

Draft decision

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

**Attachment 7 – Efficiency carryover
mechanism**

November 2025

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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

Contents

List of attachments	iii
7 Efficiency carryover mechanism	1
7.1 Draft decision	1
7.2 AGN’s proposal	2
7.3 Assessment approach	2
7.4 Reasons for the draft decision	4
7.5 Revisions	6
Glossary	8

7 Efficiency carryover mechanism

An efficiency carryover mechanism (ECM) is intended to provide a continuous incentive for service providers to pursue efficiency improvements in operating expenditure (opex), and provide for a fair sharing of these between service providers and network users.

This attachment sets out our draft decision on the ECM carryover amounts that AGN accrued over the 2021–26 access arrangement period (2021–26 period), and the ECM that we will apply in the 2026–31 access arrangement period (2026–31 period).

7.1 Draft decision

Our draft decision is to approve carryover amounts totalling $-\$8.9$ million ($\$2025-26$)¹ from the application of the ECM in the 2021–26 period. This is $\$0.4$ million higher than AGN’s proposal of $-\$9.3$ million.²

The difference between our draft decision and AGN’s proposal largely reflects that we have made adjustments for ancillary reference services for 2019–20 and 2020–21 (section 7.4.1.1).

We set out our draft decision on the ECM carryover amounts AGN accrued during the 2021–26 period in Table 7.1, along with AGN’s proposal and the difference.

Table 7.1 AER draft decision on AGN’s carryover amounts (\$million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
AGN’s proposal	4.8	-5.6	-4.2	-4.3	-	-9.3
AER draft decision	5.2	-5.6	-4.2	-4.3	-	-8.9
Difference	0.4	0.0	0.0	-0.0	-	0.4

Source: AGN SA, *Attachment 11 – Workbook 3 – ECM*, 1 July 2025; AER analysis.

Note: Numbers may not add due to rounding. Amounts of ‘0.0’ and ‘-0.0’ represent small non-zero amounts, and ‘-’ represents zero.

In our final decision, we will update these carryover amounts to reflect the full year of actuals for 2024–25, and update our inflation forecast for 2025–26.

Our draft decision is to continue to apply the ECM to AGN in the 2026–31 period, subject to amendments that we discuss in section 7.4.2.1. We have set out the related revisions to AGN’s access arrangement in section 7.5.

¹ All dollars are in $\$2025-26$, unless otherwise stated.

² AGN SA, *2026–31 Final Plan*, 01 July 2025, p. 123.

7.2 AGN’s proposal

7.2.1 Carryover amounts from the 2021–26 period

AGN proposed ECM carryover amounts totalling –\$9.3 million from the application of the ECM in the 2021–26 period.³ AGN excluded the following cost categories in calculating its ECM carryover amounts:⁴

- debt raising costs
- unaccounted for gas
- vulnerable customers assistance program
- ancillary reference services opex
- movements in provisions related to opex.

7.2.2 Application in the 2026–31 period

AGN proposed that we continue to apply the ECM in the 2026–31 period,⁵ and proposed the following for calculating the ECM carryover amounts:⁶

- excluding cost categories that are not forecast using a single year revealed cost approach in the access arrangement period following this Access Arrangement Period (intended to commence 1 July 2031)
- excluding cost categories the AER determines, as part of a decision on revisions to apply to this Access Arrangement, to exclude from the operation of the efficiency carryover mechanism because it is satisfied that it would not promote the National Gas Objective
- adjusting forecast opex for any cost pass through amounts
- adjusting forecast opex for any capitalisation changes.

7.2.3 Stakeholder submissions

We received one submission on AGN’s ECM proposal. The South Australian Reference Group Review Panel supported the continued operation of the ECM in the 2026–31 period.⁷

7.3 Assessment approach

An ECM is a form of incentive mechanism. A full access arrangement may include (and we may require it to include) one or more incentive mechanisms to encourage efficiency in the

³ AGN SA, *2026–31 Final Plan*, 01 July 2025, p. 123.

⁴ AGN SA, *Attachment 11 Workbook 3 – ECM*, 01 July 2025.

⁵ AGN SA, *2026–31 Final Plan*, 01 July 2025, p. 125.

⁶ AGN SA, *AA 1 July 2026 to 30 June 2031*, 01 July 2025, p. 21.

⁷ South Australian Reference Group Review Panel (SARG), *Submission on AGN (SA) 2026–31 Access arrangement proposal*, August 2025, pp. 31–32.

provision of services by the service provider.⁸ An incentive mechanism must be consistent with the revenue and pricing principles.⁹

We consider the following revenue and pricing principle is most relevant for assessing AGN's proposed ECM:

A service provider should be provided with effective incentives in order to promote economic efficiency with respect to reference services the service provider provides.

The economic efficiency that should be promoted includes:

- a) efficient investment in, or in connection with, a pipeline with which the service provider provides reference services; and
- b) the efficient provision of pipeline services; and
- c) the efficient use of the pipeline.¹⁰

7.3.1 Interrelationships

The ECM is intrinsically linked to our opex revealed cost forecasting approach.

Our opex forecasting method typically relies on using the 'revealed costs' of the service provider in a chosen base year to develop a total opex forecast, if the chosen base year opex is not considered to be 'materially inefficient'. Under this approach, a service provider would have an incentive to spend more opex in the expected base year. Also, a service provider would have less incentive to reduce opex towards the end of the access arrangement period, where the benefit of any efficiency gains is retained for less time.

The application of the ECM serves 2 important functions:

1. It removes the incentive for a service provider to report higher opex in the expected base year to gain a higher opex forecast for the next access arrangement period.
2. It provides a continuous incentive for a service provider to pursue efficiency improvements across the access arrangement period.

The ECM does this by allowing a service provider to retain efficiency gains (or losses) for a total of 6 years, regardless of the year in which the service provider makes them. Where we do not propose to rely on the single year revealed costs of a service provider in forecasting opex, this has consequences for the service provider's incentives and our decision on how we apply the ECM.

When a business makes an incremental efficiency gain, it receives a reward through the ECM, and consumers benefit through a lower revealed cost forecast for the subsequent access arrangement period. This is how efficiency improvements are shared between consumers and the business. If we subject costs to the ECM that are not forecast using a revealed cost approach, a business would in theory receive a reward for efficiency gains through the ECM (at a cost to consumers), but consumers would not benefit through a lower

⁸ NGR, r. 98(1).

⁹ NGR, r. 98(3).

¹⁰ National Gas Law, s. 24(3).

revealed cost forecast in the subsequent access arrangement period. Therefore, we typically exclude costs that we do not forecast using a single year revealed cost forecasting approach.

For these reasons, our decision on how we will apply the ECM has a strong relationship with our decision on a business's opex (see Attachment 3). We have careful regard to the effect of our ECM decision when making our opex decision, and our ECM decision is made largely in consequence of (and takes careful account of) our past and current decisions on opex.

7.4 Reasons for the draft decision

7.4.1 Carryover amounts from the 2021–26 period

We do not accept AGN's proposed carryover amounts totalling –\$9.3 million, from the application of the ECM in the 2021–26 period. Our draft decision is to approve carryover amounts totalling –\$8.9 million, which is \$0.4 million higher than AGN's proposal. This difference reflects that we have excluded ancillary reference services from forecast and actual opex for 2019–20 and 2020–21, and used the most recent inflation data to convert amounts into 2025–26 dollars. We discuss these below. Full details of our draft decision are set out in our ECM model, which is available on our website.

Consistent with AGN's proposal and our standard approach in calculating ECM carryover amounts, we have also made the adjustments and exclusions discussed in section 7.2.1.

7.4.1.1 Ancillary reference services for 2019–20 and 2020–21

We have excluded ancillary reference services expenditure from both forecast opex and actual opex for 2019–20 and 2020–21. AGN did not do this. The ECM did not apply to ancillary reference services expenditure during the 2021–26 period.¹¹ Accordingly, AGN removed ancillary reference services expenditure from its forecast and actual opex for the 5 years of the 2021–26 period when it calculated its proposed carryover amounts.¹² However, it did not remove ancillary reference services expenditure from its forecast and actual opex for 2019–20 and 2020–21. Consequently, changes in forecast or actual ancillary reference services expenditure in those years resulted in carryover amounts in the 2021–26 period, despite ancillary reference services being excluded from the ECM for the 2021–26 period.

7.4.1.2 Inflation

Consistent with our standard approach, and our opex forecast, we used unlagged inflation to convert amounts to 2025–26 dollars.¹³ AGN used the same approach in its proposal.¹⁴

We have used the latest inflation values available, which were not available at the time AGN submitted its proposal. For 2024–25, we used the actual headline consumer price index

¹¹ This is consistent with clause 5.1 (h)(i)(a) of the 2021–26 access arrangement. AER, *Final decision, AGN(SA) access arrangement 2021–26 – Approved Access Arrangement(clean)*, 30 April 2021, p. 20.

¹² AGN SA, *Attachment 11 Workbook 3 – ECM*, 01 July 2025.

¹³ This ensures AGN is not accruing carryovers that are not being passed on to customers.

¹⁴ AGN SA, *Attachment 11 Workbook 3 – ECM*, 01 July 2025.

figure published by the Australian Bureau of Statistics.¹⁵ For 2025–26, we used the inflation forecast in the Reserve Bank of Australia's August 2025 Statement on monetary policy.¹⁶

7.4.2 Application in the 2026–31 period

Our draft decision is to continue to apply the ECM to AGN during the 2026–31 period to Haulage Reference Services. We consider applying the scheme will benefit the long-term interests of gas consumers, as it will provide continuous incentives for AGN to reduce opex. Provided we forecast AGN's future opex using its revealed costs in the 2026–31 period, any efficiency gains it achieves will lead to lower opex forecasts, and thus lower network tariffs.

The ECM specifies our approach to adjusting forecast or actual opex when calculating carryover amounts. We provide details on this below.

7.4.2.1 Adjustments to forecast or actual opex when calculating carryover amounts

The ECM allows us to exclude categories of costs that we do not forecast using a single year revealed cost forecasting approach in the following access arrangement period. We do this to fairly share efficiency gains and losses. For instance, where a service provider achieves efficiency improvements, customers receive a benefit through lower forecast opex in the next access arrangement period. This is the way consumers and the service provider share in the benefits of an efficiency improvement. If we do not use a single year revealed cost forecasting approach, we may not pass the benefits of these revealed efficiency gains to consumers. It follows that consumers should not pay for ECM rewards where they do not receive the benefits of a lower opex forecast.

In applying the ECM to AGN in the 2026–31 period, we will adjust the following when we calculate the carryover amounts accrued during the period:

- remove any movements in provisions related to opex from actual opex
- remove cost categories that are not forecast using a single year revealed cost approach in the period commencing 1 July 2031 from forecast and actual opex, which includes:
 - debt raising
 - unaccounted for gas
- remove any opex allocated or attributed to Ancillary Reference Services from forecast and actual opex, since the ECM will only apply to Haulage Reference Services
- remove forecast and actual opex for any cost that the AER determines to exclude from the operation of the ECM, because including them would not promote the National Gas Objective
- add (subtract) any approved revenue increments (decrements) to forecast opex that occur during the access arrangement period, such as approved pass through amounts

¹⁵ Australian Bureau of Statistics, Consumer Price Index, Australia, September quarter 2025: <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/sep-quarter-2025>.

¹⁶ Reserve Bank of Australia, Statement on monetary policy, August 2025: <https://www.rba.gov.au/publications/smp/2025/aug/outlook.html#3-5-detailed-forecast-information>.

- adjust forecast and actual opex for inflation.

Consistent with the above, we consider the following revisions should be made to AGN's proposed access arrangement:¹⁷

- clarify that opex expenditure refers to Haulage Reference Services
- insert a new clause 5.1(h)(ii), to explicitly clarify the adjustment for unaccounted for gas
- insert a new clause 5.1(h)(iii), to explicitly clarify the adjustment for debt raising costs
- insert a new clause 5.1(h)(iv), to explicitly clarify the adjustment for Ancillary Reference Services
- insert a new clause 5.1(h)(v), to explicitly clarify the adjustment for movements in provisions related to operating expenditure
- insert a new clause 5.1(l). We consider this will provide clarity on the input forecasts which should apply, including to ensure any forecast opex amounts approved after the final decision are included in the ECM calculations.

7.5 Revisions

We require the following revisions to make the access arrangement proposal acceptable as set out in Table 7.2.

Table 7.2 Revisions

Revision	Amendments
Revision 7.1	Amend the sentence immediately below section 5.1 Efficiency Carryover Mechanism in the access arrangement to instead read: An efficiency carryover mechanism will apply to the Haulage Reference Service operating expenditure.
Revision 7.2	Include a new clause 5.1(h)(ii), which reads: Unaccounted for gas
Revision 7.3	Include a new clause 5.1(h)(iii), which reads: Debt raising costs
Revision 7.4	Include a new clause 5.1(h)(iv), which reads: any operating expenditure allocated or attributed to Ancillary Reference Services
Revision 7.5	Include a new clause 5.1(h)(v), which reads: Movements in provisions related to operating expenditure
Revision 7.6	Include a new clause 5.1(l), which reads: For avoidance of doubt, the forecast operating expenditure amounts that are used as the basis for measuring efficiencies are equal to the approved

¹⁷ AGN SA, AA 1 July 2026 to 30 June 2031, 1 July 2025, pp. 19–21.

	<p>forecast operating expenditure in the most recent AGN Revenue Model published by the AER from time to time (plus any other operating expenditure approved by the AER), subject to the exclusions set out in clause 5.1(h).</p>
<p>Revision 7.7</p>	<p>Make revisions necessary to update the carryovers from the application of the efficiency carryover mechanism in the 2021–26 Access Arrangement period, in line with our draft decision.</p>

Glossary

Term	Definition
AER	Australian Energy Regulator
AGN	Australian Gas Networks (SA)
ECM	efficiency carryover mechanism
NGL	National Gas Law
NGR	National Gas Rules
opex	operating expenditure
