Draft decision

Australian Gas Networks (SA) access arrangement 2026 to 2031

(1 July 2026 to 30 June 2031)

Attachment 2 – Capital expenditure

November 2025

AUSTRALIAN ENERGY REGULATOR

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List of attachments

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

The draft decision includes the following documents:

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2 Capital expenditure

Capital expenditure (capex) refers to the capital costs and expenditure incurred in the provision of pipeline services.[1] This investment mostly relates to assets with long lives and these costs are recovered over several access arrangement periods.

In this attachment, we outline our assessment of AGN's capex proposal for the 2026–31 access arrangement period (2026–31 period). Our draft decision consists of two parts:

- whether capex spent in the 6 years before the 2026–31 period is conforming capex and should be added to the opening capital base[2]
- whether forecast of capex for the 2026–31 period meets the conforming capex criteria in the National Gas Rules (NGR).[3]

2.1 Draft decision

2.1.1 Capex for the 2020–21 and the 2021–26 period

We approve AGN's actual capex for 2020–21 and the 2021–24 period as conforming capex.

We have included AGN's estimate of capex from 2024–26 in the capital base, as actual capex is not yet available. We will assess whether AGN's actual capex for 2024–25 is conforming capex in our final decision for the 2026–31 access arrangement and will assess whether AGN's actual capex for 2025–26 is conforming capex in the subsequent (2031–36) access arrangement review. We will adjust for any differences between actual and estimated capex.[4]

2.1.2 Capex for the 2026–31 period

We do not accept AGN's capex forecast of $503.0 million ($2025–26) capex for the 2026–30 access arrangement period as conforming capex under the NGR. Our draft decision is an alternative estimate of $428.0 million ($2025–26) capex.

Overall, we found that most aspects of AGN's proposal were likely to be conforming capex. We determined an alternative estimate of $428.0 million ($74.9 million or 14.9% less than AGN's proposal) because we did not accept AGN's proposed expenditure on information and communication technology (ICT) ($63.5 million reduction) and meter replacement ($10.4 million reduction).

Table 2.1 compares our alternative estimate to AGN's forecast.

1 NGR, r. 69.

2 NGR, r. 77 sets out the process for determining the opening capital base.

3 These criteria are set out in NGR, r. 79.

4 This is consistent with our obligations under NGR, rr. 77(2), 79.

Table 2.1 AER draft decision by capex category ($ million, 2025–26)

Category	Proposed 2026–31 Capex	AER alternative estimate	Difference over capex category ($/%)	
Connections	155.0	155.0	-	-
ICT	92.3	28.8	-63.5	-68.8%
Other Network	91.9	91.9	-	-
Mains replacement	84.9	84.9	-	-
Meter replacement	38.4	28.0	-10.4	-27.1%
Overheads	22.6	21.6	-1.0	-4.4%
Other non-network	7.7	7.7	-	-
Mains augmentation	6.4	6.4	-	-
Telemetry	3.8	3.8	-	-
Gross Total	**503.0**	**428.0**	**-74.9**	**14.9%**
Less Customer contribution connections	-	-	-	-
Less Disposals	-	-	-	-
Net Total	**503.0**	**428.0**	**–74.9**	**14.9%**

Source: AGN's capex model, AER analysis.

Note: Numbers may not sum due to rounding.

2.2 AGN's proposal

2.2.1 Capex in 2020–21 and the 2021–26 period

AGN reports that its actual net capex in 2020–21 was $123.6 million,[5] and that its actual and estimated capex in the 2021–26 period is $548.3 million.[6] AGN's allowance for 2020–21 was $136.3 million, and for 2021–26 it was $621.1 million.[7]

2.2.2 Capex for the 2026–31 period

AGN has proposed $503.0 million ($2025–26) capex for the 2026–2031 access arrangement period.

Table 2.2 compares AGN's capex forecast for the 2026–31 period with its actual and estimated capex in the 2021–26 period.

5 AGN, *Attachment 1.6 Roll Forward Model_120250701;* AER analysis.

6 AGN, *AGN SA 2026–31 FINAL PLAN*, July 2025, p. 97; AGN, *AGN SA Attachment 9.8 Capex Forecast Model,* July 2025.

7 AGN, *AGN SA Attachment 1.5 Post Tax revenue model – 2025-26 return on debt update* – March 2025; AER Analysis.

AGN are forecasting $503.0 million in capex for the 2026–31 access arrangement period. This is $45 million or 8.3% less than the current access arrangement period. This reduction is being driven by the completion of AGN's extensive mains replacement program over the past decade and reductions in augmentation and associated overheads. These have been offset by increases in te and meter replacements, which have been the subject of our review and are considered in this draft decision.

Table 2.2 AGN's forecast capex categories verses current period actual/estimates ($ million, 2025–26)

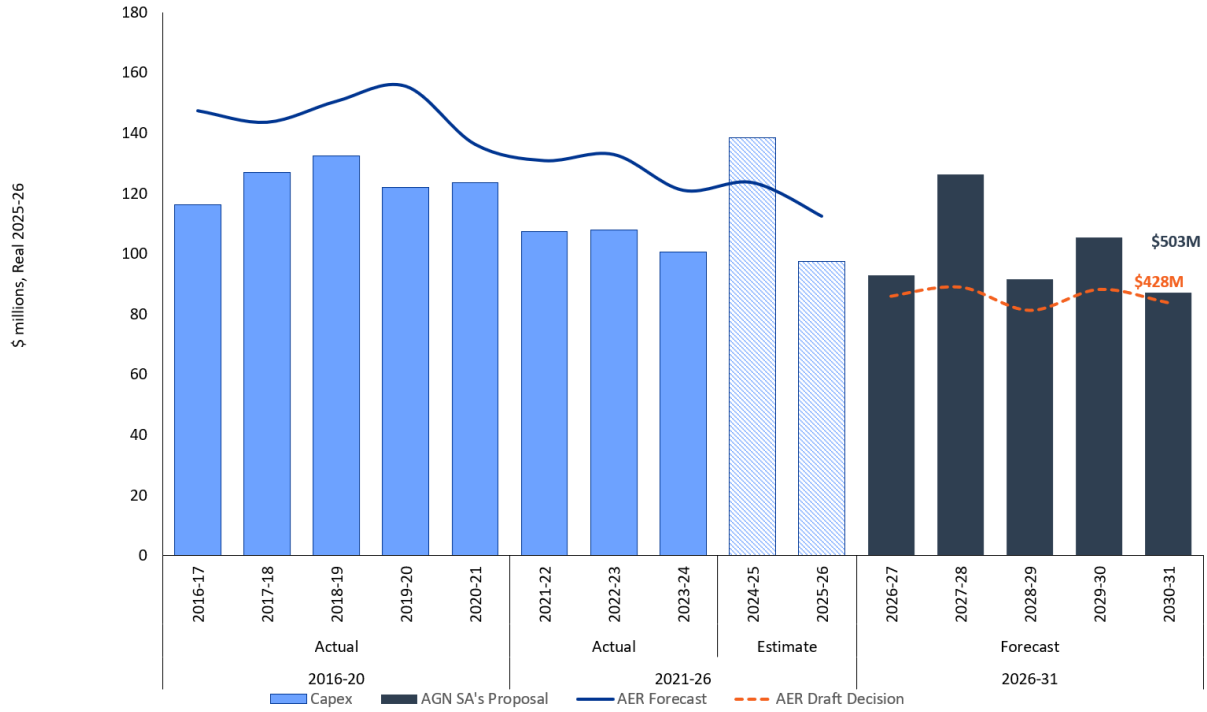
Category	AGN's 2021–26 capex	AGN's 2026–31 forecast	Change from 2021–26 (%)	Proportion of total capex
Connections	141.0	155.0	9.9%	31%
IT	38.9	92.3	137.3%	18%
Other Network	56.7	91.9	62.1%	18%
Mains replacement	216.0	84.9	-60.7%	17%
Meter replacement	21.1	38.4	82.0%	8%
Overheads	56.9	22.6	-60.3%	4%
Other non-network	5.7	7.7	35.1%	2%
Mains augmentation	10.1	6.4	-36.6%	1%
Telemetry	2.0	3.8	90.0%	1%
Gross capex	**548.3**	**503.0**	**-8.3%**	**100%**
Capital contributions	-	-	-	-
Less disposals	-	-	-	-
Net capex	**548.3**	**503.0**	**-8.3%**	

Source: AER analysis.

Note: Numbers may not add up to total due to rounding.

Figure 2.1 shows AGN's actual and estimated expenditure over the last 2 access arrangement periods alongside our forecast, as well as its proposed capex for the 2026–31 period alongside our draft decision alternative estimate.

Figure 2.1 AGN's historical and forecast capex ($ million, 2025–26)



Source: AER RIN Database, AER Analysis.
Note: Nominal figures converted to real dollars 2025–2026.

2.3 Assessment approach

We must make 2 decisions on AGN's capex. First, we assess past capex to determine whether it is conforming capex that can be added to the opening capital base.[8] Second, we assess AGN's forecast of required capex for the 2026–31 period to determine whether it meets the new capex criteria set out in the NGR.[9]

The following sections set out our approach and the tools and techniques we employ in forming these decisions.

2.3.1 Capex in 2020–21 and the 2021–26 period

We reviewed AGN's submission and supporting material to assess its actual and estimated capex for the 2021–26 access arrangement period. Where capex was higher than forecast in our final decision, we scrutinised AGN's reasons for the overspend. We also had regard to the presence of the capital expenditure sharing scheme (CESS), and the incentive this provides to deliver efficient capex.[10] We used this information to identify whether capex over the 2021–26 period was conforming capex.

8 Under NGR, r. 77(2)(b), we add capital expenditure to the capital base only if it is conforming capital expenditure.

9 NGR, r. 79.

10 The capital expenditure sharing scheme provides an incentive for a service provider to realise savings on its capex program by rewarding those service providers that spend less capex than forecast and penalising those that spend more than forecast. Further information can be found in the CESS section at attachment 6.

2.3.2 Capex in the 2026–31 period

Our draft decision is made on total forecast capex in accordance with the new capex criteria in the NGR.[11]

To make a decision, we construct an alternative estimate of conforming capex and compare it to AGN's proposal. If our alternative estimate is not materially different to AGN's proposal, we will accept AGN's proposal. On the other hand, if there is a material difference at the total capex level, we will not accept AGN's forecast, and substitute it with our alternative estimate.

We have assessed the key drivers of forecast capex to consider whether AGN's proposed capex complies with the new capex criteria. In doing so, we relied on the following information:

- AGN's access arrangement submission and access arrangement information, which outlines its capex program and the main drivers of those programs
- business cases that detail the expenditure requirements for specific projects
- AGN's Regulatory Information Notice (RIN) responses
- AGN's capex forecast model
- responses to information requests
- submissions from interested parties
- advice from our demand consultants, Frontier Economics.

Our assessment was particularly focused on the materiality of the capex categories, whether the expenditure was significantly higher than historical expenditure, whether the capex related to a new type of asset, where our decision would serve as a substantial precedent in future decisions, or where stakeholders have raised significant issues. We also took into consideration the interrelationships between the capex forecast and other constituent components of our draft decision, to assist in determining if it contributes to the achievement of the National Gas Objective (NGO).[12]

2.3.3 Interrelationships

In assessing AGN's total forecast capex, we also considered other components of its access arrangement proposal, including:

- possible trade-offs between capex and operating expenditure (opex)
- any differences between capitalisation policies applied in the 2021–26 and 2026–31 periods
- the growth in the price of labour for opex and capex
- demand forecasts, particularly relating to forecast new gas connections.

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11 NGR, r. 79(1).

12 We are required to do this under NGL, s. 28(1).

2.4 Submissions on the proposal

We received 6 stakeholder submissions on AGN's proposal:

- Consumer Challenge Panel, CCP33
- Energy & Water Ombudsman SA
- AGN's SA Reference Group, Review Panel
- Energy Consumers Australia
- South Australian Council of Social Services.[13]

Multiple submissions raised concerns about AGN's proposal for additional depreciation as well as proposed investment in connections and hydrogen gas adaption. Energy Consumers Australia and the SA Reference Group also raised concerns with AGN's ICT expenditure. The SA Reference Group stated that

> the proposed ICT expenditure is a large uplift from the current period and we recommend that the AER closely review the implementation plan given the many examples of network overspend on ICT in recent years.[14]

2.5 Reasons for the draft decision

Below we outline the reasons for our draft decision on capex for the current and forecast periods.

2.5.1 Capex for the 2020–21 and the 2021–26 period

AGN's actual and estimated capex for the 2021–26 access arrangement is $548.3 million, compared with the AER's final decision of $621.1 million.[15] AGN's actual and estimated expenditure was lower than the final decision across most expenditure categories, except for other capex.[16]

Our decision on conforming capex also relates to capex for 2020–21. Owing to the timing of our 2021–26 access arrangement decision, we only had estimates of the expenditure for 2020–21. AGN has underspent its capex allowance for that year of $136.3 million by $12.7 million, with actual expenditure of $123.6 million.[17]

We reviewed AGN's access arrangement proposal and supporting material to assess its actual and estimated capex for the 2021–26 access arrangement period. Where capex was

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13 CCP33 – *Advice to AER – Submission on AGN(SA) 2026–31 Access Arrangement Proposal* – August 2025; Energy & Water Ombudsman SA – *Submission on AGN(SA) 2026–31 Access Arrangement Proposal* – August 2025; SARG Review Panel – *Submission on AGN(SA) 2026–31 Access Arrangement Proposal* – August 2025; Energy Consumers Australia – *Submission on AGN(SA) 2026–31 Access Arrangement Proposal* – August 2025; SACOSS – *Submission on AGN(SA) 2026–31 Access Arrangement Proposal* – August 2025.

14 SARG Review Panel – *Submission on AGN(SA) 2026–31 Access Arrangement Proposal* – August 2025, pp. 6–7.

15 AGN, *AGN SA Attachment 1.5 Post Tax revenue model – 2025-26 return on debt update* – March 2025; AER Analysis.

16 AGN, *AGN SA – Appendix B Supporting Information 4.3 Capital Expenditure AA Period Variance – 20250701*, July 2025.

17 AGN, *AGN SA Attachment 1.5 Post Tax Revenue Model_20250701*. July 2025,

higher than accepted in our final decision, we scrutinised AGN's reasons for the overspend. We also had regard to the presence of the CESS, and the incentive this provides to deliver efficient capex.[18] We used this information to identify whether capex over the period was conforming capex. The framework allows regulated businesses to reprioritise capex to achieve prudent and efficient outcomes, such as response to safety priorities.

We are satisfied that AGN's actual capex reasonably reflects the capex criteria and is conforming.

2.5.1 Capex for the 2026–31 period

We do not accept AGN's forecast of $503.0 million capex. We have instead adopted our alternative estimate of $428.0 million, as likely to reflect conforming capex. We formed our alternative estimate by undertaking a top-down assessment of AGN's capex, followed by a more detailed review of AGN's forecast capex categories. Our assessment was focused on the materiality of the capex categories, whether the capex related to a new type of asset, where expenditure was significantly higher than historical, where our decision would serve as a substantial precedent in future decisions, or where stakeholders have raised significant issues. We did not undertake a detailed analysis of capex that was relatively small, forecast using established modelling approaches and that had inputs in line with our expectations.

The reasons for our draft decision are set out in Table 2.4while a more detailed assessment of the key issues is provided in Appendix A.

2.5.1.1 Better Resets Handbook expectations

In considering the scope of our review, we had regard to how AGN has performed against the Better Resets Handbook expectations for capex.[19]

We have applied the Better Resets Handbook expectations to guide our assessment and identify which areas required a more in-depth assessment. We summarise our assessment of AGN's proposal against the Better Resets Handbook in Table 2.3.

Table 2.3 Better Resets Handbook Expectations

Capex expectations	Comment
Top-down testing of the total capital expenditure forecast and at the category level	AGN has partially met this expectation. We consider that while AGN's total capex is lower than in the 2021–26 period, this is driven by AGN's significant reduction of mains replacement as the program is reaching completion. This reduction is offset by uplifts in ICT, metering, connections and other network capex. We did not consider the scope of our review could be greatly reduced based on a top-down assessment.

[18] The capital expenditure sharing scheme provides an incentive for a service provider to realise savings on its capex program by rewarding those service providers that spend less capex than forecast and penalising those that spend more than forecast. Further information can be found in the CESS section at Attachment 6.

[19] AER, *Better Resets Handbook - December 2021*, 9 December 2021, pp. 19–23.

Capex expectations	Comment
Evidence of prudent and efficient decision-making on key projects and programs	AGN has partially met this expectation. AGN provided information in support of this expectation, including business cases and models. However, its proposal contained many complex issues, such as its ICT transition project and an uplift in meter replacement that required a detailed assessment and the need for additional information. Ultimately, the complexity of the issues involved, including uplifts in business-as-usual capex meant that we could not determine that AGN's expenditure was prudent and efficient without a further review of AGN's capex programs.
Evidence of alignment with asset and risk management standards	AGN has partially met this expectation. AGN provided its risk assessment and management standards information which informed our assessment. However, we identified a number of areas where further information was required, such as ICT and metering.
Genuine consumer engagement on capital expenditure proposals	AGN has met this expectation. AGN's consultation was comprehensive and had positive feedback from stakeholders.

Source: AER analysis.

2.5.1.2 Top-down assessment

We have undertaken a top-down assessment of AGN's total capex and a similar assessment of each capex category.

AGN's total forecast net capex is $503.0 million, which is $45 million (or 8.3%) lower than its 2021–26 period actual (and estimated) capex of $548.3 million. The reduction is largely driven by AGN completing its mains replacement program. AGN advises that by the end of the current access arrangement period, all cast iron, unprotected steel, and other high-risk low/medium-pressure mains will be removed from its network. Going forward, the program will continue on a smaller scale with targeted, proactive replacements of protected steel mains that operate at higher pressures.[20]

We were not satisfied, from a top-down perspective, that AGN's total capex is conforming capex. We considered a more detailed review of the drivers of AGN's forecast was necessary to form an alternative estimate of conforming capex. Our review focused on capex for ICT, meter replacement and connections.

[20] AGN, *AGN SA 2026–31 FINAL PLAN*, July 2025, p. 97.

2.5.1.3 Capex category assessment

Table 2.4 summarises our review of AGN's capex categories.[21] We considered capex relating to ICT and metering, were higher than necessary to meet the capex criteria. We formed the view that an alternative estimate of $428.0 million (net capex) was reasonably likely to reflect prudent and efficient costs, which is $74.9 million or 14.9% less than AGN's proposal. This is a result of not accepting AGN's proposed expenditure on information and communication technology (ICT) ($63.5 million reduction) and meter replacement ($10.4 million reduction). We are of the view that all capex included in our alternative estimate is justifiable capex under one or more of clauses 79(2) of the NGR. Our analysis of key capex categories is further explained in Appendix A.

Table 2.4 Summary of our findings and reasons, by capex category

Issue	Findings and reasons
Connections	We have included AGN's proposed $155.0 million ($2025–26) for connections capex in the total forecast capex as a placeholder. AGN forecast 34,000 new connections over the 2026−31 period, an average of 6,800 per year. AGN's actual and forecast customer connections has shown steady and consistent growth (now forecast at 0.3% per year) despite consistent incremental declines in gas demand (consumption per connection is declining by 5.5% per year).[22] Customers are still requesting gas connection, but the level of usage is declining. This is being driven by several external factors including higher gas prices, improved appliance and dwelling efficiency. Our decision is a placeholder because the Australian Energy Market Commission (AEMC) has made a draft rule change in response to a rule change request from Energy Consumers Australia which seeks to require gas network distributors to charge newly connecting retail gas customers cost-reflective connection charges upfront.[23] We expect the final rule change to come into operation in December 2025. This may mean that from 1 July 2026, being the commencement of the 2026–31 access arrangement, AGN will be required to charge customers for connections up front and a forecast of connection capex, recovered from all customers, will no longer be necessary. We have accepted the forecast connection costs of $155.0 million for the purposes of this draft decision, and subject to the AEMC's final decision on the rule change, we would expect AGN to remove the forecast connection costs for its 2026–31 access arrangement revision in its revised proposal. We also expect up front customer connection charges to have an impact on the demand for AGN's gas services and require AGN to update its demand forecast in its revised proposal. Our draft decision on AGN's demand forecast is considered in Attachment 4.
ICT	We have not included all of AGN's ICT in the total forecast capex. AGN proposed $92.3 million ($2025–26) for ICT capex. Our draft decision is to include $28.8 million. This is $63.5 million or 68.8% less than what AGN proposed. We found that:

21 Our findings on each capex driver are part of our broader analysis. They should not be considered in isolation. We do not approve a forecast of expenditure for each individual capex driver or project/program. Instead, we use our findings on the different capex drivers to assess the proposal as a whole and arrive at an alternative estimate for total capex where necessary. Our decision on total capex does not limit the service provider's actual spending.

22 AGN, *AGN SA 2026–31 FINAL PLAN*, July 2025, pp. 55,131.

23 AEMC, *Draft rule determination, National Gas Amendment (Updating the regulatory framework for gas connections) Rule*, 18 September 2025.

Issue	Findings and reasons
	• AGN's proposed expenditure for its preferred option for the transition project, included general risk allowances, as well as high labour rates and hours compared to current market estimates. Further, the ICT transition costs are not clearly articulated as being directly attributed to the AGN business. We require further information on: - the additional benefits and further analysis demonstrating that AGN's preferred Option 2 is a more prudent option compared to the least cost Option 1 - more detailed information on the key tasks required for the transition, including labour rates and hours - information on AGN's company structure to demonstrate costs are associated with AGN and not • AGN is currently compliant with its cyber security obligations under the Security of Critical Infrastructure Act 2018 (SOCI Act) and we consider that AGN's proposed uplift to its cyber security is not adequately supported. Where expenditure is proposed above the required regulatory obligation, the business must provide economic analysis to demonstrate its preferred option has the highest net present value (NPV). AGN has not provided substantive information to show the consumer benefits of moving to a higher cyber security level. We are also unclear as to whose costs AGN is seeking to recover for cyber security requirements, similar to the ICT transition project. • business as usual ICT expenditure was prudent and efficient to enable AGN to maintain its business. We have included AGN's business as usual ICT capex in our alternative estimate of total capex, however, we have included a placeholder of zero dollars for AGN's proposed ICT transition project and the cyber security uplift. Our reasons for this are set out in Appendix A.1 (ICT).
Other – network	We have included AGN's Other–network forecast in the total forecast capex. AGN proposed $91.9 million ($2025–26) for Other–network capex, this included the following: • pipeline modifications for inline inspections to build on a program of work that commenced in the current period that will take place over the next 10–15 years • steel pipework corrosion management • replacement of isolation valves to proactively address safety operation and compliance risks • the remainder of this program consists of replacement of non-compliant domestic meter sets, a front-end engineering design study to assess corrosion of the Torrens River bridge and associated pipeline structure, underground asset protection, and replacement of end of life I&C meter sets.[24] We consider that the investment in these components of capex is reasonably required to address safety and compliance requirements on the network and are prudent and efficient. AGN also proposed $8 million for renewable gas adaption to its network for new supply projects (hydrogen and biomethane) to emerge over the next period.[25] This is largely readiness investments such as weld procedure and hardness testing, incompatible parts replacement and pipeline repair equipment. We received submissions from the South Australian Council of Social Services, AGN's SA Reference Group, Energy Consumers

[24] AGN, *AGN SA Attachment 9.8_Capex Forecast Model_PUBLIC*, July 2025. AGN, *Attachment 9.9 – Capex Business Cases* (Non IT projects), July 2025. Pipeline modifications pp. 81–103, corrosion management pp. 1–28, isolation valves pp. 43–63, end of life I&C meter sets pp. 215–229.

[25] AGN, *AGN SA 2026–31 FINAL PLAN*, July 2025, p. 104.

Issue	Findings and reasons
	Australia (ECA) and the Energy and Water Ombudsman SA that raised concerns about the future of hydrogen as a future gas replacement. However, given AGN's existing blended renewable gas program,[26] our draft decision is to accept this modest expenditure for renewable readiness.
Mains replacement	We have included AGN's mains replacement forecast in the total forecast capex. AGN proposed $84.9 million ($2025–26) for mains replacement capex.[27] We consider that AGN's proposed expenditure is prudent and efficient. AGN has concluded its two-decades long substantive mains and services replacement capex program.[28] Proposed expenditure now represents a reduction of 60.7% compared to the current period. The mains replacement program for the upcoming period focuses on small-scale, targeted and proactive replacements, including: • replacement of protected steel mains • inline camera inspections and associated reinforcement and testing • renewal and replacement of multi-user sites assets.[29] We consider the program is reasonably required to proactively manage safety and compliance requirements and the proposed volumes and unit rates to be reasonable. ECA submitted that AGN's proposed mains replacement and other network costs should be brought to zero, or minimised where practicable except where safety overwhelmingly requires replacement or other costs now.[30] While we recognise ECA's concern given the uncertain role of gas in the energy transition, we consider the program reflects reasonable expenditure for prudent asset management to address the safety and reliability of the network.
Meter replacement	We have not included all of AGN's proposed meter replacement forecast in the total forecast capex. AGN proposed $38.4 million ($2025–26) for meter replacement capex. Our draft decision is to include $28.0 million. This is $10.4 million or 27% less than what AGN proposed. We found that: • domestic meter volumes for proactive replacement are likely to be overestimated, as demonstrated by actual volumes over the last two access arrangement periods; as well as incomplete data on installation year and lifespans of meter families • the digital meter program for inaccessible places is not prudent given that the program only impacts 1% of AGN's 450,000 customers[31] and AGN having several alternative options to acquire meter readings from customers.[32] We have accepted AGN's replacement program for industrial and commercial meters. Our detailed reasons for this are set out in Appendix A.2 (Meter replacements).

26 AGN, *AGN SA 2026–31 FINAL PLAN*, July 2025, p. 25.

27 AGN, *AGN SA 2026–31 FINAL PLAN*, July 2025, p. 101; AGN, *Attachment 9.4 – Distribution Mains and Services Integrity Plan*, July 2025.

28 AGN, *AGN SA 2026–31 FINAL PLAN*, July 2025, p. 4; AGN, *Attachment 9.4 – Distribution Mains and Services Integrity Plan*, July 2025, p. 2.

29 AGN, *Attachment 9.9 – Capex Business Case (Non IT projects)*, July 2025.

30 Energy Consumers Australia – *Submission on AGN(SA) 2026–31 Access Arrangement Proposal* – August 2025, p. 9.

31 AGN, *Attachment 9.5 – Meter Replacement Plan*, July 2025, p. 38.

32 AGN, *Response to AER Information Request #05,* 21 August 2025.

Issue	Findings and reasons
Overheads	We have included $21.6 million of AGN's capitalised overheads in the total forecast capex. This is $1 million (or 4.4%) less than the $22.6 million ($2025–26) in capitalised overheads proposed by AGN. This is because capitalised overheads are an allocated portion of total forecast capex, requiring a modelling adjustment based on our alternative forecast of total capex. The adjustment to capitalised overheads reflects this impact for the capex categories for which overheads have been allocated.
Other non-network	We have included AGN's proposed Other non-network forecast in the total forecast capex. AGN proposed $7.7 million ($2025–26) for Other non-network capex.[33] This includes investment in end-of-life vehicle replacement, and small plant and equipment upgrades for network asset monitoring and maintenance. AGN also proposed to purchase a new leak detection monitoring vehicle (Picarro vehicle) to replace its current vehicle which is reaching its end of life.[34] AGN's vehicle replacement and plant and equipment upgrades are in line with historical expenditure. We accept the use of Picarro technology and consider AGN's expenditure in line with industry standards. We consider Picarro technology in line with accepted industry standards for safety and more efficient emissions tracking.[35] We consider AGN's Other non-network expenditure to be reasonable.
Mains augmentation	We have included AGN's proposed mains augmentation forecast in the total forecast capex. AGN proposed $6.4 million ($2025–26) for mains augmentation capex.[36] This is a 36.6% reduction compared to $10.1 million forecast in the current period.[37] AGN proposed two augmentation projects in the northern and southern parts of the network, Angle Vale in the north and Seaford, and Aldinga in the south. This expenditure is targeted at the high growth areas of the network. The proposed projects are consistent with good industry practice to maintain supply pressure above minimum acceptable levels at the extremities of the network and the costs are reasonable. The preferred option provided by AGN was the lowest direct cost option out of the options assessed. For these reasons, we consider this expenditure is reasonably necessary.
Telemetry	We have included AGN's telemetry forecast in the total forecast capex. AGN proposed $3.8 million ($2025–26) in telemetry expenditure.[38] While this is a step up in expenditure compared to the current period, the drivers of this step change are reasonable. AGN's proposal includes:

33 AGN, *AGN SA 2026–31 FINAL PLAN*, July 2025, p. 104; AGN, *AGN SA Final Plan 2026/27-2030/31: Attachment 9.4 – Distribution Mains and Services Integrity Plan*, July 2025.

34 AGN, *Attachment 9.9 – Capex Business Cases* (July 2025); AGN, *Attachment 9.4 – Distribution Mains and Services Integrity Plan*, July 2025, pp. 28–29.

35 In our final decision for Jemena Gas Networks (JGN) (NSW) 2025-30, we considered Picarro technology would enable the network business to better manage and repair its gas leaks, as well as help manage its carbon footprint. We consider Picarro technology is in line with accepted industry standards for safety and more efficient emissions tracking. AER, *Final decision, Jemena Gas Networks (NSW) access arrangement 2025–2030 – Attachment 6 – Operating expenditure,* May 2025, p. 4; pp. 10–11.

36 AGN, *AGN SA 2026–31 FINAL PLAN*, July 2025, p. 102; AGN, *Attachment 9.12 – Network Augmentation Plan,* July 2025.

37 AGN, *AGN SA 2026–31 FINAL PLAN*, July 2025, p. 111.

38 AGN, *AGN SA 2026–31 FINAL PLAN*, July 2025, p. 102; AGN; *Attachment 9.9 – Capex Business Cases*, July 2025.

Issue	Findings and reasons
	• the replacement of Remote Terminal Units • installation of new Supervisory Control and Data Acquisition points at eleven fringe points and two facilities to enable additional real-time monitoring of the network and the establishment of a 24/7 dedicated monitoring room (shared between AGN's networks in South Australia, Victoria and Queensland).[39] We considered the Remote Terminal Units replacement program to be an efficient option to proactively mitigate the risk of obsolescence. We also considered AGN's proposal for increased network monitoring was appropriate to manage supply and safety issues, and the costs to enable AGN to monitor its South Australia, Victorian and Queensland networks is reasonable.
Customer contributions	There are no customer contributions in AGN's 2026–31 access arrangement proposal.
Disposals	There are no disposals in AGN's 2026–31 access arrangement proposal.

2.6 Revisions

We require the following revisions to make the access arrangement proposal acceptable as set out in Table 2.5.

Table 2.5 Capex revisions

Revision	Amendments
Revision 2.1	Make all necessary amendments to reflect our draft decision on the proposed capex forecast for the 2026–31 access arrangement period, as set out in section 2.1

[39] AGN, *AGN SA 2026–31 FINAL PLAN*, July 2025, p. 102; AGN; *Attachment 9.9 – Capex Business Cases*, July 2025, p. 116.

A Assessment of key capex categories

This appendix sets out our assessment of key capex categories and programs/projects within AGN's total revised capex forecast and the reasons for our decision. This appendix includes:

- information and communication technology (A.1)
- meter replacements (A.2).

A.1 Information and communication technology

Information and communication technology (ICT) refers to all non-network related devices, applications and systems that support AGN's business operations. ICT expenditure is categorised broadly as either replacement of existing infrastructure for reasons due to end of life, technical obsolescence or added capability of the system with the acquisition of new assets.

A.1.1 AER's draft decision

Our draft decision is to not accept AGN SA's proposed capital expenditure for its ICT transition project and cyber security uplift. Our alternative forecast for AGN's ICT program is $28.8 million. This is a reduction of $63.5 million or a 68.8% decrease from AGN's proposed expenditure of $92.3 million. We accept AGN SA's proposed business as usual ICT capex. We require AGN to respond to our concerns about the ownership of the ICT within the Australian Gas Infrastructure Group (AGIG) company structure and other concerns regarding scope and costs of the ICT transition and cyber security projects.

A.1.2 AGN's proposal

AGN proposed $92.3 million ICT capex in the next period. This is 57.9% higher than current actual/estimated ICT capex of $38.9 million.[40] This is made up of the following components:

- AGN transition project
- ICT operational applications
- ICT corporate applications
- ICT sustaining infrastructure
- cyber security.[41]

A.1.3 Reasons for decision

We outline below our reasons for AGN's proposed ICT transition project and the cyber security uplift.

A.1.3.1 ICT transition project

The main driver of total ICT capex is the transition of ICT services. This accounts for 67% of total ICT capex. AGN outsources critical ICT services to APA to manage its network. AGN's contract with APA ends in 2027, and these capabilities are now being transitioned 'in house'

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40 AGN, *AGN SA 2026–31 FINAL PLAN*, July 2025, p. 110.

41 AGN, *Attachment 9.9 – Capex Business Cases (IT)*, July 2025.

to AGIG. This builds on the AGIG ICT Strategy & Roadmap to consolidate ICT applications for all three networks under the AGIG group.[42] The proposed option put forward by AGN seeks to 'lift, shift and merge' ICT services from APA. The services would first be moved into AGIG and then AGIG would consolidate as needed to remove duplicative applications.

AGN provided a business case for this project that considers three options for the transition.[43] These are:

- option 1 – Lift/shift: Replication of the current APA environment and run as a separate standalone end-state environment within AGIG
- option 2 – Lift/shift & merge: Transition to an interim replica of APA's current environment for AGN within AGIG, before merging and transforming the two environments into one consolidated and optimised end-state environment
- option 3 – Merge: Merge and transform the existing APA environment into a consolidated and optimised end-state environment within AGIG.

A.1.3.1.1 Long-term operating costs

Option 2 was selected to 'lift/shift and merge' existing APA facilities into the AGN at a cost of $57.8 million in capex.[44] There is also a significant opex step change associated with this option ($53.0 million).[45] Of the 3 options considered, Option 1 ('lift/shift) is the least cost ($37.9 million in capex), but was not selected by AGN on the basis that operating two separate environments in parallel would generate greater long-term operating costs. We sought further information from AGN on the long-term costs of these projects.[46] AGN provided further information demonstrating that Option 1 (capex and opex) is higher than Option 2 over 10 years.[47] However, the difference in capex and opex was minimal. We require AGN to provide further information in its revised proposal, including any additional benefits gained from Option 2, and demonstrates that this is the more prudent option compared to the least cost Option 1.

Given the rate of change of ICT technology and the rapid payback of associated ICT assets, we are further concerned that Option 2 may not be the lowest cost option over the 10 years. Option 1 is $37.9 million capex and appears to be the more efficient and prudent option. We require AGN to provide further information and economic analysis demonstrating that the cost of operating that stand-alone environment (Option 1) is not the best option over time compared to Option 2.

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42 AGN, *Attachment 8.6: IT Investment Plan – South Australia: SA Final Plan July 2021 – June 2026*, July 2020, p. 2.

43 AGN, *Attachment 9.9 – Capex Business Cases (IT)*, July 2025, p. 143.

44 The cost of Option 2 is $57.8 million in real unescalated January 2025 dollars. AGN, *Attachment 9.9 – Capex Business Cases (IT)*, July 2025.

45 The opex step change for the ICT transition project is considered in section 3.5.3.3 of Attachment 3.

46 AER, Information Request #006, 20 August 2025.

47 AGN, *Attachment 9.9 – Capex Business Cases (IT)*, July 2025, p. 143; AGN, *AGIG_AGN IT Transition Business Case Model*, 28 August 2025 (Confidential).

A.1.3.1.2 Project costs

We understand that AGN's preferred option (Option 2) for the transition includes a general contingency risk allowance of 25% for its proposed option. As a general principle we only accept risk allowances in limited circumstances that are specific to a particular project or program. For example, risks that relate to a realistic latent condition with the site(s), or specific risks that are reasonably likely to arise that are beyond the control of the Networks Service Provider. In such cases we review the nature of each type of risk as well as the basis of the calculation of the estimated risk cost(s). This is reflected in several recent decisions, including the AusNet 2026–31 distribution determination.[48] We require further project-specific analysis from AGN to support its risk allowance assessment in its revised proposal.

We also considered AGN's proposed labour rates and labour time estimates to be high:

- AGN's proposed internal and external labour rates appear to be substantially higher than current available market rates[49]
- labour time estimates are high and affected by several inflationary factors such as complexity, level of customisation and application size to adjust these rates. For example, the number of effort days required for a data or application transfer, which do not appear to be fully justified.

AGN has not provided additional substantive details of the scope of work, nor a detailed cost benefit assessment to enable us to assess whether these rates are prudent and efficient. AGN's business case model only provides high-level information on the application and its approach (for example, 'extract and provide data'), which does not reasonably substantiate the proposed time to demonstrate efficiency.

We require AGN to provide further information on its estimates, including a detailed cost benefit assessment and analysis of underlying calculations and assumptions to demonstrate that the proposed expenditure is prudent and efficient. This should include outlining specific tasks to substantiate the labour cost and time spent on each component of this project, and supporting evidence to show labour rates are in line with current Australian market standards. Overall, we require AGN to demonstrate prudency and efficiency of its preferred option (Option 2) compared to Option 1.

A.1.3.1.3 AGN company structure

AGN is the regulated entity, and it is AGN's costs in providing network services that are recovered from customers under the NGR. We must be satisfied that AGN's capex is prudent and efficient. Based on the information provided, we consider that there is sufficient uncertainty as to which entity owns and operates the ICT capital and is undertaking the services and incurring the associated costs. AGN operates under AGIG, which consists of the Australian Gas Network, the Dampier Bunbury Pipeline and Multinet Gas Network. To

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48 AER, *Draft Decision, AusNet Services distribution determination 2026–31, Attachment 2: Capital Expenditure*, September 2025, p. 24–25.

49 For example, roles and average daily pay per day outlined in AGN's Transition Business Case Model, 28 August 2025 (Confidential) for AGN's preferred option were compared to analogous roles and associated equivalent annual salaries on publicly available employment websites, including seek.com.au. The daily rates and average annual salary for these roles provided by AGN were significantly higher than the market equivalent.

better understand the ICT proposal, we undertook a workshop with AGN. At this workshop AGN provided advice that AGIG is a trading name, and that all three networks operate separately but share some services such as ICT.[50]

In its proposal, AGN appears to identify ICT (capex and opex) as being owned and operated by AGIG, with AGN utilising these ICT facilities to operate its gas network.[51] The ICT transition project is a whole of AGIG project ($168.9 million) with AGN's cost allocation being 35.2%.[52] Notwithstanding the information provided in AGN's proposal and subsequent workshop, we consider that there still remains uncertainty about which costs AGN is seeking to recover. In AGN's proposal, there are numerous references to AGIG rather than AGN on the transition.[53] AGN should only be seeking expenditure to maintain its existing ICT services and not the costs to transition those services from APA to AGIG. We require further substantiating information from AGN in its revised proposal for us to be satisfied that the ICT transition capex are AGN's costs, are prudent and efficient and should be recovered from AGN's customers.

For these reasons of uncertainty, we have included an alternative estimate of zero dollars as a placeholder and provide AGN with the opportunity to address our concerns in the revised proposal.

A.1.3.2 Cyber security

AGN's cyber security program builds on its work in the current period. AGN proposed to uplift its current cyber security to address gaps within the IT space.[54]

AGN is currently compliant with the Security of Critical Infrastructure Act (2018) and meeting the security profile level SP-1 required for gas networks in Australia under the Australian Energy Sector Cyber Security Framework. AGN have self-assessed its security requirements as being higher than its current compliance requirement and to uplift to SP-3 (the standard required for electricity transmission businesses).[55] In our decision for the Australian Gas Networks (Victoria, Albury and Multinet Gas Networks) Access Arrangement 2023–28, we considered that while SP-3 is an appropriate standard for transmission businesses, there is currently no obligation for gas distribution businesses to the capabilities of a maturity level of SP-3.[56] However, we recognise the importance of cyber security investment in supporting a

50 AER/AGN, Access Arrangement 2026-31 ICT Workshop, 3 September 2025.

51 AGN, *Attachment 9.7: IT Investment Plan,* p. 5.

52 AGN, *Attachment 9.9: Capex Business Case (IT)*, p. 154.

53 For example, the business case for the transition project states: 'Though the initial transition cost is substantial, bringing operational ICT systems into the AGIG environment offers longer term opportunities for efficiencies and productivity improvements. This is because AGIG (as the network owner) will have full autonomy and operational control over ICT upgrades, strategies and investments. AGN, *Attachment 9.9: Capex Business Case (IT)*, July 2025, p. 144.

54 AGN, *Attachment 9.9: Capex Business Case (IT)*, pp. 123–124.

55 AGN, *Attachment 9.9: Capex Business Case (IT)*, p. 123.

56 AER, *Draft Decision, AGN (Victoria and Albury) Access Arrangement 2023 – 2028, Attachment 5: Capex Expenditure*, December 2022, p. 13. AER, *Draft Decision, Multinet Gas Networks Access Arrangement 2023 – 2028*, Attachment 5: Capital expenditure, p. 16.

reliable and secure network, and have regard to the increasing threat landscape and uncertainty.[57]

AGN has assessed its gas distribution network as 'High' to justify its cyber security obligation.[58] Based on our previous decisions, we do not consider that AGN's SP-3 level target is a regulatory obligation for a gas distribution network.

In the absence of a regulatory obligation, we consider the economic case for a business's proposed cyber security investment.[59] While we consider that it is prudent for businesses to adopt a risk prioritisation-based approach,[60] we require businesses to demonstrate that its preferred approach presents the highest NPV.[61] We consider that AGN has not sufficiently demonstrated the need to uplift its cyber security. We require further information from AGN in its revised proposal to demonstrate that its preferred option demonstrates the highest NPV.

Consistent with our concerns regarding the uncertainty on the costs of the ICT transition, we also have residual concerns regarding the justification of the uplift in cyber security. We are unclear as to whose costs AGN is seeking to recover for cyber security requirements, similar to the AGN transition project. We are concerned as to whether the proposed expenditure is to meet compliance requirements by the Foreign Investment Review Board as stated by AGN in its proposal.[62] Further, information provided to us reinforces our concerns that the level of cyber security protection may be broader than what we would consider to be reasonably required to mitigate AGN's cyber security risks.[63]

For these reasons, we have included an alternative estimate of zero dollars as a placeholder. We require further economic analysis (cost-benefit analysis demonstrating an NPV) to justify AGN's proposed expenditure, as well as further information to clarity AGN's cyber security requirements (opposed to AGIG).

A.1.3.3 Other ICT capex

We have assessed the other components of the ICT program – ICT operational applications, ICT corporate applications and ICT sustaining infrastructure. When the transition project is removed from the ICT proposed expenditure for the next period, the total proposed capex is $30.3 million. This is $8.6 million less than the ICT expenditure of $38.9 million in the current period. This includes:

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57 AER, *Draft Decision, Ausgrid Electricity Distribution Determination 2024 – 2029, Attachment 5: Capital Expenditure*, April 2024, p. 14.

58 AGN, *Attachment 9.9: Capex Business Case (IT)*, pp. 123.

59 AER, *Draft Decision, Ausgrid Electricity Distribution Determination 2024 – 2029, Attachment 5: Capital Expenditure*, April 2024, p. 16.

60 AER, *Draft Decision, Ausgrid Electricity Distribution Determination 2024 – 2029, Attachment 5: Capital Expenditure*, April 2024, p. 15.

61 AER, *Draft Decision, Ausgrid Electricity Distribution Determination 2024 – 2029, Attachment 5: Capital Expenditure*, April 2024, p. 16.

62 AGN, *Attachment 9.9: Capex Business Case (IT)*, p. 118.

63 Further information provided to the AER following AER/AGN, Access Arrangement 2026–31 ICT Workshop, 3 September 2025.

- ICT operational applications required to enable periodic upgrades to AGN's ICT programs such as its enterprise asset management systems, metering & billing systems and geographic information systems
- ICT corporate applications, which has two components:
  - recurrent expenditure to facilitate business as usual operational functionality and security of existing applications
  - non-recurrent expenditure for new and replacement applications.
- ICT sustaining infrastructure to enable the upgrade or replacement of end-user devices.

We have reviewed AGN's business cases for each of the above components, noting that this is an overall decrease in AGN's business as usual expenditure for the current period. Based on AGN's business cases and analysis on its options analysis for each component, we consider that AGN is taking a reasonable risk-based approach to manage its ICT capabilities and consider the other ICT capex to be reasonable.

A.1.3.4 Alternative ICT forecast

Our alternative forecast for AGN's ICT program is $28.8 million. This is the business as usual ICT expenditure, including operational applications, corporate applications and sustaining infrastructure. We have not included the proposed ICT transition project and the cyber security in our alternative estimate. We require AGN to address our concerns in its revised proposal.

A.2 Meter replacements

Meter replacement is an ongoing capex activity that covers all metering types that require replacement either as part of a planned program or when found to be defective. AGN has regulatory obligations to manage the integrity of meters and ensure they operate within the prescribed tolerance band for metering accuracy.

A.2.1 AER's draft decision

Based on our review, we consider that only a portion of AGN's proposed metering program is prudent and efficient. We have included an alternative forecast of conforming capex of $28.0 million. This is a reduction of $10.4 million or a 27% decrease from AGN's proposed expenditure of $38.4 million.[64] This reflects a reduction in the expenditure for domestic meter replacements to reflect the same volumes for the current period, and the removal of the proposed digital meter program.

A.2.2 AGN's proposal

AGN proposed $38.4 million for the meter replacement program. This represents an 82% increase in proposed expenditure compared to $21.1 million in the current period. This includes domestic and industrial & commercial (I&C) meter replacements and a digital metering program for inaccessible places and for some commercial customers.[65]

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64 AGN, *AGN SA 2026–31 FINAL PLAN*, July 2025, p. 111.

65 AGN, *Attachment 9.5: Meter Replacement Plan*, July 2025.

A.2.3 Reasons for decision

We outline below our reasons for AGN's proposed meter replacements.

A.2.3.1 Domestic meter replacement program

We assessed AGN's domestic meter replacement forecast against its historical replacement rates. In the current period, AGN replaced 76,967 domestic meters. This was 15% less than the AER approved forecast of 90,474.[66] In particular, AGN replaced 10,673 meters in 2023−24, which was 50% less than the approved forecast volume of 21,985 for that year.[67] In the previous period 2016−21, AGN's domestic meter replacement volume was 135,060 or 6.4% less than the AER approved volume of 144,245.[68] This data suggests that AGN has materially underinvested in its metering assets or that its forecast for that period was materially overstated.

We requested further information from AGN on its proposed forecast end of life domestic meter volumes for the next access period in an information request.[69] In its response, AGN reported that four meter families have reached their end of life after being in the field for 30-40 years. They reported replacement volumes that were 20% lower than the proposed volume outlined in its proposal.[70]

We reviewed the year of installation for AGN's meter families in its proposal for the forecast and current periods, to understand the overall age and lifespan to justify end of life replacement volumes. From the limited information available, there appeared to be inconsistencies in the installation volumes between AGN's 2021−26 and 2026−31 metering replacement programs. We would expect the actual historical volumes of meters for each installation year to remain the same for each of the periods. For example, in its 2021−26 proposal, approximately 14,000 domestic meters were installed in 2006 and 26,000 in 2008.[71] However, in the 2026−31 proposal, it appears to show that approximately 8,000 meters being installed in 2006 and 18,500 in 2008.[72]

Based on this analysis, we consider that AGN's proposed domestic meter replacement volumes are likely to be overestimated. There appears to be inconsistent information on the year of installation of meters, demonstrating a lack of continuity between AGN's proposals. We have not been provided clear and concise data on the year of installation or lifespans of meter families to be satisfied that AGN's proposed domestic meter replacement volumes is prudent and efficient.

In terms of unit costs, there has been a small percentage increase in the unit rate cost of domestic meters. AGN submitted it has higher per unit meter costs due to its current suppliers ceasing to offer lower cost refurbished meters on a national basis from June 2026.

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66 AGN, *Attachment 9.5: Meter Replacement Plan*, July 2025, p. 25. Volumes for the 2024–26 are estimates provided by AGN, as we will not have actual meter volumes at the time of our assessment.

67 AGN, *Attachment 9.5: Meter Replacement Plan,* July 2025, p. 25. Volumes for the 2024–26 are estimates provided by AGN, as we will not have actual meter volumes at the time of our assessment.

68 AGN, *Attachment 8.4: Meter Replacement Plan,* July 2020, p. 25.

69 AER, Information Request #005, 14 August 2025.

70 AGN, Response to AER Information Request #005, 21 August 2025.

71 AGN, *Attachment 8.4: Meter Replacement Plan,* July 2020*,* p. 17.

72 AGN, *Attachment 9.5: Meter Replacement Plan,* July 2025, p. 19.

AGN's domestic meter unit rates are comparable to other gas network businesses[73] and we consider these to be reasonable.

We do not accept the proposed domestic meter volume rates and proposed expenditure of $27.8 million. Our alternative estimate is to include $19.9 million for domestic meter replacements, which reflects AGN's actual volumes for the current period. This represents a decrease of $7.9 million or 28.3% reduction.

A.2.3.2 Industrial and commercial meter replacement program

We consider AGN's proposed I&C meter replacement volumes as being reasonably accurate when compared to historical actuals. In the current period, AGN have proposed replacement of 3,001 I&C meters, which is comparable to the AER approved forecast of 2,995.[74] In the previous 2016–21 period 4,623 meters were replaced compared to the approved volume of 5,203 (difference of 11.1%).[75]

We also reviewed the year of installation for AGN's I&C meters to further understand its proposed end of life replacement volumes. In the 2021−26 proposal, approximately 4,900 meters were installed in 2014 and 2015.[76] In the 2026−31 proposal however, AGN appears to submit that 1,500 meters were installed in 2014 and 1,800 in 2015.[77]

We asked AGN about its end-of-life I&C meter replacement in our information request (end of life replacements makes up 85% of AGN's I&C meter program).[78] In its response, AGN reported that two meter families that had reached end of life. However, AGN did not provide information on installation dates, actual volumes nor the actual age as requested to justify the proposed 4,976 I&C meters requiring replacement.

The Office of the Technical Regulator approves meter lives as a regulatory requirement under the Gas Metering Code.[79] AGN stated in its response to our information request that historically [I&C] meter types and families have been granted an initial meter life of ten years, with a regulatory requirement to replace them at the end of this ten year meter life.'[80] AGN also noted that I&C meter families typically do not undergo testing to extend this initial year life, because even small metering inaccuracies can have a significant effect on customer billing accuracy and unaccounted for gas volumes, given the larger volumes of gas supplied to these sites.[81] The previous volumes in the current period appear to be accurately forecast and we consider that AGN's proposed I&C meter replacement volumes are reasonable.

In terms of unit costs, AGN have submitted a substantial percentage increase in the unit rate for I&C meter replacements compared to the AER forecast for the current period, reflecting

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73 AER, *Final decision, Jemena Gas Networks (NSW) access arrangement 2025–2030 – Attachment 5 – Capital expenditure*, May 2025, p. 18.

74 AGN, *Attachment 9.5: Meter Replacement Plan,* July 2025, p. 27.

75 AGN, *Attachment 8.4: Meter Replacement Plan*, July 2020, p. 27.

76 AGN, *Attachment 8.4: Meter Replacement Plan*, July 2020, p. 17.

77 AGN, *Attachment 9.5: Meter Replacement Plan,* July 2025*,* p. 19.

78 AER, Information Request #005, 14 August 2025.

79 Essential Services Commission of South Australia, *Gas Metering Code GMC/04,* February 2013, Section 3.4.1.

80 AGN, Response to AER Information Request #005, 21 August 2025.

81 AGN, *Attachment 9.5: Meter Replacement Plan,* July 2025*,* p. 15.

higher revealed costs in the current access arrangement period.[82] However, AGN has noted that rising costs are the result of market pressures and resource constraints impacting all utility and infrastructure businesses, including intense competition for construction resources due to major infrastructure projects.[83] We are satisfied that AGN's I&C meter unit rates are comparable to other gas network businesses.[84]

We have included AGN's proposed I&C meter replacement program in our alternative forecast for meter replacements.

A.2.3.3 Digital meter program

AGN proposed a digital meter program to replace domestic meters in inaccessible places and for I&C meters. AGN states that these meters are proposed to be installed where existing meters are difficult to access.[85]

While improvement in meter access may be prudent for some customers, AGN has not provided substantive information to demonstrate that the proposed digital metering option is efficient. In response to our information request,[86] AGN outlined several existing low-cost alternatives for meter readings, such as customer read options, a dedicated email in-box, and a customer portal for customers to submit readings and photos that was launched in 2023.

As of July 2025, AGN stated that approximately 6,000 customers have not had a meter read in more than a year.[87] However, this only equates to 1.3% of AGN's approximately 450,000 customers. Further, AGN did not provide any economic analysis of the options to substantiate that this proposed program was prudent and efficient. We would require such analysis to assess a proposal of this nature.

In our recent decision for JGN,[88] we did not accept a similar digital metering program for inaccessible places. JGN also had other low-cost alternatives to acquire meter readings.

Based on the information provided by AGN and subsequent information request response, and the recent JGN decision, we do not accept the proposed capital expenditure for the digital meter program.

A.2.3.4 Alternative meter replacement forecast

Our alternative forecast for AGN's meter program is $28.0 million. This is a reduction of $10.4 million or 27% from AGN's proposed expenditure of $38.4 million. This includes a reduction in the expenditure for domestic meter replacements volumes to reflect the reported

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82 AGN, *Attachment 9.10: Unit Rates Report,* p. 31.

83 AGN, *Attachment 9.10: Unit Rates Report,* p. 2.

84 AER, *Final Decision, AusNet Access Arrangement 2023–28, Attachment 5: Capital Expenditure*, June 2023. AusNet, *Revised proposal – Access Arrangement 2023–28 – Capex model*, 24 January 2023.

85 AGN, *Attachment 9.5: Meter Replacement Plan,* July 2025, p. 38.

86 AER, Information Request #005, 14 August 2025.

87 AGN, Response to AER Information Request #005, 21 August 2025.

88 AER, *Draft Decision, Jemena Gas Networks (NSW) access arrangement 2025–2030, Attachment 5; Capital Expenditure*, May 2025, p. 18. JGN did not resubmit this expenditure in its revised proposal.

three years of actuals and two years of estimates provided by AGN for the current period, and the removal of the proposed digital meter program.

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
AGIG	Australian Gas Infrastructure Group
AGN	Australian Gas Network
capex	capital expenditure
CCP33	Consumer Challenge Panel, sub-panel 33
CESS	capital expenditure sharing scheme
ECA	Energy Consumers Australia
ICT	information communications technology
I&C	industrial and commercial
JGN	Jemena Gas Networks
NGO	National Gas Objective
NGL	National Gas Law
NGR	National Gas Rules
NPV	net present value
opex	operating expenditure
RIN	regulatory information notice
SOCI	Security of Critical Infrastructure Act 2018