

## Attachment 11.2

# Response to Draft Decision on our Financing Costs

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Revised Final Plan 2026/27 – 2030/31

January 2026

PUBLIC



# 1. Response to Draft Decision on Financing Costs

**Our single largest cost relates to financing our \$2.1 billion investment in the South Australian natural gas distribution network.**

## 1.1. Overview

This attachment sets out our response to the AER's Draft Decision on our financing costs for our SA gas distribution network over the next (2026/27 to 2030/31) Access Arrangement (AA) period.

## 1.2. Stakeholder and customer feedback

We applied the AER's Rate of Return Guideline and the AER's Tax Review to calculate the rate of return and cost of tax in this revised Final Plan. We did not receive any stakeholder or customer feedback in relation to our financing costs.

## 1.3. AER Draft Decision

The AER's Draft Decision in respect of our financing costs is summarised in Table 1.1 below.

Table 1.1: Summary of the AER's Draft Decision on our financing costs

| AER Draft Decision      |               | AER Comment   |
|-------------------------|---------------|---|
| <b>Financing Costs</b>  |               |   |
| <b>Return on Equity</b> | <b>Accept</b> | As per the AER's current 2022 Rate of Return Instrument.  |
| <b>Return on Debt</b>   | <b>Accept</b> | As per the AER's current 2022 Rate of Return Instrument.  |
| <b>Rate of Return</b>   | <b>Accept</b> | As per the AER's current 2022 Rate of Return Instrument.<br><br>Estimated a placeholder allowed average rate of return of 6.51%, which will be updated in its final decision based on our nominated (confidential) averaging periods. |

| AER Draft Decision                 |               | AER Comment  |
|------------------------------------|---------------|--|
| <b>Tax Costs</b>                   |               |  |
| <b>Cost of tax</b>                 | <b>Accept</b> | Accepted our approach to calculating the cost of tax using the approach in the AER's 2018 Tax Review.  |
| <b>Value of Imputation Credits</b> | <b>Modify</b> | Updated the value of gamma to 0.57, which is consistent with 2022 Rate of Return Instrument. <sup>1</sup>  |
| <b>Tax depreciation</b>            | <b>Accept</b> | Accepted our approach to determining tax depreciation, which reflects the approach in the AER's Tax Review. <sup>2</sup>   |
| <b>Tax Asset Base</b>              | <b>Accept</b> | <p>Accepted our proposal to establish the opening TAB as at 1 July 2026 but have made updates to reflect:<sup>3</sup></p> <ul style="list-style-type: none"> <li>Updated tax depreciation in the RFM for 2021–26 to align with the depreciation tracking module, ensuring the opening TAB is correctly depreciated over the period.</li> <li>Updated immediately expensed capex inputs to include estimated amounts for 2024–25 and 2025–26, based on additional information provided by AGN.</li> </ul> |

Note: In this 'traffic light' table, green shading represents the AER's acceptance of our Final Plan, orange represents the AER's modification of our Final Plan and red shading represents the AER's rejection of our Final Plan.

## 1.4. Our Response to the Draft Decision

Our financing and tax costs collectively account for around 51% of our total costs. For the purposes of the revised Final Plan, we have continued to apply the AER's 2022 Rate of Return Instrument and the AER's 2018 Tax Review in determining our financing and tax costs.<sup>4</sup>

Table 1.2 summarises our response to the AER Draft Decision on our financing and tax costs, which shows we have accepted all parts of its decision.

<sup>1</sup> AER, Draft Decision, Attachment 1, pp. 22-23.

<sup>2</sup> AER, Draft Decision, Attachment 1, pp. 22-23.

<sup>3</sup> AER, Draft Decision, Attachment 1, pp. 23.

<sup>4</sup> Note that the AER is updating its Rate of Return Instrument during 2026, but this will not apply to our SA network until our next AA period in 2030/31.

Table 1.2: Summary of our response to the AER's Draft Decision on our financing and tax costs

|                                    | <b>AER Draft<br/>Decision</b> | <b>Our response</b> |               | <b>Our Comment</b>   |
|------------------------------------|-------------------------------|---------------------|---------------|--|
| <b>Financing Costs</b>             |                               |                     |               |  |
| <b>Return on Equity</b>            |                               | <b>Accept</b>       | <b>Accept</b> | As per the current AER Rate of Return Instrument, and updated to reflect data from December 2025.  |
| <b>Return on Debt</b>              |                               | <b>Accept</b>       | <b>Accept</b> | As per the current AER Rate of Return Instrument, and updated to reflect data from December 2025 and forecasts of the cost of debt through the next AA period to provide an average. |
| <b>Rate of Return</b>              |                               | <b>Accept</b>       | <b>Accept</b> | As per the current AER Rate of Return Instrument, and updated to reflect data from December 2025.  |
| <b>Tax Costs</b>                   |                               |                     |               |  |
| <b>Cost of tax</b>                 |                               | <b>Accept</b>       | <b>Accept</b> | We have used the approach in the AER's 2018 Tax Review, and note that it gives a cost of tax allowance of zero.  |
| <b>Value of Imputation Credits</b> |                               | <b>Modify</b>       | <b>Accept</b> | As per the current AER Rate of Return Instrument.  |
| <b>Tax depreciation</b>            |                               | <b>Accept</b>       | <b>Accept</b> | We have continued to adopt the approach in the AER's 2018 Tax Review. We have made minor changes due to changes in capex.  |
| <b>Tax Asset Base</b>              |                               | <b>Accept</b>       | <b>Accept</b> | The tax asset base of \$787 million as at July 2026 reflects the same approach as our Final Plan, as accepted by the AER in its Draft Decision.                                      |

Note: In this 'traffic light' table, green shading represents the acceptance, orange represents a modification and red shading represents a rejection

This results in an average rate of return for the next AA period of 6.51%. We note that the AER will determine our final allowed rate of return in the Final Decision using the averaging period approved by the AER in the Draft Decision. The average cost of debt assumes that the cost of each new tranche of debt in the forthcoming AA period will be the same as our December estimate, whereas, in reality, it will be updated based on the then prevailing debt costs.<sup>5</sup> For these reasons, the figures in the table below are indicative.

<sup>5</sup> Note that we do not have access to a Thomson Reuters terminal and have thus just used the RBA and Bloomberg indices as inputs into the AER's Final Return on Debt Instrument Model available from <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/return-on-debt-illustrative-model-review>

**Table 1.3: Indicative AER Rate of Return and Gamma**

| Parameters             | Revised Final Plan |
|------------------------|--------------------|
| Return on Equity       | 8.55%              |
| Average return on Debt | 5.15%              |
| Average Rate of Return | 6.51%              |
| Gamma                  | 0.57               |

Table 1.4 provides our revised tax asset base, including the opening tax asset base value as at 1 July 2026.

**Table 1.4: Roll forward of the tax asset base (\$m, nominal)**

|                               | 2026/27      | 2027/28      | 2028/29      | 2029/30      | 2030/31      |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Opening tax asset base        | 787.2        | 771.1        | 743.7        | 717.5        | 682.8        |
| <i>Plus</i> gross capex       | 105.4        | 96.9         | 97.0         | 93.0         | 89.8         |
| <i>Less</i> tax depreciation  | 121.5        | 124.3        | 123.1        | 127.7        | 126.7        |
| <b>Closing tax asset base</b> | <b>771.1</b> | <b>743.7</b> | <b>717.5</b> | <b>682.8</b> | <b>646.0</b> |

In respect of the tax building block, which is the component of our regulatory model informed by the tax calculations above, there is a tax allowance of zero in our building blocks.

## 1.5. Summary

Our average rate of return for the next AA period is 6.51%, comprising an allowance for equity of 8.55% and a forecast average allowance for debt of 5.15%. These calculations have been undertaken using the AER's 2012 Rate of Return Instrument and are indicative values to be updated in the AER's Final Decision.

Our Net Tax Allowance was determined by following the approaches in the AER's 2018 tax decision and updating information on capex and other factors in response to the Draft Decision. The Net Tax allowance is determined to be zero and the gamma value (0.57) does not affect our allowed revenues.