evoenergy

Appendix 4.7: CESS provisions for access arrangement 2036–31

Revised 2026–31 access arrangement information

ACT and Queanbeyan-Palerang gas network access arrangement 2026–31

Submission to the Australian Energy Regulator

January 2026

Access arrangement for the ACT and Queanbeyan-Palerang gas distribution network

1 July 2026~~21~~ - 30 June 2031~~2026~~

4. Capital Expenditure Incentive Mechanism

Operation of the incentive mechanism

~~The incentive mechanism specified in this clause 4 will apply to capital expenditure (defined to exclude certain expenditure as per clause 4.2(e) and be referred to as the Capital Expenditure Sharing Scheme or the CESS. The CESS may result in a CESS reward or penalty for Evoenergy.~~

4.1 The incentive mechanism specified in this clause 4 will apply to capital expenditure (defined to exclude certain expenditure as per clause 4.2(e) and ~~be~~is referred to as the Capital Expenditure Sharing Scheme or the CESS. The CESS may result in a CESS reward or penalty for Evoenergy.

~~4.1~~4.2 The CESS will operate in the following way:

(a) The annual efficiency gain (or loss) under the CESS will be calculated by subtracting Evoenergy's actual capital expenditure from the approved capital expenditure allowance in each year of this Access Arrangement Period. For the final year (and in some instances the penultimate year) an estimate of actual capital expenditure will be used.

(b) The efficiency gain (or loss) for each Financial Year will be compounded into its Net Present Value (**NPV**) as at the end of the Access Arrangement Period using the nominal WACC for each year of the Access Arrangement Period updated annually within the PTRM and calculated in accordance with the AER's Final Decision and the Rate of Return Instrument. In doing so, it is assumed that capital expenditure is incurred in the middle of the year.

(c) The total efficiency gain will be shared between Evoenergy and Users who are provided the Transportation (including metering) Reference Service. The CESS reward or penalty for Evoenergy will be calculated by adjusting its share of the total efficiency gain for any financing benefits of underspending or financing costs of overspending and, in the case of a CESS reward, deterioration in average asset performance in certain circumstances.

(d) For the purpose of calculating the annual efficiency gain (or loss), the approved capital expenditure allowance is to be adjusted to take into account a change in the scope of activities in accordance with the approach outlined below or for any Cost Pass Through Event that the AER~~Relevant Regulator~~ has determined has an Administrative Cost Impact.

(e) For the purposes of applying the CESS capital expenditure is defined to:

(i) exclude expenditure related to connecting customers (i.e. connections capex under Part 12A of the National Gas Rules);

(ii) reduce by any capital contributions towards expenditure not covered by subclause (i) above; and

(iii) reduce by any asset disposals.

(f) A discount rate will be applied to account for the time value of money. This adjustment will also be required for the penultimate year of the Access

Arrangement Period where finalised actual capital expenditure figures are not available before the AER's Final Decision is made.

4.24.3 The total efficiency gain is calculated as a summation of the annual efficiency gains (or losses) converted to 20302025-31226 NPV. The calculation for each year's annual end of year efficiency gain is calculated in accordance with clause 4.4. The calculation of future NPV for each year is calculated in accordance with clause 4.5.

4.34.4 The annual end of year efficiency gain or loss (**AEG**) for each year in Year *n* value in the Access Arrangement Period is calculated as follows:

$$AEG_n = (F_n^C - A_n^C)$$

where:

$$F_n^C = (1 + Real\ WACC_n)^{0.5} \times F_n$$

$$A_n^C = (1 + WACC_n)^{0.5} \times A_n$$

and where:

n is the sequence number of Financial Year in the Access Arrangement Period (20261-272 is 1, 20272-283 is 2, 20283-294 is 3, 20294-30225 is 4 and 20302025-31226 is 5);

$WACC_n$ is the nominal WACC for year *n* updated annually within the PTRM and calculated in accordance with the AER's Final Decision and the Rate of Return Instrument;

$Real\ WACC_n$ is the real vanilla WACC for year *n* calculated in the PTRM using $WACC_n$ and the forecast inflation set out in the AER's Final Decision;

F_n^C is the capital expenditure allowance for Financial Year *n* in year-end Year *n* value;

A_n^C is actual capital expenditure for Financial Year *n* in year-end Year *n* value;

F_n is the capital expenditure allowance for Financial Year *n* in mid-year Year *n* value using actual inflation where known and where not known, using the forecast inflation set out in the AER's Final Decision; and

A_n is the actual expenditure for Financial Year *n* in mid-year Year *n* value in nominal dollars (i.e. dollars as incurred).

4.44.5 The AEG in clause 4.4 will be converted to NPV as at the end of the Access Arrangement Period. This will be through the use of the nominal WACC for each year of the Access Arrangement Period updated annually within the PTRM and calculated in accordance with the AER's Final Decision and the Rate of Return Instrument.

For example:

Year 1 efficiency gain (*n*=1 and being the 20261-272 Financial Year) will be compounded to the end of the Access Arrangement Period using the following formula:

$$NPV_{2031}(AEG_1) = (1 + WACC_2) \times (1 + WACC_3) \times (1 + WACC_4) \times (1 + WACC_5) \times AEG_1$$

Year 2 efficiency gain (n=2 and being the 20272-283 Financial Year) will be compounded to the end of the Access Arrangement Period using the following formula:

$$NPV_{2031}(AEG_2) = (1 + WACC_3) \times (1 + WACC_4) \times (1 + WACC_5) \times AEG_2$$

4.54.6 The CESS will share efficiency gains or losses in the following way:

(a) A sharing factor of 30% will apply to the total efficiency ~~gain or~~ loss. ~~This~~ This means that Evoenergy will bear 30% of any loss~~, and will retain 30% of any gain.~~; and

(b) The sharing factor applicable to any efficiency gain will be:

(i) 30% for any underspend up to (and including) 10% of the approved capital expenditure allowance; and

(ii) 20% for any underspend that exceeds 10% of the approved capital expenditure allowance,

calculated as follows:

$$Sharing\ factor = \begin{cases} 30\%, & C^u \leq 10\% \\ \frac{C^u - 10\%}{C^u} \times 20\% + \frac{10\%}{C^u} \times 30\%, & C^u > 10\% \end{cases}$$

where

C^u is the percentage of capital expenditure over or underspent against the AER allowance.

C^u is calculated as: $C^u = (TF^c - TA^c)/TF^c$

where:

$$Total\ forecast\ capex\ TF^c = \sum_{n=2026-27}^{2030-31} \left(F_n^c \times \prod_{t=n+1}^{2030-31} (1 + CPI_t) \right)$$

$$Total\ actual\ capex\ TA^c = \sum_{n=2026-27}^{2030-31} \left(A_n^c \times \prod_{t=n+1}^{2030-31} (1 + CPI_t) \right)$$

F_n^c and A_n^c are as defined in clause 4.4

CPI_t is as defined in Schedule 4 clause 24.8

The remaining gains or losses will be returned ~~The remaining 70% will be returned~~ to Users who are provided the Transportation (including metering) Reference Service.

~~(a)~~(c) Evoenergy's share of the total efficiency gain is calculated as follows:

$$Service\ Provider's\ share = Total\ efficiency\ gain \times sharing\ factor$$

~~4.6~~4.7 The CESS will account for net financing benefits in the following way:

(a) The CESS takes into account benefits or costs that have already accrued to Evoenergy during the Access Arrangement Period in order to ensure that the power of the incentive is the same in each Financial Year. This is the financing benefit of any underspend and the financing cost of any overspend.

(b) Capital expenditure is assumed to be incurred in the middle of each Financial Year and would be adjusted to end of year terms. In the case of an underspend, Evoenergy will recover a financing benefit (in the year following an underspend) equal to the underspend, in the preceding years, multiplied by the real WACC in the year.

(c) The financing benefit from preceding years will be compounded, namely, the financing benefit for each year will be compounded to its NPV using nominal WACC at the end of the Access Arrangement Period. In doing so it is assumed financing benefits accrue at the end of the year. To calculate the total financing benefit, the annual financing benefits in NPV terms are summed.

(d) The end of the year net financing benefit for each year is calculated in accordance with clause 4.7(e). The calculation of the future NPV for each year is calculated in accordance with clause 4.7(f).

(e) The annual financing benefit (**FB**) in year n is a summation of the financing benefits calculated using the following equation:

$$FB_n = Real\ WACC_n \times \sum_{k=2}^{n} AEG_{k-1}$$

where:

AEG_{k-1} is a summation of the financing benefits in year $n-1$ real dollars.

For example:

The Year 2 FB (n=2) will be calculated as follows:

$(FB_2) = Real\ WACC_2 \times AEG_1$

The Year 3 FB (n=3) will be calculated as follows:

$(FB_3) = Real\ WACC_3 \times (AEG_1 \times (1 + Actual\ CPI_2) + AEG_2)$

The Year 4 FB (n=4) will be calculated as follows:

$(FB_4) = Real\ WACC_4 \times ((AEG_1 \times (1 + Actual\ CPI_2) \times (1 + Actual\ CPI_3) + AEG_2 \times (1 + Actual\ CPI_3) + AEG_3)$

(f) The annual FB in year n calculated in accordance with clause 4.7(e) will then be compounded into its NPV as at the end of the Access Arrangement Period. This will be through the use of the nominal WACC for each year of the Access Arrangement Period updated annually within the PTRM and calculated in accordance with the AER's Final Decision and the Rate of Return Instrument.

For example:

The Year 2 FB (n=2) will be compounded to the end of the Access Arrangement Period using the following formula:

$$NPV_{2031}(FB_2) = (FB_2) \times (1 + WACC_3) \times (1 + WACC_4) \times (1 + WACC_5)$$

Year 3 FB (n=3) will be compounded to the end of the Access Arrangement Period using the following formula:

$$NPV_{2031}(FB_3) = (FB_3) \times (1 + WACC_4) \times (1 + WACC_5)$$

~~4.7~~4.8 The CESS will account for rewards and penalties in the following way:

(a) The CESS reward payable to, or penalty payable by, Evoenergy is calculated by subtracting the net financing benefit from Evoenergy's share of the cumulative efficiency gain and by adjusting for asset performance in certain circumstances.

(b) The CESS reward (penalty) is calculated as follows:

$$CESS\ reward = (Service\ Provider\ share - net\ financing\ benefit) \times CPF$$

where:

CPF is the Contingent Payment Factor calculated as:

Service Provider's share	Contingent Payment Index (CP)	Contingent Payment Factor (CPF)
> Greater than net financing benefit	CP > or = 100	1
	80 < CP < 100	$\frac{API - 80}{20}$
	CP < or = 80	0
< Less than or = equal to net financing benefit	Any value	1

API is the Contingent Payment Index calculated for the Access Arrangement Period in accordance with Schedule 109.

(c) The CESS reward (penalty) will give rise to an additional "building block" in the calculation of the Total Revenue amounts under rules 76(d) and 98(2) of the National Gas Rules for each Financial Year of the 2031 Access Arrangement Period.

4.84.9 The CESS will account for actual capital expenditure for the final year of the Access Arrangement Period in the following way:

(a) Actual capital expenditure for the final year of the Access Arrangement Period will not be available when the rewards or penalties for the CESS are calculated for that Access Arrangement Period. Instead, an estimate of capital expenditure will be used to calculate the efficiency gain (or loss) for the final year of the Access Arrangement Period.

(b) Prior to the revisions submission date for the 2031 aAccess aArrangement pPeriod intended to commence 1 July 2036, actual capital expenditure data will be available for the final year of the Access Arrangement Period.– Where Evoenergy's actual capital expenditure differs from the capital expenditure estimate used to calculate the CESS reward or penalty, an adjustment will be made to account for the difference.

(c) The adjustment for the final year of the Access Arrangement Period will be (in present value terms as at 30 June **203**61):

$$Final\ year\ adjustment = \left(A_p^{C*} - A_p^C\right) \times \left[\frac{Sharing\ factor - 1}{\left(1 + WACC_p\right)^{-0.5}} + 1\right] \times \left(1 + WACC_{NextAA}\right)^5 \times CPF$$

where:

A_p^{C*} is the estimate of actual capital expenditure in the final year of the Access Arrangement Period that has been used to initially calculate the CESS reward or penalty;

A_p^C is actual capital expenditure in the final year of the Access Arrangement Period;

CPF is the Contingent Payment Factor calculated in accordance with clause 4.8(b) above;

$WACC_p$ is the nominal WACC updated within the PTRM for the final year of the Access Arrangement Period;

$WACC_{NextAA}$ is the average nominal WACC determined by the ~~Relevant~~ AER~~Regulator~~ for each year of the 203126 Access Arrangement Period; and

$Sharing\ factor$ is the sharing factor ~~of 30%~~ referred to in clause 4.6(a) above.

(d) For the avoidance of doubt, the adjustment referred to in clause (b) above should only adjust for any financing benefit or cost resulting from the difference between estimated and actual capital expenditure in the final year of the Access Arrangement Period to the extent that that benefit or cost was included within the CESS reward or penalty applicable to that Financial Year.

~~4.9~~4.10 The CESS will adjust actual or allowed capital expenditure in certain circumstances as follows:

(a) CESS payments will be adjusted where Evoenergy defers capital expenditure projects in the 2026~~1~~ Access Arrangement Period to the 203126 Access Arrangement Period; and

(i) the amount of the deferred capital expenditure in the 203121 Access Arrangement Period is material; and

(ii) the amount of the estimated underspend in capital expenditure in the 203121 Access Arrangement Period is material; and

(iii) total approved forecast capital expenditure in the 203126 Access Arrangement Period is materially higher than it is likely to have been if a material amount of capital expenditure was not deferred in the 2026~~1~~ Access Arrangement Period.

If the AER~~Relevant Regulator~~ determines that an adjustment will be made, the adjustment is the present value of the estimated marginal increase in forecast capital expenditure in the 203126 Access Arrangement Period attributable to capital expenditure deferred in this Access Arrangement Period.

(b) Actual capital expenditure will be adjusted to remove any expenditure that is not rolled in to Evoenergy's Capital Base used to determine revenue over the 20312~~26~~ Access Arrangement Period.

(c) Allowed capital expenditure will be adjusted for any capital expenditure that is included by the ~~Relevant~~ AER~~Regulator~~ in a Determined Pass Through Amount under clause ~~8~~8.7. For the avoidance of doubt, an adjustment may be positive or negative.

SCHEDULE 1: DEFINITIONS

In this Access Arrangement:

CESS means the capital expenditure incentive mechanism set out in ~~section~~ clause 4.

Contingent Payment Factor is defined in clause 4.8(b).

Continent Payment Index is described in Schedule 10.

SCHEDULE 10: CESS CONTINGENT PAYMENT INDEX

The Contingent Payment Index is calculated for the Access Arrangement Period as follows:

(a) Calculate the arithmetic average of the annual unplanned SAIFI per 1,000 customers for each of the four Financial Years from 1 July 2026~~1~~ to 30 June 2030~~25~~, measured for each year *t* as follows:

$$Unplanned\ SAIFI_t = \frac{\sum_{i=1}^{12} OUF_i^t}{(C^{t-1} + C^t)/2} \times 1000$$

where:

$\sum_{i=1}^{12} OUF_i^t$ is the summation of the count of outage events for all customers on the Network sourced from annual reporting to the ~~Relevant~~ AER~~Regulator~~ for the 12 months in Financial Year *t*;

C^{t-1} is the total customer numbers on the Network at the end of the Financial Year *t* – 1 sourced from annual reporting to the ~~Relevant~~ AER~~Regulator~~;

C^t is the total customer numbers on the Network at the end of the Financial Year *t* sourced from annual reporting to the ~~Relevant~~ AER~~Regulator~~.

(b) Calculate the arithmetic average of the annual unplanned SAIDI per 1,000 customers for each of the four Financial Years from 1 July 2026~~1~~ to 30 June 2030~~25~~, measured for each year t as follows:

$$Unplanned\ SAIDI_t = \frac{\sum_{i=1}^{12} OUD_i^t}{(C^{t-1} + C^t)/2} \times 1000$$

where:

$\sum_{i=1}^{12} OUD_i^t$ is the summation of the total number of customer hours off supply lost through unplanned losses of supply for all instances on the Network where 5 or more customers were affected for the 12 months in Financial Year *t*;

C^{t-1} is the total customer numbers on the Network at the end of the Financial Year *t* – 1 sourced from annual reporting to the ~~Relevant~~ AER~~Regulator~~; and

C^t is the total customer numbers on the Network at the end of the Financial Year *t* sourced from annual reporting to the ~~Relevant~~ AER~~Regulator~~.

(c) Calculate the arithmetic average of the annual publicly reported leaks for mains and services per kilometre of main in the Network for each of the four Financial Years from 1 July 2026~~1~~ to 30 June 2030~~25~~, measured for each year t as follows:

$$Mains + ServicesLeaks_t = \frac{\sum_{i=1}^{12} MAL_i^t + \sum_{i=1}^{12} SEL_i^t}{(L^{t-1} + L^t)/2}$$

where:

$\sum_{i=1}^{12} MAL_i^t$ is the summation of the total number of publicly reported mains leaks on the Network sourced from annual reporting to the ~~Relevant Regulator~~AER for the 12 months in Financial Year *t*;

$\sum_{i=1}^{12} SEL_i^t$ is the summation of the total number of publicly reported services leaks on the Network sourced from annual reporting to the ~~Relevant Regulator~~AER for the 12 months in Financial Year *t*;

L^{t-1} is the total length of mains in the Network at the end of the Financial Year *t* – 1 sourced from annual reporting to the ~~Relevant Regulator~~AER; and

L^t is the total length of mains in the Network at the end of the Financial Year *t* sourced from annual reporting to the ~~Relevant Regulator~~AER.

(d) Calculate the arithmetic average of the annual publicly reported leaks for meters per 1,000 customers for each of the four Financial Years from 1 July 2026~~1~~ to 30 June 2030~~25~~, measured for each year t as follows:

$$MeterLeaks_t = \frac{\sum_{i=1}^{12} MTL_i^t}{(C^{t-1} + C^t)/2} \times 1000$$

where:

$\sum_{i=1}^{12} MTL_i^t$ is the summation of the total number of publicly reported meter leaks on the Network sourced from annual reporting to the ~~Relevant Regulator~~AER for the 12 months in Financial Year *t*;

C^{t-1} is the total customer numbers on the Network at the end of the Financial Year *t – 1* sourced from annual reporting to the ~~Relevant~~ AER~~Regulator~~; and

C^t is the total customer numbers on the Network at the end of the Financial Year *t* sourced from annual reporting to the ~~Relevant~~ AER~~Regulator~~.

(e) Convert each of the averages from the measures in paragraphs (a), (b), (c) and (d) above into index scores using the following formula:

$$Index_n = 200 - \left(\frac{Actual_n}{Target_n}\right) \times 100$$

where:

$Index_n$ is the index score for each measure *n* = 1,2,3,4 corresponding to the measures in paragraphs (a), (b), (c) and (d) above respectively;

$Actual_n$ is the arithmetic average of the actual performance for each measure *n* = 1,2,3,4 calculated as per paragraphs (a), (b), (c) and (d) above;

$Target_n$ is the arithmetic average of the actual performance for each measure *n* = 1,2,3,4 as follows:

Unplanned SAIFI $n = 1$ $Target_1$ = 1.0324440~~.675581~~

Unplanned SAIDI $n = 2$ $Target_2$ = 0.596178 ~~2.566814~~

Mains and services leaks	$n = 3$	$Target_3$	= 0.054055 ~~0.049728~~
Meter leaks	$n = 4$	$Target_4$	= 8.669951~~11.764908~~

(f) Calculate the weighted average of the index scores calculation in paragraph (e) above for each of the measures n = 1,2,3,4 according to the following weights:

Unplanned SAIFI	$n = 1$	30%
Unplanned SAIDI	$n = 2$	30%
Mains and services leaks	$n = 3$	20%
Meter leaks	$n = 4$	20%

(g) The resulting average calculated in paragraph (f) is the Contingent Payment Index.

(h) Evoenergy may seek, subject to AER approval, to exclude from the arithmetic average calculated in paragraph (b), the impact of material events that are outside of Evoenergy's control.