evoenergy

Attachment 4: Capital expenditure

Revised access arrangement information

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

Submission to the Australian Energy Regulator

January 2026

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1. Overview of our initial capital expenditure (capex) proposal

Our initial capital expenditure (capex) forecast was $39 million[1] for the 2026–31 access arrangement period, reflecting our commitment to minimise investment in a contracting network by limiting capex to only what is required to safely and reliably maintain the gas network and meet our legal obligations as gas demand declines.

Our initial proposed capex program focused on:

- Meter renewal – replacing meters at the end of their useful life or when defective, in line with regulatory requirements.
- Minimal network renewal – limited to essential works, including the electrical and instrumentation (E&I) upgrade at Bungendore Package Offtake Station (POTS) to address obsolescence and maintain compliance.
- Market expansion in NSW only – no new connections in the ACT following the ban on new gas connections from March 2024; however, we remain obligated to connect customers in Queanbeyan and surrounding NSW areas upon request.

This approach was supported by our stakeholders who expressed the view through our deliberative forums and submissions that expenditure on the gas network should be limited to only the costs required to ensure the network is safely, securely, and reliably maintained and operated.

We also proposed to remove the Capital Expenditure Sharing Scheme (CESS) for the 2026–31 period. Given the ACT Government's commitment to commence phased decommissioning of the gas network during the 2035–40 period[2] and Evoenergy's strong incentives to minimise investment, including due to the risk of asset stranding, we consider CESS no longer appropriate for the upcoming access arrangement.

2. The AER's draft decision on our capital expenditure proposal

The Australian Energy Regulator (AER) accepted most of our proposed capex program, however, it did not accept our proposed level of capitalised network overheads. The AER considered that network overheads should reduce in line with the decline in expenditure and applied the allocation rate from the 2021–26 period. As a result, the AER substituted an alternative estimate of $31.4 million, compared to our proposal of $38.7 million. Table 1 sets out the difference between our initial proposal and the AER's draft decision.

[1] All values in this attachment are real June 2026 dollars, unless otherwise stated.

[2] ACT Government (2024). The Integrated Energy Plan 2024–2030: Our pathway to electrification, June, p.18.

Table 1 AER's draft decision on Evoenergy's forecast capex: 2026–31

million, $2025–26	Evoenergy's initial proposal	AER's draft decision[3]	Difference (% change)
Market expansion	3.0	3.0	0%
Stay-in-business: network renewal	1.5	1.5	0%
Stay-in-business: meter renewal	14.0	14.1	0%
Non-system	0.1	0.1	0%
Network overheads	17.7	10.1	-43%
Corporate overheads	2.9	3.0	1%
Gross capex	**39.3**	**31.8**	**-19%**
Capital contributions	0.6	0.4	-36%
Net capex	**38.7**	**31.4**	**-19%**

3. Our response to the AER's draft decision

3.1 Implications of the AER's draft decision

The AER's draft decision on network overheads is a critical concern for Evoenergy. These overheads fund essential planning and delivery functions, such as project management, construction supervision, and logistics support, that enable safe and efficient execution of our capital program. The AER's approach assumes these costs are fully variable with capex, which would underfund the entire program. This assumption is inconsistent with regulatory precedent and Evoenergy's evidence, which shows that a significant proportion of overheads are fixed.

If implemented, the AER's draft decision would underfund critical resources required to deliver the capital program and maintain compliance. Cutting overheads too aggressively now would compromise delivery capability and increase operational risk. It would also disrupt the planned and efficient transition of resources from capital works to repair and maintenance activities, and to decommissioning activities in future years, as network decommissioning activities gather pace. This process is already underway and has delivered significant cost reductions, with network overheads falling significantly as construction volumes declined. Further cuts beyond this trajectory risk eroding capability to maintain a safe, reliable and secure gas service through to full network decommissioning by 2045.

[3] The AER's draft decision also includes a modelling adjustment to update the CPI lag.

The AER's proposal to apply an asymmetric CESS that penalises overspend without providing any reward for underspend is a significant departure from its own 2025 Capital Expenditure Incentive Guideline and from sound regulatory principles. The Australian Energy Market Commission (AEMC) explicitly rejected the AER's proposal for a 'no reward' scheme in its 2012 electricity network regulation rule changes, noting that 'the Commission was concerned that the approach would provide penalties for assumed inefficient expenditure but not rewards for efficient expenditure.'[4] In response to the AER's proposal, the AEMC codified in the National Electricity Rules that any CESS must reward network service providers for undertaking efficient capital expenditure and penalise them for inefficient capital expenditure.[5] This requirement is explicitly recognised in the design of the current guidelines.[6]

Although these rules are framed for electricity network service providers, the AER identifies its 2025 Capital Expenditure Incentive Guidelines developed under these rules as relevant to both the electricity and gas sectors. This is reinforced by the AER's explicit reference to these guidelines in its draft decision for Evoenergy.[7]

We therefore consider that the AER's draft decision is contrary to National Gas Objective (NGO), taking into account the revenue and pricing principles, because it does not provide Evoenergy with effective incentives to promote economic efficiency, such as efficient investment and service delivery. Instead, it imposes extra downside risk without offering any corresponding return or reward that reflects this risk.

Evoenergy's circumstances require an approach that reflects its exposure to asset stranding risk and the nature of its investment program. In this context, the subset of regulatory tools the AER has applied to provide capital expenditure incentives can become misaligned, creating a bias toward deferring or avoiding uncertain but prudent investment. In practice, if Evoenergy spends more than planned, even when the expenditure is efficient, we face a 30 per cent penalty under the normal operation of the CESS, and, in addition, Evoenergy risks never recovering that investment at all. In this way, the AER's draft decision distorts the incentives for Evoenergy to undertake efficient investment in the gas network.

The AER should calibrate the strength of incentives to ensure they continue to promote efficient and timely investment. Our proposal to apply no CESS for the 2026–31 period provides a better balance of incentive properties and also aligns with the AER's 2025 Capital Expenditure Incentive Guideline, which contemplate applying no CESS in combination with actual depreciation and ex post reviews of conforming capex.[8]

3.2 Our engagement following submission of our initial proposal

We engaged with our NSW customer forum to understand customer perspectives on key elements of our proposal and the broader energy transition. Key insights relevant to capex include feedback on upfront connection charges for new gas connections in NSW. Forum

[4] AEMC (2012). Draft rule determination Draft National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2012, August 2012, p. 130.

[5] AER (2025). Capital Expenditure Incentive Guidelines for Electricity Network Service Providers, August. p. 2.

[6] AER (2025). Capital Expenditure Incentive Guidelines for Electricity Network Service Providers, August.

[7] AER (2025). Draft decision – Attachment 6 – Capital expenditure sharing scheme, November, p. 5.

[8] AER (2025). Draft decision – Attachment 6 – Capital expenditure sharing scheme, November, p. 5.

members strongly indicated that a $2,200 upfront charge would significantly reduce new connections, with almost 60 per cent saying it would stop people connecting altogether.[9]

Additional insights relevant to capital expenditure include strong community emphasis on maintaining safety related investment during the transition, with participants consistently stating that safety and network integrity should be a determining factor in the AER's decision as it scrutinises overall costs.[10]

4. Our revised capex proposal

Our revised capital expenditure forecast for 2026–31 period reflects the following key changes:

- Market expansion: We have updated the market expansion forecast to reflect the AEMC's final rule change on updating the regulatory framework for gas connections. This includes introducing upfront charges with a transitional allowance for applications lodged before the AEMC rule change commencement date on 1 October 2026. We have also assumed a 50 per cent reduction in the number of NSW new connections relative to the original forecast based on the expected customer response to the introduction of upfront charges.
- Meter renewal: Retains the AER's accepted methodology but applies updated unit rates and volumes based on latest statistical test results, resulting in a modest increase in direct expenditure.
- Network renewal and ICT: Accepts the AER's draft decision.
- Network overheads: The AER's draft decision is not accepted and instead adopts a revised forecasting approach recognising fixed and variable components, reducing overheads materially while ensuring delivery capability is retained.

Overall, our revised proposal remains focused on safety, compliance, and efficiency as our network winds down, while responding to regulatory and market developments. Table 2 summarises our revised proposal:

Table 2 Revised forecast capex: 2026–31

million, $2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Market expansion	0.4	0.3	0.3	0.3	0.3	1.7
Stay-in-business: meter renewal	2.3	3.1	2.8	3.2	3.8	15.2
Stay-in-business: network renewal	1.2	0.1	0.1	0.1	0.1	1.5
Non-system	-	-	-	0.1	-	0.1

[9] Evoenergy (2025). Communication Link-Appendix 1.1-Report of feedback from community and customer forum sessions, January, p. 20.

[10] Evoenergy (2025). Communication Link-Appendix 1.1-Report of feedback from community and customer forum sessions, January, p. 29.

Network overheads	2.9	2.8	2.7	2.9	3.0	14.3
Corporate overheads	0.6	0.6	0.5	0.6	0.7	3.0
Gross capex	**7.4**	**6.9**	**6.5**	**7.2**	**7.9**	**35.8**
Capital contributions	0.4	0.4	0.7	0.7	0.7	2.8
Net capex	**7.0**	**6.5**	**5.8**	**6.5**	**7.3**	**33.0**

4.1 Market expansion

The AER's draft decision accepted our proposed connections capex as a placeholder but expected that our revised proposal will reflect the AEMC's final rule (Updating the regulatory framework for gas connections), which was at the draft stage pending finalisation.[11] This rule, made on 11 December 2025, introduces cost-reflective upfront charges for new retail gas customers. This change means forecast volumes are expected to decline as upfront charges influence customer decisions, and our cost recovery approach for new gas connections shifts to direct customer payments.

4.1.1 Impact on volumes

The rule change is expected to significantly reduce new connections. Feedback from our NSW Customer Forum indicates that almost 60 per cent of participants suggested an upfront charge of around $2,200 would stop them from connecting altogether, and the remainder considering it will discourage some, but others will still connect.[12] Victorian experience reinforces this expectation. Since a similar charge was introduced on 1 January 2025, new completed connections have fallen by 11 per cent. Many of these were likely lodged before the change, so the full effect is yet to flow through. Connection request data would provide a clearer indication about the ongoing impact. AusNet reported that connection requests halved in the first quarter of 2025. Based on this forward-looking indicator, and in the absence of long-term data, we have assumed a 50 per cent reduction in NSW new gas connections compared to our original forecast.[13] Importantly, connections charges are cost-reflective and connections capex is excluded from the CESS (if applied in the AER's final decision), so the financial impact of forecasting error associated with the uncertainty of demand for connections in NSW is small.

4.1.2 Impact on the approach to cost recovery

Under the new framework, costs will shift from recovery through standard network charges to upfront capital contributions. Our revised proposal includes a capex allowance in the first two years of the period for applications lodged before the new rules take effect on 1 October 2026, assuming half proceed under the old arrangements and half under the new arrangements during

[11] AER (2025). Draft Decision: Evoenergy (ACT) access arrangement 2026 to 2031, Attachment 2 – Capital expenditure, November, p.13.

[12] Evoenergy (2025). Communication Link-Appendix 1.1-Report of feedback from community and customer forum sessions, January, p. 20.

[13] CIE (2026). Evoenergy - Appendix 3.2 - CIE-Revised demand forecast model, January, p. 3.

this time.[14] This approach reflects extended development lead times and the expected response from developers and builders, which may motivate some to lodge applications before the deadline or wait to apply when it suits their plans despite the new requirements. From the third year onwards, all new connections are expected to be funded entirely through capital contributions. Overall, this results in a forecast of $2.8 million in contributions over the period.

We have retained the AER-approved forecasting methodology but updated asset mix and unit rates using historical data from 2021–22 to 2024–25, increasing direct expenditure by $0.2 million. [15]

4.2 Stay-in-business: metering

We accept the AER's draft decision in relation to the meter replacement program and have retained the same forecasting methodology. However, we have updated unit rates using historical data from 2021–22 to 2024–25 and incorporated the most recent statistical test results into the meter replacement volumes model. As a result, the forecast for the meter replacement program has increased compared to the previous estimate, driven mainly by higher unit rates. Volumes remain broadly stable with minor change. Overall, this results in an increase of $1.1 million in direct cost expenditure compared to the draft decision.

In January 2026, Evoenergy wrote to the ACT Utilities Technical Regulator (UTR) seeking amendments to the Gas Metering Code to enable a more pragmatic approach to residential gas meter replacement. However, given current timelines, these changes, if approved, are unlikely to come into effect in time for the AER's final decision. Accordingly, our revised proposal reflects current regulatory obligations under which all meters, including those at temporarily disconnected sites, must be replaced if they do not meet accuracy requirements.

Our proposed residential gas meter replacement program starts small and ramps up towards the middle and end of the 2026–31 period, with forecast volumes of 895, 1,833, 1,824, 3,403, and 3,831 meters across the five years. While the AER noted that the current obligation could lead to replacing meters that may never be reconnected, we expect the updated Gas Metering Code to be enforced in the early years of the 2026–31 access arrangement period, which could avoid investment in new meters at temporary disconnected sites. We note, however, that it is not feasible to predict the overlap between meters that need replacement and those that will be temporarily disconnected. In practice, this could mean that no sites requiring a meter replacement are temporarily disconnected.

If new regulatory obligations take effect, Evoenergy will reflect these changes in its meter replacement program and if this results in materially lower capex, can seek a negative cost pass through.

4.3 Stay-in-business: network renewals and ICT

We accept the AER's draft decision in relation to ICT and other capex. Accordingly, we propose the same amounts as in the draft decision: $0.1 million for ICT and $1.5 million for the electrical and instrumentation replacement at the Bungendore Package Offtake Station.

[14] For example, if the original proposal approach applied an 8 per cent contribution rate, the revised proposal applies: Capital contribution rate=(0.5×8%)+(0.5×100%)=0.04+0.50=54%.

[15] On a like-for-like basis, after adjusting the connections forecast by 50 per cent to reflect the AEMC rule change and applying to the AER's draft decision volumes.

4.4 Network overheads

We do not accept the AER's draft decision to reduce Evoenergy's capitalised network overheads from $17.7 million to $10.1 million (a 43 per cent cut). The AER's adjustment is based on applying the historical allocation rate from the 2021–26 period, which assumes network overheads should fall proportionally with direct capex.

The AER considers that forecast network overheads have been overestimated. It expressed the expectation that our network overheads should reduce in line with the capital program. The AER has also observed that Evoenergy's proposed network overheads represented a 95 per cent allocation rate, which it considers to be too high.

4.4.1 Historical data and regression analysis

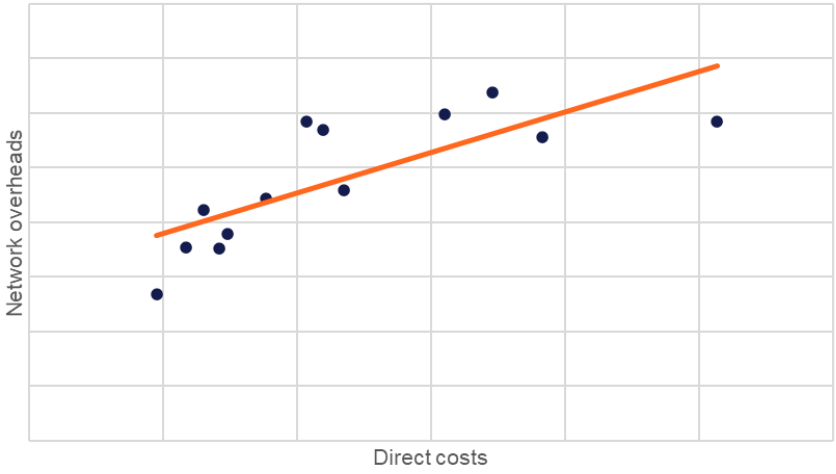
It is well established that network overheads comprise both fixed and variable components. Assuming all costs are variable, as the AER did in its draft decision, is inconsistent with the AER's own regulatory precedent and does not comply with Rule 74 of the National Gas Rules (NGR), which requires forecasts to be arrived at on a reasonable basis and represent the best possible estimate in the circumstances.

Evoenergy reviewed network overheads since 2013–14 onwards. The data shows overheads do not move proportionally with capex.[16] While overheads have declined by approximately 40 per cent since 2013–18, this reduction is not in line with the fall in direct capex.

Our regression analysis[17] of network overheads on direct capex indicates (see Figure 1):

- Fixed component: approximately $3.0 million, which remains largely unchanged regardless of capex.
- Variable component: for every $1 of capex, overheads increase by about $0.15.

Figure 1 Relationship between network overheads and direct capex (2013–14 onward)[18]



[16] Evoenergy (2026). Access arrangement revised proposal 2026–31 - Appendix 4.2 - Gas distribution capex input model, January. Confidential appendix.

[17] Using an ordinary least squares (OLS) method.

[18] Model fit explains around 61 per cent of variation in overheads ($R^2 \approx 0.606$).

On average, about 64 per cent of overheads have been fixed and 36 per cent are variable. This demonstrates that assuming overheads move fully in line with capex materially understates the cost base required to deliver the capital works program. It also departs from the AER precedent, which assumes 75 per cent are fixed and 25 per cent are variable.[19]

Our network overheads cover the specialist functions essential to delivering the capital works program. This includes managing resources for the capital plan, project management of routine and non-routine works, construction field supervision, quality assurance, asset data capture and retention, and depot and logistics support. These activities cannot be scaled down in direct proportion to changes in capex.

Independent analysis supports this position. In its review of Evoenergy's 2021–26 access arrangement, the AER's consultant, Zincara, concluded that while some network overhead costs are variable, a significant proportion is fixed. Zincara considered that a prudent service provider should seek to reduce network overheads and management fees given the decline in forecast capex but acknowledged that around 30–40 per cent of these costs are typically fixed and difficult to divest in the short to medium term. Zincara also noted that transitional arrangements would be necessary, particularly because the ACT Government's policy to phase out gas by 2045 has driven major changes to Evoenergy's capital program. Taking these factors into account, Zincara estimated that the fixed component, including transitional arrangements, could be in the order of 50 per cent for the current period.[20]

4.4.2 Impact of reduced scale on overhead ratios

Evoenergy's forecast capex for the 2026–31 period is significantly lower than historical levels because of the ACT Government's commitment to commence phased decommissioning during the 2035–40 period[21] and a ban on new gas connections in the ACT. When total capex is low, fixed costs, such as essential planning, safety, and compliance functions, represent a larger proportion of the program, making overheads appear relatively high. This does not indicate inefficiency. Rather, it reflects the essential nature of these functions and the reduced scale of the capital program.

Evoenergy also operates one of the smallest gas networks regulated by the AER, which means it is expected to have a higher proportion of fixed costs relative to direct expenditure. Despite this structural factor, Figure 2 illustrates that Evoenergy's position relative to other AER-regulated gas networks is favourable. Over the past years, Evoenergy has consistently demonstrated:

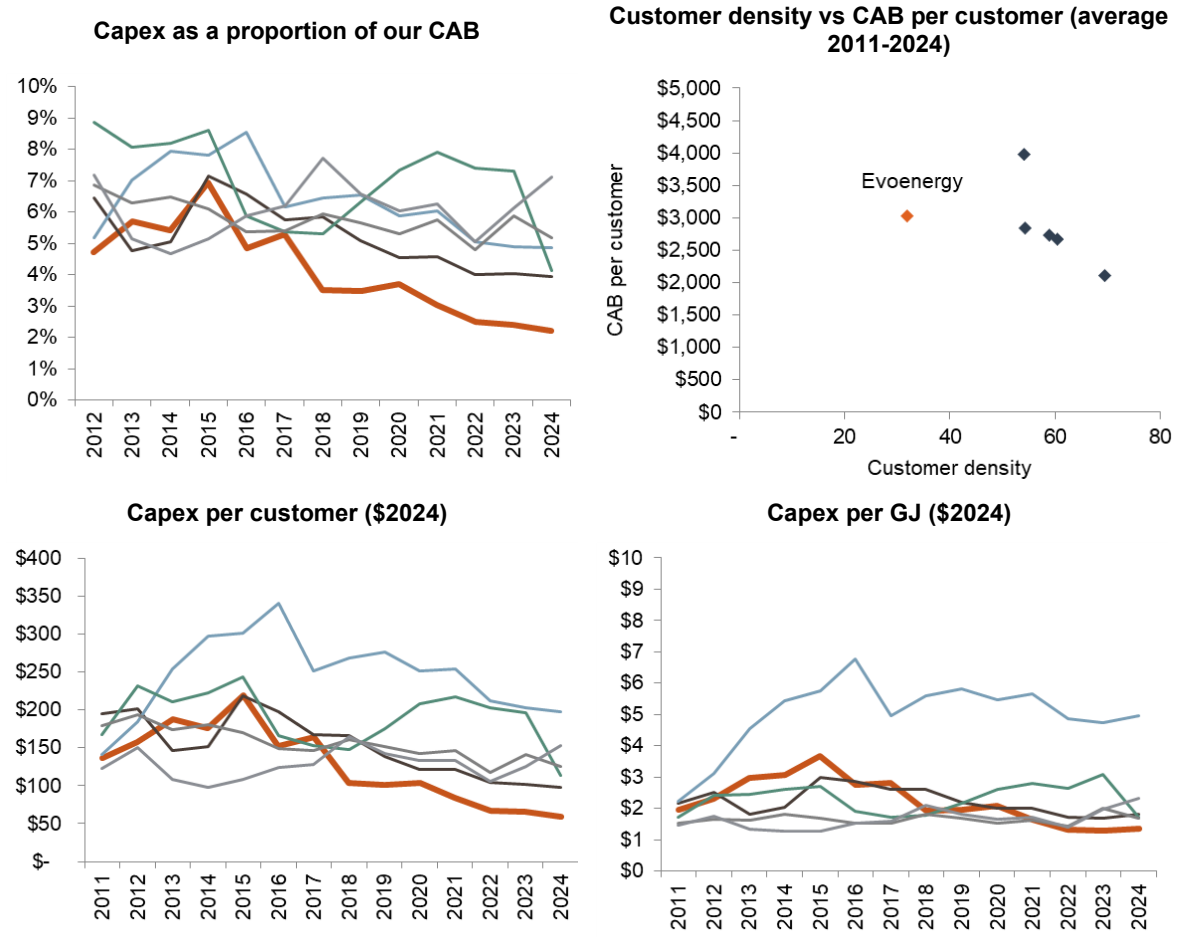
- Lowest capex as a proportion of capital asset base (CAB) across all gas networks.
- Comparable CAB per customer despite the lowest customer density.
- Lowest capex per customer among gas businesses.
- Among the lowest capex per GJ transported.

[19] AER (2021). Standardised SCS capex model - Explanatory Note, December, p 7.

[20] Zincara (2021). Final Decision - Evoenergy access arrangement 2021-26 - Capex report to AER, April, p.12.

[21] ACT Government (2024). The Integrated Energy Plan 2024–2030: Our pathway to electrification, June, pp 16–17.

Figure 2 AER regulated gas network capex ($2024), Evoenergy in orange[22]



These metrics demonstrate that Evoenergy has one of the lowest capital intensities of all AER-regulated gas networks. The apparent overhead ratio is therefore a function of reduced scale, not inefficiency.

4.4.3 Managing network overheads to retain capability

Evoenergy incurs network overheads under its outsourced delivery model under the Distribution Asset Management Services (DAMS) Agreement with Jemena Asset Management (JAM), which manages the network and subcontracts most capital works and all repair and maintenance services to Zinfra. These costs are reviewed annually through our services plan, ensuring overheads remain aligned with program requirements while maintaining capability to deliver essential works.

Expecting network overheads to decline in direct proportion to capital expenditure is unrealistic because certain resources and facilities, such as depots, logistics, and skilled personnel, cannot be scaled down quickly or partially. Due to the declining amount of routine capex over the last ten years, Zinfra has found that sub-contract labour is not available. Consequently, Zinfra has had to in-source this labour, leading to higher relative overheads compared to sub-contract labour. Despite these pressures, since the 2013–18 period, network overheads have declined by

[22] AER (2025). Operational performance data 2025 - Gas distribution networks, available at: 2025 Electricity and gas networks performance report | Australian Energy Regulator (AER).

approximately 40 per cent, reflecting efficiency savings as the capital works program has reduced.

While routine capital works are delivered by field crews, the network overheads relate to the supervision, management, scheduling, and logistics that enable these activities. As the capital program has declined, Evoenergy has leveraged the flexibility of its outsourced model to transition these overhead functions toward supporting repair and maintenance activities and ancillary tasks, such as disconnections. This managed shift is essential to retain expertise, avoid operational disruption, and allow Zinfra to identify synergies and efficiencies across delivery streams. Maintaining these supervisory and coordination capabilities ensures continuity of service and positions Evoenergy to manage future network transitions efficiently.

While the capital program is declining, we also note that these same resources will be essential for future network decommissioning. The Integrated Energy Plan identifies 2030–35 as the acceleration phase for planning network decommissioning.[23] However, Evoenergy has already commenced scoping studies to understand the technical and economic scenarios for decommissioning. Planning for and the commencement of decommissioning of the gas network is not far away and reinforces the need to maintain essential capability now to manage this change efficiently to ensure our resourcing requirements in the context of delivering long-term value for customers, are retained and higher costs in the future are avoided. GPA Engineering's review of decommissioning approaches found that 'Delaying staged decommissioning would increase safety, environmental, and financial risks, whereas proactive planning aligned with legislated timelines is the best pathway to ensure cost efficiency and mitigate uncertainty.'[24]

4.4.4 Our revised approach to forecasting network overheads

Based on the AER's feedback we have reviewed and updated our forecasting method. Our revised approach builds on Zincara's advice to the AER, which the AER accepted for the 2021–26 capex forecast, and recognises that network overheads have both fixed and variable components.[25]

To inform our revised proposal approach, we considered:

- AER precedent: typically assumes a 75:25 fixed-variable split.[26]
- Zincara's 2021 advice to the AER: indicated that 30–40 per cent of overheads are typically fixed and difficult to divest quickly, and that only about 50 per cent of potential savings could realistically be achieved in the short to medium term.
- Evoenergy's regression analysis: indicates approximately 64 per cent have been fixed and 36 per cent variable.

Drawing on this evidence, we have adjusted our approach using a 50:50 fixed-variable split. This is the most conservative (lowest cost) of the three approaches. This position commits Evoenergy to further efficiency beyond what historical data suggests is achievable in the short to medium term.

[23] ACT Government (2024). The Integrated Energy Plan 2024–2030: Our pathway to electrification, June.

[24] GPA Engineering (2026). Access arrangement revised proposal 2026–31 - Appendix 3.1 - Evoenergy gas network feasibility beyond 2045, January, p. 6.

[25] AER (2021). Final decision - Evoenergy access arrangement 2021-26 - Attachment 5 - Capital expenditure, April, p. 20.

[26] AER (2021). Explanatory Note AER standardised model for Standard Control Services capital expenditure, December, p. 7.

Applied to forecast capex, this results in total overheads of approximately $14.3 million over five years, significantly lower than historical levels. We consider this methodology better meets the capex criteria under NGR Rule 79, as it results in a forecast that is prudent, efficient, and consistent with the nature of our network overhead expenditure.

5. Capital Expenditure Sharing Scheme

5.1 Our response to the AER's draft decision on CESS

As discussed in section 3.1, the AER's draft decision for an asymmetric CESS that penalises overspend without providing any reward for underspend is contrary to the NGO, taking into account the revenue and pricing principles, which require effective incentives to promote economic efficiency. While an asymmetric 'no reward' CESS creates poor incentives under any circumstances, the ACT Government's commitment to commence phased decommissioning during the 2035–40 period[27] and a ban on new gas connections in the ACT renders any form of CESS redundant and, potentially harmful, for Evoenergy in the 2026–31 period.

We maintain that a CESS is not appropriate for Evoenergy in the 2026–31 period for the following reasons:

- Our proposal to apply no CESS for 2026–31 period offers a superior balance of incentives in light of Evoenergy's circumstances.
- The AER's draft decision introduces a punitive scheme that removes rewards and distorts the balance of incentives, an approach previously rejected by the AEMC as inconsistent with the NGO and the revenue and pricing principles.[28] The consequence of penalising Evoenergy for spending more than the level of capital expenditure approved by the AER, but not rewarding it for spending less, is that the expected value of each dollar of capital expenditure is less than $1.[29] This breaches the AEMC's intent in establishing the CESS framework, which was designed to ensure efficiency improvements are net present value (NPV) positive for network firms while also providing benefits to consumers.[30]
- The AER's draft decision worsens incentive properties that apply to Evoenergy compared to the status quo. If the AER considers Evoenergy's circumstances are not materially different from other gas businesses, it should apply the standard CESS design rather than introduce a bespoke penalty-only scheme.

[27] ACT Government (2024). The Integrated Energy Plan 2024–2030: Our pathway to electrification, June, pp 16–17.

[28] AEMC (2012). Draft National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2012, August, p. 130. The draft determination contains the detailed reasoning that underpins this conclusion, and that reasoning remains consistent with the final decision. The AEMC has confirmed its draft determination in AEMC (2012), Rule determination National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2012, November, p 140. and provided its guidance on the final rule. Although these rules are framed for electricity network service providers, the AER's website identifies its 2025 Capital Expenditure Incentive Guidelines developed under these rules as relevant to both the electricity and gas sectors.

[29] HoustonKemp (2026). Access arrangement revised proposal 2026–31 - Appendix 2.4 - Assessment of the AER's draft decision on depreciation, January, p. 30.

[30] AEMC (2012). Rule Determination National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2012, November, p 141.

The AER's draft decision considered that Evoenergy's proposed approach would not provide sufficient safeguard against overspending its allowance.[31] We disagree with this assessment. The AEMC has previously confirmed that the balance of incentives needs to be assessed by the AER in the context of individual circumstances of network businesses.[32] Accordingly, the decision to apply or not apply the CESS needs to be considered in conjunction with other incentives faced by Evoenergy.

5.1.1 Why a CESS is unnecessary in Evoenergy's context

The ACT Government's commitment to commence phased decommissioning during the 2035–40 period[33] and a ban on new gas connections in the ACT fundamentally changes the incentive landscape for Evoenergy. Stranded asset risk is a critical factor. It provides strong incentives to avoid overspending because any additional investment increases the likelihood of asset stranding. In these circumstances, continuing to apply additional capex incentive through a CESS, while previously appropriate, now risks being over-calibrated and distorts investment decision-making. This may discourage prudent expenditure and lead to service standards falling below levels valued by customers.

The same reasoning applies to the consideration of operating expenditure (opex) incentives and the potential for substitution between opex and capex. Our view is that it is reasonable to maintain incentives to reduce opex without applying a CESS, as stranded asset risk ensures that any reductions in opex cannot be offset by increased capex investment.

The AER undertakes ex post reviews of capex to ensure only conforming capex is added to the CAB, providing a further safeguard against inefficient spending. Given the small size of Evoenergy's capex program, any additional project or overspend on approved projects would be highly transparent and subject to close scrutiny.

While ACTCOSS[34] noted that underspending improved when a CESS applied (17.6 per cent in 2021–26 vs. 12.6 per cent in 2016–21), this comparison does not account for the unique circumstances of the upcoming period, including the ACT electrification commitment, significant asset stranding risk and the lean size of Evoenergy's capex program. The main opportunity for cost savings during the 2026–31 period lies in pursuing a technical regulatory change, a process that Evoenergy has already commenced with the UTR. If this change occurs and savings are material, customers may receive 100 per cent of the cost savings through a negative pass through event, rather than through CESS incentives. Further, based on the historical expenditure there is no precedent for Evoenergy overspending capex relative to its approved forecasts.

5.1.2 Measuring services performance without a CESS

We recognise that even without a CESS, the AER needs a way to track how Evoenergy maintains reliability and safety standards over time. Currently, Asset Performance Index (API) targets provide a benchmark for this. With the ACT Government's gas phase-out, Evoenergy's

[31] AER (2025). Draft decision – Attachment 6 – Capital expenditure sharing scheme, November, p. 5.

[32] AEMC (2012). Rule determination National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2012, November, p. 141.

[33] ACT Government (2024). The Integrated Energy Plan 2024–2030: Our pathway to electrification, June, pp 16–17.

[34] ACTCOSS (2025). ACTCOSS - Submission on Evoenergy 2026-31 Access Arrangement proposal, August, pp. 3-4.

capex is reducing, but the network still needs to be safe and reliable during the transition. Evoenergy can continue report these targets without a CESS.

Evoenergy is subject to Guaranteed Service Levels (GSLs) under the Utilities (Consumer Protection Code) 2020. These require automatic rebates to customers if service standards are not met (e.g., timely connections, notice of planned interruptions, response times, and limits on outage duration). Compliance is monitored by the Independent Competition and Regulatory Commission (ICRC), which tracks GSL breaches, complaints, and service reliability metrics. The ICRC also has new civil enforcement powers (from December 2024).

These measures are effective and transparent, providing the AER with clear visibility of Evoenergy's performance. They enable the AER to monitor service delivery and assess any emerging issues in the future.

5.1.3 Tailoring capex incentives to promote efficient outcomes

Evoenergy's proposal to apply no CESS during 2026–31 period aims to ensure capex incentives remain balanced and proportionate to Evoenergy's circumstances. Our original proposal was aligned with the AER's 2025 Capital Expenditure Incentive Guideline and the AEMC guidance,[35] which contemplates tools to calibrate the strength of incentives such as:

- applying capital expenditure sharing schemes to provide incentives to incur efficient capital expenditure,
- conducting ex post reviews to exclude inefficient capex from the CAB, and
- deciding whether to depreciate the CAB using actual or forecast expenditure.

Where no CESS applies, actual depreciation strengthens incentives by reducing the CAB for overspends and increasing it for underspends, ensuring efficient outcomes without distortions. Evoenergy's proposal to remove the CESS and apply actual depreciation is therefore consistent with the guidelines.[36]

5.2 Our response to AER's revision requirements on the CESS and API targets

Evoenergy maintains the view that the CESS should not apply in the 2026–31 period. Under our proposed approach Evoenergy will face balanced incentives to undertake efficient capex because:

- Evoenergy retains the benefit of any capex underspend until the end of the access arrangement period. This provides a clear incentive to manage capex efficiently. While the strength of this incentive is highest in the early years of the period and declines toward year five, this is proportionate to Evoenergy's circumstances and the ACT gas phase-out policy.
- An additional capex incentive comes from using actual depreciation when updating the CAB. If we spend less than forecast, the CAB for the next period is reduced by actual

[35] AEMC (2012). Rule Determination National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2012, November, p. v.

[36] AER (2025). Capital Expenditure Incentive Guidelines for Electricity Network Service Providers, August, p 3.

depreciation, so Evoenergy keeps some benefit from the underspend. If we spend more, the CAB is written down more.

- Traditional concerns with perverse incentives, such as the risk of short-lived assets[37] being used to increase depreciation benefits or inefficient substitution between opex and capex, do not arise in Evoenergy's circumstances.[38]
- The NGR require the AER to complete an ex post assessment of whether capex undertaken in an access arrangement is conforming at the time of the next review.
- All of the above ensures that incentives to manage capex are calibrated appropriately without creating distortions or increasing risks to customers.

If the AER decides to apply a CESS, it should adopt the standard CESS design set out in the AER's 2025 Capital Expenditure Incentive Guidelines.[39] The standard design already applies a form of asymmetric sharing ratios, 30 per cent for overspends and a tiered ratio for underspends (30 per cent up to 10 per cent underspend and 20 per cent beyond 10 per cent underspend). Evoenergy has provided CESS provisions in an appendix to this attachment, which reflect the standard design.[40]

The guidelines allow businesses to nominate a lower sharing ratio.[41] In contrast, Evoenergy's proposal was to remove the CESS and apply actual depreciation, which is aligned with the AER's guidelines and reflects the ACT gas phase-out context. Evoenergy's proposal should not be misinterpreted as nominating a lower sharing ratio or applying a zero-sharing ratio under the CESS.

As requested by the AER, Evoenergy provides performance measure targets for the 2026–31 period. These targets are required for calculating the API of the CESS, if the AER were to include the CESS in its final decision. Table 3 shows the hypothetical targets that are based on five years of historical data.

Table 3 Hypothetical performance measure targets for 2026–31 period

Metric	Basis	Target
Unplanned SAIFI	Outage events per 1000 of customers	1.032444
Unplanned SAIDI	Hours per 1000 of customers	0.596178
Mains and services leaks	Leaks per kilometre of mains and services	0.054055
Meter leaks	Meter leaks per 1000 customers	8.669951

Using the same weightings for each performance measure as applied in the current 2021–26 period, actual outcomes for the 2026–31 period will be compared to these targets and combined into the overall API. An API score of 100 represents Evoenergy meeting its performance targets

[37] Short-lived assets typically refer to information technology systems and "smarter" technologies such as smart grid equipment in electricity. These assets generally have economic lives of around 5–10 years.

[38] AER (2025). Capital Expenditure Incentive Guidelines for Electricity Network Service Providers, August, p.16.

[39] AER (2025). Capital Expenditure Incentive Guidelines for Electricity Network Service Providers, August, p 3.

[40] Evoenergy (2026). Access arrangement revised proposal 2026–31 - Appendix 4.7 – CESS provisions for access arrangement 2026–31, January.

[41] AER (2025). Capital Expenditure Incentive Guidelines for Electricity Network Service Providers, August, p. 6.

based on historical averages. If the score is 100 or above, Evoenergy receives the full CESS reward. If the index falls below 100, rewards are scaled down on a sliding scale, with no reward payable if the index is 80 or lower.

6. Updates to RIN response

Clause 1.3.5 of the reset Regulatory Information Notice (RIN) requires us to update our response to sections 4.3.1 and 4.3.2 of the notice. This is information is provided in Table 4 below.

Table 4 Updated response to RIN requirement 4.3.1 and 4.3.2

RIN requirement	Response
4.3.1 For total capital expenditure expected to be incurred in the current access arrangement period, provide: (a) a comparison of the total expenditure, disaggregated by expenditure category or driver, to the total forecast capex allowed for the current access arrangement period; (b) an explanation of the drivers of differences noted in response to paragraph 4.3.1(a), for example the impact of efficiency gains, major new projects, project deferrals or rescoping, changing regulatory obligations, asset age, or other factors; (c) a list of projects deferred in the current access arrangement period and included in forecast capex for the forthcoming access arrangement period, and the rationale for the deferral.	(a) An updated comparison of total capital expenditure by driver is provided in Table 5 below. (b) The explanation of expenditure drivers remains as outlined in Attachment 3: Capital Expenditure – June 2025 of our original proposal. This update does not alter those explanations. (c) There are no projects deferred in the current access arrangement and included in forecast capex for the forthcoming access arrangement period.
4.3.2 For forecast capex for the forthcoming access arrangement period, provide: (a) a comparison of the total forecast expenditure by category or driver to the total capital expenditure expected to be incurred in the current access arrangement period; (b) an explanation of the drivers of differences noted in response to paragraph 4.3.2(a), for example the impact of expected efficiency gains, major new projects, project deferrals or rescoping, changing regulatory obligations, asset age, or other factors.	(a) An updated comparison of total capital expenditure by driver is provided in Table 5 below. (b) The explanation of material differences between capital expenditure expected to be incurred in the current period and forecast expenditure for the forthcoming period is provided in Attachment 3: Capital Expenditure – June 2025 of our original proposal. As noted in this document, differences between our original and revised proposal reflect: • Revised connection volumes to reflect The AEMC's final rule introducing up-front connection charges from 1 October 2026; • Rejection of the AER's draft decision on network overheads; and • Updates to modelling inputs, including connection and meter replacement unit rates and metering accuracy test data, to incorporate the most recent year of actual historical data.

Table 5 Capex over 2021-26 and 2026-31 period

million, $2025–26	2021-26 allowance	2021-26 estimate of actual	2026-31 revised forecast
Market expansion	7.2	14.00	1.7
Capacity development	0.6	0.3	0
Stay-in-business: meter renewal	16.0	9.7	15.2
Stay-in-business: network renewal	13.5	7.5	1.5
Non-system	0	0.3	0.1
Network overheads	21.9	17.8	14.3
Corporate overheads	3.6	3.2	3.0
Gross capex	62.8	52.7	35.8
Capital contributions	0.4	1.6	2.8
Net capex	62.4	51.0	33.0

Glossary

Term or acronym	Definition
AA	Evoenergy's access arrangement
ACT	Australian Capital Territory
ACTCOSS	ACT Council of Social Services
ACTG	ACT Government
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
API	Asset Performance Index
CAB	Capital asset base
Capex	Capital expenditure
CESS	Capital Expenditure Sharing Scheme
CIE	Centre for International Economics
CPI	Consumer price index
DAMS	Distribution Asset Management Services agreement between ActewAGL Distribution and Jemena Gas Networks
Decommissioning	Decommissioning refers to the complete or partial shutting down and removal of the infrastructure of the gas network that is no longer in use.
Draft five-year gas plan	Evoenergy's publication of an initial position on its access arrangement proposal shaped by consumer and stakeholder engagement, for public consultation. The draft five-year gas plan was released on 3 March 2025 and is available on Evoenergy's website.
E&I	Electrical and instrumentation
GSL	Guaranteed Service Level
GJ	Gigajoule – unit of measurement of energy consumption
IEP	ACT Government's Integrated Energy Plan
JAM	Jemena Asset Management
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
NPV	Net present value
NSW	New South Wales
OLS	Ordinary Least Squares
Opex	Operating expenditure
POTS	Package Offtake Station
RIN	Regulatory Information Notice

Term or acronym	Definition
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
Temporary disconnection	A disconnection is a temporary closure of a gas connection on a premises. It involves disabling the meter equipment by introducing a plug, wad, meter lock or blanking device to the inlet of the meter, preventing gas flow through the meter. A temporary disconnection does not disconnect the pipeline to the premises, meaning the gas pipeline is still active and pressurised. A temporary disconnection can be reversed.