

Attachment 12.3

Response to Draft Decision on Incentives

Revised Final Plan 2026/27 – 2030/31

January 2026

PUBLIC

1 Response to Draft Decision on Incentives

We support the use of effective, outcome-based incentive schemes that promote the long-term interests of our customers.

8.1 Overview

This attachment sets out our response to the AER's Draft Decision on the incentive arrangements to apply over the next (2026/27 to 2030/31) Access Arrangement (AA) period. We will be continuing with the opex carryover mechanism (ECM) and the capital expenditure sharing scheme (CESS) over the next AA period, both accepted in the Draft Decision.

8.2 Stakeholder and customer feedback

In preparing the Revised Final Plan we have continued to engage with stakeholders, including through our Stakeholder Reference Group (SARG) and consideration of submissions to the AER on our Final Plan.

A summary of the feedback provided on our opex at this stage is provided in Table 1.1 below.

Table 0.1: Summary of customer and stakeholder feedback

Customer and Stakeholder Feedback	Our Response
SARG supported the continued application of the ECM and the CESS.	We agree with the AER's Draft Decision to allow the continued application of the opex ECM and capex CESS into the next AA period (2026/27 to 2030/31).

8.3 AER Draft Decision

The AER adjusted the opex ECM and capex CESS carryover amounts and approved the continued application of the ECM and the CESS for the next AA period, subject to the certain amendments to the Access Arrangement concerning the ECM and CESS calculation, summarised in Table 1.2 below.

Table 0.2: Summary of the AER's Draft Decision on our opex

AER Draft Decision	AER Comment
Opex ECM carryover amounts	Modify Increased the carryover amount by \$4.0 million (\$2025/26) to negative \$9.0 million due to the exclusion of ancillary reference services (ARS) expenditure from forecast opex and actual opex for 2019/20 and 2020/21 (which was not excluded in prior opex estimates) and updated inflation figures. ¹
Opex ECM continuation	Accept Accepted the continuation of the ECM to be applied in the next AA period, subject to the following minor amendments to the Access Arrangement (AA) to clarify its application and calculation:

¹ AER, Draft Decision, Attachment 7, pp. 4-5.

	AER Draft Decision	AER Comment
		<ul style="list-style-type: none"> 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) to 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.²
Capex CESS carryover amounts	Modified	<p>The AER didn't approve the CESS revenue increment proposed in our Final Plan and instead applied an alternative CESS revenue increment of \$17.5 million (\$2025-26).³ The difference between the AER's Draft Decision and our Final Plan proposal reflects the AER's updated Consumer price index (CPI) and real vanilla weighed average cost of capital (WACC).⁴</p> <p>The AER also required us to make the following revisions:</p> <ul style="list-style-type: none"> update CPI, real vanilla WACC, reported performance inputs, and reported capex inputs in the calculation of the CESS revenue increment, in line with the Draft Decision apply a tiered sharing factor to the CESS mechanism and voluntary changes to CESS rewards or penalty if applicable, in accordance with the AER's August 2025 update to the CESS guidelines⁵ Incorporate voluntary changes to the CESS reward or penalty as set out in the updated CESS guidelines Provide updated API targets with associated calculations and analysis

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.

² AER, Draft Decision, Attachment 7, pp. 1, 6-7.

³ AER, Draft Decision, Attachment 6, p. 1.

⁴ AER, Draft Decision, Attachment 1,

⁵ AER, Capital Expenditure Incentive Guidelines for Electricity Network Service Providers, August 2025, version 4.

8.4 Our Response to the Draft Decision

We agree with the AER's Draft Decision which aligns with our proposal for the continued application of the opex ECM and the capex CESS. The combination of the ECM and the CESS will provide an appropriate incentive to balance the most efficient mix of opex and capex over the next AA period. Our response to the AER's Draft Decision is summarised in Table 1.4 below.

Table 0.1: Summary of our response to the AER's Draft Decision on our opex

	AER Draft Decision	Our response	Our Comment
Opex ECM carryover amounts	Modify	Modify	<p>We aligned the opex estimates with the AER's for 2019/20 and 2020/21 (which excluded ARS) and updated the 2024/25 opex outcome with RIN-reported full-year actuals (with changes to total opex, unaccounted for gas and movement to provisions estimates accordingly). We also updated forecast inflation for 2025/26 with the latest RBA forecast (November 2025).</p> <p>These updates result in a revised carryover amount of \$9.0 million. The updated model is provided in Attachment 12.1A.</p>
Opex ECM continuation	Accept	Accept	We agree with the AER's Draft Decision to continue to apply the ECM in the next AA period with minor amendments to the AA (section 5.1) to clarify its application and calculation.
Capex CESS Carryover amounts	Accept	Accept	We agree with the AER's Draft Decision to continue to apply the CESS in the next AA period.
Capex CESS continuation	Modify	Modify	<p>As required by AER in its Draft Decision, we've made the following revisions in our revised Final Plan:</p> <ul style="list-style-type: none"> Used up-to-date data on CPI, WACC, reported performance measures, and reported capex Incorporated the tiered sharing factor⁶ as per the AER's August 2025 CESS guideline Updated API targets based on the average of past 5 years' historical actuals <p>These updates result in a revised CESS revenue increment of \$16.6 million. The updated model is provided in Attachment 12.2A. The tiered sharing factor and updated API targets have been included in our Access Arrangement 1 July 2026 – 30 June 2031 for AGN's South Australian Gas Distribution Network</p>

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

⁶ The tiered rate calculation for efficiency gains will apply a 30 per cent sharing ratio for any underspend amount up to and including 10 per cent of the approved forecast capex allowance, while any amount greater will incur a 20 per cent sharing ratio.

8.5 Summary

We will continue to apply an opex ECM and a capex CESS in the next AA period, which together will strengthen our incentive to deliver expenditure cost savings and continuously pursue efficiency improvements. This will allow the benefits of ongoing efficiencies made to be shared with our customers.