Attachment 14.4

Response to Draft Decision on Revenue and Pricing

Revised Final Plan 2026/27 – 2030/31

January 2026

PUBLIC

Australian Gas Networks

1. Response to Draft Decision on Revenue and Pricing

In this Revised Final Plan, we are proposing a 1.5% increase to tariffs (after inflation) from 1 July 2026. This is actually a real price reduction of 1.1%, which will be followed by real increases of 1.0% in each year thereafter.

1.1. Overview

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

1.2. Stakeholder and customer feedback

In preparing the revised Final Plan we have continued to engage with customers and stakeholders, including our South Australian Reference Group about our proposed revenue and prices, as well as business and industry groups concerning the structure of our commercial and industrial tariffs. We have also considered the submissions to the AER on our Final Plan.

A summary of the feedback provided on our revenue and prices is provided in Table 1.1 below.

We also held a customer workshop on 10 December 2025 to further explore tariff (and other) issues with customers. The feedback from this workshop on flattening our tariff structure is summarised in Appendix A with our engagement methodology to help refine our tariff approach.

Table 1.1: Summary of customer and stakeholder feedback

Customer and Stakeholder Feedback	Our Response
On our **pricing generally**: • Across all phases of engagement, customers consistently identified affordability and price stability as key priorities.	• In developing this Revised Final Plan, we have kept the impacts of tariff structures on customer affordability and price stability at the forefront of our decision making. • We have endeavoured to provide price stability in our Revised Final Plan price path, which is relatively flat over the AA period.
On our **recommended tariff structure:** • The Energy and Water Ombudsman SA (EWOSA) generally support the approach as a way to progress towards the AER's preference for flatter tariffs without the potentially large impacts on higher gas consumers.[1] • EWOSA noted that a move to flat tariffs, as a way to advance the emissions reduction objective of the National Gas Rules, would ultimately not	• We note that EWOSA position reflects majority views expressed at our RSP stage and in developing our Final Plan about the need for a cautionary approach to any flattening of tariffs and that there are some unresolved issues concerning the AER's policy to pursue flat tariffs, which suggest that the inefficiencies and costs of this approach should not be discounted. • We have considered customer impacts for high usage and other customers in developing our proposed structures across tariff categories and

[1] EWOSA, Submission to AGN SA Final Plan (EWOSA Submission), August 2025, p. 2.

Customer and Stakeholder Feedback	Our Response
be necessary should renewable gas become economically viable and replace natural gas.[2] • It also indicated that with the very small reduction in emissions modelled (as per our RSP), it is inappropriate to pursue a significant shift to flat tariffs with this as the rationale, and that given customer impacts, costs clearly outweigh benefits.[3] • SACOSS advocated for flat tariffs following an earlier submission on our Draft Plan supporting flat tariffs only if there were government programs to assist those negatively affected (which are not in place).[4] • The SARG Review Panel suggested that a declining demand trend raises questions about the long-term sustainability of recovering fixed network costs under current volumetric pricing models.[5] • It also submitted that the change in tariff structure could risk introducing distributional concerns whereby higher-usage customers – who may be less able to electrify, particularly commercial customers, could face increased bills.[6] • CCP33 noted our engagement outcomes where 79% of customers supported the declining block tariff structure or our proposed partial flattening but suggested the participating customers in our workshops might not understand the policy and other impact issues in full.[7]	have proposed further modification to the AER's Draft Decision for commercial and industrial tariffs due to these impacts. • We have proposed an adjusted tariff structure, for volume (residential and commercial) customers which responds to the AER's Draft Decision and other issues raised by SACOSS and the SARG Panel concerning the option of a flatter structure. With customer impacts and emission reduction implications in mind, we have proposed a 2-block structure for residential tariffs and a 3-block structure for commercial tariffs. • We have further engaged with customers (in a workshop in December 2025 with pre reading) to ensure their understanding of the issues concerning tariff structure and have tested views related to fairness. Customers generally consider it fairer to transition gradually (if required) to flatter tariffs. • Stakeholder feedback to our Final Plan did not specifically consider any change to the structure of Tariff D (demand tariffs for industrial customers) but we have considered cost redistribution impacts from the AER's proposed change to these tariffs and find them to be unreasonable.
On **abolishment charging**: • The SARG Panel anticipated the AEMC draft rule change and recommended that AGN should provide detailed information on the impact of the of the rule changes on abolishment charges.[8] • The SARG Panel supported the full cost of abolishment being charged and that the SA Government could provide support for those disconnecting in financial hardship.[9] • CCP33 agreed from an equity perspective. It also noted the safety concerns from disincentivising abolishments with a full cost charge but that disconnection would suffice unless it was a building demolition or home sale.[10]	• We propose to adopt the AEMC draft rule for SA in so far as we are recommending full cost recovery for the abolishment charge. We do not consider that there is any reason to delay the implementation of the policy in principle at this stage. Detailed information on the rule change is available on the AEMC site. It will be up to AGN to do further work to propose a standing offer in time. At this stage, our recent costs have suggested a cost reflective charge to be $1,250 for small scale abolishments. • We are not aware of any financial hardship policy in place for abolishment costs. We acknowledge that disconnection remains an option for

[2] Ibid.
[3] Ibid.
[4] SACOSS, Submission to AGN SA Final Plan (SACOSS Submission), August 2025 , pp. 5-7.
[5] SARG Panel, Submission to AGN SA Final Plan (SARG Panel Submission), August 2025, p. 33.
[6] SARG Submission, p. 34.
[7] CCP33, Advice to AER - Australian Gas Networks South Australia Access Arrangement Proposal 2026-31, August 2025 (CCP33 Submission), p. 31.
[8] SARG Panel Submission, pp. 12-15.
[9] Ibid.
[10] CCP33 Submission, p. 30.

Customer and Stakeholder Feedback	Our Response
	customers. To ensure ongoing safety we will continue to monitor and act upon dormant connections as we have proposed in this AA period.
On the **form of revenue control**: • EWOSA maintained its view from its Draft Plan submission that while it prefers the continuation of the weighted average price cap (WAPC) form of revenue control, if the AER decides on a shift to a hybrid price cap mechanism model, that 10% is a more suitable revenue variation threshold than the 5% applied in the Jemena Access Arrangement, which would allocate too much risk to gas consumers in the event of significant demand variations from those forecast.[11] • Both the SARG Panel and SACOSS considered that a significant shift away from a Weighted Average Price Cap (WAPC) was concerning because it shifted risk onto customers, especially in an environment of declining demand.[12]	• We acknowledge the concerns from stakeholders about the shift away from a price cap approach, which has been AGN's preferred option. • However, given that the AER has already been provided with a comprehensive set of information supporting this approach (including customer and stakeholder feedback outcomes), and then for our proposed mechanism with a 10% revenue variation threshold (in the Final Plan), we accept the AER's Draft Decision for a hybrid mechanism. Its approved mechanism combines the continuation of a price cap with a new 5% revenue variation threshold.

[11] EWOSA Submission, p. 2.
[12] SACOSS Submission, pp. 6-7 and SARG Panel Submission, p. 35.

1.3. AER Draft Decision

The AER's Draft Decision in respect of our revenue and pricing is summarised in Table 1.2 below.

Table 1.2: Summary of the AER's Draft Decision on revenue and pricing

	AER Draft Decision	AER Comment
Building Block Total Revenue	Modify	The AER's Draft Decision revenue was $1,188 million ($nominal, smoothed).
Price path	Modify	The AER price path provides for a lower total smoothed revenue than our proposal, in line with the AER's amendments to total unsmoothed revenue. Expressed in nominal terms, the Draft Decision provided for an initial cut of 13.5% in 2026/27, followed by increases of 5.6% per years in subsequent years of the next AA period.
Tariff structure	Modify	The AER determined more extreme flattening of tariffs than our Final Plan because it was not satisfied that AGN's proposed declining block tariffs (which were already flatter than prices in the current AA period) sufficiently reflect the updated NGO incorporating emissions reduction targets.[13] It prescribed 2-block structures (based on usage) for residential and commercial tariff (small volume) categories, rather than the tariff structures AGN proposed (3-block and 4-block for these categories respectively) and asked AGN to model these new structures for its revised proposal. It also requested a clear explanation of the rebalancing proposed by AGN in revised blocks, including bill impact modelling (with any alternative approaches considered) which covers disaggregation by consumption level and the customer numbers at each level. To the extent AGN's modelling indicates volume (small) customers would benefit from a transition period, the AER stated that it is "open to AGN laying out a plan to transition to flatter tariffs across the 5-year regulatory period." It further required AGN to consider a shift to the same (2-block) structure for tariff D (large) industrial 'demand' customers in the next AA period or an implementation plan for such a structure should there be a case for a slower transition.
Service abolishment charges	Modify	Following the AEMC draft rule change (October 2026) for cost-reflective abolishment charges as part of a consistent regulatory framework, the AER proposed a different approach (because the next AA period for AGN SA would not be bound by the draft change).[14] It decided upon a discriminatory pricing approach for

[13] AER, Final Decision, Attachment 5, pp. 10-12.
[14] AER, Final Decision, Attachment 5, pp. 12-15.

	AER Draft Decision	AER Comment
		service abolishments, despite the costs of the service being the same, with: • a charge of $250 for electrification-based requests based on a partial cost recovery approach due to its moral hazard concern about those choosing to disconnect not requesting the abolishment over temporary disconnection; and • $1,000 for knockdown rebuilds and renovations, which it considers to be cost-reflective and where no such moral hazard problem arises. The AER's decision is a modification on our proposed single charge of $250 for customer-initiated abolishment, based on 20% of our cost-reflective estimate of $1,250, which reflected the AER's previous decisions (regarding partial cost recovery) but was pending the outcome of the AEMC rule change request concerning the appropriate approach.
Form of revenue control	Modify	The AER accepted the hybrid approach proposed by AGN in principle in the Final Plan (combining the existing price cap with revenue variation thresholds and a 50:50 sharing of revenue with customers from that point). However, it determined that 10% as the control threshold for revenue variation was too broad and changed this band to 5%.[15] The implication is that more price volatility will be passed on to customers more quickly in an AA period, which the AER considers with the new band is better balanced against the reduced incentive by AGN to grow the network.
Other tariff variation and cost pass through mechanism updates	Modify	The AER accepted the AA document as proposed with the tariff variation and cost pass through mechanisms but required other drafting revisions for closer alignment with its recent decisions for other network service providers (in electricity and gas), as follows. Revision 5.5 requires amendments to section 4.5 for updated definitions of the cost pass through events listed below for drafting consistency between AGN and other network service providers:[16] • Tax Change Event • Terrorism Event • Insurer Credit Risk Event • Insurance Coverage Event (we proposed 'Insurance Cap' event) • Natural Disaster Event.[17] Revision 5.6 requires amendment to section 4.6.2 to align the number of business days the AER has to notify

[15] AER, Draft Decision, Attachment 5. pp. 15-18.
[16] AER, Draft Decision, Attachment 5. p. 23.
[17] AER, Draft Decision, Attachment 5. p. 23, 25-28.

	AER Draft Decision	AER Comment
		AGN of its determination, following a cost pass through application, with the timeframes set out in the NER (being within 40 business days (instead of the previous 90) unless the timeframe is extended).[18] Revision 5.7 requires amendment to section 4.5 to replace the definition of the materiality threshold with costs incurred as a result of a pass-through event to be referenced to unsmoothed rather than smoothed annual revenue (again, for consistency with the NER).[19]
Connection charges	Modify	Following the AEMC draft rule change issued on 12 June 2025, connection charges must be cost reflective and AGN must submit model standing offers to the AER for approval by 1 April 2026.

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

A summary of our response to the AER's Draft's Decision is provided in Table 1.3 Table 1.3below.

Table 1.3: Summary of our response to the AER's Draft Decision on our opex

	AER Draft Decision	Our response	Our Comment
Price path	Modify	Modify	• Our price path is for an upfront real price cut of 1.1%, followed by 1.0% price increases thereafter. We have responded to stakeholder feedback on their preference for stable prices and have delivered this in our Revised Final Plan.
Tariff structure	Modify	Modify	• We maintain our view that a 'flat tariff' structure is not an appropriate pricing approach for our distribution services with large fixed-asset costs; it is inefficient compared with declining price tiers and not in the interest of AGN customers since it will eventually raise the average cost for all customers for an essential service and has very limited emission reduction benefit. Stakeholder and customer feedback has generally supported our view regarding the best tariff structure for the network, despite minority views that flat tariffs should be explored with other support mechanisms in place. • Further, in seeking to achieve better consistency with the emissions reduction

[18] AER, Draft Decision, Attachment 5. pp. 24-25.
[19] AER, Draft Decision, Attachment 5. pp. 23-24.

	AER Draft Decision	Our response	Our Comment
			objectives aligned with the AER approach as per our Final Plan, we had already recommended a flattening of tariffs which also took into account customer impacts, and a reasonable sharing across the customer base (rather than simply burdening one cohort of customers for the benefit of others), which is indicative of the nuances of the existing tariff structures. Again, our customers and stakeholders generally supported this approach. • We have remodelled the residential tariffs with a proposed effective 2-block structure as the AER prefers, and can accept this structure, pending further stakeholder feedback, given that customer impacts are generally reasonable within the AA period. • However, we have maintained our Final Plan proposal for a change to an effective 3-block structure for commercial tariffs (i.e. effectively flattening blocks 3 and 4). The 2-block structure requested by the AER is not appropriate as it has mixed bill impacts and possibly perverse incentives across the customer base (which might not even achieve any net emission reduction) and retail tariffs often have at least three usage tiers for commercial customers in any event. • We also do not accept the 2-block structure for industrial tariffs because the change would only redistribute costs, not reduce net emissions, with significant losses concentrated in a few customers only. We have also not proposed an implementation plan because the proposed change is not consistent with the NGO; it would be unlikely to achieve any material net emission reduction, with the 'winners' (including large gas users) contributing to more emissions while the 'losers' contribute to less emissions with potentially detrimental economic impacts for those few affected, as they are generally South Australian manufacturers, providing local jobs and reliant on gas as an input to production.
Service abolishment charges	Modify	Reject	• It is important that abolishment charges are cost reflective, matching the AEMC draft rule change (October 2026), since the AEMC has ruled that this is the most efficient and equitable approach, consistent with good regulatory practice and with consideration of emission-reduction and safety matters as part of its assessment process. Further, its final decision will be binding on future AA periods for the AGN SA network. • We do not accept the AER's new discriminatory pricing approach when the

	AER Draft Decision	Our response	Our Comment
			cost of the service is the same. This approach would be more inefficient, impractical and costly to implement than a single charge approach (whether based on partial or full cost recovery). • At this stage, we propose $1,250 as the charge which reflects the efficient cost for the AGN SA network based on it being lower than the recent actual average cost (in 2025) and also comparable with other actual average costs reported for some other jurisdictions. We refer to the cost 'build up' and comparative data we have submitted to support this forecast. We note that, in time, the final AEMC rule change will require AGN to submit its Model Standing Offer for the abolishment service to the AER.
Form of revenue control	Modify	Accept	• On the basis that we have already provided comprehensive supporting information (including customer and stakeholder feedback) for the weighted average price cap and our proposed hybrid approach in the Final Plan, we accept the AER's preferred approach for a hybrid mechanism combining the existing price cap with a revenue threshold of 5% and equal sharing of under or over recovery of revenue with customers beyond this point.
Other tariff variation and cost pass through mechanism updates	Modify	Accept	• We accept the other relatively routine drafting revisions to the AA for better consistency with other network service provider decisions by the AER regarding the definitions and processes involved with these mechanisms.

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

1.5. Prices

1.5.1. Pricing structure

Volume haulage tariffs (residential and commercial)

Our revised Final Plan continues the declining block structure for our volume tariffs but with some adjustment for what the AER considers in its Draft Decision is better alignment with the emission reduction objective of the NGO. We have adopted the AER-preferred 2-block structure for our residential tariffs, but maintain that a 3-block structure, with consolidation of the 3rd and 4th blocks and other flattening, is the best approach in the next AA period for commercial tariffs.

In our Final Plan, we proposed a continuation of a declining block structure for AGN's tariffs as supported by a majority of our stakeholders and customers, with some flattening for emission reduction objectives in the NGO.[20] This followed extensive engagement regarding the appropriate

[20] AGN, Final Plan, pp. 141-145.

price structure at the Reference Service Proposal (RSP) stage (when the AER directed us to undertake engagement on the price structure) and then throughout the development of our Draft and Final Plans.

We provided information about the efficiency benefits of the existing price structure and a range of arguments against a flatter structure, views shared by other stakeholders. The existing price structure is most efficient, as a form of Ramsey pricing. That is, by lowering the price to more elastic demand, it provides a means for that demand to be served where it would otherwise not be due to prices being too high. Therefore, fixed costs can be allocated across higher demand, leading to lower prices for all customers. A flat price structure would reduce more elastic demand, resulting in a higher cost burden for demand which remains. This position is well supported by academic literature on efficient pricing for networks with a large fixed-asset cost base like AGN SA.[21]

Many concerns were raised with the AER by different stakeholders about a flat tariff policy in its 2023 distribution network review.[22] Flat tariffs redistribute costs among the customer base, with incentive impacts working at cross purposes based on variations in bill impacts – some customers will receive a bill reduction while others will experience a bill increase. The degree of elasticity (demand response to a price change) will depend on the customer. Stakeholders were particularly concerned about a shift from efficient pricing for the network (based on declining usage blocks) which results in a redistribution of costs, creating winners and losers, when there is little guarantee of an emission reduction benefit (since it also relies on retailers passing the structure on in their tariffs).

The costs of shifting to flat tariffs include the impacts by way of bill increases for vulnerable customers (including larger households with gas appliances who can't afford electrification) and commercial and industrial customers who rely on gas for their operations and contribute to employment and economic outcomes.

In our RSP, we modelled the potential benefits, being the emission reduction impacts from a change to flat tariffs. We considered the impact on retail tariffs, assuming the tariff structure change would be passed on in full to these prices (noting in practice, retailers will generally optimise their tariffs to suit their needs). The estimated value of the benefit of emission reduction was very small (from a 2% reduction in demand):

> *For residential customers, we estimate that the annual benefit would be equivalent to $0.08 to $0.18 or just 0.02 to 0.04% of the annual bill, on average. For commercial customers, we estimate it to be $1.91 to $3.18 or just 0.08 to 0.13% of the average annual bill. These estimates assume a long term forecast for the price of carbon of $88 per tonne. The current spot price is around $35-40 per tonne.*[23]

It is worth noting that we modelled these impacts based on implementing entirely flat tariffs (with a single volume-based usage price) further demonstrating how small the benefits would be when other priorities (such as customer impacts) in the NGO are properly considered to mitigate the extent of adverse flattening impacts.

The AER's Draft Decision did not accept our proposed tariff structures in our Final Plan because it considered that they reflected only modest flattening. It stated that the structure still "promotes the

[21] For example, see: Baumol and Bradford (1970), "Optimal Departures From Marginal Cost Pricing", *The American Economic Review*, Vol. 6, No. 3, pp. 265-283.
[22] AER, Final decision - Review of gas distribution network reference tariff variation mechanism and declining block tariffs – October 2023.
[23] AGN, Final Reference Service Proposal (RSP) for the AGN SA 2026/27 to 2030/31, p. 32.

use of gas," and considered that "it is in conflict with the emission reduction aspect of the NGO."[24] It required " … that AGN flatten blocks 2-3 for tariff R and blocks 2-4 for tariff C of its volume (small) customer tariffs".[25] It also:

- considered the first price block of AGN's existing tariff structures could be retained, priced high relative to the remainder of the tariff structure (we agree with this in principle, so long as the other blocks are priced lower to reflect low marginal cost);
- requested a clear explanation of any rebalancing in the revised block tariffs, including bill impact modelling of revised block structures (including any alternative approaches considered and disaggregation of impacts into differing consumption levels and the number of customers at each consumption level);
- is open to AGN laying out a plan to transition to flatter tariffs across the 5-year regulatory period.[26]

Following the AER's Draft Decision, we engaged further with our customer base to test the fairness of different tariff options to achieve emission reduction objectives.[27] The outcomes related to tariff structure from this engagement are explained Appendix A. Different customer groups favoured slow or faster moves to flat tariffs, depending on their own usage patterns. However, overall, a gradual transition to flatter tariffs was considered fairer and more reasonable to all groups.

We have responded to the AER's Draft Decision in the context of this feedback with proposed new tariffs as in Figures 1.1 and 1.2 (showing the pricing by block) and Tables 1.4 and 1.5 (showing the bill impacts) further below. We have modelled the annual bill impacts of these tariffs (along with the AER's preferred structure for commercial tariffs and our Final Plan proposal for residential tariffs, both of which we have not adopted) and have considered the customer numbers in each consumption step. We have applied the change in structure to the existing prices of 2025/26, based on equalized revenue (with 2024/25 volumes) and have separated the bill impacts from the impact of the expenditure and depreciation proposals we have made in our revised Final Plan. This approach best isolates the impact of the tariff structure change, distinct from the impact of our other revenue-related proposals.

As stated, we can accept the adoption of an effective 2-block structure for residential tariff categories, consistent with the AER's decision. Our proposed pricing approach attempts to ensure that customer impacts are reasonable across the customer base, although the largest use customers are still projected to experience annual bill increases of up to 16% (if the retailer passes the bill increase on in full). Should the AER decide that this increase is too high, our Final Plan tariffs provide an alternative option to transition towards a 2-block option in the following AA-period.

For commercial tariffs, we have not adopted the AER's proposed structure. We show in Table 1.5 how the proposed structure - even with our modelling of options to try to reduce the large bill impacts - still results in an unreasonable redistribution of costs between customers. Note that the reason for the range of bill impacts shown at some consumption levels in this table is due to the high variability among commercial customer usage patterns, and how the extent of the bill impact will depend on how variable the usage pattern is across the year.

[24] AER, Final Decision, Attachment 5, pp. 11.
[25] Ibid.
[26] AER, Final Decision, Attachment 5, pp. 10-12.
[27] We held a customer workshop facilitated by KPMG on 10 December 2025.

Figure 1.2 (for commercial tariffs) shows the extent of the reduction in price required in the second usage block under the AER-preferred structure which is the reason for the large bill reductions among medium to high gas usage customers.

Our modelling has indicated that if the price in this block is increased by more, then the resulting bill impacts on high usage customers are even more unreasonable – increasing by as much as around 50% on current bill levels.

We have discussed in more detail the negative economic impacts should there be a change to 2 block tariffs for industrial (demand) customers below. However, the same type of impacts from flatter tariffs can apply to commercial customers at the higher usage levels, depending on the final pricing structure adopted. These customers include South Australian light industry and a range of different manufacturers reliant on gas, just like our tariff D customers. The services, outputs and jobs involved in these operations become at more risk under the AER's approach aimed directly at increasing the price of gas for these businesses.

The reduction in bills for medium gas users under the AER's approach for commercial tariffs is also potentially counterproductive to the emission reduction objective because those with lower bills might demand more gas (depending on the elasticity for the commercial customers). It might also slow a decision to invest in an alternative energy efficient technology, given the assumed bill reduction.

Our proposal which adopts our Final Plan commercial tariff structure already effectively flattens the bottom 2 usage blocks for Commercial Tariffs and reduces the number of usage blocks from 4 to 3. The main retailers in SA generally offer three-plus tiers in their commercial pricing for gas so this adjusted structure would be more consistent with that pricing. We maintain that it is not necessary for commercial tariffs to shift to 2 usage blocks in the next AA period when other options are for flatter tariffs, as we have proposed, are practical and still consistent with the NGO.

We also do not suggest a transitional phase with our proposed changes to the tariff structure for volume-based customers. We consider that transitioning through the AA period will be unnecessarily complex. Thus, the new structures are intended to be implemented from 2026/27, with the tariff variation mechanism to apply (as in section 4of the AA document) throughout the remainder of the AA Period.

Our final haulage service pricing to apply from 1 June 2026, as presented further down in Table 1.10 and Table 1.11, incorporates the changes in tariff structure for residential and commercial tariffs with the impact from our proposed revenue allowance for the next AA period.

Figure 1.1: Residential tariffs by block – Current versus Final Plan and proposed (AER-preferred) structure

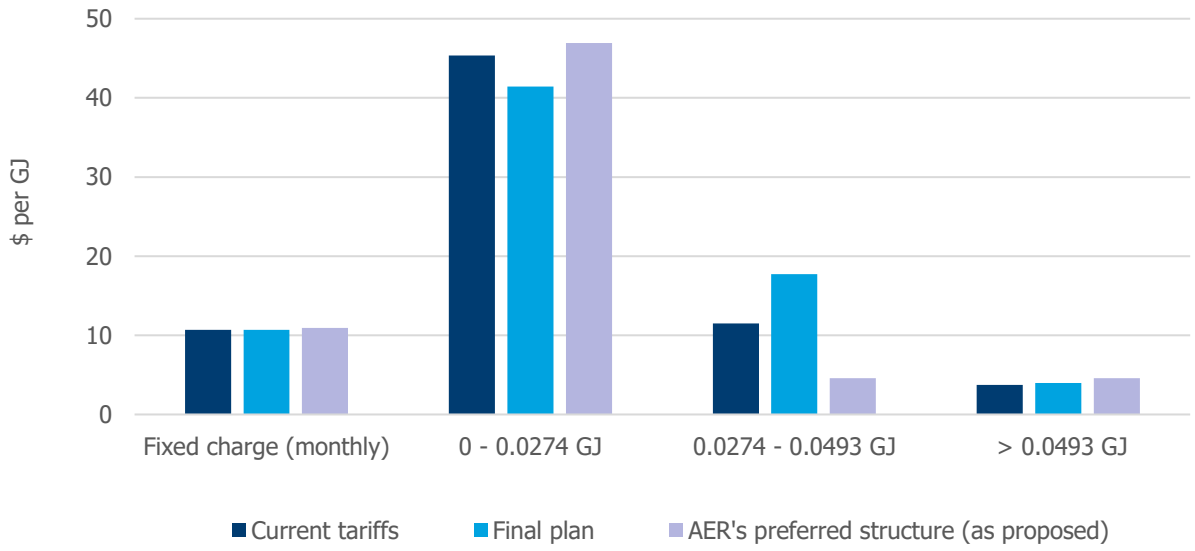


Table 1.4: Residential tariff structure change – modelled annual bill impacts ($nominal)

Annual GJ	Average annual bill under current tariffs (2025/26)	Proposed (AER-preferred) structure bill difference from current tariffs ($)	Proposed (AER-preferred) structure bill difference from current tariffs (%)	Final Plan tariff structure bill difference from current tariffs ($)	Final Plan tariff structure bill difference from current tariffs (%)	No. of customers (up to consumption level from previous step)
5	$355	~$11	~3%	~-$8	~-2%	100,458
10	$493	~-$3	~-1%	~-$28	~-5%	121,768
15	$551	~-$38	~-7%	~$30	~5%	94,003
20	$556	~-$20	~-4%	~$20	~4%	58,235
25	$575	~-$16	~-3%	~$21	~4%	34,674
30	$594	~-$12	~-2%	~$23	~4%	21,654
45	$650	~$1	~0%	~$26	~4%	29,327
60	$706	~$14	~2%	~$29	~4%	9,437
100	$856	~$48	~6%	~$37	~4%	5,216
200	$1,231	~$133	~11%	~$59	~5%	776
465	$2,223	~$360	~16%	~$115	~5%	72

Figure 1.2: Commercial tariffs by block – Current versus proposed structure and AER's preferred structure

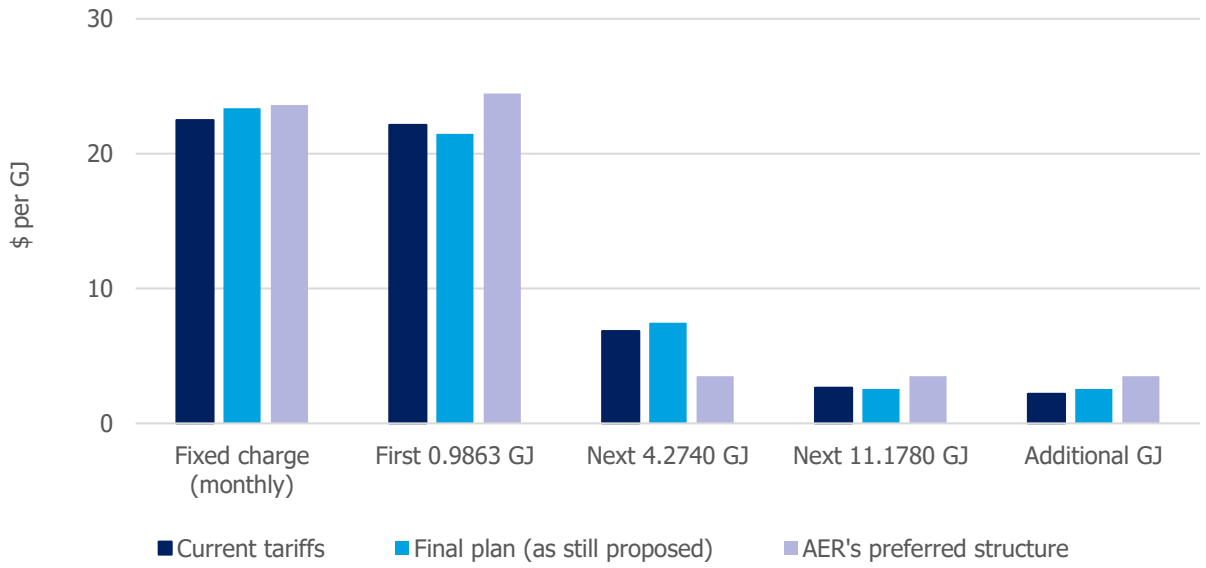


Table 1.5: Commercial tariff structure change – modelled annual bill impacts ($nominal)

Annual GJ	Average annual bill under current tariffs 2025/26	AER structure bill difference from current tariffs ($)	AER structure bill difference from current tariffs (%)	Revised Final Plan bill difference ($)	Revised Final Plan bill difference (%)	No. of customers (up to consumption level from previous step)
15	$602	~$48	~8%	~$1	~0.1%	4,474
45	$1,265	~$14 to $118	~-1 to 9%	~ -$19 to $11	~ -2 to 1%	1,397
100	$1,709	~$-40 to $246	~-2 to 10%	~ -$56 to $10	~-2 to 1%	1,221
200	$3,148	~$-94 to $479	~-3 to 10%	~ -$122 to $9	~ -3 to 0%	1,313
300	$4,587	~-$147 to $712	~-3 to 10%	~ -$188 to $8	~ -3 to 0%	758
1,000	$9,825	~-$2,314 to -$1,283	~-24 to -10%	~ $177 to $412	~ 1 to 4%	1,703
2,000	$15,562	~-$4,417	~-26%	~$801	~ 6%	435
3,000	$18,208	~-$3,562	~-18%	~$698	~ 4%	118
5,000	$23,498	~-$1,852	~-8%	~$493	~2%	83
8,000	$30,436	~$1,668	~5%	~$1,141	~4%	38
10,000	$34,812	~$4,292	~12%	~$1,850	~6%	1

Demand (D) Haulage Tariffs (industry)

We propose the same Tariff D structure as we had for our Final Plan, without any change to the existing structure.[28] This applies to the 7 regional subcategories for this tariff category (see Table 1.11 below).

Prices for our larger industrial customers are capacity based rather than consumption based and consist of banded charging parameters (in dollars per GJ of Maximum Daily Quantity (MDQ)). The pricing structure based on their maximum usage requirements provides economic signals to demand customers to ensure a smooth consumption profile rather than a 'peaky' one. The locational aspect of these tariffs also reflects the different cost of supplying customers.

We explained in our Final Plan how we had not proposed any changes to the pricing structure for Tariff D customers because they have their own emission reduction obligations, and even small changes in tariffs can potentially impact the viability of their operations.[29] This position is supported by academic literature on the effect of rising energy prices on different sectors' production costs, including manufacturing.[30]

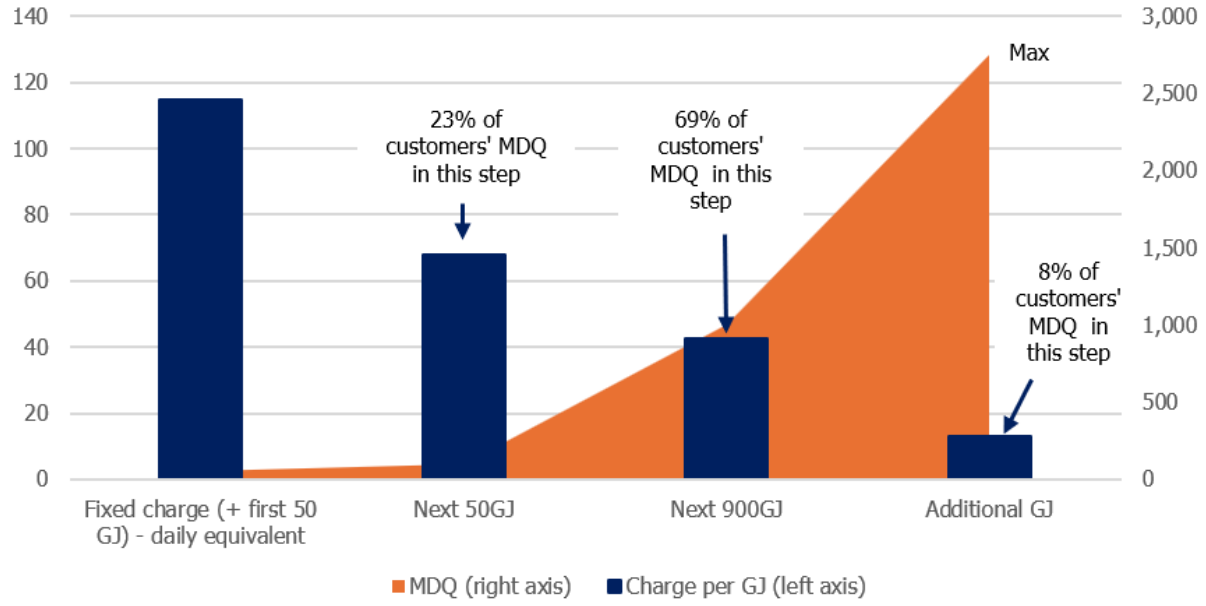
The AER's response to our Reference Service Proposal did not comment specifically on industrial tariffs. But the AER Draft Decision has not accepted our Final Plan position for Tariff D customers and asked AGN to "consider similar flattened block tariff structures for the 2026-31 period", which suggests adoption of its preferred 2-block structure. It also stated that ".. to the extent that AGN modelling indicates customers would benefit from time to transition, it should lay out a clear plan to transition to flatter demand tariffs."[31]

We have considered the application of a 2-block structure for industrial tariffs. Consequently, we maintain our position of no change. Figure 1.3 below demonstrates the current structure for the Adelaide Northern tariff zone. Other tariff zones have a similar tariff structure, although as mentioned above, pricing levels do vary by subcategory in line with the differences in the cost of service.

As this chart for the Adelaide Northen zone shows, the majority of customers (69%) lock in capacity in the large 900 GJ block, while only a small proportion (8%) require capacity beyond this level. Thus, the current tariff structure is already relatively 'flat' with most customers paying the same for gas within a large block of capacity (effectively up to 1,000 GJ per day). Other regional subcategories generally have lower capacity or zero capacity demanded by customers in the third block.

[28] AGN, Final Plan, p. 142.
[29] AGN, Final Plan, pp. 141-142.
[30] Valadkhani 2014), "The impacts of rising energy prices on non-energy sectors in Australia", *Economic* Analysis *and Policy.*
[31] AER, Draft Decision, Attachment 5, p. 12.

Figure 1.3: Tariff D – Adelaide Northern, charges (2025/26) and customer/volume distribution (2024/25)



We will also not be establishing a plan to implement this structure because it is not appropriate for our demand (industry) tariffs. The tariffs are already relatively flat within separate regional categories and removing the third block would be inefficient and likely ineffective as an emissions reduction strategy. Customers will not benefit "from time to transition" because the concentration of the large cost increases among a few very high-use gas customers only will affect their production costs significantly, irrespective of being implemented over five years or in a single year. We consider the approach to be inconsistent with the NGO.

The main problem from this approach is that flatter industrial tariffs would just redistribute costs among the industrial customer base with a small number of large gas users incurring much higher costs (bearing potentially adverse economic/employment impacts) and many more large gas users with bill (cost) reductions. Table 1.6 demonstrates the potential impact of the AER's proposed change in structure to the two tariff D regional tariff zones which would be affected – Adelaide Northern and Adelaide Central. One of the three businesses negatively impacted in the Adelaide Northern category could receive a bill increase of around $425,000 or 52% per annum.

Table 1.6: Modelled impact of AER proposed tariff structure change – winning and losing customers (based on 2024/25 demand and charges)

Adelaide Northern category		
Win/Lose	**No. of businesses**	**Estimated Annual Bill Impact % ($)**
Lose	3	4% ($26k) 27% ($187k) 52% ($425k)
Win	6	>10% ($34k-$64k)
Win	16	5-10% (6k-28k)
Win	19	< 5% (up to $5k)
Neutral	14	Nil
Adelaide Central category		
Lose	1	5% ($35k)
Win	21	0-1% (Up to $7k)
Neutral	12	Nil

The reason the other tariff zones would not be affected is because there is either only one customer in the zone (and therefore no redistribution of costs from a price change) or because the subcategory has no customers with MDQ levels in the third capacity block. To flatten tariffs further we would really need to concentrate the redistribution of costs and resulting bill increase in just 3.5% of businesses.

The redistribution of costs and resulting winners and losers occurs because of the need for revenue equalization in each of the tariff zones, and the fact that there are only around 115 Tariff D customers in total. As already discussed, there are also just 'winners' and 'losers' from a change in the tariff structure for (smaller) residential or commercial customers, but the concentration of losers is lower because there are many more customers in these categories.

It is also quite clear that the change in structure would not achieve any material emission reduction benefits when all incentive impacts across the customer base are considered. There could well be counterproductive changes (i.e. higher emissions) since many large gas users would still receive a bill reduction at their current capacity requirements. At the same time, the largest users would face higher production costs through the AER's flatter tariff policy on top of their obligations under the Safeguard Mechanism.[32]

If the input cost increase is large enough, operations might be forced to shut down (with job losses accordingly), and even then, there wouldn't be a certain net emission reduction benefit because the

[32] The Safeguard Mechanism already provides for emissions reduction by Australian industry, as the largest emitters, with baselines and timelines established to meet Australia's 2030 (43% reduction) and 2050 (net zero) climate goals.

demand for the output or service would likely just be met by another similar operation ramping up similar production elsewhere (with similar emissions accordingly).

Our view is that the costs would outweigh any possible benefits and the risk of compromising operation viability is not consistent with customer impact and pricing efficiency obligations under the NGO. Afterall, the investments in these operations to date, have been based on the pricing signal provided by the existing tariff structure (as a key input to production costs).

By comparison, the Australian Government's Safeguard Mechanism establishes industry baselines to manage incentives and has been carefully developed (supported by modelling) to ensure costs for individual businesses are manageable in the context of the value of emission reduction, as described below:

> *Industry average baselines provide an incentive for production to occur where it is least emissions-intensive, while facility-specific baselines recognise individual facility circumstances and keeps initial costs low. By starting the weighting closer to facility-specific values, costs are introduced in manageable increments, giving business sufficient time to plan and implement emissions reduction projects.*[33]

The Mechanism generates credits for large emitters that reduce emissions below their facility-specific baselines, acting like carbon credits that can be sold to other facilities needing to meet obligations to achieve national climate targets. This represents an efficient market-based mechanism to achieve emission reduction. The credit created is for the value of the reduced emissions.

By contrast, a flat tariff policy is a relatively inefficient policy, which does not create any value through reduced emissions because there is only a redistribution of costs. A significant body of academic literature argues that these type policies, which implicitly pick "winners and losers", are inefficient compared with market-based instruments like carbon pricing.[34] It is arguable that emissions will be reduced at all with this type of approach and there are better approaches with far lower costs across the economy.

There are many barriers to businesses most reliant on gas from fuel switching or reducing gas use in their operations, irrespective of price rises:

- Manufacturing industries: industrial products such as glass, bricks, ceramics, and paper require high-temperature heat to produce. This is challenging to achieve with electrification technologies and places greater importance on low carbon combustible fuels.
- Gas as feedstock: some processes also require gas as a feedstock, such as in the production of fertiliser, plastics and chemicals, offering even greater decarbonisation challenges.
- High electrification costs: although technical solutions exist for electrifying certain processes, the costs are often unaffordable. Additionally, for some businesses, their equipment is still functional and not due for replacement, meaning it does not make commercial sense to switch to electrification.[35]

[33] Department of Climate Change, Energy, the Environment and Water, Safeguard-mechanism-reforms-factsheet-2023.pdf, May 2024, p. 3.
[34] For example, Montgomery (1972), Baumol and Oates (1988), DH Cole (1999), Tuladhar, Mankowski and Bernstein (2014) and Beiser-McGrath (2023).
[35] Deloitte, Unlocking Renewable Natural Gas to Enhance Energy Security and Maintain Australia's Manufacturing Sector, July 2025, p. 7.

Therefore, demand for gas among these businesses can be difficult to reduce even when there are rising production costs, which again further undermines flat tariff policy from being effective as an emissions reduction policy. As outlined in a recent Deloitte Report for Bioenergy Australia, many of the sectors reliant on gas will continue to rely on gas into the future:

> *Gas powers Australia's $100 billion manufacturing industries. Gas is a critical energy source and raw material for manufacturing and many industries depend on gas to produce aluminium, chemicals, cement, bricks, and plastic packaging for foods and beverages. Many gas applications have few decarbonisation options available, and gas will remain a critical energy source for these applications into the future.*[36]

It is also imperative during the energy transition that manufacturers and other operators heavily reliant on gas receive consistent and non-contradictory pricing signals from government and regulators regarding emission reduction obligations and gas costs. A 'flat tariff' policy which would entail significant financial losses for just a few heavily reliant gas businesses is directly at odds with other policies by government which aim to stabilise prices and support industrial competitiveness during the energy transition (e.g. the Australian Government's Mandatory Domestic Gas Reservation Scheme[37] and previously, the Energy Price Relief Plan[38], and the SA Government's 2025 Gas Security Initiative[39]). We consider it is incumbent on the AER to ensure that its regulatory policies do not compromise these other critical initiatives to reduce gas costs and support industry.

We have liaised with industry and business stakeholders about the AER's Draft Decision, and their initial reaction was concern about an approach which seeks to reduce industry competitiveness and risk the viability of a few high gas use operations at a critical juncture in the transition, especially when other levels of government are trying to support them.[40]

Our proposed demand (D) tariffs for the next AA period, adopting the current tariff structure, are provided in Table 1.11.

[36] Deloitte, Unlocking Renewable Natural Gas to Enhance Energy Security and Maintain Australia's Manufacturing Sector, July 2025, p. 4.
[37] See: Affordable gas for Australian homes and businesses | Ministers for the Department of Industry, Science and Resources.
[38] See: Energy Price Relief Plan | Prime Minister of Australia
[39] See: 2025 SA Gas Initiative Grant Scheme | Energy & Mining
[40] AGN meeting with Ai Group and SA Business Chamber, 17 December 2025.

1.6. Proposed price path and revenue

Table 1.7 presents the "smoothed" tariff revenue and price path for South Australia.

Table 1.7: Proposed Price Path, 2026-27 to 2030-31 ($nominal, million)

	2026-27	2027-28	2028-29	2029-30	2030-31
Building Block Revenue	272.9	260.2	273.3	285.1	300.9
Price Revenue	277.4	279.2	278.9	277.6	273.7
Real Price Path	**1.10%**	**-1.00%**	**-1.00%**	**-1.00%**	**-1.00%**

Table 1.8 provides the revised building block total revenue including and excluding ARS.

Table 1.8: Building Block Revenue 2021-22 to 2025-26 ($nominal, million)

	2026-27	2027-28	2028-29	2029-30	2030-31
Return on Capital	131.4	135.9	141.3	147.1	154.6
Return of Capital (Regulatory Depreciation)	37.8	34.5	38.9	45.7	49.1
Opex	101.6	100.6	103.5	106.0	111.1
Incentive Mechanism	8.4	-2.3	-0.9	-1.0	3.8
Cost of Tax	-	-	-	-	-
Building Block Total Revenue (including ARS)	**279.1**	**268.7**	**282.8**	**297.8**	**318.6**
Less ARS	6.3	8.4	9.5	12.7	17.7
Building Block Total Revenue (excluding ARS)	**272.9**	**260.2**	**273.3**	**285.1**	**300.9**

Table 1.9 sets out the ARS building block total revenue for South Australia.

Table 1.9: Forecast Revenue from Ancillary Reference Services, 2026-27 to 2030-31 ($million, June 2026)

	2026-27	2027-28	2028-29	2029-30	2030-31
Special Meter Read	1.74	1.72	1.72	1.71	1.64
Disconnection	0.31	0.31	0.31	0.30	0.29
Reconnection	0.26	0.26	0.26	0.26	0.25
Meter Removal	0.02	0.02	0.02	0.02	0.02
Meter Reinstallation	0.00	0.00	0.00	0.00	0.00
Meter Gas and Installation Test	0.01	0.01	0.01	0.01	0.01
Service abolishment	3.75	5.69	6.45	9.12	13.31
Total	**6.10**	**8.02**	**8.78**	**11.43**	**15.53**

Note: Totals may not add due to rounding.

1.6.1. Proposed tariffs

Table 1.10 and Table 1.11 show the Tariff R (Domestic) and C (Commercial) Haulage Service Tariffs and the Tariff D (Demand) Haulage Service Tariffs in our revised Final Plan.

We have incorporated the changes in tariff structure into Tariffs R and C, as well as the impacts of the proposed revenue allowance (which are also reflected in Tariff D).

Table 1.12 provides the estimated prices for the Ancillary Reference Service Tariffs in our revised Final Plan. These prices are intended to be cost-reflective and incorporate a forecast CPI increase on 2025/26 prices.[41] They have not changed from our Final Plan (apart from for inflation) except for the new reference service, Service Abolishment. We discuss the proposed cost-reflective charge for Service Abolishment in more detail below, which is different to the pricing approach preferred by the AER in its Draft Decision.

[41] We have assumed 3.3% annual CPI growth (based on the RBA's November 2025 forecast for year to December 2025).

Table 1.101: Tariff R and C Domestic Haulage Service Tariffs from 1 July 2026 ($Nominal)

Charges per Network Day (excluding GST)	
Tariff R (excluding New Towns)	
Base Charge ($ per day)	0.3649
Charge for the first 0.0274 gigajoules of gas delivered ($ per gigajoule)	47.6243
Charge for the next 0.0219 gigajoules of gas delivered ($ per gigajoule)	4.6677
Charge for additional gas delivered ($ per gigajoule)	4.6677
Tariff C (excluding New Towns)	
Base Charge ($ per day)	0.7799
Charge for the first 0.9863 gigajoules of gas delivered ($ per gigajoule)	21.7789
Charge for the next 4.2740 gigajoules of gas delivered ($ per gigajoule)	7.5772
Charge for the next 11.1780 gigajoules of gas delivered ($ per gigajoule)	2.5801
Charge for additional gas delivered ($ per gigajoule)	2.5801
Tariff R (New Towns)	
Base Charge ($ per day)	0.3649
Charge for the first 0.0274 gigajoules of gas delivered ($ per gigajoule)	61.9115
Charge for the next 0.0219 gigajoules of gas delivered ($ per gigajoule)	6.0680
Charge for additional gas delivered ($ per gigajoule)	6.0680
Tariff C (New Towns)	
Base Charge ($ per day)	0.7799
Charge for the first 0.9863 gigajoules of gas delivered ($ per gigajoule)	28.3125
Charge for the next 4.2740 gigajoules of gas delivered ($ per gigajoule)	9.8503
Charge for the next 11.1780 gigajoules of gas delivered ($ per gigajoule)	3.3542
Charge for additional gas delivered ($ per gigajoule)	3.3542

Notes:

- The total daily Charge will comprise the Base Charge plus a Charge for the Quantity of Gas delivered (or estimated to have been delivered) through the Domestic Delivery Point.
- The Charge for the Quantity of Gas delivered (or estimated to have been delivered) through the Domestic Delivery Point will be calculated at the rates shown in the table.
- A reference in the table to the Gas delivered through the Domestic Delivery Point is a reference to Gas delivered through the Domestic Delivery Point whether for the account of the Network User or for the account of any other person or persons.
- Charges will be calculated to the nearest four decimal places.

Table 1.11: Tariff D Demand Haulage Service Tariffs from 1 July 2026 ($Nominal)

Adelaide Region	Northern Zone	Central Zone	Southern Zone
50 gigajoules or less	3546.0925	3546.0925	3546.0925
Next 50 gigajoules ($ per gigajoule)	68.9512	81.8846	96.5669
ext 900 gigajoules ($ per gigajoule)	43.0460	52.0748	60.4767
Additional gigajoules ($ per gigajoule)	13.0426	16.4595	18.2379

Other Regions	Port Pirie	Riverland	South East	Whyalla
50 gigajoules or less	3546.0925	5005.3943	3546.0925	3546.0925
Next 50 gigajoules ($ per gigajoule)	68.9504	100.6772	68.9504	68.9504
Next 900 gigajoules ($ per gigajoule)	23.8957	62.7350	35.5883	35.5883
Additional gigajoules ($ per gigajoule)	11.9601	13.0425	13.0425	12.9855

Notes:

- The Demand Haulage Charges shown above are charges for a complete calendar month.
- The Charge for a calendar month will accrue from day to day in equal portions.
- Charges will will be calculated to the nearest four decimal places
- For the purpose of calculating daily overrun charges pursuant to Clause 5 of the General Terms and Conditions, the overrun rate is $15 per gigajoules (excluding Goods and Services Tax).

Table 1.12: Ancillary Reference Services Tariffs from 1 July 2026 ($Nominal)

Tariff Class	
Special Meter Read	13.60
Disconnection	93.00
Reconnection	93.00
Meter Removal	93.00
Meter Reinstallation	101.00
Meter Gas and Installation Test	278.00
Abolishment Service	1250.00

Note:

Where the Reference Tariff for an Ancillary Reference Service (as varied) is less than $20, the Reference Tariff (as varied) will be rounded to the nearest 10 cents (with five cents rounded upwards). Where the Reference Tariff for an Ancillary Reference Service (as varied) is $20 or more, the Reference Tariff (as varied) will be rounded to the nearest dollar (with 50 cents rounded upwards).

1.7. Service abolishment pricing

We propose that the abolishment charge be set based on full cost recovery ($1,250) in our revised Final Plan, consistent with the recent draft rule change by the Australian Energy Market Commission (AEMC).[42] The draft rule change is part of the AEMC's implementation of a consistent regulatory framework (in all jurisdictions except Western Australia). It is likely to be accepted for implementation from 2026, and while the final determination (expected 26 February 2026)[43] is unlikely to be made in time to establish a regulatory requirement for the AGN SA network in the next AA period, the decision will apply in subsequent AA periods.

It is most prudent and efficient for our network to be consistent with the most likely outcome regarding this rule change, noting the AEMC's final determination should also be known in time for the AER's Final Decision (such that any variation from the AEMC's draft rule change should also be reflected in its decision). As a network operator governed by the NGR, AGN relies on consistency in regulatory decision-making between policy makers and regulators. Being consistent with the AEMC decision will avoid the need to change the abolishment charging approach from period to period which is inefficient and distortionary. Adopting an alternative charging regime for just one period would only serve to add unnecessary compliance costs and confuse retailers and our customer base, particularly when the proposed charging (by the AER) is different for the same service.

The AEMC process regarding rule changes is consultative and has considered a wide range of stakeholder feedback, including from AGIG (on behalf of AGN and other entities), the AER, retailers, safety regulators, consumer groups and other stakeholders. To this review process, AGIG's submission stated:

> *We agree with the JEC's general point that the charge should reflect full efficient costs, on a beneficiary pays basis. This should be consistent across connection and disconnection charges as we discuss in Section 2.3. ... The key is that there should be no socialisation of charges, as this is likely to impact remaining gas customers.*[44]

In reaching its draft determination on a consistent regulatory approach, the AEMC has considered all relevant matters: emission reduction and safety-related issues, as well good regulatory practice, customer impact, efficiency and equity matters.[45] It found that cost-reflective charging for abolishments is clearer, fairer, reduces the burden on the remaining customers on the gas network, and is more consistent with the NGO, compared with current approaches (e.g. partial or zero cost charges). As the AEMC stated:

> *The draft rules would promote the national gas objective (NGO) and national energy retail objective (NERO) and improve outcomes for gas customers …*[46]
>
> *The draft rule introduces a requirement for cost reflective charges, which would provide efficient price signals to retail customers who are considering abolishing their gas connection. The Commission considers this is the most sustainable cost recovery solution as it ensures remaining gas customers do not have to pay for the abolishment costs of others through higher network tariffs. Those customers that remain connected are also likely to comprise*

[42] AEMC, Draft rule determination - Establishing a regulatory framework for retail customer initiated gas abolishment, 30 October 2025 ('AMEC, Draft Rule Determination').
[43] See: Establishing a regulatory framework for retail customer initiated gas abolishment | AEMC, key dates.
[44] AGIG, Submission to AEMC Rule Change Proposal - Connection and Permanent Abolishment Charges, July 2025, p. 15.
[45] AEMC Draft Rule Determination, para 33, p. vii. (The AEMC assessed against five criteria encompassing these matters.)
[46] AEMC Draft Rule Determination, p. 1.

> *consumers who face barriers to switch away from gas. Requiring these customers to cross subsidise abolishing customers is likely to give rise to inequities.*[47]

Once adopted, the AEMC rule change will be binding on AGN to adopt in future AA periods for the distribution network in SA. For this reason, our proposed charge of $1,250 reflects our estimate of efficient but full cost recovery. It is not appropriate for the charge to be reduced to an AER benchmark rate ($1,000) because this is inconsistent with the intent of the rule charge to avoid adding costs from abolishments to remaining customers on the network. At a minimum, the true up mechanism should apply to the AER-approved cost of these abolishments.

We have provided a reasonable evidence base to demonstrate the efficiency of the rate of $1,250 and have explained why costs might be considered high in the SA market compared with other jurisdictions in our Final Plan.[48] The average cost of the service for the AGN SA network has been recently trending above $1,250.[49] This rate also still benchmarks well against actual costs across jurisdictions, which we have demonstrated in Attachment 8.7.[50] In fact, the only jurisdiction which appears to have actual costs close to the AER's benchmark rate of $1,000 is in Victoria where AGN's cost data shows that this is a less expensive jurisdiction to undertake abolishments in than in South Australia.[51]

In our Final Plan, we recommended that the abolishment service charge is based on partial cost recovery only because it is consistent with the AER's final decision for our Victorian distribution networks (where we had initially proposed full cost recovery). The cost of the service to customers ($250) was proposed to represent 20% of the total cost of the service ($1,250), with the remaining costs socialized across other customers.[52] We indicated how stakeholder and customer feedback was mixed regarding a charge; some wanted full cost recovery for the abolishment service, others preferred partial cost recovery or no charge (no charge being consistent with the approach in the current AA period based on a relatively low number of disconnections).[53]

We also advised that our proposed approach was pending the outcome of the AEMC rule change and that the approach would not be sustainable with a high number of disconnections.[54]

The AEMC has highlighted the inefficiency and inequities of the partial cost recovery approach:

> ***Inefficient cost recovery from remaining gas customers:*** *The AER has discretion as to how the costs of reference services are recovered. In some recent access arrangement decisions, the AER has required customers who are abolishing their connection to pay a tariff closer to the tariff for disconnections to address the concerns of some jurisdictional safety regulators. The difference between the two charges is recovered from remaining network users, i.e. socialised.*
>
> *The AER has acknowledged that the approach to socialise a portion of the abolishment costs, where a customer chooses to abolish their connection, would be unsustainable in the future as the number of customers leaving the gas network and abolishing their connections increases. Without change to the regulatory framework, the costs of abolishment, in addition*

[47] AEMC Draft Rule Determination, para 22, p. iv.
[48] AGN, Final Plan, Attachment 9.10, pp. 2-3. Note however that our proposed cost is likely to be more commensurate with actual costs in NSW and WA.
[49] See Attachment 8.7, Section 1.2.4.
[50] See Section 1.2.4. Table 6 shows data from January 2024 which indicates that the abolishment charges were $1,382 for JGN (before the AER applied its benchmark rate) and $1,303 for ATCO (WA). (ATCO fees are now up to $1,467. See: Origin Meter installation, alteration and abolishment fees, January 2026)
[51] By comparison, Evo Energy rates (ACT) are currently $1,160 - $1,972 (including meter removal). See: Origin Meter installation, alteration and abolishment fees, January 2026.
[52] AGN, Final Plan, p. 78.
[53] AGN, Final Plan, p. 76.
[54] AGN, Final Plan, p. 78.

> *to the costs of operating and maintaining the network, would be shared among a declining customer base. This would have significant cost impacts on remaining customers. Throughout this transition to a net zero system, we consider it is important that the regulatory framework promotes efficient ongoing investment to ensure the safe and reliable operation of gas network infrastructure whilst also supporting equitable outcomes for consumers.*[55]

The AER in its submission to the AEMC also noted how unfair and inequitable a partial cost recovery approach is, affecting the most vulnerable customers.

> *… We are also conscious that it will likely be customers with the least resources, or who rent, that will continue to use their gas connections the longest, while customers who own their homes and have more resources will electrify. This dynamic would worsen equity outcomes.*
>
> *We consider that the sector, relevant regulators and governments should investigate alternatives to loading additional costs on to remaining gas customers, while also effectively managing the safety risk associated with live but unused gas connections remaining in situ.*[56]

Nonetheless, the AER (Draft Decision, Revisions 5.1 and 5.3) has now sought to introduce a discriminatory pricing approach for abolishments, with a partial cost recovery rate for abolishments (at $250) when households are electrifying (and when the forecast for this type of disconnection growth is significant across the AA period) and a cost-reflective charge of $1,000 for knockdown rebuilds or renovations (when there will be reduced demand for reconnections due to the new connection charge). The pricing difference proposed is despite the average cost for the service being the same in both cases. The AER has stated that the reason for its discriminatory pricing decision is to address a 'moral hazard' concern, as follows:

> *Once the rebuild is completed, a request for a new connection to the gas network will be required, which manages the moral hazard issue (namely, that customers will be incentivised to claim they will not re-connect). The other service would be the permanent abolishment service with the fee of $250, partially socialised for customers permanently disconnecting from the gas network. These households do have the option of the temporary disconnection service (subject to being upfront about permanently defecting from the gas network), which means that partial socialisation of their abolishment service would incentivise them to choose permanent abolishment over the temporary disconnection service.*[57]

On the basis that the AER's draft decision (Revisions 5.1 and 5.3) applies to "knockdown rebuilds and renovations," in theory, those households needing to disconnect for a rebuild with electric appliances would still be subject to the charge. Secondly, the AEMC has not considered that any such moral hazard concern is material in its deliberations concerning abolishment charging, certainly not enough to discount the equity or efficiency concerns about setting a charge which is not cost-reflective.

We received advice that the South Australian OTR has been approached by the AER on this matter and it has not issued any formal advice supporting partial cost recovery or a discriminatory pricing approach on safety or moral hazard grounds, and that its current view is that any avoidance of cost (when a customer chooses to disconnect) is a human behavioural issue, not a safety issue.[58] The

[55] AEMC Draft Rule Determination, paras 11-12, p. ii-iii.
[56] AER, AER Submission to AEMC - updating the regulatory framework for gas connections and disconnections, 10 July 2025, p. 4.
[57] AER, Draft Decision, Attachment 5, p. 4.
[58] OTR, Email to AGN, 16 December 2025.

OTR further advised that it will continue to consult on this matter but that the outcome of the AEMC rule change should "solve the issue".[59]

The AEMC's rule change does not support the AER taking a different approach on abolishment pricing due to safety risks or to pursue an electrification agenda:

> *It is the Commission's view that assessment of safety of disconnection and abolishment services is the responsibility of the relevant jurisdictional safety regulators and distributors are responsible for implementing any requirements to maintain the safety of their networks. Any broader policy relating to electrification that impacts abolishment rates, such as developing plans for decommissioning, is within the remit of jurisdictional governments.*[60]

The AER's past decision-making (e.g., in its discriminatory pricing for Jemena network) should not set a new standard, as it is superseded by the draft rule change by the AEMC. We understand that Jemena already had a cost-reflective charge in place, and that it was only because the AER was advocating for partial cost recovery charging during the AA review that it has been required to adopt a dual pricing approach.

The implementation of two different prices will be inefficient and even more inefficient than a single, subsidised rate for all abolishments. In practice, the physical works, safety considerations and operational processes required to abolish a gas service are largely the same regardless of the underlying driver for the customer request. Furthermore, customers would have little incentive to identify their request as being associated with a renovation or rebuild where this attracts a higher charge, particularly where the scope of work and end outcome – the permanent removal of the gas service – is identical under both pricing categories. A single, standardised charge (supported by the AEMC draft ruling) would better reflect the consistent nature of the work performed, promote transparency and equity for customers, reduce the risk of disputes or inconsistent application, and support efficient, streamlined service delivery.

We also raise concerns about the prudency of this regulatory approach in the context of the broader regulatory environment. At present, we implement a different charge for the AGN and MGN distribution networks (based on the AER's preference for partial cost recovery only) and this will likely change to the cost-reflective charges in the next AA period from 2028/29 based on the AEMC rule change. We have had no charge for abolishments in AGN in SA but based on the AER's draft decision, we would be expected to introduce discriminatory charging (even though the cost of the service is the same) which is confusing and costly to implement, but only for one AA period up until 2030/31, because then in the next AA period the AEMC rule change will apply and we will need to implement cost-reflective charges.

For all of these reasons discussed above we reject the AER's Draft Decisions on abolishment charges (Revisions 5.1 and 5.3) for the next AA period and propose a single, cost-reflective charge for abolishments ($1,250) consistent with the AEMC draft rule change.

1.8. Form of revenue control

In our revised Final Plan, we adopt the AER's Draft Decision to accept broad elements of our proposed hybrid tariff variation mechanism to apply in the next AA period (from our Final Plan) but with a different revenue threshold (as per AER's Revision 5.4). The AER-approved approach will continue with a weighted average price cap up to 5% variation (from the revenue forecast) at which point a revenue control mechanism will be triggered. Then, any over or under recovery of revenue beyond that point will be shared equally with customers by way of a price change in the next year

[59] Ibid.
[60] AEMC Draft Rule Determination, para 21, p. iv.

(after a lag of one year). This approach is the same as the one which the AER required Jemena Gas Networks (JGN) to adopt for the gas distribution network in NSW.[61] The formula, which applies to the tariff adjustment mechanism to implement the new form of revenue control, is contained in Annexure E of the AA document.

The AGN SA network is currently subject to a weighted average price cap. Our Reference Service Proposal (RSP) engagement supported continuation of this approach, as has continued engagement since then, largely because the price cap does not place too much burden on customers during times of lower demand and avoids higher prices being passed through to them too quickly. The challenges presented by the energy transition only strengthen the case for this type of approach, ensuring more price stability when there might be sudden demand shifts. However, in response to our RSP, the AER considered that it provides an incentive to grow demand on the network (which is inconsistent with emission reduction objectives), and so instead wanted a hybrid mechanism to be adopted (combining elements of a price cap and revenue cap approach).

In our Final Plan, we then proposed a hybrid approach as a second-best option with a price cap to a point of 10% revenue variation and 50:50 sharing of any over or under recovery of revenue with customers. Our revised position was still aimed at achieving price stability for customers and reducing any burden on them from volume volatility and it was subsequently endorsed by stakeholders. However, most stakeholders also continued to indicate a strong preference for a pure price cap with more predictability and minimal volatility from year to year in pricing.

In its Draft Decision, the AER considered that "a hybrid tariff variation mechanism, incorporating elements of both price cap and revenue cap regulation, better reflects the changed regulatory context for provision of gas haulage services."[62] It stated that:

> *A hybrid tariff variation mechanism reduces the incentive to grow gas demand (better aligning with emissions reduction objectives than a price cap), while mitigating potential tariff year-on-year volatility (which can be a feature of revenue cap regulation).*[63]

Regarding our proposed 10% revenue threshold, the AER decided that bands at this level are too broad and that it is unlikely that demand will fall outside them, so it decided upon a smaller 5% band.[64] The AER further stated that:

> *A hybrid tariff variation mechanism manages the risk of tariff volatility by limiting revenue true-ups to instances when actual volumes are (as per the draft decision) more than 5% higher (or lower) than targets. Also, a hybrid mechanism splits 50:50 the revenues associated with actual volumes being outside the 5% upper and lower volume boundaries.*
>
> *This means customers and AGN alike would only be impacted by half of any changes above or below the 5% volume boundaries. The incentive for a network to grow volumes is weakened, but not altogether removed, under this hybrid approach.*[65]

In forming its view, the AER has already been provided with comprehensive information to support the price cap approach and our proposed hybrid approach with a 10% revenue threshold, including customer and stakeholder engagement outcomes in favour of price stability and AGN continuing to

[61] AER, Draft Decision, Attachment 5, pp. 15-16.
[62] AER, Draft Decision, Attachment 5, p. 17.
[63] Ibid.
[64] AER, Draft Decision, Attachment 5, p. 18.
[65] Ibid.

manage volume risk for the network. Therefore, we see no reason at this stage not to accept the AER's preferred hybrid tariff variation mechanism in our revised Final Plan.

1.9. Summary

Our revised Final Plan continues to propose relatively stable prices over the next AA period (2026/27 to 2030/31), consistent with customer preferences. We are proposing to cut real prices by 1.1% on 1 July 2026, followed by increases of 1.0% each year thereafter (in real terms). This equates to an upfront nominal price increase of 1.5% from 1 July 2026, or around a $9.50 increase to average annual residential bill and $99.5 increase to the average annual commercial bill.

Our proposed price path will enable revenue growth commensurate with changes in our underlying costs. The tariffs incorporate further refinement of our tariff structure in response to the AER's Draft Decision requesting more alignment with the emission reduction objective of the NGO, but only where the customer impacts are reasonable. We have proposed that the new abolishment reference service is cost-reflective, consistent with the AEMC's draft rule change. Finally, we have accepted the AER's decision for a hybrid (price/revenue cap) mechanism to apply at a point of 5% revenue variation.

Appendix A: Summary of Phase 4 Customer Workshop – Tariffs

Feedback from stakeholders highlighted the importance of framing tariff reform discussions in the context of broader policy objectives, including emissions reduction, in addition to individual affordability considerations. Recognising this, and considering the technical nature of tariff design, we refined our engagement approach to better support consideration of the implications of different tariff structures across customer groups and over time.

Scenario-based engagement

Consistent with feedback encouraging stronger scenario-based engagement, we developed two clearly defined tariff scenarios for customers to consider:

- Tariffs are flattened gradually over time
- Tariffs are flattened rapidly from 1 July 2026

The use of two contrasting scenarios enabled customers to examine the trade-offs associated with different pathways for tariff flattening, including impacts to low-usage residential customers, higher-usage residential customers, commercial businesses and large commercial and industrial customers.

To provide assurance that feedback was informed, participants were asked to respond to a series of comprehension questions testing their understanding of the key features and potential impacts of each scenario prior to providing their views.

As outlined in the independent KPMG Phase Four Customer Engagement Workshop report (Attachment 5.5), customer comprehension was high across both tariff scenarios. Participants demonstrated strong understanding of the core tariff concepts, with comprehension for Scenario 2 (rapid transition to flatter tariffs) averaging 91% across key statements. Understanding of Scenario 1 (gradual transition) was also strong overall, with comprehension averaging 88%, and some variation across specific elements of tariff design.

Drawing on the pre-reading materials and scenario explanations, participants were asked to consider the fairness of each tariff scenario for different customer and stakeholder groups.

The purpose was not to identify a preferred outcome, but to understand how participants assessed fairness across the different groups that may be impacted. Participants could indicate that they believed both or neither were fair. Results of this consultation activity are shown in Figure 1 below.

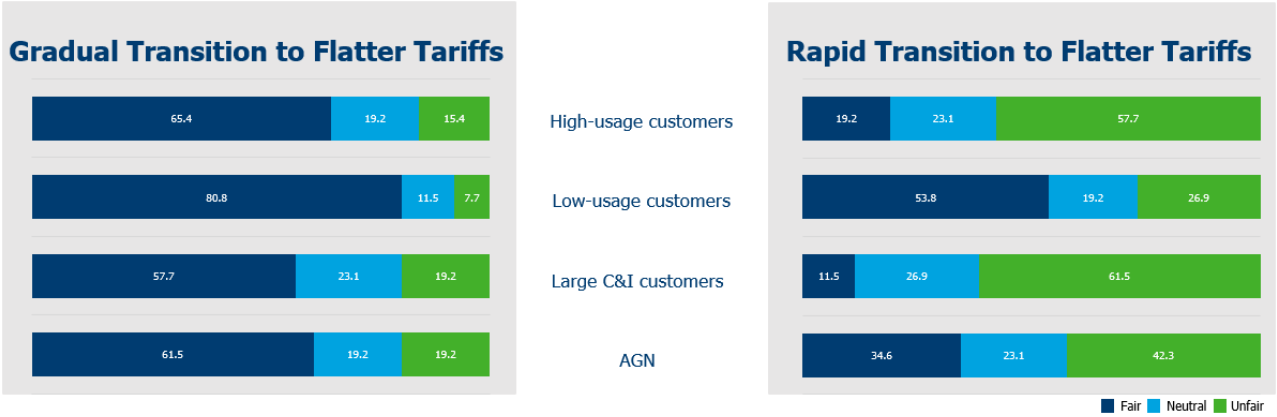


Figure 1: Assessed fairness of tariff scenarios.

The quantitative results indicated that participants generally perceived a gradual transition to flatter tariffs as fairer across a broader range of customer groups. A rapid transition to flatter tariffs was perceived as benefiting low-usage customers, while high-usage customers and large commercial and industrial customers were perceived as being more exposed to adverse impacts.

Discussion and qualitative feedback

The discussion and qualitative feedback reflected that participants considered how different customers may be affected by a change in tariff structure, not just how their own personal circumstances could be impacted. While views were not universal, many participants viewed a gradual transition to flatter tariffs as fairer, noting that it better balances the impacts across customer groups over time. One participant noted that a gradual transition is *"more in line with customer needs while still reducing emissions".*

Some participants questioned whether alternative approaches could better balance trade-offs, with one participant noting *"Is there an in-between scenario where your plan and their plan can co-exist?".*

Outcomes

Overall, a gradual transition to flatter tariffs was assessed as the fairer balance, with 69% of participants somewhat or strongly agreeing that this scenario represents a fair and reasonable balance between all parties. In comparison, 24% of participants assessed a rapid transition as representing a fair and reasonable balance.

While views were not universal, the evidence indicates a stronger overall preference for a gradual transition when fairness is considered across customer groups and over time.

Further engagement with industry stakeholders

Following the AER's Draft Decision recommendation to consider flattening tariffs for commercial and industrial customers, AGN undertook modelling of alternative tariff structures to understand potential impacts on major users. Considering the modelling outcomes, AGN met with the South Australian Business Chamber and the Australian Industry Group to inform them of the potential impacts.

These stakeholders expressed concern regarding the implications of flat or rapidly flattened tariffs for industrial customers and the broader South Australian economy.