

Final decision

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

Appendix A – Regulatory depreciation

May 2026

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List of attachments

This attachment forms part of our final decision on the access arrangement that will apply for 1 July 2026 to 30 June 2031 (2026–31 period) for AGN. It should be read with all parts of our final decision.

A number of issues were settled at the draft decision stage or required only minor updates so that detailed attachments to this final decision are not needed. Where this is the case, our draft decision reasons form part of this final decision. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision.

The final decision includes the following documents:

- Overview
- Attachment 1 – Capital base, regulatory depreciation and corporate income tax
 - Appendix A – Regulatory depreciation
- Attachment 2 – Capital expenditure
- Attachment 3 – Operating expenditure
- Attachment 5 – Reference services, tariffs and non-tariff components

Includes: Services covered by the access arrangement, reference tariff settings, reference tariff variation mechanism, and non-tariff components

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A Regulatory depreciation

Regulatory depreciation is the amount provided so capital investors recover their investment over the economic life of the asset (return of capital). When determining the total revenue for AGN, we include an amount for the depreciation of the projected capital base.¹ Under the building block framework, regulatory depreciation consists of the net total of the straight-line depreciation less the indexation of the capital base.

This section sets out our final decision on regulatory depreciation for the 2026–31 period, including our assessment of accelerated depreciation under demand uncertainty and our determination of expected economic lives for forecasting depreciation.

A.1 Final decision

Our final decision is to determine a regulatory depreciation amount of \$166.1 million (\$ nominal) for AGN for the 2026–31 period. This amount represents a reduction of \$39.9 million (19.4%) to the \$206.0 million (\$ nominal) in AGN's revised proposal.² This reduction is primarily driven by our final decision on a lower accelerated depreciation amount for the 2026–31 period. It is \$98.9 million (147.3%) higher than the regulatory depreciation amount determined in our draft decision. This increase compared to our draft decision is primarily driven by a higher straight-line depreciation amount³ as well as a lower capital base indexation amount.⁴

The regulatory depreciation amount is calculated as the net total of the straight-line depreciation, less the inflation indexation of the capital base. AGN's straight-line depreciation is impacted by our final decisions on accelerated depreciation (section A.4.1), the opening capital base as at 1 July 2026 (Attachment 1) and forecast capex (Attachment 2). Our final decision straight-line depreciation is \$51.7 million (\$ nominal) lower than AGN's revised proposal. This is primarily driven by our final decision to reduce the amount of accelerated depreciation to \$29 million (\$2025–26) for the 2026–31 period compared to the \$70 million (\$2025–26) in AGN's revised proposal.

The indexation on the capital base is impacted by our final decisions on AGN's accelerated depreciation (section A.4.1), its opening capital base as at 1 July 2026 (Attachment 1), forecast capex (Attachment 2) and the expected inflation rate (Overview section 3.2). Our final decision results in indexation on AGN's projected capital base that is \$11.8 million lower than its revised proposal. This is primarily due to our application of a lower expected inflation

¹ NGR, r. 76(b).

² AGN, *Attachment 1.5A – Revised Final Plan Post-Tax Revenue Model*, January 2026.

³ This reflects a higher opening capital base as at 1 July 2026 and our final decision to allow some accelerated depreciation, compared to the zero amount in our draft decision. The higher opening capital base is primarily driven by higher 2024–25 capex reflecting actuals, and higher 2025–26 capex reflecting AGN's revised estimates, relative to the estimates adopted in our draft decision. This higher capex is mostly related to IT assets, which has a 5-year asset life and therefore a greater impact on depreciation over the 2026–31 period.

⁴ This is due to a lower expected inflation rate for the 2026–31 period compared with the draft decision.

rate of 2.48% per annum in the final decision, compared with the 2.60% per annum in AGN's revised proposal.

The reduction to capital base indexation is more than offset by the reduction to straight-line depreciation, resulting in a lower regulatory depreciation amount compared to AGN's revised proposal.

Table 1 sets out our final decision on AGN's regulatory depreciation amount for the 2026–31 period.

Table 1 AER's final decision on AGN's regulatory depreciation for the 2026–31 period (\$ million, nominal)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Straight-line depreciation	82.9	80.8	85.6	92.3	96.0	437.6
Less: inflation on opening capital base	52.0	53.4	54.5	55.4	56.2	271.5
Regulatory depreciation	30.9	27.4	31.1	36.9	39.8	166.1

Source: AER analysis.

A.2 AGN's revised proposal

AGN's revised proposal included a total forecast regulatory depreciation amount of \$206.0 million (\$ nominal) for the 2026–31 period. To calculate its revised proposed regulatory depreciation amount, AGN updated its opening capital base as at 1 July 2026 and forecast capex in line with its revised proposal. AGN did not adopt a zero amount of accelerated depreciation in response to the draft decision and instead included \$70 million in its revised proposal, an increase from the \$30 million proposed in its initial proposal.

A.2.1 AGN's revised proposal on accelerated depreciation

AGN maintained its initial proposal for accelerated depreciation. Its revised proposal included \$70 million of the residual value of the 'Inlets' asset class to be depreciated over the 2026–31 period. AGN submitted that, based on its modelling, this represents the smallest adjustment to depreciation that would begin to materially reduce stranded asset risk. Its revised proposed \$70 million is higher than the \$30 million included in its initial proposal. AGN submitted that there is significant uncertainty regarding the future role of gas pipelines and the long-term value of its network.

AGN also submitted that it undertook additional stakeholder engagement prior to lodging its revised proposal. It stated that this engagement indicated support among participants for a smoother and more equitable transition, including a preference for some degree of upfront depreciation rather than deferring costs to future customers.

Consistent with its initial proposal, AGN did not propose any changes to its currently approved asset lives for its long-lived asset classes. However, it noted that, should the AER choose to give effect to additional depreciation by shortening asset lives—rather than

applying a 5-year asset life to the proposed \$70 million asset value—this would be acceptable.⁵

A.3 Assessment approach on accelerated depreciation under uncertainty

In an environment of declining demand and uncertainty about future network utilisation, gas pipeline service providers may propose to bring forward the recovery of the capital costs, relative to the standard depreciation profile (accelerated depreciation). AGN proposed accelerated depreciation as part of its 2026–31 access arrangement proposal.

This section sets out our assessment approach to accelerated depreciation under demand uncertainty. While our assessment in the final decision remains broadly consistent with that applied in the draft decision⁶ and previous gas network decisions,⁷ this section provides further clarification on how we interpret and apply the depreciation criteria in rule 89 of the National Gas Rules (NGR), and on how we seek to promote the National Gas Objective (NGO), when assessing proposals for accelerated depreciation.

Regulatory framework for assessing depreciation schedules (including accelerated depreciation)

In an access arrangement proposal, a gas pipeline service provider must provide a forecast depreciation schedule as part of its obligation to propose its total revenue.⁸ The depreciation schedule sets out the basis on which the pipeline assets constituting its capital base are to be depreciated for the purpose of determining a reference tariff,⁹ and may consist of one or more schedules, each relating to different assets or asset classes.¹⁰

NGR Rule 89 – depreciation criteria

In making a decision on the proposed depreciation schedule, we assess whether it complies with the depreciation criteria set out in the rule 89 of the NGR. These criteria require that the depreciation schedule be designed:¹¹

- (a) so that reference tariffs will vary, over time, in a way that promotes efficient growth in the market for reference services¹²
- (b) so that each asset or group of assets is depreciated over the economic life of that asset or group of assets¹³

⁵ AGN, *Attachment 6.5 - Response to Draft Decision on Depreciation*, January 2026, p. 6.

⁶ AER, *Draft decision - AGN access arrangement 2026–31 - Attachment 1 - Capital base, Regulatory depreciation and Corporate income tax*, November 2025, pp. 12–13 and 39–45.

⁷ AER, *Final decision - JGN access arrangement 2025–30 - Attachment 4 - Regulatory depreciation*, May 2025, pp 10–11.

⁸ NGR, rr. 72(1)(m) and 76(b).

⁹ NGR, r. 88(1).

¹⁰ NGR, r. 88(2).

¹¹ NGR, r. 89.

¹² NGR, r. 89(1)(a).

¹³ NGR, r. 89(1)(b).

- (c) so as to allow, as far as reasonably practicable, for adjustment reflecting changes in the expected economic life of a particular asset, or a particular group of assets¹⁴
- (d) so that (subject to the rules about capital redundancy), an asset is depreciated only once;¹⁵ and
- (e) so as to allow for the service provider’s reasonable needs for cash flow to meet financing, non-capital and other costs.¹⁶

We discuss how we assess the accelerated depreciation proposals against the depreciation criteria in rule 89(1) below.

The National Gas Objective

We are required to perform our economic regulatory functions under the NGL and NGR in a manner that contributes, or is likely to contribute, to the achievement of the NGO.¹⁷ In the context of declining and uncertain demand, our assessment of proposals for accelerated depreciation focuses on how different depreciation profiles may best promote the achievement of the NGO.

The NGO is to promote efficient investment in, and efficient operation and use of, covered gas services for the long-term interests of consumers of covered gas with respect to price, quality, safety, reliability and security of supply, and the achievement of emissions-reduction targets set by participating jurisdictions.¹⁸ The NGO emphasises that the long-term interests of consumers are best served through efficient investment in, and the efficient operation and use of, gas services.

In applying the NGO, we consider the various elements of the NGO in relation to a particular issue such as accelerated depreciation. The NGO does not point to a single prescribed outcome for either an access arrangement as a whole or its individual components. Rather, our assessment considers whether one potential outcome is likely to better promote the NGO than alternative outcomes.

The Revenue and Pricing Principles

In addition, when exercising our decision making powers on those parts of an access arrangement relating to a reference tariff, we must take into account the revenue and pricing principles (RPPs).¹⁹ Relevantly, the RPPs include that a scheme pipeline service provider should be given a reasonable opportunity to recover at least the efficient costs it incurs in providing reference services.²⁰

We consider that the principle of providing a reasonable opportunity to recover efficient costs does not mean guaranteeing cost recovery. Therefore, applying this RPP does not require

¹⁴ NGR, r. 89(1)(c).

¹⁵ NGR, r. 89(1)(d).

¹⁶ NGR, r. 89(1)(e).

¹⁷ Section 28(1)(a) of the National Gas Law (NGL).

¹⁸ NGL, s. 23.

¹⁹ NGL, s. 28(2) The RPPs are set out in s. 24 of the NGL.

²⁰ NGL, s. 24(2)(a).

depreciation to be set in a manner that guarantees cost recovery. Rather, this RPP is that a credible and realistic pathway for cost recovery be provided, assuming the service provider acts in a reasonable manner to recover those costs consistent with a business of its kind. The efficiency considerations reflected in the RPP include efficient investment in, and efficient operation and use of, pipeline services, which align with the types of economic efficiency contemplated by the NGO.

Consistent with this, our assessment of the depreciation schedule (including accelerated depreciation) requires consideration not only of cost recovery, but also of how different depreciation profiles affect incentives for efficient investment and use of the network over time, particularly in an environment of demand uncertainty.

Other considerations

The NGR requires that any forecast be arrived at on a reasonable basis and represent the best forecast or estimate possible in the circumstances.²¹ In the context of accelerated depreciation, this requirement informs how we assess assumptions about future demand, asset utilisation and the risk of asset stranding under uncertainty.

Rule 89(2) of the NGR also recognises that compliance with the depreciation criteria may, in some circumstances, involve the deferral of a substantial amount of depreciation where investment is made on the expectation of future demand growth.²² However, we consider that this consideration is of more limited relevance in circumstances where demand for natural gas is expected to decline over time, including as jurisdictions transition towards net zero emissions.

Accelerated depreciation as a regulatory tool for reducing stranded asset risk

Economic stranding occurs when assets remain technically operational, but their owners are unable to recover efficient costs, including return of and return on capital, over the assets' expected remaining physical lives due to changes in market conditions, policy, or technology.²³

Our approach to accelerated depreciation is informed by our *Information Paper on Regulating gas pipelines under uncertainty* (Information Paper). This Information Paper examined a range of regulatory options for managing demand uncertainty and the risk of economic asset stranding. It identified adjusting regulatory depreciation as the most accessible regulatory tool currently available within the national gas regulatory framework to address stranded asset risk arising from uncertain future demand. This is because adjusting depreciation profiles allows for flexibility over time and can be reassessed as new information becomes available, if actual demand outcomes or gas substitution pathways differ from current expectations.²⁴

²¹ NGR, r. 74(2).

²² NGR, r. 89(2).

²³ AER, *Information Paper: Regulating gas pipelines under uncertainty*, 2021, pp. 25–26.

²⁴ AER, *Information Paper: Regulating gas pipelines under uncertainty*, 2021, pp. ix-x, 44–45.

Unlike some alternative options, adjustments to regulatory depreciation do not permanently lock in price outcomes, thereby reducing the risk of windfall gains or losses to either regulated businesses or consumers if future demand differs materially from current assumptions.²⁵

In considering proposals for accelerated depreciation, our assessment considers whether there is a material risk of economic stranding for the relevant assets, having regard to the likelihood, timing and potential consequences of that risk.

The assessment of stranded asset risk is inherently uncertain. Future demand for gas network services may follow a range of plausible pathways, reflecting differences in jurisdictional policy settings, the pace and extent of electrification, technological developments, consumer behaviour, and the potential for alternative gases such as hydrogen or biomethane. Accordingly, our assessment does not rely on a single forecast outcome. Rather, we consider whether the evidence indicates a material risk across a range of plausible future scenarios, and whether accelerated depreciation would better promote the NGO than alternative depreciation profiles.

In this context, uncertainty alone does not justify adjusting the depreciation schedules to cater to worst-case outcomes.²⁶ Our approach seeks to balance the preservation of appropriate incentives for efficient investment with the promotion of efficient use of network services over time, including by avoiding sharp or volatile price paths that could accelerate inefficient demand responses or exacerbate stranding risk for remaining consumers.

Where a regulated business proposes accelerated depreciation to address stranded asset risk, we expect the proposal to be supported by clear, credible and proportionate evidence, having regard to the following considerations:²⁷

1. Demonstration of stranded asset risk

Evidence that the assets in question face a material risk of economic stranding, including an explanation of the drivers of that risk (such as policy settings, technology trends, or observed changes in customer behaviour), and the timeframe over which the risk may reasonably be expected to arise.

2. Scenario-based analysis

Consideration of a range of plausible future demand scenarios, rather than reliance on a single point forecast, including an explanation of how the proposed depreciation approach performs across those scenarios and why it is robust to uncertainty.

3. Targeting and proportionality

A clear explanation of why accelerated depreciation is proposed for particular asset classes or components of the capital base, and why the extent and timing of the proposed acceleration is proportionate to the identified risk, having regard to impacts on prices and incentives.

²⁵ AER, *Information Paper: Regulating gas pipelines under uncertainty*, 2021, pp. vii-x, 3–24, 44–45.

²⁶ AER, *Information Paper: Regulating gas pipelines under uncertainty*, 2021, pp. ix-x, 27–29, 55–56.

²⁷ AER, *Information Paper: Regulating gas pipelines under uncertainty*, 2021, pp. vii–ix, 2–13, 44–45.

4. **Consistency with efficient investment and use**

An assessment of how the proposed depreciation profile affects incentives for efficient investment in, and efficient operation and use of, the network over time.

5. **Consumer engagement and price impacts**

Evidence of meaningful engagement with consumers on stranded asset risk and depreciation options, including transparent analysis of the expected price impacts under the proposal and alternative approaches, including different demand scenarios.

Our assessment of accelerated depreciation proposals is undertaken on a case-by-case basis, having regard to the specific circumstances of the network, the evidence presented, and the extent to which the proposal is likely to better promote the NGO than alternative depreciation outcomes. Accelerated depreciation is not intended to guarantee cost recovery, but to provide a flexible and proportionate regulatory response where it is justified to reduce material stranded asset risk under uncertainty.

NGR 89(1) – depreciation criteria

When there is sufficient evidence of material stranded asset risk, this may warrant adjustments to the design of the depreciation schedule having regard to the depreciation criteria in NGR rule 89. Our assessment proceeds in the following steps.

Step 1 – Assess expected economic life (NGR rules 89(1)(b) and (c))

As a starting point, we consider whether the standard and/or remaining asset lives for each asset class should be adjusted (including reduced), as far as reasonably practicable, to reflect any change in the expected economic life, based on the best forecast or estimate possible in the circumstances.²⁸ While asset lives often reflect technical lives in an ongoing network, where expected economic use is reduced for reasons other than technical capability we may determine shorter economic lives where appropriate.²⁹

Pipeline assets (such as high pressure and medium pressure mains) are typically the assets most exposed to stranding in an environment of demand uncertainty. These assets are technically long-lived, with physical lives extending well beyond the legislated net zero target dates adopted by jurisdictions across Australia.³⁰ However, we do not consider it appropriate to automatically align economic lives for these assets with the jurisdictional net zero target dates.³¹ Rather, the assessment of economic lives must reflect the specific circumstances of the gas network.

In assessing proposed asset lives, we consider whether they reasonably reflect the period over which assets are expected to be economically utilised, having regard to the risk of economic stranding. We expect a regulated business seeking accelerated depreciation to

²⁸ NGR, r. 74(2).

²⁹ Non-depreciable assets, such as land and easements, are not subject to accelerated depreciation and will remain in the capital base until they are recovered through other means such as an asset disposal.

³⁰ The typical technical life for high pressure mains is around 80 years, and 50 years for medium pressure mains.

³¹ AER, *Information Paper: Regulating gas pipelines under uncertainty*, 2021, p. 46.

provide compelling evidence of a material risk of stranding, including the likely timing of that risk.³²

For long-lived pipeline assets, this assessment has regard to a range of factors, including:

1. Jurisdictional policy settings

Jurisdictional policy settings are a key source of evidence, particularly for long-lived pipeline assets. While legislated net zero emissions target date does not mechanically determine economic life, policy direction informs the expected duration of future network utilisation. Relevant considerations may include:

- government policy settings related to net zero emissions, such as legislated net zero targets, building and energy efficiency standards, appliance policies, and gas connection restrictions (if any); and
- published transition pathways and implementation plans, including decarbonisation and electrification strategies and expectations regarding the future role of gas networks, such as the likely timing and extent of network contraction or decommissioning.
- evidence regarding the likelihood that jurisdictional net zero targets are on track to be achieved in practice, as well as any evidence indicating risks or barriers to meeting those targets. As the energy transition progresses, we will reassess the evolving evidence and policy settings at each access arrangement period and take a flexible and proportionate regulatory response to reflect the level of uncertainty.

2. Near term and long-term demand forecasts

This includes scenario analysis of connections and throughput that examines a range of plausible pathways for the timing and pace of demand decline, having regard to evolving policy settings, changes in consumer behaviour, and broader market conditions.

3. Technology developments and potential repurposing or residual uses

This includes technological developments affecting appliance choice and energy substitution, as well as the potential for continued or alternative uses of network assets, such as renewable gas, where supported by credible evidence. In some circumstances, gas networks may continue to operate beyond 2050 at a reduced scale or in specific locations, for example where gas remains required for particular commercial or industrial uses. Accordingly, adopting legislated net-zero target dates as a cap on economic lives without supporting evidence would be inappropriate.

As regulated businesses may face different levels of stranded asset risk, our assessment of economic lives reflects the specific circumstance of each network. We may therefore determine different economic lives for the same class of assets across different networks, or for different parts of the same network, depending on the degree of economic stranding risk faced.³³

³² AER, *Information Paper: Regulating gas pipelines under uncertainty*, 2021, pp. 45–46.

³³ AER, *Information Paper: Regulating gas pipelines under uncertainty*, 2021, p. 46.

Having assessed the expected economic lives of assets under rules 89(1)(b) and (c), the next step in our assessment is to apply the depreciation method used to recover asset values over those lives. As discussed below, our gas regulatory models adopt straight-line depreciation, before an adjustment is made for inflation indexation of the capital base, as the default method for calculating regulatory depreciation. This approach provides the baseline level of accelerated depreciation against which we assess whether any further adjustment to the depreciation profile, including additional accelerated depreciation, may be warranted having regard to rule 89(1) and the NGO.

Step 2: Apply straight-line depreciation method (Default method)

The NGR does not prescribe a particular method for regulatory depreciation purposes. Our gas regulatory models adopt straight-line depreciation as the default method for calculating regulatory depreciation, and we have applied this method in all our past gas network decisions. Under the straight-line method, the capitalised cost of an asset is recovered in equal amounts over its expected economic life.

We consider that the straight-line method satisfies the depreciation criteria in rule 89(1) of the NGR. In particular, it reflects the depreciation of asset value over its economic life, consistent with rule 89(1)(b), and supports reference tariffs varying over time in a flexible and predictable manner, consistent with rule 89(1)(a).

We also consider that the straight-line approach meets the service provider’s reasonable cash-flow needs, consistent with rule 89(1)(e). In an uncertain and declining demand environment, we consider rule 89(1)(e) to be satisfied where the depreciation schedule provides stable and predictable cash flows sufficient to support the ongoing financing and operation of the network by a benchmark efficient service provider, without seeking to insulate the service provider from all demand-related risks.

Given the uncertainty surrounding long-term demand trajectories, maintaining the straight-line method as the default approach preserves flexibility to reassess key assumptions and incorporate evolving evidence in future access arrangement periods. It also provides a clear and transparent baseline depreciation profile against which the need for any further adjustment can be assessed.

Step 3: Consider accelerated depreciation beyond revised asset lives

After applying Step 1 (assessment of expected economic lives) and Step 2 (application of straight-line depreciation over those lives), we consider whether, in the context of declining and uncertain demand, the resulting depreciation schedule provides a reasonable opportunity for the service provider to recover its efficient costs over the expected economic lives of the assets. In doing so, we have regard to the depreciation criterion in rule 89(1)(b) that assets should be depreciated over their economic lives, the RPP that a service provider should be provided with a reasonable opportunity to recover its efficient costs, and whether any further adjustment to depreciation would, in the circumstances, better promote the NGO.

In this context, additional accelerated depreciation may, in some circumstances, better support efficient investment by reducing exposure to material stranded asset risk in a declining and uncertain demand environment. At the same time, consideration of accelerated depreciation beyond reduced asset lives must have regard to rule 89(1)(a), which requires

reference tariffs to vary over time in a way that promotes efficient growth in the market for reference services. We consider that the reference to “efficient growth in the market for reference services” in rule 89(1)(a) contemplates both the expansion and contraction of the market for reference services over time. Excessive front-loading could distort price signals in ways that accelerate inefficient reductions in utilisation or weaken incentives to operate the network efficiently as demand declines.

Accordingly, any additional accelerated depreciation is not a substitute for adjusting asset lives, but a further targeted adjustment, limited to the extent necessary to better achieve the depreciation criteria and promote the NGO, having regard to the RPPs. In applying this assessment, we may take into account the uncertainty surrounding future demand and network utilisation, as well as impacts on consumers, including affordability and intergenerational equity.

A.4 Reasons for final decision

We accept AGN’s proposed straight-line depreciation method for calculating the regulatory depreciation amount as set out in the post-tax revenue model (PTRM) and the year-by-year tracking approach to implement this method. However, we have reduced AGN’s revised proposed forecast regulatory depreciation to \$166.1 million (\$ nominal) for the 2026–31 period, which is \$39.9 million (19.4%) lower compared to AGN’s revised proposal. This reduction is mainly due to our final decision to not accept AGN’s revised proposed accelerated depreciation in full. This reduction also reflects our final decisions on the opening capital base at 1 July 2026 (Attachment 1) and forecast capex (Attachment 2), both of which are lower, and is partially offset by a lower expected inflation rate applied for the 2026–31 period (Overview section 3.2).

In the following sections, we discuss our assessment of AGN’s revised proposed accelerated depreciation and the standard and remaining asset lives for the 2026–31 period.

A.4.1 Accelerated depreciation – stranded asset risk

In this final decision, we do not accept AGN’s revised proposed accelerated depreciation amount of \$70 million (\$2025–26) in full and instead determine a reduced amount of \$29 million, by reducing the asset lives of Inlets and Mains asset classes to 30 and 50 years, respectively. This amount is slightly lower than AGN’s initial proposal of \$30 million.

In our draft decision, we did not accept AGN’s initial proposal for accelerated depreciation, as we considered there was insufficient evidence that AGN faced a level of stranding risk that needed to be addressed through accelerated depreciation. Both the policy environment in South Australia and AGN’s overall proposal suggested the network would continue to play a role during the transition to net zero, and we therefore did not revise the economic lives of AGN’s long-lived assets.

Following AGN’s revised proposal, the implementation of the AEMC’s rule change on gas connections, and other relevant developments since the draft decision, we have reconsidered the available evidence regarding AGN’s stranded asset risk. Compared to the position at the time of the draft decision, current evidence points to increased uncertainty about the future role and utilisation of AGN’s gas distribution network over the longer term. In particular, while renewable gas and hydrogen pathways remain possible future options, there is currently less certainty regarding their role in the future utilisation of AGN’s network in

South Australia. This sits alongside Australian Energy Market Operator (AEMO)'s long-term forecasts indicating a gradual decline in gas demand, particularly for residential and small business customers. AGN's forecast demand and connections over the 2026–31 period are also lower than in the draft decision and declining. Taken together, these developments suggest that AGN may face some degree of stranded asset risk and that the expected economic lives of its long-lived assets may be shorter than their technical lives.

We have therefore decided to shorten the asset lives of the Inlets and Mains asset classes to 30 and 50 years. We consider that these reduced asset lives better reflect the expected economic lives of these assets, consistent with rule 89(1)(b) and (c), and provide a depreciation schedule that allows recovery of the capital base over the period in which the network is expected to be economically utilised.

In considering whether further acceleration beyond that arising from the reduced asset lives, we have balanced the need to reduce material stranded asset risk with the need to ensure consumers pay no more than necessary for the provision of safe and reliable gas distribution services, both now and in the future. The available evidence does not support a conclusion that any residual stranded asset risk beyond that addressed through reduced asset lives is sufficiently material to warrant further accelerated depreciation at this time, as neither the policy environment in South Australia nor AGN's modelling provide clear or consistent evidence on the likelihood, timing or extent of such risk.

Where the reduced asset lives provide AGN with a reasonable opportunity to recover its efficient costs over the expected economic life of its network reflecting the current level of risk, we do not consider it appropriate to impose higher prices on consumers through further accelerated depreciation beyond that arising from the revised asset lives.

The energy transition creates significant uncertainty regarding the timing of cost recovery, price impacts and trajectory of declining demand. This is reflected in stakeholder submissions, which remain divided on the role of accelerated depreciation. Stakeholders continue to submit that customers should not be expected to guarantee full asset recovery and consider accelerated depreciation alone does not address the broader policy response involving networks, governments and consumers. These differing views highlight the trade-offs and limitations of accelerated depreciation and reinforce the need for a balanced approach that supports an orderly transition in a context of declining and uncertain demand.

As noted in our past decisions, addressing the broader challenges facing the gas sector requires a more holistic policy response. While accelerated depreciation can be used as a tool for reducing asset stranding risk, it has limitations and, on its own, cannot resolve the impacts of declining demand on gas networks or customers. This is consistent with the issues raised in the *Gas networks in transition – Directions paper* released by the Australian Energy Market Commission (AEMC), which recognises the challenges posed by declining demand. So long as demand continues to decline, no affordable amount of accelerated depreciation will achieve long-term price stability or mitigate significant increases in network prices over time.³⁴ In this context, we continue to encourage ongoing open and constructive

³⁴ See AER, [Regulating gas pipelines under uncertainty information paper](#), November 2021; AER, *Final decision - JGN access arrangement 2025–30 - Overview*, May 2025; AER, *AER submission – AEMC rule change – Gas networks in transition GRC0082*, April 2026.

discussion between consumers, network businesses and governments on how the costs of stranded assets associated with past and future capital investments are managed over time, including when and how these costs are best shared.

Our reasons for the final decision on accelerated depreciation are discussed below.

A.4.1.1 Expected economic lives of Inlets and Mains

In this final decision, we determine a reduced standard and remaining asset lives as at 1 July 2026 of 30 and 50 years for AGN’s Inlet and Mains asset classes respectively, compared to their current lives of 60 years. This reduction results in an accelerated depreciation amount of \$29 million (\$2025–26) over the 2026–31 period. Our consideration of whether any accelerated depreciation beyond that arising from the reduced asset lives is warranted is set out in section A.4.1.2 below.

In the draft decision, we did not accept AGN’s initial proposal for accelerated depreciation. At that time, we considered there was insufficient evidence that AGN faced a level of stranding risk that needed to be addressed through accelerated depreciation. Both the policy environment in South Australia and AGN’s overall proposal suggested the network would continue to play a role in the transition to net zero, and we therefore did not revise the economic lives of AGN’s long-lived assets.

As at 1 July 2026, AGN has an opening capital base of around \$1.8 billion associated with its Inlets and Mains asset classes. These assets comprise around 90% of AGN’s existing capital base and are most exposed to stranding risk due to their long-lived nature and extended cost recovery period. The designed technical lives for both asset classes are currently set at 60 years, and remaining lives have remained broadly unchanged since 2016–17 as new capex has continued to enter the capital base. On this basis, and absent any adjustment, these assets would be expected to remain in economic use well beyond the 2050 net zero emissions target date.

The depreciation criteria in the NGR require the depreciation schedules to reflect the expected economic life of the asset or category of assets. Where there is sufficient evidence that assets face increased stranding risk due to demand uncertainty, we may determine shorter asset lives for depreciation purposes to reflect the period in which they are expected to be in economic use.

Having regard to updated information and developments since the draft decision, we consider that there is sufficient evidence to suggest that the expected economic lives of AGN’s Inlets and Mains asset classes are likely to be shorter than their technical lives to some extent. In particular, while renewable gas and hydrogen pathways remain possible future options, there is currently less certainty regarding their role in the future utilisation of AGN’s network in South Australia. This is consistent AEMO’s long-term forecasts indicating a gradual decline in gas demand, particularly for residential and small business customers. AGN’s revised forecasts of growth capex, demand and connections for the 2026–31 period are also lower than those in the draft decision. These developments, taken together, indicate an increased likelihood that AGN’s long-lived assets may not be utilised over their full technical lives. The key evidence informing our assessment of AGN’s expected economic lives is set out in section A.4.1.1.1 below.

For the 2026–31 period, we consider reduced expected economic lives of 30 years for Inlets and 50 years for Mains more reasonably reflect the period in which these assets can be expected to provide economic services.

AGN's Inlets asset class comprises service pipelines connecting the mains to customer properties and predominantly services residential and small business customers.³⁵ These customers are more likely to transition away from gas than larger customers, and these assets are less likely to be economically repurposed for alternative uses such as transporting hydrogen and renewable gas. This assessment is broadly consistent with AEMO's GSOO, which forecasts declining residential and commercial gas demand over the medium to long term.³⁶ For these reasons, we consider that the economic life of Inlets asset class to be materially shorter and broadly comparable to JGN's medium-pressure pipelines, which were assigned a 30-year life in our JGN 2025–30 decision.³⁷

The pathway and future outlook for AGN's broader network is less clear. Long-term demand forecasts show less evidence of declining demand for industrial customers, who represent a small proportion of connections but account for a large share of throughput.³⁸ However, declining residential customer base would impact the future usage of AGN's shared mains pipelines to some degree. As residential customers disconnect, industrial customers will be required to pay a greater proportion of the network costs. Accordingly, we consider that the expected economic life of Mains should also be reduced, but to a lesser extent than Inlets. We consider that a reduction in the expected economic life of Mains to 50 years is therefore more appropriate and is consistent with approach adopted for similar assets in our JGN 2025–30 decision.³⁹

Table 2 sets out our final decision on the expected economic lives for the Inlets and Mains asset classes. These reduced economic lives apply to both the standard asset lives for depreciating forecast capex during the 2026–31 period and the remaining asset lives for depreciating the opening capital base as at 1 July 2026. We will reassess these shortened asset lives in future access arrangement periods if the natural gas substitution pathways or actual demand turn out to be different than expected.

³⁵ AGN, *Attachment 6.1 - Future of Gas and Depreciation*, July 2025, p. 18.

³⁶ AEMO, *GSOO 2025 and 2026: Step Change Scenario – Gas Forecasting Data Portal*, Accessed March 2026.

³⁷ AER, *Final decision - JGN access arrangement 2025-30 - Attachment 4 - Regulatory depreciation*, May 2025, p. 14.

³⁸ AGN, *AGN SA 2026-2031 FINAL PLAN*, July 2025, p. 14.

³⁹ We consider that AGN's 'Mains' asset class is broadly similar in economic use to JGN's high pressure pipeline asset class, noting that AGN does not disaggregate its asset base by pressure levels. AER, *Final decision - Evoenergy access arrangement 2021-26 - Attachment 4 - Regulatory depreciation*, April 2021, p. 12; AER, *Final decision - JGN access arrangement 2025-30 - Attachment 4 - Regulatory depreciation*, May 2025, p. 14.

Table 2 AER final decision on the expected economic lives for Inlets and Mains

Asset class	Technical life (years) – Current approved lives	Expected economic life (years) – AER final decision for the 2026–31 period
Inlets	60	30 (reduced)
Mains	60	50 (reduced)

Source: AER analysis.

A.4.1.1.1 Evidence to reduce the expected economic lives

This section summarises the key evidence and analysis supporting our final decision that the expected economic lives of AGN’s Inlets and Mains asset classes are likely to be shorter than their technical lives. This evidence is considered holistically and reflects developments since the draft decision, as well as updated information on future gas demand, policy signals and the consistency of AGN’s broader proposal.

Future gas demand uncertainty in South Australia

In the draft decision, we noted that South Australia, like other jurisdictions, has a legislated net zero emissions target of 2050 and an interim emissions reduction target of 50% by 2030. Our draft decision for AGN reflected the policy evidence available at the time, including South Australia’s technology neutral approach and policy support for renewable gas and hydrogen.

Since the draft decision, we have revisited the South Australian policy context. While South Australia’s policies remain technology neutral and do not mandate electrification or the closure of the gas network, there is now reduced clarity that renewable gas and hydrogen pathways will provide viable, long-term support for sustained gas demand. In particular, recent developments—including the deferral and/or revision of Hydrogen Park Adelaide and the Hydrogen Jobs Plan, the dissolution of the Office of Hydrogen Power South Australia—have increased uncertainty around hydrogen as a material source of future use of the gas distribution network.

There is stronger evidence for electrification and more limited evidence suggesting the long-term viability of hydrogen/renewable gases for residential use during the energy transition to net zero in many jurisdictions in Australia. The Australian Government’s Future Gas Strategy acknowledges that gas will have a limited role in the future, with households and small businesses largely electrified by 2050.⁴⁰ The AEMO’s GSOO also forecasts a gradual decline in gas demand for residential and commercial customers in South Australia, reinforcing uncertainty about the future use of the gas network.⁴¹

The pathway to transition to net zero and the role of AGN’s network during the transition remain uncertain and will continue to evolve in response to changes in government’s decarbonisation policies, ongoing technological developments in renewable energy, and the cumulative decisions of customers to electrify as the economy transitions to net zero emissions. However, we consider there is some degree of asset stranding risk for AGN’s gas

⁴⁰ Department of Industry, Science and Resources, *Future Gas Strategy*, May 2024, p. 38.

⁴¹ AEMO, *Gas Forecasting Data Portal*, Accessed March 2026.

network due to ongoing uncertainty in the net zero transition and the outlook for gas demand. Accordingly, the expected economic life of AGN’s network assets is likely to be affected to some extent by these factors.

Consistency of AGN’s revised proposal

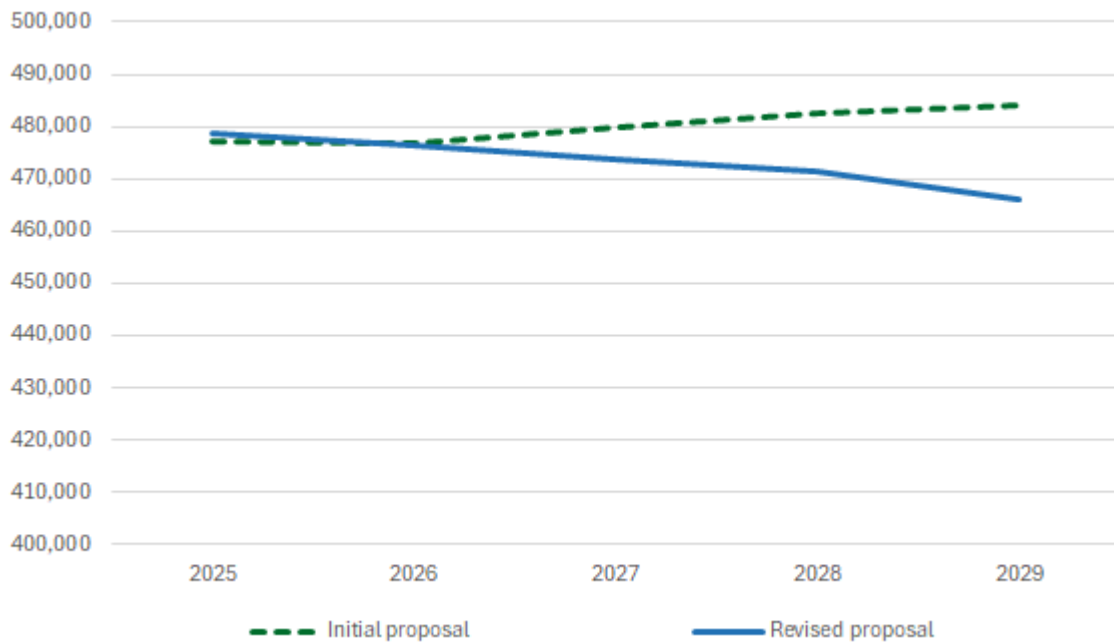
AGN’s initial proposal reflected a business-as-usual approach for the 2026–31 period, with forecast capex broadly in line with historical levels and an expanding network profile. At the time of the draft decision, forecast gas demand was declining over time, but customer numbers were expected to continue to grow. Our draft decision considered that a gas network’s capex program should be consistent with its approach to managing stranding risk, including through accelerated depreciation. We noted that minimising capex to be an important tool for reducing stranded asset risk.

Since the draft decision, AGN has materially revised its proposal. Updated forecasts now indicate that its customer base is expected to decline faster than previously assumed, with substantially less growth capex entering the capital base. Revised forecast residential and commercial demand is also expected to decrease at a faster rate than the initial proposal over the 2026–31 period and remains in line with GSOO forecasts.⁴²

Gross new connections are now forecast to be materially lower than in AGN’s initial proposal, reflecting higher upfront connection charges, policy and price impacts, and increased competition from alternatives. At the same time, disconnections are forecast to be substantially higher over the 2026–31 period, indicating accelerated customer exit from the network.⁴³ As a result, residential customers are expected to reduce by 2.7% over the 2026–31 period, in contrast to the initial proposal that expected an increase of 1.5% as shown in Figure 1.

⁴² AEMO, *GSOO 2025 and 2026: Step Change Scenario – Gas Forecasting Data Portal*, Accessed March 2026.

⁴³ AGN’s revised gross connections are forecast to be 28% lower than initially proposed, while disconnections are forecast to be 75% higher, reaching almost 12,000 in 2030–31, compared with fewer than 3,000 per annum in 2024–25 and 2025–26.

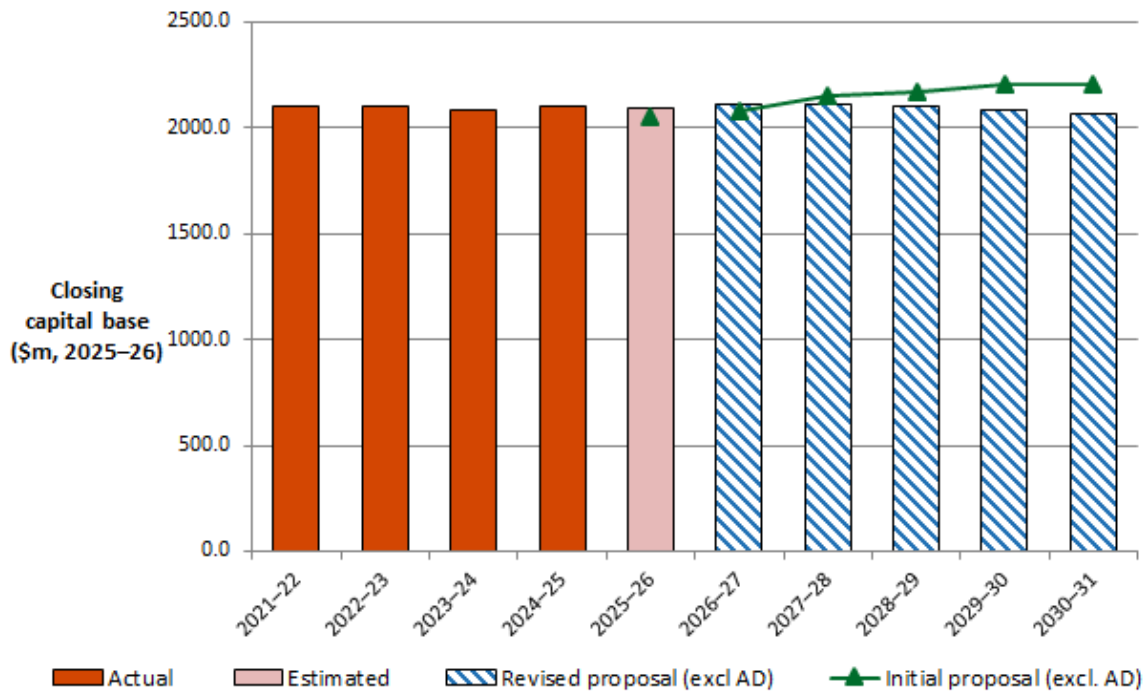
Figure 1 AGN customer numbers – AGN’s initial proposal and revised proposal

Source: AGN, *Attachment 13.1 - Core Energy Forecasting Report*, July 2025; AGN, *Attachment 13.4 - Response to Draft Decision on Demand*, January 2026.

AGN’s revised forecast growth capex has been substantially reduced since the draft decision. AGN has reduced forecast growth capex to \$109 million, compared with the \$162 million in its initial proposal. This reduction is primarily because most connection related capex is now funded through customer contributions following the AEMC’s rule change on gas connections.⁴⁴ As a result, these costs do not enter the capital base and are not recovered from the broader customer base. Consequently, only \$14 million of AGN’s forecast growth capex is expected to enter the capital base over the 2026–31 period. Figure 2 shows that the revised forecast capital base is projected to decline by around 1.6% in real terms over the 2026–31 period, before accounting for any accelerated depreciation.

⁴⁴ AEMC, *Rule determination - National Gas Amendment (Updating the regulatory framework for gas connections) Rule 2025*, 11 December 2025.

Figure 2 AGN’s actual and forecast capital base excluding accelerated depreciation proposals, initial and revised (\$million, 2025–26)



Source: AER analysis.

While AGN’s revised proposal continues to include modest renewables-readiness capex, the renewables-readiness expenditure is limited in scale (around \$7 million). We do not consider this to be inconsistent with a reduction to expected economic lives as—while it is intended to assist in provide future options for AGN’s network—it does not guarantee its continued economic operation.

AGN’s updated connections forecast and minimal growth assets entering the capital base reduce the inconsistency identified at the draft decision stage between AGN’s capex program and a depreciation approach that recognises stranding risk. Taken together, this evidence supports a reduction to AGN’s expected economic lives for its long-lived assets.

AGN’s future of gas modelling

In its revised proposal, AGN submitted that the draft decision did not fully engage with the risk and asymmetric spread of results presented in its future of gas modelling. It disagreed with the draft decision conclusion that its modelled stranding risk of 34% prior to 2050 was not “significant” enough to warrant accelerated depreciation.

In the draft decision, we considered AGN’s future of gas modelling as part of the broader evidence base. While the modelling indicated some risk of asset stranding, we did not consider this risk—when assessed together with policy settings, demand forecasts, and AGN’s overall proposal—to be significant enough to justify accelerated depreciation at that stage. Our draft decision reflected the view that the network would continue to play a role in the transition to net zero, and that the evidence did not support a departure from standard depreciation profiles.

AGN did not provide any updated future of gas modelling as part of its revised proposal. While we maintain the concerns expressed in our draft decision regarding some aspects of the modelling and long-term assumptions relied upon, we have taken into account AGN’s modelling in coming to our decision on AGN’s accelerated depreciation.

As noted in our draft decision, overall, we consider that the future of gas modelling submitted by AGN was a useful tool for assessing the stranding risk of various future paths, as well as the relative long-term impacts of accelerated depreciation on its capital base, price, and demand. However, we maintain that this modelling is highly sensitive to input assumptions around future expenditure levels, and external variable assumptions, such as government policies, consumer decision making and electricity and wholesale gas prices. Accordingly, while AGN’s modelling informs our assessment, it has been considered together with other evidence in reaching our final decision.

A.4.1.2 Accelerated depreciation beyond that arising from reduced asset lives

For the final decision, we do not consider that accelerated depreciation beyond the reduction to asset lives for Inlets and Mains is warranted for AGN at this time.

In our draft decision and past decisions, we have consistently noted the limitations of accelerated depreciation as a tool for managing stranded asset risk.⁴⁵ In circumstances of declining demand, accelerated depreciation alone does not meaningfully moderate long-term price increases, deliver sustained price stability or intergenerational equity outcomes.

Reducing asset lives for the Inlets and Mains asset classes reflects the increased uncertainty affecting the expected economic lives of AGN’s long-lived assets. However, the available evidence does not support a conclusion that any residual stranded asset risk beyond that addressed through reduced asset lives is sufficiently material to warrant further accelerated depreciation at this time. Accelerated depreciation is not intended to guarantee cost recovery, but to provide a flexible and proportionate regulatory response where justified to address material stranded asset risk under uncertainty.

In the circumstances that reducing the asset lives already provides AGN with a reasonable opportunity to recover its efficient costs over the expected economic life of its network, we do not consider it appropriate to impose higher prices on consumers through further accelerated depreciation beyond that arising from the reduced asset lives.

In reaching our final decision, we have balanced the need to reduce material stranded asset risk and the need to ensure consumers pay no more than necessary for the provision of safe and reliable gas distribution services. In a declining and uncertain demand environment, this requires a balanced approach to ensure that cost recovery is neither unduly deferred beyond the expected economic life of the network, nor front-loaded in a way that leads to unnecessary price impacts on current customers.

While the price impacts under AGN’s revised proposed \$70 million accelerated depreciation is not materially higher than that under the \$29 million arising from reduced asset lives alone,

⁴⁵ AER, *Final decision – JGN access arrangement 2025–30 – Overview*, May 2025; AER, *Draft decision – Evoenergy access arrangement 2026–31 – Overview*, November 2025.

we do not consider this, in itself, justifies allowing further accelerated depreciation. Both the policy environment in South Australia and AGN’s modelling do not support a conclusion that further accelerated depreciation beyond that arising from the reduced asset lives is required at this time. This is discussed further below.

A.4.1.2.1 Comparison with other jurisdictions

As shown in Table 3, reducing the asset lives for the Inlets and Mains asset classes results in accelerated depreciation of \$29 million, equivalent to 1.4% of AGN’s opening capital base. This is lower than the \$70 million (3.3% of the opening capital base) proposed by AGN and is also proportionally lower than the accelerated depreciation allowed for JGN or the Victorian distributors.⁴⁶ This lower level of accelerated depreciation reflects the current level of stranded asset risk faced by AGN.

In its revised proposal, AGN submitted that NSW policy and funding support for renewable gas and hydrogen may be stronger, while uncertainty around South Australia’s hydrogen future has increased.⁴⁷ We acknowledge that reduced clarity regarding the future role of renewable gas and hydrogen in South Australia contributes to uncertainty about the long-term utilisation of AGN’s network. This has informed our decision to reduce the expected economic lives of AGN’s long-lived assets (section A.4.1.1).

However, while these developments increase uncertainty, they do not indicate that AGN faces a level of stranded asset risk comparable to that faced by networks in other jurisdictions. While our decision for JGN reflected the specific policy environment in NSW, subsequent developments in NSW do not imply that AGN faces a comparable level of stranding risk when the broader policy environment is considered. Instead, these developments highlight ongoing uncertainty in transition pathways and future policy settings, reinforcing the need for a proportionate response that aligns depreciation with expected economic use and preserves flexibility as evidence evolves.

More broadly, we consider that AGN faces a lower level of stranding risk than networks operating in Victoria,⁴⁸ NSW⁴⁹ and the ACT⁵⁰, where more explicit policy signals and bans on new gas connections are already in place at the state or local government level. These policy settings provide clearer direction on the future contraction of gas networks. By contrast, South Australia does not currently have a published or planned gas decarbonisation roadmap and its policy framework remains more technology neutral. As a result, the

⁴⁶ Our 2025–30 JGN and 2023–28 Victorian distributor final decisions resulted in accelerated depreciation equivalent to around 3.0% of JGN’s opening capital base, and an aggregated proportion of 6.4% for the Victorian distributors.

⁴⁷ AGN, *Attachment 6.5 - Response to Draft Decision on Depreciation*, January 2026, pp. 14–17.

⁴⁸ The Victorian government has banned natural gas connections in all new homes that require a planning permit in the state from 1 January 2024, extending this to all new homes and most new commercial buildings from 1 January 2027. Victorian Government: *Victoria’s gas substitution roadmap – 2025 update*, December 2025.

⁴⁹ Canterbury-Bankstown, City of Paramatta, Inner West, City of Newcastle, City of Sydney, Hornsby Shire, City of Ryde, City of Canada Bay, Waverly, Blue Mountains, Lane Cove and North Sydney have all proposed or implemented bans or restrictions on new gas connections.

⁵⁰ The ACT government has banned new gas network connections in certain circumstances since 8 December 2023; ACT Government: *Canberra’s Electrification pathway*, accessed on 19 February 2026.

likelihood and timing of any reduction in network utilisation remain less certain and less imminent.

In this context, we do not consider that the policy environment in South Australia supports further accelerated depreciation beyond that arising from the revised asset lives at this time.

A.4.1.2.2 AGN’s future of gas modelling

AGN submitted that its future of gas modelling provided a wide range of potential stranded asset outcomes across different scenarios. In particular, it noted that materially different stranding outcomes—ranging from early to late stranding—can arise across scenarios, and that average expected life may not fully reflect the timing and distribution of these risks.⁵¹

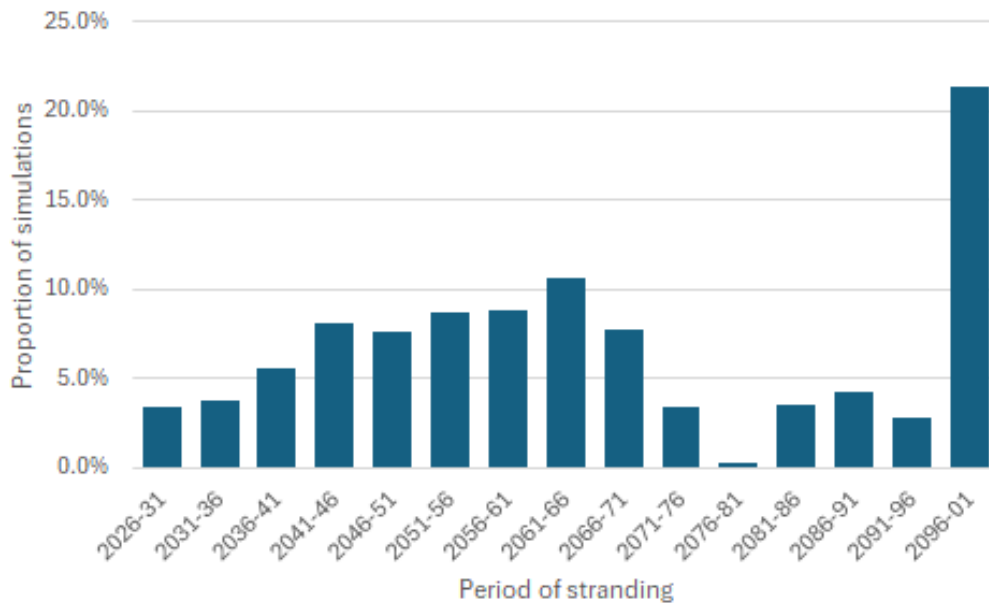
Following the revised proposal, we requested the underlying simulation outcomes from the scenarios presented in AGN’s initial proposal to enable further analysis of the stranding risk illustrated by the modelling.

Our analysis focussed primarily on policy cases 2 and 4 from AGN’s initial proposal, which we consider to be the most representative of the current outlook for the gas network in South Australia following the AEMC’s rule change on new gas connections.⁵² Within each of these policy cases, AGN modelled three alternative pricing bundles. Taken together, the results indicate that the most common stranding period occurs late in the modelled timeframe (2096–01), with an earlier peak around 2061–66, as shown in Figure 3. While this suggests there is some risk of early stranding under scenarios with relatively favourable electricity pricing—supporting a reduction in expected economic lives—it also indicates that continued operation of AGN’s network over an extended period remains plausible depending on the pricing outcomes.

⁵¹ AGN, *Attachment 6.5 - Response to Draft Decision on Depreciation*, January 2026, pp. 20–21.

⁵² Policy case 2 includes scenarios where there are no policy barriers to gas, but new connections are excluded from the capital base (rather than being banned), while policy case 4 builds on this by introducing an additional subsidy for electric hot water systems.

Figure 3 AGN’s future of gas stranding periods under policy cases 2 and 4, all pricing bundles



Source: AER analysis; AGN, *Response to IR#017 - model results data for AER*, March 2026.

AGN’s modelling also indicated that delaying recovery of the revised proposed \$70 million in accelerated depreciation would have a noticeable negative impact only under extreme electrification scenarios, with minimal impacts under median or less extreme scenarios.⁵³

Taken together, we consider that AGN’s modelling supports the case for reducing expected economic lives to some extent. However, it does not provide clear or consistent evidence that stranded asset risk is sufficiently material to warrant further acceleration beyond that from the reduced asset lives under the current policy context in South Australia.

A.4.1.2.3 AGN’s customer consultation and stakeholder submissions

Our draft decision and feedback from stakeholders signalled a need for further stakeholder consultation by AGN on its future role of gas network and accelerated depreciation proposal. In response, AGN undertook additional consultation following the draft decision. AGN submitted that the key insight from this engagement was that participants supported a smooth and equitable transition, including some accelerated depreciation compared to deferring costs to future customers. AGN also noted that 77% of participants considered its revised proposal of \$70 million in accelerated depreciation to represent a fair intergenerational balance, compared to only 39% for the draft decision position of zero accelerated depreciation.

The Consumer Challenge Panel (CCP33) identified several limitations to AGN’s engagement, including limited representativeness and a lack of independent validation of customer preferences. CCP33 cautioned against interpreting the workshop outcomes as direct support from AGN’s broader customer base for its revised proposal, given the limited representativeness of participants (and associated statistical validity) and the narrow range of scenarios tested (\$70 million compared to zero). On this basis, CCP33 offered cautious,

⁵³ AGN, *Attachment 6.1 - Future of Gas and Depreciation*, July 2025, p. 29.

in-principle support for some accelerated depreciation, noting consistency with the JGN 2025–30 decision. However, CCP33 emphasised that affordability must remain the overriding constraint and deferred to the AER to determine whether an accelerated depreciation amount of \$70 million is justified.⁵⁴

The South Australian Reference Group (SARG) maintained its support for AGN's proposal for accelerated depreciation. SARG's position reflects its more pessimistic view of the prospects for a renewable gas future and its view that current customers should bear a greater share of the cost of long-lived assets they are currently using.⁵⁵

By contrast, the South Australian Council of Social Service (SACOSS) and Energy Consumers Australia (ECA) opposed accelerated depreciation, citing independent modelling from Dynamic Analysis that indicated it would result in higher customer bills with limited reduction in stranding risk. They submitted that accelerated depreciation primarily transfers risk from network businesses to consumers and should not be justified solely on intergenerational equity grounds.⁵⁶ ECA did not rule out accelerated depreciation categorically but submitted it should only be considered as part of a broader, explicit policy framework for an orderly and equitable transition away from the gas network.⁵⁷

The South Australia Business Chamber acknowledged the complexity of the issue and submitted that any depreciation approach should strike an appropriate balance between intergenerational equity and current affordability, and form part of a broader, coordinated policy response to declining demand and stranded asset risk.⁵⁸

Overall, while AGN's additional engagement and some stakeholder submissions support moving away from a zero accelerated depreciation position, stakeholder views do not provide a clear or robust basis for adopting AGN's revised proposed \$70 million. Affordability concerns are strong and consistent across submissions, reinforcing the need for a balanced approach on accelerated depreciation.

A.4.1.2.4 Price impacts of accelerated depreciation

As discussed above, we consider that revising the expected economic lives of the Inlets and Mains asset classes in this final decision provides AGN with a reasonable opportunity to recover its efficient costs over the expected economic life of its network assets, given increased uncertainty about future utilisation. However, any accelerated depreciation beyond that arising from revised asset lives would further increase prices charged to consumers and therefore requires careful consideration.

⁵⁴ CCP33, *Advice to AER - 2026–31 - AGN(SA)'s 2026-31 revised proposal and draft decision*, February 2026, p. 15.

⁵⁵ SARG Review Panel, *Submission on AER's Draft Decision and AGN(SA) 2026-31 Access Arrangement Revised Proposal*, February 2026, pp. 5–13.

⁵⁶ SACOSS, *Submission on AER's Draft Decision and AGN(SA) 2026-31 Access Arrangement Revised Proposal*, February 2026; ECA, *Submission and attachment on AGN (SA) and Evoenergy's 2026–31 revised proposal and draft decision*, February 2026.

⁵⁷ ECA, *Submission and attachment on AGN (SA) and Evoenergy's 2026–31 revised proposal and draft decision*, February 2026, p. 4.

⁵⁸ South Australian Business Chamber, *Submission on AER's Draft Decision and AGN(SA) 2026-31 Access Arrangement Revised Proposal*, February 2026, p. 1.

As shown in Table 3 below, had we accepted AGN’s revised proposal for \$70 million of accelerated depreciation in full, average real network price increases would have been around 0.6% higher per annum than under an approach based on reduced asset lives alone, all else being equal. While this price impact is not, of itself, substantial, we do not consider it appropriate to impose additional and unnecessary price increases on consumers.

As discussed above, the available evidence does not support a conclusion that any residual stranded asset risk beyond that addressed through reduced asset lives is sufficiently material to warrant further accelerated depreciation at this time. The regulatory regime provides opportunities to re-visit the issue of depreciation should demand for gas differ materially from scenarios that are forecast today.

Table 3 summarises the price impacts of our final decision under various accelerated depreciation scenarios.

Table 3 Price impact of accelerated depreciation for the 2026–31 period

Scenario	Average real network price increase (% p.a.)	Nominal residential bill increase (\$ p.a.) ^b	Total nominal residential bill increase by 2030–31 ^b	AD as a % of opening capital base
No accelerated depreciation	0.9%	\$23 (2.0%)	\$113 (10.2%)	n/a
AER final decision - \$29 million	1.4%	\$26 (2.2%)	\$129 (11.6%)	1.4%
AGN revised proposal - \$70 million	2.0%	\$31 (2.6%)	\$153 (13.7%)	3.3%

Source: AER analysis.

Note: AD = Accelerated depreciation

(b) Based on typical gas consumption of 13.1 GJ for a residential customer. Bill impact is compared to a nominal annual residential gas bill of \$1,117 at 2025–26.

For clarity, our final decision does not establish a binding price outcome applicable to any future access arrangement decisions. Rather, our approach to accelerated depreciation is intended to provide a flexible and proportionate regulatory response where it is justified to reduce material stranded asset risk under uncertainty, having regard to the specific evidence and circumstances of each network.

A.4.2 Standard and remaining asset lives

Our final decision PTRM sets out AGN’s standard and remaining asset lives for each asset class for the 2026–31 period.⁵⁹ Asset classes that have been assigned with a standard asset life of ‘n/a’ (not applicable) reflect cases where the relevant capex is either not subject to depreciation, or where there is no forecast capex. We are satisfied that the asset lives approved in this final decision result in a depreciation schedule that reflects the depreciation criteria in the NGR.⁶⁰

⁵⁹ AER, *Final decision – AGN access arrangement 2026–31 – PTRM*, May 2026.

⁶⁰ NGR, r. 89.

A.4.2.1 Inlets and Mains asset classes

As discussed in section A.4.1, we determine a reduced expected economic life of 30 years (reduced from 60 years) for AGN’s Inlets asset class and 50 years (reduced from the current 60 years) for the Mains asset class. These reduced economic lives apply to:

- the standard asset life used for depreciating new assets associated with forecast capex for the 2026–31 period; and
- the remaining asset life as at 1 July 2026 for depreciating the opening capital base as at 1 July 2026.

A.4.2.1.1 Reduced remaining asset lives for Inlets and Mains

To give effect to the reduced remaining asset lives, we have applied a final-year asset adjustment in the roll forward model (RFM) to reallocate the capital base as at 1 July 2026 from the existing ‘Inlets’ and ‘Mains’ asset classes into new reduced-life asset classes for the final decision.

For the Inlet asset class, our final decision establishes a single ‘Inlets – reduced life’ class with a remaining asset life of 30 years. This is because each of the streams of tracked depreciation schedules extend beyond the reduced 30-year expected economic life, meaning the entire opening capital base for the Inlets asset class is subject to accelerated depreciation.

AGN’s ‘Mains’ asset class, has a weighted average remaining life at 1 July 2026 that is already below 50 years. However, under the year-by-year tracking depreciation approach, there remains streams of past capex with remaining lives exceeding 50 years. Consistent with our final decision, we consider these past streams of capex should have their remaining lives reduced to 50 years. To give effect to this adjustment, we have created three corresponding categories: ‘pre-2016 capital base’, ‘pre-2026 capital base – reduced life’, and ‘2020-21 capital base adjustment’. This is consistent with our approach applied in our JGN 2025–30 final decision.⁶¹ Overall, this adjustment increases the accelerated depreciation amount for AGN over the 2026–31 period by around \$6 million compared with making no adjustment.

Table 4 below sets out the opening capital base as at 1 July 2026 and the corresponding reduced remaining asset life for each of the new asset classes created to give effect to our final decision.

Table 4 AER final decision on standard and remaining asset lives for Inlets and Mains asset classes

Asset class	Opening capital base at 1 July 2026 (\$m)	Current remaining asset life (years)	Reduced remaining asset life (years) – Final decision
Inlets	\$335.0	47	30 (reduced)

⁶¹ AER, *Final decision - JGN access arrangement 2025–30 - Attachment 4 - Regulatory depreciation*, May 2025, pp. 25–26.

Asset class	Opening capital base at 1 July 2026 (\$m)	Current remaining asset life (years)	Reduced remaining asset life (years) – Final decision
Mains – pre-2016 capital base	\$1,031.0	39	39 (unchanged)
Mains – pre-2026 capital base	\$608.9	60	50 (reduced)
Mains – 2020-21 capital base adjustment ^a	–\$159.0	32	32 (unchanged)

Source: AER analysis.

Note: (a) This negative adjustment reflects the remaining underlying asset value for assets that were provided accelerated depreciation at the 2021–26 access arrangement as a result of AGN's Mains replacement program.

A.4.2.2 Other asset classes (except for Inlets and Mains)

For this final decision, we have retained the standard asset lives for depreciating forecast capex and the remaining asset lives used to depreciate the opening capital base (as reflected in the year-by-year tracking depreciation module) for all asset classes other than the Inlets and Mains asset classes, as set out in the draft decision and included by AGN in its revised proposal.

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CCP33	Consumer Challenge Panel, sub-panel 33
ECA	Energy Consumers Australia
NGO	National Gas Objective
NGL	National Gas Law
NGR	National Gas Rules
PTRM	Post-tax Revenue Model
RFM	Roll Forward Model
SARG	South Australian Reference Group
SACOSS	South Australian Council of Social Service
