



30 April 2025

Submission: AEMC Directions Paper – Gas Networks in Transition

The Australian Pipelines and Gas Association (APGA) represents the owners, operators, designers, constructors and service providers of Australia's pipeline infrastructure. APGA members ensure safe and reliable delivery of over 1,500 PJpa of gas consumed in Australia alongside over 4,500 PJpa of gas for export.

APGA welcomes the opportunity to contribute comments to the Australian Energy Market Commission's (AEMC) directions paper on Gas Networks in Transition.

The AEMC states that "in the context of uncertain and/or declining demand, the framework may no longer be fit for purpose" and that "long-lived regulated assets, combined with uncertain and declining utilisation and varying jurisdictional policy signals, create transition risk that is exposing some gaps in the ability of the current framework to continue to promote the long-term interests of gas consumers through the energy transition." While APGA does not disagree there are risks in the transition, it does not necessarily follow that the existing framework is not fit for purpose. The framework in fact is remarkably resilient and flexible to such changes, with its existing tools and features well capable of managing these risks.

APGA's chief recommendation in 2025 to the initiation of the rule change requests by the Justice and Equity Centre (JEC) and Energy Consumers Australia (ECA) was for the AEMC to reject the consolidated rule change proposals.¹ This was on the basis that the NGR already has established mechanisms, including prudence and efficiency tests, depreciation flexibility and capital redundancy provisions, to enable proportionate responses to genuine market changes. In the context of an energy and particularly gas investment market facing significant sovereign risk, this remains true.

That being said, **APGA does not oppose the *general* direction of travel proposed by the AEMC** and agrees it provides a more solid pathway for the *existing* frameworks of the NGR to be used more transparently and effectively achieve the National Gas Objective. Importantly, the AEMC has reached a position that understands the importance of

¹ APGA, 2025, *Submission: Gas Networks in Transition*, AEMC Rule Change Request Initiation, <https://apga.org.au/submissions/aemc-gas-networks-in-transition>

maintaining the regulatory compact, and retains the spirit and intent of the existing NGR in dealing with depreciation.

The proposals by the JEC and ECA would have introduced more uncertainty into the regulatory framework, where regulatory instability is a key barrier to necessary investment in gas infrastructure. Instability increases financing costs, and reduces the incentive to maintain and reinvest in vital gas infrastructure. Particularly for gas infrastructure, restricting the use of tools such as accelerated depreciation would immediately chill investment when it is needed.

Gas demand decline is not a fait accompli

The problem statement presented by both the proponents and the AEMC rests on the assertion that gas networks are in decline, and regulatory change is required now to bulwark against the effects of this.

The modelling commissioned by the AEMC demonstrates that “gas networks are declining” is not a fait accompli. While residential gas throughput is declining in some jurisdictions, a large proportion of this is explained through external factors – policy change, energy efficiency, and weather. At the same time, residential demand is not the same as overall demand and forecasts in AEMO’s draft Integrated Systems Plan and 2026 Gas Statement of Opportunities demonstrate that gas networks will continue to transport gas until well into the future, to support residential demand and commercial demand that cannot be electrified.

It may be appropriate to remove references to continued *growth* in the NGR. APGA does not specifically oppose this, but observes that some networks continue to grow, and the remainder have been built under an economic regulatory framework that assumes they will likely continue to operate indefinitely. Changing the rules of the game with respect to redundant capital may add stranding asset risk where it may not have existed before.

Accelerated depreciation is a vital and flexible tool

The regulatory compact is the **explicit** understanding between investors, regulators and consumers that efficient investment, once prudently incurred under an approved framework, will be recoverable over the economic life of the asset. While this is an implied understanding, its effect is codified in the National Gas Law. Tools like accelerated depreciation, where depreciation can be reprofiled adapt economic asset lives to changing market conditions, are vital parts of the economic regulatory toolkit.

APGA applauds the AEMC in its recognition that accelerated depreciation is an appropriate and necessary tool to recover capital and manage stranding risk.

Proposed ‘unimpeded switching cost’ measure is inappropriate

In the tariff arrangements section of the paper, the AEMC proposes changing from the existing stand-alone cost test with a consumer-focused measure, the “unimpeded

switching cost". While not specifically stated, it is implied in the paper that this measure may also be considered in the design of the capital redundancy mechanism and for depreciation.

This proposal is both inappropriate and not guided by sound economic principles, as in the rest of the paper. APGA urges AEMC to exercise caution in the design of depreciation mechanisms and to refrain from unnecessary changes to the tariff-setting arrangements.

Redundancy should be a last-resort solution but what that redundancy is based on is also important – it should be based on the redundancy revealed when service providers charge less than the building block price. Decisions that are made before this about depreciation will influence the amount of asset stranding that can or will take place in the future, noting that networks are not incentivised to overstate depreciation, in fact the opposite.

If estimates of switching costs are set too low, based on assumptions about cost pressures for consumers that turn out to be incorrect, this may influence decisions on capital redundancy that turn out would have been premature.

Asset owners already have a strong incentive to avoid charging prices that are so high they would cause disorderly customer exit. It is not necessary to implement rules to prevent businesses from doing what would already be against their best interests.

Efficient and prudent capex and opex

Under the current framework, service providers are already required to justify that proposed capex and opex are efficient and consistent with meeting the National Gas Objective.

APGA considers that the proposed direction by the AEMC on these aspects are reasonable, especially relative to what was proposed by the proponents. ECA, for example, proposed that service providers would need to justify to the regulator that previous capex decisions were prudent before allowing capex replacements or augmentations, effectively re-prosecuting the original expenditure with the assumption that if that original investment was efficient, no further capex would be required.

ECA also considers that there is limited scope for any capex or opex in an environment of declining demand, where decommissioning the asset is an option: for example, ECA suggests that capital expenditure such as Multinet's mains replacement program should have considered that "safety would be equally served by decommissioning the old pipelines", especially in light of the Victorian Government's substitution policy.

APGA raises these to underline the nature of expenditure on these assets: *even in scenarios where a service provider is facing declining demand, there is a need for ongoing capex and opex to ensure the continued provision of safe and reliable services (AEMC)*. Capex is not always directly related to the physical asset either; expenditure on information technology to support increased reporting requirements is also considered capex, and is generally short-term, not long-term.

To that end, the changes proposed by the AEMC are not unreasonable, particularly where it codifies what most service providers are already doing in their expenditure proposals.

To discuss any of the above feedback further, please contact me on +61 409 489 814 or crafael@apga.org.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Catriona Rafael', with a stylized, looping flourish at the end.

CATRIONA RAFAEL
Head of Policy
Australian Pipelines and Gas Association



Consultation questions

AEMC question	APGA response
<p>1 Proposed package of reforms</p> <p>1.1 What are stakeholder views on our assessment of the proposed direction and how it better promotes the NGO and is consistent with the RPP, in comparison to the status quo and the ECA and JEC rule change proposals?</p>	<p>The direction of the proposed package is an appropriate balance between ensuring the regulatory regime for distribution networks is fit for purpose in the context of <i>uncertain</i> future demand – especially relative to the proposals put forward by the Justice and Equity Centre and Energy Consumers Australia, which sought to tip the balance in a way which would fundamentally and negatively affect the operation of the market.</p> <p>APGA particularly highlights the direction of the AEMC to not restrict the use of accelerated depreciation in the way proposed by the ECA and JEC. In directly acknowledging that accelerated depreciation does not transfer risk to consumers, and in fact can help to protect consumers from the impacts of uncertain and declining demand, the AEMC reaffirms the regulatory compact.</p>
<p>2 Implementation considerations</p> <p>2.1 Do stakeholders consider that there are any barriers to implementing our proposed package of reforms considering the planned publication of the final determination in December 2026? Do you consider some form of transitional arrangements are required for any element?</p>	<p>APGA does not foresee any significant barriers in implementation.</p>
<p>2.2 Do stakeholders consider there are any significant implementation costs associated with our proposed package of reforms that the Commission should consider?</p>	<p>APGA does not foresee any significant additional costs that would interfere with the implementation of this package. APGA does note that particularly with the AA extension of the planning horizon to 20-</p>

	<p>years, there may be some additional but manageable costs for some service providers.</p>
<p>3 Application to transmission and distribution 3.1 What are your views on our proposed direction that reforms should apply to distribution and transmission pipelines (where relevant)?</p>	<p>Given there is currently no distinction between distribution and transmission pipelines in the NGL, practically separating them may be more difficult than warranted in the Rules.</p> <p>However, APGA notes that it is unlikely that national gas demand will decline such that stranding risk must be contemplated for gas transmission pipelines at any point in the near future. APGA therefore intends to further consider the appropriateness of applying the proposed direction to transmission pipelines once further clarity on the AEMC’s direction is provided. We note, for example, that it is unclear how the proposed redundant capital provisions based on a ‘switching point’ would be applied in a situation where a scheme transmission pipeline supplies gas into a scheme distribution network, and specifically how the provisions might account for the likely very small proportion of delivered gas prices that is attributable to gas transmission.</p>
<p>4 Our proposed direction on a longer-term outlook 4.1 What are your views on our proposed direction to require service providers and the regulator to consider a longer-term outlook and longer-term consequences?</p>	<p>APGA appreciates there may be benefits in looking forward beyond the AA period, and therefore is not opposed to this proposal (particularly relative to the ECA’s proposal to implement a GAPR). The 20-year timeframe is consistent with the forecast timeframe of the GSOO, which will provide some comparability.</p> <p>That being said, the longer the forecast the greater the reliance on assumptions and hence the greater the uncertainty. This includes the very same uncertainty about the future of gas demand through distribution networks that has led to this rule change package. There is risk inherent in relying on uncertain figures for regulatory</p>

	<p>decisions, not easily addressed in the framework of the Rules. Even “best forecasts” are likely to be wrong, as are sensitivity analyses and other scenarios, which means decision-making based on these forecasts is at best making inherently flawed decisions.</p> <p>What happens when the service providers’ and regulator’s ‘best estimates’ of demand, RAB utilisation, capex and opex, and other factors do not agree with each other over a 20-year time frame? Is this intended to be a single ‘best’ forecast, or will a range of forecasts and scenarios be permitted to reflect different but equally plausible assumptions?</p> <p>Regardless, it is important that the regulator be required to ‘show their working’, as service providers are required to do, and detail their assumptions and calculations if they consider their forecasting to be an improvement on that of service providers. The AEMC should consider adding this requirement to the Rules.</p> <p>It is also important therefore that rules and/or supporting guidelines should be clear that the purpose of such outlooks are to <i>assist</i> in informing decision making for the relevant/next access arrangement period. Differences in forecasts are not a reason to reject them and assumptions must not be a way to hide or otherwise obfuscate uncertainty.</p>
<p>4.2 Do you have any views on the information or analysis that should be included in a service provider’s 20-year outlook?</p>	<p>On the revenue requirement and reference tariff related forecasts, these best estimates will necessarily be based on assumptions that are very likely to only be reasonable at a particular point in time.</p> <p>Information should include, at the very least alongside the AEMC’s list on p129 of the directions paper, descriptions of the forecasts themselves including major influences/variables and key</p>

	<p>assumptions on demand that determine the forecast outcomes. This also needs to include qualitative assessment of any constraints on the forecast and hence its limitation for being used as a decision-making tool.</p>
<p>5 Our proposed direction on capital cost recovery 5.1 What are your views on our proposed direction for capital cost recovery tools in the NGR?</p>	<p>Overall, APGA does not oppose the general direction proposed by the AEMC with respect to capital cost recovery. The AEMC’s intent is to “minimise the risk that gas consumers face prices in excess of what would prevail in a workably competitive market, while preserving service providers’ incentives to continue to prudently and <i>efficiently</i> operate their networks, invest where necessary and continue to provide safe and reliable services” – APGA agrees with this intent and considers the proposals largely reflect this, with some caveats on the proposed unimpeded switching cost measure.</p> <p>This being said, while APGA agrees in principle to the concept of “rounding out” the NGR to support the use of capital cost recovery tools, it is unclear what this means in practice.</p> <p>APGA considers Option C (i) to be the most appropriate governance mechanism of the possible palatable options for the AEMC (for a variety of reasons we consider B to still be the most appropriate – see answer below).</p>
<p>5.2 Do you have any views on the decision-making model options explored for: a) depreciation and treatment of inflation? b) redundant capital provisions?</p>	<p>The AEMC appears to consider Option B to be insufficient, even though this option would bring some consistency with the operation of depreciation in the electricity sector. APGA observes that service providers have a strong incentive not to raise prices to the point where consumers are prompted to exit, whether or not the asset is at risk of stranding to begin with. If service provider’s incentives are indeed generally aligned with the NGO and RPPs, and APGA</p>

	<p>contends that they are, they are better placed to manage the risks of their decisions.</p> <p>However we recognise that there may be a broader desire for greater regulatory oversight to provide certainty to consumers. Of the remaining options that deliver this, APGA prefers Option C, with sub-option (i) with respect to depreciation, treatment of inflation and the redundant capital provisions.</p> <p>This option requires the regulator required to show its working, under a reasonably high bar, if it decides a service provider's proposal is inconsistent with the NGO and RPPs.</p>
<p>5.3 In relation to our proposed direction for redundant capital, do you have any views on:</p> <p>a) the materiality threshold that should apply to partial redundancy?</p> <p>b) the constraints that could apply to the regulator's use of partial redundancy?</p>	<p>As set out above, service providers are not incentivised to set charges at a level which results in disorderly exit by customers. Should the AEMC proceed with its proposed direction for redundant capital, APGA considers that materiality thresholds and constraints for the regulator's use of partial redundancy must be sufficiently stringent to provide investors with continued confidence to invest in gas services. These should be set so as to ensure that the redundancy provisions are clearly a last resort and only employed once it is very clear that there would not otherwise be a sufficient number of customers to recover capital costs. For example, this could include requiring that other regulatory tools, such as the use of accelerated depreciation, have been exhausted in the preceding regulatory periods before the partial redundancy provisions could be used by the regulator.</p> <p>The regulator ideally should only have the power to impose partial redundancy on 'revealed redundancy', as in when prices are consistently set by the service provider at a level below the building block price and hence are not sufficient to recover capital costs.</p>

<p>6 Our proposed direction on expenditure</p> <p>6.1 What are your views on our proposed direction to amend the NGR capex provisions? For example:</p> <p>a) Clarifying that service providers must justify all capex through a quantitative assessment of all credible options that support the provision of regulated pipeline services.</p> <p>b) Amending the justification for safety-related capex to be necessary for the safe operation of pipelines and use of services in NGR rule 79(2)(c)(i).</p> <p>c) Amending the justification for capex to maintain capacity to meet forecast (instead of existing) demand for services under NGR 79(2)(c)(iv).</p>	<p>APGA does not oppose the proposed direction for NGR capex provisions, largely on the basis that it codifies behaviour that industry already practices and hence would not require meaningful additional reporting or assessment, and that industry is already strongly incentivised to minimise new capex (efficient or otherwise) – as acknowledged by the AEMC in the directions paper.</p> <p>While we appreciate that the AEMC’s proposed changes would provide additional certainty to stakeholders and gas consumers on existing practice, APGA observes that this comes at the risk of signalling regulatory instability and, potentially, additional costs which will be passed onto consumers.</p> <p>APGA reiterates that the existing framework already supports efficient capex through criteria that require service providers to justify capex and provide the regulator with flexibility to adapt to different demand trajectories and jurisdictional policies.</p>
<p>6.2 What are your views on the need for the NPV test in rule 79(2)(b)?</p>	<p>APGA observes that this test is still relevant for jurisdictions in which gas demand and connections continues to grow, including South Australia and Western Australia.</p>
<p>6.3 What are your views on our proposed direction to amend the NGR opex definition?</p>	<p>Consistent with our comments in October, APGA does not consider changes to the NGR opex definition to be necessary. The current definition of operating expenditure already provides the flexibility needed to support efficient network operation, demand management and the integration of new technologies. It enables the regulator to assess prudence, efficiency and long-term consumer benefit without prescribing how businesses should manage their costs.</p>
<p>7 Our proposed direction on tariff arrangements</p>	

7.1 What are your views on our proposed direction for amending the reference tariff arrangements?	APGA considers the proposal to replace stand-alone cost as the upper limit for the revenue allowed to be recovered from specific customer groups to be inappropriate and out of step with regulation of other assets. The only other workable alternative would be maximum willingness to pay, which itself would be difficult to sufficiently quantify. APGA does not support AEMC's proposal to change to the "unimpeded switching cost" measure.
7.2 What are your views on our proposal to provide guidance on applying the concepts of long run marginal cost, standalone and avoidable costs?	This would depend on how the AEMC defines these concepts.
7.3 What are your views on our proposal to require service provider and the regulator to give greater consideration to customer impacts in setting tariffs and tariff variation mechanisms?	APGA considers the AEMC has not presented sufficient justification for changing how service providers and the regulator consider customer impacts in setting tariffs and tariff variation.
8 Incentive mechanisms 8.1 Having regard to our proposed direction, do you consider there is need for additional or modified incentive mechanisms for service providers?	No.