

8 October 2026

To: Australian Energy Market Commission
Re: Gas networks in transition – draft determination

Thank you for the opportunity for the Institute for Energy Economics and Financial Analysis (IEEFA) to provide input to the [draft determination](#) for *Gas networks in transition*.

IEEFA is an independent energy finance think tank that examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy.

IEEFA thanks the Commission for its consideration of the issues surrounding gas networks, which are important as the electrification transition accelerates. While we support some aspects of the draft determination, in some areas we consider it has diverged significantly from the original intent of the rule change request.

We are most concerned by the Commission's draft determination on accelerated depreciation, including limitations on regulators' ability to exercise discretion in approving networks' proposals. We consider the "switching point" analysis underlying the draft determination flawed, as networks are most likely beyond this switching point.

To illustrate these concerns, the first section of our submission contains a short piece of analysis of the impact accelerated depreciation on gas network charges in Victoria – where significant levels of residential electrification are already occurring, and likely to accelerate.

The second section summarises IEEFA's core concerns with the draft determination, several of which were raised in our previous submission.

The third section summarises our view on how the draft determination, in the form proposed by the Commission, could be improved to achieve better outcomes for consumers.

Please do not hesitate to contact me with any questions about our submission.

Kind regards,

Jay Gordon – Energy Finance Analyst, Australian Electricity

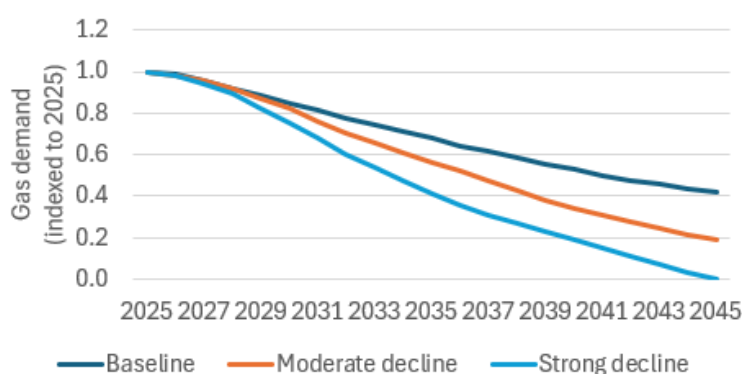
Electrification is already more competitive than gas

The Commission's draft determination relies heavily on the concept of a "switching point" at which electrification will become competitive with gas. This fails to recognise that most gas networks are likely beyond this switching point. IEEFA's analysis finds electrification offers attractive paybacks across Australia. For example, end-of-life appliance electrification often has a payback of [<1 year in Victoria](#). Victorian consumers have chosen to electrify more than [190,000 gas appliances](#) since 2023 alone.

To illustrate this point, IEEFA has undertaken a simplified analysis of Victoria's three scheme gas distribution networks based on three scenarios of future gas demand (Figure 1):

- **Baseline:** The maximum feasible residential gas demand trajectory in Victoria. Gas demand declines in line with state [regulations commencing in 2027](#), which require certain gas appliances be replaced by electric alternatives at end of life. No new residential gas connections are assumed. We do not account for [significant levels of voluntary electrification](#) already observed in Victoria, making this scenario conservative.
- **Moderate decline:** Based on AEMO's [Step Change scenario](#) from the [2026 Gas Statement of Opportunities](#) (GSOO). The number of residential gas connections is the midpoint between the baseline and strong decline scenarios.
- **Strong decline:** Residential gas demand declines to zero by 2045. This does not reflect any Victorian policy, although it aligns with the state's [net zero emissions target](#). This scenario is useful to model for this rule change package given the ACT has committed to [phase out fossil gas by 2045](#). Residential gas connections are also assumed to decline to zero by 2045 in this scenario.

Figure 1: Residential gas demand forecasts considered in the analysis



Our analysis takes the final post-tax revenue models (PTRMs) for each Victorian gas network ([AGN](#), [Multinet](#) and [AusNet](#)) from their most recent access arrangement decision as approved by the Australian Energy Regulator (AER), and manually extends the analysis to FY2033 (the expected end of the next access arrangement period).

Demand, customers, operating expenditure and metering expenditure is projected based on the gas demand forecasts. Other capital expenditure is projected as a continued trend from the prior access arrangement forecast, or at the average value of the last access arrangement (whichever is lower). Socialised abolishment costs are removed, in line with [a recent AEMC decision](#). We modelled four scenarios for accelerated depreciation, shown in Table 1:

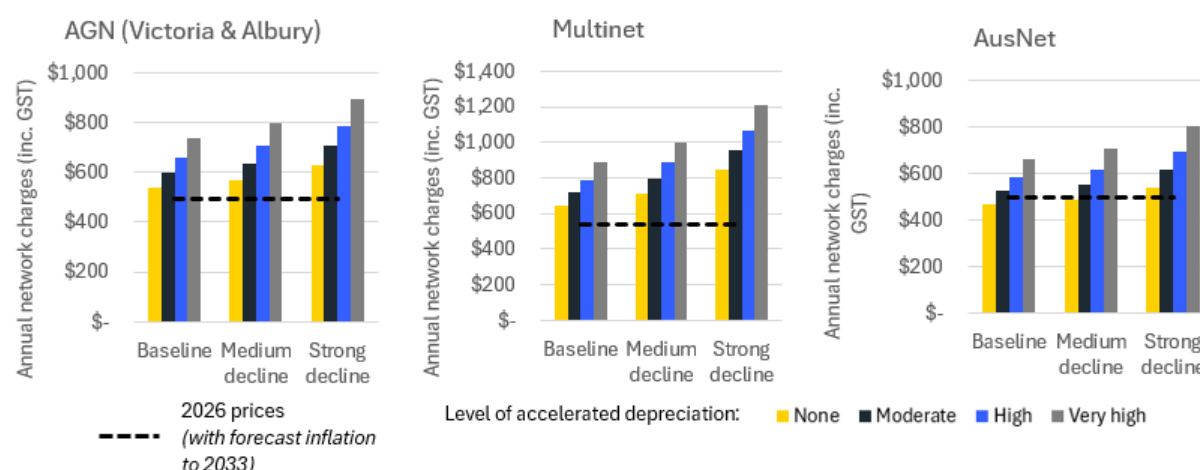
Table 1: Accelerated depreciation scenarios modelled

	Level of accelerated depreciation			
	None	Moderate	High	Very high
Percentage of RAB (FY29, forecast)	0%	6%	12%	20%
Reasoning		Average of final approved amount in last access arrangement	Average of network proposals in last access arrangement	Absolute maximum network proposal in last access arrangement (Evoenergy)

IEEFA considers the Commission's draft determination would encourage accelerated depreciation levels that align to the High or Very high scenarios.

We took the resulting standing and volumetric gas charges predicted by the extended PTRM for the FY2033, and applied this to a typical Victorian household with an assumed gas demand of 35 GJ a year. Figure 2 shows the resulting annual network charges. Results are nominal, assuming a return to target inflation levels. They exclude non-network gas bill components.

Figure 2: Forecast gas network charges for a Victorian residential gas customer, FY2033



Under all demand scenarios, accelerated depreciation drives significantly higher prices for consumers. The highest level of accelerated depreciation led to charges 38–49% higher than scenarios with no accelerated depreciation.

The analysis was sensitive to assumptions about future capex. Our default assumption included capex levels considerably lower than those in the networks' current access arrangement period. However, if actual capex were similar or higher to those levels, price rises would be higher.

The Commission [describes](#) accelerated depreciation as a tool that “helps reduce the risk that a declining number of future consumers bear a disproportionate share of capital costs”. However, Figure 2 shows that increased use of accelerated depreciation considerably accelerates the rise of gas prices for future customers in Victoria as early as the next access arrangement window.

In other words, Victorian gas networks are beyond the point where accelerated depreciation is a useful tool – it produces outcomes against the best interests of consumers.

While IEEFA has not yet extended this analysis to other states, we note that electrification is generally a competitive option for consumers across Australia, and other jurisdictions have, or are developing, policies that could accelerate electrification. This includes the ACT’s [Integrated Energy Plan](#) and NSW’s [Gas Decarbonisation Roadmap](#).

It is worth noting data from the AER shows the Victorian networks, in aggregate, “[over-recovered](#)” AU\$457 million from consumers between 2014 and 2022 alone. This sits alongside other drivers of significant gas network supernormal profits.

Core concerns with the draft determination

Perceived safety and reliability risks are not justified

The Commission is concerned that limiting accelerated depreciation may “adversely affect service providers’ incentives and/or ability to continue to provide safe and reliable services”. However, the depreciation profile on assets that are already built should not affect a service provider’s ability to operate that asset safely and reliably.

Claims that gas networks do not have adequate incentives to meet their regulatory obligations are concerning, particularly given they have made profits far exceeding their regulated allowance. This problem statement is both unjustified and unbounded, as the Commission presents no view of what an adequate level of incentive would look like.

Accelerated depreciation transfers risk to consumers.

The Commission [argues](#) that accelerated depreciation “should not be perceived as a transfer of stranding costs and risks to consumers, but rather a change in the timing of the recovery of those costs”. This implies that networks can be expected to recover the same costs regardless of whether their depreciation is accelerated or not.

If this were true, networks would have no motivation to request accelerated depreciation. In reality, the Retail Pricing Principles (RPPs) do not guarantee full cost recovery for gas networks. Accelerated depreciation lowers the risk of revenue under-recovery for networks, which is only possible by shifting greater cost recovery onto consumers.

Gas networks' incentives do not align with consumers'.

The Commission [argues](#): “where a service provider faces stranding risk, its incentives regarding the timing of capital recovery are likely, in most cases, to align with the NGO [National Gas Objective] and RPPs. This is because if they increase prices too much, this could trigger customer exit, which could lead to a greater amount of capital being stranded, which is not in service providers’ interest.” However:

1. This is inconsistent with the earlier claim that accelerated depreciation changes only the *timing* of cost recovery, not the *ability* to recover costs.
2. It ignores the fact that a large portion of gas customers are unable to leave in response to increasing prices. This includes renters – [>30% of households](#).

The emissions component of the NGO has not been adequately considered.

The Commission has previously provided [guidance](#) on how it will interpret emissions reductions in the NGO: “*emissions reduction is [...] one of the central considerations in determining if changes are in the long-term interest of consumers. [...] For each project, we will consider the impact of the proposed reform on the ability to meet the relevant emissions targets.*”

However, [this draft determination](#) takes a far more passive interpretation, claiming to be “*consistent with supporting an orderly transition to a lower-emissions energy system*”.

The Commission has not considered the direct impacts the draft determination may have on the ability for jurisdictions to meet their targets – for example by prolonging or shortening reliance on residential gas. The Commission should explain the impact its draft determination would have on the following targets from the [Emissions targets statement](#): Victoria’s gas substitution roadmap, and the ACT and Victoria’s net zero by 2045 targets.

Building on the draft determination

The Commission’s draft determination includes several positive features, including:

- The requirement for gas networks to provide a long-term outlook.
- Adjustments that ensure capital redundancy provisions are a usable regulatory tool.
- Stricter conditions requiring network expenditure proposals to be consistent with declining demand.

However, there are targeted areas in which the draft determination could be improved.

Ensure the long-term outlook is robust and independent

Gas networks have incentives under the regulatory regime to [propose demand forecasts](#) that may be inaccurate. There is no reason to expect this will not extend to long-term outlooks.

To address these risks and ensure the rule change is genuinely useful, the Commission should specify more explicitly how these should be developed. Specifically, IEEFA suggests networks' central long-term outlook must include, with a clear explanation:

- The impact of relevant state/federal policies, and;
- The impact of recent residential electrification trends.

Networks should be required to include sensitivities as part of the outlook, which could include:

- Forecasts based on AEMO's most recent Gas Statement of Opportunities, and;
- Sensitivities including an accelerated decline of gas demand.

An explanation should be provided as to if, and why, these differ from the central forecast.

Regulatory discretion should be preserved

The proposed decision model for accelerated depreciation imposes a considerable regulatory burden, which, in IEEFA's view, could limit the regulator's ability to operate effectively. This model would allow the regulator to reject or reduce a network's accelerated depreciation proposal only if it can suggest an alternative approach that better aligns with the NGO.

Network businesses have considerable resources that can be dedicated to develop their accelerated depreciation proposal, which the AER is unlikely to be able to match. IEEFA is concerned that this creates a practical limit on the regulator's ability to challenge network proposals. This is particularly concerning as we do not agree that networks' incentives to set appropriate levels of accelerated depreciation align with the best interests of consumers.

IEEFA prefers decision-making model D or E. We also note that decision-making model C.i would be considerably preferable to C.ii as it allows the regulator greater flexibility to act in the long-term interests of energy consumers.

Allow capital redundancy provisions to be used as needed

The suggested improvements to capital redundancy provisions are a useful step. However, the Commission suggests restricting their use to, *"once it becomes clear that stranding can no longer be averted (i.e. when competition from alternative energy sources becomes evident)"*.

As the competition from electrification as an alternative to gas is already evident, and gas decline is now certain for at least the majority of scheme gas distribution networks, we suggest the rules are implemented in a way that does not restrict regulators from applying the capital redundancy provisions within the next access arrangement period for a given network.