Final decision

Evoenergy access arrangement 2026 to 2031
(1 July 2026 to 30 June 2031)

Appendix A – Regulatory depreciation

May 2026

AUSTRALIAN ENERGY REGULATOR

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List of attachments

This attachment forms part of our final decision on the access arrangement that will apply for 1 July 2026 to 30 June 2031 (2026–31 period) for Evoenergy. 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
- Attachment 6 – Capital expenditure sharing scheme
- Attachment 7 – Efficiency carryover mechanism

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A Regulatory depreciation

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

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

A.1 Final decision

Our final decision is to determine a regulatory depreciation amount of $86.7 million ($ nominal) for Evoenergy for the 2026–31 period. This amount represents a reduction of $38.2 million (30.6%) to the $124.9 million ($ nominal) in Evoenergy's revised proposal.[2] It is $16.3 million (15.8%) lower than the regulatory depreciation amount determined in our draft decision. This decrease compared to our draft decision is due to a lower straight-line depreciation amount[3] and is partially offset by a lower capital base indexation amount.[4]

The regulatory depreciation amount is the net total of the straight-line depreciation, less the inflation indexation of the capital base. Evoenergy's straight-line depreciation is impacted by our final decisions on accelerated depreciation (section A.4.1), the opening capital base as at 1 July 2026 (Attachment 1) and forecast capex (Attachment 2). Our final decision straight-line depreciation is $37.5 million ($ nominal) lower than Evoenergy's revised proposal. This is primarily driven by our final decision to reduce the amount of accelerated depreciation to $30 million ($2025–26) for the 2026–31 period compared to the $65 million ($2025–26) in Evoenergy's revised proposal.

The indexation on the capital base is impacted by our final decisions on Evoenergy's accelerated depreciation (section A.4.1), its opening capital base (Attachment 1), forecast capex (Attachment 2) and the expected inflation rate (Overview section 3.2). Our final decision results in an indexation on Evoenergy's projected capital base that is $0.7 million higher than its revised proposal. This is primarily due to a larger projected capital base, reflecting lower straight-line depreciation over the 2026–31 period, which more than offsets our application of a lower expected inflation rate of 2.48% per annum in the final decision, compared with the 2.55% per annum in Evoenergy's revised proposal.

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1 NGR, r. 76(b).

2 Evoenergy, *Appendix 6.2-PTRM model Step 2*, January 2026.

3 This reduction is due to our final decision for a lower accelerated depreciation and to a lesser extent lower capex, compared to our draft decision. This reduction is partially offset by a higher opening capital base as at 1 July 2026 which is mainly driven by driven by updates to the actual CPI of 3.63% for 2025–26, an increase from the estimated rate of 3.00% applied in our draft decision.

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

Together, the reduction in straight-line depreciation and the increase in capital base indexation results in a lower regulatory depreciation amount compared to Evoenergy's revised proposal.

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

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

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Straight-line depreciation	25.0	26.1	27.2	28.0	29.2	135.5
Less: inflation on opening capital base	10.2	10.0	9.8	9.5	9.2	48.8
Regulatory depreciation	**14.8**	**16.0**	**17.4**	**18.5**	**20.0**	**86.7**

Source: AER analysis.

A.2 Evoenergy's revised proposal

Evoenergy's revised proposal included a total forecast regulatory depreciation amount of $124.9 million ($ nominal) for the 2026–31 period. To calculate its revised proposed regulatory depreciation amount, Evoenergy updated its opening capital base as at 1 July 2026 and forecast capex in line with its revised proposal. Evoenergy's revised proposal did not adopt our draft decision accelerated depreciation amount of $47 million ($2025–26) and instead proposed $65 million.[5]

A.2.1 Evoenergy's revised proposal on accelerated depreciation

Evoenergy's revised proposal of $65 million accelerated depreciation reflects the following two components:

- $30 million accelerated depreciation arising from reduced asset lives applied under the straight-line depreciation method. Evoenergy did not adopt our draft decision on the expected economic lives of the 'HP pipelines' and 'MP pipelines' asset classes. Evoenergy maintained its initial proposal to apply reduced asset lives of 19 years, aligning with the ACT's net zero emissions target date of 2045, to both new capex and the opening capital base.
- An additional $35 million accelerated depreciation beyond that arising from the reduced asset lives. Evoenergy adopted our draft decision to not apply the 'sum-of-the-years' digit depreciation approach to calculate this additional amount. However, it did not adopt the draft decision to apply a 'base' real price increase limit when determining the amount of accelerated depreciation.

5 Evoenergy, *Attachment 3 Depreciation*, January 2026, p. 8.

A.3 Assessment approach on accelerated depreciation under uncertainty

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

This section sets out our assessment approach to accelerated depreciation under demand uncertainty. While our assessment in the final decision remains broadly consistent with that applied in the draft decision[6] and previous gas network decisions,[7] this section provides further clarification on how we interpret and apply the depreciation criteria in rule 89 of the National Gas Rules (NGR), and on how we seek to promote the National Gas Objective (NGO), when assessing proposals for accelerated depreciation.

Regulatory framework for assessing depreciation schedules (including accelerated depreciation)

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

NGR Rule 89 – depreciation criteria

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

(a) so that reference tariffs will vary, over time, in a way that promotes efficient growth in the market for reference services[12]

(b) so that each asset or group of assets is depreciated over the economic life of that asset or group of assets[13]

(c) so as to allow, as far as reasonably practicable, for adjustment reflecting changes in the expected economic life of a particular asset, or a particular group of assets[14]

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

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

8 NGR, rr. 72(1)(m) and 76(b).

9 NGR, r. 88(1).

10 NGR, r. 88(2).

11 NGR, r. 89.

12 NGR, r. 89(1)(a).

13 NGR, r. 89(1)(b).

14 NGR, r. 89(1)(c).

(d) so that (subject to the rules about capital redundancy), an asset is depreciated only once;[15] and

(e) so as to allow for the service provider's reasonable needs for cash flow to meet financing, non-capital and other costs.[16]

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

The National Gas Objective

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

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

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

The Revenue and Pricing Principles

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

We consider that the principle of providing a reasonable opportunity to recover efficient costs does not mean guaranteeing cost recovery. Therefore, applying this RPP does not require depreciation to be set in a manner that guarantees cost recovery. Rather, this RPP is that a credible and realistic pathway for cost recovery be provided, assuming the service provider acts in a reasonable manner to recover those costs consistent with a business of its kind.

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15 NGR, r. 89(1)(d).

16 NGR, r. 89(1)(e).

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

18 NGL, s. 23.

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

20 NGL, s. 24(2)(a).

The efficiency considerations reflected in the RPP include efficient investment in, and efficient operation and use of, pipeline services, which align with the types of economic efficiency contemplated by the NGO.

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

Other considerations

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

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

Accelerated depreciation as a regulatory tool for reducing stranded asset risk

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

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

Unlike some alternative options, adjustments to regulatory depreciation do not permanently lock in price outcomes, thereby reducing the risk of windfall gains or losses to either

21 NGR, r. 74(2).

22 NGR, r. 89(2).

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

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

regulated businesses or consumers if future demand differs materially from current assumptions.[25]

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

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

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

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

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

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

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

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

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

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

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

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

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

NGR 89(1) – depreciation criteria

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

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

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

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

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

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28 NGR, r. 74(2).

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

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

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

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

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

1. **Jurisdictional policy settings**

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

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

2. **Near term and long-term demand forecasts**

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

3. **Technology developments and potential repurposing or residual uses**

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

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

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

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

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

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

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

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

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

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

Step 3: Consider additional accelerated depreciation (Rule 89(1)(a))

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

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

reference tariffs to vary over time in a way that promotes efficient growth in the market for reference services. We note that Evoenergy submitted that rule 89(1)(a) and the concept of efficient growth has no application in a declining market.[34] We consider that the reference to "efficient growth in the market for reference services" in rule 89(1)(a) contemplates both the expansion and contraction of the market for reference services over time. Excessive front-loading could distort price signals in ways that accelerate inefficient reductions in utilisation or weaken incentives to operate the network efficiently as demand declines.

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

A.4 Reasons for final decision

We accept Evoenergy's proposed straight-line depreciation method for calculating the regulatory depreciation amount as set out in the post-tax revenue model (PTRM) and the weighted average remaining life approach to implement this method. However, we have reduced Evoenergy's revised proposed forecast regulatory depreciation to $86.7 million ($ nominal) for the 2026–31 period, which is $38.2 million (30.6%) lower compared to Evoenergy's revised proposal. This reduction is mainly due to our final decision to not accept Evoenergy's revised proposed accelerated depreciation in full. This reduction also reflects our final decision on a lower forecast capex (Attachment 2), and is partially offset by a lower expected inflation rate (Overview section 3.2) applied for the 2026–31 period and a higher opening capital base as at 1 July 2026 (Attachment 1).

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

A.4.1 Accelerated depreciation – stranded asset risk

In this final decision, we do not accept Evoenergy's revised proposed accelerated depreciation amount of $65 million ($2025–26) in full and instead determine a reduced amount of $30 million, by aligning the asset lives of HP and MP pipelines to 2045. Our final decision is to:

- Accept Evoenergy's revised proposal to shorten the standard and remaining asset lives of the HP and MP pipelines asset classes to 19 years as at 1 July 2026. These reduced asset lives apply to both forecast capex for the 2026–31 period and the opening capital base as at 1 July 2026. We consider that the reduced asset lives better reflect the expected economic lives of these assets, consistent with rule 89(1)(b) and (c), and provide a depreciation schedule that allows recovery of the capital base over the period

[34] We further note that Evoenergy's revised proposal included an opinion by the Hon. John Middleton AM KC. Contradicting Evoenergy's submission on rule 89(1)(a) of the NGR, Mr Middleton said all criteria in rule 89(1) needed to be applied. We agree with Mr Middleton in this respect. See: Evoenergy, *Attachment 3 Depreciation*, January 2026, p. 14; Evoenergy, *Appendix 3.2 The Hon. John Middleton AM KC Legal opinion on the AER's draft decision*, January 2026, p. 21 paragraph [90] and [91].

in which the network is expected to be economically utilised, consistent with the ACT Government's Integrated Energy Plan (IEP) to decommission the gas network by 2045.

- Not accept Evoenergy's revised proposal for an accelerated depreciation amount of $35 million beyond that arising from the reduced asset lives. Having regard to the depreciation criteria in rule 89(1), the RPPs, and the requirement to promote the NGO, we consider that depreciation aligned to the reduced asset lives provides Evoenergy with a reasonable opportunity to recover its efficient costs over the expected economic lives of the relevant assets by targeting full capital base recovery by 2045. In these circumstances, we are not persuaded that acceleration beyond that arising from the reduced asset lives is necessary to promote efficient tariff variation under rule 89(1)(a), to provide appropriate incentives for efficient investment, operation and use of the network, or to otherwise better promote the long-term interests of consumers, having regard to price impacts.

In the draft decision, we did not accept Evoenergy's proposed $105 million ($2025–26) accelerated depreciation in full and instead determined a reduced amount of $47 million for the 2026–31 period. While we accepted that the economic lives of HP and MP pipelines should be reduced, we did not align them to 2045, reflecting uncertainty around the timing and pace of demand decline and decommissioning pathway. We also provided additional accelerated depreciation beyond the reduced asset lives of 30 and 25 years for the HP and MP pipelines, respectively.[35]

We recognise the potential stranded asset risk faced by Evoenergy. Allowing some accelerated depreciation ensures Evoenergy is not deterred from making efficient investments required to maintain safe and reliable services during the transition. However, we have balanced the need to reduce material stranded asset risk and the need to ensure consumers pay no more than necessary for the provision of safe and reliable gas distribution services, both now and in the future.

Since the draft decision, we have reconsidered our position on asset lives in light of Evoenergy's revised proposal. For Evoenergy, there is clearer evidence about the expected economic use of the network and the gas network decommissioning pathway. As a consequence of the ACT Government's policy direction to transition away from natural gas by 2045, we consider that shortening the asset lives of Evoenergy's pipeline assets to 19 years better reflects the expected economic lives and provides Evoenergy with a reasonable opportunity to recover its efficient investment by targeting full capital base recovery by 2045.

Our final decision reflects declining forecast demand over the 2026–31 period, which leads to a material increase in network prices compared to the 2021–26 period in order to recover the allowed revenues. In this context, providing accelerated depreciation beyond reduced asset lives would place further upward pressure on prices. In the circumstance that aligning asset lives to 2045 already provides Evoenergy with a reasonable opportunity to recover its efficient costs over the expected economic life of its network, we do not consider it appropriate to impose higher prices on consumers through further accelerated depreciation beyond that arising from the reduced asset lives. We consider that accelerated depreciation

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35 AER, *Draft decision - Evoenergy access arrangement 2026–31 - Attachment 1 - Capital base, Regulatory depreciation and Corporate income tax*, November 2025, pp. 13–14.

delivered through reduced asset lives, targeting full capital base recovery by 2045, represents an appropriate response to the current stranded asset risk, while limiting unnecessary higher price impacts on consumers.

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

As noted in our past decisions, addressing the broader challenges facing the gas sector requires a more holistic policy response. While accelerated depreciation can be used to reduce stranded asset risk to some degree, it has limitations and cannot, on its own, resolve the impact of declining demand on gas networks and customers. This is consistent with the issues raised in the Gas networks in transition–Directions paper released by the Australian Energy Market Commission, which recognises the challenges posed by declining demand. So long as demand continues to decline, no affordable amount of accelerated depreciation will achieve long-term price stability or mitigate significant increases in network prices over time.[36] In this context, we continue to encourage ongoing open and constructive discussion between consumers, network businesses and governments on how the costs of stranded assets associated with past and future capital investments are managed over time, including when and how these costs are best shared.

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

A.4.1.1 Expected economic lives of HP and MP pipelines

In this final decision, we accept Evoenergy's revised proposal to reduce the standard and remaining asset lives as at 1 July 2026 for the HP and MP pipelines asset classes to 19 years, aligning with the ACT Government's IEP to decommission the network by 2045. This provides an accelerated depreciation amount of $30 million for the 2026–31 period. Our assessment of Evoenergy's proposed $35 million accelerated depreciation beyond that arising from the reduced asset lives is discussed in section A.4.1.2.

In the draft decision, we acknowledged a high (but not 100%) likelihood that Evoenergy's network will be decommissioned by 2045 but did not fully align the expected economic lives to that date at the time. This reflected the uncertainty regarding the timing and pace of demand decline, and decommissioning pathway. We also applied a smaller reduction to the expected economic lives of HP pipelines than to MP assets to reflect greater uncertainty

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

about the future role of HP assets, including potential renewable gas use and the absence of a ban on new industrial connections.[37]

Evoenergy's revised proposal did not adopt our draft decision on asset lives and maintained its initial proposed asset life of 19 years for the HP and MP pipelines asset classes.

For this final decision, we have reconsidered our position on the expected economic lives of Evoenergy's HP and MP pipeline assets based on the available evidence, including information provided by Evoenergy in its revised proposal. We consider current evidence supports the view that the ACT's gas network utilisation is expected to decline materially around 2045.

While uncertainty regarding the pace of demand decline remains, Evoenergy's operating environment, including its limited industrial demand and customer mix, together with the ACT Government's policy settings, provides a materially higher degree of clarity about the expected economic life of Evoenergy's gas network than is currently available in other jurisdictions. In particular, the ACT's legislated emissions targets, published IEP and staged decommissioning pathway together support aligning asset lives to 2045 and distinguish Evoenergy's circumstances from networks operating in jurisdictions where the policy settings to transition away from the use of natural gas are less advanced. The key evidence informing our assessment of Evoenergy's expected economic lives is summarised in section A.4.1.1.1 below.

Accordingly, we consider a 19-year asset life represents a reasonable central estimate of the remaining economic life of Evoenergy's HP and MP pipeline assets, recognising both the high likelihood of declining utilisation prior to 2045 and uncertainty in the pace and scope of decommissioning. Revising the asset lives to 19 years also promotes efficient investment, as it provides Evoenergy with a reasonable opportunity to recover its efficient past and new investment by targeting a full capital base recovery by 2045. This reduces the risk of material under-recovery and addresses the substance of Evoenergy's concern that applying asset lives beyond 2045 will defer recovery of a material portion of its capital base beyond the expected economic life and increase the risk of under-recovery in a declining demand environment. This approach also better aligns with feedback from Evoenergy's Community Forum and submissions by South Australian Reference Group Review Panel (SARG),[38] Consumer Challenge Panel Sub-Panel (CCP33) and Energy Networks Australia (ENA).[39]

Table 2 sets out our final decision on the standard and remaining asset lives for Evoenergy's HP and MP pipelines asset classes. Our final decision also builds on the substantial adjustments we made in the 2021–26 decision, where the economic lives were significantly shortened from their technical lives. We will reassess these shortened asset lives in future

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37 AER, *Draft decision - Evoenergy access arrangement 2026–31 - Attachment 1 - Capital base, Regulatory depreciation and Corporate income tax*, November 2025, pp. 15–19.

38 SARG's submission was primarily directed at the AGN (SA) 2026–31 draft decision but also considered aspects of our draft decision for Evoenergy's 2026–31 access arrangement.

39 Evoenergy, *Communication Link Appendix 1.1 Report of feedback from community and customer forum sessions*, January 2026, p. 38; SARG Review Panel, *Submission on AER's Draft Decision and AGN(SA) 2026-31 Access Arrangement Revised Proposal*, February 2026, p. 8; CCP33, *Advice to the AER - Evoenergy's 2026–31 revised proposal and draft decision*, February 2026, p. 16; ENA, *Submission on Evoenergy's 2026–31 revised proposal and draft decision*, February 2026, p. 3.

access arrangement periods if the natural gas substitution pathways or actual demand turn out to be different than expected.

Table 2 Evoenergy's current and our draft and final decision on standard and remaining asset lives at 1 July 2026

Asset class	Remaining asset life (years)			Standard asset life (years)		
	Current asset lives	Draft decision	Final decision	Current asset lives	Draft decision	Final decision
HP Mains	55	30	19	50[b]	30	19
HP Services	27	27[a]	19	50	30	19
MP Mains	20	20[a]	19	30[b]	25	19
MP Services	31	25	19	30[b]	25	19

(a) The remaining asset life for HP Services and MP Mains were already below the reduced standard asset life of 30 and 25 years determined for the draft decision respectively and were therefore unchanged.

(b) Our final decision on Evoenergy's 2021–26 access arrangement reduced the technical standard asset lives for the HP Mains, and MP Mains and Services pipelines asset class from 80 and 50 years respectively.

A.4.1.1.1 Evidence to align expected economic lives to 2045

The available evidence indicates a strong commitment by the ACT Government to progressively decommission the gas network, as set out in its IEP. This commitment is reflected in the staged decommissioning pathway over the 2035–2045 period, early signalling to the community, ongoing work to develop a regulatory framework for decommissioning, and Evoenergy's commencement of technical and economic scoping work on decommissioning. The key evidence is summarised below:

- The IEP indicates that staged decommissioning of the gas network is planned to commence from 2035, as part of the pathway to full decommissioning by 2045.[40]
- The IEP sets out the ACT Government's expectation that Evoenergy will provide early visibility to the community on the timing of the gas network decommissioning by 2030.[41]
- In 2025, the ACT Government engaged Proximity consultancy to assess the regulatory arrangements required to implement gas network decommissioning, which is pending public release expected within the first quarter of 2026.[42]
- Evoenergy has commenced technical and economic scoping studies on decommissioning pathways, including engaging GPA Engineering in 2025 to support the development of a strategic decommissioning plan.[43]

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40 ACT Government, *The Integrated Energy Plan: Our pathway to electrification*, June 2024, p. 19; ACT Government, *Developing ACT's Integrated Energy Plan*, June 2024, p. 3.

41 ACT Government, *The Integrated Energy Plan: Our pathway to electrification*, June 2024, p. 17.

42 Evoenergy, *Attachment 3 Depreciation*, January 2026, pp. 20 and 21.

43 Evoenergy, *Attachment 3 Depreciation*, January 2026, p. 23; Evoenergy, *GPA Engineering Appendix 3.1 Evoenergy's gas network feasibility beyond 2045*, January 2026, pp. 5 and 6.

Evoenergy's revised proposal also provided further evidence supporting alignment of the HP pipeline asset life to 19 years. Analysis by GPA Engineering indicates that continued operation of a residual gas network beyond 2045 is unlikely to be economically sustainable. GPA identified that industrial customers account for around 17% of total gas consumption in the ACT, across 44 industrial customers. Of this, approximately 85% of Evoenergy's industrial load is attributable to government sector entities and universities, all of which have stated commitments to decarbonisation and to phase out gas use.[44] GPA also identified that only a small portion of industrial demand is considered significantly difficult or impossible to electrify.[45]

On this basis, GPA concluded that, in the absence of a material ongoing industrial load, together with declining demand in the residential customer base and the geographically dispersed nature of remaining hard-to-abate industrial customers, continued operation of HP network assets beyond 2045 would be economically unsustainable.

This evidence supports the view that gas network utilisation is expected to decline materially around 2045. We therefore consider that adopting a standard and remaining asset life of 19 years for the HP and MP pipelines asset classes appropriately reflects the expected economic lives of these assets, consistent with rule 89(1)(b) of the NGR.

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

For the final decision, while we accept Evoenergy's revised proposal to reduce the asset lives to 19 years for its HP and MP pipeline assets, we do not accept its revised proposal for an additional $35 million accelerated depreciation beyond that arising from the reduced asset lives.

In our draft decision and past decisions, we have consistently noted the limitations of accelerated depreciation as a tool for managing stranded asset risk.[46] In circumstances of declining demand, accelerated depreciation alone does not meaningfully moderate long-term price increases, deliver sustained price stability or intergenerational equity outcomes.

While reducing asset lives to align with 2045 materially reduces stranded asset risk, uncertainty remains regarding the pace of demand decline and customer responses to rising prices. The available evidence does not enable us to conclude that any residual stranded asset risk beyond that addressed through reduced asset lives is sufficiently material to warrant further accelerated depreciation at this time. Accelerated depreciation is not intended to guarantee cost recovery, but to provide a flexible and proportionate regulatory response where justified to address material stranded asset risk under uncertainty.

In the circumstance that aligning asset lives to 2045 already provides Evoenergy with a reasonable opportunity to recover its efficient costs over the expected economic life of its

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44 Evoenergy, *Attachment 3 Depreciation*, January 2026, pp. 23–25; Evoenergy, *Appendix 3.1 GPA Engineering Appendix 3.1 Evoenergy's gas network feasibility beyond 2045*, January 2026.

45 GPA identifies only 0.046 Peta Joules (PJ) of the 1PJ annual industrial demand as 'significantly difficult or impossible to electrify'.

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

network, we do not consider it appropriate to impose higher prices on consumers through further accelerated depreciation beyond that arising from the reduced asset lives.

In reaching our final decision, we have balanced the need to reduce material stranded asset risk and the need to ensure consumers pay no more than necessary for the provision of safe and reliable gas distribution services. In a declining and uncertain demand environment, this requires a balanced approach to ensure that cost recovery is neither unduly deferred beyond the expected economic life of the network nor front-loaded in a way that leads to unnecessary price impacts on current customers. Had we accepted Evoenergy's revised proposed $35 million of additional accelerated depreciation, the real price increases would be materially higher at around 8.6% per annum (or 11.4% in nominal terms), resulting in a cumulative real increase of nearly 50% (or 70% in nominal terms) by the end of the 2026–31 period. As such, we consider that aligning asset lives to 2045 and not allowing further accelerated depreciation appropriately strikes this balance.

A.4.1.2.1 Price impacts of accelerated depreciation

Evoenergy submitted that considerations such as affordability, equity, and short-term price impacts on vulnerable customers are irrelevant considerations under the NGO and RPPs. It submitted that the draft decision places undue emphasis on price stability and affordability by imposing an unauthorised cap on total revenue and price outcome.[47]

The ACT Council of Social Service (ACTCOSS) submitted that Evoenergy's claim that the AER's draft decision is affected by legal error, on the basis that it impermissibly considers equity considerations, is concerning. ACTCOSS noted that this position is difficult to reconcile with Evoenergy's repeated characterisation of accelerated depreciation as a mechanism to promote intergenerational equity. In ACTCOSS's view, equity considerations cannot be treated as irrelevant to the statutory task where those same considerations are relied upon to justify bringing forward the recovery of capital costs from future to current consumers.[48]

We acknowledge ACTCOSS's submission on affordability and cost-of-living pressures on customers.[49] In assessing accelerated depreciation, we are required to apply the depreciation criteria set out in rule 89(1) of the NGR, to achieve the NGO. While affordability is not a standalone objective under the NGO, it is consistent with the NGO for the AER to seek to keep prices as low as possible while promoting efficient investment, operation and use of gas services to achieve a safe, reliable and secure gas supply.

The regulatory framework requires us to determine each component of total revenue, including depreciation, in accordance with the requirements of the NGL and NGR. In doing so, we must determine a depreciation schedule that complies with rule 89 of the NGR. In a declining and uncertain demand environment, this requires consideration of the need to provide Evoenergy with a reasonable opportunity to recover its efficient costs over the expected economic life of its network assets, while limiting unnecessary price impacts on customers.

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47 Evoenergy, *Attachment 3 Depreciation*, January 2026, pp. 40-41.

48 ACTCOSS, *Submission on Evoenergy's 2026–31 revised proposal and draft decision*, February 2026.

49 ACTCOSS, *Submission on Evoenergy's 2026–31 revised proposal and draft decision*, February 2026.

Evoenergy's revised proposal for an additional $35 million depreciation beyond that arising from reduced asset lives would result in an annual real network price increase of around 8.6%, corresponding to a cumulative real increase in network prices of nearly 50% over the 2026–31 period.

Evoenergy submitted that gas demand is relatively price inelastic and that the real annual price increases under its initial and revised proposals (15.3% and 8.6% per annum, respectively) would not materially affect demand or trigger a disconnection spiral. In support of this position, Evoenergy provided price elasticity analysis prepared by CIE, based on stated-preference survey, and by Houston Kemp, based on a literature review of demand elasticity.

CIE's analysis indicates that gas demand are relatively price-inelastic and that consumers are more likely to transition away from gas at the end of appliance life, than in response to gas price changes. While we consider this evidence to be informative, estimates of price elasticity and consumer responses to price changes are subject to uncertainty when applied to the current context. In particular, it is unclear whether such estimates will remain stable given evolving policy settings, expanding electrification options, changing wholesale gas prices, shifts in consumer sentiment, and sustained increases in network prices.

Evoenergy also submitted that reducing asset lives to 2045, while necessary, may not be sufficient to fully recover its past investment costs over the expected economic life of its assets, given the possibility that the gas network could become economically unviable before 2045 if gas demand declines faster than anticipated.[50] However, this concern is difficult to reconcile with Evoenergy's own price-elasticity analysis. Analysis prepared by CIE indicates that gas demand is relatively price-inelastic and that, across a range of materially different network price increase scenarios—including scenarios with substantial annual real price increases—full capital base recover by 2045 can be achieved under the reduced 19-year asset lives.[51] CIE's sensitivity analysis similarly indicates that even under its alternative demand decline and price-elasticity assumptions, there is no risk of a 'utility death spiral', as the projected demand trajectory to 2045 is not materially distorted.[52]

We acknowledge that demand for natural gas will likely continue to decline in line with the ACT's 2045 net zero emissions target. While the pace and timing of this decline remain uncertain, Evoenergy's revised proposal examined a range of long-term demand scenarios reflecting different transition pathways, all of which project demand and connections declining to very low levels by 2045, consistent with the ACT Government's IEP to decommission the gas network by that date.[53]

Having regard to the level of price increases already resulting from reduced asset lives, together with Evoenergy's analysis on price-demand feedback, our final decision is not to

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50 Evoenergy, *Attachment 3 Depreciation*, January 2026, pp. 21, 46 and 53.

51 Evoenergy, *Submission and attachments on Evoenergy's 2026–31 revised proposal and draft decision: Attachment A CIE Gas prices and demand destruction*, February 2026, Table 3.1, Figure 3.2 and pp. 7 and 8; Evoenergy, *Attachment 3 Depreciation*, January 2026, Figure 2, p. 29.

52 Evoenergy, *Response to AER information request #020*, 6 March 2025, Table 2–6, pp. 9–17.

53 Evoenergy, *NSW Customer Forum Session 2*, 17 November 2025, p. 32; Evoenergy, *Gas distribution PTRM - 2045 – AER,* July 2025.

allow further accelerated depreciation from that arising from the reduced asset lives. While uncertainty remains regarding customer response to higher prices and the potential for a disconnection spiral, we consider that aligning asset lives to 2045 provides Evoenergy with a reasonable opportunity to recover its efficient costs, while limiting unnecessary price impacts for consumers in a declining and uncertain demand environment. The regulatory regime provides opportunities to re-visit the issue of depreciation should demand for gas differ materially from scenarios that are forecast today.

Table 3 summarises the price impacts of the accelerated depreciation outcomes under our final decision, the draft decision, and Evoenergy's initial and revised proposals.

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

Scenario	AD amount over 2026–31 ($2025–26)	Average real network price increase (%, p.a.)	Nominal residential bill increase ($, p.a.)[b]	Total nominal residential bill increase by 2030–31[b]	AD as a % of opening capital base
Evoenergy initial proposal[a]	$105 million	15.3%	$118 (6.7%)	$588 (38.3%)	25%
AER draft decision	$47 million	4.5%	$37 (2.3%)	$184 (11.9%)	11%
Evoenergy revised proposal	$65 million	8.6%	$64 (3.8%)	$319 (20.8%)	16%
AER final decision	$30 million	5.6%	$43 (2.7%)	$215 (14.0%)	7%

Source: AER analysis.
Note: AD = Accelerated depreciation
(a) Evoenergy's proposed forecast revenues inclusive of the expected licence fees and levies amount.
(b) Based on typical gas consumption of 27 GJ for a residential customer. Bill impact is compared to a nominal annual residential gas bill of $1,537 at 2025–26.

For clarity, neither our draft decision nor this final decision establishes a binding price outcome applicable to all future access arrangement decisions as suggested by Evoenergy.[54] Rather, our approach to accelerated depreciation is intended to provide a flexible and proportionate regulatory response where it is justified to reduce material stranded asset risk under uncertainty, having regard to the specific evidence and circumstances of each network.

A.4.1.2.2 Reasonable opportunity to recover at least the efficient costs

Evoenergy submitted, relying on advice from the Hon. John Middleton AM KC, that compliance with the RPPs is required to achieve the NGO, and that a decision inconsistent with the RPPs cannot contribute to the achievement of the NGO.[55] Evoenergy also submitted that the draft decision limits its opportunity to recover past investment costs through gas tariffs and involves policy judgements about the allocation of stranded asset risk.[56]

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54 Evoenergy, *Attachment 3 Depreciation*, January 2026, pp. 9 and 43.

55 Evoenergy, *Attachment 3 Depreciation*, January 2026, pp. 11-12 and 42; Evoenergy, *The Hon. John Middleton AM KC Appendix 3.2 Legal opinion on the AER's draft decision*, January 2026, paragraph [113], p. 46.

56 Evoenergy, *Attachment 3 Depreciation*, January 2026, pp. 33 and 41–43.

We consider that while section 24(2) of the NGL sets out the principle that networks be provided a '… reasonable opportunity to recover at least the efficient costs the service provider incurs…', it does not mean gas consumers must guarantee that the regulated businesses recover these costs without considering price affordability and stability. The RPPs are matters we are required to take into account, but they do not demand a specific revenue outcome. We are required to take them into account alongside other considerations under the NGL, NGO and NGR, in particular the obligation to make a decision that promotes the achievement of the NGO.

We do not agree with Mr Middleton's opinion that a decision inconsistent with one or more RPPs cannot be a decision that contributes to the achievement of the NGO consistent with section 28(1)(a) of the NGL. We consider that our decision is consistent with the RPPs. In any case, our legal obligations with respect to the RPPs are different from those with respect to the NGO. While we must take account of the RPPs in making our decision,[57] we cannot give them weight at the expense of making a decision that would achieve the NGO or be likely to do so.[58]

Evoenergy's Community Forum members have raised concerns that customers should not be expected to guarantee full asset recovery.[59] This view is shared by ACTCOSS and Energy Consumers Australia (ECA), both of which submitted that consumers alone are not obligated to guarantee full capital base recovery.[60]

Accelerated depreciation may assist in reducing stranded asset risk and thereby promote incentives for efficient investment. However, where reduced asset lives already provide a reasonable opportunity to recover efficient costs consistent with the RPPs, the case for further accelerated depreciation must be assessed carefully in light of the resulting price impacts.

As the long-term demand for Evoenergy's network continues to decline, uncertainty remains regarding how customers may respond to sustained price increases over time and to what extent this may trigger unintended disconnections. In these circumstances, exercising caution by retaining flexibility to reassess the role of accelerated depreciation over time better supports an orderly transition and the long-term interests of consumers. It also limits unnecessary price impacts on customers where reduced asset lives already provides a reasonable opportunity for cost recovery over the expected economic life of the network assets. This approach is consistent with our Information paper, *Regulating gas pipelines under uncertainty*, which noted that '…regulated depreciation or risk compensation cannot be adjusted without constraint to guarantee cost recovery for the regulated businesses'.[61]

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57 NGL, s 28(1)(a).

58 NGL, s 28(2)(a).

59 Evoenergy, *Evoenergy Communication Link Appendix 1.1 Report of feedback from community and customer forum sessions*, January 2026, p. 27.

60 ACTCOSS, *Submission on Evoenergy 2026–31 Access Arrangement Proposal*, August 2025, pp. 5–6; ECA, *Submission and attachment on AGN (SA) and Evoenergy's 2026–31 revised proposal and draft decision*, February 2025, p. 3.

61 AER, *Information Paper: Regulating gas pipelines under uncertainty*, 2021, p. 29.

As discussed above, we consider that aligning asset lives to 2045 appropriately strikes a balance by providing Evoenergy with a reasonable opportunity to recover its efficient costs over the remaining economic lives of its network assets, while limiting unnecessary price impacts on customers.

A.4.1.2.3 Evoenergy's customer consultation and stakeholder submissions

In support of its revised proposal on accelerated depreciation, Evoenergy engaged with its Community Forum and a newly established NSW Customer Forum to discuss the long-term price impacts of alternative depreciation approaches. We have received 7 submissions addressing accelerated depreciation.

Feedback from forums was mixed, with no clear consensus that higher levels of accelerated depreciation would deliver better overall outcomes for consumers. Some participants expressed support for Evoenergy's revised proposal, while others supported the draft decision approach. While concerns were raised about the draft decision's emphasis on limiting near-term price increases and assumptions regarding asset use beyond 2045, there was no consistent support for the view that higher accelerated depreciation would improve consumer outcomes overall.[62]

Forum discussions highlighted that different depreciation approaches may produce different equity outcomes depending on the pace of demand decline. Some participants considered Evoenergy's approach more equitable in central transition scenarios but noted that it would expose consumers to materially higher prices if demand declines faster than expected. By contrast, the draft decision approach was viewed as more favourable where customers transition away from gas more slowly.[63]

Participants also raised broader concerns that neither depreciation approach fully resolves affordability or intergenerational equity issues, particularly for customers remaining on the network later in the transition. Some questioned whether it is appropriate for consumers to bear the risk of full cost recovery in the absence of government-led cost sharing arrangements.[64]

Stakeholder submissions on the draft decision and revised proposal reflected similarly divergent views. ENA expressed some support for accelerated depreciation in response to declining demand. Submissions from SARG, CCP33 and ENA raised questions about the basis for the draft decision on asset lives and the price increase limit approach. ECA submitted that accelerated depreciation primarily transfers stranded asset risk from networks to consumers. Other consumer representatives, including ACTCOSS, the Property council of Australia and Jerrabomberra Residents Association, raised concerns about affordability,

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62 Evoenergy, *Evoenergy Communication Link Appendix 1.1 Report of feedback from community and customer forum sessions*, January 2026, p. 38.

63 Evoenergy, *Evoenergy Communication Link Appendix 1.1 Report of feedback from community and customer forum sessions*, January 2026, pp. 22, 24 and 38.

64 Evoenergy, *Evoenergy Communication Link Appendix 1.1 Report of feedback from community and customer forum sessions*, January 2026, pp. 27 and 38.

impacts on vulnerable households, and remaining customers bearing a disproportionate share of network costs.[65]

Overall, stakeholder feedback does not provide a clear or consistent basis for supporting Evoenergy's proposed accelerated depreciation. Instead, it highlights the trade-offs and uncertainties associated with different depreciation profiles and reinforces the need for a balanced approach in a declining and uncertain demand environment, consistent with supporting an orderly transition.

A.4.1.2.4 Other considerations on accelerated depreciation

Evoenergy raised several additional considerations in support of its revised proposal on accelerated decision, including relative price signals between electricity and gas, financeability, and reasonable cash-flow needs.

Relative price signals between electricity and gas

Evoenergy submitted that not allowing sufficient accelerated depreciation and constraining gas prices would widen the relative retail prices of gas and electricity, sending price signals that discourage electrification and prolong gas network usage. Evoenergy further submitted that higher gas prices would narrow gas–electricity price relativity and thereby promote efficient electrification, contributing to the achievement of jurisdictional emission reduction targets under the NGO, including the ACT's target of net zero emissions by 2045.[66]

We do not consider regulatory depreciation to be an appropriate mechanism for setting broader fuel-switching outcomes or cross-sector energy price signals. An orderly transition and efficient electrification pathway require coordinated policy settings, infrastructure planning and investment across energy sectors. At this stage of the energy transition, the ACT Government has not yet formalised a staged decommissioning pathway that integrates gas and electricity infrastructure planning. Evoenergy has also acknowledged that the final level of investment approved in its 2024–29 electricity distribution determination does not account for increased electricity demand arising from the substitution of gas appliances with electric alternatives.[67] In this context, we do not consider it appropriate to seek to influence electrification outcomes through adjustments to gas network depreciation in isolation.

Further, Evoenergy's position on relative price signals is difficult to reconcile with its own evidence on customer behaviour. Analysis by CIE indicates that gas demand is relatively price-inelastic and that fuel-switching decisions are primarily driven by appliance replacement cycles rather than short-term price movements. If accepted, this would suggest

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65 ENA, *Submission on Evoenergy's 2026–31 revised proposal and draft decision*, February 2026, p. 1 and 3; SARG Review Panel, *Submission on AER's Draft Decision and AGN(SA) 2026-31 Access Arrangement Revised Proposal*, February 2026, pp. 8-9; CCP33, *Advice to the AER - Evoenergy's 2026–31 revised proposal and draft decision*, February 2026, pp. 5 and 16; ECA, *Submission and attachment on AGN (SA) and Evoenergy's 2026–31 revised proposal and draft decision*, February 2026, p. 2; ACTCOSS, *Submission on Evoenergy's 2026–31 revised proposal and draft decision*, February 2026, p. 2; Property Council of Australia, *Submission on Evoenergy's 2026–31 revised proposal and draft decision,* February 2026, p. 2; Jerrabomberra Residents Association, *Submission on Evoenergy's 2026–31 revised proposal and draft decision*, February 2026, p. 2.

66 Evoenergy, *Attachment 3 Depreciation*, January 2026, pp. 39–40 and 44–45.

67 Evoenergy, *Response to AER information request #002: Attachment A Community forum 9 placemat – FAQs*, dated 15 August 2025, p. 7.

that increasing gas network prices through additional accelerated depreciation is unlikely to materially influence electrification decisions in the manner suggested by Evoenergy.

Accordingly, we do not consider relative energy price considerations to provide a sufficient basis for approving accelerated depreciation beyond that arising from the reduced asset lives.

Financeability concerns

Evoenergy submitted that additional accelerated depreciation is required on financeability grounds, including to reduce under-recovery risk and support continued access to finance.

We acknowledge that, if investors do not expect a reasonable opportunity to recover efficient costs (including a required return), this may translate into financing pressure in practice. However, we consider aligning cost recovery with expected economic lives of network assets addresses under-recovery risk and provides Evoenergy with a reasonable opportunity to recover its efficient costs. The reduced asset lives result in depreciation schedules that target a full capital base recovery by 2045, which we consider sufficient to support financeability. On this basis, we do not consider that there is evidence that further accelerated depreciation is required on financeability grounds.

Reasonable cash-flow needs

Evoenergy submitted that rule 89(1)(e) requires the AER to provide a reasonable opportunity for recovery of efficient costs and relied on this criterion to support additional accelerated depreciation.

We consider that rule 89(1)(e) is not directed to overall cost recovery, but rather to ensuring that depreciation schedules do not create undue cash-flow volatility. The purpose of this criterion is to avoid overly variable depreciation schedules with periods of very low depreciation where that could impair a service provider's ability to meet financing, non-capital and operating costs in such periods. Rule 89(1)(e) does not advance Evoenergy's case for additional accelerated depreciation.

A.4.2 Standard and remaining asset lives

As discussed in section A.4.1.1, we consider the expected economic lives for Evoenergy's HP and MP pipelines should be further reduced from those approved at the 2021–26 review. For the 2026–31 period, we determine an economic asset life of 19 years for both the HP and MP pipelines asset classes, reduced from the current 50 and 30 years respectively. The reduced 19-year economic lives for these assets apply to:

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

For this final decision, we have retained the standard asset lives for asset classes other than the HP and MP pipeline assets, as set out in the draft decision and adopted by Evoenergy in its revised proposal.

Evoenergy's revised proposal adopted our draft decision to continue applying the weighted average remaining life method for depreciating existing assets in the 2026–31 period.[68] In applying the weighted average remaining life method for the final decision, we updated the remaining asset lives for asset classes other than the HP and MP pipeline assets to reflect our adjustments to the capex inputs in the final decision RFM (Attachment 1). This is because changes to these inputs in the RFM affect the calculation of the remaining asset lives as at 1 July 2026.

Our final decision PTRM sets out Evoenergy's standard and remaining asset lives for each asset class for the 2026–31 period.[69] Asset classes that have been assigned with a standard asset life of 'n/a' (not applicable) reflect cases where the relevant capex is either not subject to depreciation, or where there is no forecast capex. We are satisfied that the asset lives approved in this final decision result in a depreciation schedule that reflects the depreciation criteria in the NGR.[70]

68 Evoenergy, *Attachment 3-Depreciation,* January 2026, p. 8.

69 AER, *Final decision – Evoenergy access arrangement determination 2026–31 – PTRM Step 2*, May 2026.

70 NGR, r. 89.

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
ACTCOSS	ACT Council of Social Service
capex	capital expenditure
CCP33	Consumer Challenge Panel, sub-panel 33
CPI	consumer price index
ECA	Energy Consumers Australia
ENA	Energy Networks Australia
IEP	Integrated Energy Plan
NGO	National Gas Objective
NGL	National Gas Law
NGR	National Gas Rules
NSW	New South Wales
PTRM	post-tax revenue model
RFM	roll forward model
SARG	South Australian Reference Group Review Panel