

Gas Access Arrangement Review 2028-2033

Reference Service Proposal

Monday, 1 June 2026



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Executive Summary

The Reference Service Proposal sets out AusNet's proposed service classifications for our 2028–33 access arrangement, in accordance with rule 47A of the National Gas Rules. It identifies the pipeline services provided on our network and specifies which are reference services in accordance with reference service factors. It further includes proposals for our tariff structures and tariff variation mechanism, in line with expectations as part of the AER's Gas distribution network tariffs review in 2023.

AusNet's 2028-33 access arrangement is occurring in a dynamic environment of policy and regulatory developments, including Victorian Government policies on electrification and gas, and regulatory reform by the Essential Services Commission and the Australian Energy Markets Commission. These policies and customer behaviour are driving material reductions in residential gas demand over the last several years.

In this context, many services we provide to customers remain unchanged and we propose to maintain the majority of our reference services. However, the declining demand environment means gas network incentives and risk allocation in our existing tariff variation mechanism are no longer appropriate.

The proposed changes to our **reference services** are:

- **Haulage reference services:** maintain our three haulage reference services, which are all expected to maintain high volume despite our changing network circumstances (section 2.2).
- **Ancillary reference services:** maintain all ancillary reference services except for the minor meter alter position service and adjust the definition for residential abolishments to align with jurisdictional definitions (section 2.3).

Our proposals for **our tariff structures** and **tariff variation mechanism** are:

- **Tariff structures:** retain a declining block structure for both volume and demand tariffs, while signalling rebalancing to better meet the National Gas Objective (i.e. "flattening") (section 2.2.2).
- **Tariff variation mechanism:** change to a hybrid price cap mechanism to align incentives to our operating environment and adjust the allocation of forecasting risks, consistent with recent changes for gas distribution networks facing similar circumstances (section 3).

AusNet commenced stakeholder engagement for our 2028-33 access arrangement in early 2026. Our engagement has informed the positions in this Reference Service Proposal, and we will continue to engage on our proposed plans in the lead up to submission of our 2023-28 access arrangement on 1 June 2027.

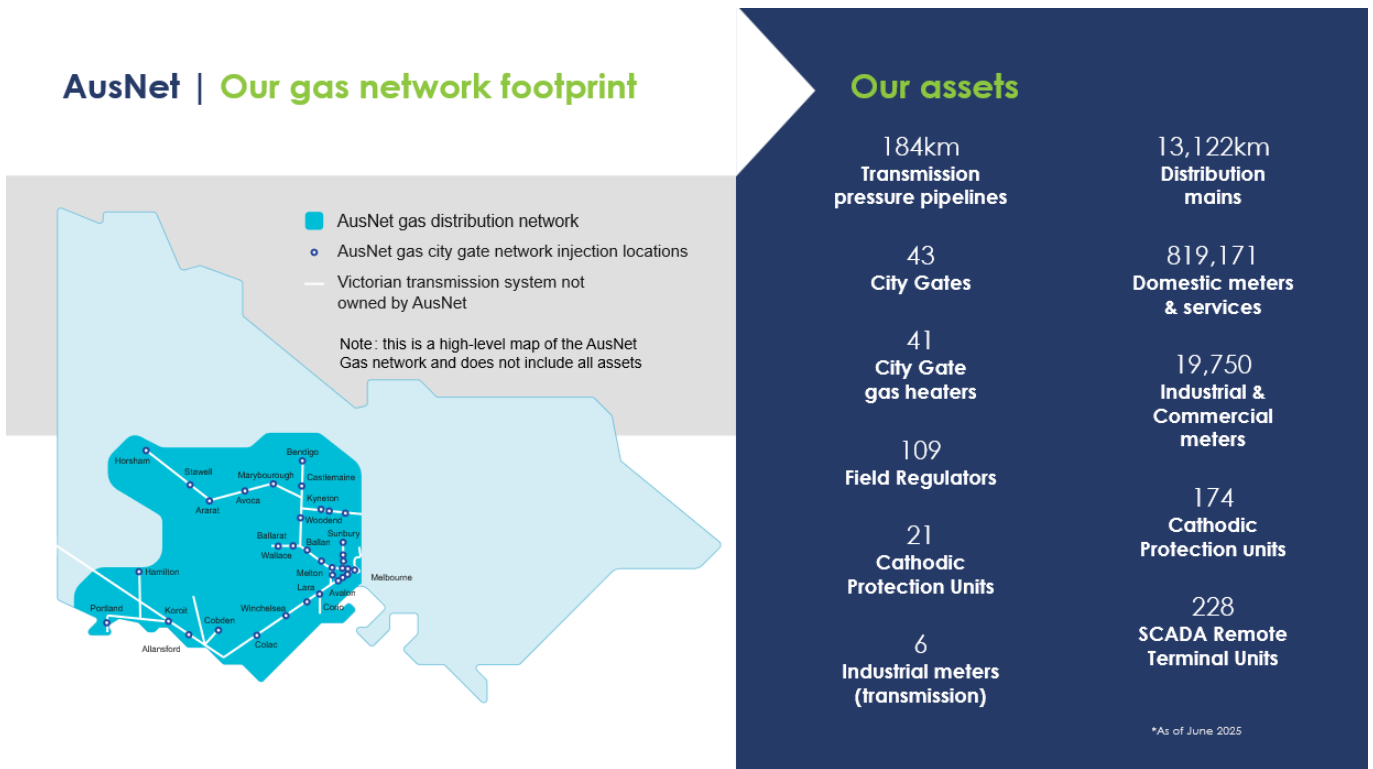
1. Introduction

1.1. Context

1.1.1. About AusNet's gas distribution network

AusNet operates the reticulated gas distribution network across western Melbourne and towns in central and western Victoria such as Geelong, Ballarat and Bendigo. Our network stretches from Melbourne's western suburbs through regional Victoria to Portland in the south-west and Horsham in the north-west. AusNet's gas network consists predominantly of distribution assets, supported by a range of regulating, monitoring and control infrastructure. Key assets include approximately 13,122 km of distribution mains, 184 km of transmission pressure pipelines, 43 city gates. Gas enters AusNet's distribution network from the Victorian gas transmission system, which is owned by other businesses.

Figure 1: AusNet's network



Source: AusNet Gas Services 2024-25 RIN¹

AusNet's gas network serves residential customers, small and medium businesses, and large industrial and manufacturing customers. Residential customers make up most of our customer base and primarily use gas for space heating, cooking and hot water, while commercial customers use gas for activities such as commercial cooking, bulk hot water and space heating. Industrial customers typically use gas as a core input into manufacturing processes, including high-heat applications, chemical feedstock, and on-site power generation behind the meter. While residential customers make up most customer connections by number, historically around half of the total gas volume transported through the network flows to industrial customers.

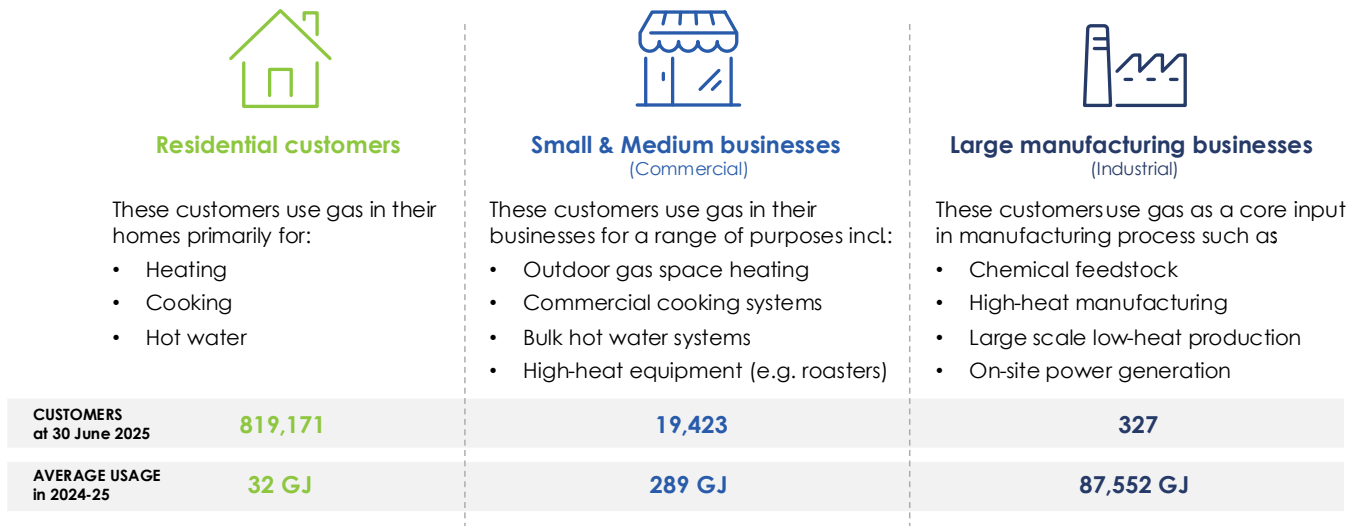
Network charges are a portion of a customer's total gas retail bill, with the remainder consisting of other costs such as wholesale gas costs and retail costs. For residential customers, AusNet network tariffs typically account for around 20

¹Available from [AusNet Services - Gas - 2024-25 - Annual Reporting RIN Response | Australian Energy Regulator \(AER\)](#), on 22 May 2026.

per cent of the total bill², depending on usage. For small and medium business customers, network charges represent a smaller share of total costs, while for large industrial customers, network charges on average represent less than 2 per cent of the total bill³, reflecting historic upfront payment of connection assets and demand-based tariff structures.

Further information about AusNet's gas network can be found on [our website](#).

Figure 2: AusNet's customer base



Source: AusNet Gas Services 2024-25 RIN⁴

1.1.2. The Victorian operating context

AusNet's gas network operates within a rapidly evolving operating context that is materially influencing trends in our customer demand, connections and disconnections on our network. Policy to reduce emissions is a primary driver of this operating context.

The Victorian government has progressively been introducing new policies to enable progress towards our emissions reduction targets and the goals in the Gas Substitution Roadmap.⁵ Since the start of our current Gas Access Arrangement 2023-28, key Victorian policy developments include:

- From 2024, all residential developments requiring a planning permit were required to be all electric.
- From 2025, all new connections were mandated to be charged fully upfront by the Essential Services Commission (**ESC**) in their 2024 review update to the Gas Distribution Code of Practice (**GDCoP**)⁶. The update mandated a standard charge for basic residential connections.
- From 2027, new Building Electrification Regulations are legislated which will:
 - ban new residential and commercial gas connections, with limited exemptions.
 - ban replacement hot water gas appliances at end of life in all residential buildings.
 - ban replacement of gas heating appliance at end of life for rental properties.
- Expansion of the [Victorian Energy Upgrades \(VEU\) program](#) which provides rebates for customers replacing gas appliances with electric appliances, including:
 - Incentives expanded for heat pump hot water and reverse-cycle air conditioning to replace gas appliances (2023);
 - Removal of all gas appliance incentives (2023);
 - Expansion to include electric induction cooktops to replace gas (2024); and
 - Expansion activities for large commercial and industrial businesses (2025 – present).

² AusNet analysis. Assuming an average residential bill is \$2000, and the network charge is \$360 based on 2026 retail offers for AusNet postcodes (~35.2 GJ), and ESC reported median market offer (54.4GJ p.a.) for 2024-25.

³ AusNet analysis. Based on estimate of 80,000 GJs of gas consumption per annum (average Tariff D consumption).

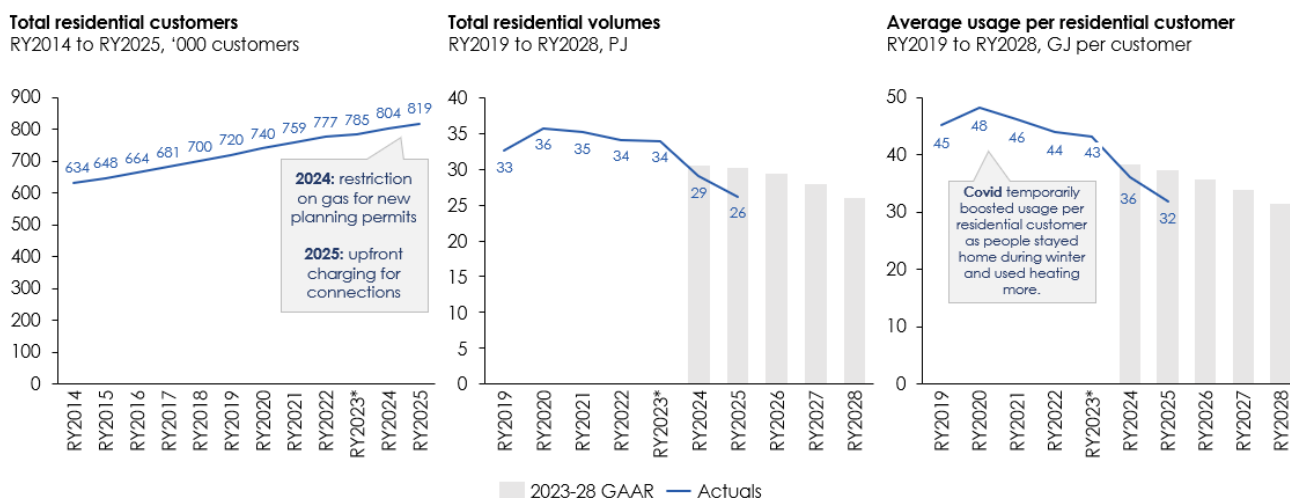
⁴ Available from [AusNet Services - Gas - 2024-25 - Annual Reporting RIN Response | Australian Energy Regulator \(AER\)](#), on 22 May 2026.

⁵ Available from [Victoria's Gas Substitution Roadmap](#), on 22 May 2026.

⁶ Available at [Reviewing the Gas Distribution System Code of Practice | Essential Services Commission](#).

These new policies represent significant external drivers influencing gas customers' behaviour, reflect the speed of changes to our gas network context, and highlight the significant uncertainty in our environment caused by factors outside of our control.

Figure 3: AusNet's customer connection and usage trends



Note: RY – Regulatory year
 Before 2023, the regulatory year was the calendar year. From 2024, the regulatory year is July – June i.e. RY2024 is July 2023 – June 2024
 *RY2023 was a half-year transition has been approximated as a full year above.

Source: AusNet

This context is already having a clear impact. Residential customer numbers on our network have continued to grow over time, however, average residential gas consumption has markedly declined, leading to a reduction in total residential gas volumes. This reflects changes in customer behaviour including greater energy efficiency, electrification of appliances and changing customer behaviour.

These observed trends and further impacts of these new policies on the outlook for our gas services has informed our positions in this Reference service proposal.

1.1.3. Regulatory framework

AusNet's gas network prices are regulated by the Australian Energy Regulator (**AER**) on a 5-year cycle. We are due to submit our next gas access arrangement (**AA**) for 2028-33 to the AER on 1 June 2027, which will outline our investment plans and proposed prices for our regulated services. The AER will then review our proposal and make a final determination by April 2028 with new prices commencing 1 July 2028.

Under rule 47A(3)(a) in the NGR, we are required to submit a Reference service proposal 12 months prior to the submission date of our next AA. The review submission date is specified in our current Access Arrangement as 1 June 2027⁷.

The Reference service proposal for the next access arrangement period must contain certain information set out in rule 47A(1) of the NGR. The following table indicates the relevant sections to this Reference Service Proposal that meets the requires of Rule 47A(1):

Table 1: Regulatory framework for the Reference Service Proposal

RULE REQUIREMENT FOR REFERENCE SERVICE PROPOSAL	RULE REFERENCE	SECTION
The Reference Service Proposal must identify the pipeline and include a reference to a website at which a description of the pipeline can be inspected.	47A(1)(a)	Section 1.1.1 identifies the pipeline and includes a link to AusNet's website with further information about the pipeline.

⁷ Clause 5.9.1 of [ASG - Access Arrangement 2024–28 - Part A - June 2023](#)

The Reference Service Proposal must set out a list of all the pipeline services that the service provider can reasonably provide on the pipeline and a description of those pipeline services having regard to the characteristics in rule 47A(2)	47A(1)(b)	Section 2 lists the pipeline services that AusNet will provide during the 2028-33 AA period.
From the list referred to above, the Reference Service Proposal must identify at least one of those pipeline services that the service provider proposes to specify as reference service having regard to the reference service factors including any supporting information required by the AER,	47A(1)(c)	Section 2 demonstrates that at least one reference service is proposed and that consideration has been given to the reference service factors.
The Reference Service Proposal must describe any feedback received from pipeline users and end users about which pipeline services should be specified as reference services.	47A(1)(d)	Section 1.2, and Appendix A describe our customer and stakeholder engagement program and overview of feedback received.

In addition to policy developments since our last access arrangement, the introduction of the emissions reduction objective was added to the National Gas Objective (NGO), which specifically relates to the relevant jurisdiction's emission reduction targets. The Victorian Government has set goals to reduce greenhouse gas emissions by 45-50% by 2030, and 75-80% by 2035, ultimately to achieve net zero by 2045.

The AER undertook a review into gas network tariffs in 2023⁸, to outline their positions on how the emissions reduction objective interacts with gas network tariff variations and tariff designs. The AER indicated their preliminary directional views while noting these issues will be assessed on case-by-case basis, and that their Reference service proposal assessment will extend to the tariff variation mechanisms and tariff structures. We have therefore included our position of tariff structures and tariff variation mechanism in section 2.2.2 and section 3 respectively.

The AER will make a decision on our reference service proposal in November 2026, which is at least 6 months before we must submit our Access Arrangement (**AA**) proposal.

1.2. Stakeholder engagement

1.2.1. GAAR engagement overview

AusNet commenced stakeholder engagement in early 2026. Our GAAR engagement approach is designed to support the development of a 2028–33 AA that reflects consumer needs, is supported by stakeholders, for review by the AER. Through this process, we are seeking input from customers and stakeholders to inform our plans for the gas network, with a strong focus on understanding their values, preferences and long-term interests, and ensuring they have a genuine opportunity to influence outcomes. For more information on our engagement program, visit the AusNet [Community Hub](#).

Our ongoing and GAAR-specific engagement approach builds on insights from previous GAAR processes and recent AusNet engagement activities.

As part of this model, our GAAR Development Panel (**GDP**) is a small group of experts and customer representatives that oversees engagement and provides guidance and advice to help shape our Proposal. The GDP supports us in interpreting stakeholder input and aligning our Proposal with customer preferences and the broader transition facing the gas sector.

In parallel, our Gas Stakeholder Roundtable (**Roundtable**) brings together a broad range of stakeholders to provide their diverse perspectives on key issues. It is a forum for open discussion and feedback on customer needs, industry insights and stakeholder views which we then incorporate into our decision-making and Proposal development.

⁸ [Final decision | Australian Energy Regulator \(AER\)](#)

1.2.2. Reference service proposal engagement

We brought our preliminary positions to our GDP in March 2026 to get feedback on our engagement approach for the Reference service proposal, as well as how we were approaching and planning to present concepts for customers, including changing our tariff variation mechanism and tariff structures. We used the feedback to inform our materials for discussion with our Roundtable. The GDP recognised that the Roundtable would be better positioned to provide feedback on certain topics in our Reference service proposal, in particular, retailers' feedback on reference services and tariff structures.

A meeting summary can be found [here](#).

In April 2026, we held our first Stakeholder Roundtable for our GAAR process. This included representatives from customer advocacy groups, retailers, industry, government and regulators. We discussed the scope of our reference service proposal and asked for Roundtable feedback on changes from the current period:

- Removing minor meter position alterations from our reference services and making this a non-reference service. Feedback on this change is in section 2.3.
- Updating our tariff variation mechanism to align with other networks using a hybrid price cap. Feedback on this change is in section 3.

We asked whether there were other services that should be reference services and the Roundtable had no additional suggestions for services.

We informed the Roundtable of our approach for connections and abolishment services for 2028-33. The Roundtable did not raise any concerns with the classification of these services in the Reference service proposal or our approach to calculating their charges for our Proposal. Specifically, we explained:

- Connections services will remain non-reference services, charged fully upfront as per our GDCoP requirements. This user-pays approach is consistent with declining demand forecasts for Victoria's gas network. This is further explained in Section 2.4.1.
- Residential abolishment services will remain as an ancillary reference service, but we noted will remove the partial socialisation of the cost. This is further explained in Section 2.3.3.

A meeting summary can be found [here](#).

We brought the views of stakeholders at our Roundtable back to our GDP for further discussion on how to incorporate the feedback received and use this feedback to inform our presentation of final positions in this Reference Service Proposal.

A meeting summary can be found [here](#).

There was a consistent theme across both GDP and roundtable forums that stakeholders are broadly comfortable with the direction of our proposal (e.g. largely maintaining existing services except for removing minor meter position service treatment, tariff reform direction), but stakeholders required clearer articulation of customer impacts, particularly for the hybrid price cap and tariff changes.

A summary of feedback received from stakeholders and AusNet's response is in the table below.

SUMMARY OF STAKEHOLDER ENGAGEMENT ON RSP POSITIONS

FEEDBACK RECEIVED	AUSNET RESPONSE	NEXT STEPS
Interest in understanding impacts of tariff flattening on specific customer segments, particularly high-usage and lower-income customers.	AusNet intends to undertake further analysis once revenue impacts are determined and we will bring results back to future engagement forums.	We will conduct detailed tariff analysis and engage further on proposed change to our tariff structure.
Questions on whether abolishment costs or disconnection fees influence customer decisions to electrify or leave gas.	The reduced/ socialised abolishment costs do not appear to be materially influencing behaviour, as dormancy rates continue to rise this period. However, we are supportive of the AEMC rules as we consider user pays is more equitable	We will propose a user pays fee in our AA. We will also update our risk assessment for dormant connections as part of our AA proposal.
General support for removing the Minor Meter Alter Position as a reference service, with moderate overall comfort (approx. two-thirds support).	AusNet is proposing to remove minor meter alter position from the ancillary reference service.	We will continue to offer this service as requested as a non-reference service but expect low volumes in the upcoming period.
Feedback that explanations of the hybrid cap should be simpler, more customer-focused, and clearly articulate impacts at both aggregate and individual levels. Concerns that the customer benefits of a hybrid price cap are unclear and less attractive than a price cap.	We have included a refined explanation of the hybrid cap and the reasoning for proposing this change using more customer-focused language in this Reference service proposal.	Our approach to moving to a hybrid cap will be fully detailed in our AA proposal. If approved by the AER, we will move to a hybrid cap for the 2028-33 period, with the first year where we would use the true up factor being 2030-31.

2. Reference services

2.1. Service classification

Reference services are defined services which the AER determines a set price cap for through the access arrangement process. The AER must have regard to the Reference service factors in the National Gas Rules (**NGR**) when deciding whether to classify a service as a reference service.

The reference service factors are:

(a) actual and forecast demand for the pipeline service and the number of prospective users of the service;

(b) the extent to which the pipeline service is substitutable with another pipeline service to be specified as a reference service;

(c) the feasibility of allocating costs to the pipeline service;

(d) the usefulness of specifying the pipeline service as a reference service in supporting access negotiations and dispute resolution for other pipeline services, such that:

(i) reference services serve as a point of reference from which pipeline services that are not reference services can be assessed by a user or prospective user for the purpose of negotiating access to those other pipeline services;

(ii) a reference tariff serves as a benchmark for the price of pipeline services that are not reference services; and

(iii) reference service terms and conditions serve as a benchmark for the terms and conditions of pipeline services that are not reference services;

(e) the likely regulatory cost for all parties (including the AER, users, prospective users and the service provider) in specifying the pipeline service as a reference service.

We are not proposing any new reference services in the upcoming access arrangement. We offer two types of reference services:

1. **Haulage reference services** cover the transportation of gas from injection to a customer's premise and include cost for operating the shared gas distribution network (i.e. the building blocks approved by the AER).
2. **Ancillary reference services (ARS)** are other services which meet the criteria in the reference services factors and which therefore it is useful to have price caps determined by the regulator.

We also provide **non-reference services** which do not have regulated price caps under our access arrangement.

2.2. Haulage services

2.2.1. Service definition

Our Haulage reference services recover the costs of transporting gas through the shared distribution network and supporting its safe and reliable operation.

AusNet currently has three tariffs for our haulage reference service:

- (1) **Tariff V (volumetric)** – haulage service tariff for residential and small commercial customers below the consumption threshold of 10,000 GJ per year, or a maximum hourly quantity (MHQ) of 10 GJ in any one hour;
- (2) **Tariff D (demand)** – haulage service tariff for industrial and large commercial customers consuming more than 10,000 GJ per year, or a maximum hourly quantity (MHQ) of 10 GJ in any one hour, and who have paid for their connection assets upfront. Tariff D customers also pay a separate charge to recover the cost of operating and maintaining mains extensions, services, metering, data loggers and all other installation-related costs for the customers dedicated distribution assets.

(3) **Tariff M (demand)** – haulage service tariff for customers who originally connected under Tariff V but now consume more than 10,000 GJ per year, or a maximum hourly quantity (MHQ) of 10 GJ in any one hour. These customers did not pay for their connection assets upfront and therefore have a higher demand charge than Tariff D.

AusNet proposes to retain all three haulage tariffs for the 2028–33 access arrangement period. These services continue to reflect the way different customer groups use the network and remain consistent with existing billing and operational arrangements.

Table 2: Changes to Haulage Reference Services

HAULAGE REFERENCE SERVICES		
SERVICE	DEFINITION	CHANGES
Haulage Reference Service	<p>Haulage Reference Services means:</p> <ul style="list-style-type: none"> (a) allowing injection of Gas at Transfer Points; (b) conveyance of Gas from Transfer Points to Distribution Supply Points; and (c) allowing withdrawal of Gas at Distribution Supply Points. 	<p>No changes proposed - this definition is consistent with our current AA,</p> <ul style="list-style-type: none"> • High demand (830,000 customers per year, expected to decline but remaining very large customer base in the 2028-33 period) • Not substitutable • Costs are predictable and can be reasonably allocated across users

2.2.2. Tariff structure

Tariff V is a volumetric tariff, with a fixed standing charge and 4 usage blocks, and Tariff D and M are demand tariffs based on a customer MHQ, with 3 MHQ blocks.

The structure of all our current haulage reference services tariffs is a **declining block tariff structure** which means customers pay less per unit as they consume more. It is not a formal requirement for networks to publish updated tariff structures or prices as part of a Reference service proposal. However, we note that in the upcoming AA period, we intend to flatten the price difference between our blocks but retain a declining block structure in the 2028-33 period. This approach allows us to:

- Promote tariff stability for customers between periods. While we see merit in transitioning to a flatter, more fixed charging structure, we consider this change should be implemented over multiple AA periods to ensure a smoother customer experience and transition overtime.
- Weaken incentives to increase gas demand, which is at odds with the emissions objective in the NGO and broader policy changes.
- Retains a signal that there is a marginal benefit from increasing consumption as this lowers overall unit costs.

We have not yet determined the degree of flattening which would achieve a balance of objectives. We will further consider as we design our tariffs in the lead up to submission of our access arrangement.

Feedback from our engagement included the importance of ensuring consideration of flatten on different customer segments as we design our tariffs.

We intend to revisit options and engage on tariff structures with stakeholders once other elements of our regulatory proposal have been developed and indicative bill impacts of different approaches have been modelled.

2.3. Ancillary reference services

2.3.1. Service definition

We are not proposing any new ancillary reference services (**ARS**). We have not proposed any changes to definitions to our existing services for our upcoming AA except for service abolishment residential which we have updated to

align with the definition included in our GDCoP in 2024 following the ESC review. The definition change does not change the service offering in practice. We have reviewed current and expected demand for these services and are proposing to change one service from an ARS to a non-reference service due to low demand.

Table 3: Changes to Ancillary Reference Services

ANCILLARY REFERENCE SERVICES		
SERVICE	DEFINITION	CHANGES
Meter and gas installation test	On-site Testing to check the accuracy of a Meter and the soundness of a Gas Installation, in order to determine whether the Meter is accurately measuring the Quantity of Gas delivered.	No change proposed: <ul style="list-style-type: none"> Moderate demand expected to continue (200 per year) Not substitutable Fixed charge can be allocated to individual user due to low variability in cost to deliver service
Disconnection	Disconnection by the carrying out of work, being: <ol style="list-style-type: none"> removal of the Meter at a Metering Installation, or the use of locks or plugs at a Metering Installation in order to prevent the withdrawal of Gas at the Distribution Supply Point. 	No change proposed <ul style="list-style-type: none"> High demand expected to grow (10,000 per year) Not substitutable Fixed charge can be allocated to individual user due to low variability in cost to deliver service
Reconnection	Reconnection by turning on Supply, including the removal of locks or plugs used to isolate Supply or reinstallation of a Meter if it has been removed, performance of a safety check and the lighting of appliances where necessary.	No change proposed <ul style="list-style-type: none"> High demand expected to continue (2,000 per year) Not substitutable Fixed charge can be allocated to individual user due to low variability in cost to deliver service
Special meter read	Meter reading for a Distribution Supply Point in addition to the scheduled meter readings that form part of the Haulage Reference Services.	No change proposed <ul style="list-style-type: none"> Very high demand expected to continue (250,000 per year) Not substitutable Fixed charge can be allocated to individual user due to low variability in cost to deliver service
Service abolishment – residential	Removing a meter and service line to prevent the withdrawal of natural gas at the delivery point for a Residential Tariff V Customer. The permanent removal of a residential Tariff V customer connection by: <ol style="list-style-type: none"> Cut and cap of the service within the street and removal of all above ground assets (including the meter); or Removing a meter and a service line to prevent the withdrawal of gas at the distribution delivery point. 	No change proposed. Adjustment to definition to align with jurisdictional regulations (GDCoP). <ul style="list-style-type: none"> High demand expected to grow (4,000 per year) Not substitutable Fixed charge can be allocated to individual user
Meter fix or reinstallation	Installation or reinstallation of a meter at a metering installation, performance of a safety check and the lighting of appliances where necessary.	No change proposed <ul style="list-style-type: none"> High demand expected to continue (15-20,000 per year) Not substitutable Fixed charge can be allocated to individual user

Minor meter alter position	Relocating an existing gas meter to a new position within 4 meters of the regional meter, in a single site visit.	<p>Currently an ancillary reference service. We are proposing to make this a non-reference service due to low demand expected:</p> <ul style="list-style-type: none"> • Moderate demand currently, expected to decline (currently 250 per year declining to under 50 from 2028). • This service is primarily undertaken when customers are renovating. Given legislated restrictions on gas connections where a building permit is required from 2027, most knockdown-rebuild properties will be required to remove their gas connection. Therefore, we expect demand for this service to decline.
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In our Stakeholder Roundtable meeting, we shared our proposed ARS services for 2028-33. We explained we are considering removing the minor meter alter position reference service due to low volumes. Participants supported continuation of AusNet providing the service and for an efficient process for pricing the service, noting options of quote on a case-by-case basis or a fixed price. AusNet clarified we would be able to set a fixed price for non-reference services if appropriate and more efficient. Participants were asked via a Menti poll their level of comfort level removing this ancillary reference service. 12 participants voted and the results showed 3.3 out of 5 (66%) level of support for this approach.

2.3.2. Tariff structure

All ARS services will have individual price caps for 2028-33, plus escalation annually for inflation. These prices will be determined through the AA process.

2.3.3. Residential abolishments

As above, we propose to maintain an ancillary reference service for residential abolishment services.

The Australian Energy Market Commission's (AEMC) recent final rule change determinations have mandated upfront connection and abolishment charging arrangements⁹.

It is not a requirement for service providers to publish reference service prices as part of a Reference service proposal, but we note that the recent AEMC rule changes will require AusNet to no longer partially socialise the costs of basic residential abolishments across remaining customers from the beginning of our next AA period, from 1 July 2028. Instead, abolishment charges will move to a fully cost-reflective, upfront charge paid by the customer requesting the service.

As a result, the abolishment charge is expected to significantly increase relative to the current socialised charge. This change means costs are paid by the customers who request the service and is consistent with national AEMC reforms to reduce cross subsidisation and improve equity between current and future customers.

The new price will be determined through the AA process and implemented by 1 July 2028.

2.4. Non-reference services

Non-reference services do not have regulated price caps under our access arrangement. Terms and conditions (including price) for these services are negotiated with customers, rather than being approved by the AER. These

⁹ [Establishing a regulatory framework for retail customer-initiated gas abolishment | AEMC](#)

services are low volume, highly variable and dependent on customer's specific needs. In the current period, non-reference services make up less than 4% of our total revenue.

These services include:

- New residential connections – see section 2.4.1
- Connection alterations including upgrade meter or service line size, downgrade meter size, pressure change
- Tracing of service lives
- Cross meter investigation
- Detailed meter retake and test
- Meter security and protection
- Non-residential disconnection
- Non-residential abolishment
- No access (gas meter)
- Any other negotiated service.

We expect there to be varied demand for these non-reference services in the upcoming AA period. We did not receive any feedback from our Stakeholder Roundtable to indicate material change in demand for specific non-reference services.

2.4.1. Residential connections

As above, we propose to maintain a non-reference service for residential connection services.

In Victoria, the Essential Services Commission (ESC) mandated upfront, user pays gas connection charging in 2024 through changes to the Gas Distribution Code of Practice (GDCoP), which came into effect on 1 January 2025. This is now consistent nationwide, with the Australian Energy Market Commission's (AEMC) recent final rule change determinations have mandated upfront connection and abolishment charging arrangements all other jurisdictions.

While residential connections have historically been high volume, they are currently a non-reference service given the change to upfront charges was introduced after the AER's final decision on our 2023-28 access arrangement. As part of our engagement on our Variation Proposal in 2024, we engaged on the approach to setting the upfront connection charge.

From 1 January 2027, new building regulations in Victoria will not allow any building permits to be issued with a reticulated gas connection¹⁰. Given building permits require construction to begin within 12 months, we expect a very limited number of new residential gas connection requests during the AA period starting 1 July 2028. We are accordingly proposing to retain this service as a non-reference.

As part of recent engagement on this Reference Service Proposal, we did not receive any feedback from our Stakeholder Roundtable that this should be a reference service considering the small number of connections expected during our next AA period.

¹⁰ [Building Electrification – Regulatory Impact Statement: New electrification regulations.](#)

3. Tariff variation mechanism

3.1. Form of control

The tariff variation mechanism approved in an access arrangement sets out the mechanism for recovery of revenue from haulage reference services by gas networks over the AA period. The form of control in AusNet's 2023-28 tariff variation mechanism for the 2023–28 AA period is a **weighted average price cap (WAPC)**.

A WAPC works by setting a price ceiling on the tariffs networks can charge, i.e. the cap is a dollar per unit of demand (GJ of gas consumed). Therefore, network revenue varies depending on actual gas demand throughout the AA period, but the price ceiling (\$/GJ) does not change when forecast and actual demand vary. This can result in networks receiving greater revenue when actual demand exceeds the forecast. In this scenario, customers continue to pay the pre-determined AA price cap which has a larger unit cost than what would be set if the price cap was set based on actual demand.

Alternatives to a WAPC include a revenue cap, which is currently used by electricity distribution networks, or a hybrid price cap, which is now used for all east coast scheme gas distribution networks outside of Victoria.

- **A revenue cap** sets a maximum allowable revenue a network can recover from customers but does not set a defined unit cost. Therefore, allowed network revenue does not vary from the forecast across the AA period, but customers prices vary due to actual demand. If demand exceeds the forecast, customers benefit through lower unit rates than forecast. If demand is below the forecast, the network is still able to recover the maximum allowed revenue but across lower demand than what was forecast, therefore customers pay a higher unit rate than forecast.
- **A hybrid price cap** approach uses aspects of both a revenue and a price cap to moderate the impacts of a revenue and a price cap when actual demand is materially different to forecast. The hybrid price cap used by Jemena Gas Networks, Australian Gas Networks (South Australia) and Evoenergy introduces a 5% revenue materiality threshold. Under the threshold, the hybrid cap operates as a price cap, and beyond which there is 50:50 sharing of volume risk between customers and networks. This blends elements of a revenue cap approach into the existing price cap form of control.

When deciding if a tariff variation mechanism is appropriate, the AER must have regard to the objectives outlined in rule 97(3) of the NGR. We propose a shift to a hybrid price cap based on assessing the options against the criteria:

(a) the need for efficient tariff structures; and

A price cap, incentivising network growth, no longer promotes efficient tariffs aligned with Victoria's emissions targets. Given Victorian Government policies ceasing gas connections for residential and commercial gas users, AusNet's network is now prevented from growing customer numbers. In this context, a price cap which incentivizes efficient use of the shared network through growth is inappropriate. Further, it is not fit for purpose to support continued service as demand declines because under recovery risk intensifies as volumes fall sharply within an AA period, as we have seen in recent years.

As acknowledged by the AER in their recent decisions, retaining a price cap would continue to reward networks when demand is higher than forecast and penalise networks when demand is lower than forecast, which creates an incentive for networks to encourage increased demand. This incentive is at odds with emissions reduction targets in Victoria. While AusNet does not promote increased gas use through marketing or other means today, this is against the incentives inherent to our form of control – moderating the price cap signal to grow demand aligns our incentives with these actions.

(b) the possible effects of the reference tariff variation mechanism on administrative costs of the AER, the service provider, and users or potential users; and

We expect the administrative costs of changing to a hybrid price cap to be low, given this is an existing mechanism used by other network businesses regulated by the AER.

Practically, the change should be administratively simple as the hybrid price cap broadly follows the current price cap mechanism, with a true-up mechanism which uses inputs which would be sourced and previously audited in our annual RIN process.

(c) the regulatory arrangements (if any) applicable to the relevant reference services before the commencement of the proposed reference tariff variation mechanism; and

Shifting to a hybrid price cap is a measured step which moderates the impact to customers of changing forms of control. AusNet's haulage reference service is currently recovered through a WAPC, and therefore moving to a hybrid price cap is appropriate first step to promote efficient tariffs and appropriate risk sharing in the changing and uncertain context of gas network demand. This is a smoother shift for customers than a change to a revenue cap, which may be appropriate in the future (as discussed below).

This proposed change will only impact network charges where there is a material deviation from our forecast demand in our AA. The impact on charges will be further moderated by the 50:50 sharing ratio and the set materially threshold of 5% revenue variation.

We have estimated the impact an average residential network charge to be \$10 or less under the proposed hybrid price cap design¹¹. In addition, where demand has decreased for an individual customer, the customers' usage component of their bills will typically partially or fully offset the increase in network charges due to the hybrid cap, meaning the total retail gas bill impact per customer will be less.

(d) the desirability of consistency between regulatory arrangements for similar services (both within and beyond the relevant jurisdiction); and

Our proposal to move to a hybrid price cap is consistent with the recent decisions on Jemena, Evoenergy and AGN (SA). We are proposing the same design parameters as used by these networks, as shown in Figure 6. This includes a 5% revenue materiality threshold and a 50:50 risk sharing.

(d1) the risk sharing arrangements implicit in the access arrangement; and

Adjusted risk sharing arrangements reflect the current dynamic environment where demand can be materially influenced by factors outside of networks' control and outside the scope of the AA to anticipate.

The regulator and network businesses have historically considered a price cap appropriate to place demand forecast risk and reward on networks. However, this was during a period of steady, organic gas demand growth. In periods of demand growth, both customers and networks can benefit under a price cap as networks earn higher revenue within the period and customers (individually) benefit through higher utilisation of infrastructure and lower efficient prices as a result.

While this principle remains true, AusNet's gas network is now in a period where residential customer numbers are not allowed to grow and external changes are driving sharp, material changes in demand. Following the 2023 final decision on AusNet's 2023-28 access arrangement, several significant policy changes arising from the Victorian Gas Substitution Roadmap have contributed to material reduction in demand which could not have been forecast at the time of our AA proposal. In response to these material changes, we submitted a Variation Proposal to our 2023-28 AA in September 2024.¹² In January 2025, the AER made a draft decision not to approve the Variation Proposal as the changes were not material. In March 2025, AusNet accepted the draft decision, choosing not to submit a Revised Proposal, acknowledging the AER's regulatory judgment with respect to short-term demand impacts.¹³

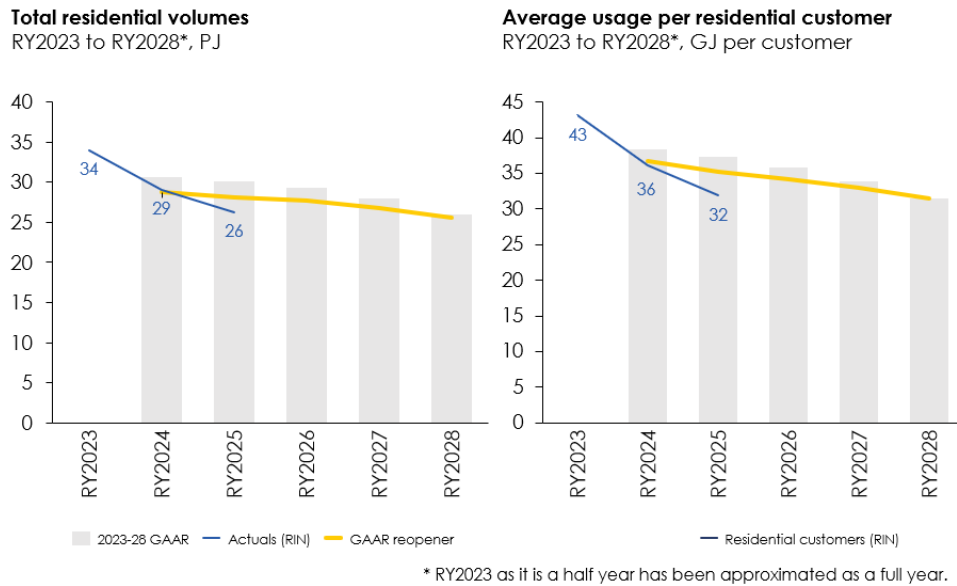
As shown in Figure 4, in the current 2023-28 period, residential demand has been lower than the final decision forecast and we therefore have recovered less revenue annually in 2023-24 and 2024-25. In addition, actual volumes are declining quicker than the revised forecast submitted our Variation Proposal. Price caps which place material weight on networks' demand forecasting ability are now unsuitable.

¹¹ AusNet analysis. Assuming an average residential bill is \$2,000 and the network charge is \$360 based on 2026 retail offers for AusNet postcodes (~35.2 GJ), and ESC reported median market offer (54.4GJ p.a.) for 2024-25. Customer impact calculated based on a deviation between actual and forecast gas volumes of less than 10%.

¹² [AusNet Access Arrangement 2023-28 - Variation Proposal | Australian Energy Regulator \(AER\)](#)

¹³ [AusNet Access Arrangement 2023-28 - Variation proposal | Response to AER draft decision](#)

Figure 4: Actual residential volumes compared to our 2023-28 GAAR and GAAR Variation Proposal



Source: AusNet

Where material demand changes can be driven by policy change which cannot be anticipated as part of network demand forecasts, demand risk is rapidly increasing and risk allocation for forecasting accuracy must be reconsidered to support network recovery of efficient costs. Networks should bear the risk of forecast inaccuracy due to foreseeable trends. However, networks should not be exposed to material risk where we cannot mitigate against unforeseeable policy impacts which are out of our control and beyond the scope of AA forecasts. At the time of our Variation Proposal in 2024, our proposed forecast included impacts from the legislated partial connections ban and upfront charging but excluded any gas appliance bans which the Victorian government was still in consultation on at the time. While this policy was anticipated, we received specific feedback from the AER and our engagement to forecast legislated policy only.

In addition to risk allocation, we have considered how to achieve stability for long-term customers prices. A revenue cap would effectively smooth price changes between AA periods where there is a clear annual trend in demand, but it could result in large year-on-year variability in network charges. At the same time, in Victoria where demand is decreasing, a price cap is likely to result in large increases every 5 years and will increase the risk networks cannot recover their full operating costs.

The proposed move to hybrid price cap is appropriate first step in the changing context of gas network demand. This approach is sufficient and appropriate to share the risk between networks and customers in the short term (the 2028-33 AA period), but note a move to a revenue cap in future AAs may be required if this risk becomes more material to the extent continued under recovery of forecast revenue affects the economic viability of the network over an upcoming AA period.

(e) any other relevant factor.

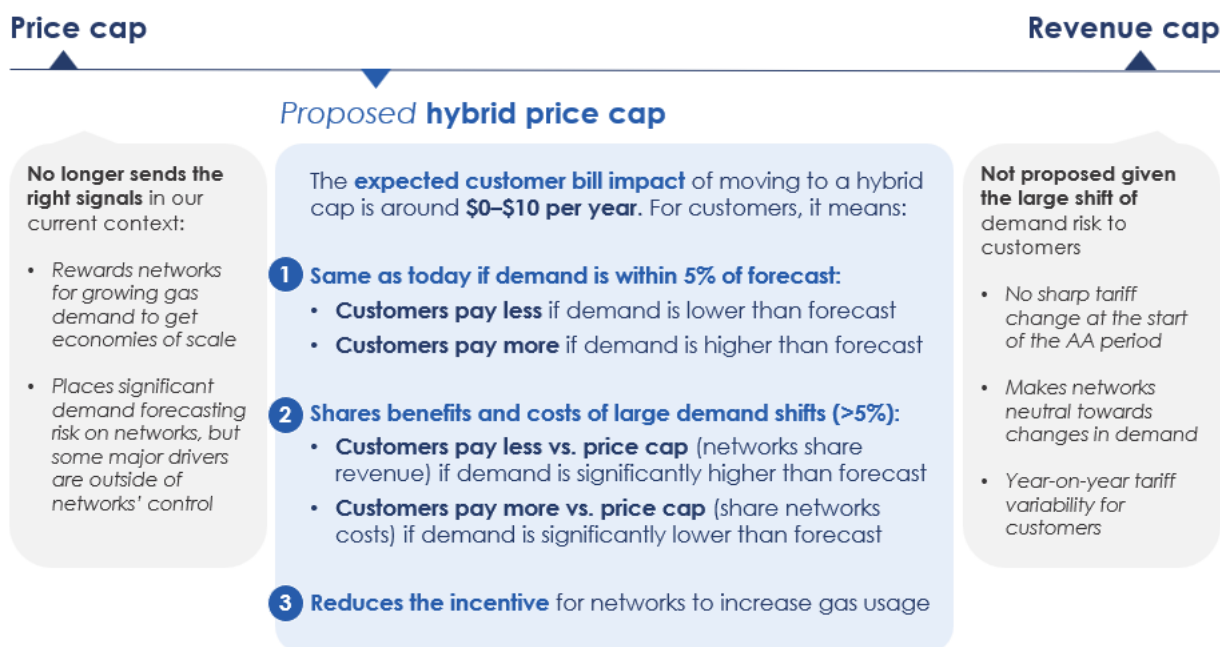
We engaged with our GDP and Stakeholder Roundtable on tariff variation mechanisms for our 2028-33 AA.

We provided stakeholders with an overview of the options and indicative impacts on network charges under the different options. We consulted on stakeholders' understanding of the impact and rationale of moving to a hybrid price cap. Some stakeholders raised the following:

- Questioned if there is material customer benefit from this change, with feedback from the Roundtable broadly perceiving a price cap as favourable due to stable prices for customers.
- Questioned the strength of the incentive for networks to increase demand and if this is sufficient reason to justify a change.
- Questioned the value of engaging with end-use customers on this change, given the customer relationship is with the retailer, the varying impact of a customer's total bills. There was a suggestion that more value may be derived from engaging on the cost allocation when the hybrid cap results in an increase in revenue.

While we recognise there are favourable aspects of a price cap for customers, in particular predictable prices, we reiterate our position that a hybrid price cap represents an appropriate change to ensure pricing structure remains fit for purpose over the long term given demand uncertainty, aligned with our assessment against the above criteria. Following feedback from our Roundtable, we discussed a customer-friendly comparison of the outcomes of our proposed hybrid price cap and the constraints for retaining a price cap and the alternative revenue cap approach in Figure 5.

Figure 5: Comparison of the proposed hybrid cap to alternatives, as shared with the GDP



3.2. Tariff control formula

AusNet's tariffs are updated and approved by the AER annually throughout an AA period based on the tariff variation mechanism. Our 2023-28 variation mechanism is outlined in Section 3 of Part B of the Access Arrangement for the Distribution System Reference Tariffs and Reference Tariff Policy in our 2023-28 AA. Aligned with the three gas distribution networks who have moved to a hybrid price cap, we propose the following new revenue true-up for annual pricing, to be incorporated into the Tariff Control Formula:

Figure 6: Proposed Revenue True-Up Factor

$$R = \begin{cases} (1.05 \times R^{Allowed} - R^{Actual}), & RR > 1.05 \\ 0, & 0.95 \leq RR \leq 1.05 \\ (0.95 \times R^{Allowed} - R^{Actual}), & RR < 0.95 \end{cases}$$

where

$R^{Allowed}$ is the allowed revenue, calculated as the sum of the products of actual Tariff for component j of the Reference tariff i that was charged in financial year $t - 2$ and the forecast quantity of component j of Reference tariff i that was included in the AER's determination for the 2028-33 AA period in Financial Year $t - 2$.

R^{Actual} is actual revenue from the Haulage Reference Service for the financial year $t - 2$

RR is the ratio of $R^{Actual} / R^{Allowed}$

However, when $t - 2$ is:

(a) Financial Year 2026 - 27, $R_{2028-29} = 0$; or

(b) Financial Year 2027 - 28, $R_{2029-30} = 0$.

In addition, we propose to remove our abolishments true up factor (At), consistent with section 132.3.3.

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