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Letter sent via email to: AERinquiry@aer.gov.au

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Dear Gavin

Submission on Australian Gas Networks South Australia 2026 – 2031 Reference Service Proposal

Thank you for the opportunity to provide a submission on the Australian Gas Networks (AGN) South Australia Reference Service Proposal for the 2026/27 to 2030/31 regulatory period (**Reference Service Proposal**).

The Commission's submissions relate to the classification of abolishment as a reference service, consideration of future customer number scenarios and engagement on alternative tariff structures.

Abolishment as a reference service

The Commission supports AGN's proposal to classify service abolishment, temporary disconnection and meter removal as ancillary reference services for the new regulatory period.

This classification means the the price of abolishment, temporary disconnection and meter removal would be regulated by the AER. The Commission considers this important, particularly in relation to abolishment. This classification would provide certainty about the price of abolishment for customers and improve transparency about how the costs of abolishments are recovered. It is consistent with AGN's approach in its Victorian distribution networks.

In the current regulatory period, abolishment has been classified a non-reference service and AGN has advised that its practice is not to charge for abolishments. The Commission understands that this is because charging for this service may give customers an incentive to abandon connections without proper abolishment and, as such, introduce a safety risk. The South Australian Office of the Technical Regulator is engaging with AGN on the safety risks associated with dormant connections and the correct provision of disconnection services.

The Commission understands that AGN currently recovers abolishment costs from its customer base through distribution haulage tariffs. While current demand for abolishment is moderate (estimated at 1866 per year), there is some indication in South Australia that customer preferences for gas are shifting, creating uncertainty about whether this service may be requested more in future. Considering a future scenario where there are increasing abolishments combined with decreasing numbers of gas customers, revenues from the current distribution haulage tariffs may not be sufficient to cover abolishment costs.

If those costs were to be shared across remaining gas distribution customers, distribution haulage tariffs would likely need to increase. Increased distribution tariffs may in turn incentivise other customers to consider leaving the network, and so on.

The Commission recommends careful consideration of whether the costs of abolishment should be paid by customers leaving the network or spread across the broader customer base. This should include consideration of whether the price set for that service may increase safety risks due to customers selecting an inappropriate disconnection service.

Future customer number scenarios

Currently, AGN's customer numbers continue to increase and are projected to increase slightly over the current Access Arrangement period. Gas use per customer is declining slightly.

There are no policies in South Australia that encourage or incentivise customers to discontinue using gas. The South Australian Government has indicated that it intends to release a White Paper on the energy transition later this year, which will discuss the future of gas in South Australia.

There is some indication that consumer preferences for gas are shifting. Research from Energy Consumers Australia shows that around 10 percent of South Australian households have seriously considered cancelling their gas supply and converting to electricity only. The Australian Energy Market Operator's *2024 Gas Statement of Opportunities* forecasts decline in residential and small commercial gas consumption in South Australia.

Given this, there is uncertainty about future demand for gas distribution services in South Australia. Future demand will be influenced by the cost of gas relative to electricity, the cost of converting to electric appliances, the level of consumer control over energy use (for example, whether the customer is an owner-occupier or tenant) and government policy settings.

Customer numbers, and the potential for customer numbers to change, are important considerations in tariff design. Network tariffs may need to rise if costs are shared across fewer customers. This may in turn cause more customers to leave the network, requiring further network tariffs rises. Remaining customers may be those least able to afford tariff increases or switch to electric appliances. Price structures with high fixed costs (and to an extent, declining block tariffs) may pose a barrier to partial or progressive electrification, and so limit consumer resilience to future change.

The Commission considers that there is benefit in considering future customer number scenarios in making the decision about tariff structure for the next regulatory period. AGN did not present future customer number scenarios as part of its engagement on its draft Reference Service Proposal.

Engagement on alternative tariff structures

The Commission notes that AGN is proposing to continue its declining block tariff structure in the new regulatory period. It considers that AGN's assessment of alternative tariff structures may have been better informed by providing customers and stakeholders with additional information and conducting further engagement.

For example, additional information could have included the number of customers that would benefit or be worse off under each of the alternative tariffs. This would have complemented the information provided about whether, given alternative tariffs, bills would be higher or lower at different levels of consumption.

Further engagement could have been used to understand customer support for alternative tariffs. For example, exploring the detail of the alternative tariff structures with customers could have revealed how their own bills would be affected, and provided a sound basis for informed feedback. Such engagement could have helped test assumptions about the sensitivity of demand to price changes,

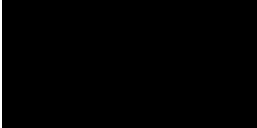
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which would be relevant to assessment of estimated emission impacts. Engagement could have explored the potential interaction between customer numbers and tariff structure noted above.

The Commission considers that there may be benefit in further engagement with customers on tariff design for the new regulatory period.

Thank you for considering our feedback on the AGN Reference Service Proposal. Should you wish to discuss these matters further, please contact Rowan McKeown, Senior Policy Officer, on [REDACTED] or via email on [REDACTED].

Yours sincerely



Adam Wilson

Chief Executive Officer

Letter will only be sent electronically