Final decision

Australian Gas Networks (SA) access arrangement 2026 to 2031

(1 July 2026 to 30 June 2031)

Attachment 3 – Operating expenditure

May 2026

AUSTRALIAN ENERGY REGULATOR

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Version	Date	Pages
1	21 May 2026	24

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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3 Operating expenditure

Operating expenditure (opex) is the operating, maintenance and other non-capital expenses, incurred in the provision of pipeline services. Forecast opex is one of the building blocks we use to determine a service provider's total revenue requirement.

In this attachment, we outline our assessment of Australian Gas Networks' (SA) (AGN's) opex proposal for the 2026–31 access arrangement period (2026–31 period).

3.1 Final decision

Our final decision is to include total forecast opex of $456.7 million ($2025–26)[1] for the 2026–31 period, excluding ancillary reference services and including debt raising costs. Our final decision approves higher total forecast opex than AGN proposed (by $22.8 million) because we have added $22.8 million for the forecast costs of customer connection abolishment. The inclusion of additional opex for customer connection abolishment costs in our alternative estimate of total forecast opex reflects our final decision to socialise a proportion of customer connection abolishment costs across transportation reference service tariffs, and establish a discounted ancillary reference service tariff, to ensure the safe operation of the network (see Attachment 5 for further detail).

We are satisfied that AGN's revised opex forecast, excluding socialised customer abolishment costs and debt raising costs, of $428.5 million,[2] satisfies the opex criteria[3] and the criteria for forecasts and estimates.[4] This is because our alternative estimate of these elements of AGN's total forecast opex, excluding socialised abolishment costs, is not materially different (1.1% or $4.6 million higher) from AGN's revised proposal. The difference between our alternative estimate and AGN's revised proposal is mainly driven by us:

- not including the cyber security step change (–$1.2 million)
- including lower amounts for the IT transition step change (–$1.6 million)
- including higher unaccounted for gas (UAFG) forecasts ($2.4 million)
- updating for reported 2024–25 base year opex ($5.1 million).

We have therefore included AGN's revised opex forecast, excluding socialised customer abolishment costs and debt raising costs, of $428.5 million in our total opex forecast. We

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1 All numbers are in $2025–26 unless otherwise indicated.

2 This is AGN's total opex forecast excluding socialised customer abolishment costs and debt raising costs.

3 Under rule 91 of the National Gas Rules (NGR), opex 'must be such as would be incurred by service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services.' Where opex satisfies the test in rule 91, we say it satisfies the opex criteria.

4 Under rule 74 of the NGR, information in the nature of a forecast or estimate must be supported by a statement of the basis of the forecast/estimate. Further, forecasts and estimates must be arrived at on a reasonable basis and must represent the best forecast or estimate possible in the circumstances. Where a forecast or estimate meets the requirements of this rule, we say it satisfies the forecasts and estimates criteria.

have also included $5.5 million of debt raising costs, based on our final decision post tax revenue model calculation (see section 3.4.4.1 below).

Table 3.1 sets out AGN's proposed opex forecast and our alternative estimate, excluding the costs of customer connection abolishments, and the difference between these forecasts.

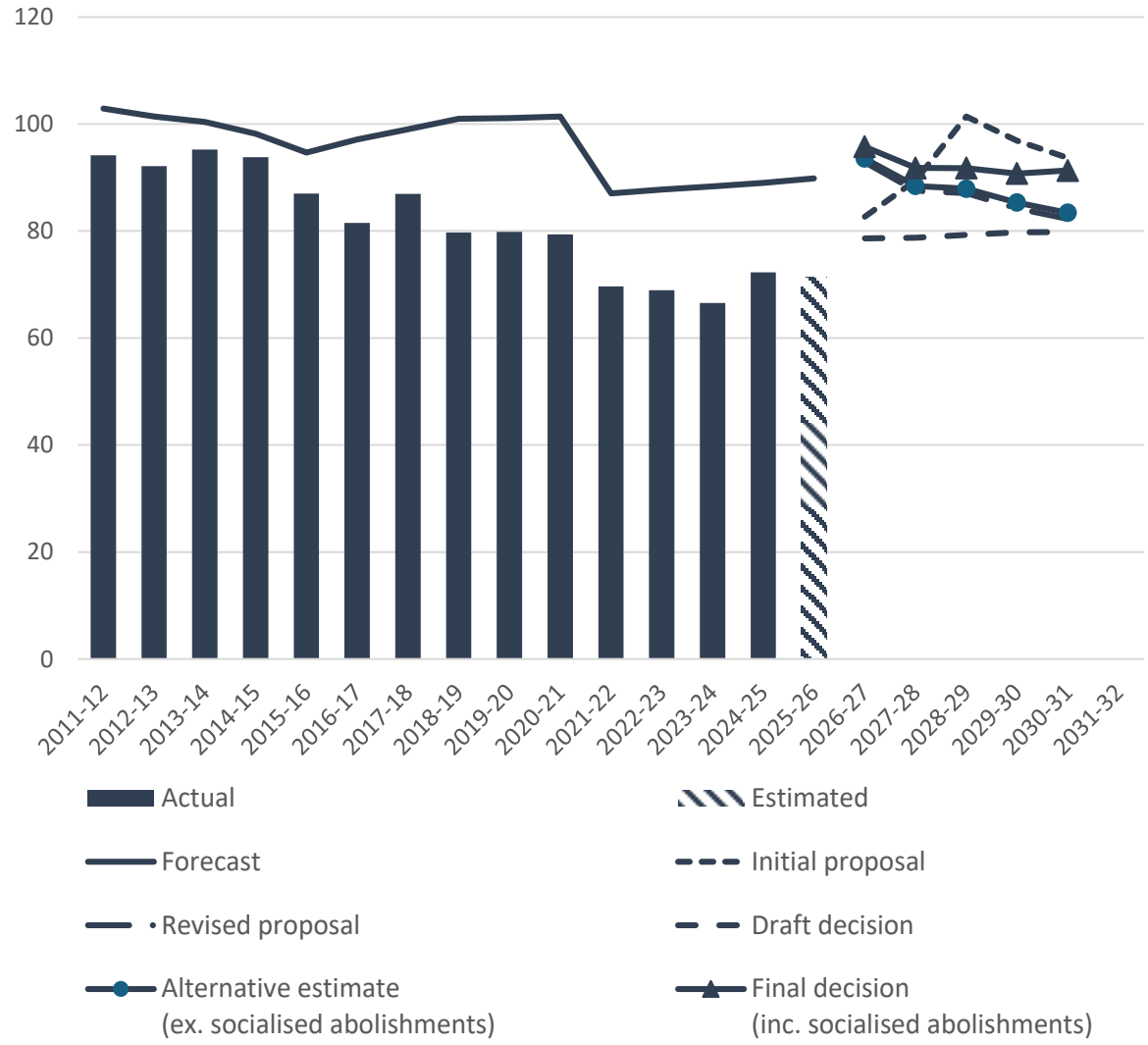
Table 3.1 Comparison of AGN's opex proposals and our alternative opex estimate, excluding customer connection abolishment costs ($million, 2025–26)

	Initial proposal	Draft decision	Revised proposal	Alternative estimate	Difference ($)
Based on reported opex in 2024–25	**368.7**	**365.6**	**349.0**	**354.1**	**5.1**
Remove category specific forecasts	**–33.9**	**–34.0**	**–10.1**	**–10.3**	**–0.1**
2024–25 to 2025–26 increment	**3.9**	**4.4**	**4.4**	**4.4**	**0.1**
Trend – Output growth	2.9	2.8	–1.2	–1.2	–0.0
Trend – Price growth	7.2	5.2	5.2	5.3	0.1
Trend – Productivity growth	–4.2	–4.0	–	–	–
Total trend	**5.9**	**4.0**	**4.1**	**4.1**	**0.1**
Step change – Purchase of renewable gas of origin certificates	26.0	–	–	–	–
Step change – Overheads (capex to opex)	32.0	32.0	32.5	32.5	–
Step change – IT transition costs	18.5	–	19.1	17.5	–1.6
Step change – Cybersecurity	1.2	–	1.2	–	–1.2
Step change – Application upgrades & enhancements	4.1	4.1	4.1	4.1	–
Step change – Abolishments at redundant sites	4.6	–	4.6	4.6	–
Total step changes	**86.5**	**36.1**	**61.5**	**58.7**	**–2.8**
Category specific forecasts: UAFG	27.9	14.6	19.7	22.1	2.4
Total opex, excluding debt raising costs	**458.9**	**390.7**	**428.5**	**433.1**	**4.6**
Debt raising costs	5.1	5.5	5.5	5.5	–0.0
Total opex, including debt raising costs	**464.1**	**396.2**	**434.0**	**438.6**	**4.6**

Source: AGN, *Attachment 8.1A Revised Final Plan Opex Forecast Model*, January 2026; AER analysis.
Note: Numbers may not add up to total due to rounding. Amounts of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

Figure 3.1 compares our alternative estimate of opex (including debt raising costs but excluding abolishment costs) to AGN's proposal. We also show the forecasts we approved for the last 3 access arrangement periods, and AGN's actual and estimated opex over these periods.

Figure 3.1 Comparison of actual and forecast opex ($million, 2025–26)



Source: AGN, *Regulatory accounts*, 2011 to 2026; AGN, *Attachment 8.1 Opex Forecast Model,* 1 July *2025*; AGN, *Attachment 8.1A Revised Final Plan Opex Forecast Model*, January 2026; AGN, *Access arrangement, PTRM (multiple periods*: 2011–16, 2016–21, 2021–26); AER analysis.
Note: Includes debt raising costs and movements in provisions.

Our final decision total forecast opex, excluding socialised customer abolishment costs but including our estimate of debt raising costs, is:

- $8.0 million (1.8%) lower than the opex forecast we approved for the 2021–26 period
- $85.2 million (24.4%) higher than AGN's actual (and estimated) opex in the 2021–26 period.

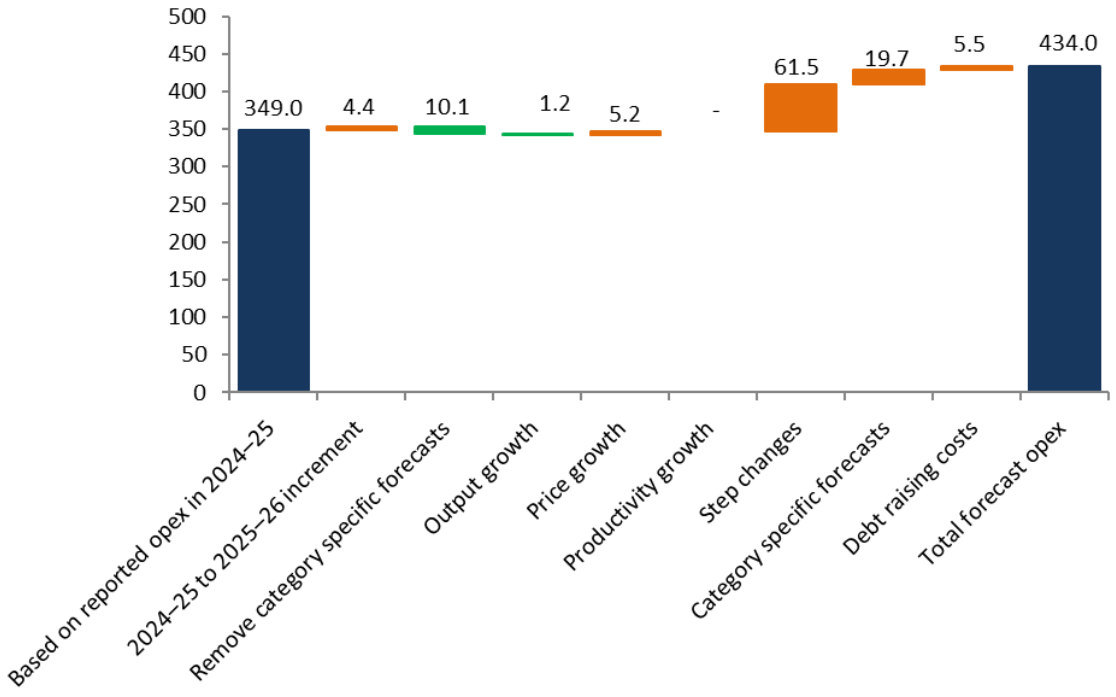
We discuss the difference between our alternative estimate and AGN's revised proposal in detail in section 3.4.

3.2 AGN's revised proposal

AGN used a 'base-step-trend' approach to forecast opex, consistent with our preferred approach.[5]

AGN's forecast applying our base–step–trend approach is set out in Table 3.1. In Figure 3.2, we show the different components that make up AGN's opex forecast for the 2026–31 period.

Figure 3.2 AGN's proposed forecast total opex ($million, 2025–26)



Source: AGN, *Attachment 8.1A Revised Final Plan Opex Forecast Model*, January 2026; AER analysis.
Note: Includes debt raising costs and movements in provisions.

AGN's revised total forecast opex of $434.0 million is:

- $30.1 million (6.5%) lower than its initial forecast opex proposal
- $37.8 million (9.5%) higher than our draft decision
- $85.2 million (24.4%) higher than its actual/estimated opex in the 2021–26 period.

3.2.1 Stakeholder views

We received 4 submissions on AGN's revised proposal relating to opex.

- The Office of Technical Regulator (OTR)'s submission supported our draft decision on the approach to forecast UAFG volumes, stating that it expects UAFG levels to remain extremely low in South Australia following the completion of the mains replacement

[5] AGN, *Attachment 8.5 Response to Draft Decision on Operating Expenditure*, January 2026, pp. 2–5.

program.[6] It also supported AGN's proposed abolishment for safety at redundant sites, which aims at reducing the number of redundant services.[7]

- The South Australian Council of Social Service (SACOSS) supported our draft decision on the exclusion of step changes relating to renewable gas certificates, non-recurrent ICT transition costs, redundant site abolishments, cyber security, and a reduction of UAFG.[8]
- The Consumer Challenge Panel, Sub-panel 33 (CCP33) questioned whether AGN's revised step changes for ICT transition, ICT applications and cyber security could be accommodated within the base and trend approach, given that AGN's revised proposal forecast a negative output growth factor due to its revised demand forecasts. However, CCP33 left it to the AER to determine whether, based on new evidence, these step changes are prudent and efficient.[9]
- The South Australian Review Group Panel (SARGP) supported a prudent and efficient step change for cyber security and AGN's approach to estimating UAFG costs. It also requested the AER provide more explicit guidance on what is meant by a 'material' step change in gas networks with a declining trend component. While the SARGP made general comments on AGN's revised IT transition costs, including the associated opex step change, it recommended that the AER closely examine this revised step change for prudency and efficiency.[10]

3.3 Assessment approach

Our role is to decide whether or not to accept a business's total forecast opex. We approve the business's forecast opex if we are satisfied that it meets the opex criteria and the criteria for forecasts and estimates. We set out in detail the approach we use to determine whether a proposal meets the opex criteria in section 3.3 of our draft decision.[11]

3.4 Reasons for the final decision

Our final decision is to include a total forecast opex of $456.7 million for the 2026–31 period, excluding ancillary reference services and including debt raising costs, and small customer connection abolishment costs. We are satisfied our alternative estimate of total forecast opex

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6 The Office of the Technical Regulator, *Submission on AER's Draft Decision and AGN(SA) 2026–31 Access Arrangement Revised Proposal,* February 2026, p. 2.

7 The Office of the Technical Regulator, *Submission on AER's Draft Decision and AGN(SA) 2026–31 Access Arrangement Revised Proposal,* February 2026, p. 3.

8 The South Australian Council of Social Service (SACOSS), *on AER's Draft Decision and AGN(SA) 2026–31 Access Arrangement Revised Proposal*, February 2026, pp. 3–4.

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

10 SARG Review Panel, *on AER's Draft Decision and AGN(SA) 2026–31 Access Arrangement Revised Proposal*, February 2026, pp. 22-23.

11 AER, *Draft decision – AGN (SA) access arrangement 2026–31 - Attachment 3 - Operating expenditure,* November 2025, pp. 5–9.

reasonably reflects the opex criteria[12] and the forecasts and estimates criteria.[13] We also consider that our alternative estimate provides a total forecast opex such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services.

As noted, our final decision approves higher total forecast opex than AGN proposed, because we have added $22.8 million for small customer connection abolishment costs.

Table 3.1 sets out AGN's initial and revised proposal, our draft decision and our alternative estimate for the final decision (excluding the customer connection abolishment costs discussed above), and the difference between our alternative estimate and AGN's revised proposal.

We have set out the main drivers for the differences in section 3.1, and we discuss the components of our alternative estimate, and our assessment of AGN's proposal, below. Full details of our alternative estimate are set out in our opex model, which is available on our website.

3.4.1 Base opex

This section provides our view on the prudent and efficient level of base opex that we consider AGN needs for the safe and reliable provision of services.

We, and AGN, have used 2024–25 as the base year. We have used base year opex of $70.8 million, or $354.1 million over 5 years, to form our alternative estimate of total forecast opex. This is slightly higher than AGN's proposal of $69.8 million, or $349.0 million over the 2026–31 period.[14] This is because we have applied a more recent Reserve Bank of Australia inflation forecast.[15]

3.4.1.1 Removal of category specific forecasts

In some circumstances, we remove a category of opex from the base year expenditure if it is more appropriate to forecast that category separately. We refer to these as 'category specific forecasts' (see section 3.4.4).

Accordingly, we have removed $10.3 million from base opex for costs we forecast as category specific forecasts. This is marginally higher than the $10.1 million that AGN removed. The difference is due to us applying a more recent inflation forecast, which was not available at the time of AGN's revised proposal.

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12 Under rule 91 of the National Gas Rules (NGR), opex 'must be such as would be incurred by service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services.' Where opex satisfies the test in rule 91, we say it satisfies the opex criteria.

13 Under rule 74 of the NGR, information in the nature of a forecast or estimate must be supported by a statement of the basis of the forecast/estimate. Further, forecasts and estimates must be arrived at on a reasonable basis and must represent the best forecast or estimate possible in the circumstances. Where a forecast or estimate meets the requirements of this rule, we say it satisfies the forecasts and estimates criteria.

14 AGN, *Attachment 8.1A Revised Final Plan Opex Forecast Model*, January 2026.

15 Reserve Bank of Australia, *Statement on Monetary Policy*, May 2026.

3.4.1.2 Final year increment

Our standard approach to estimating final year opex is to add the forecast change in opex between the base year (2024–25) and the final year (2025–26) to the base year opex amount.[16] This ensures that our estimate of opex in the final year that we use to forecast opex for the 2026–31 period is consistent with the estimate in the efficiency carryover mechanism (ECM), as the ECM uses the same equation to estimate opex in the final year. This ensures that AGN is only rewarded for efficiency gains passed on to consumers through a lower opex forecast, or only penalised for efficiency losses that are reflected in forecast opex.

We, and AGN, have included $4.4 million for the final year increment in our alternative estimate.

3.4.2 Rate of change

Having estimated opex in the final year of the 2021–26 period, we then applied a forecast annual rate of change to forecast opex for the 2026–31 period. We, like AGN, have applied an average annual rate of change of 0.2% to derive our alternative estimate of opex. We compare both forecasts in Table 3.2.

Table 3.2 Forecast annual rate of change in opex, %

	2026–27	2027–28	2028–29	2029–30	2030–31
AGN proposal					
Price growth	0.4	0.5	0.6	0.7	0.7
Output growth	0.2	–0.1	0.1	–0.2	–1.8
Productivity growth	–	–	–	–	–
Rate of change	**0.6**	**0.3**	**0.6**	**0.5**	**–1.1**
AER alternative estimate					
Price growth	0.4	0.5	0.6	0.7	0.7
Output growth	0.2	–0.1	0.1	–0.2	–1.8
Productivity growth	–	–	–	–	–
Rate of change	**0.5**	**0.4**	**0.7**	**0.5**	**–1.2**
Difference	**–0.0**	**0.0**	**0.0**	**–0.0**	**–0.0**

Source: AGN, *Attachment 8.1A Revised Plan opex Forecast Model*, January 2026; AER analysis.
Note: Numbers may not add up to total due to rounding. Amounts of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

[16] AER, *Final decision, Expenditure Forecast Assessment Guideline for Electricity Distribution*, October 2024, p. 23.

3.4.2.1 Forecast price growth

AGN proposed average annual price growth of 0.6%, which increased its total forecast opex by $5.2 million over the 2026–31 period.[17] We have used different annual price growth rates, which also average 0.6% each year, in our alternative estimate of total opex. The price growth rates we used increase our total opex alternative estimate by $5.3 million.

AGN applied our standard approach to forecast price growth, including:

- adopting our standard input price weightings of 62% for labour inputs and 38% for non-labour inputs[18]
- forecasting labour price growth using an average of updated forecasts of the growth in the wage price index (WPI) for the utilities industry from BIS Oxford Economics (its consultant), and the Deloitte Access Economics (our consultant) WPI forecasts we published with our draft decision.[19]

The difference between our real price growth forecasts and AGN's is that we have updated our labour price growth forecast to include more recent forecasts from our consultant, Deloitte Access Economics.[20]

We compare our forecasts of labour price growth to AGN's revised proposal in Table 3.3.

Table 3.3 Forecast labour price growth, %

	2026–27	2027–28	2028–29	2029–30	2030–31
Revised proposal					
WPI – Oxford Economics	0.9	0.9	1.1	1.3	1.3
WPI – Deloitte Access Economics	0.4	0.7	0.7	1.0	1.0
Forecast labour price growth	**0.6**	**0.8**	**0.9**	**1.1**	**1.1**
AER alternative estimate					
WPI – Oxford Economics	0.9	0.9	1.1	1.3	1.3
WPI – Deloitte Access Economics	0.3	0.7	0.8	0.9	0.9
Forecast labour price growth	**0.6**	**0.8**	**1.0**	**1.1**	**1.1**
Difference	**–0.0**	**0.0**	**0.1**	**–0.1**	**–0.0**

Source: AGN, *Attachment 8.1A Revised Plan opex Forecast Model*, January 2026; Oxford Economics, *Labour cost escalation: Forecasts to 2030/31*, March 2025, p. 6; Deloitte Access Economics, *Labour price growth forecasts*, March 2026, p. 10; AER analysis.
Note: Numbers may not add up to total due to rounding. Amounts of '0.0' and '–0.0' represent small non-zero amounts.

17 AGN, *Attachment 8.5, Response to draft decision on operating expenditure*, January 2026, p. 12.
18 AGN, *Attachment 8.5, Response to draft decision on operating expenditure*, January 2026, p. 12.
19 AGN, *Attachment 8.5, Response to draft decision on operating expenditure*, January 2026, pp. 11–12.
20 Deloitte Access Economics, *Labour price growth forecasts*, March 2026, p. 10.

3.4.2.2 Forecast output growth

AGN proposed average annual output growth of –0.4%,[21] which reduced its proposed opex forecast by $1.2 million over the 2026–31 period. We have used the same output growth forecast to forecast our alternative estimate of opex.

3.4.2.2.1 AGN's revised proposal

AGN updated its output growth forecast to reflect updates in forecast growth in customer numbers and mains length, which we show in **Table 3.4**.[22]

Table 3.4 Forecast customer numbers, mains length and output growth

	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31
Customer numbers	490,484	489,682	485,967	484,890	481,296	462,205
Mains length, km	8,503	8,542	8,580	8,612	8,643	8,671
Customer numbers, growth		–0.2%	–0.8%	–0.2%	–0.7%	–4.0%
Mains length, growth		0.5%	0.4%	0.4%	0.4%	0.3%

Source: AGN, *Attachment 8.1A Revised Final Plan, Opex Forecast Model*, January 2026.

3.4.2.2.2 Assessment of output growth

For electricity distribution determinations, we typically forecast output growth based on the forecast growth in a defined output measure, based on econometric modelling. However, for gas distribution decisions, we have not undertaken the modelling needed to determine a standard industry output specification.

To assess AGN's output and productivity growth forecasts, we tested how the proposed output growth, net of productivity growth, compares to the output net of productivity growth forecast using the output specifications derived from the available econometric studies. These econometric studies have been submitted in previous gas reset processes and were undertaken between 2015 and 2024.[23] We have taken the opex cost functions estimated by each of these studies and produced output and productivity growth forecasts specific to AGN's circumstances. This includes using the forecast growth in energy throughput, customer numbers and mains length AGN submitted in its revised proposal.

When we compared the results of the different studies, we compared forecast output growth and productivity growth together because an output specification that leads to higher output

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21 AGN, *Attachment 8.5, Response to draft decision on operating expenditure*, January 2026, p. 13.

22 AGN, *Attachment 8.5, Response to draft decision on operating expenditure*, January 2026, p. 13.

23 ACIL Allen, *Opex partial productivity analysis, Report to Australian Gas Networks Limited*, 20 December 2016; Economic Insights, *Relative opex efficiency and forecast opex productivity growth of Jemena Gas Networks*, February 2015; Economic Insights, *Gas distribution businesses opex cost function, Report prepared for Multinet Gas*, 22 August 2016; Economic Insights, *Relative efficiency and forecast productivity growth of Jemena Gas Networks (NSW)*, 24 April 2019; ACIL Allen, *Opex partial productivity study 2022, Report to Australian Gas Networks (VIC and Albury), Multinet and AusNet*, 16 June 2022; CEG, *Benchmarking and forecasting JGN opex, A report for Jemena Gas Networks*, April 2024.

growth tends to also give higher productivity growth. We therefore look at the opex rate of change from output growth net of productivity growth. This is the same approach we used for our draft decision.

In doing this analysis we used the forecast growth in customer numbers, energy throughput and mains length that AGN included in its revised proposal. We are satisfied that these are the best forecasts possible in the circumstances.

When we compared average annual output growth net of productivity growth using AGN's approach against the forecasts based on each of the available econometric studies, we found it sat within the reasonable range formed by the studies, as shown in Table 3.5. Consequently, we are satisfied that AGN's forecast of output growth, net of productivity growth, is consistent with the NGR requirements for forecasts.

Table 3.5 Comparison of forecast output growth net of productivity growth

Model specification	Output growth	Productivity growth	Output growth net of productivity growth
Proposed	**–0.39%**	**–**	**–0.39%**
ACIL Allen (2016)	0.22%	0.51%	–0.29%
Economic Insights (2015)	0.26%	0.99%	–0.73%
ACIL Allen (2016)	**0.25%**	**0.53%**	**–0.29%**
Economic Insights (2016)	–0.13%	0.08%	–0.20%
Economic Insights (2019)	**–0.39%**	**0.38%**	**–0.77%**
ACIL Allen (2022)	–0.57%	0.09%	–0.66%
CEG (2024)	–0.37%	0.04%	–0.41%
Minimum			**–0.77%**
Maximum			**–0.29%**

Source: AGN, *Attachment 8.1A Revised Final Plan, Opex Forecast Model*, January 2026; ACIL Allen, *Opex partial productivity analysis, Report to Australian Gas Networks Limited*, 20 December 2016; Economic Insights, *Relative opex efficiency and forecast opex productivity growth of Jemena Gas Networks*, February 2015; Economic Insights, *Gas distribution businesses opex cost function, Report prepared for Multinet Gas*, 22 August 2016; Economic Insights, *Relative efficiency and forecast productivity growth of Jemena Gas Networks (NSW)*, 24 April 2019; ACIL Allen, *Opex partial productivity study 2022, Report to Australian Gas Networks (VIC and Albury), Multinet and AusNet,* 16 June 2022; CEG, *Benchmarking and forecasting JGN opex, A report for Jemena Gas Networks*, April 2024; AER analysis.

Note: We have only included the results of those studies that reliably estimated individual parameters (that is, the estimated coefficient is of the expected sign) in forming the reasonable range. Consequently, we have excluded the results from Economic Insights (2015) and Economic Insights (2016), which are highlighted grey.
Numbers may not add up to total due to rounding. Amounts of '–' represents zero.

3.4.2.3 Forecast productivity growth

AGN's revised proposal included zero forecast productivity growth, which it reduced from 0.4% in its initial proposal. It stated that it is now forecasting network contraction over the 2026–31 period, and it has reduced its output growth forecast by 0.7% compared with its

initial proposal. AGN therefore no longer considers that positive productivity growth is a reasonable assumption.[24]

We have used the same forecast in our alternative estimate.

As we set out in our draft decision, the econometric analyses previously submitted by gas distributors found both a negative time trend and increasing returns to scale.[25] That is, the studies found that, all else equal, opex reduces over time due to changes in technology and business conditions and that when output increases, opex increases at a lower rate. This suggests that, at least while output is growing, gas distributors should be able to achieve productivity growth associated with scale efficiency gains.

Given that AGN has reduced its output growth forecast, we consider it reasonable to also reduce forecast productivity growth. While AGN's proposed productivity growth rate of zero is lower than the growth forecast by each of the econometric studies (as shown in Table 3.4), AGN's forecast of output growth net of productivity growth still falls within the reasonable range of previous econometric studies (Table 3.5). Given this, we have adopted AGN's proposed productivity growth in our alternative estimate.

3.4.3 Step changes

In developing our alternative estimate of total opex, we may include prudent and efficient step changes. As we explain in the Expenditure Forecast Assessment Guideline, we will generally include a step change amount in our alternative estimate of total opex if the level of efficient base year opex and the rate of change in opex does not already account for the proposed step up in costs that is required to meet the opex criteria. This means that step changes should not double count costs implicitly provided through other components of forecast opex, such as the base year and rate of change.[26]

Under the top-down revealed cost approach we use to forecast total opex, actual total opex in the base year should reasonably reflect the opex criteria.[27] That is, it should be representative of the level of efficient, ongoing overall cost needed to provide the required level of safe and reliable services in the next period. The base year is then trended forward to account for the overall increase in costs in the next period, considering the required increase in the quantity of inputs, the costs of those inputs, and the level of productivity or efficiencies that can be achieved by implementing good industry practices. The trend or rate of change component in our top-down base-step-trend opex forecasting approach is based on econometric modelling of a total opex cost function.[28] That is, trend is calculated on a top-

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24 AGN, *Attachment 8.5, Response to draft decision on operating expenditure*, January 2026, pp. 13–14.

25 AER, *Draft decision, AGN (SA) access arrangement 2026–31 – Attachment 3 – Operating expenditure*, November 2025, p. 16.

26 AER, *Final decision, Expenditure forecast assessment guideline – electricity distribution*, October 2024, p. 24.

27 AER, *Final decision, Expenditure forecast assessment guideline – electricity distribution*, October 2024, p. 22.

28 AER, *Final decision, Expenditure forecast assessment guideline – electricity distribution*, October 2024, pp. 22–24.

down basis, and is intended to model the change in total opex over time, such as for continued growth and adaptation of the business.

Where base and trend opex do not capture all cost changes that reasonably reflect the opex criteria, we may add step changes, such as for the cost of complying with a new regulatory obligation.[29] However, in assessing a step change, we must ensure it does not double count costs likely to be already provided for through the base and trend components of our top down opex forecasting approach, which can include costs otherwise provided for through the output measure, efficient discretionary changes in inputs, or costs from increased regulatory burden over time, which forecast productivity growth may already account for.[30]

For example, if the forecast increase in the regulatory burden over the regulatory period is consistent with the increase in regulatory burden over the sample period, step changes would not be required. We will only approve step change costs if they demonstrably do not reflect the historic 'average' change in costs.[31] Namely, the costs represent an upward step up in regulatory costs, and it can be demonstrated that it is not capable of being managed otherwise under total forecast opex through in-built provisions for output, price and productivity growth.[32]

We consider what might constitute a step change at each reset, on a case-by-case basis, but our starting position is that only exceptional events are likely to require explicit compensation as step changes.[33] In determining whether the incremental cost of a proposed step change may be double counted, we do not apply a quantitative threshold, but may have regard to a range of factors, and the specific circumstances of a decision. These can include, but are not limited to, the extent to which the proposed cost represents an increase in a business's existing recurrent opex requirements, are likely to otherwise be provided for through the base year and trend growth used to forecast total opex, or are the result of an exceptional change to a business's existing inputs, activities, or level of service provision.

Table 3.1 shows the step changes AGN included in its initial and revised proposals, as well as the step changes we have included in our draft and final decision.

Our alternative estimate includes step changes that are $2.8 million lower than AGN's revised proposal, but are nevertheless $22.6 million higher than our draft decision. We discuss each step change further below.

3.4.3.1 Change in capitalisation policy – Overheads

We have included AGN's proposed step change of $32.5 million for the change in its capitalisation policy towards overheads in our alternative estimate of total forecast opex. This

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29 AER, *Expenditure forecast assessment guideline – Explanatory statement – Final*, November 2013, p. 71; AER, *Better Resets Handbook*, July 2024, p. 26.

30 AER, *Final decision, Expenditure forecast assessment guideline – electricity distribution*, October 2024, p. 24.

31 AER, *Final decision, Expenditure forecast assessment guideline – electricity distribution*, October 2024, p. 24.

32 AER, *Better Resets Handbook*, July 2024, p. 26.

33 AER, *Final decision, Expenditure forecast assessment guideline – electricity distribution*, October 2024, p. 24.

is consistent with our draft decision,[34] and the same amount included in AGN's revised proposal.[35]

Table 3.6 Change in capitalisation policy – Overheads ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Revised proposal	6.4	7.0	6.3	6.6	6.2	32.5
AER alternative estimate	6.4	7.0	6.3	6.6	6.2	32.5
Difference	**–**	**–**	**–**	**–**	**–**	**–**

Source: AGN, *Attachment 8.5 Response to Draft Decision on Operating Expenditure*, January 2026; AER analysis.
Note: Amounts of '–' represents zero.

3.4.3.2 Non-recurrent IT transition costs (APA to AGN)

We have included $17.5 million for the ICT transition step change in our alternative estimate of total forecast opex. This is $1.6 million lower than AGN's revised proposal of $19.1 million, and reflects that we are not satisfied all proposed costs are prudent and efficient.

Table 3.7 Non-recurrent IT transition costs step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Revised proposal	11.1	4.3	3.9	0.3	–0.5	19.1
AER alternative estimate	10.1	4.0	3.6	0.3	–0.5	17.5
Difference	**–0.9**	**–0.4**	**–0.3**	**–0.0**	**0.0**	**–1.6**

Source: AGN, *Attachment 8.1A Revised Final Plan Opex Forecast Model*, January 2026; AER analysis.
Note: Numbers may not add up to total due to rounding. Amounts of '0.0' and '–0.0' represent small non-zero amounts.

In its initial proposal, AGN included $18.5 million for the insourcing of IT services currently provided under contract with APA, which will expire in 2027. AGN submitted that these costs were required in addition to the base year expenditure amounts and are for various IT functions such as for software applications, infrastructure, security and connectivity arrangements.[36]

We discuss this step change, our assessment and the reasons for not including this step change further in our draft decision.[37]

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34 AGN, *Attachment 8.5 Response to Draft Decision on Operating Expenditure*, January 2026, p. 3.

35 AGN, *Attachment 8.1A Revised Final Plan Opex Forecast Model*, January 2026.

36 AGN, *2026–2031 Final Plan*, 11 July 2025, p. 87.

37 AER, *Draft decision, AGN (SA) access arrangement 2026–31 – Attachment 3 – Operating expenditure*, November 2025, pp. 20–23.

For its revised proposal, AGN included $19.1 million for IT transition costs, or $0.6 million higher than in the initial proposal.[38] In its revised proposal, AGN addressed our concerns expressed in the draft decision regarding the AGIG group corporate structure and cost allocations to AGN,[39] and further provided details on the cost allocation and step change build-up. AGN also clarified that the benefits from its proposed program primarily flow to its customers and are separate to activities and requirements for the AGIG entities.[40]

We received a submission from CCP33 which deferred to the AER to assess whether it deems the reproposed ICT transition step change to be prudent and efficient.[41]

The IT transition step change relates to investments proposed in AGN's capital expenditure proposal. Consistent with the draft decision, we have therefore jointly assessed this proposal with capex. We provide details on our assessment and the reasons for our decisions (both opex and capex) in Attachment 2 of this final decision. In summary, we have included a lower estimate of $17.5 million in our alternative estimate of total forecast opex for the final decision. This is $1.6 million lower than AGN's revised proposal, and reflects that although we consider the proposed works to be prudent, we are satisfied this may be achieved at a lower cost.

3.4.3.3 Abolishment of redundant sites

We have included a step change of $4.6 million for the abolishment of redundant sites in our alternative estimate of total forecast opex.

This is a change from our draft decision where we did not accept AGN's proposal of $4.6 million. We raised several concerns with this step change in our draft decision. We considered that AGN did not provide sufficient information or analysis to demonstrate these costs were required to address a safety issue. Further, AGN did not provide evidence that it sought, or received, advice from the Office of the Technical Regulator, the relevant safety regulator, on the need for this program.

In its revised proposal, AGN reproposed this step change and provided more information to support its revised proposal.[42] Further, we received a submission from the Office of Technical Regulator (OTR) in support of this matter.[43] In its submission, the OTR noted the evidence provided by AGN that the number of service strikes where no meter is present is disproportionately high. Given this, the OTR now strongly supports the need for a program to be put in place to reduce the number of redundant services.[44] The OTR encouraged AGN to prioritise dormant steel pipe as part of this program and start with the oldest services. It also

38 AGN, *Attachment 8.5 Response to Draft Decision on Operating Expenditure*, January 2026, p. 9.

39 AGN, *Attachment 9.14 Response to Draft Decision on IT Transition,* January 2026, p. 39.

40 AGN, *Attachment 9.14 Response to Draft Decision on IT Transition,* January 2026, p. 42.

41 CCP33, *Advice to the AER - AGN(SA)'s 2026–31 revised proposal and draft decision*, February 2026, p. 6.

42 AGN, *Attachment 8.5 Response to Draft Decision on Operating Expenditure*, January 2026, p. 4.

43 The Office of the Technical Regulator, *Submission on AER's Draft Decision and AGN(SA) 2026–31 Access Arrangement Revised Proposal,* February 2026, p. 3.

44 The Office of the Technical Regulator, *Submission on AER's Draft Decision and AGN(SA) 2026–31 Access Arrangement Revised Proposal,* February 2026, p. 3.

encouraged AGN to start recording third party strikes related to redundant services to capture the effectiveness of the program over time.[45]

With this additional evidence, we are now satisfied that the proposed expenditure would be incurred by a prudent service provider acting efficiently.[46] We are also satisfied that the forecast was arrived at on a reasonable basis and represents the best forecast possible in the circumstances.[47]

Consequently, we have included $4.6 million in our alternative estimate of total forecast opex.

Table 3.8 Abolishment of redundant sites step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Revised proposal	0.9	0.9	0.9	0.9	0.9	4.6
AER alternative estimate	0.9	0.9	0.9	0.9	0.9	4.6
Difference	**–**	**–**	**–**	**–**	**–**	**–**

Source: AGN, *Attachment 8.1A Revised Final Plan Opex Forecast Model*, January 2026; AER analysis.
Note: Numbers may not add up to total due to rounding. Amounts of '–' represents zero.

3.4.3.4 Cyber security (data privacy/security and access control)

We have not included the proposed $1.2 million cyber security step change in our alternative estimate of total forecast opex for the final decision. This is consistent with our draft decision,[48] and reflects that we are not satisfied that these costs are not double counting costs already provided through our opex forecasting approach.

Table 3.9 Cyber security step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Revised proposal	0.0	0.3	0.3	0.3	0.3	1.2
AER alternative estimate	–	–	–	–	–	–
Difference	**–0.0**	**–0.3**	**–0.3**	**–0.3**	**–0.3**	**–1.2**

Source: AGN, *Attachment 8.1A Revised Final Plan Opex Forecast Model*, January 2026; AER analysis.
Note: Amounts of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

AGN's initial proposal included $1.2 million to meet obligations arising from the Security of Critical Infrastructure and privacy legislation, and Foreign Investment Review Board

45 The Office of the Technical Regulator, *Submission on AER's Draft Decision and AGN(SA) 2026–31 Access Arrangement Revised Proposal,* February 2026, p. 4.

46 NGR, r. 91(1).

47 NGR, r. 74(2).

48 AER, *Draft decision, AGN (SA) access arrangement 2026–31 – Attachment 3 – Operating expenditure*, November 2025, pp. 23–24.

conditions. AGN submitted these costs are required to achieve an uplift in its capabilities, to adequately address growing cyber security risks.[49]

We discuss this step change, our assessment and the reasons for not including this step change in our alternative estimate further in our draft decision.[50]

AGN's revised proposal reproposed $1.2 million for the cyber security step change.[51] It submitted that this step change did not double count costs, because the trend uplift is principally for expansion growth in customers and mains length, not for costs associated with service levels, customer needs or new market conditions.[52] Further, it stated that due to a contraction in customer numbers and projected slower network length growth, which resulted in a negative output growth forecast, there is no trend factor for growth or capacity to absorb additional efficient costs.[53]

We provide further details on our consideration of step changes in section 3.4.3, including on the interaction between base year, rate of change and step changes.

For the final decision, we have not included this step change in our alternative estimate of total forecast opex, because we are not satisfied the proposed costs are not accounted for through the rate of change component in our opex base-step-trend forecasting approach. That is, and as noted above, our forecasting approach is based on a top-down approach, in which the rate of change is calculated based on econometric modelling of a total opex cost function.[54] This means that the trend uplift is not solely provided to manage the incremental growth of the network or customers. Operating expenditure inherently includes a range of activities, such as to meet service levels, customer needs and adapt and prudently and efficiently address evolving market conditions. As a function of the base year opex, the trend uplift therefore enables continued prudent management of the network to meet the necessary level of services. We further note that although AGN's revised output growth forecast is negative, the total rate of change forecast is nevertheless positive. This is particularly relevant as continued investment and management of cyber security maturity is a core established prudent activity within opex, and thus directly influenced by the positive trend uplift. Figure 3.1 also shows AGN's prudent and efficient past management of the network, outperforming its opex forecast, while meeting new and strengthened cyber security obligations since the beginning of the current 2021–26 period. We are therefore satisfied that our opex forecasting approach provides sufficient capacity and uplift for AGN to continue to comply with future incremental obligations.

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49 AGN, *2026–31 Final Plan*, 11 July 2025, p. 88.

50 AER, *Draft decision, AGN (SA) access arrangement 2026–31 – Attachment 3 – Operating expenditure*, November 2025, pp. 23–24.

51 AGN, *Attachment 8.5 Response to draft decision on operating expenditure*, January 2026, p. 16.

52 AGN, *Attachment 8.5 Response to draft decision on operating expenditure*, January 2026, p. 16.

53 AGN, *Attachment 8.5 Response to draft decision on operating expenditure*, January 2026, p. 10.

54 AER, Final decision*, Expenditure forecast assessment guideline – electricity distribution*, October 2024, pp. 22–24.

3.4.3.5 Other IT applications and upgrades

We have included AGN's proposed step change of $4.1 million for the 'Other IT applications and upgrades' in our alternative estimate of total forecast opex. This is consistent with our draft decision,[55] and the same amount included in AGN's revised proposal.[56]

Table 3.10 Other applications and upgrades step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Revised proposal	0.7	0.8	0.9	0.9	0.8	4.1
AER alternative estimate	0.7	0.8	0.9	0.9	0.8	4.1
Difference	–	–	–	–	–	–

Source: AGN, *Attachment 8.5 Response to Draft Decision on Operating Expenditure*, January 2026; AER analysis.
Note: Amounts of '–' represents zero.

3.4.4 Category specific forecasts

AGN's proposal included 2 category specific forecasts, which were not forecast using the base-step-trend approach. These were for debt raising costs and UAFG costs.

We discuss each of these below. We also discuss below small customer abolishment costs.

3.4.4.1 Debt raising costs

We have included debt raising costs of $5.5 million in our alternative estimate of total forecast opex, similar to AGN's revised proposal.[57]

Table 3.11: Debt raising costs ($million, 2025–26)

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Revised proposal	1.1	1.1	1.1	1.1	1.1	5.5
AER alternative estimate	1.1	1.1	1.1	1.1	1.1	5.5
Difference	**0.0**	**0.0**	**–0.0**	**–0.0**	**–0.0**	**–0.0**

Source: AGN, *Attachment 8.5 Response to Draft Decision on Operating Expenditure*, January 2026; AER analysis.
Note: Numbers may not add up to total due to rounding. Amounts of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

Debt raising costs are transaction costs incurred each time a business raises or refinances debt. Our preferred approach is to forecast debt raising costs using a benchmarking approach rather than a service provider's actual costs in a single year. This provides consistency with the forecast of the cost of debt in the rate of return building block. This is the

55 AGN, *Attachment 8.5 Response to Draft Decision on Operating Expenditure*, January 2026, p. 3.
56 AGN, *Attachment 8.1A Revised Final Plan Opex Forecast Model*, January 2026.
57 AGN, *Attachment 8.5 Response to Draft Decision on Operating Expenditure*, January 2026. p. 4.

basis for our alternative estimate in Table 3.11. We used our standard approach to forecast debt raising costs.

3.4.4.2 Unaccounted for gas costs

We have included forecast UAFG costs of $22.1 million in our alternative estimate because we are satisfied that AGN's forecast price and volume of UAFG reasonably reflect the forecasts and estimates criteria.[58] Our approach to forecast UAFG is consistent with AGN's revised proposal.

While AGN's revised proposal accepted our draft decision approach to forecast UAFG volumes, it did not accept our forecast UAFG prices.

In our draft decision, we applied the wholesale gas price projections prepared by ACIL Allen for AEMO's 2025 Gas Statement of Opportunities because AGN's initial proposal relied on forecast UAFG prices that did not relate to its South Australian gas network.[59]

In its revised proposal, AGN provided price forecast based on commercial information relating to the South Australian network.

In developing our alternative forecast costs of UAFG, we have used the latest price information provided by AGN. We consider this approach is reasonable and note that the actual volume of replacement gas will be 'trued-up' each year as part of the tariff variation process. We discuss our consideration of AGN's proposed reference tariff variation mechanism in attachment 5.

We compare both forecasts in Table 3.12.

Table 3.12: Unaccounted for gas costs ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Revised proposal	3.7	3.8	4.0	4.1	4.2	19.7
AER alternative estimate	4.3	4.3	4.4	4.5	4.6	22.1
Difference	**0.6**	**0.5**	**0.4**	**0.4**	**0.4**	**2.4**

Source: AGN, *Attachment 8.1A Revised Final Plan Opex Forecast Model*, January 2026; AER analysis.
Note: Numbers may not add up to total due to rounding. Amounts of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

3.4.4.3 Abolishment service numbers

As set out in Attachment 5, our final decision is to socialise the bulk of abolishment service costs across transportation reference service tariffs, and establish a discounted stand-alone ancillary reference service tariff, to ensure the safe operation of the network. Specifically, we decided to cap the connection abolishment ancillary reference service at $257 and socialise the balance ($743) across transportation reference service tariffs via an ex-ante opex forecast. This forecast will be subject to an annual true-up via the control mechanism. This

58 NGR, r. 74.

59 AER, *Draft decision – AGN (SA) access arrangement 2026–31 - Attachment 3 - Operating expenditure,* November 2025, p. 26.

contrasts with AGN's revised proposal that the cost of the abolishment service be recovered from the requesting customer.

In coming to our final decision on the ex-ante opex forecast, we have adopted AGN's forecast of abolishment service numbers. To forecast its abolishment service numbers, AGN submitted in its revised proposal that it relied on customer disconnection growth forecast by the consultant, CORE, it engaged to forecast its demand over the 2026–31 period. We have accepted AGN's revised forecast demand in this final decision (see section 4 of the Overview). We have reviewed the information provided by AGN in its revised proposal,[60] and consider it reasonable to use the abolishment service numbers proposed by AGN.

Table 3.13 sets out the abolishment volume forecast accepted in this final decision, and Table 3.14 shows the associated opex forecast.

Table 3.13 Draft decision forecast abolishment volumes

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
AGN's forecast	2,997	4,553	5,163	7,298	10,651	**30,661**
AER's final decision	2,997	4,553	5,163	7,298	10,651	**30,661**
Difference	–	–	–	–	–	–

Source: AGN (SA), *Attachment 8.1A Revised Final Plan Opex Forecast Model*, January 2026; AER analysis.
Amounts of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

Table 3.14: Final decision forecast abolishment opex ($million, 2025–26)

2025–26	2026–27	2027–28	2028–29	2029–30	Total
2.2	3.4	3.8	5.4	7.9	22.8

Source: AER analysis.
Note: Numbers may not add up to total due to rounding.

3.5 Revisions

We require the following revisions to make the access arrangement proposal acceptable as set out in Table 3.15.

Table 3.15 Opex revisions

Revision	Amendment
Revision 3.1	Make all necessary amendments to reflect our final decision on the proposed opex forecast for the 2026–31 access arrangement period, as set out in section 3.1.

[60] AGN (SA), *Attachment 8.1A Revised Final Plan Opex Forecast Model*, January 2026.

Glossary

Term	Definition
AER	Australian Energy Regulator
AGN	Australian Gas Networks' (SA)
capex	capital expenditure
CCP33	Consumer Challenge Panel, sub-panel 33
ECM	Efficiency carryover mechanism
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
opex	operating expenditure
OTR	Office of Technical Regulator
SACOSS	South Australian Council of Social Service
SARGP	South Australian Review Group Panel
UAFG	unaccounted for gas
WPI	wage price index