

Draft decision

**Australian Gas Networks (SA) access
arrangement 2026 to 2031
(1 July 2026 to 30 June 2031)**

**Attachment 1 – Capital base, Regulatory
depreciation and Corporate income tax**

November 2025

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1 List of attachments

This attachment forms part of our draft decision on the access arrangement that will apply for period of 1 July 2026 to 30 June 2031 (2026–31 period) for Australian Gas Networks (SA) (AGN). It should be read with all parts of our draft decision.

The draft decision includes the following documents:

- Overview
- Attachment 1 – Capital base, Regulatory depreciation and Corporate income tax
- Attachment 2 – Capital expenditure
- Attachment 3 – Operating expenditure
- Attachment 4 – Demand
- Attachment 5 – Reference services, tariffs and non-tariff components
 - Includes: Services covered by the access arrangement, reference tariff settings, reference tariff variation mechanism, and non-tariff components
- Attachment 6 – Capital expenditure sharing scheme
- Attachment 7 – Efficiency carryover mechanism

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1 Capital base, Regulatory depreciation and Corporate income tax

This attachment sets out our draft decision on the following aspects of Australian Gas Networks South Australia's (AGN) proposal for the 2026–31 access arrangement period (2026–31 period).

- The capital base, including the opening capital base as at 1 July 2026 and the projected capital base for the 2026–31 period.
- The regulatory depreciation amount, including the standard asset lives, year-by-year tracking depreciation approach and its proposed additional depreciation.
- The corporate tax income amount, including the opening tax asset base (TAB), and the standard tax asset lives used to estimate tax depreciation for the purpose of calculating tax expenses.

1.1 Capital base

The capital base roll forward accounts for the value of regulated assets in AGN's distribution network in South Australia over the access arrangement period. The opening capital base value for a regulatory year within the access arrangement period is rolled forward by indexing it for inflation, adding any conforming capital expenditure (capex), and subtracting depreciation and other possible factors (for example, disposals).¹ Following this process, we arrive at a closing value of the capital base at the end of the relevant year. The opening value of the capital base is used to determine the return of capital (regulatory depreciation) and return on capital building blocks.

1.1.1 Draft decision

We determine an opening capital base value of \$2,065.5 million (\$ nominal) as at 1 July 2026 for AGN. This value is \$11.9 million (0.6%) higher than AGN's proposed opening capital base of \$2,053.6 million (\$ nominal) as at 1 July 2026.² The increase is due to our update to the roll forward model (RFM) for a higher estimated consumer price index (CPI) of 3.00% for 2025–26 compared to 2.42% proposed by AGN. We have updated the estimated CPI for 2025–26 with the Reserve Bank of Australia (RBA) forecast published in its August 2025 Statement on Monetary Policy to reflect updated economic conditions.³

As the capital base must be maintained in real dollar terms by indexing for inflation, the 2025–26 CPI update results in an increase to the opening capital base value as at 1 July 2026 of \$11.9 million (0.6%) compared to AGN's proposal, all else being equal. The CPI input for 2025–26 will be updated to reflect the actual CPI published by the Australian Bureau of Statistics (ABS) for our final decision.

¹ The term 'rolled forward' means the process of carrying over the value of the capital base from one regulatory year to the next.

² AGN, *AGNSA_Attachment 1.6_Roll Forward Model_20250701_PUBLIC*, July 2025.

³ RBA, *Statement on Monetary Policy, Table 3.1: Detailed Forecast Table*, August 2025, p. 58.

We accept AGN’s proposed method for calculating the opening capital base, which is consistent with our standard approach. To determine the opening capital base as at 1 July 2026, we have rolled forward the capital base over the 2021–26 period to determine a closing capital base value at 30 June 2026 in accordance with our RFM.⁴ This roll forward process includes an adjustment at the end of the 2021–26 period to account for the difference between actual 2020–21 capex and the estimates approved in the 2021–26 access arrangement.⁵ All other adjustments are applied as part of the final year adjustments at 30 June 2026 to establish the opening capital base value at 1 July 2026.⁶

Table 1.1 sets out our draft decision on the roll forward of AGN’s capital base over the 2021–26 period.

Table 1.1 AER’s draft decision on AGN’s capital base for the 2021–26 period (\$ million, nominal)

| | 2021–22 | 2022–23 | 2023–24 | 2024–25 ^a | 2025–26 ^b |
|--|---------|---------|---------|----------------------|----------------------|
| Opening Capital Base | 1,702.0 | 1,762.9 | 1,901.8 | 1,965.2 | 2,039.4 |
| Net capex ^c | 92.1 | 97.9 | 96.6 | 137.2 | 99.3 |
| Inflation on opening capital base ^d | 59.5 | 138.1 | 77.1 | 47.7 | 61.2 |
| Less: straight-line depreciation ^e | 90.7 | 97.1 | 110.2 | 110.7 | 117.9 |
| Interim closing capital base | 1,762.9 | 1,901.8 | 1,965.2 | 2,039.4 | 2,082.0 |
| Difference between estimated and actual capex in 2020–21 | - | - | - | - | -11.7 |
| Return on difference for 2020–21 capex | - | - | - | - | -4.8 |
| Closing capital base as at 30 June 2026 | - | - | - | - | 2,065.5 |

Source: AER analysis.

- (a) Based on estimated capex provided by AGN. We will update the capital base roll forward with actual capex in the final decision.
- (b) Based on estimated capex provided by AGN. We expect to update the capital base roll forward with a revised capex estimate in the final decision, and true-up the capital base for actual capex at the next access arrangement review.
- (c) Net of disposals and capital contributions and adjusted for actual CPI and half-year weighted average cost of capital (WACC).
- (d) We will update the capital base roll forward for actual CPI for 2025–26 in the final decision.
- (e) Adjusted for actual CPI. Based on forecast capex.

We determine a forecast closing capital base value as at 30 June 2031 of \$2468.1 million (\$ nominal) for AGN. This is \$28.8 million lower than AGN’s proposed closing capital base

⁴ AER, *Gas Distribution roll forward model - v1.1*, May 2022.

⁵ The end of period adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved at the 2021–26 access arrangement review.

⁶ This includes adjustments for re-allocation of some existing assets from the ‘Inlets’ asset class to the ‘Future of gas depreciation’ asset class.

value of \$2,497.0 million (\$ nominal).⁷ This reduction is mainly due to our draft decision on a lower forecast capex (Attachment 2). This reduction is partially offset by forecast depreciation as a result of our draft decision not to accept AGN’s proposed additional depreciation (section 1.2). Our draft decision on the opening capital base as at 1 July 2026 (section 1.1.4.1), the expected inflation rate (Overview, section 3.2) also affect the forecast closing capital base value as at 30 June 2031.⁸

Table 1.2 sets out our draft decision on the forecast capital base values for AGN over the 2026–31 period and the closing capital base as at 30 June 2031.

Table 1.2 AER’s draft decision on AGN’s capital base for the 2026–31 period (\$ million, nominal)

| | 2026–27 | 2027–28 | 2028–29 | 2029–30 | 2030–31 |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Opening capital base | 2065.5 | 2137.7 | 2223.2 | 2302.4 | 2388.1 |
| Net capex ^a | 89.0 | 95.1 | 90.5 | 99.3 | 95.8 |
| Inflation on opening capital base | 52.7 | 54.5 | 56.7 | 58.7 | 60.9 |
| Less: straight-line depreciation | 69.4 | 64.2 | 68.0 | 72.4 | 76.6 |
| Closing capital base | 2137.7 | 2223.2 | 2302.4 | 2388.1 | 2468.1 |

Source: AER analysis.

(a) Net of forecast disposals and capital contributions. In accordance with the timing assumptions of the Post tax revenue model (PTRM), the capex includes a half-year WACC allowance to compensate for the six-month period before capex is added to the capital base for revenue modelling.

We accept AGN’s proposal to establish the opening capital base as at 1 July 2031 using the approved depreciation schedules based on forecast capex over the 2026–31 period.⁹ These depreciation schedules will be adjusted for actual inflation outcomes over this period.

1.1.2 Overview of proposal

AGN used our RFM to establish an opening capital base as at 1 July 2026 and our PTRM to roll forward the capital base over the 2026–31 period. It proposed an opening capital base value as at 1 July 2021 of \$1,702.0 million (\$ nominal). Rolling forward this capital base with actual/estimated capex and using depreciation based on forecast capex approved for the 2021–26 period, AGN proposed a closing capital base value of \$2,053.6 million (\$ nominal)

⁷ AGN, *AGNSA 2026–31 Access arrangement proposal, AGNSA_Attachment 1.5_Post Tax Revenue Model_20250701_PUBLIC*, July 2025

⁸ Capex enters the capital base net of forecast disposals and capital contributions. It includes equity raising costs (where relevant) and the half-year WACC to account for the timing assumptions in the PTRM. Therefore, our draft decision on the forecast capital base also reflects our amendments to the rate of return for the 2026–31 period (Overview, section 3.2).

⁹ AGN, *Access Arrangement for AGN’s South Australian Gas Distribution Network*, July 2025, p. 18.

as at 30 June 2026. AGN's proposal sets out the details of its capital base roll forward over the 2021–26 period.¹⁰

AGN proposed a forecast closing capital base as at 30 June 2031 of \$2,497.0 million (\$ nominal). This value reflects its proposed opening capital base, forecast capex, expected inflation, and depreciation (based on forecast capex) over the 2026–31 period. AGN's proposal sets out the details of its capital base roll forward over the 2026–31 period.¹¹

AGN proposed to use forecast depreciation to determine the opening capital base as at the commencement of the 2031–36 access arrangement period (2031–36 period), consistent with the approach applied in the 2021–26 period.¹²

1.1.3 Assessment approach

In appendix A.1, we set out our assessment approach for the capital base.

1.1.4 Reasons for draft decision

We determine an opening capital base value of \$2,065.5 million (\$ nominal) as at 1 July 2026 for AGN, an increase of \$11.9 million (0.6%) from the proposed value. We forecast a closing capital base value of \$2468.1 million by 30 June 2031. This represents a reduction of \$28.8 million (1.2%.) compared with AGN's proposal. The reasons for our decision are discussed below.

1.1.4.1 Opening capital base as at 1 July 2026

We determine an opening capital base value of \$2,065.5 million (\$ nominal) as at 1 July 2026 for AGN. This value is \$11.9 million (0.6%) higher than AGN's proposed opening capital base value of \$2,053.6 million (\$ nominal) as at 1 July 2026. This increase is due to our update to the estimated CPI input for 2025–26 in the RFM, which reflects more up-to-date economic conditions. Our updated CPI estimate is higher than the value adopted in AGN's proposed RFM.

Figure 1.1 shows the key drivers of the change in the value of AGN's capital base over the 2021–26 period for this draft decision. Overall, the closing capital base at the end of the 2021–26 period in our draft decision is estimated to be 21.4% higher than the opening capital base at the start of that period, in nominal terms. The net capex increases the capital base by 30.7%, while inflation indexation increases it by 22.5%. Depreciation,¹³ on the other hand, reduces the capital base by 30.9%. End of period adjustments reduce the capital base by 1.0%.

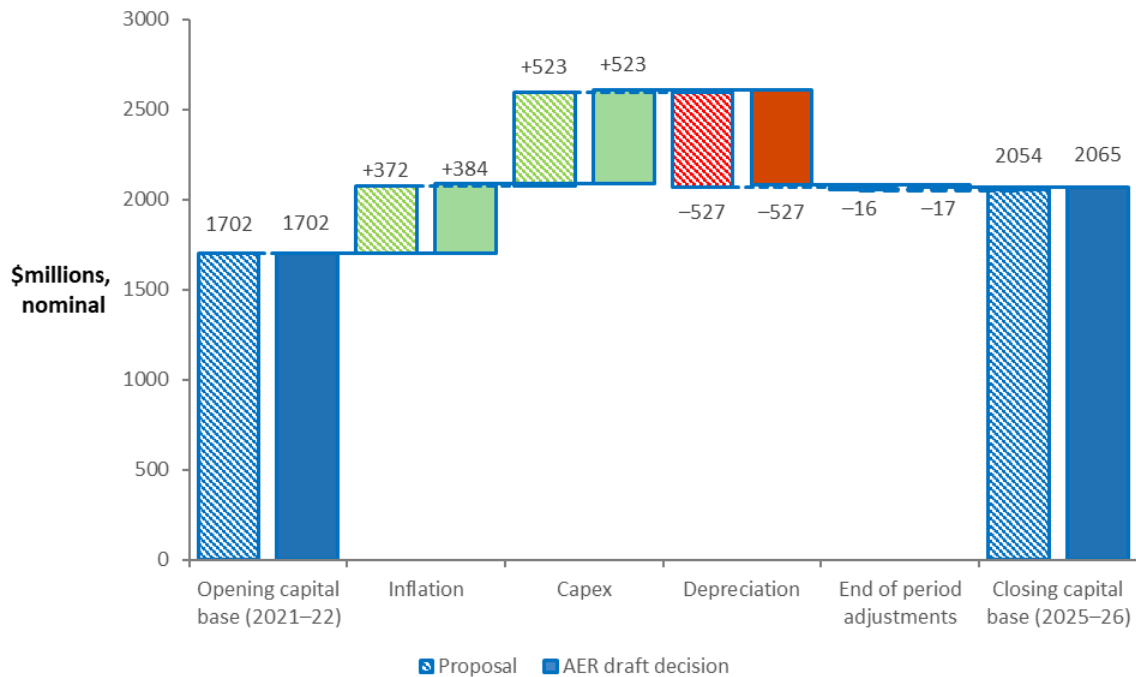
¹⁰ AGN, *AGNSA 2026–31 Access arrangement proposal*, pp. 113–116; AGN, *AGNSA_Attachment 1.6_Roll Forward Model_20250701_PUBLIC*, July 2025.

¹¹ AGN, *AGNSA 2026–31 Access arrangement proposal*, pp. 113–116, July 2025; AGN, *AGNSA_Attachment 1.5_Post Tax Revenue Model_20250701_PUBLIC*, July 2025.

¹² AGN, *Access Arrangement for AGN's South Australian Gas Distribution Network*, July 2025, p. 18.

¹³ This refers to straight-line depreciation. Regulatory depreciation is straight-line depreciation less the inflation indexation of the capital base.

Figure 1.1 Key drivers of changes in the capital base over the 2021–26 period—AGN's proposal compared with AER's draft decision (\$ million, nominal)



Source: AER analysis.

Note: Capex is net of disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the RFM.

In the following sections we discuss our assessment of AGN's proposed inputs in the RFM and the conforming capex in the 2021–26 period for capital base roll forward purposes.

Key inputs in the RFM

AGN's proposal established the opening capital base as at 1 July 2026 using our RFM. We reviewed the key inputs of AGN's proposed RFM such as actual inflation, the rate of return, gross capex values, asset disposal values, capital contribution values, forecast depreciation amounts and asset lives. We found these inputs were correct and reconciled with relevant data sources such as ABS data, annual reporting Regulatory Information Notices (RINs) and the 2021–26 decision models.¹⁴

However, we updated AGN's 2025–26 CPI estimate of 2.40% which was based on the RBA's forecast published in February 2025 with a more up-to-date estimate of 3.00%, reflecting the RBA's forecast published in August 2025.¹⁵ In addition, we have amended the inputs associated with the proposed additional depreciation in the RFM to reflect our draft decision on this aspect of AGN's proposal.¹⁶ However, while these input changes affect the

¹⁴ At the time of this draft decision, the roll forward of AGN's capital base includes estimated capex values for 2024–25 and 2025–26. We expect to update the 2024–25 estimated capex with actuals in the final decision. We may also update the 2025–26 estimated capex with a revised estimate in the final decision.

¹⁵ RBA, *Statement on Monetary Policy, Table 3.1: Detailed Forecast Table*, August 2025, p. 58.

¹⁶ Our draft decision on accelerated depreciation is discussed in section 1.2.

calculation of the forecast depreciation schedule for the 2026–31 period, they do not affect the total opening capital base value as at 1 July 2026.

Conforming capital expenditure in the 2021–26 period

Our assessment of conforming capex is set out in Attachment 2. In determining AGN's opening capital base as at 1 July 2026, we assessed whether its proposed capex amounts for 2020–21 and the 2021–26 period are properly accounted for in the capital base roll forward.

We accept AGN's actual capex for 2020–21 as conforming capex, for the reasons set out in Attachment 2. The 2020–21 capex was an estimated value at the time we made our 2021–26 final decision. We have assessed whether this is conforming capex as part of this access arrangement review. We also accept AGN's actual capex for 2021–22 to 2023–24 as conforming capex.¹⁷ Therefore, we accept that actual conforming capex for these years has been properly accounted for in the proposed capital base roll forward consistent with the requirements of the National Gas Rules (NGR).¹⁸

However, we note that the proposed capex for 2024–25 and 2025–26 are estimates. We expect AGN will update the capex for 2024–25 with actuals and may revise the capex estimate for 2025–26 in its revised proposal. We will assess whether the actual capex for 2024–25 is conforming capex in our final decision. We will assess whether AGN's actual capex for 2025–26 is conforming capex under the NGR and adjust for any differences between actual and estimated capex, in the subsequent (2031–36) access arrangement review.¹⁹

1.1.4.2 Forecast closing capital base as at 30 June 2031

We forecast a closing capital base value of \$2468.1 million (\$ nominal) by 30 June 2031 for AGN, which represents a reduction of \$28.8 million (1.2%) compared to AGN's proposed amount of \$2,497.0 million. The reduction reflects our draft decision on the inputs for determining the forecast capital base in the PTRM.

The change in the size of the capital base over the 2026–31 period depends on our assessment of its various components including forecast depreciation (section 1.2), expected inflation (Overview, section 3.2) and forecast capex (Attachment 2). Inflation and capex increase the capital base, while depreciation and asset disposals reduce it.

To determine the projected capital base value for AGN, we amended the following PTRM inputs:

- We increased AGN's proposed opening capital base value as at 1 July 2026 by \$11.9 million (\$ nominal) or 0.6% (section 1.1.4.1).
- We updated AGN's proposed expected inflation rate of 2.65% per annum to 2.55% per annum over the 2026–31 period (Overview, section 3.2). Compared to the proposal, our

¹⁷ AER, Draft decision - AGN (SA) access arrangement 2026–31 - Attachment 2 - Capital expenditure, November 2025, p. 1.

¹⁸ NGR, rr. 77(2)(b) and 79.

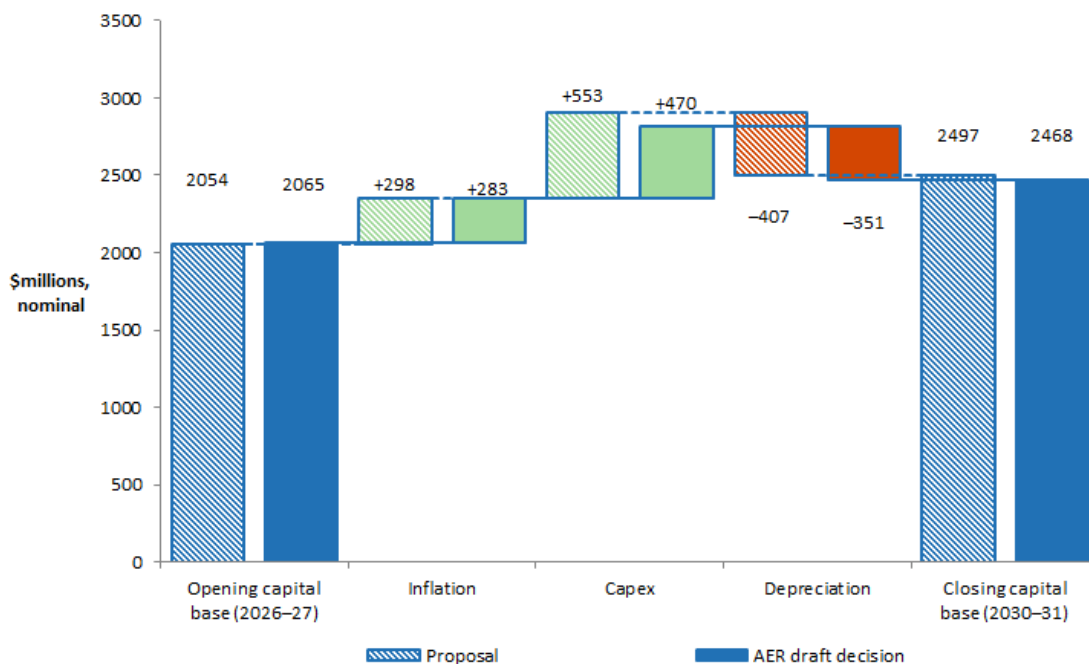
¹⁹ NGR, rr. 77(2)(b), 79.

draft decision results in a decrease to the indexation of the capital base component for the 2026–31 period by \$14.5 million (\$ nominal) or 4.9%.²⁰

- We reduced AGN’s proposed forecast straight-line depreciation for the 2026–31 period by \$56.8 million (\$ nominal) or 14.0% (section 1.2.1). This is primarily driven by our draft decision to not accept AGN’s proposed additional depreciation of \$30 million (\$2025–26).
- We reduced AGN’s proposed forecast capex for the 2026–31 period by \$83.1 million (\$ nominal) or 15.0%.²¹ Forecast net capex is a significant driver of the increase in the capital base. Our review of AGN’s forecast capex is set out in Attachment 2 of this draft decision.

Figure 1.2 shows the key drivers of the change in AGN’s capital base over the 2026–31 period for this draft decision. Overall, the closing capital base value at the end of the 2026–31 period in our draft decision is forecast to be 19.5% higher than the opening capital base at the start of that period, in nominal terms. The approved forecast net capex increases the capital base by 22.7%, and expected inflation increases it by 13.7%. Forecast depreciation, on the other hand, reduces the capital base by 17.0%.

Figure 1.2 Key drivers of changes in the capital base over the 2026–31 period – AGN’s proposal compared with AER’s draft decision (\$ million, nominal)



Source: AER analysis.

Note: Capex is net of forecast asset disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

²⁰ The decrease in the indexation of the capital base is largely due to the lower expected inflation rate used in our draft decision which more than offsets the higher opening capital base in our draft decision.

²¹ Capex is net of forecast disposals and customer contributions, and inclusive of half-year WACC adjustment.

1.1.4.3 Depreciation approach for establishing the opening capital base at the next access arrangement review

We determine that the depreciation approach to be applied to establish AGN's opening capital base at the commencement of the 2031–36 period will be based on the depreciation schedules (straight-line) using forecast capex at the asset class level approved for the 2026–31 period.

We accept AGN's proposal to establish the opening capital base as at 1 July 2031 using the approved depreciation schedules based on forecast capex over the 2026–31 period.²² This is consistent with the requirement in AGN's current access arrangement which requires that depreciation be based on forecast capex.²³ We approved such an approach in our other recent gas access arrangement decisions.²⁴ This approach is also consistent with the approach outlined in our *Access Arrangement Guideline*.²⁵ The amount of the forecast depreciation is to be approved by us in the final decision for the 2026–31 period.

²² AGN, *Access Arrangement for AGN's South Australian Gas Distribution Network*, July 2025, p. 18.

²³ AER, *Draft decision: Australian Gas Networks South Australia access arrangement 2016–21, Attachment 2 – Capital base*, May 2016, p.14.

²⁴ For example, AER, *Final decision: Jemena Gas Networks (NSW) - Access arrangement 2025–30*, 14 May 2025; AER, *Final decision: AusNet Services - Access arrangement 2023–28*, 2 June 2023; AER, *Final decision: Australian Gas Networks (Victoria and Albury) 2023–28 – Attachment 2 Capital base*, June 2023, p. 8; AER, *Final decision: Multinet Gas - Access arrangement 2023–28 – Attachment 2 Capital base*, June 2023, p. 9.

²⁵ AER, *Final access arrangement guideline*, March 2009, pp. 61–62.

1.2 Regulatory depreciation

Regulatory depreciation is the amount provided so capital investors recover their investment over the economic life of the asset (return of capital). When determining the total revenue for AGN, we include an amount for the depreciation of the projected capital base.²⁶ Under the building block framework, regulatory depreciation consists of the net total of the straight-line depreciation less the indexation of the capital base.

This section sets out our draft decision on AGN's regulatory depreciation amount. It also presents our draft decision on the proposed depreciation schedules, including an assessment of the standard asset lives used for calculating straight-line depreciation, the year-by-year tracking approach and accelerated depreciation.

1.2.1 Draft decision

We determine a regulatory depreciation amount of \$67.2 million (\$ nominal) for AGN for the 2026–31 period. AGN proposed a regulatory depreciation amount of \$109.5 million (\$ nominal).²⁷ Our draft decision represents a reduction of \$42.3 million (38.7%) from the proposed amount.

This reduction is primarily due to our draft decision to not accept AGN's proposed accelerated depreciation of \$30 million (\$2025–26) for the 2026–31 period regarding the uncertainty for the future competitiveness of its network (section 1.2.4.1). It also reflects our draft decision reductions to forecast capex (Attachment 2).

We made amendments to other components of AGN's proposal which also affect the forecast regulatory depreciation. These amendments include a higher opening capital base at 1 July 2026 (section 1.1) and a lower expected inflation (Overview, section 3.2) including its effect on the projected capital base over the 2026–31 period.²⁸

In coming to this decision on AGN's regulatory depreciation:

- We accept AGN's proposed straight-line depreciation method used to calculate the regulatory depreciation amount.
- We accept AGN's proposal to continue using the 'year-by-year tracking' approach for implementing straight-line depreciation of its existing assets (section 1.2.4.1).
- We accept AGN's proposed existing asset classes and standard asset lives (section 1.2.4.3), except for its proposed 'Future of Gas Depreciation' asset class used for its accelerated depreciation proposal.

Table 1.3 sets out our draft decision on AGN's regulatory depreciation amount over the 2026–31 period.

²⁶ NGR, r. 76(b).

²⁷ AGN, *Att 08-05M PTRM*, 1 July 2025.

²⁸ We adopted a lower expected inflation rate in our draft decision compared to AGN's proposal, which has reduced the inflation indexation of the capital base that is offset against straight-line depreciation in determining regulatory depreciation. Our draft decision on the capital base (section 1.2) also reflects our updates to the WACC for the 2026–31 period.

Table 1.3 AER’s draft decision on AGN’s regulatory depreciation over the 2026–31 period (\$ million, nominal)

| | 2026–27 | 2027–28 | 2028–29 | 2029–30 | 2030–31 | Total |
|--|-------------|------------|-------------|-------------|-------------|-------------|
| Straight-line depreciation | 69.4 | 64.2 | 68.0 | 72.4 | 76.6 | 350.6 |
| Less: inflation indexation on opening capital base | 52.7 | 54.5 | 56.7 | 58.7 | 60.9 | 283.5 |
| Regulatory depreciation | 16.7 | 9.7 | 11.3 | 13.7 | 15.7 | 67.2 |

Source: AER analysis.

1.2.2 Overview of proposal

AGN proposed a total forecast regulatory depreciation amount of \$109.5 million (\$ nominal) for the 2026–31 period. To calculate the depreciation amount, AGN proposed to use:²⁹

- the straight-line depreciation method employed in the AER's PTRM
- the closing capital base value at 30 June 2026 derived from the AER's RFM
- its proposed forecast capex for the 2026–31 period
- an expected inflation rate of 2.66% per annum for the 2026–31 period
- the AER’s year-by-year tracking depreciation module in the RFM, which implements the straight-line method to calculate the forecast depreciation (over the 2026–31 period) of the opening capital base at 1 July 2026
- the same standard asset lives for its existing asset classes for depreciating forecast capex for the 2026–31 period, which are consistent with those approved in the 2021–26 access arrangement
- a new ‘Future of gas depreciation’ asset class with an asset life of 5 years for the purposes of its proposed \$30 million additional depreciation for the 2026–31 period.

AGN’s proposed additional depreciation

AGN proposed an additional depreciation amount of \$30 million (\$2025–26) to be recovered in the 2026–31 period above what the business-as-usual depreciation schedules would reflect.³⁰ This amount is reallocated from its existing capital base of the ‘Inlets’ asset class to a new ‘Future of gas depreciation’ asset class to be depreciated over the 2026–31 period.

AGN submitted that without any additional depreciation now the prices required to recover its asset base will be too high in the future to remain competitive against electricity. It noted that there is significant uncertainty about the role of gas pipelines and the value of its network in the future. It submitted that its long-term future of gas modelling supports a minimum of \$70 million in additional depreciation to be recovered in the 2026–31 period to meet its future risk

²⁹ AGN, *0.04 Post-Tax Revenue Model*, January 2025; AGN, *0.05 Roll Forward Model*, January 2025.

³⁰ Part of the \$30 million ‘additional depreciation’ proposal would be depreciated under the existing ‘Inlets’ asset class in any event, therefore the actual net increase to straight-line depreciation from the proposal is slightly less than \$30 million.

appetite. However, it only proposed \$30 million to align with the AER's previous flat real price path approach to determine the amount of accelerated depreciation for other gas networks.

1.2.3 Assessment approach

In appendix A.2, we set out our assessment approach for regulatory depreciation. Our assessment approach for accelerated depreciation is discussed below.

Accelerated depreciation – stranded asset risk

AGN has framed its proposed \$30 million additional depreciation as preparing itself for a more competitive future, rather than a response to asset stranding risk due to demand uncertainty. However, we consider that the circumstances underlying its proposal still aligns with the definition of economic stranding in our *Information paper on Regulating gas pipelines under uncertainty*.³¹ In addition, the modelling that underpins AGN's proposed 'additional' depreciation applies a 'tilt' function to adjust the straight-line depreciation schedule, resulting in a more front loaded (tilted) profile. We consider that a front-loaded (tilted) depreciation profile represents a form of accelerated depreciation, as it accelerates the recovery of the asset value relative to the even recovery profile under straight-line depreciation. Accordingly, we have assessed AGN's proposal as a form of accelerated depreciation in the context of asset stranding risk arising from future demand uncertainty.

Our *Information paper on Regulating gas pipelines under uncertainty* explored various options to manage demand uncertainty. It concluded that accelerated depreciation remains the most accessible regulatory tool we currently have for reducing asset stranding risk arising from demand uncertainty in the gas sector. This is because adjusting depreciation offers the greatest flexibility in responding to new information in the future if the natural gas substitution pathways or actual demand turn out to be different than expected. Unlike other options explored, it does not lock in a price change permanently which avoids windfall gains or losses to either the regulated businesses or consumers.³²

While accelerated depreciation can be used to reduce stranded asset risk to some degree, it must be carefully considered. The level of accelerated depreciation should reflect the specific circumstances of the regulated business, and more importantly, the scale of price adjustments should be reasonably made without creating price shocks. Our assessment approach for this aspect of AGN's proposal (section 1.2.4.1) has regard to our *Information paper on Regulating gas pipelines under uncertainty*, which includes considerations of AGN's stranded asset risk and stakeholder submissions.³³

1.2.4 Reasons for draft decision

In this draft decision, we have reduced AGN's proposed forecast regulatory depreciation by \$42.3 million (38.7%) to \$67.2 million (\$nominal) for the 2026–31 period. This reduction is mainly due to our draft decision to not accept AGN's proposed \$30 million accelerated

³¹ In the information paper, we noted that economic stranding of assets is distinct from physical stranding and is caused by a change in relative costs or prices. It refers to unused or under-utilised assets to such a degree that the owner cannot recover a full return of and on capital; AER, *Regulating gas pipelines under uncertainty – Information paper*, November 2021, pp. 25–26.

³² AER, *Regulating gas pipelines under uncertainty – Information paper*, November 2021, p. 44.

³³ AER, *Regulating gas pipelines under uncertainty – Information paper*, November 2021.

depreciation (section 1.2.4.1). Our draft decision on a lower forecast capex (Attachment 2) has also contributed to the reduction in the regulatory depreciation amount. This reduction is partly offset by our draft decision on a higher opening capital base as at 1 July 2026 (section 1.1) and a lower expected inflation rate (Overview, section 3.2).

We accept AGN's proposed straight-line depreciation method for calculating the regulatory depreciation amount as set out in the PTRM and the year-by-year tracking approach to implement this method, subject to updating some inputs in the depreciation module. We also accept AGN's proposed standard asset lives for its existing asset classes as they are consistent with those approved for the 2026–31 period.

In the following sections, we discuss our assessment of AGN's proposed accelerated depreciation, the year-by-year tracking depreciation approach and standard asset lives.

1.2.4.1 Accelerated depreciation – stranded asset risk

Our draft decision is to not accept AGN's proposed \$30 million (\$2025–26) accelerated depreciation for the 2026–31 period. We do not consider there to be sufficient evidence at this time to suggest that AGN's network faces significant asset stranding risk that needs to be addressed through accelerated depreciation to provide AGN reasonable opportunity to recover its efficient costs.³⁴ Both the policy environment in South Australia and AGN's overall proposal suggest that AGN's gas network is expected to play a continued role in the transition to net zero.

Given the unique circumstances of individual networks, our previous decisions for other gas distributors have considered a measured start to accelerated depreciation, balanced with forecast capex programs that did not contain significant growth capex. While accelerated depreciation can be used as a tool in reducing stranded asset risk, minimising capex is also an important step for the network business to manage its asset stranding risk. Our capex decision for AGN is to accept its proposed mains augmentation projects as it will provide flexibility to accommodate future growth in subsequent periods if required. We also accept the proposed renewables readiness related capex, given AGN's existing blended renewable gas program and the continued support from the South Australia Government. Accordingly, our draft decision on accelerated depreciation is consistent with our decision to accept AGN's growth and renewable readiness capex, reflecting the current outlook and policy settings.

The reasons for our decision on accelerated depreciation are discussed below.

Policy context in South Australia and the impact on the utilisation of the gas network

The policy context surrounding gas utilisation in South Australia differs from that in Victoria, the ACT and NSW where we have approved a measured start of accelerated depreciation for

³⁴ NGL, s. 24.

the gas networks, in response to uncertainty about the future of gas demand in those jurisdictions.³⁵

Similar to other jurisdictions, South Australia has a legislated net zero emissions target date of 2050 and an interim emissions reduction target of 50% by 2030. However, unlike other jurisdictions, South Australia’s policy settings have not signalled a direction toward electrification and phasing out of the gas network. As shown in Table 1.4, both the ACT and Victoria have already banned new gas connections, with electrification as their primary pathway to achieve their net zero targets. NSW has similar emissions reduction targets as South Australia, however it has stronger policy signals in favour of electrification. In contrast, South Australian Government actively supports the future of renewable gas use through policies such as the Hydrogen and Renewable Energy Act 2023 and ensures that customer choice for gas is maintained during the transition to net zero.

Transportation of renewable gas and hydrogen is a key aspect of South Australia’s energy transition, which requires the continued use of and need for the gas network in South Australia. Under its current policy settings and energy generation, South Australia has already met 100% of its operational demand from renewable resources on 180 days (49%) of the year in 2021 and is aiming to achieve 100% net renewable energy generation by 2027.³⁶ This indicates that South Australia can maintain the operation of its gas distribution network while still meeting its net renewables and zero emissions targets.

Table 1.4 Jurisdictional policies on net zero carbon emissions

| Jurisdiction | ACT | VIC | NSW | SA |
|--|--|--|---|--|
| Legislated net zero emissions target date | Yes - 2045 | Yes - 2045 | Yes - 2050 | Yes - 2050 |
| Legislated statewide ban on new gas connections | Yes (except for limited industrial zones) ^a | Yes (except for industrial connections) ^b | No (some local bans) ^c | No |
| Indicative timeline for decommissioning the gas network | Yes (from 2035 to 2045) | No | No | No |
| Potential renewable gasses for residential and commercial customers | No (potential use for limited industrial customers only) | No (potential use for limited industrial customers only) | Yes (green gas is being developed and trialled, but not yet widely available for residential use) | Yes (blended renewable gasses already delivered in some residential areas) |

Source: Evoenergy, *Overview of our five-year gas plan*, June 2025, p. 16; AEMC, *Emissions targets statement under the National Energy Laws v5*, June 2025; ACT Government, *The Integrated Energy Plan 2024–30: Our pathway to electrification*, June 2024; Victorian State Government, *Gas Substitution Roadmap: Update 2024*, December 2024. Government of South Australia, [Landmark hydrogen and renewable energy Bill passes state parliament](#), November 2023.

³⁵ See for example: AER, *Final decision - AGN 2023–28 - Attachment 4 Regulatory depreciation*, June 2023, pp. 7–11; AER, *Final decision - Evoenergy access arrangement 2021-26 - Attachment 4 - Regulatory depreciation*, April 2021, pp. 5–10; AER, *Final decision - JGN access arrangement 2025–30 - Attachment 4 - Regulatory depreciation*, May 2025, pp 11–15.

³⁶ SA Department for Energy and Mining, [Leading the green economy](#), accessed on 24 September 2025.

- (a) The ACT Government has banned new gas network connections in certain circumstances since 8 December 2023; ACT Government: [Canberra's Electrification pathway](#), accessed November 2025; ACT Government, *Gas users factsheet: The Integrated Energy Plan*, June 2024, p. 2.
- (b) The Victorian government introduced a ban on natural gas connections in new homes that require a planning permit, effective 1 January 2024. This ban specifically targets new residential developments like dwellings, apartments, and subdivisions, but it does not affect existing homes or any new homes that do not require a planning permit; Victorian Government: [Gas substitution roadmap](#), September 2023.
- (c) Waverly Council, City of Sydney, Parramatta, Canterbury-Bankstown have all proposed or implemented bans on new gas connections. See JGN, JGN 2025 Plan, June 2024, p. 51.

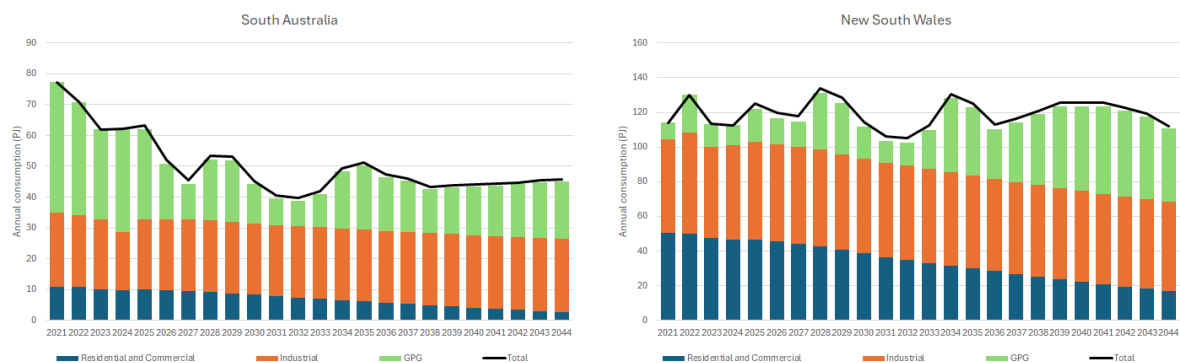
Forecast gas demand in South Australia

There is currently no strong evidence that demand for the usage of AGN's gas network in South Australia will materially decline in either the short or long term. Forecasts indicate that gas demand in South Australia is expected to decline gradually over time. However, the rate of decline is expected to be slower than that projected for other jurisdictions.

As discussed in the attachment 4, AGN's proposed forecast demand for the 2026–31 period is showing a moderate decline of 2.4% per annum.³⁷ Although the average throughput per customer is projected to fall over the 2026–31 period, the total number of residential customers are forecast to rise moderately by 1.2% over the 2026–31 period, suggesting the network will continue to grow.

Figure 1.3 compares AEMO's long-term gas demand forecasts for South Australia with that of NSW. It shows a gradual declining trend in residential, commercial and industrial annual consumption in South Australia, with an average of 1.2% annual decline over 2026–2044. While this trend is also projected for NSW, the rate of decline in NSW is faster at an average of 2.2% per annum. Like NSW, a large proportion of the gas consumption in South Australia is from gas-powered generators (GPGs). As a result, the overall forecast gas consumption is relatively stable over 2026–2044 due to the increased consumption from GPGs which offsets the declines from other sectors.

Figure 1.3 2025 GSOO demand forecast – SA and NSW



Source: AEMO, *GSOO 2025: Step change scenario*, [Gas forecasting data portal](#), accessed on 30 September 2025.

³⁷ AER, *Draft decision - AGN (SA) access arrangement 2026–31 - Attachment 4 – Demand*, November 2025, p. 5.

AGN's long-term future of gas modelling

AGN has conducted detailed long-term modelling to support its proposed additional depreciation. Its modelling calculates the amount of additional depreciation it considers is required for its network to be competitive against electricity by 2050, as well as the likelihood of stranding risk before 2050. It tests these under various policy and price scenarios and levels of additional depreciation for the 2026–31 period.

We have reviewed the model outputs and engaged with AGN to test alternative scenarios and sensitivities of each scenario. Overall, we consider that the future of gas modelling submitted by AGN was a useful tool for assessing the relative long-term impacts of accelerated depreciation on its capital base, price, and demand under a range of scenarios. Its long-term modelling is consistent with the expectation we outlined in our *Information paper on Regulating gas pipelines under uncertainty* – that the gas network's proposal on accelerated depreciation should be supported by robust modelling to demonstrate the risk of asset stranding.³⁸

While AGN's modelling shows some level of stranding risk at 2050, we do not consider that its modelling provides sufficient evidence to suggest that AGN's network faces a significant stranding risk in the long term that needs to be addressed through accelerated depreciation in the 2026–31 period to ensure they have reasonable opportunity to recover efficient costs. Instead, its modelling suggests that minimising capex is more effective in reducing stranding risk than accelerated depreciation. Our analysis of AGN's future of gas modelling suggests that, in most scenarios, a reduction of the forecast capex by 25–30% would allow AGN to achieve its target of \$1 billion capital base value at 2050 for remaining competitive against electricity. Our analysis also shows that our draft decision reduction to AGN's forecast capex for the 2026–31 period would similarly result in a capital base value that is close to the targeted \$1 billion by 2050.

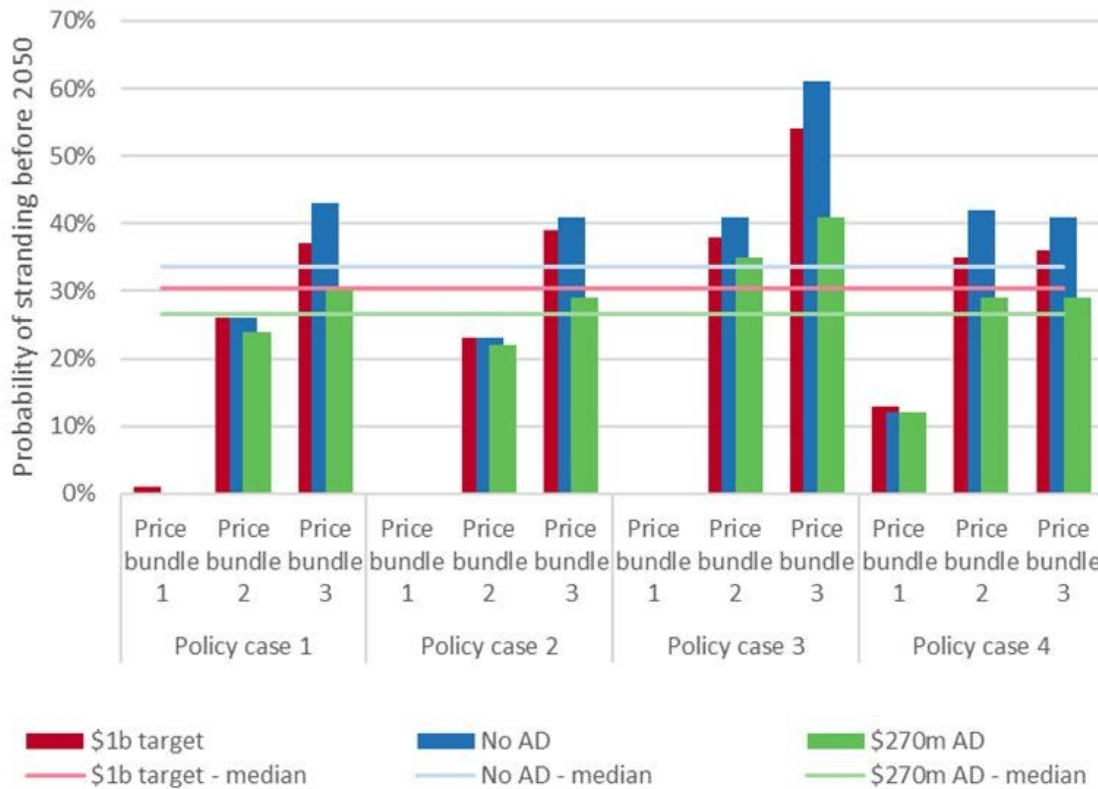
AGN's modelling shows that the level of accelerated depreciation applied over the short term has limited impact on the probability of stranding. As shown in Figure 1.4, without any accelerated depreciation in the 2026–31 period, AGN's modelling suggests there is around 34% likelihood of a stranding occurring before 2050.³⁹ Even if \$270 million accelerated depreciation (which accounts for about 13% of its opening capital base) is applied in the 2026–31 period, the likelihood of stranding by 2050 across the scenarios tested will only be moderately reduced to 27%.

In addition, AGN's future of gas model shows that the probability of stranding is highly sensitive to input assumptions around future expenditure levels, suggesting that minimising capex is a more effective way in reducing stranding risk than accelerated depreciation. We note that other variables such as government policies and electricity prices also have more impact on the probability of stranding than the level of accelerated depreciation.

³⁸ AER, *Regulating gas pipelines under uncertainty information paper*, November 2021, p. 44.

³⁹ This reflects the median likelihood of not reaching 2050 across the simulations presented in AGN's Final Plan.

Figure 1.4 AGN proposed probability of stranding before 2050 under various scenarios modelled



Source: AER analysis; AGN SA, *Final Plan – Attachment 6.1 Future of Gas and Depreciation*, July 2025, p. 24.
Note: The \$1b target scenarios reflect different levels of AD on the 2026–31 period depending on the scenario, ranging from \$67 million (Case 2, Bundle 3) to \$879 million (Case 1, Bundle 1).

AGN submitted that its network may not be competitive against electricity unless the capital base is reduced to a level that supports more competitive gas prices in the future. For the purposes of its long-term modelling, it has adopted a network value of \$1 billion to achieve competitive pricing at 2050. We consider that there is significant uncertainty regarding what competitive gas prices may be in 25 years’ time, what a reasonable capital base level would be required to achieve this, as well as different expenditure approaches that may achieve this capital base level without requiring accelerated depreciation. The competitiveness of retail gas prices in the future is also heavily influenced by other factors such as wholesale gas prices and the costs and availability of alternative fuels. We note that AGN’s modelling outcomes are also highly sensitive to changes to these external variables.

Consistency of the overall proposal

AGN’s proposal reflects a business-as-usual state for its gas network over the 2026–31 period. AGN’s demand forecast is showing a moderate decline of 2.4% per annum over the 2026–31 period.⁴⁰ The total number of residential and commercial customers are forecast to rise moderately by 1.2% over the 2026–31 period. Its forecast capex for the 2026–31 period remains in line with historical levels and reflects an expanding network. AGN’s proposed

⁴⁰ AER, *Draft decision - AGN (SA) access arrangement 2026–31 - Attachment 4 – Demand*, November 2025, p. 5.

capital expenditure program adds around \$100 million to the asset base each year. It also includes capex related to renewable gas and hydrogen adaption. AGN submitted that its proposed additional depreciation and renewable gas capex must go together, as its network is unlikely to be competitive without continued expenditure to grow its network and provide renewable gas options.

We consider that AGN's proposal for accelerated depreciation is inconsistent with a forecast capex program that is aimed at growing its network and preparing for a renewable gas future. AGN's closing capital base at June 2031 is projected to be around 19% larger than at the start of the 2026–31 period. This increase is primarily driven by the addition of \$470 million forecast capex to the capital base over the 2026–31 period.⁴¹ Stakeholders also noted this inconsistency in AGN's overall proposal and submitted that AGN should either propose accelerated depreciation to manage stranding risk (and not pursuing a renewable future), or pursue a renewable future (in which case no accelerated depreciation).⁴²

In our previous decisions on accelerated depreciation, we have highlighted that a gas network business' expenditure proposal should be consistent with a proposal for accelerated depreciation for reducing stranding risk. Our past decision to allow measured start of accelerated depreciation for other gas networks have been coupled with a forecast capex program which did not contain any significant growth capex.

The capital base is an accumulation of the value of investments that a service provider has made in its network. This value is the amount customers 'owe' to the investors which is paid back over time through depreciation. Therefore, costs associated with network stranding affects both consumers and networks. The equation below shows how the capital base is calculated at a particular point in time:

$$\text{Capital base}_t = \text{Capital base}_{t-1} + \text{Actual inflation} + \text{Actual Capex} \\ - \text{Straight line depreciation}$$

We consider that minimising growth capex to be an important step for the gas network to reduce its asset stranding risk. As discussed above, AGN's long-term modelling also suggests that minimising capex is more effective in reducing stranding risk than accelerated depreciation. We consider that pairing accelerated depreciation with a capex program that is further extending the network will be ineffective at reducing the capital base overtime and stranding risk. The combination of both are necessary for effectively reducing stranded asset risk.

As discussed in attachment 2, our draft decision on forecast capex is to accept AGN's proposed mains augmentation projects which will provide flexibility for future growth in subsequent periods if required. With consideration of AGN's policy context in South Australia, we have approved its proposed \$8 million for renewable gas adaption (hydrogen

⁴¹ Draft decision capex is expected to increase the capital base by around 23% over the 2026–31 period. Indexation of the capital base expected to increase the capital base by around 14%, while depreciation is expected to reduce the capital base by around 17%.

⁴² Energy Consumers Australia, *Evoenergy and Australian Gas Networks access arrangements 2026- 2031 – Submission to the Australian Energy Regulator*, August 2025, pp. 5–9; SACOSS, *Submission to AGN's Final Plan for the 2026-31 Access Arrangement*, August 2025, pp. 4–5; SARG Review Panel, *Submission on AGN(SA) - 2026-31 Access Arrangement Proposal*, August 2025, pp. 7–21.

and biomethane).⁴³ Therefore, our draft decision to not allow accelerated depreciation is consistent our capex decision on growth and renewable readiness capex.

AGN's consumer engagement and stakeholder submissions

While AGN has engaged its stakeholders on its proposed additional depreciation, the extent and level of collaboration is less strong compared to what we have observed in other gas networks' accelerated depreciation proposals.

In the lead up to the final plan, stakeholders noted that AGN's draft plan lacked a clear, strategic and detailed pathway to 2050 and required a 'missing chapter' to outline assumptions, risks, timelines, and implications of its proposal.⁴⁴ In response, AGN's proposal included supporting appendices which cover the demand side issues, depreciation options, and outline supply-side strategies to support the delivery of renewable gas.⁴⁵ The South Australia Reference Group Review Panel (SARG) and CCP noted in their presentations at the public forum that AGN's consumer engagement on the future of gas and depreciation issue was generally at a high level and focussed on informing consumers rather than collaborating.⁴⁶

We received 4 submissions on AGN's proposed additional depreciation. Stakeholders' views on the topic were generally mixed.

The ECA submission did not support AGN's accelerated depreciation proposal. It submitted that accelerated depreciation unfairly transfers risk from businesses to consumers. It did not agree that accelerated depreciation is justified to maintain intergenerational equity, arguing it is rather a payment from today's consumers to network businesses to reduce the business's exposure to risks and potential financial losses in the future. While it appreciated the difficulty for AGN in planning its network under significant policy and regulatory uncertainty regarding the future of gas, it did not support these costs being recovered from consumers through accelerated depreciation. The ECA acknowledged that the proposed \$30 million is relatively modest compared to other recent proposals but did not think AGN should 'have it both ways' regarding its renewable future as well as accelerated depreciation. It considered that AGN's plan should either acknowledge and plan for asset stranding risks or take the position that its assets are not at risk of stranding and therefore not propose any accelerated depreciation.⁴⁷

The SACOSS submission also did not support the accelerated depreciation proposal as it imposes additional costs on households while AGN proposes to continue to expand its network.⁴⁸

⁴³ AER, *Final decision – AGN SA access arrangement 2026–31 - Attachment 2 – Capital expenditure*, November 2025, p. 12.

⁴⁴ AGN SA, *Final Plan*, July 2025, p. 65.

⁴⁵ AGN SA, *Final Plan – Attachment 6.1 Future of Gas and Depreciation*, July 2025.

⁴⁶ AER, *Public Forum - Australian Gas Networks (SA) - Access arrangement 2026-31 - Combined presentation slides*, 16 September 2025, Slide 12 and 26.

⁴⁷ Energy Consumers Australia, *Evoenergy and Australian Gas Networks access arrangements 2026- 2031 – Submission to the Australian Energy Regulator*, August 2025, pp. 5–9.

⁴⁸ SACOSS, *Submission to AGN's Final Plan for the 2026-31 Access Arrangement*, August 2025, pp. 4–5.

The SARG’s submission supported greater accelerated depreciation than proposed because it considers renewable gas future and ongoing gas network is highly unlikely. It noted that AGN had provided considerable information for the ‘missing chapter’ in its Final Plan. However, while it understood the logic flow of AGN’s argument, they did not agree with it based on the current evidence of the future of gas. It did not support AGN’s ‘no real increase price path’ approach for accelerated depreciation. Instead, it submitted that a renewable reticulated gas future is very unlikely and that a level of accelerated depreciation above \$30 million is likely to be justified on intergenerational equity grounds.⁴⁹

The South Australian Energy and Water Ombudsman (EWOSA) submission did not specify support or rejection of the proposal but requested that the AER carefully consider the impact on customers for both current and future gas prices.⁵⁰

1.2.4.2 Year-by-year tracking approach

AGN proposed to continue using the year-by-year tracking approach for calculating the straight-line depreciation of its existing assets, consistent with that approved for its previous access arrangement periods.⁵¹

For our draft decision, we accept AGN’s proposed year-by-year tracking approach meets the requirements of rule 89 of the NGR that it will result in depreciation schedules that allow:

- the reference tariffs to vary over time in a manner that would promote efficient growth in the market for reference services⁵²
- an asset to be depreciated only once⁵³ and over its economic life⁵⁴
- for a service provider’s reasonable needs for cash flow.⁵⁵

AGN used our depreciation module in the RFM to implement year-by-year tracking. We have reviewed AGN’s application of this module and updated the following inputs to be consistent with the RFM as we discussed in section 1.1:

- We updated the estimated CPI for 2025–26 based on the latest forecast inflation published in the Reserve Bank of Australia’s August 2025 Statement on Monetary Policy, which became available after AGN submitted its proposal.
- We removed the inputs in the ‘Inlets’ and ‘Future of gas depreciation’ asset classes in the final year asset adjustments section of the depreciation tracking module to reflect our draft decision on accelerated depreciation as discussed in section 1.2.4.1.

⁴⁹ SARG Review Panel, *Submission on AGN(SA) - 2026-31 Access Arrangement Proposal*, August 2025, pp. 7–21.

⁵⁰ Energy & Water Ombudsman SA, *Submission on AGN(SA) - 2026-31 Access Arrangement Proposal*, August 2025, pp. 1–2.

⁵¹ AER, *Final decision: AGN distribution determination 2016 to 2020, Attachment 5 – Regulatory depreciation*, May 2016, p. 8; AER, *Final decision: AGN Distribution Determination 2021 to 2026, Attachment 4 – Regulatory depreciation*, April 2021, pp. 5–6.

⁵² NGR, r. 89(1)(a).

⁵³ NGR, r. 89(1)(d).

⁵⁴ NGR, r. 89(1)(b).

⁵⁵ NGR, r. 89(1)(e).

1.2.4.3 Standard asset lives

In its proposal, AGN submitted that gas asset lives have been set very long since the outset of regulation under the NGR, making network lives effectively infinite.⁵⁶ However, AGN has not proposed any changes to its current standard asset lives.

As discussed above, we consider that there is currently insufficient evidence to suggest that AGN's network faces a level of stranding risk that would materially shorten the expected economic life of its assets. Therefore, we accept AGN's proposed standard asset lives for its existing asset classes in respect of the forecast capex to be incurred in the 2026–31 period which are consistent with those approved for the 2021–26 period.

However, we do not accept AGN's proposed remaining asset life as at 1 July 2026 of 5 years for its proposed new 'Future of Gas Depreciation' asset class, reflecting our decision to not accept AGN's proposed accelerated depreciation. The reasons for this decision are set out in 1.2.4.1.

Our draft decision PTRM sets out AGN's standard asset lives for each of its asset classes over the 2026–31 period.⁵⁷ We have assigned a standard asset life of "n/a" (not applicable) to several asset classes in the PTRM because they have zero forecast capex allocated to them.

We are satisfied that the asset lives approved in this draft decision will result in a depreciation schedule that reflects the depreciation criteria in the NGR.⁵⁸

⁵⁶ AGN SA, *Final Plan – Attachment 6.1 Future of Gas and Depreciation*, July 2025, p. 16.

⁵⁷ AER, *Draft decision PTRM for AGN*, September 2025, PTRM input sheet – cells O7–O56.

⁵⁸ NGR, r. 89.

1.3 Corporate income tax

Our determination of the total revenue for AGN includes the estimated cost of corporate income tax for the 2026–31 period.⁵⁹ Under the post-tax framework, a corporate income tax amount is calculated as part of the building blocks assessment using our PTRM. This amount allows AGN to recover the estimated cost of corporate income tax for the 2026–31 period.

This section presents our assessment of AGN's proposed corporate income tax amount for the 2026–31 period. It also presents our assessment of the proposed opening tax asset base (TAB) and the standard tax asset lives used to estimate tax depreciation for the purpose of calculating tax expenses.

1.3.1 Draft decision

We determine an estimated cost of corporate income tax amount of zero for AGN over the 2026–31 period, consistent with AGN's proposal. This is because we expect AGN to incur a forecast tax loss in each year of the 2026–31 period.⁶⁰ We have determined that \$278.5 million in tax losses as at 30 June 2031 will be carried forward to the 2031–36 period where it can be used to offset future tax liabilities. The forecast tax loss arises mainly because of the carry forward of AGN's accumulated tax losses at 30 June 2026.

For our draft decision on AGN's estimated cost of corporate income tax:

- We determine an opening TAB value as at 1 July 2026 of \$866.9 million (\$ nominal) for AGN. This represents a reduction of \$451.3 million (34.2%) compared to its proposal due to input amendments we made in the RFM and depreciation tracking module. We note that the opening TAB as at 1 July 2026 will be updated as part of the final decision to reflect actual capex for 2024–25 and any revised capex estimate for 2025–26. We do not accept AGN's proposed \$1.6 million additional depreciation for the TAB (section 1.3.4.1).
- We determine a forecast immediately expensed capex of \$111.0 million for the 2026–31 period. While we accept AGN's proposed approach for forecasting its immediately expensed capex, we corrected errors in the proposal updated the amount to account for the main replacement capex (section 1.3.4.2).
- We accept AGN's proposal to use the year-by-year depreciation tracking method as set out in our depreciation module in the RFM to calculate the forecast tax depreciation of its existing assets (section 1.3.4.4).
- We accept AGN's proposed standard tax asset lives for its existing asset classes for the 2026–31 period. The proposed standard tax asset lives are broadly consistent with the tax asset lives prescribed by the Commissioner of Taxation in Australian Taxation Office

⁵⁹ NGR, r. 76(c).

⁶⁰ A forecast tax loss occurs when the forecast taxable income is lower than the forecast tax expense. In this event no tax is payable. Any residual amount of tax loss will be carried forward over to access arrangement periods to offset future taxable income until the tax loss is fully exhausted.

(ATO) Taxation Ruling 2022/1 and/or are the same as the approved standard tax asset lives for the 2021–26 period (section 1.3.4.5).⁶¹

Our adjustments to the return on capital (section 1.1 and section 3.2 of Overview) and the regulatory depreciation (section 1.2) building blocks affect revenues, which in turn impact the calculation of the cost of corporate income tax for this draft decision.

1.3.2 Overview of proposal

AGN proposed an estimated cost of corporate income tax of zero for the 2026–31 period using our PTRM,⁶² and with the following inputs:⁶³

- an opening TAB value as at 1 July 2026 of \$1,318.2 million (\$ nominal)
- an expected statutory income tax rate of 30% per year
- a value of imputation credits (gamma) of 0.585
- forecast immediately expensed capex of \$34.8 million (\$2025–26)
- tax depreciation of the opening TAB as at 1 July 2026 for each asset class applying the year-by-year tracking approach calculated in the depreciation module of the RFM
- the same standard tax asset lives for tax depreciation of new capex for its existing asset classes in the 2026–31 period as approved for the 2021–26 period
- \$1.6 million in additional tax depreciation related to its future of gas modelling, applied to the 'Inlets' asset class.

AGN's proposal sets out the details of its cost of corporate income tax over the 2026–31 period.⁶⁴

1.3.3 Assessment approach

In appendix A.3, we set out our assessment approach for the estimated cost of corporate income tax.

1.3.4 Reasons for draft decision

We determine the estimated cost of corporate income tax amount is zero for AGN over the 2026–31 period, consistent with its proposal. AGN has a forecast tax loss of \$126.2 million at the beginning of the 2026–31 period and is forecast to increase to \$287.3 million by the end of the period. In the following sections, we discuss the reasons for our draft decision on:

⁶¹ ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*, June 2022.

⁶² Our published gas PTRM uses the diminishing value tax depreciation approach for all new assets with the exception of in-house software, buildings (capital works) and equity raising costs. All assets acquired prior to 1 July 2021 will continue to be depreciated using the straight-line depreciation method for regulatory tax purposes, until these assets are fully depreciated. The PTRM also allows for the immediate expensing of certain capex for tax purposes.

⁶³ AGN, *AGNSA 2026–31 Access arrangement proposal, AGNSA_Attachment 1.5_Post Tax Revenue Model_20250701_PUBLIC*, 1 July 2025.

⁶⁴ AGN, *AGNSA 2026–31 Access arrangement proposal*, pp. 118–119; AGN, *AGNSA_Attachment 1.5_Post Tax Revenue Model_20250701_PUBLIC*, July 2025.

- the opening TAB value as at 1 July 2026
- the forecast immediately expensed capex
- assets to be exempted from the diminishing value method for tax depreciation
- the year-by-year tracking approach for tax depreciation
- the standard tax asset lives for depreciating forecast capex over the 2026–31 period.

We have also updated the proposed value of imputation credits (gamma) to 0.57, as set out in section 3.2 of the overview consistent with the 2022 RORI.⁶⁵

1.3.4.1 Opening tax asset base as at 1 July 2026

We determine an opening TAB value as at 1 July 2026 of \$767.5 million (\$ nominal) for AGN. This represents a reduction of \$550.7 million (41.8%) compared to its proposal due to some input amendments we made in the RFM and depreciation tracking module. We accept AGN's proposed method to establish the opening TAB value as at 1 July 2026. This is because AGN's proposed approach is based on our RFM and consistent with that previously approved for the 2021–26 period. However, we have corrected some input errors in the proposed RFM that result in a reduction to the opening TAB as at 1 July 2026.

We have reviewed the inputs required for the TAB roll forward and found they were mostly correct and reconciled with relevant data sources such as annual reporting RINs and the 2021–26 decision models. However, we made the following input updates in the RFM and the depreciation tracking module which impact the opening TAB value as at 1 July 2026. In its response to our information request, AGN agreed with these updates:⁶⁶

- We updated the tax depreciation values for the 2021–26 period in the RFM. AGN is required to use the depreciation tracking module to calculate the tax depreciation over the 2021–26 period. While it had populated the relevant inputs in the depreciation tracking module, the relevant tax depreciation values were not included in its proposed RFM. As a result, the opening TAB value was not depreciated over the 2021–26 period. Therefore, we have updated the tax depreciation inputs in the RFM to be consistent with values calculated in the depreciation tracking module.
- We updated the estimated immediately expensed capex inputs for 2024–25 and 2025–26 in the depreciation tracking module. AGN's proposal included \$129.2 million of actual immediately expensed capex between 2021–22 and 2023–24, however it did not include any estimated values for 2024–25 and 2025–26. Following an information request, AGN provided estimates for these years of \$58.0 million and \$47.2 million respectively reflecting the expected immediately expensed capex for mains replacement.⁶⁷

We note that the opening TAB value as at 1 July 2026 may be updated as part of the final decision to reflect actual 2024–25 capex and any revised 2025–26 capex estimates.

⁶⁵ AER, *Rate of return Instrument (version 1.2)*, March 2024, cl. 27.

⁶⁶ AGN, *Response to AER information request #004 - RFM and PTRM modelling – 20250811*, 19 August 2025.

⁶⁷ AGN, *Response to AER information request #004 - RFM and PTRM modelling – 20250811*, 19 August 2025.

Additional depreciation of the TAB

AGN proposed an additional tax depreciation of \$1.6 million of its Inlets TAB as part of its future of gas asset depreciation proposal over the 2026–31 period. This is the remaining TAB value of the assets that make up the \$30 million of the capital base that AGN is proposing to fully depreciate over the 2026–31.

As part of our assessment of AGN’s proposal we issued an information request to AGN for further justification or tax advice received to confirm that this asset value would be subject to accelerated depreciation for tax purposes over the 2026–31 period. AGN confirmed that it had not had any tax advice to support this position and that it simply followed that if the asset has a 5 year life it should be depreciated in the 2026–31 period for tax purposes.⁶⁸ AGN has not proposed any change to the technical or economic life of the underlying assets as part of its additional depreciation proposal. As such, we consider it unlikely that this would meet the requirements of the tax rules for a benchmark firm to claim accelerated tax depreciation for these assets. This is consistent with our decision for JGN where we approved accelerated RAB depreciation as part of its future of gas proposal, while no accelerated tax depreciation was approved.⁶⁹

As discussed in section 1.1, our draft decision is also to not accept AGN’s proposed additional depreciation for its capital base. Therefore, we also do not accept AGN’s proposed additional depreciation for the TAB.

Table 1.5 sets out our draft decision on the roll forward of AGN’s TAB over the 2021–26 period.

Table 1.5 AER’s draft decision on AGN’s TAB roll forward for the 2021–26 period (\$ million, nominal)

| | 2021–22 | 2022–23 | 2023–24 | 2024–25 ^a | 2025–26 ^a |
|------------------------|--------------|--------------|--------------|----------------------|----------------------|
| Opening TAB | 856.3 | 843.5 | 823.1 | 799.9 | 800.4 |
| Capex ^b | 93.5 | 98.7 | 97.2 | 137.8 | 100.8 |
| Less: tax depreciation | 106.3 | 119.1 | 120.4 | 137.3 | 133.7 |
| Closing TAB | 843.5 | 823.1 | 799.9 | 800.4 | 767.5 |

Source: AER analysis.

- (a) Based on estimated capex. We expect to update the TAB roll forward with actual capex for 2024–25 and a revised capex estimate for 2025–26 in the final decision.
- (b) Net of disposals.

1.3.4.2 Forecast immediately expensed capex

We determine \$111.0 million of AGN’s forecast capex to be immediately expensed over the 2026–31 period. This is \$89.0 million higher than AGN proposed \$2.2 million.⁷⁰ Following an

⁶⁸ AGN, *Response to AER information request #004 - RFM and PTRM modelling – 20250811*, 19 August 2025.

⁶⁹ AER, *Draft decision – Jemena Gas Networks (NSW) 2025–30 – Attachment 7*, November 2024, p. 13.

⁷⁰ AGN, *AGN SA_Attachment 1.5_Post Tax Revenue Model_20250701_PUBLIC*, July 2025.

information request, AGN noted that its proposed forecast amount only reflected the immediately expensed overheads. However, it noted that the proposed forecast should also include the forecast immediately expensed mains replacement capex for the 2026–31 period of about \$89.0 million (\$2025–26).⁷¹ It also confirmed that it had used the value of overheads allocated to opex rather than the capitalised overheads. Correcting this error results in a reduction to capitalised overheads to be immediately expensed of around \$9.4 million.

We consider AGN's approach to forecast its immediately expensed capex to be reasonable. Its proposed amount reflects the historical approach of immediately expensing capex by AGN.⁷² Our draft decision has also updated the forecast of immediate expensing of capex to reflect our draft decision on the relevant capital expenditure on overheads and mains replacement.

We will continue to collect actual data relating to this expenditure in our annual reporting RINs to inform our decision on the amount of forecast immediately expensed capex in the next access arrangement review for AGN.

1.3.4.3 Assets exempt from the diminishing value method

The PTRM applies the diminishing value method as the regulatory benchmark for tax depreciation to all new capex. However, as discussed in appendix A.3, there are some exceptions to this approach under the tax law such as assets relating to in-house software and equity raising costs.⁷³ In the PTRM, the benchmark equity raising costs is determined within the model and depreciated using the straight-line tax depreciation method by default.

AGN has not proposed any forecast capex that are to be depreciated using the straight-line method for tax depreciation purposes. As a result, all of AGN's assets are subject to the diminishing value method of tax depreciation. We accept AGN's proposal and have not allocated any forecast capex to be depreciated under the straight-line method for tax depreciation. This is consistent with the approach applied for the 2021–26 period.

1.3.4.4 Year-by-year tracking approach

We accept AGN's proposal to apply the 'year-by-year' tracking method as set out in our depreciation module in the RFM for calculating the tax depreciation of its existing assets as at 1 July 2026.⁷⁴ The proposed method represents a continuation of the approach approved in the 2020–25 access arrangement.⁷⁵ We are satisfied that the application of the year-by-

⁷¹ AGN, *Response to AER information request #004 - RFM and PTRM modelling – 20250811*, 19 August 2025, and follow-up response 20 October 2025.

⁷² AER, *Final decision – Australian Gas Networks (SA) Access Arrangement 2021–26 – Attachment 7*, April 2021, p. 5.

⁷³ Asset classes 47, 48, 49 and 50 in the PTRM provide for this.

⁷⁴ Under this approach, the capex for each year of an access arrangement period is depreciated individually for tax purposes. It will result in each tax asset class having an expanding list of sub-assets to reflect the regulatory year in which capital expenditures on those assets occurred.

⁷⁵ AER, *Final decision – Australian Gas Networks (SA) Access Arrangement 2021–26 – Attachment 7*, April 2021, p. 4.

year tracking method provides an appropriate estimate of the tax depreciation amount for a benchmark efficient service provider as required by the NGR.⁷⁶

For this draft decision, we have amended the depreciation module inputs to reflect those made to the RFM as set out in section 1.1.4.1. We have also updated the immediate expensed capex estimates for 2024–25 and 2025–26 following an information request to AGN.⁷⁷ With these amendments, we are satisfied that the application of the year-by-year tracking method provides an appropriate estimate of the tax depreciation amount for a benchmark efficient service provider as required by the NGR.⁷⁸

1.3.4.5 Standard tax asset lives

We accept AGN’s proposed standard tax asset lives assigned to its existing asset classes because they are:

- broadly consistent with the tax asset lives prescribed by the Commissioner of Taxation in ATO Taxation Ruling 2022/1, including the statutory cap on the effective life of 20 years for gas pipeline assets⁷⁹
- for non-pipeline asset classes—consistent with the approved standard tax asset lives for the 2021–26 period.

Our draft decision PTRM sets out AGN’s standard tax asset lives for each of its asset classes.⁸⁰ We are satisfied that the standard tax asset lives are appropriate for application over the 2026–31 period. We are also satisfied that the standard tax asset lives provide an estimate of the tax depreciation amount that would be consistent with the tax expenses used to estimate the annual taxable income for a benchmark efficient service provider.⁸¹

⁷⁶ NGR, r. 87A.

⁷⁷ AGN, *Response to AER information request #004 - RFM and PTRM modelling – 20250811*, 19 August 2025. AGN’s proposal did not include any immediate expensed capex for these years but confirmed that this was an error and the expected immediate expensed capex values were \$58.0 million and \$47.2 million (\$nominal) for 2024–25 and 2025–26 respectively.

⁷⁸ Clause 87A of the NGR sets out the formula we must use to estimate corporate income tax. It requires an estimate of the taxable income of a benchmark efficient entity.

⁷⁹ ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*, June 2022.

⁸⁰ AER, *Draft decision PTRM for AGN*, September 2025, PTRM input sheet – cells P7–P56.

⁸¹ NGR, r. 87A(1).

1.4 Revisions

We require the following revisions to make the access arrangement proposal acceptable as set out in Table 1.6, Table 1.7 and Table 1.8.

Table 1.6 AGN’s capital base revisions

| Revision | Amendments |
|--------------|---|
| Revision 1.1 | Make all necessary amendments to reflect this draft decision on the roll forward of the capital base for the 2021–26 access arrangement period, and to reflect this draft decision on the projected capital base for the 2026–31 access arrangement period. |

Table 1.7 AGN’s regulatory depreciation revisions

| Revision | Amendments |
|--------------|--|
| Revision 1.2 | Make all necessary amendments to reflect this draft decision on the regulatory depreciation amounts for the 2026–31 access arrangement period. |

Table 1.8 AGN’s corporate income tax revisions

| Revision | Amendments |
|--------------|---|
| Revision 1.3 | Make all necessary amendments to reflect this draft decision on the cost of corporate income tax amounts for the 2026–31 access arrangement period. |

Appendix A – Assessment approach

A.1 Capital base – assessment approach

To determine the projected opening capital base, we developed a capital base RFM and a PTRM that the service provider must use in preparing its proposal.⁸² We use the RFM to roll forward the service providers' capital base from the beginning of the final year of the earlier access arrangement period, through the current access arrangement period, to the beginning of the next access arrangement period. We then use the PTRM to calculate the projected capital base over next access arrangement period.

A.1.1 Rolling forward the capital base in the RFM and PTRM

In accordance with rules 77(2) and 78 of the NGR and the capital base roll forward approach in our RFM and PTRM, we apply three steps to calculate the projected capital base:

- First, we confirm the value of the opening capital base for the first year of the current access arrangement period. This includes making an adjustment to account for any difference between actual and estimated capex in the final year of the previous access arrangement period. This adjustment must also remove any benefit or penalty associated with any difference between the estimated and actual capex for that final year.⁸³
- Second, the opening capital base for the first year of the current access arrangement period is rolled forward to determine the closing capital base at the end of this period. This closing capital base is also used as the opening capital base value at the commencement of the next access arrangement period. This involves:⁸⁴
 - Adding conforming actual capex to the capital base for the relevant year.⁸⁵ We assess the actual capex amounts against the provisions of the current access arrangement, values from audited annual reporting RINs and the definition of 'conforming capital expenditure' in the NGR⁸⁶
 - Adding any amounts in the speculative capex account that are reclassified as conforming capex, as well as any adding the value of any redundant assets that have been removed from the capital base that are reused during the current access arrangement period⁸⁷
 - Adding actual inflation (indexation) adjustment to the opening capital base for the relevant year.⁸⁸ This adjustment is consistent with the inflation factor used in the annual reference tariff variation mechanism.

⁸² NGR, rr. 72(3) and 75A(2).

⁸³ NGR, r. 77(2)(a).

⁸⁴ NGR, r. 77(2).

⁸⁵ NGR, r. 77(2)(b).

⁸⁶ NGR, r. 79(1).

⁸⁷ NGR, rr. 84(3), 85 and 86. The speculative capex account relates to the amounts of non-conforming capital expenditure provided in an access arrangement that it is not to be recovered through a surcharge on users or a capital contribution.

⁸⁸ AER, *Final decision Gas distribution network service providers Roll forward model handbook*, April 2020, p. 24.

- Subtracting depreciation for each year, calculated in accordance with the approved access arrangement for the period.⁸⁹ Depreciation based on forecast or actual capex can be used to roll forward the capital base.⁹⁰ Our default approach is to use depreciation based on forecast capex for rolling forward the service provider’s capital base over the access arrangement period.⁹¹
- Subtracting any redundant assets and disposals during the current access arrangement period.⁹²
- Third, the capital base is projected over the next access arrangement period by rolling forward the opening capital base from the beginning of the next period. This involves the following adjustments on the opening capital base for the next period:⁹³
 - Adding forecast conforming capex for each year (net of any forecast capital contributions)
 - Adding an expected inflation (indexation) adjustment to the opening capital base for the relevant year⁹⁴
 - Subtracting forecast depreciation for the relevant year
 - Subtracting forecast value of assets to be disposed for the relevant year.

A.1.2 Interrelationships

The size of the capital base substantially impacts the service provider's revenue, and in turn the network price that is paid by its customers. It is an input into the determination of the return on capital and depreciation (return of capital) building blocks.⁹⁵ Factors that influence the capital base will therefore flow through to these building block components and the annual building block revenue requirement. Other things being equal, a higher capital base increases both the return on capital and depreciation amounts. In turn, it increases the service provider's revenue, and prices for its services.

The capital base is determined by various factors, including;

- the opening capital base (meaning the value of existing assets at the beginning of the access arrangement period)
- net capex⁹⁶
- depreciation
- indexation adjustment – so the capital base is presented in nominal terms, consistent with the rate of return.

⁸⁹ NGR, r. 77(2)(d).

⁹⁰ NGR, r. 90.

⁹¹ The use of forecast depreciation approach must be consistent with the approach approved in the current access arrangement.

⁹² NGR, r. 77(2)(e) and (f).

⁹³ NGR, r. 78.

⁹⁴ AER, *Final decision Gas distribution service providers Post-tax revenue model handbook*, April 2021, p. 24.

⁹⁵ The size of the capital base also impacts the benchmark debt raising cost. However, this amount is usually relatively small and therefore not a significant determinant of revenues overall.

⁹⁶ Net capex is gross capex less disposals and capital contributions.

The opening capital base depends on the value of existing assets as well as actual conforming net capex, actual inflation outcomes and depreciation in the past.

The capital base, when projected to the end of the access arrangement period, may increase due to forecast new capex and the indexation adjustment. The size of the indexation adjustment depends on expected inflation (which also affects the nominal rate of return or WACC) and the size of the capital base at the start of each year throughout the access arrangement period.

Depreciation reduces the capital base. The depreciation amount depends on the size of the opening capital base, the forecast net capex and the depreciation schedules applied to the assets.

We maintain the capital base in real terms by indexing for inflation. A nominal rate of return (or WACC) is multiplied by the opening capital base to produce the return on capital building block.⁹⁷ To prevent double counting of inflation through the nominal WACC and indexed capital base, the regulatory depreciation building block has an offsetting reduction for indexation of the capital base.⁹⁸ Indexation of the capital base and the offsetting adjustment made to depreciation results in smoother revenue recovery profile over the life of an asset than if the capital base was un-indexed. The implications of our approach to indexing the value of the capital base on revenues are discussed further in section A.2.

A 10% increase in the opening capital base causes revenues to increase by between 4% to 7% (\$ nominal). However, the impact of the annual change in capital base on revenues depends on the source of the capital base change, as some drivers affect more than one building block cost.⁹⁹

A.2 Regulatory depreciation – assessment approach

In an access arrangement proposal, a gas pipeline service provider must provide a forecast depreciation schedule as part of its total revenue.¹⁰⁰ The depreciation schedule sets out the basis on which the pipeline assets constituting its capital base are to be depreciated for the purpose of determining a reference tariff.¹⁰¹ It may consist of several separate schedules, each relating to a particular asset or class of asset.¹⁰²

⁹⁷ NGR, r. 87.

⁹⁸ If the asset lives are extremely long, such that the capital base depreciation rate is lower than the inflation rate, then negative regulatory depreciation can emerge. The indexation adjustment is greater than the capital base depreciation in such circumstances. Please also refer to section 4.3.1 of Attachment 4 of this draft decision for further explanation of the offsetting adjustment to the depreciation building block.

⁹⁹ If capex causes the capital base to increase—return on capital, depreciation, and debt raising costs all increase too. If a reduction in depreciation causes the capital base to increase, revenue could increase or decrease. In this case, the higher return on capital is offset (perhaps more than offset) by the reduction in the depreciation allowance. Inflation naturally increases the capital base in nominal terms.

¹⁰⁰ NGR, rr. 72(m) and 76(b).

¹⁰¹ NGR, r. 88(1).

¹⁰² NGR, r. 88(2)

In making a decision on the proposed depreciation schedule, we assess the compliance of the proposed depreciation schedule with the depreciation criteria set out in the NGR. The depreciation criteria¹⁰³ state that the depreciation schedule should be designed:

- so that reference tariffs will vary, over time, in a way that promotes efficient growth in the market for reference services¹⁰⁴
- so that each asset or group of assets is depreciated over the economic life of that asset or group of assets¹⁰⁵
- so as to allow, as far as reasonably practicable, for adjustment reflecting changes in the expected economic life of a particular asset, or a particular group of assets¹⁰⁶
- so that (subject to the rules about capital redundancy), an asset is depreciated only once,¹⁰⁷ and
- so as to allow for the service provider's reasonable needs for cash flow to meet financing, non-capital and other costs.¹⁰⁸

The NGR also provide that compliance with the depreciation criteria may involve the deferral of a substantial amount of depreciation in circumstances where investment is made on the expectation of future demand growth.¹⁰⁹

The NGR require that any forecast must be arrived at on a reasonable basis and must represent the best forecast or estimate possible in the circumstances.¹¹⁰

Our assessment takes into account the revenue and pricing principles (RPP) and seeks to achieve the National Gas Objective (NGO).¹¹¹ The NGO is to promote efficient investment in, and efficient operation and use of, covered gas services for the long term interests of consumers of covered gas with respect to price, quality, safety, reliability and security of supply of covered gas and the achievement of targets set by a participating jurisdiction for reducing Australia's greenhouse gas emissions or that are likely to contribute to reducing Australia's greenhouse gas emissions.¹¹² We are required, when carrying out our economic regulatory functions under the National Gas Law (NGL) and NGR, to make a decision that will contribute, or will be likely to contribute, to the achievement of the NGO.¹¹³ In addition, when exercising our decision making powers on those parts of an access arrangement relating to a reference tariff, we are required to take into account the RPP.¹¹⁴ These include the principle that a service provider should be provided with effective incentives in order to

¹⁰³ NGR, r. 89.

¹⁰⁴ NGR, r. 89(1)(a).

¹⁰⁵ NGR, r. 89(1)(b).

¹⁰⁶ NGR, r. 89(1)(c).

¹⁰⁷ NGR, r. 89(1)(d).

¹⁰⁸ NGR, r. 89(1)(e).

¹⁰⁹ NGR, r. 89(2).

¹¹⁰ NGR, r. 74(2).

¹¹¹ NGL, s. 28; NGR r. 68B(1).

¹¹² NGL, s. 23.

¹¹³ NGL, s. 28(1)(a).

¹¹⁴ NGL, s. 28(2) The RPPs are set out in s. 24 of the NGL.

promote efficient investment in, provision of and use of pipeline services, and the principle that we should have regard to the economic costs and risks of the potential for under-and over-investment in a pipeline, and utilisation of a pipeline when making such decisions.¹¹⁵

In April 2020, we published our first version of the RFM and PTRM for gas pipeline service providers under new provisions in the NGR relating to financial models.¹¹⁶ Gas distribution businesses are required to use these models for the purposes of their access arrangement proposals.¹¹⁷ The PTRM sets out the method for calculating the forecast depreciation schedule and the approach for indexing the capital base. We have also published a separate depreciation module to the RFM that applies the year-by-year tracking depreciation approach. This module is used for calculating the depreciation of existing assets under that approach, and the output from this module will feed into the PTRM.

The regulatory depreciation approach in the PTRM involves two components:

1. A straight-line depreciation component calculated by dividing the asset value by its standard asset life (for new assets) or remaining asset life (for existing assets under the weighted average approach). We consider that the straight-line method satisfies the NGR's depreciation criteria.¹¹⁸ This is because the straight-line method smooths changes in the reference tariffs, promotes efficient growth of the market, allows assets to be depreciated only once and over its economic life, and allows for a service provider's reasonable needs for cash flow.
2. An offsetting adjustment for indexation of the value of assets in the capital base. This component is necessary to prevent double counting of inflation when a nominal rate of return is applied to the inflation indexed capital base. Therefore, we remove the revaluation (indexation) gain on the capital base from the depreciation building block when setting total revenue.

The regulatory depreciation amount is an output of our PTRM. We therefore assessed the service provider's proposed regulatory depreciation amount by analysing the proposed inputs to the PTRM for calculating that amount.

Key inputs include the:

- opening capital base at the start of the access arrangement period
- forecast net capex in the next access arrangement period¹¹⁹
- indexation adjustment—based on the forecast capital base and expected inflation rate for the next access arrangement period

¹¹⁵ NGL, s. 24.

¹¹⁶ NGR, rr. 75A–75B.

¹¹⁷ NGR, r. 75A(2).

¹¹⁸ NGR, r. 89.

¹¹⁹ Capex enters the capital base net of forecast disposals (and capital contributions where relevant). It includes equity raising costs (where relevant) and is adjusted for half-year WACC to account for the timing assumptions in the PTRM. Our decisions on the capital base therefore also reflects our updates to the WACC for the next access arrangement period.

- standard asset life for each asset class—used for calculating the depreciation of new assets associated with forecast net capex in the next access arrangement period
- the depreciation of existing assets in the opening capital base as at the start of the access arrangement period – calculated using a separate year-by-year depreciation tracking module or the weighted average remaining life (WARL) approach.

Our decision on the service provider’s regulatory depreciation amount reflects our determinations on its opening capital base, expected inflation and forecast net capex (the first three inputs in the above list).¹²⁰ Our determinations on these components of a gas pipeline service provider’s proposal are discussed in section 1.1 of this attachment, Attachment 2 and Overview section 3.2, respectively.

In this attachment, we discuss our assessment of the standard asset life for each asset class. As well as the year-by-year tracking or the WARL depreciation approach to calculate depreciation of the opening capital base at the start of the access arrangement period (the last two inputs in the above list).

In general, we consider that consistency in the standard asset life for each asset class across access arrangement periods will allow reference tariffs to vary over time in a manner which would promote efficient growth in the market for reference services. Our assessment of the standard asset life of an asset class also takes into account the technical life (or the engineering designed life) and the expected economic life of the assets. We also benchmark a service provider’s standard asset lives with those used by other gas service providers for similar asset classes.

Our PTRM provides for two approaches for calculating the straight-line depreciation for existing assets:

- the ‘weighted average remaining lives’ (WARL) approach: This approach calculates the remaining asset life for an asset class by weighting together its remaining asset life at the beginning of the access arrangement period with the new capex added to the asset class during that period. The residual asset values are used as weights to calculate the remaining asset life at the end of that period. The WARL for the asset classes are calculated in our RFM and are inputs to the PTRM. We consider this approach meets the depreciation criteria of the NGR.
- the ‘year-by-year tracking’ approach: Under this approach, the capex (in addition to grouping assets by type via asset classes) for each year of an access arrangement period is depreciated separately and tracked on a year-by-year basis over the assigned standard life for the asset class. This approach does not require assessment of a remaining asset life at each access arrangement review. We consider that this approach would also meet the depreciation criteria of the NGR. Our depreciation tracking module conducts the detailed calculations required under this approach. The output of this module is then recorded in the PTRM. If this approach is proposed, we will assess whether a service provider has appropriately implemented the year-by-year tracking depreciation approach, including checking the proposed inputs to this module.

¹²⁰ Our final decision will update the opening capital base as at 1 July 2025 for revised estimates of actual capex and inflation.

A.2.1 Interrelationships

The regulatory depreciation amount is a building block component of the total revenue requirement.¹²¹ Higher (or quicker) depreciation leads to higher revenues over the access arrangement period. It also causes the capital base to reduce more quickly (excluding the impact of further capex). This reduces the return on capital amount, although this impact is usually smaller than the increased depreciation amount in the short to medium term.¹²²

Ultimately, however, a service provider can only recover the capex that it incurs on assets once. The depreciation amount reflects how quickly the capital base is being recovered, and it is based on the asset lives used in the depreciation calculation. It also depends on the level of the opening capital base and the forecast capex. Any increase in these factors also increases the depreciation amount.

Our standard approach is to maintain the capital base in real terms, meaning the capital base is indexed for expected inflation. The return on capital building block has to be calculated using a nominal rate of return or weighted average cost of capital (WACC) applied to the opening capital base.¹²³ The total revenue requirement is calculated by adding the return on capital, depreciation, operating expenditure (opex), tax and revenue adjustments building blocks.¹²⁴ Because inflation on the capital base is accounted for in both the return on capital (based on a nominal rate of return) and the depreciation calculations (based on an indexed capital base), an adjustment must be made to the revenue requirement to prevent compensating twice for inflation.

To avoid this double compensation, we make an adjustment by subtracting the annual indexation gain on the capital base from the calculation of total revenue. Our standard approach is to subtract the indexation of the opening capital base—the opening capital base multiplied by the expected inflation for the year—from the capital base depreciation. The net result of this calculation is referred to as regulatory depreciation (or return of capital).¹²⁵ Regulatory depreciation is the amount used in the building block calculation of total revenue to ensure that the revenue equation is consistent with the use of a capital base, which is indexed for inflation annually. Figure A.1 shows where the inflation components are included in the building block costs.

¹²¹ The PTRM distinguishes between straight-line depreciation and regulatory depreciation, where regulatory depreciation is the straight-line depreciation less the indexation adjustment.

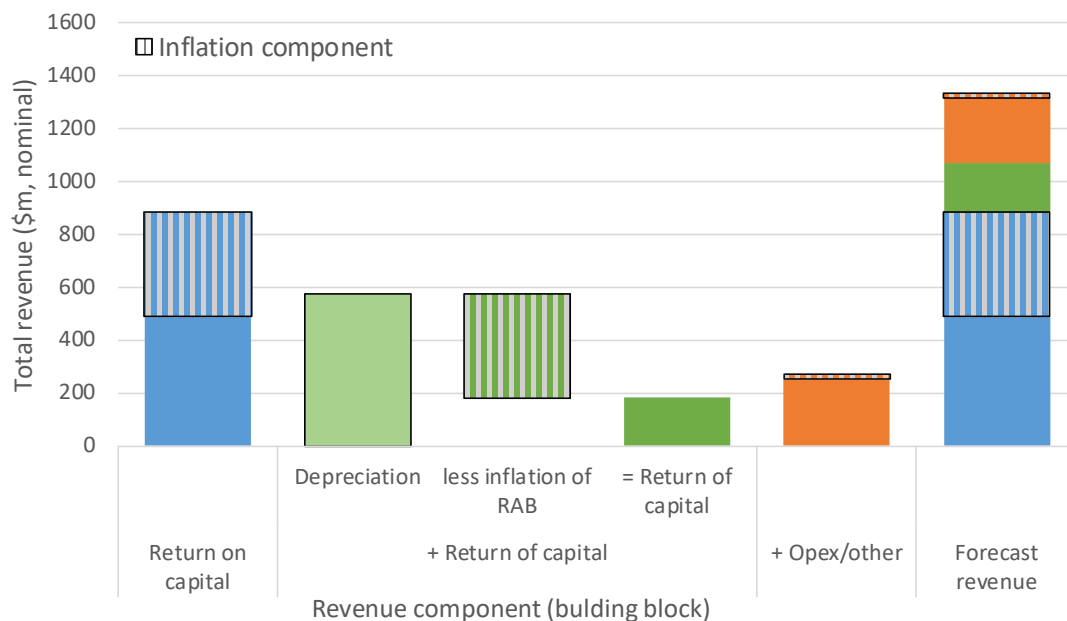
¹²² This is generally the case because the reduction in the capital base amount feeds into the higher depreciation building block, whereas the reduced return on capital building block is proportionate to the lower capital base multiplied by the WACC.

¹²³ NGR, r. 87.

¹²⁴ NGR, r. 76.

¹²⁵ If the asset lives are extremely long, such that the capital base depreciation rate is lower than the inflation rate, then negative regulatory depreciation can emerge. The indexation adjustment is greater than the capital base depreciation in such circumstances.

Figure A.1 Inflation components in revenue building block – example



Source: AER analysis.

This approach produces the same total revenue requirement and capital base as if a real rate of return had been used in combination with an indexed capital base. Under an alternative approach where a nominal rate of return was used in combination with an unindexed (historical cost) capital base, no adjustment to the depreciation calculation of total revenue would be required. This alternative approach produces a different time path of total revenue compared to our standard approach. In particular, overall revenues (and therefore prices) would be higher early in the asset's life (as a result of more depreciation being returned to the service provider) and lower in the future—producing a steeper downward sloping profile of total revenue.¹²⁶ Under both approaches, the total revenues being recovered are in NPV neutral terms.

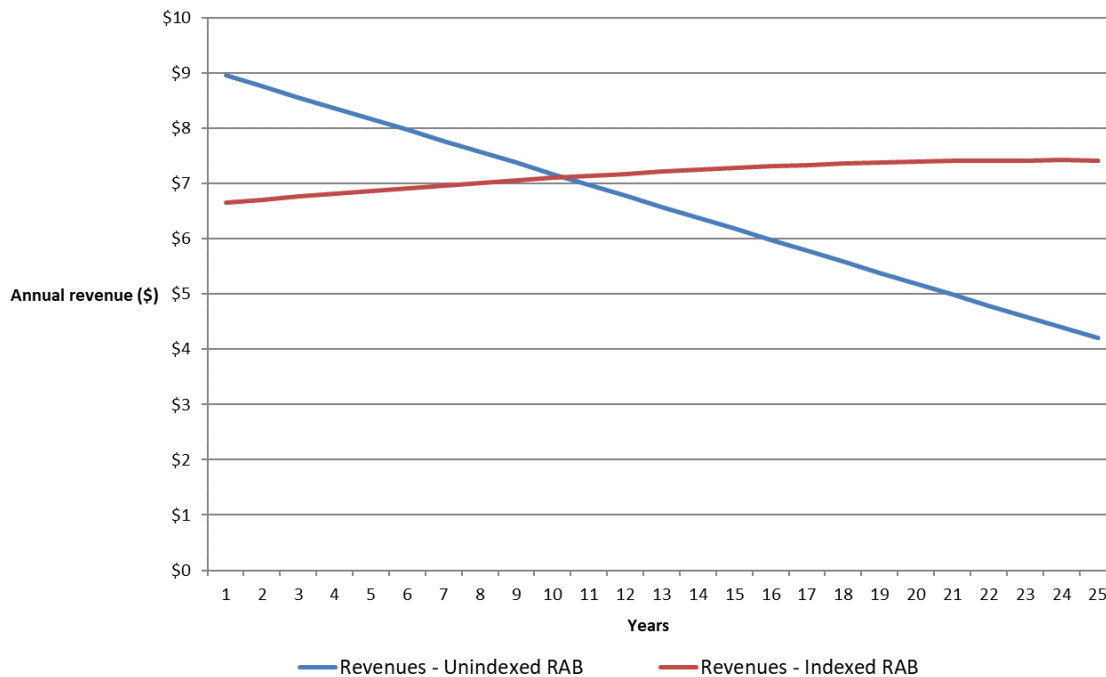
Figure A.2 shows the recovery of revenue under both approaches using a simplified example.¹²⁷ Indexation of the capital base and the offsetting adjustment made to depreciation results in a smoother revenue recovery profile over the life of an asset than if the capital base was un-indexed. The indexation of the capital base also reduces price shocks when the asset is replaced at the end of its life.¹²⁸

¹²⁶ A change of approach from an indexed capital base to an un-indexed capital base would result in an initial step change increase in revenues to preserve NPV neutrality.

¹²⁷ The example is based on the initial cost of an asset of \$100, a standard economic life of 25 years, a real WACC of 2.5%, expected inflation of 2.4% and nominal WACC of 4.96%. Other building block components such as opex, tax and capex are ignored for simplicity as they would affect both approaches equally.

¹²⁸ In year 26 the revenues in the example for the unindexed approach would jump from about \$4 to \$9, assuming the asset is replaced by an asset of roughly similar replacement cost as the initial asset. In contrast, in the same circumstances, the indexed approach would see revenues stay at roughly \$7.

Figure A.2 Revenue path example – indexed vs un-indexed capital base (\$ nominal)



Source: AER analysis.

Figure 1.1 shows the relative size of the inflation and straight-line depreciation, and their impact on the capital base. A 10% increase in the straight-line depreciation generally causes unsmoothed revenues (\$ nominal) to increase by about 4% to 6%.

A.3 Corporate income tax – assessment approach

We make an estimate of taxable income for each regulatory year of the access arrangement period in accordance with the formula in the NGR as part of our determination of the total revenue requirement for the service provider’s next access arrangement period.¹²⁹ Our estimate is the taxable income a benchmark efficient entity would earn for providing reference services if it operated the service provider’s business and is determined in accordance with the PTRM.

In April 2020, we published our first versions of the RFM and PTRM for the gas pipeline service providers under the NGR.¹³⁰ The gas models have been developed using our published electricity distribution and transmission regulatory models, which incorporate relevant findings from our final report on the tax review.¹³¹ They also incorporate several

¹²⁹ NGR, r. 87A.

¹³⁰ NGR, r. 75A.

¹³¹ AER, *Final report: Review of regulatory tax approach, December 2018*, p. 76. The PTRM specifies the manner in which the estimated cost of corporate income tax is to be calculated. The RFM calculates the gas pipeline service provider’s tax asset base which is an input to the PTRM for the calculation of the tax building block.

amendments to account for gas specific requirements. Gas pipeline service providers are required to use the gas models for the purposes of their access arrangement proposals.¹³²

In April 2021, we published version 2 of our gas distribution PTRM that applied the same regulatory tax approach as version 1, and implemented the changes set out in our final position paper on the treatment of inflation under the regulatory framework.¹³³

A.3.1 Calculating estimated cost of corporate income tax in the PTRM

Our approach for calculating a gas pipeline service provider's estimated cost of corporate income tax is set out in our PTRM¹³⁴ and involves the following steps:¹³⁵

1. We estimate the annual assessable income (taxable revenue) that would be earned by a benchmark efficient entity operating the service provider's business. This is the approved forecast revenues for the service provider that we determined using the building block approach.¹³⁶ It includes capital contributions where these are subject to taxation.
2. We then estimate the benchmark tax expenses such as opex, interest expense and tax depreciation in the following ways:
 - operating expense is set equal to the opex building block¹³⁷
 - interest expense is a function of the size of the capital base, the benchmark gearing assumption (60%) and the regulated cost of debt
 - tax depreciation expense is calculated using a separate value for the TAB, and standard and/or remaining tax asset lives for taxation purposes. Previously, the PTRM applied the straight-line method for calculating tax depreciation for all assets. Consistent with the findings of the 2018 tax review,¹³⁸ the PTRM applies the straight-line tax depreciation method for existing assets and the diminishing value tax depreciation method¹³⁹ for all assets acquired after implementation of the tax review findings except for in-house software, buildings (capital works) and equity raising costs. The expenditure for these assets is to be depreciated using the straight-line method under the tax law. The PTRM also accounts for the value of certain forecast capex to be immediately expensed when estimating the benchmark tax expense. The value of immediately expensed capex is deducted from the net capex being depreciated for tax purposes for the year in which it is forecast to be

¹³² NGR, r. 75A.

¹³³ AER, *Final position: Regulatory treatment of inflation*, December 2020, pp. 6–8; AER, *Appendix A - Amended gas distribution PTRM - April 2021*, April 2021.

¹³⁴ AER, *Gas Distribution PTRM*, April 2021.

¹³⁵ The PTRM must specify the manner in which the estimated cost of corporate income tax is to be calculated: NGR, r. 75B(2)(e).

¹³⁶ The total revenue for tax purposes is the sum of the building blocks including return on capital, return of capital, opex, cost of corporate income tax and any applicable capital contributions. It may also include other revenue adjustments, but the assessment of whether they should give rise to a tax payable will occur on a case-by-case basis.

¹³⁷ Our assessment approach for the opex building block is discussed in Attachment 3 of the draft decision.

¹³⁸ AER, *Final report, Review of regulatory tax approach*, December 2018.

¹³⁹ For more explanation of how we calculate depreciation using the diminishing value method, please see: AER, *Amended gas distribution PTRM handbook*, April 2021, pp. 13–14.

incurred.¹⁴⁰ The immediately expensed amount is then included in the total tax depreciation amount for the relevant year.

There may be other revenue adjustments, but the assessment of whether they should give rise to a tax payable occurs on a case-by-case basis.

3. We estimate the annual taxable income that would be earned by a benchmark efficient entity operating the service provider's business by subtracting the benchmark estimates of tax expenses (step 2) from the approved forecast revenues for the service provider (step 1).
4. We apply the statutory income tax rate to the estimated annual taxable income (after adjustment for any tax loss carried forward) to arrive at a notional amount of tax payable.
5. We deduct the expected value for the utilisation of imputation credits (gamma) by investors from the notional amount of tax payable. The tax payable net of the expected value of imputation credits represents the estimated cost of corporate income tax and is included as a separate building block in determining the service provider's total revenue requirement.

A.3.2 Assessing the tax inputs to the PTRM

The estimated cost of corporate income tax is an output of the PTRM. We therefore assess the service provider's proposed cost of corporate income tax by analysing the proposed inputs to the PTRM for calculating that cost. Our assessment approach for each of the tax inputs required in the PTRM are discussed in turn below:

- **The opening TAB value as at the commencement of the next access arrangement period:** The roll forward of the opening TAB is based on the approved opening TAB at the start of the current access arrangement period and the service provider's actual/estimated capex incurred during the current access arrangement period, and the actual capex incurred in the final year of the earlier access arrangement period.¹⁴¹ The roll forward of the opening TAB for the current access arrangement period is calculated in our RFM, together with the depreciation module.

The opening TAB value at the start of the next access arrangement period and the forecast capex to be added to the TAB over the period are used to estimate forecast tax depreciation for that period. We will continue to apply the straight-line method of tax depreciation for existing assets in the opening TAB prior to the implementation of the 2018 tax review findings. However, for all assets added to the TAB after this implementation (with some exceptions discussed further below), we will apply the diminishing value method of tax depreciation.

¹⁴⁰ That is, the net capex to be added to the TAB for tax depreciation purposes is the amount of gross capex, less disposals, less the immediately deductible capex.

¹⁴¹ The tax depreciation is therefore recalculated based on actual capex. The same tax depreciation approach of using actual capex applies to the roll forward of the TAB at the next distribution determination.

- **The form of customer contributions:** On 21 October 2020, the Full Federal Court of Australia published a judgment dealing with the tax treatment of capital contributions.¹⁴² The determination:
 - Confirmed an earlier Court ruling that cash contributions were ordinary income and should be treated as assessable income for tax purposes.
 - Overturned an earlier Court ruling and determined that while a gifted asset was a ‘non-cash business benefit’ there was effectively nil income for tax purposes.

We consider the Court’s ruling on gifted assets requires us to exclude the cost of construction of these assets from the gross capex and capital contributions inputs to the PTRM. Consequently, this excludes gifted assets from the calculation of the estimated cost of corporate income tax building block. Capital contributions in the form of cash continue to be included in the calculation of the estimated cost of corporate income tax building block.

- **The standard tax asset life for each asset class:** Our assessment of a gas pipeline service provider’s proposed standard tax asset life is generally guided by the effective life of depreciating assets determined by the Commissioner of Taxation. The ATO sets a statutory life cap of 20 years on certain classes of gas transmission and distribution assets.¹⁴³ We consider that the standard tax asset lives for most asset classes should be consistent with the ATO Taxation Ruling 2022/1 regarding the effective life of depreciating assets where possible.¹⁴⁴

As discussed above, the PTRM applies the diminishing value tax depreciation method for all new assets except for in-house software, buildings (capital works) and equity raising costs. It provides designated asset classes for these assets to be depreciated using the straight-line method for tax purposes.¹⁴⁵ We note that the tax effective lives for in-house software, buildings (capital works) and equity raising costs are not covered under the ATO Taxation Ruling 2022/1. Therefore, our assessment of the standard tax asset lives for these asset classes are guided by the *Income Tax Assessment Act 1997* (ITAA). Specifically, we consider that the standard tax asset life should be:

- 40 years for buildings. This is consistent with the number of years required to completely depreciate capital works assets such as buildings for tax purposes when applying sections 43.15, 43.140 and 43.210 of the ITAA.
 - 5 years for in-house software. This is consistent with subsection 40.95(7) of the ITAA.
 - 5 years for equity raising costs. This is consistent with section 40.880 of the ITAA.
- **The income tax rate:** The statutory income tax rate is 30% per annum for businesses of the size we regulate.

¹⁴² Federal Court of Australia, *Victoria Power Networks Pty Ltd v Commissioner of Taxation* [2020] FCAFC 169, 21 October 2020.

¹⁴³ ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2021)*, p. 179; ITAA section 40.102.

¹⁴⁴ ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*, June 2022.

¹⁴⁵ Our assessment approach on new assets to be exempted from the diminishing value method is discussed in detail below.

- **The value of gamma:** The gamma input is set out in the *2022 Rate of Return Instrument*, which requires us to use a gamma value of 0.57.¹⁴⁶ This is discussed further in Overview section 3.2.
- **The size and treatment of any tax losses as at 1 July 2025:** Where a service provider has tax losses under our benchmark approach, we require the provision of this value to determine the appropriate estimated taxable income for the access arrangement period. If there is an amount of tax losses accumulated, the forecast taxable income for the access arrangement period will be reduced by this amount.
- **Forecast immediately expensed capex:** The PTRM requires a forecast for immediately deductible capex to be provided for each regulatory year of the next access arrangement period. Our assessment of forecast immediately expensed capex will be guided by the service provider's actual immediately expensed capex from the previous access arrangement periods.¹⁴⁷ We collect actual data relating to this expenditure in our annual reporting regulatory information notices (RINs) to inform our decision on the amount of forecast immediately expensed capex. Benchmarking may also be used for assessing this forecast amount.¹⁴⁸
- **Diminishing value multiplier:** The PTRM applies the diminishing value method of tax depreciation and provides an input section for the 'diminishing value multiplier' to be recorded for each year of the access arrangement period. We apply a diminishing value multiplier of 200% as set by the ATO.
- **New assets to be exempted from the diminishing value method:** The PTRM applies the diminishing value method for tax depreciation purposes to all new depreciable assets except for certain assets. It provides for asset classes 47 to 50 to be depreciated using the straight-line method for tax purposes instead of the diminishing value method. These asset classes are to contain new assets associated with in-house software, buildings (capital works) and equity raising costs.

We consider that the benchmark equity raising costs should not be depreciated using the diminishing value method. We note that section 40.880 of the ITAA and the ATO's taxation ruling 2011/6¹⁴⁹ require that businesses claim deductions on equity raising costs in equal proportions over a five-year period. Therefore, in the PTRM, we apply the straight-line method for calculating the tax depreciation for equity raising costs, consistent with the ITAA and ATO's requirements.¹⁵⁰ Further, the gas pipeline service provider may propose capex associated with buildings and in-house software to be exempted from the diminishing value method of tax depreciation in the PTRM if the proposal satisfies the following requirements:

- **Buildings:** We consider that capex for buildings may be exempted from the diminishing value method in the PTRM, consistent with sections 43.15, 43.140 and

¹⁴⁶ AER, *Rate of Return Instrument*, February 2023, p. 9.

¹⁴⁷ In the tax review final report, we labelled our approach to determining the amount of capex that is to be immediately expensed as an 'actuals informed approach'. AER, *Final report, Review of regulatory tax approach*, December 2018, p. 66.

¹⁴⁸ AER, *Final report, Review of regulatory tax approach*, December 2018, pp. 66–67.

¹⁴⁹ ATO, *Taxation Ruling 2011/6*, July 2016.

¹⁵⁰ The benchmark cost for equity raising costs is determined within the PTRM.

43.210 of the ITAA. However, such capex must be consistent with the definition of a capital work under section 43.20 of the ITAA and in ATO taxation ruling 97/25.¹⁵¹ This includes new buildings and structural improvements to existing buildings.¹⁵² However, capex on separate assets within a building such as air-conditioning units, transformers and converters are not consistent with the definition of a capital work, and therefore are required to be depreciated using the diminishing value method in the PTRM.

- **In-house software:** We consider that capex for in-house software may be exempted from the diminishing value method in the PTRM, consistent with section 40.72 of the ITAA. However, such capex must be consistent with the definition of in-house software under section 995.1 of the ITAA and in ATO taxation ruling 2016/3.¹⁵³ This includes computer software, or the right to use computer software that the service provider acquires, develops or has someone else develop for the service provider's business use.¹⁵⁴ However, capex associated with other IT assets such as computer hardware is not consistent with the definition of in-house software, and therefore is required to be depreciated using the diminishing value method in the PTRM.

In assessing the service provider's proposal, we have had regard to the National Gas Objective (NGO) and the revenue and pricing principles.¹⁵⁵ The NGR also require that any forecast must be arrived at on a reasonable basis and must represent the best forecast or estimate possible in the circumstances.¹⁵⁶

A.3.3 Interrelationships

The cost of corporate tax income building block feeds directly into the annual revenue requirement. This amount is determined by five factors:

- pre-tax revenues
- tax expense (including tax depreciation)
- the corporate tax rate
- any tax losses carried forward
- gamma — the expected proportion of company tax that is returned to investors through the utilisation of imputation credits—which is offset against the corporate income tax payable.

Of these factors, the corporate tax rate is set externally by the Australian Government. The higher the tax rate, the higher the required tax payable.

¹⁵¹ ATO, Taxation Ruling 97/25, July 2017.

¹⁵² ITAA, section 43.20.

¹⁵³ ATO, Taxation Ruling 2016/3, October 2018.

¹⁵⁴ ITAA, section 995.1.

¹⁵⁵ National Gas Law (NGL), s. 28; NGR, r. 100(1). The NGO is set out in NGL, s. 23. The revenue and pricing principles are set out in NGL, s. 24.

¹⁵⁶ NGR, r. 74(2).

The pre-tax revenues depend on all the building block components. Any factor that affects revenue will therefore affect pre-tax revenues. Higher pre-tax revenues can increase the tax payable.¹⁵⁷ Depending on the source of the revenue increase, the tax increase may be equal to or less than proportional to the company tax rate.¹⁵⁸

The tax expenses (or deductions) depend on various building block components and their size. Some components give rise to tax expenses, such as opex, interest payments and tax depreciation of assets. However, others do not, such as increases in return on equity. Higher tax expenses offset revenues as deductions in the tax calculation and therefore reduce the cost of corporate income tax (all things being equal). Tax expenses include:

- Interest on debt – because interest is a tax offset. The size of this offset depends on the ratio of debt to equity and therefore the proportion of the capital base funded through debt. It also depends on the allowed return on debt and the size of the capital base.
- General expenses – these expenses generally will match the opex forecast including any revenue adjustments, but the assessment of whether they should be treated as a tax expense occurs on a case-by-case basis.
- Tax depreciation – a separate TAB is maintained for the service provider, reflecting tax rules. This TAB is affected by many of the same factors as the capital base, such as capex. However, unlike the capital base value, the TAB is maintained at its historical cost with no indexation. The TAB is also affected by the depreciation rate/method and asset lives assigned for tax depreciation purposes.

A service provider that has tax expenses which are greater than its taxable revenue in a period would not be subject to pay tax and instead will generate a tax loss. A tax loss can be carried forward to offset against tax payable in future access arrangement periods.

For a service provider that does not have tax losses, a 10% increase to the cost of corporate income tax amount generally causes unsmoothed revenues (\$ nominal) to increase by up to 1%.

¹⁵⁷ In fact, there is an iterative relationship between tax and revenues. That is, revenues lead to tax, being applied, which increases revenues and leads to slightly more tax and so on. The PTRM is therefore set up to run an iterative process until the revenue and the cost of corporate income tax become stable.

¹⁵⁸ For example, although increased opex adds to revenue requirement, these expenses are also offset against the revenues as deductions in determining tax, so there is no net impact in this case. A higher return on equity, in contrast, gives rise to no offsetting tax expenses and therefore increases the tax payable in proportion to the company tax rate.

Glossary

| Term | Definition |
|-------|--|
| AEMC | Australian Energy Market Commission |
| AEMO | Australian Energy Market Operator |
| AER | Australian Energy Regulator |
| capex | capital expenditure |
| CCP33 | Consumer Challenge Panel, sub-panel 33 |
| CPI | consumer price index |
| NGO | National Gas Objective |
| NGL | National Gas Law |
| NGR | National Gas Rules |
| opex | operating expenditure |
| PTRM | Post-tax Revenue Model |
| RFM | Roll Forward Model |
| RIN | Regulatory Information Notice |
| WACC | Weighted average cost of capital |
