Attachment 14.1

Network pricing

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PUBLIC

Australian Gas Networks

1 Introduction

In this attachment we describe our pricing including the proposed tariff variation mechanism. form of revenue control, and tariff classes over the next AA period (2026/27 to 2030/31) for our South Australian distribution network, to recover revenue to fund our network operations on an economically efficient basis and ensure that our tariffs are otherwise consistent with the National Gas Objective and National Gas Rules (NGR).

We show how the revenue generated by our tariffs lies between the standalone and avoidable costs of providing reference services for each tariff class. In addition, we demonstrate how we have taken Long Run Marginal Cost into account in setting the prices for our reference services.

We also specify the proposed formulas that will apply to our proposed tariff variation mechanism and form of revenue control in the next AA period.

2 Efficient Tariffs

We are required by the National Gas Rules (NGR) to allocate total recoverable revenue between our Reference and Other Services on an efficient basis, reflective of the allocation of costs to each service.[1] We recover this allocated revenue by charging customers who use this service a tariff.

This section outlines how our tariffs are efficient, reflective of our customer base and, as such, are consistent with the NGR. It provides:

- demonstration of efficient prices, including estimates of:
  - (i) stand-alone and avoidable costs;
  - (ii) long-run marginal costs (LRMC);
  - (iii) consideration of transaction costs; and
  - (iv) consideration of a customer's ability to respond to price signals.

2.1 Stand Alone and Avoidable Costs

Rule 94(3) requires that for each tariff class, the revenue expected to be recovered should lie on or between an upper bound representing the stand alone cost of providing the reference service to customers who belong to that class and a lower bound representing the avoidable cost of not providing the reference service to those customers.

AGN has defined the stand-alone costs for each tariff class as the costs of providing a distribution network to supply only that tariff class. These costs represent the upper bound of providing reference services to each tariff class, because the costs are calculated based on the assumption that no other tariff class uses the network, thereby ignoring the economies of scale arising from sharing fixed costs with other tariff classes. The stand-alone cost for all tariff classes was determined to be the cost associated with the major transmission and high pressure distribution mains forming the core of the network plus the regulator stations.

The avoidable cost is defined as the cost that can be avoided by not providing reference services to a particular tariff class. The avoidable cost for each tariff class is defined as the costs (i.e. return on capital, depreciation and operating expenditure) associated with dedicated connection assets, such as services and meters. AGN has defined avoidable cost for each tariff class to be the cost that can be avoided by not providing reference services to that tariff class.

AGN's Cost Allocation Model (CAM, provided as Attachment 14.2) calculates the standalone and avoidable cost for each tariff class and demonstrates that the revenue expected to be recovered from each tariff class lies on or between the stand alone and avoidable cost of providing reference services. The methodology applied in the CAM is the same as that currently used for this network and for our AGN Victoria and Albury network, and has been approved by the AER as satisfying Rule 94(3).

Table 2.1 shows the outputs of the CAM regarding stand-alone and avoidable costs, excluding Goods and Services Tax. The table demonstrates that the 2026/27 weighted average revenue for each tariff class lies above the lower bound avoidable cost and below the upper bound stand alone cost. Therefore our Reference Tariffs comply with Rule 94(3) of the NGR in all cases.

[1] Rule 93 of the NGR imposes requirements on AGN regarding the allocation of revenue and costs to Reference Services. Further information on the Regulatory Framework is provided in Attachment 1.1.

Table 2.1: SA Network Avoidable, Expected and Stand Alone Costs $2025/26

Tariff Class	Avoidable Costs ($ million)	Weighted Average Revenue ($ million)	Stand Alone Costs ($ million)	Complies
Tariff R (Domestic Haulage Service)	38.7	199.1	210.5	Yes
Tariff C (Commercial Haulage Service)	5.9	40.2	56.8	Yes
Tariff D - Adelaide Northern (Demand Haulage Service)	2.2	10.2	29.0	Yes
Tariff D - Adelaide Central (Demand Haulage Service)	1.3	5.0	29.0	Yes
Tariff D - Adelaide Southern (Demand Haulage Service)	0.6	1.5	29.0	Yes
Tariff D - Port Pirie (Demand Haulage Service)	0.1	0.7	29.0	Yes
Tariff D - Riverland (Demand Haulage Service)	0.0	0.3	29.0	Yes
Tariff D - South East (Demand Haulage Service)	0.1	0.5	29.0	Yes
Tariff D - Whyalla (Demand Haulage Service)	0.0	0.0	29.0	Yes

2.2 Long-Run Marginal Costs

Rule 94(4)(a) requires AGN to take account of the LRMC for the Reference Services and for each element of each Reference Service when setting tariffs. For this purpose, AGN defines LRMC as a measure of the change in costs as output increases, when all factors of production are variable. This aligns closely with the LRMC as defined in the National Electricity Rules although AGN notes no such definition exists in the NGR.[2]

2.3 AGN's Approach to Calculating LRMC

Our approach to calculating the LRMC is the same as was applied for the South Australian AGN network AA in the current period, as well as for the current AGN Victoria and Albury AA. This methodology applies the Average Incremental Cost (AIC) approach, whereby the present value of the incremental investment (both capital and operating expenditure) associated with increasing capacity in the long term is divided by the present value of the change in incremental demand. These factors are reflected in AGN's tariff classes, and as a result, AGN has attempted to calculate the LRMC for each of its tariff classes.

Calculation Outcomes

We have designed the tariff parameters to effectively signal LRMC to network users, in particular to signal the impact that network users will have on the cost of providing network services. This is evidenced in AGN's tariffs by the use of:

1. geographic price signals – which signal the cost to the customer of connecting to a particular geographic zone;
2. declining block structure – which signal to the customer the declining incremental cost of additional gas consumption (reflecting the low margin cost of services); and
3. capacity based charges – which signal to demand customers the impact of peak demand on capital expenditure.

In the next AA period, we have also considered emission reduction objectives for our tariffs. As a result, we have made some adjustments by way of higher fixed charges and some minor flattening of price tiers, which seek to best balance these objectives against reasonable customer impacts and continuing to encourage efficient use of the pipeline.

LRMC and Ancillary Reference Services

The provision of ARS is an operating expense incurred by AGN. There is no change in the long-run cost of providing the services irrespective of the quantity of these services demanded. The tariff applied to customers requiring an ARS is therefore a flat rate as there is no LRMC to signal to customers.

In the next AA period, the abolishment service, as a new ARS, is proposed to be charged at a flat rate (such that there is no LRMC to signal) which equates to only 20% of the cost of providing the service. The charging approach to socialise the remaining cost of the service across all network users is consistent with AER's preferred approach to balance safety and incentive considerations with cost recovery considerations.

2.4 Response to Price Signals

Rule (94)(4)(b)(ii) of the NGR requires that a tariff or each charging parameter for a tariff class (where there at least two charging parameters) must be determined having regard to whether customers belonging to the relevant tariff class are able or likely to respond to price signals. AGN has developed its tariffs and the charging parameters that constitute each tariff in such a manner that customers are able or likely to respond to price signals.

The way in which the AGN's Residential, Commercial and Demand tariffs and their associated charging parameters, have been developed is set out below. AGN's proposed Reference Tariffs for 2026/27 are set out in Section 3 of this Attachment.

2 AEMC, *National Electricity Rules* – Version 71, April 2015, page 1,166.

Haulage Reference Services

Domestic and Non-Domestic Tariffs

The variable nature of the volume charge for residential and commercial tariffs imply that customers are able to and can respond to price signals by adjusting their consumption of gas. Furthermore, the residential threshold that defines the step between the first, second and third tariff bands has been set with regard to the spread of appliance penetration across domestic network users in South Australia. Both these measures promote efficient use of the network and assist AGN to address the long-term decline in average consumption.

Demand Tariffs

Demand tariffs have been structured so that customers can respond to pricing signals whilst providing certainty to customers on the amount of their annual charge. This is because the demand tariffs are structured as 'declining block tariffs' based only on an agreed Maximum Hourly Quantity (MHQ), not the actual consumption of gas consumed on any given day. Consequently, the demand tariff structures motivate customers to manage their actual gas consumption within the constraints of their agreed MHQ. This promotes better capacity utilisation of AGN's network (noting that agreed MHQ will decrease if actual MHQ decreases).

Ancillary Reference Services

ARS tariffs reflect the operating expense to AGN of providing these services. The exception is the small-scale abolishment service for which the price is proposed to be 20% of the operating cost aligned with the AER's preferred approach. Otherwise, each tariff reflects the actual cost to AGN of providing each service and therefore delivers the appropriate price signal.

3 Network Pricing

We recover our regulated revenue for the South Australian network by charging Reference Tariffs to customers for Haulage Reference Services (HRS) and Ancillary Reference Services (ARS). As we have shown, the proposed tariffs are modelled to be revenue neutral and fall between the stand alone and avoidable costs of providing reference services to these zones. The tariff structures are efficient, contain no cross-subsidy (apart from the abolishment service) and have taken into account factors such as transaction costs, LRMC and the ability for consumers to respond to price changes.

The proposed tariffs to take effect as at 1 July 2026 are detailed in Tables 3.1 through 3.4.

Table 3.1: Tariff R – Residential (Domestic) Haulage Service Tariffs 2026/27 ($nominal)

Charges (excluding GST)	
Tariff R excluding Tanunda	
Base Charge ($ per day)	0.3821
Charge for the first 0.0274 gigajoules of gas delivered ($ per gigajoule)	40.7265
Charge for the next 0.0219 gigajoules of gas delivered ($ per gigajoule)	17.7194
Charge for additional gas delivered ($ per gigajoule)	3.9589
Tariff R Tanunda	
Base Charge ($ per day)	0.3821
Charge for the first 0.0274 gigajoules of gas delivered ($ per gigajoule)	52.9445
Charge for the next 0.0219 gigajoules of gas delivered ($ per gigajoule)	23.0352
Charge for additional gas delivered ($ per gigajoule)	5.1466

Table 3.2: Tariff C Non-Residential Haulage Service Tariffs 2026/27 ($nominal)

Charges (excluding GST)	
Tariff C – Excluding Tanunda	
Base Charge ($ per day)	0.7686
Charge for the first 0.9863 gigajoules of gas delivered ($ per gigajoule)	21.1456
Charge form the next 4.274 gigajoules of gas delivered ($ per gigajoule)	7.4673
Charge for the next 11.178 gigajoules of gas delivered ($ per gigajoule)	2.5426
Charge for additional gas delivered ($ per gigajoule)	2.5426
Tariff C Tanunda	
Base Charge ($ per day)	0.7686
Charge for the first 0.9863 gigajoules of gas delivered ($ per gigajoule)	27.4893
Charge form the next 4.274 gigajoules of gas delivered ($ per gigajoule)	9.7075
Charge for the next 11.178 gigajoules of gas delivered ($ per gigajoule)	3.3054
Charge for additional gas delivered ($ per gigajoule)	3.3054

Table 3.3: Tariff D Demand Haulage Service Tariffs 2026/27 ($nominal)

Charges (excluding GST)	Northern Zone	Central Zone	Southern Zone
50 gigajoules or less (MDQ)	3459.7254	3459.7254	3459.7254
Next 50 gigajoules ($ per gigajoule MDQ)	67.2718	79.8903	94.2149
Next 900 gigajoules ($ per gigajoule MDQ)	41.9976	50.8065	59.0038
Additional gigajoules ($ per gigajoule MDQ)	12.7250	16.0586	17.7937

Charges (excluding GST)	Port Pirie	Riverland	South East	Whyalla
50 gigajoules or less (MDQ)	3459.7254	4883.4849	3459.7254	3459.7254
Next 50 gigajoules ($ per gigajoule MDQ)	67.2710	98.2252	67.2710	67.2710
Next 900 gigajoules ($ per gigajoule MDQ)	23.3137	61.2070	34.7215	34.7215
Additional gigajoules ($ per gigajoule MDQ)	11.6688	12.7249	12.7249	12.6692

Table 3.4: Ancillary Reference Services Tariffs 2026/27 ($nominal)

Ancillary Reference Service (excluding GST)	
Special Meter Read	13.70
Disconnection	93.00
Reconnection	93.00
Meter Removal	93.00
Meter Reinstallation	102.00
Meter Gas and Installation Test	278.00
Abolishment - Small-Scale	257.00

4 Tariff Control Formulae

In the current Access Arrangement (AA) period, a tariff control mechanism applies in the form of a weighted average price cap (WAPC) formula. The WAPC is a form of tariff basket control, and as such, is allowed for under Rule 97(2)(b) of the NGR.

A WAPC constrains the overall movement in Reference Tariffs each year (as opposed to the movement in individual tariffs) within the AA period. Adjustments in the current AA period are to account for price movements for unaccounted for gas (see section 4.3) and the X factor, as well as any other cost pass throughs and other adjustments approved (see section 4.4).

We have proposed similar tariff variation mechanisms for the next AA period, but with some additional adjustments in the calculation for:

- Safeguard Mechanism compliance costs (see section 4.5), and
- A true up of abolishment costs (see section 4.6).

We have also proposed that a new constraint applies to the level of revenue variation that can occur under the WAPC each year through a hybrid mechanism (see section 4.1).

The resulting proposed WAPC formula is shown in Box 4.1.

The right hand side of the WAPC formula calculates the weighted average of the notional revenues determined for the current year (year t) and the previous year (year t-1). Revenues are determined by applying the actual quantities of gas delivered two years prior (year t-2) to the:

- tariffs proposed to apply in year t (which is the year where the adjusted tariffs will apply); divided by
- tariffs applied to customers in year t-1 (which refers to the tariffs currently applying).

The weighted average of these notional revenues is constrained by the left hand side of the WAPC formula, which allows tariffs to increase by no more than the Consumer Price Index (CPI) less the X factor plus other AER-approved cost-related adjustments.

The WAPC currently applies to each tariff class individually.

4.1 Revenue Control Factor Formula

The tariff control formula forms part of Annexure E of the Reference Tariff Policy in the AA Document.

Box 4.1: Tariff Control Formula

The following formula is to apply separately to each of Tariff R, C and D:

$$(1 + \Delta CPI_t)(1 - X_t)(1 + U_t)(1 + PT_t)(1 + C_t)(1 + A_t)(1 + R_t) \geq \frac{\sum_{i=1}^{n}\sum_{j=1}^{m} p_t^{ij} q_{t-2}^{ij}}{\sum_{i=1}^{n}\sum_{j=1}^{m} p_{t-1}^{ij} q_{t-2}^{ij}}$$

where:

ΔCPI_t is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities from the June quarter in year t-2 to the June quarter in year t-1, calculated using the following method:

The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the June quarter in year t-1 divided by

The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the June quarter in year t-2 minus one.

t is the year for which tariffs are being set;

X_t is the X factor for each financial year of the 2026/27- 2030/31 Access Arrangement Period as determined in the PTRM as approved in the AER's final decision, and annually revised for the return on debt update calculated for the relevant year during the Access Arrangement Period in accordance with that approved in the AER's final decision;

U_t is the adjustment factor to accommodate unaccounted for gas price variations in year t as in Box 4.4;

PT_t is the cost pass through factor for year t calculated as in Box 4.5;

C_t is the Safeguard Mechanism adjustment for year t calculated as in Box 4.6.

A_t is the abolishment true up factor calculated as in Box 4.7;

R_t is the revenue control factor for year t calculated as in Box 4.8;

n is the number of different Reference Tariffs;

m is the different components, elements or variables comprised within a Reference Tariff;

p_t^{ij} is the proposed component *j* of Reference Tariff *i* in Financial Year *t*;

p_{t-1}^{ij} is the prevailing component *j* of Reference Tariff *i* in Financial Year t-1; and

q_{t-2}^{ij} is the verified annual quantity of component of Reference Tariff *i* sold in Financial Year t-2 (expressed in the units in which that component is expressed (e.g., GJ))

As stated, the current price cap control places a constraint on the overall average movement in tariffs from one year to the next (referred to as a weighted average price cap (WAPC)). The constraint allows average prices to change by the annual change in the Consumer Price Index (CPI) less the X-factor and other cost pass throughs.

Under a price cap, the business is exposed to volume risk – that is, any variation in volume and subsequent revenue impact is borne by the business. This significantly reduces price volatility for customers within an AA period. In addition, the economic rationale for the price-cap form of control is to provide a financial incentive for regulated businesses to rebalance prices among their service offerings towards a form that is more allocatively efficient.[3]

We have proposed that in the next AA period, the WAPC continues to apply but that tariffs are also adjusted when actual revenue for haulage reference services in a financial year is beyond a threshold level of variation (10%) from the revenue allowed for those services. Under this proposed 'hybrid' mechanism, the incremental revenue gain or loss beyond the 10% threshold would be shared between customers and the business on an equal (50:50) basis. The approach ensures that there is some incremental adjustment for any significant differences in demand from volume forecasts but also minimises the volatility from year to year on our customers (since the price cap will otherwise apply). This factor is in the tariff control formula in Box 4.1 ("R_t") and the formula for calculation is in Box 4.2.

The revenue control formula forms part of Annexure E of the Reference Tariff Policy of the AA Document.

Box 4.2: Revenue Control Factor Formula

The revenue true-up factor for a financial year t-2 is calculated as follows

$$R = \begin{cases} (1.10\ x\ R^{Allowed} - R^{Actual}) \times\ 1.0, & RR > 1.10 \\ 0, & 0.90\ \leq RR \leq 1.10 \\ (0.90\ x\ R^{Allowed} - R^{Actual})\ \times\ 0.10, & RR\ < 0.90 \end{cases}$$

where:

$R^{Allowed}$ is calculated as:

$$\sum_{x=1}^{n}\sum_{y=1}^{m} p_{t-2}^{xy} q_{t-2}^{xy}$$

where:

p_{t-2}^{xy} is the actual tariff component y of reference tariff x that was charged in a financial year t-2;

q_{t-2}^{xy} is the forecast quantity of component y of reference tariff x that was included in the AER's determination for the 2026/27-2030/31 AA period in financial year t-2;

R^{Actual} is the actual revenue from the Haulage Reference Service for the financial year t-2; and

RR is the ratio R^{Actual} / $R^{Allowed}$

Note: see earlier boxes in this document for additional notation definitions.

[3] See proof in Laffont, J and J Tirole (2001), *Competition in Telecommunications*, MIT Press, pp.66-67.

4.2 Rebalancing Control Mechanism

The proposed rebalancing control formula (Box 4.3) is also consistent with that used in the current AA period. The rebalancing control is intended to provide price certainty to customers as it limits the movement in each tariff class to CPI plus X (and any other cost pass throughs) plus 2%.

The rebalancing control formula forms part of Annexure E of the Reference Tariff Policy of the AA Document.

Box 4.3: Rebalancing Control Formula

The following formula applies separately to each Tariff Class:

$$(1+\Delta CPI_t)(1-X_t)(1+U_t)(1+PT_t)(1+C_t)(1+A_t)(1+R_t)(1+0.02) \geq \frac{\sum_{i=1}^{n}\sum_{j=1}^{m} p_t^{ij} q_{t-2}^{ij}}{\sum_{i=1}^{n}\sum_{j=1}^{m} p_{t-1}^{ij} q_{t-2}^{ij}}$$

where:

ΔCPI_t	is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities from the June quarter in year t-2 to the June quarter in year t-1, calculated using the following method: The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the June quarter in year *t-1* divided by The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the June quarter in year t-2 minus one;
t	is the year for which tariffs are being set;
X_t	is the X factor for each financial year of the 2026/27- 2030/31 Access Arrangement Period as determined in the PTRM as approved in the AER's final decision, and annually revised for the return on debt update calculated for the relevant year during the Access Arrangement Period in accordance with that approved in the AER's final decision;
U_t	is the adjustment factor to accommodate unaccounted for gas price variations in year t as in Box 4.4;
PT_t	is the cost pass through factor for year t calculated as in Box 4.5;
C_t	is the Safeguard Mechanism adjustment for year t calculated as in Box 4.6.
A_t	is the abolishment true up factor calculated as in Box 4.7;
R_t	is the revenue control factor for year t calculated as in Box 4.8;
n	is the number of different reference tariffs;
m	is the different components, elements or variables comprised within a reference tariff;
p_t^{ij}	is the proposed component j of reference tariff i in year t;
p_{t-1}^{ij}	is the prevailing component j of reference tariff i in year t-1;
q_{t-2}^{ij}	is the audited annual quantity of component j of reference tariff i that was sold in year t-2 (expressed in the units in which that component is expressed (e.g., GJ)).

Note: see earlier boxes in this document for additional notation definitions.

4.3 Unaccounted for Gas Price Variation Formula

In accordance with the current AA period, we are proposing to deal with the uncertainty surrounding the forecast gas price through the inclusion of a 'true-up' adjustment in our tariff variation mechanism.

In effect, this means that if the actual price we are required to pay for gas is lower (higher) than forecast, then the lower (higher) price will be passed through to our customers.

The price we pay will be the wholesale price of natural gas under our UAFG contract.

We will adjust our tariffs for any variation in unaccounted for gas prices in years 2-5 of the next AA period according to the formula in Annexure E of the AA Document, shown in Box 4.4 below.

Box 4.4: Unaccounted for Gas Price Variation Formula

$$U_t = \frac{(1+U'_t)}{(1+U'_{t-1})} - 1$$

where:

t is the financial year for which tariffs are being set;

U'_{t-1} is:

a) zero when financial year t-1 refers to financial year ending June 2026;

b) the value of U'_t determined in the financial year t-1 for all other financial years in the Access Arrangement Period.

and

$$U'_t = \frac{DP_{t-2} \times (1 + real\,WACC_t) \times (1 + realWACC_{t-1}) \times (1 + CPI_{t-1})}{(1 - X_t)(1 + PT_t)(1 + C_t)(1 + A_t)(1 + R_t) \sum_{i=1}^{n} \sum_{j=1}^{m} p_{t-1}^{ij} q_{t-2}^{ij}}$$

where:

DP_{t-2} is the difference between the actual unaccounted for gas price and the forecast unaccounted for gas price calculated as:

$$DP_{t-2} = (UP_{t-2} \times FQ_{t-2}) - (FP_{t-2} \times FQ_{t-2})$$

UP_{t-2} is the actual price for unaccounted for gas as calculated as the sum of the retail prices for wholesale, maximum daily quantity (MDQ) and transmission gas in financial year t-2

FP_{t-2} is the price used to forecast the unaccounted for gas allowance in financial year t-2 $17.00/GJ ($2025/26) in all years from 20276/27 to 2030/31 inclusive)

$realWACC_t$ is the real vanilla weighted average cost of capital as set out in this final decision and updated annually within the PTRM

$realWACC_{t-1}$ is the real vanilla weighted average cost of capital as determined in financial year t-1

Note: see earlier boxes in this document for additional notation definitions.

4.4 Cost Pass Through Factor Formula

The proposed cost pass through factor formula is the same as applies in the current AA period.

The definition and treatment of any 'Cost Pass Through Events' are outlined in Section 4.5 of the AA Document. These are consistent with those currently applying and are listed below.

'**Regulatory Change Event**' means:

A change in a regulatory obligation or requirement that:

a falls within no other category of pass through event; and

b occurs during the course of an Access Arrangement Period; and

c substantially affects the manner in which AGN provides Reference Services; and

d materially increases or materially decreases the costs of providing those services.

'**Service Standard Event**' means:

A legislative or administrative act or decision that has the effect of:

i substantially varying, during the course of an Access Arrangement Period, the manner in which AGN is required to provide the Reference Service; or

ii imposing, removing or varying, during the course of an Access Arrangement Period, minimum service standards applicable to the Reference Service; or

iii altering, during the course of an access arrangement period, the nature or scope of the Reference Service, provided by AGN; and

iv materially increases or materially decreases the costs to AGN of providing the Reference Service.

'**Tax Change Event**' means:

A tax change event if any of the following occurs during the course of an Access Arrangement Period for AGN:

a a change in a Relevant Tax, in the application or official interpretation of a Relevant Tax, in the rate of a Relevant Tax, or in the way a Relevant Tax is calculated; or

b the removal of a Relevant Tax; or

c the imposition of a Relevant Tax; and

d in consequence, the costs to AGN of providing prescribed reference services are materially increased or decreased.

'**Terrorism Event**' means:

An act (including, but not limited to, the use of force or violence or the threat of force or violence) of any person or group of persons (whether acting alone or on behalf of or in connection with any organisation or government), which:

i from its nature or context is done for, or in connection with political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear); and

ii increases the costs to AGN of providing the Reference Service.

Note: In making a determination on a Terrorism Event pursuant to clause 4.6.2 of this Access Arrangement, the AER will have regard to, amongst other things:

- whether AGN has insurance against the event;

- the level of insurance that an efficient and prudent service provider would obtain in respect of the event; and
- whether a declaration has been made by a relevant government authority that an act of terrorism has occurred.

'**Insurer Credit Risk Event**' means:

An event where an insurer of AGN becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, AGN:

a. is subject to a higher or lower claim limit or a higher or lower deductible than would have otherwise applied under the insolvent insurer's policy; or

b. incurs additional costs associated with self-funding an insurance claim, which would otherwise have been covered by the insolvent insurer.

Note: In making a determination on an insurer credit risk event pursuant to clause 4.6.2 of the Access Arrangement, the AER will have regard to, amongst other things:

- AGN's attempts to mitigate and prevent the event from occurring by reviewing and considering the insurers track record, size, credit rating and reputation; and
- in the event that a claim would have been made after the insurance provider became insolvent, whether AGN had reasonable opportunity to insure the risk with a different insurer.

'**Insurance Cap Event**' means:

An event where:

a. AGN makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy;

b. AGN incurs costs beyond the relevant policy limit; and

c. the costs beyond the relevant policy limit increase the costs to AGN of providing the Reference Service.

For this Insurance Cap Event:

- a relevant insurance policy is an insurance policy held during the Access Arrangement Period or a previous period in which access to the pipeline services was regulated; and
- AGN will be deemed to have made a claim on a relevant insurance policy if the claim is made by a related party of AGN in relation to any aspect of the Network of AGN's business.

Note for the avoidance of doubt, in making a determination on an Insurance Cap Event, the AER will have regard to, amongst other things:

i. the insurance policy for the event;

ii. the level of insurance that an efficient and prudent service provider would obtain in respect of the event; and

iii. any assessment by the AER of AGN's insurance in approving the access arrangement for the South Australian gas distribution network for the relevant period.

'**Natural Disaster Event**' means:

Any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the 2026-31 Access Arrangement Period that increases the cost to AGN in providing the Reference Service, provided the fire, flood or other event was:

- a consequence of an act or omission that was necessary for the service provider to comply with a regulatory obligation or requirement or with an applicable regulatory instrument; or
- not a consequence of any other act or omission of the service provider.

Note: In making a determination on a natural disaster event pursuant to clause 4.6.2 of this Access Arrangement, the AER will have regard to, amongst other things:

- whether AGN has insurance against the event; and
- the level of insurance that an efficient and prudent service provider would obtain in respect of the event.

The formula by which tariffs are adjusted to account for Cost-Pass-Through Events is detailed in Box 4.5. The pass through factor formula also forms part of Annexure E of the AA Document on the Reference Tariff Policy.

Box 4.5: Pass through Factor Formula

$$PT_t = \frac{(1+PT'_t)}{(1+PT'_{t-1})} - 1$$

where:

t is the year for which tariffs are being set;

PT'_{t-1} is:

a) zero when financial year t-1 refers to financial year ending June 2026

b) the value of PT'_t determined in the year t-1 for all other years in the Access Arrangement Period.

and

$$PT'_t = \frac{AP_t}{(1+\Delta CPI_t)(1-X_t)(1+U_t)(1+PT_t)(1+A_t)(1+R_t)\sum_{i=1}^{n}\sum_{j=1}^{m} p_{t-1}^{ij} q_{t-2}^{ij}}$$

AP_t is:

a) any determined pass through amount that the AER approves in whole or part in year *t*; and/or

b) any pass through amounts arising from pass through events (as that term is defined in the Access Arrangement applying to AGN in the immediately prior Access Arrangement Period) occurring in the immediately prior Access Arrangement Period that AGN proposed to pass through in whole or in part in year *t*,

that includes an amount to reflect the time value of money between incurring the costs and recovering the costs, and excludes any amounts already passed through in reference tariffs.:

Note: see earlier boxes in this document for additional notation definitions.

4.5 Safeguard Mechanism Adjustment Formula

The Safeguard Mechanism is legislated as part of the *National Greenhouse and Energy Reporting Act 2007* and Safeguard Mechanism Rules. It requires facilities in Australia which are responsible for more than 100,000 tonnes of carbon dioxide equivalent per annum to keep their net emissions below an emissions limit ('baseline'). Reforms which commenced on 1 July 2023 apply a declining rate to facilities' baselines so that they are reduced predictably and gradually over time, consistent with the national emission reduction targets.

Our AGN SA distribution network is a Safeguard facility that is subject to a designated baseline declining over time. We may therefore incur costs in complying with the Safeguard Mechanism (as set out in the National Greenhouse and Energy Reporting Act 2007 (Cth)); either to reduce emissions or to purchase and surrender emissions credits to ensure that net emissions from the network remain within the baseline (Safeguard Mechanism Amount).

The formula in Box 4.6 sets out the variation to the haulage reference tariffs that occur as a result of any Safeguard Mechanism compliance costs that the network incurs. The formula also forms part of Annexure E of the AA Document on the Reference Tariff Policy.

Box 4.6: Safeguard Mechanism Adjustment Formula

$$C_t = \frac{(1+C'_t)}{(1+C'_{t-1})} - 1$$

and

$$C'_t = \frac{Cf_{t-1}(1+real\ WACC_t)(1+\Delta CPI_t) + \Delta Cf_{t-2}(1+realWACC_{t-1})(1+real\ WACC_t)(1+\Delta CPI_{t-1})(1+\Delta CPI_t)}{((1+\Delta CPI_t)(1-X_t)(1+U_t)(1+PT_t)(1+A_t)(1+R_t)\sum_{i=1}^{n}\sum_{j=1}^{m}p_{t-1}^{ij}q_{t-2}^{ij}}$$

where:

t	is the financial year for which tariffs are being set;
C'_{t-1}	if financial year t is the financial year ending June 2027, the value is zero; and if financial year t is after the year ending 2027, A'_{t-1} is the value of the A_t determined in financial year t-1
Cf_{t-1}	is the estimate of the Safeguard Mechanism costs incurred for the financial year ending June of the financial year t-1
ΔCf_{t-2}	is the actual Safeguard Mechanism cost for financial year t-2 less the estimated Safeguard mechanism cost for financial year t-2. For the avoidance of doubt, the estimated Safeguard mechanism cost for financial year t-2 is the same as C$ft-1$ determined for financial year t-1.
Note:	Eligible costs are the costs of any relevant certificates / permits / credits (including but not limited to Australian carbon credit units (ACCUs)). This would also include costs associated with the acquisition of certificates, such as brokerage fees, transaction fees and the engagement of resources (whether internal or external) to manage compliance and acquire and surrender any certificates. This includes administrative costs but excludes penalties or any costs associated with penalties.

Note: see earlier boxes in this document for additional notation definitions.

4.6 Abolishment True up Factor Formula

In the next AA period, we are proposing that the abolishment service for residential properties and other small scale sites is an ancillary reference service for the first time on our South Australian network.

The unit cost of the service to the network is estimated to be $1,250 and the charge to customers is proposed to be $250 to represent 20% of the total cost, with the remaining costs socialised across other customers.

The true up of abolishment costs is proposed as a new adjustment to ensure that the allowance the network pays for only includes the actual costs for this service. This approach is consistent with the approach approved by the AER for our current Victorian distribution network AAs. The mechanism addresses any uncertainty about the scale of abolishments that might occur, as well as the service cost. The formula is as in Box 4.7 (with some notation already specified in earlier boxes). It also forms part of Annexure E of the AA Document on the Reference Tariff Policy.

Box 4.7: Abolishment True Up Factor Formula

$$A_t = \frac{(1+A'_t)}{(1+A'_{t-1})} - 1$$

and

$$A'_t = \frac{\Delta af_{t-1}(1 + real\ WACC_t)(1 + \Delta CPI_t) + \Delta af_{t-2}(1 + realWACC_{t-1})(1 + real\ WACC_t)(1 + \Delta CPI_{t-1})(1 + \Delta CPI_t)}{((1 + \Delta CPI_t)(1 - X_t)(1 + U_t)(1 + PT_t)(1 + C_t)(1 + R_t)\sum_{i=1}^{n}\sum_{j=1}^{m} p_{t-1}^{ij} q_{t-2}^{ij}}$$

where:

t	is the financial year for which tariffs are being set;
A'_{t-1}	if financial year t is the financial year ending June 2027, the value is zero; and if financial year t is after financial year ending June 2027, A'_{t-1} is the value of the A_t determined in financial year t-1
Δaf_{t-1}	is the estimated abolishment cost for regulatory year t-1 less the forecast of abolishment costs incurred, including in the AA for the financial year ending June of the financial year t-1
Δaf_{t-2}	is the actual abolishment cost for regulatory year t-2 less the estimated abolishment cost for financial year $t-2$. The per unit cost used to calculate the abolishment opex allowance will be the AER-approved rate (which we have proposed to be $1,250 in $2025/26) escalated annually by CPI. This cost relates to abolishment, incorporating digging down to a customer's connecting T intersection, shutting off gas to the customer's property removing the connecting pipe is possible, removing the customer's meter and making the site safe. A factor true up with the effect of reducing haulage reference tariffs, while accounting for the AER-approved charge to customers (proposed to be $250) recovered through the Ancillary Reference Service tariffs

Note: see earlier boxes in this document for additional notation definitions.

4.7 Annual Update of Return on Debt Formula

The proposed annual update of return on debt formula implements the annual update to the return on debt building block required as a result of the adoption of a trailing average approach to determining the cost of debt. The proposed formula (Box 4.8) is the same as that applying in the current AA period.

The annual update of return on debt formula forms part of Annexure E of the Reference Tariff Policy of the AA Document.

Box 4.8: Annual Update of Return on Debt Formula

The annual cost of debt is updated in accordance with the AER's relevant Rate of Return Instrument. The annual update of the return on debt component of the rate of return in each regulatory year, starting from 1 July 2026 of the Access Arrangement Period, is to be calculated as follows:

For financial year 2026/27:
$$kd_{2026/27} = (0.1 \times R_{2017/18}) + (0.1 \times R_{2018/19}) + (0.1 \times R_{2019/20}) + (0.1 \times R_{2020/21}) + (0.1 \times R_{2021/22}) + (0.1 \times R_{2022/23}) + (0.1 \times R_{2023/24}) + (0.1 \times R_{2024/25}) + (0.1 \times R_{2025/26}) + (0.1 \times R_{2026/27})$$

For financial year 2027/28:
$$kd_{2027/28} = (0.1 \times R_{2018/19}) + (0.1 \times R_{2019/20}) + (0.1 \times R_{2020/21}) + (0.1 \times R_{2021/22}) + (0.1 \times R_{2022/23}) + (0.1 \times R_{2023/24}) + (0.1 \times R_{2024/25}) + (0.1 \times R_{2025/26}) + (0.1 \times R_{2026/27}) (0.1 \times R_{2027/28})$$

For financial year 2028/29:
$$kd_{2027/28} = (0.1 \times R_{2019/20}) + (0.1 \times R_{2020/21}) + (0.1 \times R_{2021/22}) + (0.1 \times R_{2022/23}) + (0.1 \times R_{2023/24}) + (0.1 \times R_{2024/25}) + (0.1 \times R_{2025/26}) + (0.1 \times R_{2026/27}) + (0.1 \times R_{2027/28}) + (0.1 \times R_{2028/29})$$

For financial year 2029/30:
$$kd_{2029/30} = (0.1 \times R_{2020/21}) + (0.1 \times R_{2021/22}) + (0.1 \times R_{2022/23}) + (0.1 \times R_{2023/24}) + (0.1 \times R_{2024/25}) + (0.1 \times R_{2025/26}) + (0.1 \times R_{2026/27}) + (0.1 \times R_{2027/28}) + (0.1 \times R_{2028/29}) (0.1 \times R_{2029/30})$$

For financial year 2030/31:
$$kd_{2030/31} = (0.1 \times R_{2021/22}) + (0.1 \times R_{2022/23}) + (0.1 \times R_{2023/24}) + (0.1 \times R_{2024/25}) + (0.1 \times R_{2025/26}) + (0.1 \times R_{2026/27}) + (0.1 \times R_{2027/28}) + (0.1 \times R_{2028/29}) + (0.1 \times R_{2029/30}) + (0.1 \times R_{2030/31})$$

where:

kd_t is the annual return on debt for financial year t of this Access Arrangement Period; and

R_t is the annual return on debt observation for each financial year t of this Access Arrangement Period calculated in accordance with the on-the day return on debt calculation set out in the Rate of Return Instrument.

Note: see earlier boxes in this document for additional notation definitions.

4.8 Ancillary Reference Tariff Variation Mechanism

As in previous AA periods, AGN proposes to vary the Reference Tariffs for Ancillary Reference Services on the basis of the tariff control formula set out in Box 4.9.

Box 4.9: Ancillary Reference Tariff Variation Mechanism

$$ART_t = ART_{t-1} \times (1 + CPI_t)$$

where:

- ART_t is the ancillary reference tariff that applies in financial year t;
- ART_{t-1} is the ancillary reference tariff that applies in financial year t-1;
- CPI_t is the annual percentage change in the CPI from the June quarter in year t-2 to the June quarter in year t-1, calculated using the following method:

  the CPI for the June quarter in financial year t-1

  divided by

  the CPI for the June quarter in financial year t-2

  minus one.

5 Summary

AGN recovers its regulated revenue by charging Reference Tariffs to customers for Pipeline Services. As described in this Attachment, the proposed tariffs are modelled to be revenue neutral and fall between the stand alone and avoidable costs of providing reference services to these zones. The tariff structures are efficient, contain no cross-subsidy (apart from for abolishment costs) and have taken into account factors such as transaction costs, LRMC and the ability for consumers to respond to price changes.