evoenergy

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Dr Kris Funston
Executive General Manager, Network Regulation Division
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Dr Funston

Director certification of the reasonableness of the key assumptions that underlie the capital and operating and expenditure forecasts

In accordance with S6.1.1(5) and S6.1.2(6) of the National Electricity Rules, I confirm that the ActewAGL Partnerships Board, after receiving relevant assurances from management, passed a unanimous circulating resolution to certify the reasonableness of key assumptions that underlie Evoenergy's capital and operating expenditure (capex and opex) forecasts for the 2024–29 regulatory period proposal. The key assumptions underpinning the capex and opex forecasts are outlined in the table below.

Yours sincerely

[redacted]

Element of forecast	Key assumption
National Electricity Rules S6.1.1(4) – Key assumptions that underlie the capex forecast	
The weighting of project components underlying capex forecasts	The labour cost escalators developed by BIS Oxford Economics (BISOE) have been applied to forecast capex for the 2024–29 period, using cost weightings that have been internally developed (based on historic project information) to determine the impact that cost escalators have on the overall price of different projects. Non-labour cost components of projects have had a zero real cost escalation factor applied to them.
Capital contribution forecasts based on historical trends	Forecast capital contributions are based on Evoenergy's connection policy (approved by the Australian Energy Regulator (AER)) for each category of customer-initiated capex.
Demand forecasts have been used to develop augmentation related capex forecasts	Ten-year forecasts of maximum summer and winter load demands at all zone substations have been developed. Evoenergy's zone substation forecasts use a fully Bayesian model the historical trend of demand growth, and to forecast future peak demand. Two separate forecast scenarios are produced, for summer and winter peak demands. The net zero model, developed by an independent consultant, has also been used to forecast demand on a longer-term timeframe, which has informed net zero related augmentation projects.
Replacement expenditure forecasting approach	Asset replacement and renewal is forecast using a zero-based approach utilising Evoenergy's established asset management system. Key drivers of asset renewal include asset age, reliability, functionality, and maintenance expense. Each asset is analysed and prioritised for replacement based on the input of a series of condition reports and risk ratings, generating a work schedule for the replacement of assets by financial year and the associated capex cashflow. This information is summarised in four separate asset portfolio strategies which have been appended to the capex attachment.
Augmentation expenditure (augex) forecasting approach	Augex projects are built into Evoenergy's asset investment optimisation tool (PowerPlan) and future demand-driven investment is forecast taking into consideration load forecasts, customer-initiated requests, density, and other growth projections. It is forecast on a zero-based approach and therefore changes year-to-year, based on the number of projects. A smaller component of augex is not demand-driven but driven by factors such as quality and compliance with regulatory obligations. This component has been forecast on a bottom-up basis.
Connections forecasting approach	Connections capex has been forecast as the total of different categories (services, new urban development, urban infill, commercial and industrial developments, special customer requests and rural developments). For larger categories of connections expenditure, the forecast follows a zero-based approach, with forecast developments based on a range of key drivers, e.g. Australian Capital Territory (ACT) Government land release and planning announcements. This has an element of a top-down approach as historical spend in different connection categories is considered as well. For smaller categories of connections expenditure (such as rural or special connections), a recent historic average has been used as the forecasting methodology. The Customer Initiated Works appendix details the forecasting methodology for each category of connections expenditure.

Element of forecast	Key assumption
National Electricity Rules S6.1.1(4) – Key assumptions that underlie the capex forecast	
Non-network forecasting approach	Non-network Information and Communications Technology (ICT) is the major component of non-network capex and is forecast driven by the Evoenergy Technology Plan which separates capex into recurrent and non-recurrent. Our ICT capex forecast has been developed on a bottom-up basis with individual projects identified to address the planned activities across our ICT landscape (including systems, infrastructure, communications etc). Evoenergy has used a standardised cost estimating approach for the majority of projects as a bottom-up build of project costs has not been available. For other categories of non-network capex, such as fleet, forecasts have been done on a bottom-up basis with adjustment for electric vehicle costs relative to traditional vehicles. Property and corporate services business support have been forecast on a bottom-up basis, based on prudent business needs.
Capitalised overheads	All corporate costs are recovered via the fixed price servicing charge (FPSC) and are allocated to each of the businesses based on a series of cost attributions using relevant activity drivers. Evoenergy has forecast its capitalised overheads based on a historical ratio of the FPSC to its total proposed expenditure (totex).
National Electricity Rules S6.1.2(5) – Key assumptions that underlie the opex forecast	
Base year forecasting approach	Base year opex is adjusted for the Demand Management Innovation Allowance, movements in provisions, inflation, the ACT Government's Large Feed in Tariff administration costs (contingent on inclusion in the ACT Government's Reasonable Cost Determination), the incremental change between the AER's base and final year allowance, and category specific forecasts such as debt raising costs (DRC). This results in a final year opex of $68.3 million (2023/24 dollars) which is trended forward based on the AER's preferred approach under the Expenditure Forecast Assessment Guideline.
Price growth (cost escalators)	BISOE was engaged to provide labour cost escalation forecasts. The average forecast real labour cost escalation for 2024–29 is 0.8 per cent per year. The same cost escalation forecasts have been adopted in the capex and opex models.
Output growth	The opex forecast assumes average annual output growth of 1.3 per cent based on our forecast of network scale drivers, including customer numbers, circuit length and ratcheted maximum demand (RMD). Maximum demand incorporated into the forecast will be consistent with revised regulatory information notice (RIN) data to accommodate measuring utilised network capacity at the ACT bulk supply points in relation to capturing the use of dual function assets and the role that Evoenergy plays in supporting the transmission system. Output weights are based on coefficient results from updated econometric cost function modelling. The output weights adopted have been based on benchmarking analysis using revised RMD RIN data (yet to be submitted to the AER), rather than outputs from the AER's 2022 benchmarking analysis.
Productivity growth	An annual productivity growth rate of 0.5 per cent has been applied to the opex forecast, based on the AER's 2019 review of productivity and recent regulatory determinations.

Element of forecast	Key assumption
National Electricity Rules S6.1.1(4) – Key assumptions that underlie the capex forecast	
Step change	The opex forecast includes step changes for: • Insurance premiums reflect updated Marsh estimates, which have been adjusted to only include Evoenergy's electricity network costs based on the approved Cost Allocation Methodology, and ensure that costs associated with the increase in network scale are not double counted; • Security of Critical Infrastructure requirements to achieve a higher security profile level to ensure compliance with amended legislation and rules; and • Distributed energy resources integration which is supported by a cost benefit analysis undertaken by Cutler Merz to substantiate an increase in expenditure.
DRC	DRC are based on a benchmark rate, and the debt portion of the regulatory asset base.