Final decision

Australian Gas Networks (SA) access arrangement 2026 to 2031

(1 July 2026 to 30 June 2031)

Attachment 2 – Capital expenditure

May 2026

AUSTRALIAN ENERGY REGULATOR

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Amendment record

Version	Date	Pages
1	21 May 2026	22

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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2 Capital expenditure

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

In this attachment, we outline our assessment of AGN's capex proposal for the 2026–31 access arrangement period (2026–31 period). Our final decision consists of 2 parts:

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

2.1 Final decision

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

We approve AGN's actual capex for 2020–21 and the 2021–26 period as conforming capex.

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

2.1.2 Capex for the 2026–31 period

We do not accept AGN's capex forecast of $337.2 million ($2025–26) for the 2026–31 access arrangement period as conforming capex under the NGR. Our final decision is to substitute an alternative estimate of $332.3 million ($2025–26) capex.

Overall, we found that most aspects of AGN's proposal were likely to be conforming capex. We determined an alternative estimate of $332.3 million ($4.9 million or 1.5% less than AGN's proposal) because we did not accept AGN's proposed expenditure on information and communication technology (ICT) ($4.3 million reduction) and meter replacement ($2.5 million reduction).

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

1 NGR, r. 69.

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

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

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

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

Category	AGN revised proposal	AER final decision	Difference over capex category ($/%)	
Connections	117.7	117.7[5]	-	-
ICT	73.0	68.7	-4.3	-5.8%
Other Network	92.2	92.2	-	-
Mains replacement	85.5	85.5	-	-
Meter replacement	38.5	36.0	-2.5	-6.6%
Overheads	21.9	21.8	-0.1[6]	-0.5%
Other non-network	7.7	7.7	-	-
Mains augmentation	6.4	6.4	-	-
Telemetry	3.8	3.8	-	-
Gross Total	**446.7**	**439.8**	**-6.9**	**-1.5%**
Less Customer contributions connections (including overheads) (a)	109.5	109.5	-	-
Less Disposals	-	-	-	-
Modelling adjustments		2.1(b)		
Net Total	**337.2**	**332.3**	**-4.9**	**-1.5%**

Source: AER, *AGN access arrangement 2026-31 – Final Decision – Capex Model*, May 2026.
Note: Numbers may not sum due to rounding.

(a) AGN's overheads for the forecast connections is $5.6 million. This offsets the component recovered in the overheads of $21.9 million and ensures that the upfront capital contribution recovers the full cost of the connection and other customers are not cross subsidising the connection costs. The customer connections excluding overheads is $103.9 million.

(b) Our final decision includes standard modelling adjustments for updated inputs to inflation and labour real cost escalation. Consistent with our decisions in previous access arrangements, we have applied real escalation to internal labour only.

5 The net connections capex is $13.9 million, derived by subtracting the capital contribution of $103.9 million (without overheads) from the gross connections capex of $117.7 million.

6 Reducing the ICT transition and digital metering capex forecasts result in a $0.1 million decrease in associated overheads.

2.2 AGN's revised proposal

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

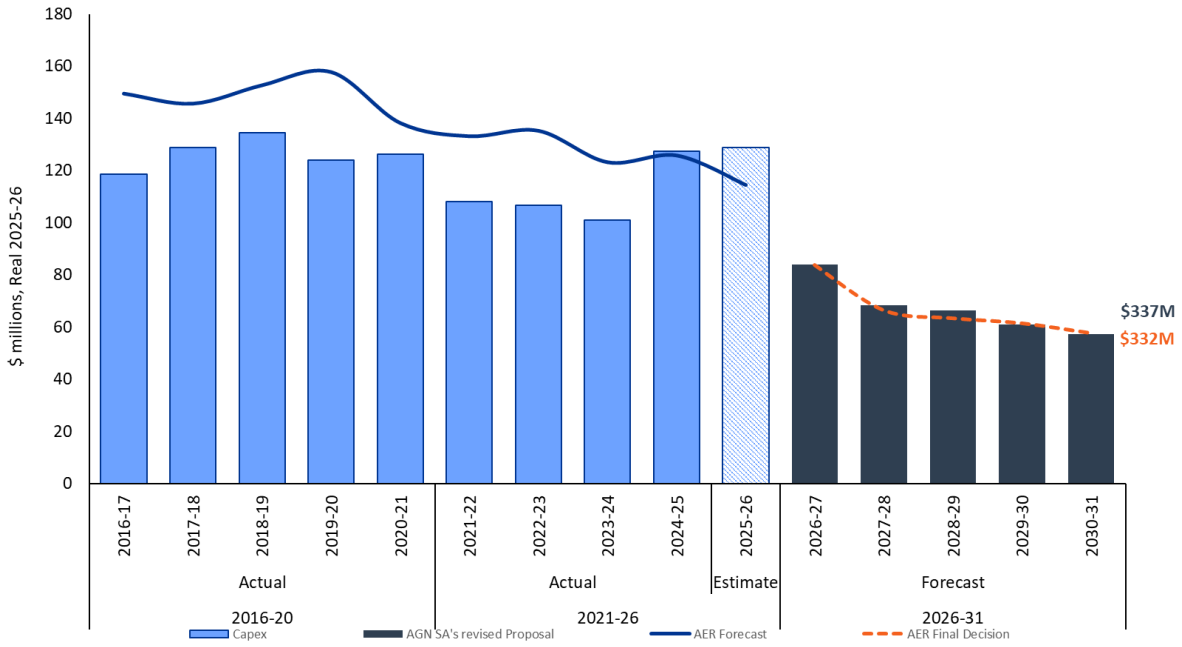
AGN reports that its actual net capex in 2020–21 was $126.2 million,[7] and that its actual and estimated capex in the 2021–26 period is $572.1 million.[8] AGN's allowance for 2020–21 was $138.2 million, and for 2021–26 it was $631.5 million.[9]

2.2.2 Capex for the 2026–31 period

AGN has proposed $337.2 million ($2025–26) capex for the 2026–2031 access arrangement period. This is $234.9 million or 41.1% less than the actual/estimated capex for the current access arrangement period. This reduction is driven by the completion of AGN's extensive mains replacement program over the past decade as well as the AEMC's recent rule change requiring gas network distributors to charge customers upfront for network connections.

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

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



Source: AER, *AGN access arrangement 2026-31 – Final Decision – Capex Model*, May 2026; AER Analysis.
Note: Nominal figures converted to real dollars 2025–2026.

7 AGN, *Attachment 1.6A Revised Final Plan Roll Forward Model,* January 2026*;* AER analysis.

8 AGN, *Attachment 1.6A Revised Final Plan Roll Forward Model,* January 2026.

9 AGN, *Attachment 1.5 Post Tax Revenue Model – 2025-26 return on debt update* – March 2025; AER Analysis.

2.3 Assessment approach

We must make 2 decisions on AGN's capex. First, we assess past capex to determine whether it is conforming capex that can be added to the opening capital base.[10] Second, we assess AGN's forecast of required capex for the 2026–31 period to determine whether it meets the new capex criteria set out in the NGR.[11]

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

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

We reviewed AGN's submission and supporting material to assess its actual and estimated capex for the 2021–26 access arrangement period. Where capex was higher than forecast in our final decision, we scrutinised AGN's reasons for the overspend. We also had regard to the presence of the capital expenditure sharing scheme (CESS), and the incentive this provides to deliver efficient capex.[12] We used this information to identify whether capex over the 2021–26 period was conforming capex.

2.3.2 Capex in the 2026–31 period

Our final decision is made on total forecast capex in accordance with the new capex criteria in the NGR.[13]

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

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

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

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

11 NGR, r. 79.

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

13 NGR, r. 79.

Our assessment was particularly focused on the materiality of the capex categories, whether the expenditure was significantly higher than historical expenditure, whether the capex related to a new type of asset, where our decision would serve as a substantial precedent in future decisions, or where stakeholders have raised significant issues. We also took into consideration the interrelationships between the capex forecast and other constituent components of our final decision, to assist in determining if it contributes to the achievement of the National Gas Objective (NGO).[14]

2.3.3 Interrelationships

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

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

2.4 Submissions on our draft decision and the revised proposal

We received 8 stakeholder submissions on AGN's revised proposal:

- AGN's SA Reference Group, Review Panel
- Consumer Challenge Panel, (CCP33)
- Energy Consumers Australia
- Energy & Water Ombudsman SA
- Office of the Technical Regulator (OTR)
- South Australian Council of Social Services
- South Australian Business Chamber
- South Australia Federation of Residents and Ratepayers Associations Inc[15]

Multiple submissions, including AGN's SA Reference Group, Office of the Technical Regulator, and South Australia Federation of Residents and Ratepayers Associations Inc, were supportive of AGN's proposed cyber security expenditure, while CCP33 questioned

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

15 CCP33 - *Advice to the AER - AGN(SA)'s 2026–31 revised proposal and draft decision* - February 2026; ECA - *Submission on AGN (SA)'s 2026–31 revised proposal and draft decision* - February 2026; *Energy & Water Ombudsman SA - Submission on AGN (SA)'s 2026–31 revised proposal and draft decision* - February 2026; SACOSS - *Submission on AGN (SA)'s 2026–31 revised proposal and draft decision* - February 2026; SAFRRA Inc. - *Submission on AGN (SA)'s 2026–31 revised proposal and draft decision* - February 2026; SARG Review Panel - *Submission on AGN (SA)'s 2026–31 revised proposal and draft decision* - February 2026; South Australian Business Chamber - *Submission on AGN (SA)'s 2026–31 revised proposal and draft decision* - February 2026; The Office of the Technical Regulator - *Submission on AGN (SA)'s 2026–31 revised proposal and draft decision* - February 2026.

whether AGN's cyber security was still able to be accommodated given the output growth factor will be negative.

A few stakeholders, including Energy Consumers Australia, South Australian Council of Social Services, and AGN's SA Reference Group, raised concerns regarding the customer benefit and asset stranding risks for renewable gas readiness capex.

We received feedback on the ICT transition project from Energy Consumers Australia, CCP33, and AGN's SA Reference Group, with a focus on the contingency risk allowance. In relation to meter replacement and digital metering program, there are mixed views from stakeholders. Energy Consumers Australia agreed with our draft decision, while the Office of the Technical Regulator's view highlighted that, as a safety and technical regulator, it agreed with the rationale for the proposed metering capex provided by AGN.

CCP33 supported AGN retaining a small amount of new connections capex.

2.5 Reasons for the final decision

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

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

AGN's actual and estimated capex for the 2021–26 access arrangement is $572.1 million, compared with the AER's final decision of $631.5 million.[16] AGN's actual and estimated expenditure was lower than the final decision across most expenditure categories, except for 'network other' capex.[17]

Our decision on conforming capex also relates to capex for 2020–21. Owing to the timing of our 2021–26 access arrangement decision, we only had estimates of the expenditure for 2020–21. AGN has underspent its capex allowance for that year of $138.2 million by $12.0 million, with actual expenditure of $126.2 million.[18]

We reviewed AGN's access arrangement proposal and supporting material to assess its actual and estimated capex for the 2021–26 access arrangement period. Where capex was higher than accepted in our final decision, we scrutinised AGN's reasons for the overspend. We also had regard to the presence of the CESS, and the incentive this provides to deliver efficient capex.[19] We used this information to identify whether capex over the period was conforming capex. The framework allows regulated businesses to reprioritise capex to achieve prudent and efficient outcomes, such as response to safety priorities.

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

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16 AGN, *AGN SA Attachment 1.5A Revised Post Tax Revenue Model* – March 2025; AER Analysis.

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

18 AGN, *AGN SA Attachment 1.6A Post Tax Revenue Model*. January 2026.

19 The capital expenditure sharing scheme provides an incentive for a service provider to realise savings on its capex program by rewarding those service providers that spend less capex than forecast and penalising those that spend more than forecast. Further information can be found in the Overview of the Final Decision.

2.5.1 Capex for the 2026–31 period

We do not accept AGN's forecast of $337.2 million capex. We have instead adopted our alternative estimate of $332.3 million as likely to reflect conforming capex. We formed our alternative estimate by undertaking a top-down assessment of AGN's capex, followed by a more detailed review of AGN's forecast capex categories. Our assessment was focused on the materiality of the capex categories, whether the capex related to a new type of asset, where expenditure was significantly higher than historical, where our decision would serve as a substantial precedent in future decisions, or where stakeholders have raised significant issues. We did not undertake a detailed analysis of capex that was relatively small, forecast using established modelling approaches and that had inputs in line with our expectations.

The reasons for our final decision are set out in Table 2.2 while a more detailed assessment of the key issues is provided in Appendix A.

2.5.1.1 Capex category assessment

Table 2.2 summarises our review of AGN's capex categories.[20] We considered capex relating to ICT and meter replacement were higher than necessary to meet the capex criteria. We formed the view that an alternative estimate of $332.3 million (net capex) was reasonably likely to reflect prudent and efficient costs, which is $4.9 million or 1.5% less than AGN's proposal. This is a result of not accepting all of AGN's proposed expenditure on information and communication technology (ICT) ($4.3 million reduction) and meter replacement ($2.5 million reduction). We are of the view that all capex included in our alternative estimate is justifiable capex under rule 79(2) of the NGR. Our analysis of key capex categories is further explained in Appendix A.

Table 2.2 Summary of our findings and reasons, by capex category

Issue	Findings and reasons
Connections	We have included AGN's proposed $117.7 million (excluding overheads) for the connections capex forecast with $109.5 million in capital contributions forecast (including overheads),[21] resulting in a net connections capex forecast of $13.9 million (excluding overheads), in the total forecast capex. On 11 December 2025, the AEMC made its rule change for *updating the regulatory framework for gas connections,*[22] requiring gas network distributors, which are subject to the National Energy Customer Framework for gas, to charge a cost-reflective, upfront connection fee on newly connecting retail gas customers from 1 October 2026. Up until now when new customers connected to AGN's network, we treated connection costs as regulated capex and added them into the regulatory asset base, subject to assessment and approval. After 1 October 2026, we will no longer include connection costs related to new customers in the regulatory asset

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

21 AGN's overheads for the forecast connections is $5.6 million.

22 https://www.aemc.gov.au/rule-changes/updating-regulatory-framework-gas-connections

Issue	Findings and reasons
	base and AGN can only recover these costs from connecting customers as capital contributions. The implementation of the new rule means AGN has a small net connections capex forecast from the commencement of the 2026–31 access arrangement period on 1 July 2026 to 30 September 2026. AGN has a forecast net connection capex of $13.9 million, which represents the commercial and residential development connection costs incurred up until the implementation of the rule change. From 1 October 2026 onwards, AGN has incorporated the capex forecast impacts of the rule change with forecast capital contributions of $109.5 million towards the connections. We have assessed the connections capex forecast together with consideration of the updated demand forecast. We consider AGN's connections forecast is consistent with the rules and is a reasonable amount of connections capex required to connect customers prior to October 2026.
ICT	We have not included all of AGN's ICT in the total forecast capex. AGN proposed $73.0 million ($2025–26) for ICT capex. Our final decision is to include $68.7 million. This is $4.3 million or 5.8% less than what AGN proposed. This is because we have not included AGN's proposed contingency risk allowances for its ICT transition project in our alternative forecast of ICT. We have included a majority of AGN's proposed ICT capex program in the total forecast capex, including recurrent/non-recurrent ICT and cyber security expenditure. However, we consider that AGN did not sufficiently justify the nature and basis of its proposed contingency risk allowance in its ICT transition project for 'shifting, lifting, and merging' systems from APA Group (APA) into the AGN network. Our reasons for this are set out in Appendix A.1 (Information and communication technology).
Other – network	We have included AGN's Other–network capex forecast of $92.2 million ($2025–26) in the total forecast capex. This was considered and accepted in our draft decision.[23] This includes AGN's proposed $7.0 million for renewable gas readiness to its network for new supply projects to emerge over the next period.[24] This is largely readiness investments such as weld procedure and hardness testing, incompatible parts replacement, and pipeline repair equipment. We received submissions from Energy Consumers Australia, South Australian Council of Social Services and AGN's South Australian Reference Group Review Panel that expressed concerns regarding the customer benefit and asset stranding risks.[25] We acknowledge the concerns raised in the stakeholders' submissions. From an emissions reduction perspective, the proposed renewable gas readiness capex

23 AER, *Draft Decision Attachment 2 - Capital expenditure – AGN – 2026–31 Access arrangement proposal*, November 2025, pp. 10–11.

24 AGN, *2026–31 FINAL PLAN*, July 2025, p. 104.

25 ECA - *Submission on AGN (SA)'s 2026–31 revised proposal and draft decision* - February 2026, p. 8; SARG Review Panel - *Submission on AGN (SA)'s 2026–31 revised proposal and draft decision* - February 2026, p. 3; SACOSS - Submission on AGN (SA)'s 2026–31 revised proposal and draft decision - February 2026, p. 4.

Issue	Findings and reasons
	can be viewed as an initial step that supports the efforts towards accelerating decarbonising AGN's gas networks. We have regard to the renewable gas readiness' long-term needs and stranding risk over time. In this context, we acknowledge that the short-term benefit may be marginal and a renewable gas future in South Australia is not clear at this stage. However, on a national basis, we recognise that the *National Hydrogen Strategy*[26] does support developing infrastructure for transporting hydrogen to hard-to-abate sectors, including heavy road transport and industrial users, which are likely to draw hydrogen and renewable gases from gas distribution pipelines. In addition, this capex aligns with the recent amendments to the National Gas Framework,[27] which now explicitly recognises hydrogen and renewable gases as covered gases by allowing them to be transported through existing and new gas distribution pipelines. We consider this capex will make options available amid changing renewable gas and hydrogen pathways and allow AGN to respond to evolving system requirements and market needs, rather than deferring action until later while waiting for policy certainty. Overall, we consider this capex reasonable as it is limited in scale, does not materially expand the capital base, is intended to preserve optionality under uncertainty rather than drive growth, and enables AGN to set the groundwork for achieving lower cost emissions reduction for its networks.
Mains replacement	We have included AGN's mains replacement capex forecast of $85.5 million ($2025–26) in the total forecast capex. This was considered and accepted in our draft decision.[28]
Meter replacement	We have not included all of AGN's proposed meter replacement forecast in the total forecast capex. AGN proposed $38.5 million ($2025–26) for meter replacement capex. Our final decision is to include $36.0 million. This is $2.5 million or 6.6% less than what AGN proposed. We consider that: • the forecast volume of domestic meter replacement is reasonable. The forecast volume of end-of-life meters can be quantified by considering additional information provided by AGN. Specifically, the forecast volumes of meters requiring replacement after failing Field Life Extensions testing and reactive replacements of defective meters remain below the approved volume for each year of the current period and align with the replacement trend showing a gradual decrease over the years. • the digital meter program for inaccessible places is not prudent, given that AGN has not provided sufficient justification that clearly demonstrates the program's tangible benefits outweigh the financial impacts on all AGN's customers. We have accepted AGN's replacement program for industrial and commercial meters in the draft decision. Our detailed reasons for this are set out in Appendix A.2 (Meter replacements).

26 https://www.dcceew.gov.au/energy/publications/australias-national-hydrogen-strategy

27 https://www.aemc.gov.au/market-reviews-advice/review-extending-regulatory-frameworks-hydrogen-and-renewable-gases

28 AER, *Draft Decision Attachment 2 - Capital expenditure – AGN – 2026–31 Access arrangement proposal*, November 2025, p. 11.

Issue	Findings and reasons
Overheads	We have included $21.8 million of AGN's capitalised overheads in the total forecast capex. This is $0.1 million (or 0.5%) less than the $21.9 million ($2025–26) in capitalised overheads proposed by AGN. This is because capitalised overheads are an allocated portion of total forecast capex, requiring a modelling adjustment based on our alternative forecast of total capex. The adjustment to capitalised overheads reflects this impact for the capex categories for which overheads have been allocated.
Other non-network	We have included AGN's proposed Other non-network capex forecast of $7.7 million ($2025–26) in the total forecast capex. This was considered and accepted in our draft decision.[29]
Mains augmentation	We have included AGN's proposed mains augmentation capex forecast of $6.4 million ($2025–26) in the total forecast capex. This was considered and accepted in our draft decision.[30]
Telemetry	We have included AGN's telemetry capex forecast of $3.8 million ($2025–26) in the total forecast capex. This was considered and accepted in our draft decision.[31]
Customer contributions	We have included all of AGN's capital contributions forecast. AGN proposed to recover $109.5 million ($2025–26) for customer contributions, all of which is related to connections capex forecast from 1 October 2026 due to the capex forecast impacts of the AEMC rule change. Please refer to 'connections' above for further detail.
Modelling adjustments	Our final decision includes standard modelling adjustments for updated inputs to inflation and labour real cost escalation. Consistent with our decisions in previous access arrangement reviews, we have applied real escalation to internal labour only.
Disposals	There are no disposals in AGN's 2026–31 access arrangement proposal.

2.6 Revisions

We require the following revisions to make the access arrangement proposal acceptable as set out in Table 2.3.

Table 2.3 Capex revisions

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

29 AER, *Draft Decision Attachment 2 - Capital expenditure – AGN – 2026–31 Access arrangement proposal*, November 2025, p. 12.

30 AER, *Draft Decision Attachment 2 - Capital expenditure – AGN – 2026–31 Access arrangement proposal*, November 2025, p. 12.

31 AER, *Draft Decision Attachment 2 - Capital expenditure – AGN – 2026–31 Access arrangement proposal*, November 2025, pp. 12–13.

A Assessment of key capex categories

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

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

A.1 Information and communication technology

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

A.1.1 AER's final decision

Our final decision is to not accept AGN's proposed ICT capex. Our alternative forecast of conforming capex for AGN's ICT program is $68.7 million. This is a reduction of $4.3 million or a 5.8% decrease from AGN's proposed expenditure of $73.0 million. This is because we have not included AGN's proposed contingency risk allowances for its ICT transition project in our alternative forecast of ICT.

A.1.2 AGN's revised proposal

AGN proposed $73.0 million ICT capex in the next period. This is significantly higher than the ICT capex of $28.8 million in the draft decision.[32] This is because the draft decision included a zero placeholder for ICT transition and cyber security projects, given the concerns we had on the corporate structure and its associated cost attribution. The ICT capex is made up of the following components:

- ICT transition project
- ICT operational applications
- ICT corporate applications
- ICT sustaining infrastructure
- cyber security.[33]

A.1.3 Reasons for decision

In the draft decision, we accepted the operational and corporate applications, and the sustaining infrastructure components of AGN's ICT expenditure.[34] We outline below our reasons for AGN's proposed ICT transition project and the cyber security uplift.

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32 AER, *Draft Decision Attachment 2 - Capital expenditure – AGN – 2026–31 Access arrangement proposal*, November 2025, p. 2.

33 AGN, *Attachment 9.16 Response to Draft Decision on IT Cyber Security,* January 2026.

34 AER, *Draft Decision Attachment 2 - Capital expenditure – AGN – 2026–31 Access arrangement proposal*, November 2025, p. 18.

A.1.3.1 AGN company structure

In the draft decision, for both the ICT transition project and cyber security, we raised concerns regarding whose costs AGN seeks to recover, considering that AGN did not clearly articulate that the costs are directly attributable to the AGN business. We considered that further substantiating information on the corporate structure and cost allocation methodology was required.

AGN's revised proposal has confirmed that Australian Gas Networks Limited[35] is the holder of the gas transmission and distribution licenses for the natural gas assets. Australian Gas Infrastructure Group (AGIG) is only a trade name and does not hold any gas assets. Further, AGN used customer numbers to allocate its overall costs between its various networks for both cyber security and IT transition projects. Based on the further information that AGN has provided in its revised proposal, we do not have any further concerns about the company structure and cost allocation.

A.1.3.2 ICT transition project

We do not accept AGN's proposed $42.6 million for the ICT transition project. We are not satisfied that AGN's revised proposal sufficiently addressed how the contingency risk allowance was derived, including the underlying methodologies and calculations. We do not consider the ICT transition project is prudent under NGR, r. 79(1)(a). We consider that there is insufficient evidence to support that the expenditure is necessary to maintain and improve the safety of services (NGR, r. 79(2)(c)(i)) or maintain the integrity of services (NGR, r. 79(2)(c)(ii)). We have included an alternative estimate of $38.4 million for AGN's ICT transition project forecast, which is 9.9% lower than AGN's proposed $42.6 million.

The draft decision included a zero-dollar placeholder for the ICT transition project. In addition to the concerns related to the corporate structure and cost allocation, the draft decision required AGN to provide further information on:

- the benefits and analysis demonstrating that AGN's 'lift, shift, and merge' approach is prudent
- the key tasks of the project, including labour rates and hours, which were not substantiated in the initial proposal.

We also found that AGN included a general contingency risk allowance uplift of 25% and required further project-specific analysis from AGN to support its risk allowance assessment in its revised proposal.

In the revised proposal, AGN updated its ICT transition project forecast to $42.6 million (down from $62.0 million in the initial proposal) and addressed the required information for the key tasks, such as labour rates and hours and provided a certain level of detail about the contingency risk allowance and the rationale for including a 'merge' activity following the 'lift and shift' activities.

AGN reduced the contingency risk associated with activities to 10% or 15%, resulting an average contingency of 12.7% across the 'lift and shift' activities but maintained a 25% contingency for the 'merge' activity because AGN does not have additional detail in its

[35] Australian Gas Networks Limited ACN 078 551 685.

planning and estimates to apply a more granular assessment of contingency to the 'merge' activity.[36]

We received submissions on this issue from Energy Consumers Australia and CCP33. Energy Consumers Australia noted the inclusion of contingency risk allowances within the ICT transition costs and encouraged the AER to carefully consider whether it is appropriate for consumers to bear these costs; CCP33 deferred to the AER on whether the additional evidence deems the ICT transition project to be prudent and efficient. [37]

In the revised proposal, AGN maintained its approach for the ICT transition project, which seeks to 'lift, shift and merge' ICT services from APA.[38] The services would first be moved into the AGN networks and then the AGN networks would consolidate as needed to remove duplicative applications. We acknowledge that, in addition to 'lifting and shifting' ICT services, the proposed 'merging' is reasonably necessary. AGN has justified the labour rates using a side-by-side comparison of the weighted averages of 4 vendors, together with their respective highest, median, and lowest rates, and updated the number of effort days for the 'lift and shift' activities. However, we consider the revised proposal has not sufficiently addressed all aspects raised in our draft decision, particularly regarding how the contingency risk allowance was derived, including the underlying methodologies and calculations.

Following a workshop with AGN on 5 March 2026, we requested further clarification from AGN on how the contingency risk allowances are determined and applied; and how AGN identified the associated risks and assessed the likelihood and impact consistent with our position:

> As a general principle we only accept risk allowances in limited circumstances that are specific to a particular project or program. For example, risks that relate to a realistic latent condition with the site(s), or specific risks that are reasonably likely to arise that are beyond the control of the Networks Service Provider. In such cases we review the nature of each type of risk as well as the basis of the calculation of the estimated risk cost(s).*[39]*

Despite our specific request, AGN's response was insufficient to substantiate its approach. As such, we cannot form a view on the nature and basis of the contingency allowance due to insufficient information provided by AGN. For example, AGN was unable to provide a calculation methodology for the 15% contingency risk added to the revised base estimate. Instead, AGN indicated that the 15% reflects effort estimates with a 30% variation across a range of tender responses, conservatively normalised without specific calculations or quantitative methodologies.[40]

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36 AGN, *AGN SA Attachment 9.14 Response to IT Transition,* January 2026*,* p. 2*.*

37 CCP33 - *Advice to the AER - AGN(SA)'s 2026–31 revised proposal and draft decision* - February 2026, p. 21; ECA - *Submission on AGN (SA)'s 2026–31 revised proposal and draft decision* - February 2026, p. 9.

38 Lift, shift and merge: Transition to an interim replica of APA's current environment for AGN within AGIG, before merging and transforming the two environments into one consolidated and optimised end-state environment.

39 AER*, Draft decision, AGN gas distribution determination 2026 – 2031, Attachment 2 – Capital expenditure*, November 2025, p. 16.

40 AGN, *AGN SA Attachment 9.14 Response to IT Transition,* January 2026*,* p. 29*;* Email correspondence from AGN regarding the AER/AGN meeting - Meeting Agenda and Questions, 11 March 2026.

We remain of the view that AGN has applied an unsubstantiated contingency risk allowance in its ICT transition project for 'lifting, shifting and merging' ICT services from APA into the AGN networks. Our bottom-up assessment of the ICT transition costs shows that AGN included the contingency risk allowance in a manner that lacks sufficient transparency regarding its basis and calculation, and we consider the proposed contingency amount for the project is not justified. In our alternative estimate, we have removed $4.3 million for contingency risk allowances.

A.1.3.3 Cyber security

AGN proposed $1.5 million of capex for its cyber security. We consider this capex prudent and efficient. The draft decision included a zero-dollar placeholder for cyber security because we were concerned that these were costs attributed to AGIG rather than AGN and the proposed uplift to SP-3 requirements was not adequately justified, as it lacked economic analysis and did not demonstrate clear consumer benefits.

Several stakeholders submitted in support of AGN's cyber security capex. The Office of the Technical Regulator expressed support for the cyber security investment as modern gas distribution networks are now digitally operated critical infrastructure, and cyber risk is no longer solely an IT issue; it has evolved into a direct safety risk.[41] South Australian Reference Group Review Panel also endorsed AGN's approach to cyber security capex.[42]

In the revised proposal, AGN maintained its initial proposal of $1.5 million capex forecast and included 3 options for consideration, including, maintaining the current environment SP-1[43] ($0.5 million), uplifting maturity to address key identified risks – moving to SP-2 ($1.5 million), and uplifting maturity to meet SP-3 requirements ($1.9 million).[44] AGN also confirmed that the preferred option, 'uplifting maturity to address key identified risks', is aimed at remaining compliant with SP-1 requirements and providing a foundation for attaining SP-2 requirements (in lieu of achieving SP-3), anticipated in the next access arrangement period.[45]

Compared with the 'maintaining the current environment SP-1' option, AGN's preferred option presents a supplementary capex forecast of $1.0 million as laying a foundation to SP-2 requirements, and AGN has stated that 'we do not consider uplifting our maturity to SP-3 during the next AA period achieves the right balance of risk reduction and cost at this time'.[46]

We acknowledge that the proposed cyber security investment is primarily a risk-driven activity and have taken this into account in our assessment, including consumer benefits. We support AGN directing capex towards keeping systems and data security and maintaining SP-1 requirements to ensure ongoing business operations. We are cognisant that AGN is

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41 The Office of the Technical Regulator - *Submission on AGN (SA)'s 2026–31 revised proposal and draft decision* - February 2026, p. 2.

42 SARG Review Panel - *Submission on AGN (SA)'s 2026–31 revised proposal and draft decision* - February 2026, p. 4.

43 The Australian Energy Sector Cyber Security Framework has three alternate groupings of Practices and Anti-Patterns referred to as Security Profiles (SPs) 1, 2, and 3, abbreviated as SP-1, SP-2, and SP-3, respectively. The definitions of Security Profiles are provided on page 11 of the Australian Energy Sector Cyber Security Framework (AESCSF) Overview.

44 AGN, *AGN SA Attachment 9.16 Response to Draft Decision on IT Cyber Security,* January 2026, p. 4.

45 AGN, *AGN SA Attachment 9.16 Response to Draft Decision on IT Cyber Security,* January 2026, p. 2.

46 AGN, *AGN SA Attachment 9.16 Response to Draft Decision on IT Cyber Security,* January 2026, p. 4.

already compliant with SP-1, and that SP-2 may be introduced in the next access arrangement period,[47] however, we appreciate AGN's proactive approach to progress a security uplift to SP-2 to address evolving cyber security threats and mitigate potential implementation risks.

We consider AGN's proposed cybersecurity expenditure to be a balanced approach and agree that, with capex of $1.5 million, this will allow AGN to maintain its compliance with the *Security of Critical Infrastructure Act 2018*. Consequently, we consider this capex prudent and efficient under NGR, r. 79(1)(a).

A.2 Meter replacements

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

A.2.1 AER's final decision

Our final decision is to not accept AGN's proposed capital expenditure for its metering replacement. Our alternative forecast of conforming capex for AGN's metering replacement is $36.0 million. This is a reduction of $2.5 million or 6.6% decrease from AGN's proposed expenditure of $38.5 million. This reflects a reduction in the expenditure for the removal of the proposed digital metering program.

A.2.2 AGN's revised proposal

AGN proposed $38.5 million for the meter replacement program, which remains unchanged from its initial proposal. This includes:

- $27.8 million for the domestic meter replacement program
- $8.0 million for the industrial and commercial meter replacement program, which we accepted in the draft decision[48] and AGN accepted in the revised proposal
- $2.5 million for the digital metering program.

A.2.3 Reasons for decision

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

A.2.3.1 Domestic meter replacement program

We consider the expenditure on domestic meter replacement program to be conforming capex. Our draft decision included an alternative capex forecast of $28.0 million. We found the industrial and commercial meter replacement volumes to be reasonable but raised concerns with the domestic meter replacement, including that AGN:

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47 AGN, *AGN SA Attachment 9.16 Response to Draft Decision on IT Cyber Security,* January 2026, p. 3.

48 AER, *Draft Decision Attachment 2 - Capital expenditure – AGN – 2026–31 Access arrangement proposal*, November 2025, p. 11.

- overestimated the domestic meter volumes for proactive replacement due to inconsistencies in the installation volumes between AGN's 2021−26 and 2026−31 meter replacement programs
- did not provide complete data on installation year and lifespans of domestic meter families.

In the revised proposal, AGN resubmitted its capex forecast of $27.8 million for the domestic meter replacement program. The program includes 5 types of meter replacements, of which 3 types accounting for more than 99% of the total replacement volume. These types of replacements include:

- end-of-life meters
- meters requiring replacement after failing Field Life Extensions testing
- reactive replacements of defective meters.

We received 2 submissions on domestic meter replacement. The Office of the Technical Regulator supported AGN's proposal for the replacement of domestic meters,[49] while Energy Consumers Australia expressed concerns that AGN continues to treat declining demand and customer exit as separate considerations alongside the scale and timing of the meter replacement.[50]

In response to the potential overestimation raised in the draft decision, AGN provided clarifications on the data sources, including detailed installation year, lifespan data, and historical replacement volumes consistent with those meter replacements used in the initial proposal. Having reviewed the additional information, we are satisfied with the corrections and explanations and have no further information concerns.

On the basis of the additional information AGN submitted for the end-of-life meters, we have been able to quantify the replacement volume. Regarding AGN's forecast volumes for the meters requiring replacement after failing Field Life Extensions testing and reactive replacements of defective meters, our analysis found both forecasts are below the approved volume for each year of the current period. They also align with the replacement trend, which shows a gradual decrease over the years. These volumes are consistent with historical replacements and are considered reasonable.

A.2.3.2 Digital metering program

We do not accept that AGN's digital metering program capex is conforming capex. We are not satisfied that the $2.5 million digital metering program is prudent and efficient. AGN did not provide sufficient justification that clearly demonstrates the program's tangible benefits outweigh the financial impacts on all AGN's customers. We consider that the proposed digital metering program capex does not reflect costs that would be incurred by a prudent service provider in a manner consistent with the achievement of the national gas objective (NGR, r. 79(1)(a)) and is not reasonably required to maintain the integrity of services (NGR, r. 79(2)(c)(ii)) or comply with a regulatory obligation or requirement (NGR, r. 79(2)(c)(iii)).

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49 The Office of the Technical Regulator - *Submission on AGN (SA)'s 2026–31 revised proposal and draft decision* - February 2026, p. 2.

50 ECA - *Submission on AGN (SA)'s 2026–31 revised proposal and draft decision* - February 2026, p. 8.

In the draft decision, we did not accept the digital metering program of $2.5 million as AGN did not conduct any economic analysis to demonstrate its benefits to consumers or exhaust all available options for meter reading to demonstrate due diligence.[51]

We received a submission from Energy Consumers Australia which agreed with the alternative estimate in the draft decision and suggested the AER carefully assess more targeted and lower-cost solutions for the digital metering program, noting that access or reading constraints only affected a small proportion of customers.[52]

In response to our draft decision, AGN reiterated that the digital metering program concerns safety, health and compliance risks but did not provide cost-benefit analysis to substantiate this claim. AGN stated that the program is the 'only practicable way to eliminate health & safety risks and meet AGN's obligations under the South Australian Gas Metering Code'[53] and that all alternative low-cost options have been exhausted. AGN submitted that a traditional cost-benefit analysis is not the appropriate test for this program.[54]

We understand that the health, safety, and compliance risks do exist with inaccessible meters in practical settings, but digital metering is not the only solution to managing these risks. Other solutions can effectively address the risks or mitigate the potential impact to customers at significantly lower costs such as customer read options, a dedicated email in-box, and a portal for customers to submit readings. We recognise that if the meters are difficult to access even for the customers, digital meters for these customers may be prudent. However, AGN has not provided any evidence to demonstrate that the digital metering program is required for these specific customers and that all available options have been exhausted.

Addressing the health, safety, and compliance risks in the context of capex assessments requires a systematic understanding of the project's operational and economic risks and benefits. We do not treat these risks in isolation, rather, we take a comprehensive approach by considering all relevant factors in the assessment, including economic benefits and detriments to customers. In the absence of a cost-benefit analysis, imposing the costs of the digital metering program on all AGN's customers cannot be sufficiently justified in terms of its prudence and efficiency.

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51 AER, *Draft Decision Attachment 2 - Capital expenditure – AGN – 2026–31 Access arrangement proposal*, November 2025, p. 22.

52 ECA - *Submission on AGN (SA)'s 2026–31 revised proposal and draft decision* - February 2026, p. 9.

53 AGN, *AGN SA Attachment 9.18 Response to Draft Decision on Meter Replacement,* January 2026, p. 4.

54 AGN, *AGN SA Attachment 9.18 Response to Draft Decision on Meter Replacement,* January 2026, p. 19.

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
AGIG	Australian Gas Infrastructure Group
AGN	Australian Gas Networks Limited
capex	capital expenditure
CCP33	Consumer Challenge Panel, sub-panel 33
CESS	capital expenditure sharing scheme
ICT	information and communications technology
NGO	National Gas Objective
NGL	National Gas Law
NGR	National Gas Rules
opex	operating expenditure
RIN	regulatory information notice