PUBLIC

Australian Gas Networks

Submission from:	**Energy and Water Ombudsman SA**
Contact person:	**Antony Clarke** [redacted]
Date:	**7 May 2025**

What we will deliver

Do you have any views on what we plan to deliver throughout the 2026-2031 AA period?

We support what AGN SA plans to deliver in the 2026-31 Access Arrangement period. We agree with the four key themes identified in stakeholder engagement of stable prices, safety and reliability, strong customer service and investing in a sustainable future and believe the Draft Plan places these at the centre.

The Future of Gas is a significant issue and a few points are made on this below.

Stakeholder engagement

Do you have any feedback on our customer and stakeholder engagement program?

The customer and stakeholder engagement program has been comprehensive and is commended.

Have we considered customer and stakeholder feedback and responded appropriately in this Draft Plan?

Perhaps the only area where customer and stakeholder feedback or concerns have not been fully addressed is in the Future of Gas and more specifically the possibility that electrification will occur at pace and renewable gas may not be produced at a scale or a price to be competitive. This has the potential to result in stranded gas assets and higher gas prices in the future for those customers remaining on the network. Planning for such a future needs to be considered.

That said, this is something that is likely to be more of a concern in the post 2030 period and it may be in the 2026-2031 Access Arrangement period when we will find out whether renewable gas will have a viable future or not.

Future of Gas

What are your views of the emerging opportunities for customers in South Australia? Are we too optimistic, too pessimistic or is it too early to tell?

AGN SA's view of the future of renewable gas is perhaps too optimistic, even though we note that South Australia has different policy settings to other states, particularly Victoria and that the State Government is supportive of hydrogen.

Some consideration may need to be given to the four rule change requests from Energy Consumers Australia (ECA) regarding gas, on planning requirements, depreciation, capex criteria and connection charges. What risks might these pose to AGN SA's view of the Future of Gas if such rule changes are implemented by the Australian Energy Market Commission?

The points in the previous section are also relevant here.

We do note that AGN SA probably does need to approach the Future of Gas optimistically though, rather than pessimistically, as an operator of a gas network. No one wants to plan for their own demise.

Do you support our efforts to remain flexible as the future changes, or should our only concern be the lowest prices for the next five years with no thought of the future?

We believe that AGN SA needs to be as flexible as possible for any changes in the gas and electricity markets going forward.

The approach to depreciation and ensuring price stability for customers as far as possible and managing risks as well as possible is a good one. However, please see the above comment regarding the ECA rule changes and the need to take account of any risks from these.

Lower prices can be delivered in other ways, not only depreciation schedules. Flexibility and risk management are important to reduce uncertainty and ensure price stability as much as is practicable.

We suggest that AGN SA consider whether the modelling described in Chapter 6 can be used to analyse different scenarios and adjusting planned expenditure accordingly, as well as depreciation, to respond to these scenarios? Scenario analysis may show what might happen to gas demand and prices should renewable gas not develop as planned or hoped and if electrification is the main path to net zero emissions in the energy industry.

Pipeline and Reference Services

Do you think the pipeline and reference services we have proposed are appropriate, or do you think there has been a material change in circumstances that would warrant a change to the reference services that were approved by the Australian Energy Regulator (AER) in November 2024?

We believe the addition of the abolishment service as a reference service is appropriate and don't believe any other changes are necessary.

Do you think the new abolishment reference service should be charged at partial cost recovery (e.g., for a charge of around $250) or full cost recovery (e.g., around $1,000)?

Ideally, the new abolishment service would be provided on a full cost recovery basis because it benefits the specific customer and that customer can be easily identified. But we understand the partial cost recovery approach proposed, due in part to safety reasons. We also note the relatively small number of abolishments currently occurring and that applying a no cost recovery approach or partial cost recovery approach will not impose large increase on gas bills for the entire customer base.

However, should electrification progress at pace and the number of abolishments increase dramatically, direct cost recovery from the customers receiving the service will become more important. This is because not charging the customer directly will mean those gas customers left on the network will pay significantly twice, first for the higher gas bills because the costs of abolishments will be spread across the customer base and secondly for higher gas prices in the future, as the revenue required to maintain the gas network is recovered from fewer customers.

We suggest that AGN SA consider whether there is any way of differentiating between situations where the customer chooses abolishment and where they don't really have a choice and charge for the former? May it also be possible to charge property developers full cost recovery and individual residential and small business customers partial or no cost recovery?

Operating Expenditure

Do you have any feedback on the operating activities we have proposed as part of our forecast for the next Access Arrangement period?

We note the significant increase in operating expenditure for the upcoming Access Arrangement, but understand and agree with the approaches to depreciation, Unaccounted for Gas and the reallocation of some capital expenditure regarding overheads to operating expenditure. The latter will reduce the capital base and it is possible that this will lead to lower gas prices in the future than would otherwise be the case.

We are pleased that the Priority Services Program is continuing in the 2026-31 Access Arrangement period. This is an important initiative for vulnerable customers. We would like AGN SA to consider ways that this can be promoted more widely.

Do you support our approach to forecasting opex? Is there sufficient information to understand our proposals and the basis of the costs included in our forecasts?

We support the approach to forecasting opex and there is sufficient information to understand the proposals.

Capital Expenditure

Do you have any feedback on the capex activities we have proposed as part of our forecast for the next Access Arrangement period?

We generally support the capex activities proposed for the upcoming Access Arrangement.

We strongly support the $3 million investment to improve customers' digital experience and improving communications, particularly around connections and disconnections.

Regarding the $43 million meter replacement program where ageing meters are being replaced, we believe this should focus initially on replacing identified faulty meters, rather than simply ageing meters. Additional information on whether the meter replacement program is based on estimates of when ageing meters become faulty or start recording gas consumption inaccurately and whether meters are being replaced on a "family" basis, where some types of meters might be identified as becoming faulty before other types, would be useful for stakeholders in understanding the meter replacement program.

We support the installation of digital meters where appropriate, such as inaccessible sites and also the offer to customers to opt in to receive a digital meter, which would provide them with greater control and transparency over their bills. An indication of whether AGN SA has done, or will do, an assessment of a widespread rollout of digital meters and whether the benefits would outweigh the costs, would be useful for stakeholders.

Regarding the replacement of ageing vehicles, is AGN SA planning to do something similar to SA Power Networks and replace old vehicles with electric vehicles where this is practical, noting that some electric vehicles probably won't be able to do what is needed and that in some cases, such electric vehicles may not exist. This could contribute to the Sustainable Communities strategic pillar and to AGN SA reducing its scope 1 greenhouse gas emissions.

Do you support our approach to forecasting capex? Is there sufficient information to understand our proposals and the basis of the costs included?

We support the approach to forecasting capex and there is usually sufficient information to understand the proposals. The above comments highlight where more information would be useful – meter replacement and replacement of ageing vehicles.

Capital Base

Do you have any comments on our proposed approach to adjusting capital base over the current and next AA period, including how we have taken into account the future of gas?

We generally support the proposed approach to adjusting the capital base over the current and next Access Arrangement periods.

Our only issue is that there is limited discussion about how AGN SA has taken account of the Future of Gas, unless it is simply that renewable gas is treated the same as natural gas, which was mentioned earlier in the Draft Plan. Please see our above comments on the Future of Gas and some of the risks surrounding renewable gas.

Financing Costs

Do you have any comments on our approach to setting the financing and tax costs in this Draft Plan?

We have no significant comments, apart from questioning whether AGN SA may need to refine the risk premium in light of increasing uncertainty on global financial markets. The AER may also have a view on this.

Incentive Schemes

Do you support our proposal to maintain the opex efficiency carryover mechanism (ECM)?

Yes.

Do you support our proposal to maintain the capital expenditure sharing scheme (CESS)?

Yes.

Demand

Do you support our approach to forecasting demand?

Yes. We believe obtaining forecasts of gas demand from an independent consultant is appropriate and we support the methodology used.

Our only concern is the description of forecast demand in the 13.5 Summary section of the Draft Plan, which states:

"As this table shows, residential and industrial demand is forecast to decline over the next AA period whilst commercial demand is forecast to rise."

However, in Table 13.1, all sectors are forecast to experience declining demand. This error needs fixing for the Final Plan.

Are there other factors we should consider in developing our demand forecasts?

The approach to forecasting demand appears robust. However, one factor not apparently taken into account is climate change and the likely warmer weather during winter, leading to lower gas use for heating purposes. This could have contributed to the declining consumption per connection that has been witnessed over the last 10-15 years and could be a contributing factor to lower gas demand going forward.

Revenue and Prices

Do you support our objectives of maintaining stable pricing and aligning revenue with underlying costs in setting our proposed price path? Would you prefer an alternative price path, and if so, on what basis?

We support the objective of maintaining stable prices where possible, so there are no surprises or price shocks for customers. We also agree with the approach of aligning revenue with underlying costs, given that this will be a relatively cost-reflective approach to establishing gas prices.

We have a concern that the price path in Table 14.2 is not that described in the text on the following page (107). The table shows an increase in the first year, followed by falls, whereas the text describes a decrease, followed by rises. This error needs fixing for the Final Plan.

We believe that a chart showing the nominal and real price changes forecast for the period, as well as the revenue (particularly smoothed), would make things clearer for stakeholders and recommend this be included in the Final Plan.

Do you support the options we are considering to adjust the tariff structure (and charge weightings), including an increase in the base charge for residential and commercial customers? If not, what approach would you prefer and why?

We support the decision to not adopt the AER's suggested change to the tariff structure, due to the highlighted bill impacts on higher gas use customers, some of whom could be vulnerable customers in energy inefficient dwellings.

We believe the proposed approach to increase the fixed daily charge and reduce the variable usage charges is a better option, given the smaller bill impacts this has. It therefore better achieves the objective of maintaining stable pricing.

Do you support the option we are considering for a new hybrid mechanism for revenue control with a 10% revenue variation threshold? If not, would you prefer an alternative approach and if so, why?

We support the retention of the price cap form of control. However, should this not be approved – or be unlikely to be approved – by the AER, we believe that the 10% revenue variation threshold being proposed, as part of a hybrid price cap mechanism, is a better option than 5%.

Do you support the proposed cost pass through events for the Safeguard Mechanism compliance costs and any unrecovered abolishment costs? If not, would you prefer any alternative approaches, and if so, why?

Yes.

Network Access

Do you have any suggested amendments to the current General Terms and Conditions, and if so, what are they and why?

No.

Other

Is there anything that our Draft Plan hasn't considered that is important to you?

Please see the above comments on the Future of Gas and the ECA rule change requests.

SACOSS
South Australian Council of Social Service

SACOSS Submission to AGN's Draft Plan for the 2026-31 Access Arrangement

May 2025

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The South Australian Council of Social Service (SACOSS) is the peak non-government representative body for non-government health and community services in South Australia, and has a vision of *Justice, Opportunity and Shared Wealth for all South Australians.* Our purpose is to influence public policy in a way that promotes fair and just access to the goods and services required to live a decent life. We undertake policy and advocacy work in areas that specifically affect disadvantaged and low-income consumers in South Australia.

SACOSS has a long-standing interest in the delivery of essential services. Our research shows the cost of basic necessities disproportionately impacts people on low incomes or experiencing disadvantage. SACOSS participates and engages in regulatory processes relating to the provision of essential services to promote better outcomes for South Australian households.

As such, SACOSS appreciate the opportunity to respond to Australian Gas Networks' (AGN) Draft Plan for the Access Arrangement 2026-2031 (AA) as well as having been able to participate in the South Australian Reference Group (SARG) for this access arrangement. From the outset, we would like to say that we recognise and appreciate the challenge that Australian Gas Networks (AGN) – as well as the Australian Energy Regulator (AER) - faces in balancing the priorities of affordability for current customers, the sustainability of the network, and the long-term interests of customers. Given the uncertainty of the current policy environment as well as of the ongoing energy transition, we would emphasise that now is the time to progress complex discussions around intergenerational equity and the future of gas. In this submission, SACOSS will outline the evidence that we look towards to support our approach to these discussions, and how we believe that should inform AGN's proposal and future planning.

SACOSS' submission will focus on the following areas:

- Pricing structures
- Services for low income and vulnerable customers
- The future of gas and network sustainability in the context of policy uncertainty
- Depreciation

We expand on our responses to AGN's Draft Plan (the Plan) below, but the key takeaways from our submission should be:

- AGN must build a stronger evidence base for renewable gas investments.
  SACOSS urges AGN to clearly justify its proposed investment in hydrogen and biomethane for residential use. The Draft Plan lacks credible modelling and fails to address major uncertainties around cost, demand, and consumer impacts—especially for low-income households.

- Tariff reform is needed to support equity and emissions reduction.
  SACOSS recommends replacing the declining block tariff structure with a flat or inclining block model. The current approach rewards higher consumption and is misaligned with climate and affordability goals.

- The Priority Services Program (PSP) is a strong foundation that should be expanded. SACOSS supports the continued development of the PSP and recommends enhanced outreach, broader eligibility, community-based referral pathways, tailored support options, and regular public reporting to better meet the needs of vulnerable customers.

- Abolishment services should remain free for customers.
  While SACOSS supports formalising abolishment as a reference service, charging customers to disconnect from the gas network would be inequitable, discourage electrification, and could introduce public safety risks. Costs should remain socialised for now.

- Depreciation decisions must be transparent and consumer-focused.
  Any proposal for accelerated depreciation must be openly explained and supported by modelling of consumer impacts over time. SACOSS emphasises that affordability and long-term price stability—not network revenue needs—must guide these decisions.

SACOSS would also like to clarify that comments in our submission, unless otherwise specified, apply to residential gas use and distribution. We will not be focusing on commercial and industrial gas use.

Low income and vulnerable customers

SACOSS recognises that AGN has made significant strides in establishing and embedding the Priority Services Program (PSP) since its launch in July 2023. The suite of services currently available—free gas appliance safety checks, emergency repairs, and targeted appliance rebates—provides tangible support for households experiencing financial or other forms of hardship. These initiatives reflect a growing recognition of the need for utilities to proactively address customer vulnerability as part of their core service obligations.

We further note the national recognition AGN has received for the program, including the 2024 Service Champion award, and acknowledge the constructive engagement AGN has had with community sector stakeholders during program design and rollout. This engagement, alongside the establishment of dedicated staff roles, improved customer management systems, and better online accessibility, are all positive steps toward a more inclusive and responsive service. The need for a program such as the PSP in South Australia is present and growing. The most recent Quarterly Retail Performance Report[1] available from the AER shows us that:

- 27,670 (1.18%) of gas customers are on residential payment plans, which is an increase of 637 since the previous year

[1] AER, 2025, *Quarterly Retail Performance Report October-December 2024*

- $859 average hardship debt, with 42% of hardship customers not meeting usage costs
- Proportion of residential gas customers in hardship programs considerably higher in South Australia than in other jurisdictions

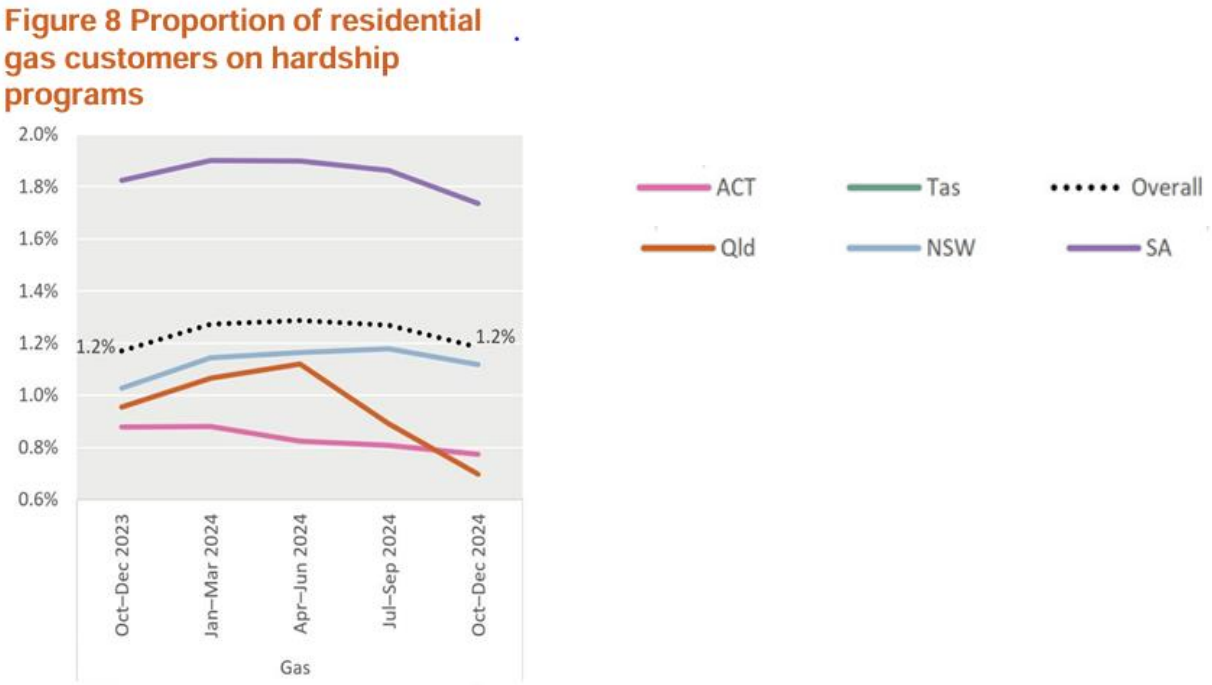


Figure 1: Proportion of residential gas customers on hardship programs

SACOSS therefore supports AGN's commitment to maintaining and expanding the PSP over the next regulatory period. As the energy transition unfolds, we anticipate that existing vulnerabilities will deepen for some households, while new forms of disadvantage may emerge—particularly for low-income renters, people from culturally and linguistically diverse (CALD) backgrounds, and customers facing temporary crisis.

To strengthen the program and ensure it continues to meet the needs of vulnerable consumers, SACOSS recommends that AGN consider the following enhancements:

Greater effort is needed to broaden both eligibility and awareness of the PSP, particularly among customers who may not self-identify as vulnerable but are nonetheless at risk. This includes groups such as renters, people from culturally and linguistically diverse backgrounds, and those experiencing temporary hardship due to factors like job loss, illness, or family violence. Public education and inclusive communication strategies will be key to ensuring the program reaches those most in need—especially given that consumers may not expect a network business like AGN to provide such a service.

To improve accessibility, SACOSS also recommends strengthening referral pathways by formalising arrangements with community organisations, such as financial counsellors, housing providers, and local service hubs. These partnerships can ensure that hard-to-reach customers

who may not actively engage with AGN are still able to access available supports in a timely and dignified manner.

In addition, there is scope to enhance the PSP through more tailored support services. This could include providing energy efficiency advice, assistance with navigating government and community support programs, or helping customers safely transition to electric appliances in situations where gas presents an ongoing safety or financial risk—for example, for elderly or mobility-limited individuals.

To ensure the program remains responsive and relevant, future development of the PSP should embed co-design processes that involve people with lived experience of vulnerability. Their insights can guide improvements, build trust, and help tailor support to better meet real-world needs.

Finally, to support transparency and continuous improvement, SACOSS recommends that AGN establish clear performance indicators and publicly report on PSP outcomes. Reporting should cover program reach, customer satisfaction, referral volumes, and measurable impacts on customer wellbeing and safety.

SACOSS acknowledges the leadership AGN has shown in developing the Priority Services Program and encourages its continued investment and evolution. The PSP represents an important step towards embedding equity and inclusion in energy service delivery. With a strong foundation now in place, we believe the next regulatory period offers an opportunity to scale impact, improve integration with the community services sector, and ensure that no customer is left behind during the energy transition.

Tariffs, pricing structures, and reference services

Tariffs and pricing structures

In our original submission to *the Draft Reference Service Proposal, Form of Revenue Control and Tariff Structure for the South Australian Distribution Network 2026/27 – 2030/31*, SACOSS outlined our strong preference for a move away from the current declining block tariff structure. Specifically, we expressed support for either a flat or inclining block tariff structure, with a particular emphasis on the benefits of a flatter pricing model that avoids rewarding higher consumption.

Our position is grounded in both equity and sustainability considerations. Declining block tariffs — where the unit price of gas decreases as usage increases — can unintentionally incentivise higher consumption and run counter to emissions reduction objectives. We note that SACOSS is not alone in raising this concern. The Australian Energy Regulator's (AER) Gas Distribution Network Tariffs Issues Paper[2] acknowledged similar views from a range of stakeholders, who questioned the compatibility of declining block tariffs with decarbonisation goals.

[2] AER, 2023, *Issues paper: gas distribution network tariff variation mechanism and declining block tariffs*

While we recognise that any shift in tariff structure will affect different households in different ways, we believe the move away from declining block tariffs is necessary and justifiable. A flat tariff structure — where all consumption is charged at the same rate — is a more transparent approach that better aligns with energy efficiency and emissions reduction policies.

We are aware that higher gas users, including some vulnerable households, may face increased costs under a flatter or inclining block tariff. This reinforces the need for careful planning and monitoring, as well as appropriate protections and support mechanisms. Concessions and other forms of targeted assistance must be considered to ensure that vulnerable consumers are not unfairly disadvantaged during the transition. In this context, we draw attention to the feedback provided by the Justice and Equity Centre (JEC) [3] in their submission to the AER's issues paper, which proposed mechanisms to mitigate adverse outcomes for high-use vulnerable customers. These insights should be explored when designing any new tariff structure.

While we are open to different models, our priority remains clear: the current declining block structure is no longer fit for purpose. As the Institute for Energy Economics and Financial Analysis (IEEFA)[4] pointed out in their submission to the AER, the challenges associated with moving away from declining block tariffs are real but not insurmountable. We therefore urge the AER and distribution businesses to explore flatter and more progressive tariff designs that reflect the dual imperatives of equity and emissions reduction.

Reference services

SACOSS supports AGN's proposal to classify abolishment services — permanent disconnection by cutting and capping the gas connection at the main — as an ancillary reference service in South Australia. This is a positive and much-needed reform that brings the South Australian framework into alignment with practice in other jurisdictions, improves transparency and regulatory oversight, and ensures that abolishment is clearly recognised as a distinct and increasingly important service as the energy transition unfolds.

However, while we strongly support the classification of abolishment as a reference service, we do not support the introduction of customer charges for abolishment at this stage. AGN's proposal considers multiple cost recovery models — including a continuation of the current no-charge approach, a partial cost recovery model, and full cost recovery. SACOSS considers that any shift toward charging customers directly for abolishment would be premature and inequitable in the current policy and market environment.

First, from an affordability and equity perspective, households that are choosing to disconnect from gas are often doing so in response to rising energy costs, a desire to electrify, or broader climate and housing efficiency goals. These consumers — particularly low-income or otherwise vulnerable households — should not face new financial penalties for making choices that align

[3] JEC, 2023, *Submission to AER gas distribution network tariff variation mechanism issues paper*
[4] IEEFA, 2024, *Submission to AER gas distribution network tariffs review 2023*

with long-term policy objectives or with their own financial and housing needs. A charge for abolishment would risk becoming a barrier to electrification and may disproportionately affect those least able to afford it.

Second, there is a clear policy inconsistency in introducing a disconnection charge while there is currently no charge for new customers to connect to the gas network. This inconsistency was also noted by consumers during AGN's own engagement process. If network entry is free, then penalising exit — especially in a context where governments are increasingly encouraging electrification — is neither fair nor efficient. We acknowledge that this issue may need to be revisited in the future if the Australian Energy Market Commission (AEMC) pursues proposed reforms that would introduce new connection charges, such as those currently under consideration following proposals from Energy Consumers Australia (ECA)[5]. However, unless and until those reforms are adopted, the introduction of abolishment charges would be unjustified.

Third, from a public safety perspective, maintaining no-cost access to formal abolishment remains essential. If customers are priced out of safely disconnecting from the network, they may resort to informal or incomplete disconnections, leaving live gas infrastructure idle and unmonitored. This could lead to long-term safety risks for both individual households and the broader community — precisely the risk the current no-charge approach is designed to avoid.

Finally, we note that the current volume of abolishments is very low, and the total cost of continuing to socialise these services across the broader customer base remains negligible. There is no compelling cost-based rationale to shift this burden onto individual customers at this time.

For these reasons, SACOSS recommends that abolishment services remain fully socialised for the duration of the 2026–31 access arrangement, with no direct charges to customers. We recommend that this approach be reassessed only in a future access arrangement, and only if there is clear evidence that abolishment numbers are increasing, the associated costs are becoming material, and/or policy settings around connection charging have shifted in a way that would justify a more symmetrical cost approach. Any such future reconsideration must be grounded in robust data, informed by stakeholder engagement, and include explicit analysis of the impacts on affordability, equity, and consumer safety.

We also support AGN's proposal to improve transparency by reporting on abolishment numbers over time, and recommend that this reporting be disaggregated by customer type — residential, commercial, and industrial — to help track emerging patterns in network disconnection and assess the implications for system planning and equity. This reporting will be essential in informing any future decisions regarding cost recovery or changes to service design.

[5] ECA, 2025, *Gas distribution network rule change requests*

(Accelerated) Depreciation

SACOSS does not take a definitive position at this stage on whether accelerated depreciation should be included in AGN's final proposal for the 2026–31 access arrangement, or at what level. We eagerly await the final numbers, models, and approach to be outlined in AGN's final plan. However, we are concerned by the lack of clarity and consistency in how the issue is addressed in AGN's Draft Plan, while noting that it is a complex and contested area of the regulatory framework.

We acknowledge that AGN intends to consider its position on depreciation further in the lead-up to the Final Plan. In that context, SACOSS wishes to raise several key concerns and questions that we believe must be addressed in order to assess whether any accelerated depreciation proposal is in the long-term interests of consumers:

- There is conflicting evidence as to whether accelerated depreciation is necessary, appropriate, or equitable in the current context. On one hand, some analyses suggest that investments made into the gas network have already been significantly recovered[6]—potentially reducing the need for accelerated recovery. On the other hand, some modelling indicates that there may be no sustainable level of accelerated depreciation that balances consumer affordability with investor returns, particularly as gas demand continues to fall.
- We need clarity on what the implications would be if accelerated depreciation is not applied in this regulatory period. Specifically, what are the future consequences for consumer prices in subsequent access arrangements if this form of risk management is delayed or avoided now?
- The AER itself has cautioned that accelerated depreciation is unlikely to provide a long-term solution to the challenges of declining gas demand and potential asset stranding. In its draft decision on the Jemena Gas Network's 2025–30 proposal, the AER noted that "[regulated] depreciation or risk compensation cannot be adjusted without constraint to guarantee cost recovery for the regulated businesses[7]." It also reinforced that the National Gas Law (NGL) does not guarantee businesses recovery of costs at the expense of affordability or price stability for consumers.
- A number of rule change proposals currently before the AEMC may influence how depreciation and risk-sharing should be managed in the future. Any depreciation strategy in the current access arrangement should therefore be formulated with these broader policy shifts in mind.

We recognise that some of these questions are not ones that AGN can answer alone—or that can be resolved entirely within the scope of an access arrangement. Nevertheless, what is essential is that AGN clearly sets out the reasoning and evidence base that underpins any proposal it ultimately brings forward regarding depreciation. A robust justification must be provided for any inclusion of accelerated depreciation in the Final Plan, along with clear modelling of the customer impacts both in this period and in the future.

[6] IEEFA (2024), *Gas networks are making persistent and significant supernormal profits*
[7] AER, 2024, *Attachment 4: Regulatory depreciation | Draft decision – Jemena Gas Networks (NSW) 2025-30*

We also wish to address the way in which this issue has been presented in the Draft Plan. SACOSS notes that the term "accelerated depreciation" is notably absent from the document, even though AGN has confirmed that it has included a placeholder of $20 million for this purpose. We do not believe that accelerated depreciation should be treated as a "dirty word" or avoided because it may be seen as controversial. It is a legitimate part of the regulatory toolbox—one that can, when appropriately used, help manage the financial risks associated with declining demand and asset stranding. Avoiding the terminology only serves to undermine transparency and trust. What is needed is an open and honest discussion with consumers and stakeholders about why accelerated depreciation might be proposed, what risks it is designed to manage, and what its inclusion would mean for consumer bills and long-term affordability.

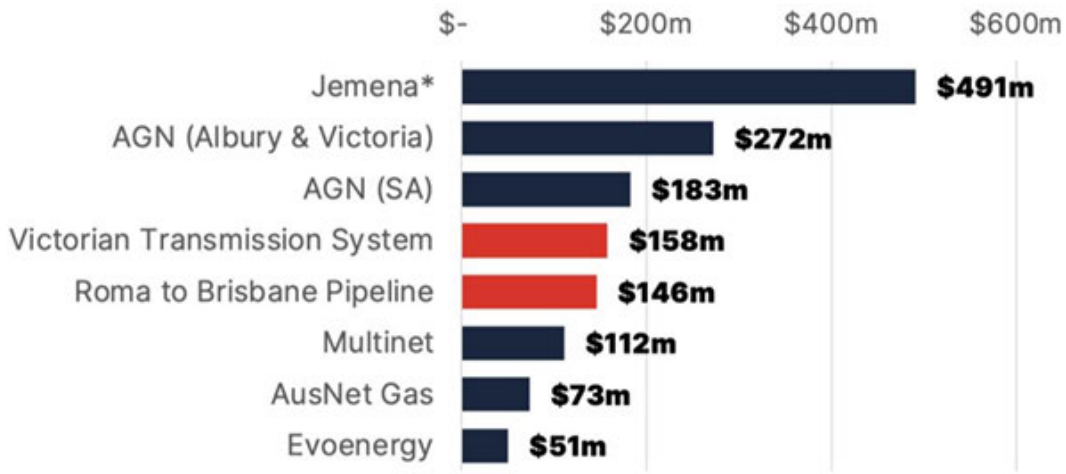
For context, AGN's placeholder of $20 million in accelerated depreciation (within a forecast opening asset base of just over $2 billion in July 2026) contrasts significantly with its earlier Victorian proposal for 2023–28, which sought $83 million in accelerated depreciation on an opening asset base of $1.42 billion. The AER ultimately approved $53 million, applying a price path constraint that sought to balance investor and consumer outcomes. This constraint translated to a higher average residential bill increase than initially proposed by Jemena ($18 per annum versus $11), but the AER considered it a worthwhile trade-off to provide greater long-term price stability for consumers.

SACOSS therefore urges AGN, as it finalises its plan, to take a similar approach: to frame any proposal for accelerated depreciation not simply in terms of a desired revenue requirement, but in the context of future price path stability and affordability for consumers. The focus should not be on what level of accelerated depreciation the network "needs" to avoid risk, but on what level—if any—is in the long-term interests of consumers, given future demand projections, affordability pressures, and already recovered capital.

We also note recent analysis from IEEFA, which argues that gas networks have already earned persistent and significant supernormal profits and that there is no strong justification for transferring stranded asset risk to consumers via mechanisms like accelerated depreciation. IEEFA highlights that since 2014, consumers have already compensated gas networks for their risk exposure to the tune of $1.8 billion across the eastern states. They further argue that there is no formal guarantee under the National Gas Law that network businesses will be made whole for declining demand, and that the National Gas Rules include redundancy provisions for shared risk that should be more actively considered[8].

[8] IEEFA, 2024, *Gas networks are making persistent and significant supernormal profits*

Figure 12: Gas pipelines' cumulative revenue over-recovery (2014-22)

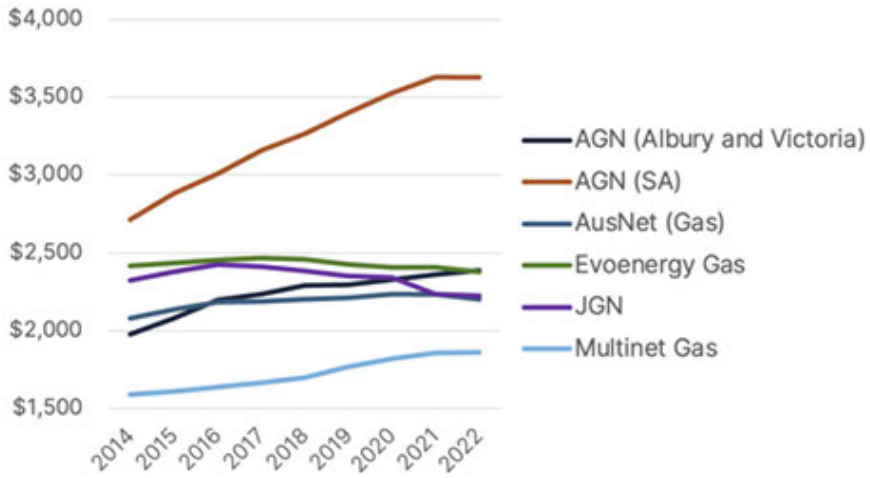


Source: AER Gas Network Performance Report 2023 – Gas distribution and Gas transmission operational performance data. Black = distribution networks; red = transmission pipelines.

Figure 2: IEEFA analysis of gas pipelines' cumulative revenue over-recovery[9]

We would add that IEEFA have also addressed suggestions that increased recovery of revenue has come as a result of increased efficiency, as demonstrated by the following graph showing the CAB per customer for gas distributors:

Figure 10: CAB per customer for fully regulated gas distribution networks, 2014-2022



Source: AER Gas Network Performance Report 2023 data.

Figure 3: CAB per customer in gas distribution networks[10]

[9] *Ibid*
[10] *Ibid*

As the AER has noted, further work is required across the sector to develop a more sustainable solution than accelerated depreciation.[11] This sentiment is echoed by government. The Department of Climate Change, Energy, the Environment and Water (DCCEEW), in its recent consultation materials, has stated that "regulatory settings will need to be considered as electrification accelerates and use of gas networks declines.[12]" While South Australia may not currently have strong policy signals encouraging rapid electrification, our networks are not isolated from national trends, and federal policy changes could significantly influence local network demand.

In summary, SACOSS makes the following key recommendations and observations:

- Any proposal for accelerated depreciation must be clearly and transparently explained, including how it was derived, how it compares to previous regulatory decisions, and what its consumer impacts are over time.
- The term "accelerated depreciation" should be used explicitly. Sanitising or avoiding the term undermines transparency and impedes meaningful engagement with stakeholders.
- Any depreciation strategy should be framed within a long-term price path lens, not as a fixed dollar figure or revenue requirement. Ensuring price stability and affordability for consumers must remain a central consideration.
- Broader policy developments and AEMC rule changes must be taken into account before finalising any approach, as these may fundamentally shift how depreciation and stranded asset risks are handled in the next access arrangement.

The future of gas

SACOSS are of the view that a lot more work needs to be put in before the Final Plan is submitted to provide an evidence base for AGN's plans for renewable gases as outlined in the draft plan.

As has been rightly identified in the draft plan, the National Gas Objective points to the need to reduce greenhouse gas emissions and support the achievement of targets set by participating jurisdictions[13]. This should serve as a signal that gas use will need to change. Further, the Future Gas Strategy also states that "Australia cannot reach our 2050 net zero targets without reducing and decarbonizing our consumption of natural gas"[14]. And while South Australia does not have an explicit policy for the reduction of gas consumption, it does have a net zero by 2050 target[15] which will be difficult if not impossible to meet without changes to gas consumption – and of course what those changes will be is far from a settled matter. We view these targets, alongside federal climate change policy and interstate signals (such as the ACT and Victoria's gas transition roadmaps) as important indicators for the future direction of residential gas use policy.

[11] AER, 2023, *AER decision supports Victorian gas consumers in energy transition*
[12] DCCEEW, 2024, *Electricity and energy sector plan discussion paper*
[13] AEMC, 2024, *National Energy Objectives*
[14] DISR, 2024, *Future Gas Strategy*
[15] DEW, 2024, *Mapping a pathway to net zero*

Recent analysis of jurisdictional policies has highlighted that South Australia does not currently have specific targets or goals for the gas network as part of its decarbonisation policies or a clear roadmap to get there[16], however, this does not mean that this will not change as the energy transition progresses. It is therefore encouraging to see AGN give some consideration to the longevity of their network and their business in working to adapt their pipeline for renewable gas(es). However, it is essential that in doing so that AGN are cognisant of the ongoing affordability and suitability of their network to meet consumer needs.

The 'future of gas' is not a new conversation or consideration for AGN in the context of an access arrangement proposal, which makes the lack of advanced thinking, modelling and planning presented in the Draft Plan a concern. To be clear, SACOSS are cognisant of and recognise the amount of work and investment AGN has been putting into developing hydrogen projects both in South Australia and in other jurisdictions. However, our criticism stems from a lack of evidence and rationale of future plans being available in the Draft Plan. We would suggest that, at the very least, AGN revisits advice presented to them in the previous regulatory period by Energy Consumers Australia (ECA) around scenario development as a mechanism for planning in an uncertain context[17].

Consistent with customer feedback during the previous access arrangement process, the future of gas continued to be an area of significant interest for consumers and stakeholders.

The demand case for gas changes significantly depending on levels of investment in renewable energy. While we have noted this previously, to reiterate, in this context SACOSS are focussing on residential gas consumption unless stated otherwise in our response to this section of the Plan. The Investor Group on Climate Change has released recent modelling that suggests that the projected demand for domestic gas takes vastly different pathways under different scenarios. Between 2020 and 2030. Domestic gas demand increases slightly under the progressive uptake of renewables scenario however it declines substantially under the accelerated uptake of renewables scenario[18].

The Institute for Energy Economics and Financial Analysis (IEEFA) identifies demand-side measures as a more attractive (and compelling) consideration to avoid future gas supply shortfalls, if that continues to be a concern – and have suggested that supply-side issues and shortfalls have been overestimated. The same work from IEEFA also indicates that residential gas demand could potentially decline even more steeply than current Australian Energy Market Operator (AEMO) projections[19].

[16] ECA, 2023, *Risks to gas consumers of declining demand*
[17] ECA, 2020, *Evoenergy and Australian Gas Networks (SA) Gas access arrangement proposals 2021-26 submission*
[18] Investor Group on Climate Change (2022), *Changing pathways for Australian gas*
[19] IEEFA (2024), *Declining demand, uncertain forecasts raise questions over AEMO's latest gas supply warning*

SACOSS are concerned about the lack of a clear roadmap for residential gas use in South Australia and the potential for this to have an unequal impact on households, disproportionately negatively affecting those on low incomes. Of course, we understand that a broader policy setting in this context is the responsibility of the South Australian Government. However, AGN are being required to make decisions and future plans within this uncertain context, and so in the absence of certainty in this space it is vital that any conversation about – and planning for – the future of gas is based on the best available evidence.

As previously covered in this submission, household debt associated with gas bills is also growing in South Australia[20]. As gas retail prices continue to increase, alongside a potential network cost increase associated with increasing disconnections, this number will probably grow into the future. We note of course that under the current draft plan, AGN are offering a small reduction in prices for the 2026-2031 AA. However, as we have raised in SARG meetings throughout this process, we have some concerns that there is a potential to have essentially artificially lower prices for this AA that would subsequently require greater price increases across future AAs, leading to bill shock and stress.

This is an equity issue. As more people shift away from gas and electrify, residential gas demand is likely to decline, increasing the cost for the remaining consumers to maintain the network – and there is the risk of a gas 'death spiral' emerging, leaving those on the lowest incomes who are unable to switch away from gas paying the highest prices. Gas network costs are largely fixed and do not vary significantly depending on demand. This means that a fall in the number of consumers means that all of those same costs are being recovered from that same, smaller pool of people[21]. There is a very real risk this will leave those already least able to disconnect from the network paying more for it. We do not view this to be an acceptable or equitable outcome, and this is one of the key reasons why SACOSS have ongoing concerns about the future of residential gas use.

South Australians are, on average, paying more for gas than consumers in other jurisdictions (higher retail offers on average than all other jurisdictions other than the ACT).

[20] AER (2024), *Quarterly retail performance report January-March 2024*, Schedule 3
[21] Boardroom Energy, 2022, *Risks to gas consumers of declining demand*

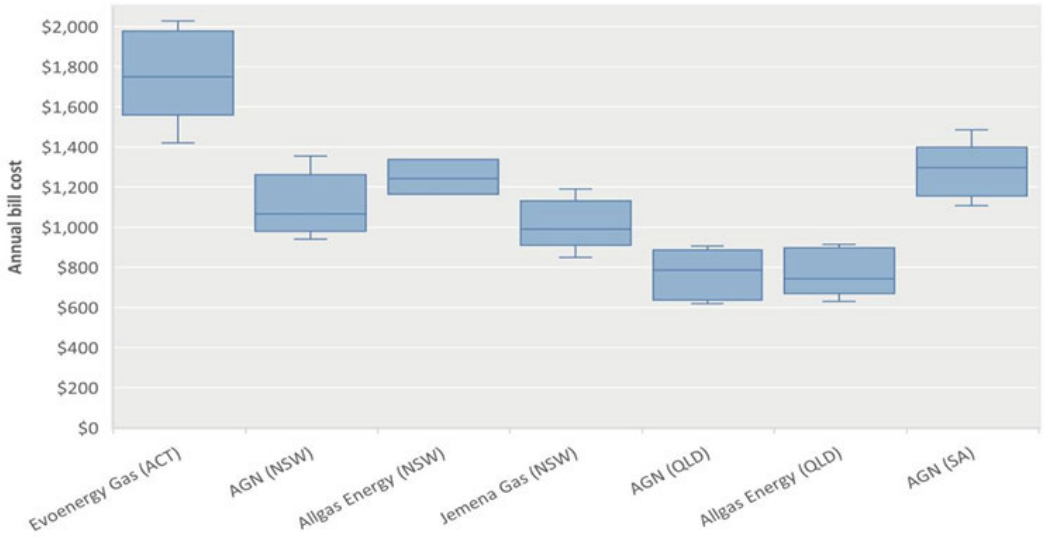


Figure 4: Retail market offers by jurisdiction and provider[22]

This, combined with the previously discussed hardship and debt numbers, would indicate that there are current affordability issues being experienced by gas consumers in South Australia, with the potential for those numbers to grow. Coupled with electricity price pressures outlined in previous sections of this report, energy costs are a pain point for many South Australian households.

It has been raised that the number of residential gas consumers has grown – however, this is misleading, as many households do not have the choice to not be connected to the gas network. This is particularly the case if they are renters, or in new builds where developers are still permitted to install/connect to gas as default. This is therefore not an accurate reflection of consumer preference or choice. The upfront cost barriers to electrification also make this an unfair comparison, where consumers are not necessarily exercising their choice or indicating their preference for staying on gas; rather, for many they have no other choice[23].

Some organisations – such as Energy Consumers Australia (ECA) – are suggesting that we are approaching peak gas demand among consumers, if we haven't reached it already. Conducting analysis on AER quarterly performance reporting, ECA find that NSW, ACT, QLD, and SA have all seen material declines in residential gas customer growth in recent years. They also strongly recommend that policymakers begin planning for further declines in gas demand as households electrify[24]. AGN's planned approach for the 2026-2031 AA, however, outlines their intention to

[22] AER, 2025, *Quarterly retail performance report October-December 2024*
[23] Renew, 2024, *The question of disconnection: gas demand is in decline, but is it falling fast enough?*
[24] ECA, 2024, *Are we reaching the peak in residential gas customer numbers?*

grow the number of new connections to the network. We are concerned that this could come with significant risks for those households, and for those who remain on the network into the future.

According to the 2025 Gas Statement of Opportunities (GSOO) produced by AEMO, "Residential and commercial consumption is forecast to slightly decline in the short term, with more significant fuel-switching to electric appliances forecast in the medium to longer term (particularly in Victoria and New South Wales). Electrification and other factors are expected to reduce residential and small commercial gas consumption by 125 petajoules (PJ), from 176 PJ in 2025 to 51 PJ in 2044, despite rising population and economic growth." [25] This builds on the findings in the 2024 GSOO which stated that "annual residential and small commercial gas consumption is forecast to decline in the short term in line with recently observed trends, and in the long term due to the potential to fuel-switch to electric alternatives across the residential, commercial and, to a lesser extent, industrial sectors. These trends are also expected to drive reductions in peak day has demand forecasts for residential and small commercial consumers."[26]

Figure 9 Actual and forecast total annual gas consumption, all sectors, *Step Change* scenario, 2018-44 (petajoules [PJ])

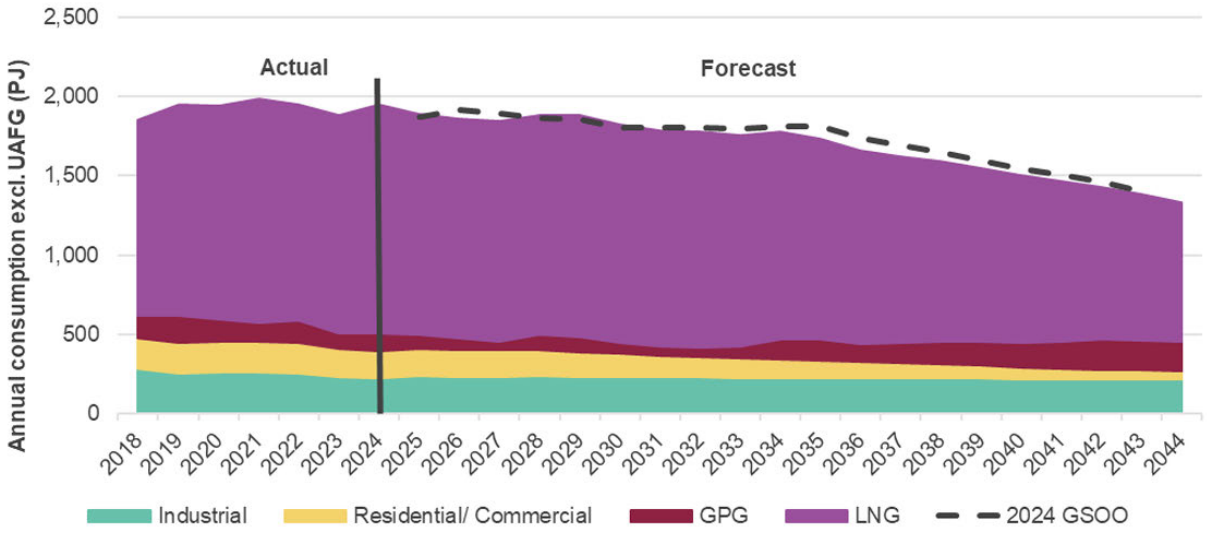


Figure 5: Annual and forecast total gas consumption, step change scenario. Source: AEMO, 2025[27]

[25] AEMO, 2025, *Gas Statement of Opportunities*
[26] AEMO, 2024, *Gas Statement of Opportunities*
[27] AEMO, 2025, *Gas Statement of Opportunities,*

Further, the 2024 GSOO has revised down the forecast for residential consumption in particular relative to the 2023 GSOO due to recent sharp reductions in per household consumption observed in 2023. This may be attributed to price impacts from significant increases in retailer bills, emerging indications of fuel-switching to electricity, and some of the warmest winter temperatures on record. The GSOO 2024 also suggests that residential gas demand is likely to continue to decrease as a result of the new energy efficiency requirements included in the NCC 2022, which is forecast to drive the uptake of electric heat pumps replacing gas water heaters and contributing to gas savings. This is consistent with what we have seen in the 2025 GSOO.

AEMO highlights that price is unlikely to have a significant impact on consumption for residential gas, given it is an essential service and therefore demand is rather price inelastic. This has some concerning implications for households that are unable to electrify and are going to be reliant on an increasingly expensive gas network.

Scenarios considered by AEMO also highlight the ways in which gas use is changing at a household level, and the impacts this will have going into the future. For example, under the Step Change ISP scenario (the most likely scenario)[28]:

- Forecast residential and commercial gas consumption in 2043 is estimated to be around 50 PJ, down by around 125 PJ from 2023. This is already 20PJ lower than was estimated in the 2023 GSOO and informed by the recently observed rapid reduction in consumption.
- Electrification remains the most significant driver of forecast declining consumption, with an anticipated demand reduction of around 50 PJ in 2030 increasing to about 170 PJ at the end of the outlook period. New dwellings in all jurisdictions are increasingly likely to be built without a gas connection or to use gas for applications other than heating (cooking and/or hot water)
- Improving energy efficiency is forecast to contribute to a modest reduction in consumption of about 10 PJ at the end of the outlook period

Modelling from IEEFA indicates that, while hydrogen may be an important future fuel for hard-to-abate sectors, it is not cost-effective for residential use. IEEFA estimates that for residential use hydrogen would (currently) cost approximately $141 per GJ. Modelling from IEEFA firmly indicates that electrification is the most cost-effective energy solution for South Australian households[29]. SACOSS are concerned that pursuing hydrogen in situations where there are already economic and technically viable alternatives for decarbonisation (i.e., electrification),

[28] AEMO, 2024, *2024 Integrated System Plan*
29 IEEFA, 2024, *Fact sheet: as gas bills rise in South Australia, all-electric homes are the most cost-effective solution*

risks driving up costs for consumers. We are yet to see evidence to the contrary presented by AGN, and firmly believe that this needs to be addressed in the Final Plan. Certainly, a lot of the modelling presently available does not consider this to be a realistic proposition[30]. The implication is clear – current and future residential households will bear the risk of the gas transition, unless there is a significant policy shift. Further, the burden of future costs is likely to fall on low-income households and those facing barriers to switching to electricity.

There is significant international research indicating that where electrification is viable, it is usually a better option than hydrogen – particularly for homes. An international meta-analysis of 32 studies found that hydrogen for space heating and water heating in homes is associated with both higher energy system costs and higher costs for individual consumers[31]. The International Energy Agency (IEA) estimates that burning green hydrogen in boilers would require three to five times more renewable energy than highly efficient heat pumps to deliver the same amount of heat in a home[32].

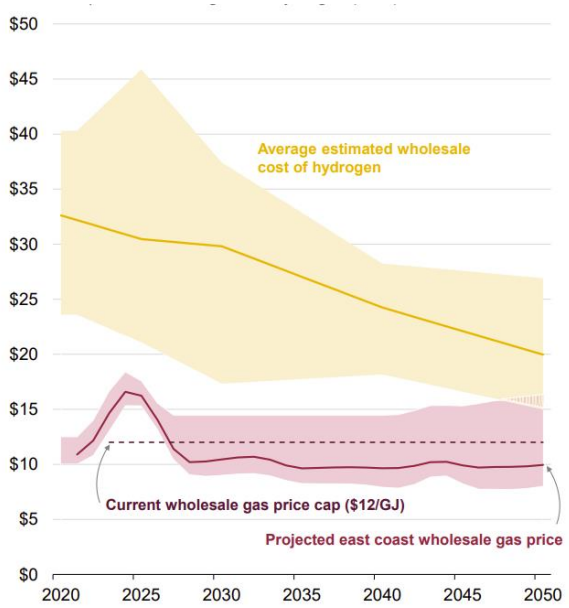


Figure 6: Wholesale price of natural gas and hydrogen[33]

[30]Net Zero Australia, 2023, *How to make net zero happen – mobilisation report*
[31] Rosenow, J., 2022, *Is heating homes with hydrogen all but a pipe dream? An evidence review*
[32] IEA, 2022, *The future of heat pumps*
[33] Grattan, 2023, *Getting off Gas; why, how and who should pay*

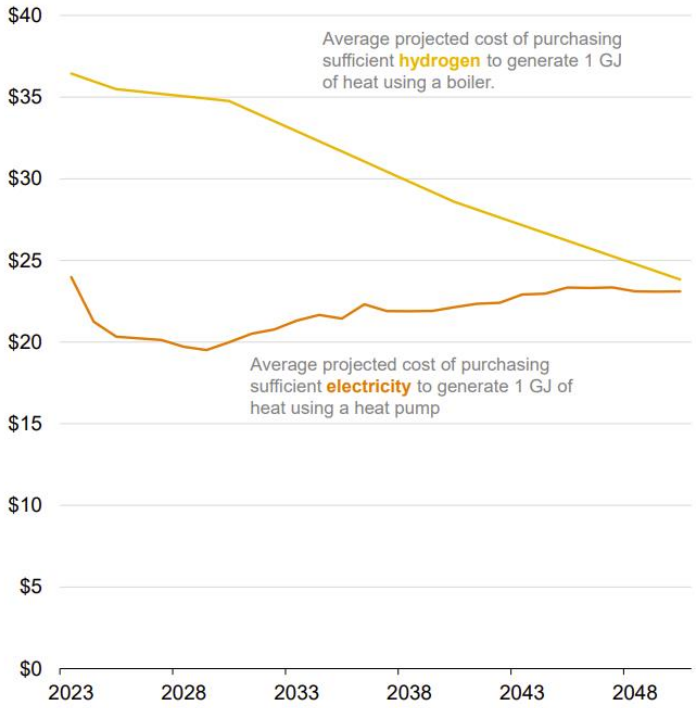


Figure 7: Electricity is cheaper than hydrogen to do the same job[34]

Hydrogen in reticulated gas networks delays the energy transition and disadvantages low-income households and renters. A no-regrets vision for hydrogen infrastructure needs to focus on uses where it is best placed to meet South Australia's net-zero goals. SACOSS does not support the widespread adoption of blended hydrogen in reticulated gas networks. Current evidence suggests that South Australia's gas distribution network can only safely support blends of up to 10% hydrogen by volume.[35] While hydrogen blending in gas networks is currently being trialled in some jurisdictions, they are in the nascent stages, including the current 5% blend in Hydrogen Park South Australia. It is worth noting that due to the lower energy density of hydrogen, a 5% hydrogen blend by volume is equivalent to approximately 1.5% by energy content. [36] This means that the current emissions reduction capacity of "renewable hydrogen" is relatively trivial – even a theoretically feasible 20% renewable hydrogen blend would only deliver 6% emissions reduction.

SACOSS believes that green hydrogen should only be pursued and prioritised in no-regrets situations and hard-to-abate sectors where there is a lack of alternative decarbonization options.

[34] Grattan, 2023, *Getting off Gas; why, how and who should pay*
[35] GPA Engineering for the Government of South Australian in partnership with Future fuels CRC on behalf of the COAG Energy Council, 2019, *Hydrogen in gas distribution networks*
[36] Frontier Economics, 2020, *Indicative analysis of blending hydrogen in gas networks*

The International Renewable Energy Agency (IRENA) have analysed the uses cases of green hydrogen by considering the technological readiness of hydrogen against other decarbonisation solutions such as electrification (see Figure below). They have identified industrial uses such as production of green steel, ammonia products, chemical processes and refineries, and international shipping as high priority applications. High-grade heat applications are considered a medium priority area as either electrification and/or green hydrogen could be used. There are a range of applications where there are already commercially and technologically viable decarbonisation alternatives to hydrogen such as for transport options.

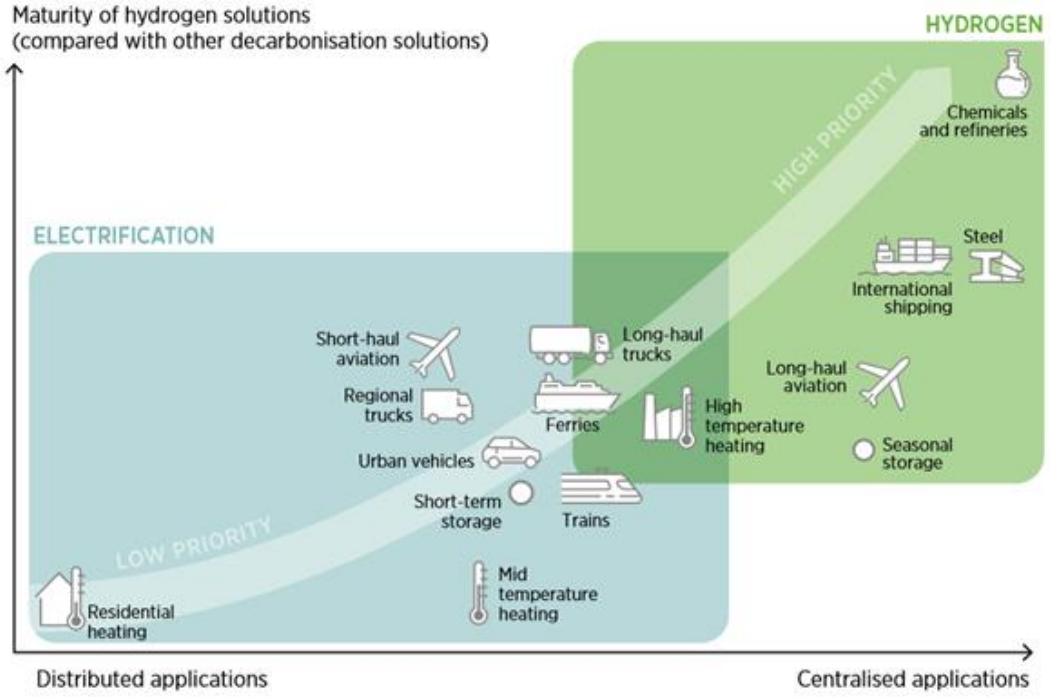


Figure 4: Comparison of technological readiness of hydrogen vs. electrification and potential size of hydrogen demand. Source: IRENA (2022)37

A no-regrets vision for hydrogen infrastructure needs to focus on uses where it is best placed to meet South Australia's net-zero goals.

We note that the gas networks have a stretch target of full decarbonisation of its gas networks by 2040 (or 2050 at the latest).[38] However, there is little detail in the jump from 10 per cent renewable hydrogen in 2030 to full conversion by 2040. In particular, we question whether this should be a realistic goal given the need for household gas appliances to also be switched to ones that can handle a higher concentration of hydrogen, even if the distribution network is able to handle higher blends.

[37] IRENA, 2022, *Green Hydrogen for Industry – a guide to policy making*
[38] Energy Networks Australia, 2020, *Gas Vision 2050*

It is also important to note that if a significant number of households electrify and disconnect from the gas network, then even should renewable or alternative gas supply become available it may no longer be a reasonable option to implement due to an insufficient customer base that would make such a switch uneconomical[39].

The level of uncertainty in the cost, timing and magnitude of Australia's prospective hydrogen economy has led to AEMO replacing its 'Hydrogen Superpower' scenario with a 'Green Energy Exports' scenario, where the role of hydrogen has been scaled down .[40] Put simply, South Australia does not have time to wait for hydrogen to be proved to be economic for residential use cases. For clarity, SACOSS is not opposed to the development of a hydrogen industry in South Australia nor to the use of green hydrogen, however we believe that it is inappropriate and uneconomical for household use. It remains a viable and important replacement fuel for hard to abate industries.

In summary, AGN must present a much stronger and clearer case in its Final Plan to justify its continued investment in renewable gases—particularly hydrogen and biomethane—for residential use. While SACOSS acknowledges the strategic intent behind AGN's exploration of decarbonisation pathways, the Draft Plan lacks a compelling evidence base to support the viability of renewable gases as a long-term solution for household energy use. Given the clear direction of state, federal, and international climate policy, alongside modelling from AEMO and other expert bodies, there is a growing consensus that electrification—not renewable gas—represents the most efficient, cost-effective, and equitable pathway to achieving net zero targets in the residential sector.

AGN's Draft Plan does not adequately address key uncertainties in cost, demand, and consumer impacts, nor does it engage sufficiently with the serious risks that an uncritical push towards renewable gases poses to household affordability and equity. In the absence of a clear and credible roadmap for transitioning the gas network without leaving vulnerable households behind, continued investment in residential hydrogen or biomethane risks entrenching inequality and leading to stranded assets. Given evidence that gas consumption is already declining and that hydrogen is significantly more expensive than electricity for residential use, AGN must provide robust modelling, transparent assumptions, and a scenario-based approach to planning that reflects the likelihood of a declining residential customer base. Without this, the business case for renewable gas in homes remains unconvincing—and consumers, particularly those least able to afford alternatives, may bear the cost of this uncertainty.

Conclusion

SACOSS recognises the complexity and uncertainty that AGN faces in preparing its Access Arrangement for 2026–31 amid a rapidly changing energy landscape. However, these

[39] Boardroom Energy, 2022, *Risks to gas consumers of declining demand*
[40] AEMO (2023) *Inputs and assumptions* p. 17

challenges also demand a clearer, more transparent, and more evidence-based approach to planning—particularly where decisions have long-term implications for affordability, equity, and decarbonisation.

While we commend AGN for its engagement with stakeholders and its progress in areas like the Priority Services Program, we remain concerned that key aspects of the Draft Plan, particularly those relating to the future of gas, tariff reform, and depreciation, do not yet sufficiently reflect the realities of declining residential gas demand, the risks to vulnerable households, or the likely policy trajectory toward electrification.

The decisions made in this access arrangement will shape outcomes for consumers well into the next decade. It is therefore essential that AGN's Final Plan prioritises affordability, intergenerational fairness, and the long-term interests of consumers—especially those already experiencing disadvantage. This will require more rigorous modelling, clearer scenario planning, and a genuine commitment to transparency and equity as the energy transition unfolds.

SACOSS looks forward to continuing to work with AGN, the AER, and other stakeholders to ensure the final proposal delivers just and sustainable outcomes for all South Australians. Should you have any questions or would like to discuss anything in our submission, please contact our Senior Policy Officer Malwina Wyra [redacted] on [redacted]

Kind regards,

Ross Womersley, CEO

SAFRRA Inc

South Australia Federation of Residents and Ratepayers Associations Inc

P.O. Box 520 Torrensville Plaza SA 5031

President: Kevin Kaeding Phone: [redacted]

30th April 2025

Australian Gas Infrastructure Group

Attention: Lucy Huxter

Stakeholder Engagement Manager

South Australian Draft Plan for the period 1 July 2026 – 30 June 2031

Level 6, 400 King William Street

ADELAIDE SA 5000

Contact Téléphone 0437 132 103 and email [redacted]

Dear Lucy

SAFRRA Inc., Submission

Australian Gas Infrastructure Group, South Australian Draft plan for the period 1 July 2026 to 30 June 2031

SAFRRA wishes to thank AGIG for the opportunity to comment regarding the Australian Gas Infrastructure Group, South Australian Draft Plan for the period 1 July 2026 to 30 June 2031.

Overview - SAFRRA Inc., submission of the "Australian Gas Infrastructure Group, South Australian Draft Plan for the period 1 July 2026 – 30 June 2031". SAFRRA Inc., respectively wishes to reinforce that most ratepayers and residents in South Australia are finding Gas prices and the associated services charges are far still too high. There are too many South Australian's in particular the low income families, self-funded retiree's, aged pensioners, single parents, first nation people and those with disabilities who having ongoing utilities payments financial stress. We believe the recognition of gas customer's ability to pay the current gas prices and service charges by the many very, low-income individuals and families where gas prices are increasingly unaffordable to these customers. We believe the Australian Gas Infrastructure Group has implemented with compassion, hardship programs in conduction with the State Government / Federal Government funded support (concessions). Thank you. We believe the State and Federal Governments to be the responsible body for concessions to vulnerable ratepayers and residents in this Australian Gas Networks Revised AA Proposal and Draft Decision July 2021 – 30 June 2026 period. The Government/s to have these concessions in place for vulnerable gas customers. The residents of South Australia in particular have seen high rises in utility prices (electricity, gas, water) and can no longer afford the sudden spikes (rises) in gas prices. We accept that the business, manufacturing, mining and agricultural sectors must have gas pricing that is affordable, competitive in Australia for all these commercial industries to grow, and expand. Employing more South Australia's throughout this State, especially in some of the depressed employment regional areas in South Australia. We commend Australian Infrastructure Group green energy projects in South Australia – Hydrogen mix.

SAFRRA Inc

South Australia Federation of Residents and Ratepayers Associations Inc

P.O. Box 520 Torrensville Plaza SA 5031

President: Kevin Kaeding Phone: [redacted]

SAFRRA Inc., Submission

Pricing - SAFRRA Inc. believes Australian Gas Infrastructure Group must keep gas prices as low as possible, keeping bills affordable to all South at 30+GJ p.a. and $71 plus annual bill increase at 60GJ + for 10,000 accepting a portion of UAFG with renewable gas and open to collectively engaging on the future of gas.

1. Australians. We commend AGIG for the better understanding of vulnerable customers, with the current cost of living issues affecting the South Australian Community and the whole of Australia. We support AGIG Customers 3.5% real gas price cut from the 1st July 2026, equivalent to a 0.9% nominal price cut (2.7% inflation). Commercial customer's $60.00 price reduction in year 1, this amount we believe is far too small; we believe a $200.00 reduction would seem more appropriate for these customers. SAFRRA Inc. would have always preferred a higher reduction in gas prices where possible for residential and commercial customers. We believe AGIG have shown why these reductions relating to pricing are as follows: - Rate of return of 6% compared to the 4.6% in current AA. Deprecation of $73 million compared to $375m in current AA. Capex of $506m compared to $559m in current AA due to low-pressure mains replacement completed with a limited protected steel program in next AA period. Opex of $481m compared to 361m in current AA. **Demand decline of 5.5% per year for residential and 1.0% for Commercial.**

2. Mains Replacement Programme - SAFRRA Inc., – Strongly commends AGIG 770 kilometres mains replacement programme has concluded. The limited protection steel program is in the next AA. Well done.

3. Funding the various operating initiatives - SAFFRA Inc. commends and strongly supports AGIG's Vulnerable Customer Assistance Programmes, which has helped many vulnerable gas customers.

4. AER– SAFFRA Inc. supports AER's requesting the proposed softer / flatter tariffs over two AA periods and we agree that those higher usage customers would not accept $161 plus annual bill increase for approx. 63,000+ residential customers at 30+GJ p.a. and $471 plus annual bill increase at 60GJ + for 10,000+ residential customers. Accepting a portion of UFFG with renewable gas and open to collectively engaging on future of gas. AGIG has proposed tariff changes higher fixed charges and flattening of higher usage blocks for deemed residential and commercial customers. This would equate to a more minimal negative bill impacts on customers that is 5% - 10 % of the current charges and represent a more balanced approach regarding reducing the exposure of tariffs to incentives for higher usage. Higher use reduced cost We support this initiative better.

SAFRRA Inc

South Australia Federation of Residents and Ratepayers Associations Inc

P.O. Box 520 Torrensville Plaza SA 5031

President: Kevin Kaeding Phone [redacted]

SAFRRA Inc., Submission

5. Revised Opex - SAFFRA supports AGIG's revised draft plan of Opex $481 million.

6. Revisited Capex – SAFFRA Inc. supports AGIG's draft plan of Capex $506 million and accept not to proceed with the Mt Barker extension in the last regulatory period. When will the Mt Barker extension be revisited in the next regulatory period?

7. IT Opex – SAFRRA Inc., is pleased and welcomes future IT investment in the AGIG draft plan. Updating IT is very important to any business and must be cost efficient to gas customers.

8. HyP Adelaide – SAFRRA Inc. strongly supports AGIG's new renewable gas hydrogen opportunities in HyP Adelaide with the ongoing renewables invested in the community. The safe storage and selling of hydrogen, recouping the costs of the investment at HyP Adelaide. A market leader.

Summary

SAFRRA Inc. expects Gas prices, new products / innovations within the Gas Industry such as Hydrogen / Hydrogen Infrastructure Facilities HyP Adelaide achieving to be green carbon free. Affordable gas / infrastructure which can be blended into AGIG's distribution network, and returning an expected we hope reduction of AGIG's gas prices for all South Australian gas customers. Hydrogen carbon free blends in SA. We expect electricity prices with renewables and green hydrogen to go down in price, reducing AGIG' s costs that must be passed onto residents and ratepayers in South Australia. SAFRRA Inc. believes future material costs and labour cost will increase and AGIG's executive team will find it difficult to keep these costs down. What it may mean is increases in consumer gas pricing which we hope AGIG will not be forced to pass on these increases to the gas customers. All businesses in South Australia and Australia will be experiencing increases in material and labour costs of running a business.

Thank you.

Yours sincerely

K Kaeding

SAFRRA Inc.
Kevin Kaeding,
President
P.O. Box 520
Torrensville Plaza SA 5031

AGN Draft Plan for South Australian Gas Network July 2026 – June 2031

Submission from the South Australian Reference Group Review Panel

Mark Grenning

Mark Henley

Malwina Wyra

9th May 2025

1. Summary and Conclusions

Introduction

The Australian Gas Networks (AGN) gas network in South Australia is subject to full price regulation by the Australian Energy Regulator (AER). This means that every five years AGN submits an 'access arrangement' (AA) to the AER setting out:

- The services offered on the network,
- The price paid for those services, and
- The non-price terms under which access to the network will be provided

over that five year period. AGN has now begun this process for the period from 1st July 2026 to 30th June 2031 with the publication of its Draft Plan. This submission provides feedback to AGN on this Draft as it develops its Final Plan to be submitted to the AER by 1st July 2025. AGN's aim is to develop a Plan that:

- delivers for current and future customers,
- is underpinned by effective engagement, and
- is capable of acceptance by customers and stakeholders.

The Plan is built on a combination of consumer engagement (with the approach based on the AER's Better Reset Handbook[1]), analysis of the prudent and efficient capital and operating costs required to run the business and then how all that translates to prices for approved pipeline and reference services[2]. A key part of this consumer engagement has been AGN's establishment of the South Australian Reference Group (SARG). Membership of the SARG reflects the diversity of the AGN's customer base with organisations representing residential and business customers, major gas users, customers facing vulnerability, multicultural communities, the building industry and property developers.

In December 2024 the SARG decided to establish a SARG Review Panel consisting of three SARG members, to engage more deeply on the plan and prepare this and further submissions to AGN and the AER. Under our Terms of Reference[3] we have been established:

> "... to provide independent and constructive feedback and challenge based on their expertise and insight during the development of AGN SA's 2026-31 regulatory proposal which include a review of:
>
> - AGN's engagement program and associated activities, and
> - AGN's regulatory proposal (Draft and Final Plans)."

Throughout this process we will be observing customer engagement, participating in SARG's engagement with AGN on key issues, reporting back to the SARG on progress and seeking SARG's views and contributions to what we propose to say in our submissions.

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[1] https://www.aer.gov.au/industry/registers/resources/guidelines/better-resets-handbook-towards-consumer-centric-network-proposals

[2] https://www.aer.gov.au/industry/registers/access-arrangements/australian-gas-networks-sa-access-arrangement-2026-31

[3] See https://gasmatters.agig.com.au/australian-gas-networks-south-australia-access-arrangement-2026-27-2030-31

This is the first of three submissions we will prepare. The second, to be submitted to the AER in August 2025, will comment on the Final Plan. The AER will issue its Draft Decision in November 2025 and then AGN will make a Revised Plan submission in January 2026. We will then prepare our third submission, to be submitted to the AER, in January 2026. All submissions will reflect feedback on behalf of the SARG, not on behalf of the individual constituencies of Review Panel members. Drafts of this submission have been made available to the full SARG and their feedback incorporated.

Panel Conclusions

AGN has a strong operation basis for 2026-31

We begin by congratulating AGN on its achievements during the current 2021-26 period. There has been a considerable improvement in safety performance in the last 5 years to now the lowest TRIFR in AGN's history. Despite increasing cost pressures, opex is forecast to be 22% below and capex 13% below the respective AER allowances. The mains replacement program, which has extending over three decades, will be finished providing the infrastructure ready for renewable gas in the future. AGN receives consistently high customer satisfaction scores, achieves very high reliability and has made important progress with completion of Hydrogen Park South Australia (Hy SA) now delivering a 10% renewable gas blend to around 4,000 customers reducing emissions.

This sets an impressive operational performance base for 2026-31 when longer-term challenges related to the 'future of gas,' combined with continued cost and affordability pressures, make it a critical period for both customers and AGN in the journey to the national net zero by 2050 target.

The main features of the Draft Plan are:

- Commitment to continue delivering a strong operational performance – safety, reliability, service and customer satisfaction
- Strong customer focus – extensive engagement to ensure all element of the Plan reflect what customers want and are prepared to pay for
- Contribute to the long term sustainability of SA gas supply with the renewable gas initiatives
- Address consumers highest priority of affordability - in real terms (after inflation), prices in 2030-31 will be lower than in 2025-26 and lower than they were in 2015-16.

We would describe the Draft Plan as a 'business as usual' plan. AGN's approach is based on a combination of confidence on SA Government policy continuing to allow new connections and supporting the development of renewable gas (quite different from the approach in Victoria) and AGN's own views on their ability to develop a commercial renewable gas future for their distribution network. It means there is only a nominal $20m of accelerated depreciation or 5% of forecast straight line depreciation of $385.2m.

This 'business as usual' approach with only nominal accelerated depreciation is why AGN can highlight a steady 2026-31 price path with an upfront 0.9% fall in the nominal price. That delivers on what consumer engagement told AGN – customers like price stability. It remains to be seen whether the completion of the AGN modelling leads to any increase in accelerated depreciation and a different price path.

We need to see the 'missing chapter' on the future of gas

Our primary comment on the Plan is that it lacks a comprehensive and convincing narrative to justify this 'business as usual' approach. It is what we refer to as the 'missing chapter'. Chapter 6 does discuss the future of gas issue but it is a progress report on modelling that is still underway and which AGN intended to detail in its Final Plan. We recommend that this 'missing chapter' discuss:

(i) What is AGN's vision of the role of gas and its network in 2050 and what is their long term pathway to get to there?

This would discuss the assumptions and set out the steps required along the 25 year pathway to be achieved the 2050 vision. Then, there would be more detail on what should be done in 2026-31 to lay the foundation for that long-term pathway.

(ii) What are the risks to this central case not occurring and what does that mean for the 2026-31 Plan?

This would discuss the risks to the central 'business as usual' scenario not occurring and what should be done (if anything) in 2026-31 to mitigate this risk in the long term.

Section 2 on the future of Gas outlines in more detail the issues we recommend be addressed under each heading.

What this means for Stage 4 and 5 engagement

This 'business as usual' approach meant that consumer engagement did not fully explore the risks of targeting stable prices in 2026-31 on prices post 2031. While customers said affordability was their highest priority, a change in Government policy towards encouraging a move out of gas could lead to higher accelerated depreciation and a step change in prices from 2031. We think that the affordability issue needs to be presented in a longer term context, not just over the next 5 year period. Customers may not view a marginally lower price in this access arrangement period as favourably if, for example, it means a steeper price increase is required in the next access arrangement.

Stages 4 and 5 engagement should undertake detailed discussions of the risks to and implications of the 'business as usual' scenario not eventuating. Given the short time available before submission of the Final Plan, the Stage 4 engagement will focus on the SARG and this has already begun as we have developed this submission in discussion with AGN, the Stage 5 engagement should explicitly explore different the impact on tariffs not just in 2026-31 but also post 2031 of different levels of accelerated depreciation. This discussion should also explicitly use the term 'accelerated depreciation' which AGN has intentionally avoided using in the Draft Plan – it uses the term 'additional depreciation' on p.51. The term 'accelerated depreciation' is widely used across gas networks in other States including AGN networks in Victoria.

In summary, we make the following conclusions and recommendations on other parts of the Draft Plan:

Opex	• More engagement is required on the placeholder step change for renewable gas certificates when Government policy is clear

	• Support AGN absorbing the insurance step change
Capex	• More justification required for the new connections' capex of $159m given its implications if there is additional accelerated depreciation • More discussion on the proposed IT system capex
Pipeline and reference services	• Support continuation of the current abolishment charges
Revenue and prices	• Tariff structure design a key focus of Stage 5 engagement incorporating the outcome of more detailed analysis of the future of gas and consideration of changes to existing declining block tariffs
Incentive schemes	• We support the continued application of the Efficiency Carryover Mechanism and the Capital Expenditure Sharing Scheme to 2026-31.

We begin with a discussion of the 'future of gas' energy market context under which this plan is being developed. Then we discuss in more detail our views on consumer engagement, capex and opex, tariffs, future of gas and incentive schemes.

2. The Future of Gas

The energy policy context

The Panel believes it is vital to recognise and consider the policy and regulatory context at both a State and Federal level in which AGN's Draft Plan is being developed. AGN's Draft Plan for 2026–31 is shaped by South Australian Government policy that, at present, supports continued consumer choice, new gas connections and the development of renewable gases such as hydrogen and biomethane. This is in stark contrast to Victoria, where the government is gradually implementing its Gas Substitution Roadmap[4] with the following applying now:

- All new government buildings have to be electric
- Banning gas connections to developments and residential home builds that need a planning permit that were not submitted or approved by 1st January 2024
- Gas distribution businesses are unable to offer inducements to connect to gas or purchase and install gas appliances
- Customers pay full up-front costs of a new gas connection

and consultation underway through a Regulatory Impact Statement on a range of additional measures with the Government's preferred Option 3 of electrification of new residential and most new commercial buildings, as well as existing residential buildings (excluding existing residential cooking)[5].

[4] https://www.energy.vic.gov.au/renewable-energy/victorias-gas-substitution-roadmap
[5] https://www.planning.vic.gov.au/guides-and-resources/strategies-and-initiatives/victorias-gas-substitution-roadmap

In South Australia the Government has expressed its opposition to the Victorian policies. However, we do not think that AGN should discount the chance of a change in South Australian policy over the next 5-7 years.

At the Federal level, this proposal is being prepared in the context of a National Gas Objective that now explicitly requires consideration of how proposed expenditure is[6]:

> "...likely to contribute to reducing Australia's greenhouse gas emissions"

This was not the case when the current period (2021-26) plan was being developed. The pace of the transition to net zero and the future role of gas in that transition are central to the debate. Concurrently there are the cost of living pressures on households and businesses faced with significant rises in energy costs over recent years.

At the same time networks and the AER are seeking much more substantive engagement between networks and stakeholders, especially customers, on how this transition should occur. It is not just a matter of what services consumers might want from a gas network. It is about whether they can afford to pay for those services - both now and in the future - when network businesses are seeing large capex and opex cost pressures to deliver those services. Consumers' support for the transition is becoming more dependent on the answer to the 'who pays' question. Governments have committed significant funds to a series of energy rebates to ease household affordability pressures and retain consumer support for the transition.

The vigorous debate on the 'future of gas' is being played out in AER access arrangements in Victoria, ACT and NSW. In its decision on the three Victorian gas networks for 2023-28 (two of the three are owned by AGIG) the AER decided to set the level of accelerated depreciation as a goal seek that limited the real price path constraint at 1.5%/year real price growth (the Draft Decision was based on 0%/yr). The AER argued that this[7]:

> "... achieves an appropriate balance between what consumers pay now to mitigate future price increases, and the risk of greater increases in the future if mitigation is delayed.

ECA has recently proposed to the AEMC a suite of gas rule changes that the ECA sees as better reflecting the long term interests of consumers and facilitating planning for how to fairly transition away from gas[8]. These include changes to bring up front connection costs, setting conditions for allowing accelerated depreciation, changed planning requirements to minimise capex and changing the capex criteria to ensure that declining use of the gas network is properly considered in evaluating whether a capital project is justifiable.

What AGN is proposing

[6] https://www.aemc.gov.au/regulation/neo

[7] See p. 24 https://www.aer.gov.au/system/files/AER%20-%20AGN%202023-28%20-%20Final%20Decision%20-%20Overview%20-%20June%202023.pdf

[8] https://www.aemc.gov.au/sites/default/files/2025-02/New%20rule%20change%20proposal%20-%20Energy%20Consumers%20Australia%20-%20Gas%20distribution%20networks%20-%20Creating%20additional%20criteria%20for%20the%20applica%20%281%29.pdf

Given this policy and regulatory environment, AGN has outlined a 'business as usual' approach in South Australia for 2026-31 that is based on a combination of two factors:

(i) South Australian Government energy policy

This policy:

- supports consumer choice in energy supply and so supports new connections,
- supports the development of renewable gas (hydrogen and biomethane) with AGN investing in these gases,
- is expected to introduce a renewable gas certificate scheme to support that development to be paid for by gas customers, and
- is not proposing to introduce Victorian gas substitution roadmap type policies over the 2026-31 period which is quite different to Victoria that now bans new connections and places severe restrictions on the ability to replace gas appliances with gas appliances.

(ii) Expanded role of renewable gas to decarbonise the gas network supported by the State Government

The Chapter 6 discussion of the 'Future of Gas' refers to the major changes underway in the energy system and the need to start planning now for a change that will happen over decades. It sees renewable gas is a 'gateway to our future' underpinning AGN's social licence to operate. The Orbviz summary of the Future of Gas says:

> "To remain competitive as the energy market changes, we will continue to:
>
> - offer competitive network prices while maintaining high levels of reliability and public safety;
> - enable renewable gas opportunities to bring renewable gases into the network; and
> - plan for the future by assessing our depreciation profile with each new Access Arrangement period to maintain a stable balance of risk between investors and customers."

Customer feedback has indicated that customers have a desire to continue using gas but with a preference for a lower carbon footprint. So AGN is testing its ability to stay competitive over the longer term even with renewable gas. It provides a work in progress report on their customer choice modelling eg whether a consumer replaces and end of life gas appliance with a gas or electric appliance. Various scenarios are explored depending on government policy, fuel price, appliance price and efficiency and weather.

AGN's approach includes:

- Expanding hydrogen blending, building on its Hydrogen Park SA project delivering a 10% hydrogen blend (by volume) to 4,000 customers in Tonsley and planning for a 20% blend via Hydrogen Park Adelaide
- Signing an agreement to source renewable biomethane from Delorean Corporation
- Positioning its network as 'hydrogen ready' following completion of mains replacement and

- Considering accelerated depreciation as a regulatory tool to manage stranded asset risk, with a placeholder range between $20–185 million (equivalent to $10–$80 per residential bill per annum).

AGN has invested heavily in hydrogen with its flagship Hydrogen Park South Australia (HyP SA) project. This is now delivering up to 10% hydrogen blend by volume (~4% by energy) to around 4,000 customers through the existing network at Tonsley. AGN intends to expand this through Hydrogen Park Adelaide (HyP A) to deliver a 20% blend by volume into the wider Adelaide network. Advice from the SA Office of the Safety Regulator is that it is possible for the majority of existing domestic gas appliance to operate as normal with a 20% blend of hydrogen/natural gas.

There is also the option of hydrogen supply to the Bolivar Power Station. AGN has recently signed an agreement with Delorean Corporation Limited to supply renewable biomethane in the network. The completion of the mains replacement program in the current period means that the network is 'hydrogen ready'.

Our perception is that AGN argue that decreasing the carbon intensity of the gas will lessen the need for Victorian style policies. This will lengthen the economic life of the network and lessen the need for accelerated depreciation.

This strategy meant that the Draft Plan includes a $23.6 million opex step change placeholder for potential State Government support for renewable gas and a relatively small $20m placeholder for accelerated depreciation, though this term is not used, AGN preferring the term 'additional depreciation'. Stage 3 engagement considered $185m additional depreciation with the $20m number coming from later modelling. This compares with AGN's approach in its other gas networks:

- Dampier to Bunbury in Western Australia – has not proposed any accelerated depreciation in its 2026-30 plan considering the risk is adequately handled with the reduced asset lives approved in the previous regulatory period[9].
- Multinet in Victoria – sought $86m accelerated depreciation for 2023-28 with the AER approving $53m[10] based on the cap of a 1.5%/yr real price growth constraint
- AGN in Victoria – proposed $175m which was accepted by the AER because it resulted in a price path below the 1.5%/yr real price growth constraint[11]

AGN asks the following consultation questions on the future of gas:

1. What are your views of the emerging opportunities for customers in South Australia? Are we too optimistic, too pessimistic or is it too early to tell?
2. Do you support our efforts to remain flexible as the future changes, or should our only concern be the lowest prices for the next five years with no thought of the future?

Panel Comments

[9] https://www.erawa.com.au/gas/gas-access/dampier-to-bunbury-natural-gas-pipeline/access-arrangements/access-arrangement-for-period-commencing-2026
[10] https://www.aer.gov.au/system/files/AER%20-%20MGN%202023-28%20-%20Final%20Decision%20-%20Overview%20-%20June%202023.pdf
[11] See p. 23 https://www.aer.gov.au/system/files/AER%20-%20AGN%202023-28%20-%20Final%20Decision%20-%20Overview%20-%20June%202023.pdf

When we refer to the 'future of gas' we mean – how will consumption of gas (whether methane or renewable gas eg biomethane and hydrogen for any residential or commercial purpose) change in the future and how will that impact on the viability of the gas network? At the outset we acknowledge it is a vexed question that is the subject of lots of discussion around the country. Views range from actively supporting the continued use of gas (both methane and renewable) as a competitive source of energy to seeking to remove gas as quickly as possible for environmental reasons, which is supported by studies suggesting electrification is cheaper.

Gas users vary from households who can electrify to large users which have no alternative and gas generators that are increasingly being called on to provide firming power to renewables. Federal and State Governments are seeking to develop a 'gas narrative' to address the needs of all gas users that seeks to balance economic, technical and environment concerns. The Commonwealth Government released is "Future Gas Strategy" in 2024[12] and the SA Government first released a Hydrogen Action Plan in September 2019[13] and has updated this plan since its release with an Office for Hydrogen Power created and resourced. In its 2021-26 Access Arrangement proposal, AGN had a strong focus on moving towards hydrogen with the HyP SA project.

The 'missing chapter' on the future of gas

The Draft Plan lacks a comprehensive and convincing narrative to justify this 'business as usual' approach. It is what we refer to as the 'missing chapter'. Chapter 6 does discuss the future of gas issue but it is a progress report on modelling that is still underway and which AGN intended to detail in its Final Plan. AGN should see the 'future of gas' issue not just in the context of 2026-31 period but in the context of the pathway to net zero by 2050 target. Given demand is falling as electrification expands, will there be enough demand to recover the network capital costs which are recovered through straight line depreciation over very long periods:

Asset Class	Standard Life (years)
Mains	60
Inlets	60
Meters	15
Telemetry	20
IT system	5
Other distribution system equipment	40

What are the risks of spending $156m of new connections capex in 2026-31 if gas consumption falls more than forecast and there are fewer and fewer customers and gas volumes to recover costs from? Especially if those customers are likely to be low income or 'hard to abate' (ie cannot technically or commercially electrify) industries who cannot afford the large increase in fixed and variable network charges? This is the 'stranded assets' risk for pipeline owners that is central to the future of gas.

(i) What is AGN's vision of the role of gas and its network in 2050 and what is their long term pathway to get to there?

[12] https://www.industry.gov.au/sites/default/files/2024-05/future-gas-strategy.pdf
[13] https://www.energymining.sa.gov.au/industry/hydrogen-and-renewable-energy/hydrogen-in-south-australia/hydrogen-files/south-australias-hydrogen-action-plan-online.pdf

It would discuss the assumptions and set out the steps required along the 25 year pathway to be achieved the 2050 vision. It would address questions such as:

- What is their view on longer term State and Federal Government gas policy?
- What is necessary for renewable gas to be commercial in the distribution system and how will Government policy facilitate that?
- How will the cost of this transition be shared between customers, AGN and Governments?
- What is the timetable for the rollout of increased renewable gas blend into the network over the period to 2050 eg what is the next steps after HyP Adelaide and the deal with Delorean to increase the percentage of renewable gas?
- Where will AGN source the renewable gas, particularly given the SA Government's refocus of its hydrogen policy after its takeover of the Whyalla steel plant? Will AGN develop its own expanded hydrogen production facilities?
- What will be the price path for total customer bills of this move to increased renewable gas? How does that impact on customer choice for all customer classes between gas and electricity? How does it impact on vulnerable and low income customers and larger customers in hard to abate sectors and what measures are AGN proposing to mitigate this impact?
- How does this play out across different customer classes from residential consumers who have a choice to hard to abate customers who may not have a choice? What are the technical challenges to customers of all types and sizes using hydrogen and what breakthroughs are required to enable substitution – what role will AGN play?
- What is the case for connecting new customers and what should they pay for their connection?
- What is the role for stranded asset risk mitigation measure eg accelerated depreciation and upfront connection charges?

Then, there would be more detail on what should be done in 2026-31 to lay the foundation for that long-term pathway.

(ii) What are the risks to this central case not occurring and what does that mean for the 2026-31 Plan?

It would discuss the risks to the central 'business as usual scenario not occurring and what should be done (if anything) in 2026-31 to mitigate this risk in the long term.

- What if South Australia moves closer to the Victorian policy framework that is actively discouraging gas consumption – ban on new connections in new homes, upfront connection charges, prohibition on networks providing inducements to connect or install gas appliances?
- What if there is no renewable gas certificate scheme?
- What if the current proposed Energy Consumers Australia (ECA) gas rule changes are implemented?
- What should AGN be doing in 2026-31 around issues like accelerated depreciation and appliance choice to mitigate the longer term risks beyond 2031 of this policy change?
- What are the risks of a low $20m in accelerated depreciation in 2026-31?

- What if the delivered price path in the central scenario means gas has difficulty competing with electricity?
- How should it address the intergenerational equity issues of a change in Government policy? Those unable to transition to electricity — such as residential customers who cannot afford to, or commercial and industrial customers in hard-to-abate sectors — could be left carrying the burden of much higher accelerated depreciation costs in the 2030s.
- Should it still be proposing $159m new connection capex?
- What if hydrogen and biomethane are not commercially viable in the distribution network? What impact might that have on network tariffs?
- What might this mean for hardship programs for vulnerable and low-income households?

There is also a need to build and promote a publicly accessible evidence base, with interpretation, of reports and research about future of gas issues, challenges and possibilities. Orbviz may be a vehicle with an independent reference group to test 'legitimacy' of the research considered.

More focus on accelerated depreciation

We recommend more focus on accelerated depreciation, beginning with using that term rather than the term 'additional depreciation' used in the Draft. The placeholder of $20m for accelerated depreciation compares to total proposed straight line depreciation of $385m and an opening asset base on 1st July 2026 of just over $2b. This compares to the two AGIG networks in Victoria for 2023-28:

- Multinet's $86m proposed accelerated depreciation for for 2023-28 compared to total proposed depreciation of $230.5m on an opening asset base on 1st July 2023 of $1.42b.
- For AGN Victoria, the proposed accelerated depreciation of $175m compared with total proposed depreciation of $246m and an opening asset base on 1st July 2023 of $2b.

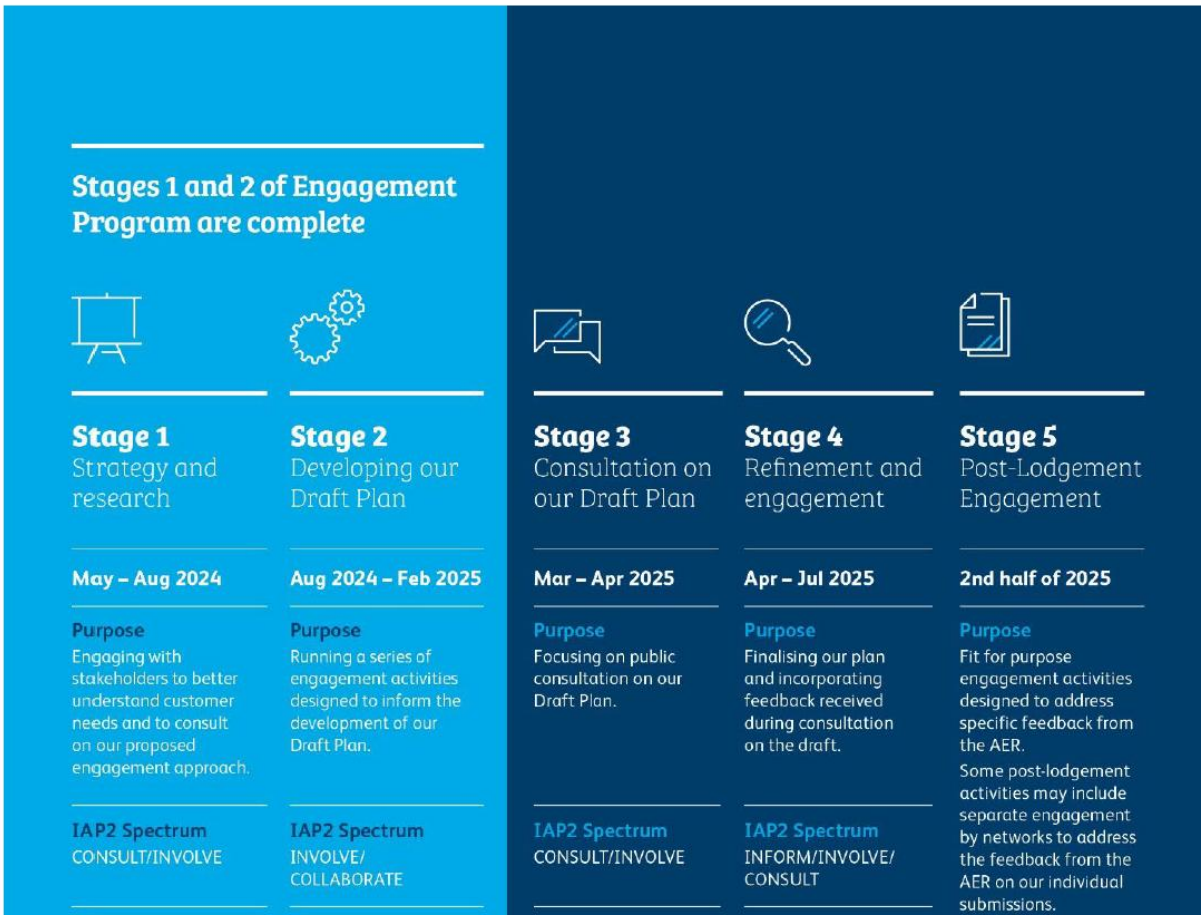
Clarity around accelerated depreciation is essential in navigating the energy transition. It should not be treated as a controversial concept—rather, it is a legitimate regulatory tool to help manage the financial risks of declining gas demand and potential asset stranding. As the future of the gas network becomes more uncertain, particularly under scenarios of widespread electrification, accelerated depreciation can support a fairer and more orderly transition by ensuring costs are recovered more equitably over time. Avoiding or downplaying the issue only undermines trust; instead, we need open and honest conversations with stakeholders and consumers about why it might be needed, what it means for bills, and how it fits into broader policy and investment decisions.

3. Consumer Engagement

<u>AGN Approach</u>

AGIG has a five stage approach to engagement:

Figure 5.1: Our five-stage approach to engagement



Stages/Phases 1 and 2 occurred between August and November 2024 with the aim of ensuring that customer views were genuinely embedded in the planning and design of AGN's future services, pricing structures, and transition strategies. We note that the Panel had not yet been formed during these first two engagement stages, so our comments are limited to insights we have gained from written reports on their outcomes, as well as on AGN's reflections in the Draft Plan. The Panel observed the Stage 3 engagement.

1. Stage/Phase 1

This was conducted during August and September 2024. A total of 181 customers participated across 15 workshops, which were primarily held face-to-face in metropolitan and regional locations across South Australia, with additional online sessions to maximise accessibility. Participants were recruited through a third-party agency to ensure a representative cross-section of the community, including residential and small business customers, as well as culturally and linguistically diverse (CALD) customers. Dedicated CALD workshops were delivered in partnership with the Multicultural Communities Council of SA.

Workshops were independently facilitated by KPMG and ran for approximately 90 minutes. Each session included presentations from AGN subject matter experts, interactive activities to prompt discussion and opportunities for participants to ask questions and provide feedback. AGN have reflected positively on this initial engagement, noting that customer satisfaction exceeded internal targets and that participants felt genuinely heard and valued. Key priorities emerging from Phase 1 included strong concern for price and affordability, ongoing expectations around reliability and public safety, interest in customer service improvements

(particularly for vulnerable customers), and a desire to better understand the future role of gas in the energy transition.

2. Stage/Phase 2

This occurred during October and November 2024. Of the original 181 customers engaged in Stage 1, 153 returned for Stage 2, representing an 85% retention rate.

The second phase built on the foundational knowledge developed in Stage 1, providing more detailed information on AGN's emerging proposals, including early pricing forecasts and network investment plans. Workshops again ran for around 90 minutes and were facilitated by KPMG, with an increased use of digital tools (such as QR-coded feedback forms and interactive online collaboration tools) in response to participant feedback. More time was also allocated to open Q&A sessions with AGN's technical experts.

AGN reflected that customer feedback remained broadly consistent between Stages 1 and 2, reinforcing the general direction of the Draft Plan. Customers continued to prioritise stable and affordable prices, gas safety and customer service excellence.

There was also a noticeable increase in interest regarding the future transition to renewable gases, including practical questions about how hydrogen blending and electrification might affect individual households and businesses. Customers wanted to know more about the cost of renewable gas, and whether there would be incentive for customers using hydrogen as they are contributing to a positive climate change initiative. AGN presented a placeholder option of $185m 'additional depreciation' which would increase the average residential bill by $80/ year.

Overall, AGN have stated that the engagement approach successfully, in their view, deepened customer understanding and produced valuable insights into customer priorities and expectations, which were directly incorporated into the development of the Draft Plan.

3. Stage/Phase 3

There were six sessions each of 2 hours, 5 in person - Mt Gambier, Reynella (Southern Suburbs of Adelaide), Mawson Lakes (Northern Suburbs of Adelaide), Barossa Valley, Adelaide CBD, Adelaide – CALD communities and one online - Upper Spencer Gulf. At least one Review Panel member observed each session, except for Mt Gambier. Each session was facilitated by KPMG with the same topics presented and discussed. At the start of each session participants were given the opportunity to review the Draft Plan using the Orbiz software with the assistance of an AGN staff member.

AGN commenced their stage 3 engagement sessions with the following diagram:

The agenda covered a short summary of the Draft Plan, two aspects of affordability (declining block tariffs and abolishment charges), future of gas and depreciation, the role of renewable gas and a summary. Each topic had a cycle of input from an AGN employee followed by an opportunity for participants to ask a question. A response was sought for each topic mainly using an on-line 'voting tool.'

KPMG's report on the Stage 3 engagement was not available in time to be reviewed in this submission and we will provide feedback to AGN when that report is available.

Panel comments

Stages/Phases 1 and 2

A number of consistent themes emerged across the first two stages.

Affordability

This was a dominant concern across all workshops. Participants frequently emphasised that energy bills are already a strain on household budgets and there is deep anxiety about further increases. This concern was particularly pronounced among low-income and fixed-income households. Customers want assurance that AGN is actively working to minimise price rises and support those who are most vulnerable.

Reliability of gas supply

This was a point of satisfaction. Customers were largely pleased with the current reliability and quality of gas services, viewing them as dependable and essential, particularly during colder months. This positive baseline creates an opportunity to build trust as AGN navigates future changes.

Customer service expectations

These were clear: when problems occur, customers want quick, effective support—preferably from a real person. There is widespread frustration with overly automated systems or long wait times. For many, being able to speak to a knowledgeable, empathetic person is fundamental to feeling supported and respected.

Renewable energy and the future of gas

This was an area of strong interest, but with important caveats. Many customers expressed support for a shift toward more sustainable energy sources, but only if the transition is carefully managed to remain affordable and practical. There was limited awareness of renewable gases (such as hydrogen or biomethane) and many customers had questions about safety, appliance compatibility and costs.

In later stages, participants responded positively to AGN's draft proposal for maintaining price stability and consistent service. There was clear support for continued investment in gas safety and reliability. However, some areas - like AGN's growth strategy and the personal implications of moving to renewable gas - were identified as needing further exploration. Customers want to know: Will they need to change appliances? What costs will be passed on? How will vulnerable households be supported? Some customers advised the placeholder increase for accelerated depreciation resulting in an $80/yr increase in residential bills was minimal, others wanted to understand in more detail the impacts.

Stage 3

We observed a level of general satisfaction from participants in each workshop with "the vibe" and intent of the Draft Plan and prices trajectory. The headline story presented at the workshops around stable prices over 2026-31 ('decrease 0.9% after inflation') reflected customer feedback in Stages 1 and 2 and this was widely supported. We did not hear anyone express dissatisfaction with the information presented by AGN, about the draft Plan, nor any dissatisfaction with AGN and its approach.

Nevertheless, we observed that responses from participants were based, at best, on limited understanding of much of the detail Draft Plan. We expect that few if any had read it – at the end of each session AGN undertook to send it to participants when we expected it would have been circulated prior to the sessions. While Orbviz is an impressive and powerful tool that can make the Draft Plan more accessible, we do not think enough time was allowed at the start of the session to properly explore and engage with the content of the Draft Plan through Orbviz.

While we understand that most stage 3 workshop participants had participated in stage 1 and/or stage 2 engagement, there was not a substantial recall of the detail from those earlier sessions. When asked directly about recollections of key words or concepts regarding future of gas from earlier sessions, there was enough recall to create a "word cloud" but limited recall of detail.

The 'input heavy' workshop provided limited opportunity for participants to discuss the tariff issues in a way that indicated a full understanding of the options (declining block tariffs and abolishment) and we doubt there was much understanding of the discussion of depreciation and future of gas modelling.

Given our discussion in the previous section, we think that AGN missed an important opportunity to engage more deeply on the future of gas and consumer attitudes to different levels of accelerated depreciation in 2026-31. What was the level of accelerated depreciation in the Draft Plan price path? How might they trade-off their preferred stable price path in 2026-31 with different levels of accelerated depreciation? How might decisions on 2026-31 impact on the post 2031 price path? We also are aware that AGN has decided not to talk about / use the term "accelerated depreciation." We think that this problematic since the term is widely used and, as we noted above, in place for AGN's networks in Victoria. It is a 'hot topic' for gas networks, the regulator and customers. We don't think that AGN can avoid dealing directly with the issue and using the accepted terminology.

While there was some good engagement in the Stage 3 workshops, we have concerns that the clarity and amount of information presented at each workshop lead to differing levels of understanding among workshop participants. While we await KPMG's report on the workshops, we would encourage AGN to take a highly nuanced approach to interpreting results obtained from the stage 3 workshops to support their approach.

Our recommendations for the next Stage 4 and 5 engagement are to focus on the future of gas discussion. We recognise that this is a complex topic that is difficult to understand. It will involve building detailed, accessible information about renewable gas and the energy transition. Customers want clarity about what this shift means for their household, including technical, financial and practical implications. Materials should be plain-language, multilingual where appropriate and delivered via trusted channels (e.g. community organisations, local councils, digital and printed formats). It will look at the issues we discussed above that should be included in the 'missing chapter'.

4. Operating Expenditure

What AGN is proposing

AGN have used the standard AER base, step, trend methodology as well as some specific forecasts. The table summarises recent history of AER allowances, actual and forecast spend in the current period and AGN's proposed spend in 2026-31.

Operating expenditure summary excluding UAFG and capitalisation changes $m (2025/2026)

2021-26		2026-31		
AER allowance	**Actual / Forecast**	**Forecast**	**% chg vs 2021-2026 AER allowance**	**% chg vs 2021-2026 Actual / Forecast**
$389	$340	$423	+9%	+24%

UAFG – Unaccounted for gas – gas which is lost in the system due to leaks, metering inaccuracy or theft.

There are four potential step changes totalling $67.1m:

Change in capitalisation of overheads with more being treating as opex and less as capex; following the approach taken with Multinet in Victoria, a portion of these overheads are more akin to opex than capex; there is no net gain from this reclassification	$32.8m
Purchase of renewable gas certificates for the HyP Adelaide hydrogen facility – a placeholder awaiting clarification of Government policy	$26.3m
Transition costs for insourcing a service delivery contract at the end of its 30 year term	$7.7m
Higher insurance premiums	$0.3m
Total	$67.1m

There are two category specific forecasts – debt raising ($12.5m) and unaccounted for gas (UAFG). The latter is the difference between the gas entering the network and the quantity of gas delivered to customers that AGN has to buy from the market. It is due to leaks, metering inaccuracies and/or theft. This is $25.1m vs $20.6m in the current period.

The cost of the Priority Services Program is included in opex. This comprehensive program is aimed at providing tailored support to customers experiencing vulnerability and was launched in July 2023. Once registered, customers gain access to a range of support services, including:

- Free gas appliance safety checks: Ensuring the safe operation of heaters, hot water systems, cooktops and ovens
- Emergency gas appliance repairs: Prompt assistance for urgent appliance issues, and
- Gas appliance rebates: Financial support for replacing unsafe or inefficient appliances when repairs are not feasible.

AGN has continued to work closely with social and community sector stakeholders and its trade partners to refine and promote the PSP. Notably, the program received national recognition, being awarded the 2024 Service Champion for Customer Service Project of the Year – Customer Impact by the Customer Service Institute of Australia.

In its Draft Plan, AGN has committed to continuing and growing the Priority Services Program through the 2026–31 regulatory period, recognising the increasing importance of supporting vulnerable customers as the energy transition progresses.

Panel Comments

Given the AER methodology, much of the forecast opex is not subject to consumer comment. We focus our comments on the discretionary items, UAFG, the Priority Services Program and the trend.

On step changes:

- The capitalisation change is a matter for the AER
- The purchase of renewable energy certificates has not been sufficiently engaged on as AGN await more specific advice on what policy measures the State Government will introduce to support the development of the hydrogen industry. We look forward to this engagement having a transparent discussion around whether customers should effectively subsidise AGN's development of hydrogen generation, that has yet to be proved economic, to reduce AGN's stranded asset risk. Should AGN's customers effectively subsidise a potentially high risk investment by AGN?
- We support the view expressed at the 27th February SARG meeting that the small insurance step change should be absorbed by AGN

A major reason for the below allowance opex in the current period is lower than forecast UAFG due to the mains replacement program. UAFG is calculated by multiplying the average volume of UAFG for the last three years by the forecast gas price. AGN is proposing a 'true-up' adjustment to tariffs depending on the actual cost. We would like to see more information on how the mains replacement has reduced gas leaks and how AGN proposes to source this gas. We are interested in ensuring that AGN still has a strong incentive to get the best gas price for a 'pass through' cost to consumers.

The Panel commends AGN on the successful establishment and early achievements of the Priority Services Program (PSP). The development of dedicated support services for customers experiencing vulnerability reflects best practice principles in customer service and aligns strongly with AGN's broader commitment to sustainable communities and customer-centred infrastructure delivery. There is strong support for its continuation.

The Panel particularly acknowledges the proactive steps AGN has taken to integrate the PSP into its core operations, including:

- The establishment of a dedicated customer support role

- The introduction of a new CRM system to enhance case management
- Targeted engagement activities with community sector organisations, and
- Improvements to website accessibility for vulnerable customers.

The Panel notes that the PSP has been nationally recognised and that early take-up by customers suggests strong foundations for continued growth. We are pleased to see AGN's commitment to maintaining and expanding the program over the 2026–31 period, recognising that vulnerability is likely to increase and evolve during the energy transition.

To build on the strong foundation already established, the Panel recommends the following actions. These might not need to be explicit within the Final Plan (though it would be beneficial if they were) but we put them forward for AGN's current and future consideration:

- Broaden eligibility and awareness - AGN should continue to broaden awareness of the PSP among customer segments who may not traditionally identify as vulnerable but who may still benefit from targeted support, such as renters, culturally and linguistically diverse (CALD) communities and customers undergoing temporary hardship (e.g., job loss, illness)
- Strengthen referral pathways - formalise and expand partnerships with community organisations, financial counsellors and housing providers to create more robust referral pathways into the PSP. This would ensure that customers who may not directly engage with AGN are still able to access the program when needed
- Enhance tailored support services - explore the feasibility of offering a wider range of tailored supports beyond appliance repairs, such as energy efficiency advice, support for safe electrification where appropriate (such as where continued gas use could pose a safety risk eg the elderly) and assistance with accessing other government or community programs
- Co-design future program enhancements - engage directly with customers experiencing vulnerability to co-design the next phase of the PSP. This approach will ensure the program remains responsive to emerging needs and delivers services in a way that feels respectful, accessible and empowering to customers
- Monitor and report on program outcomes - establish clear performance indicators to monitor the reach, impact and customer outcomes of the PSP over the next regulatory period. Regular public reporting would strengthen transparency, support continuous improvement and build trust with stakeholders and customers.

On 'trend', AGN is proposing annual productivity of 0.4%, the same as in the current period. This compares to 0% in Victoria for the 2023-28 period. The latter was due to the policy changes that prevented network growth and meant productivity improvements we no longer feasible. While we welcome the continuation of this productivity commitment (gas network are not required to propose productivity, electricity networks have to have a minimum of 0.5%/yr) we would recommend more explanation in the Final Report of why 0.4% was chosen.

5. Capital expenditure

What AGN is proposing

The capex forecast is lower than the current period reflecting completion of the mains replacement program in the current period.

Capital expenditure summary excluding debt raising 2021-26 and 2026-2031, $m (2025/2026)

2021-26	2026-31

AER allowance	Actual / Forecast	Forecast	% chg vs 2021-2026 AER allowance	% chg vs 2021-2026 Actual / Forecast
$644	$559	$506	-21%	-9%

Capex is forecast using a bottom-up approach with the cost of undertaking each project estimated separately and presented according to AGN's strategic pillars.

Table 9.1: Actual and forecast capex by our strategic pillars ($million, 2025/26)

Vision	Current AA period	Next AA period	Drivers for change
Customer focussed	$196.3	$223.1	✓ New customer connections ✓ Higher rates and volumes for meter replacement ✓ Digitalisation and modernisation of customer service
Operational Excellence	$350.5	$242.0	✓ Lower volume of mains & services integrity programs ✓ Continued replacement of Multi-User Services. ✓ Upgrade of field assets (such as regulators and valves) to maintain network integrity, reliability and safety.
Leading Employer	$12.2	$18.5	✓ IT integration, infrastructure renewal, and replacement of vehicles and small plant equipment
Sustainable Communities	N/A	$22.4	✓ Piecemeal replacement of protected steel mains
Total	**$559.0**	**$506.1**	

Like all network businesses, AGN is facing strong upward pressures on unit rates and materials, across both growth (eg new connections) and maintenance (eg meter and mains replacement) capex. The final plan will incorporate the result of the April 2025 tender for a range of contractor services.

The main part of 'customer focussed' capex is new connections with a forecast $156m to connect around 31,000 new residential and business customers (compared with 37,000 connections in the current period) – 31% of total capex. This includes new homes and businesses in greenfield developments close to our network, new homes and businesses within our network footprint (infill) and existing homes and businesses which are connecting to the gas network for the first time. The lower 'operational excellence' capex reflects the completion of the main replacement investment in the current period after three decades of work.

Panel comments

Given the level of detail provided in the Draft, our comments are more qualitative that quantitative. Our comments focus on three aspects:

- Whether the proposal reflects consumer preferences and
- IT system capex
- The impact on consumers from the proposed growth capex for new connections

The presentation on proposed capex at the February 2025 SARG meeting was very high level and on an 'inform' basis. Members were keen to understand whether the capex was prudent and efficient. Obviously AGN consider it is but that is up to the AER to assess. The SARG believes that AGN has a strong record of excellent performance in efficiently delivering gas distribution services.

Proposed IT system capex is $88.1m or 17% of total capex compared to $46.9m (8%) in the current period. The key activities are in the 'move to AGIG One IT environment removing

duplication across the AGIG group'. Our experience across many electricity and gas recent resets in recent years has shown a consistent pattern of these types of IT projects ending up considerable over budget and over time in implementation. The most notable was the development of the DEBBS system in Energy Queensland led to the shareholder absorbing cost overruns of $121.3m for Ergon[14] and $130.2m for Energex[15]. We look forward to further information being provided in the Final Plan on how AGN will avoid the problems that have beset other networks for these projects.

Our future of gas discussion above highlights the potential stranded asset risk of new connections capex. AGN is proposing growth capex of $156m which is an increase on the current period forecast of $141m. This is at a time when AGN forecasts total demand to fall by an average of 3.2%/year for 2026-31:

- Residential customers (32% of total demand) – demand falling 5.5%/yr driven by falling average residential demand (move to reverse cycle air conditioning) more than offsets rising new connections; average residential consumption has fallen from 20.6GJ in 2008-09 to 13.8GJ in 2023-24 and is forecast to fall to 9.4GJ in 2030-31.
- Commercial customers (17% of total demand) – demand falling 2.9%/yr due to lower average consumption offsetting a slight rise in connections
- Industrial customers (51% of total demand) – MDQ declining 2.9%/yr

Most of the new connections' capex has a standard asset depreciation life of 60 years. We have concerns about whether the gas network still be commercially viable for that period or whether changes in policy will mean those assets have the risk of becoming stranded and then subject to debate over the level of accelerated depreciation. How likely are those newly connected customers likely to pay the full cost of providing that connection? What is the risk that the newly connected customers electrify well before the end of asset depreciation life of the assets used to supply them gas and the residual asset value needs to be recovered from remaining customers? And how confident are AGN about the number of new developments connecting to the gas network as opposed to being all electric by default?

Following a change in Victorian Government policy in 2024[16], from 1st January 2025 AGN charges all new connections to its Multinet network a connection fee of ~$2,000 for residential customers[17]. For other customers the newly connected customer will pay the full costs of the connection up front. This is designed to ensure new connections pay a contribution to the stranded asset risk their connection brings to all gas users.

6. Pipeline and Reference Services

We support the proposed reference and non-reference services in the next period which includes the abolishment service as an ancillary reference service. Our comments here focus

[14] https://www.aer.gov.au/system/files/2024-02/Ergon%20-%205.3.11%20-%20Capex%20ex%20post%20justification%20-%20Non-network%20ICT%20-%20January%202024%20-%20public.pdf

[15] See p. 161 https://www.aer.gov.au/system/files/2024-02/Energex%20-%202025-30%20Regulatory%20Proposal%20-%20January%202024%20-%20public.pdf

[16] https://www.energy.vic.gov.au/renewable-energy/victorias-gas-substitution-roadmap

[17] https://www.australiangasnetworks.com.au/scr#:~:text=Changes%20in%20Victorian%20government%20regulation,1%20is%20around%20%242%2C0002.

on the abolishment services and the importance of supporting consumer choice, affordability and safety.

What AGN is proposing

AGN is proposing to classify abolishment services – the permanent disconnection by cutting and capping the gas connection at the main - as an ancillary reference service for the first time in South Australia. This aligns with how abolishment services are already treated in their Victorian networks. Currently in SA, abolishment is offered free of charge (apart from an $85 meter removal charge) for public safety reasons to avoid idle network assets. Stakeholder feedback supported clearer classification of abolishment as a separate, transparent service to prepare for potential future increases in demand.

AGN considers abolishment meets the reference service factors under the National Gas Rules (NGR) because:

- There is low current demand
- It is not substitutable with other services
- Costs can be reasonably allocated for standard residential and small-scale abolishments

AGN proposes a partial cost recovery model where customers would pay around 20% of the total cost or ~$200, with the remaining socialised across other customers following the approach taken by the AER for AGIG's Multinet and AGN network in Victoria where the charge was set at $220[18]. However, AGN notes that if government policies increasingly drive gas disconnections, full cost recovery from customers (not socialised) would be more appropriate in the future. This was also a topic discussed with customer workshops throughout the engagement process.

Reflections from the Panel

The issue of who should bear the costs of abolishment – how much to be borne by the individual customer and how much should be socialised across all customers – is an issue that has been the subject of much debate in Victoria and NSW. The AER's final decision for Victorian networks that set the charge at $220 noted[19]:

> "This is not a long-term solution. Combined with declining throughput on remaining connections, it will put upward pressure on haulage tariffs in the 2023–28 period until a more sustainable solution is identified. If, in future periods, we see further decline in demand and an increase in customers leaving the network, the upwards pressure on tariffs for remaining customers will only grow. ESV is committed to working with the gas distribution network businesses to understand whether other methods may be more appropriate than permanent abolishment in the context of the large number of disconnections that have been forecast as a result of the Victorian Government's policy to support electrification, or whether there are any new technologies that may reduce the safety risk."

[18] See the discussion on p. 7 in the AER's Final Decision https://www.aer.gov.au/system/files/AER%20-%20MGN%202023-28%20-%20Final%20Decision%20-%20Overview%20-%20June%202023.pdf
[19] See p. 7 https://www.aer.gov.au/system/files/AER%20-%20AGN%202023-28%20-%20Final%20Decision%20-%20Overview%20-%20June%202023.pdf

There are arguments both ways and both call on 'equity' to justify their position:

- Customers leaving the network and electrifying their homes may tend to be higher income consumers and they should not be cross-subsidised lower income consumers who are unable to afford leaving the network and who are left to pay any future stranded asset risk
- Charging the full cost of ~$1,000 creates a barrier to leaving. Maintaining accessible and low-cost pathways for abolishment is critical to supporting genuine consumer choice. As the energy transition progresses, consumers must be able to decide whether to maintain, modify, or cease their use of gas without being subjected to prohibitive costs that act as a barrier to electrification. If the transition is to be equitable, consumers leaving the network should not be worse off than those choosing to connect to it.

Affordability and equity are not the only factors. From a safety perspective, imposing significant abolishment costs could encourage unsafe practices, with customers informally abandoning gas infrastructure without formally abolishing their connection. This creates long-term safety risks for both individual households and the wider community, as inactive but live gas assets may degrade or pose a safety hazard without proper decommissioning.

Through AGN's engagement process, it became clear that consumers themselves raised concerns about potential abolishment charges. They observed that at present, there is no cost for new customers to connect to the gas network as well as no cost for abolishment, yet abolishment numbers remain very low – so while the costs are socialised, they form a minute percentage of a household gas bill. Consumers also raised concerns about safety should abolishment costs become prohibitive.

The Panel recommends:

- AGN should continue reporting abolishment numbers clearly and regularly, ideally disaggregating residential, business and industrial customer trends over time. Transparent reporting is essential for monitoring emerging customer behaviour as the energy transition unfolds and for identifying and managing risks associated with network utilisation, affordability, and safety.
- AGN should maintain its current a no-charge abolishment policy in 2026-31 for consumers wishing to leave the network, unless and until there is clear evidence that costs are material, unavoidable and justified through a robust public process.
- AGN should work with stakeholders to monitor safety risks arising from incomplete or informal abolishments and ensure appropriate consumer education and support
- Any future proposal to introduce abolishment charges should be subject to full public consultation, with explicit consideration of equity, affordability and consumer protection impacts.

More broadly, the Panel's recommendation to maintain a no-charge abolishment policy reflects the currently low volume of abolishments and the limited impact on network costs and customer bills. This is in contrast to Victorian where abolishment is becoming much more common reflecting Government policy. With improvements to data collection and reporting planned under the upcoming access arrangement, including more detailed tracking of abolishment trends, it is appropriate to retain the existing approach for now. Should abolishment numbers increase significantly or materially impact cost recovery or bills, this issue can be revisited in consideration of the 2031-36 access arrangement which will have comprehensive data to assist in decision making.

It is also important to distinguish this issue from the separate conversation currently underway through the AEMC consideration of the proposed ECA rule changes referred to above, which include the introduction of new connection charges. That proposal seeks to introduce charges for *new* customers to connect, to mitigate stranded asset risks in the future. In the absence of current connection costs being passed on to the consumer, it is difficult to justify the same not being the case for those leaving the network.

7. Revenue and Prices

Our discussion focusses on declining block tariffs and related customer engagement

What AGN is proposing

AGN's current pricing model for residential and commercial customers uses a combination of a fixed supply charge ($/day) and a volumetric or consumption based charge ($/GJ). Approximately 75% of AGN's revenue is currently recovered through variable (usage-based) charges and 25% through fixed charges. The consumption charge is a declining block tariff where:

- Higher unit rates apply to lower usage blocks (e.g., customers with minimal gas use like a gas cooktop and solar hot water), and
- Lower unit rates apply to higher usage blocks (e.g., customers using gas for space heating).

AGN considers the declining block structure efficient for several reasons:

- It supports better network utilisation by encouraging ongoing use,
- It smooths customer bills across the year, especially by making winter heating bills more affordable, and
- It provides revenue stability despite gas demand being sensitive to weather variability.

The AER asked AGN to consider moving toward a flatter tariff structure to discourage high gas consumption and better align pricing with emission reduction objective now in the National Gas Objective discussed above. The AER suggested that flattening could occur over two Access Arrangement periods (2026-31 and 2031-36) to reduce customer bill shock. AGN considered this option as part of their Draft Plan but have indicated that, in their view, even a gradual move toward flatter tariffs would cause significant bill increases for high-usage customers:

- Around 63,000 residential customers using 30+ GJ per year would face annual bill increases of $161 or more, and
- Over 10,000 customers using 60+ GJ per year would face increases of $471 or more.

AGN have indicated that they find these impacts unacceptable, particularly given many customers' inability to immediately switch appliances or fuel sources. They also noted that the expected emissions benefits would be negligible (just 0.02%–0.04% of average annual bills). In the Draft Plan AGN therefore proposes to retain the declining block tariff structure for 2026-31. However, AGN is considering small adjustments such as:

- A modest increase to the fixed charge component (e.g., by 10–20%) to slightly reduce reliance on volumetric usage, and
- Rebalancing the variable usage tiers slightly (but not fully flattening them).

These changes aim to align somewhat with the emissions objective without causing major bill shocks. As part of the customer engagement process, one of the key focus areas was the

structure and design of gas tariffs. Participants in the Stage 3 workshops were presented with three potential pricing options:

- The current declining block tariff (where the unit price of gas decreases as usage increases),
- A modified, flatter version of this tariff, and
- A fully flat tariff, where all units of gas are priced equally regardless of usage volume.

Each option carries different implications for how gas costs are distributed between households with lower and higher consumption. The workshops provided an opportunity to test customer understanding of these models, gauge initial reactions and explore perceived fairness and impacts.

Panel comments

The discussions at the customer engagement workshops highlighted several important learnings—both about customer perceptions and the way tariff conversations should be framed.

Many participants were unfamiliar with how the current declining block tariff actually works. A number of people believed, incorrectly, that using more gas would result in a lower overall bill, misunderstanding the way marginal pricing operates. The purpose of the tariff structure (to smooth bills for higher users rather than incentivise higher usage) was not clear to many. Moreover, customers often didn't know how their household's gas use compared to the average, making it difficult for them to understand how proposed changes would affect them personally. This gap in self-context limited meaningful engagement with the pros and cons of each tariff option.

Participants were also unclear on the rationale for discussing tariff reform in the first place. The workshops didn't always sufficiently explain that the AER requested review. Without this broader policy context, some participants viewed the conversation as a technical pricing issue rather than one connected to larger system shifts or regulatory direction.

While some attendees focused narrowly on how each option would affect their own bills, others took a broader view, considering the potential impacts on vulnerable groups or lower-income households. This variation showed that people bring different values and perspectives to these discussions. However, a more consistent framing could have helped participants consider both personal and community-wide implications more holistically.

Given this, the Panel recommends that AGN provide clearer, more accessible explanations of tariff structures in future engagement, potentially including options outside of declining and flat/flatter structures. Additionally, helping customers identify where their own gas usage sits relative to the average household would make this information more relatable and digestible.

The Panel considers it essential that AGN clearly frame tariff reform discussions within the broader context of regulatory expectations and evolving climate policy. Future communication should emphasise that these potential changes are not simply revenue-neutral pricing adjustments, but are part of a broader social, environmental and energy transition agenda. Understanding the role of the AER in requesting that AGN investigates this option is also important. Establishing this context upfront will help customers better understand the rationale for exploring tariff structure changes.

The Panel also recommends that AGN encourage customers to consider the impacts of tariff structures not only on their own households but also on the wider community, particularly for lower-income customers and those with limited capacity to adjust energy use. This could be supported through the use of distributional analysis and customer impact modelling to facilitate a more informed and equitable discussion.

Recognising the complexity and nuance of tariff reform, the Panel recommends that AGN make tariff structure design a key focus of Stage 5 engagement. Participants' ability to provide meaningful input depends heavily on the clarity and accessibility of the material presented. Deeper engagement in the final stage should explicitly acknowledge the trade-offs between fairness, affordability and broader decarbonisation objectives.

8. Incentive schemes

We support the continued application of the Efficiency Carryover Mechanism and the Capiral Expenditure Sharing Scheme to 2026-31.

From: Sullivan, Jo
To: Lucy Huxter
Subject: [EXTERNAL] AGN Feedback
Date: Tuesday, 13 May 2025 2:10:34 PM

Hi

Thanks for your patience. Not much feedback, so on the whole all good.

Draft Plan

slide 13– no note as to any capital for Hydrogen Gas – are the plans inclusive of promoting this? Just a question doesn't impact AA unless there are plans to implement within the Plan timeline, noting opportunity for renewables in Adelaide. More information & explanation, but will attend Hydrogen workshop.

Slide 34 – no comment of expected change to tariffs

Slide 38 – General Terms & Conditions noted no changes unless Unfair Contract terms impacts but this will be worked through.

No further comments, noting that EA did attend the Hydrogen Gas workshops.

Jo

Jo Sullivan
Networks & Industry Leader
Customer Operations
e [redacted]

From: Mark Riley
To: Lucy Huxter
Cc: Kyle Auret; Zinky Sharma
Subject: [EXTERNAL] Comments on AGN SA Draft Plan
Date: Monday, 19 May 2025 2:30:25 PM

Hi Lucy
Thanks for the extension to consider the AGN SA Draft Plan.
The document was well presented.

We note AGNs goals of high customer satisfaction levels, good employee elements and sustainability goals.

We note the proposal to enhance the AGN website (p10) but also note that the website supports multiple distribution and pipelines
(eg AGN SA, AGN Vic, MultiNet, Dampier-Bunbury,...) and would therefore expect that this proposal is for the SA Allocation and that the other assets are contributing to the website development.

AGL supports AGN maintaining its network in a safe and affordable manner.

We note the allocation of $26M for the operation of Hydrogen blending (p5).
However, we also note that recently the AER disallowed Jemena Gas funding for such works.

We note the benefits from HyP SA and the proposal for HyP Adelaide (p5).
While we support continuing development of gas/gas blends we are concerned about managing the Heating Values
associated with these blends to ensure that customers are correctly billed.
AGL believes that this can be supported through improved 'smart' gas metering and strongly urges AGN to
Continue to develop and implement improved customer metering.

AGL will be seeking a better understanding from AGN on changes to the volume of long-term temporary disconnections.
AGL is concerned that the high cost of abolishments mean that customers will abandon gas supply, leaving the retailer with no customers, but ongoing obligations with the network.

Separate feedback will be provided for the T&Cs.

Kind regards
Mark

Mark Riley
Senior Industry Advisor

e: [redacted]