rule 98(3)

A service provider must, in proposing an incentive mechanism, explain:

- (a) how the revenue and pricing principles have been applied in respect of that incentive mechanism; and
- (b) the expected impact of the incentive mechanism on users of the relevant pipeline service.

Rule 98(4)

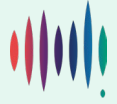
The AER must, in:

- (a) requiring an incentive mechanism; or
- (b) determining whether to approve an incentive mechanism proposed by a service provider, explain:
- (c) how the revenue and pricing principles have been taken into account; and
- (d) the expected impact of the incentive mechanism on users of the relevant pipeline service.

6. Conclusion

The Commission has correctly identified the problem. A framework built for growing networks needs to change now that household and small business gas demand is falling, and much of the draft rule will help, particularly the expenditure reforms and the long-term outlook.

As it stands, however, the draft rule allows networks to move stranding risk onto consumers early while deferring the tools that would share it. The final rule should restore the AER's discretion over capital recovery, require acceleration to be accompanied by a write-down, and make the long-term outlook a working planning tool. These changes would better promote the NGO and better protect the consumers who will be the last to leave the gas network.



Appendix A: Recommended Amendments to Draft Rule

New rule 45A

Insert new rule 45A (Annual update on long-term outlook) as set out in section 2. This should be accompanied by the consequential amendments to rules 45(2)(f) and 72(1) and the transitional provision described there.

Rule 45(4)

Current draft rule

If a service provider updates its long-term outlook in connection with an access arrangement variation proposal...

ECA proposed amendment

Replace Rule 45(4) with:

If a service provider considers that there have been material changes to the forecasts and inputs and assumptions required by subrules (2)(a) and (2)(b) in its most recent long-term outlook, it must publish an updated long-term outlook. In doing so, it must provide details of any material differences between any of the matters in subrules (2)(a) to (2)(c) in the updated long-term outlook and the previous version of the long-term outlook, and the reasons for each such difference. In any case it must publish an updated long-term outlook in connection with an access arrangement variation proposal.

Rule 45(5)

Current draft rule

To avoid doubt, a service provider must not submit more than one long-term outlook at a time, and a service provider's long-term outlook must not contain multiple alternatives of the forecasts set out in subrule (2)(a).

ECA proposed amendment

Delete Rule 45(5).

Rule 45(2)(a)(ii)

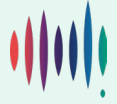
Current draft rule

pipeline capacity and utilisation of pipeline capacity.

ECA proposed amendment

Replace with:

pipeline capacity and utilisation of pipeline capacity, at an appropriate level of detail to allow for an understanding of the basis of any full or partial asset redundancy, or of any expected material repurposing or decommissioning of parts of the relevant pipeline.



Rule 73

ECA proposed amendment

Replace proposed decision-making model with a framework that gives the AER full discretion to determine:

- nominal versus real treatment of inflation;
- switching-point assessments;
- associated building block implications,

rather than relying primarily on a propose-respond model.

Apply the same write-down requirement as for accelerated depreciation (see rule 85), because a move to a nominal approach also brings cost recovery forward.

Rule 73(6)

Current draft rule

Economic efficiency criteria only.

ECA proposed amendment

Add:

having regard to the economic impact on the users of the pipeline service.

Rule 85

ECA proposed amendment

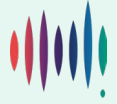
Allow partial redundancy to be recognised when future non-recovery is identified as a likely outcome, rather than only when switching-price constraints are already binding.

Require that, whenever the AER approves accelerated depreciation because use of the network is expected to decline, it also removes from the capital base any capital that the long-term outlook shows cannot be recovered with tariffs at the upper bound in rule 94(3)(a). Acceleration should then apply only to the remaining capital base.

This should apply whether or not the asset is under-utilised, so it needs to sit outside the current definition of partial redundancy in rule 69.

The AER should also decide how capital that can only be recovered through acceleration is shared between the service provider and consumers, having regard to the impact on consumers and the service provider's cash-flow needs. Rule 85(3) already allows this kind of cost sharing for full redundancy.

Amend rule 85(5) so that partial redundancy can be recognised on the basis of the long-term outlook, not only competition expected during the access arrangement period. Consequential changes will be needed to rules 85(9) (reasons) and 86(4) (return of capital) so they also apply to these removals.



Rule 85(8)(b)

Current draft rule

the potential transitory nature of the partial redundancy.

ECA proposed amendment

Delete Rule 85(8)(b).

Rule 86

Current draft rule

Capital returned to the capital base is increased at the allowed rate of return for the period it was removed (rules 86(2) and 86(5)(b)).

ECA proposed amendment

Index returned capital for inflation only, consistent with standard impairment practice (AASB 136), under which a reversal does not compensate for the period of impairment.

Rule 89

ECA proposed amendment

Remove the presumption in rule 89(3) that the AER must approve the service provider's proposed approach where the service provider proposes accelerated depreciation because use of the network is expected to decline. In those cases, the AER should determine the approach itself, having regard to the service provider's proposal and the economic impact on users.

Require any approval of accelerated depreciation to be accompanied by the write-down described under rule 85 above.

Rule 89(1)(a)

Current draft rule

Economic efficiency criteria only.

ECA proposed amendment

Add: having regard to the economic impact on the users of the pipeline service.

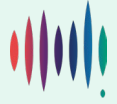
Rule 94(3)(a)(ii)

Current draft rule

The upper bound includes the price needed to keep gas competitive for a hypothetical end user who can readily switch, taking into account the cost of switching.

ECA proposed amendment

Require the AER, rather than the service provider, to determine this price, having regard to the economic impact on users, using a method it publishes in a guideline. As with the rate of return, service providers could make submissions but should not propose the value.



Rule 94(3A)

Current draft rule

Allows revenue recovery above the upper bound.

ECA proposed amendment

(3A) The revenue expected to be recovered for a tariff class ~~may exceed the upper bound referred to in subrule (3)(a) or~~ may be less than the lower bound referred to in subrule (3)(b) if:

- (a) the service provider proposes the recovery of a greater or lesser amount;
- (b) the service provider explains why the recovery of that greater or lesser amount would contribute to the achievement of the national gas objective; and
- (c) the AER approves the recovery of that ~~greater or lesser amount~~ having regard to the national gas objective.

For the avoidance of doubt, the revenue expected to be recovered for a tariff class must not exceed the upper bound determined under subrule (3)(a).

Rules 73, 85, 89 and 94 – combined assessments

ECA proposed amendments

Require the AER, when making a decision on the treatment of inflation (rule 73), redundancy (rule 85), depreciation (rule 89) or tariffs (rule 94), to consider the combined impact of all of those decisions on the prices paid by users, not just the impact of each decision in isolation. Service providers should be required to show this combined impact in their access arrangement information, including over the long-term outlook period.

Rule 94(4)

Current draft rule

Efficiency, transaction costs and responsiveness to price signals.

ECA proposed amendment

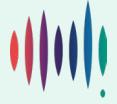
Add: having regard to the economic impact on users belonging to that tariff class.

Rule 98(3) and (4)

ECA proposed amendment

Add: Rule 98(3)(b) the expected impact of the incentive mechanism on users of the relevant pipeline service.

Add: Rule 98(4)(d) the expected impact of the incentive mechanism on users of the relevant pipeline service.



Appendix B: Background information on behavioural factors that affect a propose-response model

Anchoring-and-adjustment. final judgments are insufficiently adjusted away from an initial value. This can be the case even when that value is transparently arbitrary or irrelevant³⁷ Even experienced professionals in a field can be affected by this phenomenon, and may be unaware of its impact³⁸.

First-mover advantage in negotiation framing. The anchoring effect arises because propose-respond is structurally a negotiation with the network moving first. First-mover advantage is real, but can be mitigated by actively interrogating the rationale behind the first offer or anchors on their own target value instead³⁹. This is likely to be consistent with techniques that the AER uses in evaluating network proposals, and it's critical under a propose-respond model that the regulator has the right to do so. Benchmarking is a useful example of a regulatory tool that is not anchored in an NSP proposal

Bounded rationality. The AER does not have unlimited resources or time (and nor do the networks). Under such resource constraints decision-makers "satisfice" rather than optimise⁴⁰. In practice this means that the AER has to prioritise which elements of the proposal to focus its time and resources on, meaning other elements are more likely to benefit from anchoring.

Status quo bias / loss aversion reinforces the implications of bounded rationality. Decision-makers disproportionately favour the status quo alternative across many contexts, including consequential real-world choices, partly through loss aversion around departing from a default⁴¹. Making a change to an existing parameter or approach can be psychologically coded as the risky, effortful, criticisable move.

³⁷ See e.g. Tversky, A., & Kahneman, D. (1974). Judgment under Uncertainty: Heuristics and Biases. *Science*, 185(4157), 1124–1131.

³⁸ See e.g. Northcraft, G. B., & Neale, M. A. (1987). Experts, Amateurs, and Real Estate: An Anchoring-and-Adjustment Perspective on Property Pricing Decisions. *Organizational Behavior and Human Decision Processes*, 39(1), 84–97.

³⁹ See e.g. Galinsky, A. D., & Mussweiler, T. (2001). First Offers as Anchors: The Role of Perspective-Taking and Negotiator Focus. *Journal of Personality and Social Psychology*, 81(4), 657–669.

⁴⁰ See e.g. Simon, H. A. (1955). A Behavioral Model of Rational Choice. *Quarterly Journal of Economics*, 69(1), 99–118.

⁴¹ See e.g. Samuelson, W., & Zeckhauser, R. (1988). Status Quo Bias in Decision Making. *Journal of Risk and Uncertainty*, 1(1), 7–59.

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