Final decision

AusNet Gas Services (Victoria) 2023−28 access arrangement variation proposal

May 2025

AUSTRALIAN ENERGY REGULATOR

Important notice

The information in this publication is for general guidance only. It does not constitute legal or other professional advice. You should seek legal advice or other professional advice in relation to your particular circumstances.

The AER has made every reasonable effort to provide current and accurate information, but it does not warrant or make any guarantees about the accuracy, currency or completeness of information in this publication.

Parties who wish to re-publish or otherwise use the information in this publication should check the information for currency and accuracy prior to publication.

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Email: aerinquiry@aer.gov.au
Tel: 1300 585 165

AER reference: AER240009539

Amendment record

Version	Date	Pages
1	14 May 2025	10

Executive summary

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia as we transition to net zero emissions. The regulatory framework governing gas transmission and distribution networks is the National Gas Law and Rules (NGL and NGR). Our work is guided by the National Gas Objective (NGO).

A regulated gas network business must periodically apply to us for a ruling on network charges, in the form of an access arrangement specifying the services it will provide, the tariffs for those services, and the other terms and conditions on which they will be provided. AusNet Gas Services (AusNet) provides reticulated gas distribution services in Victoria.

On 2 June 2023, we released our final decision on the access arrangement proposal submitted to us by AusNet for the 2023−28 access arrangement period (2023 final decision). Among other things, our 2023 final decision permitted AusNet to recover from customers $105 million ($2022−23) in accelerated depreciation.

On 30 September 2024, AusNet submitted a proposal to vary its approved 2023−28 access arrangement by increasing its accelerated depreciation to $175 million ($2022−23) (the proposal). With associated adjustments to its capital expenditure and operating expenditure forecasts (capex and opex), AusNet proposed to recover an additional $98.1 million ($nominal, smoothed) from customers over the remaining 3 years of AusNet's current access arrangement period: 2025−26, 2026−27 and 2027−28. This would result in real price increases of 8.87% per annum in those years instead of the 2.41% per annum real increases determined in our 2023 final decision.

AusNet submitted that its proposal was in response to recent initiatives by the Victorian Government and the Essential Services Commission of Victoria (ESCV), including a partial ban on new gas connections, cost reflective connection charges for the connections that do occur, and announced intentions to undertake regulatory impact statement (RIS) assessments for electrification of commercial buildings and gas appliance bans.

AusNet's proposal was novel in that it is the first time that a gas network service provider has submitted for the AER's approval a proposal for a variation of an access arrangement in accordance with rule 65 of the NGR.

We published AusNet's proposal on the AER website and called for submissions. We received 13 submissions from customer and environmental advocacy groups, energy retailers, individual large and small customers, and the Victorian Minister for Energy and Resources – most (but not all) of which opposed AusNet's proposal.

On 31 January 2025, we released our draft decision on AusNet's variation proposal. Our draft decision was to not approve AusNet's proposal because we were not satisfied that AusNet had justified the various elements. In our view, the impact of Victorian policy and regulatory changes will likely accrue more slowly than AusNet proposed. We also noted that how gas customers respond to those changes is uncertain. In addition, some elements of AusNet's proposal are already catered for by existing flexibility mechanisms within its approved 2023−28 access arrangement. We therefore considered that intervention was not required.

Our draft decision further noted that AusNet's own stakeholder consultation on its 2028−33 access arrangement proposal will begin relatively soon, for submission to us by July 2027. Rather than amending AusNet's approved 2023−28 access arrangement, our draft decision noted the issues raised by AusNet's proposal can be better assessed in the context of its 2028−33 access arrangement proposal.

In response to our draft decision, AusNet submitted a letter (AusNet's March 2025 letter) indicating it accepted our draft decision and would not submit a revised proposal.[1] We received one stakeholder submission from Energy Networks Australia (ENA). We have taken this material into account.

Our final decision is to not accept AusNet's proposal.

In making this final decision, we adopt and incorporate the reasons set out in the draft decision.

This document sets out a summary of the reasons provided in the draft decision, the AER's consideration of information received since the draft decision was published, and the reasons for the AER's final decision.

This final decision does not canvass elements of AusNet's approved 2023−28 access arrangement which AusNet did not propose to vary. This includes reference services, reference tariffs, cost pass throughs and incentive schemes, amongst other things. These elements remain unchanged from our 2023 final decision.

AusNet's variation proposal

AusNet's proposal sought to:

- increase AusNet's total revenue over the 2023−28 period by 7.7% or $98.1 million ($nominal, smoothed)
- increase its accelerated depreciation from $105 million already approved by the AER to $175 million ($2022−23)
- increase its opex allowance by $8.2 million ($2022−23), reflecting higher ESV levies, an expected increase in the number of abolishments performed annually and lower output growth
- reduce its capex allowance by $59.6 million ($2022−23) to account for reduced customer connections and the ESCV decision to establish cost reflective connection tariffs for small (volume) customers.

AusNet submitted that its proposal would see price changes of 8.87% per annum, in real terms, over the 3 remaining years of the 2023−28 period.

[1] AusNet, *Letter in response to AER draft decision*, March 2025.

Response to our draft decision

Rather than submit a revised proposal, AusNet wrote to the AER in March 2025, advising that:[2]

> Following careful consideration, AusNet will not submit a Revised Proposal for our Gas Access Arrangement (AA) Review for the access arrangement period 1 July 2023 to 30 June 2028. We accept the Draft Decision made by the AER on 31 January 2025 … We submitted our Variation Proposal because early action is the best way to protect customers and enable us to manage the network safely and reliably as long as it is needed by Victorians … Moving forward, we will continue to engage with customers and stakeholders on the broader policy challenges associated with asset stranding risk, price stability, and affordability. We remain committed to working with governments and regulators to support a responsible and equitable energy transition.

In response to AusNet's March 2025 letter, we acknowledge AusNet's decision not to further pursue its proposal. We also acknowledge AusNet's openness in engaging with the AER, both in the pre-lodgement period and in undertaking our assessment.

In response to our draft decision on the proposal, we received one submission, from ENA.

The ENA submission noted that the AER's 2021 information paper *Regulating gas pipelines under uncertainty* described the existing flexibility mechanisms available in the regulatory framework. ENA stated that altering depreciation approaches on the basis of new information is one of those mechanisms and its use should not be limited by need for holistic resolution of broader policy questions:[3]

> …the draft decision appears to signal that significant weight will be placed in specific decisions made on proposed depreciation allowances on whether such a holistic resolution of broader questions is in prospect. While supporting such broad policy discussions occurring, this cannot be a tenable basis for the AER doing anything other than continuing to make decisions guided by its existing Law and Rules mandate, in accordance with its normal economic regulatory functions.

The ENA also commented:[4]

> … while the AER's attention to minimising cost-of-living pressures is supported, the final decision should also include specific consideration of the fuller set of trade-offs and potential costs to consumers of delaying putting in place revised depreciation approaches until after 2028, and their potential distributional and intergenerational impacts from that date.

In making this final decision we have considered ENA's submission. We note that the AER has discretion to accept or approve, or to refuse to accept or approve, any element of an

---

2 AusNet, *Letter in response to AER draft decision*, March 2025, p.1.

3 ENA. *AusNet Services – Draft Decision – Variation proposal*, April 2025, p.2.

4 ENA. *AusNet Services – Draft Decision – Variation proposal*, April 2025, p.2.

access arrangement proposal.[5] Where the AER withholds its approval to any element of an access arrangement proposal, the proposal cannot be approved.[6] We consider that both our draft and final decision are within the AER's discretion and have been made having regard to the appropriate considerations in the NGL and NGR.

Our 2023 final decision (which remains in effect) permits AusNet to recover accelerated depreciation from customers. AusNet proposed to further increase its depreciation allowance, with material consequential price impacts on gas customers. For the reasons outlined in this final decision, we do not consider that AusNet justified this proposal and we do not consider that the proposal represents the best forecast or estimate possible in the circumstances.[7] We consider that our 2023 final decision remains the most accurate and contains the best forecast possible in the circumstances.

We note that there are a range of issues around the future of gas distribution networks that are outside the AER's scope and rightly sit with policy makers. These issues go to when and how gas distribution networks might be strategically decommissioned and who should bear related costs.

We also note that we face limitations under the NGR. The only circumstances in which the AER can vary an access arrangement during an access arrangement period (generally 5 years) are if:

- a service provider applies to us to do so; or
- it appears to the AER that the determination is affected by a material error or deficiency of the kind described in rule 68(1).

Notably, customers cannot propose to reopen an approved access arrangement.

This asymmetry of opportunity warrants further consideration given the rate of change in Australia's energy sector now and for the foreseeable future.

Final decision

Our final decision is to not accept AusNet's proposal. In respect of each element of AusNet's proposal, our final decision is as follows:

- **Demand forecasts:** Our final decision is to not accept AusNet's proposed demand forecasts for the 2023-2028 period. We are not satisfied that AusNet's proposed variation to its connections and demand forecast complies with rule 74 of the NGR. We also do not accept AusNet's proposed decline in customer numbers.
- **Capital expenditure (capex):** Our final decision is to not accept AusNet's proposed variation in its capex in accordance with the new capex criteria, under rule 79(1) of the NGR.

5 NGR, rule 41(3).

6 NGR, rule 41(2).

7 NGR, rule 74(2).

- **Operating expenditure (opex):** Our final decision is not to accept AusNet's proposed opex forecast of $358.0 million ($2022–23) for the 2023–28 access arrangement period. We are not satisfied AusNet's proposed total opex forecast reflects the opex criteria and the requirements for forecasts and estimates.
- **Accelerated depreciation**: Our final decision is not to accept AusNet's proposed $175 million ($2022–23) accelerated depreciation for the 2023–28 access arrangement period, which reflects a $70 million increase to the $105 million we approved in our 2023 final decision. We consider that the $105 million in accelerated depreciation which was approved in our 2023 final decision remains appropriate.

AusNet's stakeholder consultation on its 2028−33 access arrangement proposal is soon to commence, for submission to us by July 2027. Rather than amending AusNet's approved 2023−28 access arrangement, issues raised by AusNet's proposal can be better assessed in the context of its 2028−33 access arrangement proposal.

Reasons for final decision

In making this final decision, we adopt and incorporate the reasons set out in the draft decision. As noted above, we have also had regard to information received since the draft decision was published.

Demand forecasts

As noted above, our final decision is to not accept AusNet's proposed demand forecasts for the 2023-2028 period.

We are not satisfied that AusNet's proposed variation to its connections and demand forecast complies with rule 74 of the NGR. Rule 74(2) of the NGR requires forecasts in access arrangement proposals to be arrived at on a reasonable basis and to represent the best forecast possible in the circumstances.

We are not satisfied that the forecast represents the best forecast or estimate possible in the circumstances. We consider that AusNet's connections forecast contained a number of unjustified assumptions around customer sentiment, the commencement date for Victorian policy changes, customer sensitivity to upfront connection charges and customer perception of the economic life of gas connections.

Applying more realistic assumptions results in a slower modelled decline in connections than proposed by AusNet. As a result, we consider that AusNet's proposed changes in customer numbers in the remaining years of the period, compared to our 2023 final decision, are not material.

Capital expenditure (capex)

As noted above, our final decision is to not accept AusNet's proposed variation in its capex in accordance with the new capex criteria, under rule 79(1) of the NGR. We do not consider that the forecast advanced by AusNet in its proposal represents the best forecast possible in the circumstances.[8]

[8] NGR, r. 74(2).

We consider that the 2023–28 access arrangement period forecast remains the best forecast possible in the circumstances. This is because our substitute forecast of AusNet's residential customer numbers remains materially unchanged from our 2023 final decision. Since we do not accept AusNet's proposed variation to its demand, we do not accept AusNet's proposed reductions to its connections capex and augmentation capex, which would arise from its revised customer numbers and consumption forecast.

We consider our 2023 final decision on AusNet's capex reflects capex that would be incurred by a prudent service provider acting efficiently. We consider that any actual variation from the forecasts within our 2023 decision is unlikely to be material.

Operating expenditure (opex)

As noted above, our final decision is to not accept AusNet's proposal in respect of its opex forecast of $358.0 million ($2022–23) for the 2023–28 access arrangement period.

Rule 91(1) of the NGR requires that opex must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services in a manner consistent with the achievement of the NGO.

We have considered AusNet's proposed total opex of $358.0 million ($2022–23) which reflects three variations compared to the opex forecast we approved in our 2023 final decision. We consider that these variations do not meet the requirements under rule 74(2) for forecasts and estimates (and specifically that they have been arrived at on a reasonable basis and represent the best forecast or estimate possible in the circumstances), and they do not produce a total opex forecast that reflects the opex criteria under rule 91(1). We have set out our consideration of each of these three variations below. Given we do not consider any of these variations are reasonable, we consider our total opex forecast in the 2023 final decision best meets these requirements and criteria.

In summary:

- We do not consider that AusNet's proposed step change for the ESV levy meets the requirements for forecasts and estimates. We consider this cost has already been appropriately accounted for in our final 2023 decision forecast for the 2023–28 access arrangement period.
- The forecast of abolishments in our 2023 final decision remains the best possible forecast in the circumstances, because some customers will request disconnections rather than abolishments – AusNet's proposal used a forecast that assumed only abolishments. Also, the existing true-up mechanism in AusNet's 2023–28 access arrangement will compensate it for any divergence from our 2023 final decision forecast.
- AusNet's proposed variation in the forecast rate of change for output growth is immaterial and was not arrived at on a reasonable basis. AusNet's lower forecast of output growth reflected its lower forecasts of customer numbers and gas consumption. Because our substitute forecasts for customer numbers and consumption are immaterially different to our 2023 final decision, we consider our 2023 final decision forecast rate of change remains the best forecast possible in the circumstances.

Accelerated depreciation

Accelerated depreciation is a regulatory tool we use to reduce asset stranding risk arising from demand uncertainty in the gas sector. While accelerated depreciation leads to higher revenues over an access arrangement period, it can help reduce asset stranding risk to some extent by reducing the residual capital base to be recovered from a smaller customer base in the long term.

As noted above, our final decision is to not accept AusNet's proposed $175 million ($2022–23) accelerated depreciation for the 2023–28 access arrangement period, which reflects a $70 million increase to the $105 million we approved in our 2023 final decision.

We consider that the $105 million in accelerated depreciation which was approved in our 2023 final decision remains appropriate.

We do not consider that the risk of asset stranding faced by AusNet has materially changed since our 2023 final decision on AusNet's 2023−28 access arrangement. This is because our 2023 final decision on accelerated depreciation took into account the Victorian Government's Gas Substitution Roadmap. We do not consider that there is sufficient evidence to support AusNet's assertion that long term gas demand will decline materially faster than our 2023 final decision forecasts at this stage. We note AusNet continues to maintain its position that additional accelerated depreciation is warranted but accepts our decision.[9]

On price stability and affordability, we note that AusNet's proposal, if accepted, would see network prices increase by around 12% per annum in nominal terms. We consider this level of price increase to be significant. In the context of existing expectations for customer numbers to decline, this scale of price increase could contribute to triggering an unintended disconnection spiral, which would not align with the long-term interests of consumers.

[9] AusNet, *Letter in response to AER draft decision*, March 2025, p.2.

Glossary

Term	Definition
AER	Australian Energy Regulator
Capex	Capital expenditure
ENA	Energy Networks Australia
ESCV	Essential Services Commission of Victoria
NGR	National Gas Rules
NGL	National Gas Law
NGO	National Gas Objective
Opex	Operating expenditure
RIS	Regulatory Impact Statement