

**Hearing date:** 11/02/2026

**Directed to:** John Godfrey,  
VEFN

**Asked by:** Ryan Batchelor  
MLC

## Response to Question on Notice

**Question (Ryan Batchelor MLC):** *“You mentioned the depreciation rules. Are they set? Are they Commonwealth tax rules, are they regulatory rules or are they state-based rules? We have got a remit that we can make recommendations on. Obviously we have got limited scope elsewhere. You may not know the answer now. You can take it away on notice.”*

### Part 1: The Nature of Gas Infrastructure Depreciation Rules

The depreciation rules governing gas infrastructure are primarily **regulatory rules** rather than standard Commonwealth tax rules. These rules are part of the National Gas Rules (NGR), which are administered by the Australian Energy Regulator (AER).

It is important to distinguish “regulatory depreciation” from the corporate tax depreciation that affects company profits. In the gas network context, regulatory depreciation determines how much of the capital cost of the physical pipeline network, the Regulatory Asset Base (RAB), can be recovered from Victorian consumers through their customer charges (daily connection plus usage charges). Unlike corporate tax depreciation, which is a matter between a company and the Australian Taxation Office, regulatory depreciation directly determines what consumers pay and regulatory depreciation rates are approved by the AER.

Currently, gas network assets are often depreciated over very long periods (up to 50 years<sup>1</sup>). As customers leave the network, the remaining users must cover the same fixed depreciation costs, causing bills to escalate. This is the mechanism at the heart of the “death spiral” described in VEFN’s submission.

**The Committee’s remit:** While the AER is a national body, Victoria is a participant in the national energy market. Critically, gas and electricity network and retailing legislation operates at state level, which provides scope to add to or modify national-level mechanisms. Victoria has exercised this power before, for example by requiring retailers to participate in the Victorian Energy Upgrades scheme and by applying stronger consumer standards. The Committee therefore has the remit to recommend that the Victorian Government:

1. **Advocate through the Energy Ministers’ Meeting** for urgent changes to the National Gas Rules regarding accelerated depreciation and fair cost-sharing.
2. **Use state-based legislative triggers** to mandate transition plans that align depreciation with the state’s 2045 Net Zero target.

It is also worth noting the significance of a recent amendment to the National Gas Objective (NGO). In August 2024, the NGO was amended to explicitly include “the achievement of targets...for reducing Australia’s greenhouse gas emissions.” This is a fundamental shift. It

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<sup>1</sup> AER’s final decision on MGN’s standard asset lives for the 2023–28 period had several asset classes, such as services, with a 50 year life while at the same time MGN was claiming accelerated depreciation for services. This assumes that customers will still be paying gas charges in 2077. Refer table 4.3 in <https://www.aer.gov.au/documents/aer-final-decision-mgn-2023-28-attachment-4-regulatory-depreciation-june-2023>.

means the AER is now legally required to consider climate targets alongside price and reliability. In the context of this inquiry, this supports the argument that maintaining an oversized gas network is no longer “in the long-term interests of consumers” if it contradicts state and federal emissions laws.

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## Supplementary Response: What ‘Urgent Changes’ to Accelerated Depreciation and Fair Cost-Sharing Does VEFN Suggest?

In anticipation of the Committee’s interest in the practical details of reform, VEFN offers the following supplementary response outlining the specific changes we believe are necessary. VEFN’s position is that accelerated depreciation must not be used as a “cash grab” by networks to extract value from a shrinking pool of vulnerable customers before the system collapses. Any reform must be conditional, transparent, and fair.

### 1. Link Accelerated Depreciation to ‘Pruning’ Plans

Instead of allowing networks to accelerate depreciation across their entire asset base simultaneously, VEFN proposes that it should be conditionally granted. Accelerated depreciation should only be approved for specific “network elements” or sections (streets/suburbs) that are part of a Mandatory Gas Transition Plan. This ensures that the additional revenue collected from consumers is directly used to fund the orderly retirement of specific pipes, rather than simply boosting the network’s overall balance sheet while they continue a “business as usual” approach elsewhere.

This approach is directly supported by the move toward **sectional decommissioning accounting**. The current model treats all 34,000 km of the Victorian pipeline as one giant asset base. VEFN advocates for the AER to move toward sectional accounting, allowing for a street-by-street retirement of the asset base. This prevents the fixed costs of a retired street from being “smeared” across remaining users in other parts of the state and provides the granular framework necessary for linking depreciation to decommissioning.

### 2. Fair Cost-Sharing: The ‘Company Pays’ Principle

As stated in VEFN’s verbal evidence, the cost of decommissioning must not fall solely on consumers or taxpayers. VEFN proposes a framework where network shareholders, not just consumers, absorb a meaningful portion of the “stranded asset” risk.

The justification for this is clear. As detailed in Part 2 of VEFN’s submission, an IEEFA analysis found that Australia’s regulated gas networks earned an estimated \$1.8 billion in “supernormal profits” between 2014 and 2022, nearly doubling their regulator-approved allowance. These excess profits were not the result of exceptional efficiency; they were largely driven by systemic under-forecasting of demand and outperformance on the cost of debt. Gas networks have made billions in guaranteed returns over decades as regulated monopolies. If their business model is no longer viable, it is the companies that should fund a significant share of the decommissioning of their own infrastructure, just as oil refineries were required to do when they closed. New Zealand’s 2021 legislation ensuring fossil fuel companies bear decommissioning liability provides a key international precedent.

### 3. Protect Vulnerable Users from the ‘Death Spiral’

A key concern for VEFN is that those left on the network will be those who cannot afford to leave: renters, low-income families, and social housing tenants. VEFN advocates for a regulatory price cap on the network component of gas bills for low-income households. Any shortfall created by this cap should be covered by a transition fund financed by the network

companies or through the broader “fair cost-sharing” framework described above, rather than simply being redistributed to other remaining customers.

#### 4. Leverage the ‘Total Entity’: A Transition Offset Mechanism

VEFN also draws the Committee’s attention to a sophisticated but important dimension of this debate: the relationship between regulated network businesses and their unregulated subsidiaries. The current regulatory framework treats the regulated “pipes” as a silo. However, major distribution network service providers (DNSPs) also operate unregulated subsidiaries that are actively building businesses in distributed energy resources (DER), such as micro-grid management and “behind the meter” services. Mondo, a subsidiary of a major Victorian distributor, is one such example.

This creates both a risk and an opportunity. The risk is one of cross-subsidisation, where a monopoly’s guaranteed revenue is used to undercut smaller competitors. The AER’s ring-fencing guidelines are designed to prevent this. The opportunity, however, is to use this broader corporate picture to help fund the transition. VEFN proposes three specific measures:

- **Transparency of Unregulated Revenue:** Recommend that the Victorian Government advocate for the AER to require DNSPs to disclose how their unregulated “transition businesses” are performing.
- **A ‘Transition Offset’ Mechanism:** Propose a mechanism where a portion of the profits from a network’s “new energy” businesses could be used to offset the accelerated depreciation costs of their “old energy” assets. This ensures that the cost of the “death spiral” does not fall solely on the last remaining gas users.
- **Performance-Based Decommissioning:** Tie the ability to write off assets faster to the network’s success in helping a specific suburb or “zone” reach a 100% electrification threshold. Community-led models, such as the Totally Renewable Yackandandah project where a DNSP subsidiary worked with a community to fast-track electrification, demonstrate that this approach is practical.

This approach has the potential to turn the networks from “opponents of the transition” into “partners in the transition,” provided there is strict oversight to ensure they are not simply “double-dipping” at the expense of Victorian households. If networks are permitted to transition their business models into DER management and “nano-grid” controllers, they may be more willing to accelerate the decommissioning of their legacy gas infrastructure. The networks possess the technical maps and expertise to lead this work; the task is to create regulatory incentives that align their commercial interests with the public interest.

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