evoenergy

Attachment 5: Operating 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. Our operating expenditure (opex) proposal

Our initial proposal operating expenditure (opex) forecast of $123 million[1] for the 2026–31 period reflected our commitment to minimise opex to only that required to safely and reliably operate the gas network and meet legal obligations relating to the supply of gas services through the electrification transition of the ACT region.[2] 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.[3] Key elements of our opex forecast proposal included:

- exclusion of government taxes and levies (Utilities (Network and Facilities) Tax (UNFT) and the Energy Industry Levy (EIL)) from our opex category-specific forecasts,
- separation of transportation services from ancillary activities and exclusion of $9 million from our opex forecasts,
- assuming 2023–24 as the base year reflecting an efficient start point based on actual audited data,
- including a downward adjustment for customer numbers based on our forecast decline in customer numbers, even though opportunities for cost savings arising from a declining customer base are limited,
- using a zero productivity trend despite the potential for declining productivity driven by lower customer density and lost economies of scale, and
- excluding any step changes from our opex forecast and instead managing cost increases within our proposed allowance.

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

The AER's draft decision was not to accept Evoenergy's proposed opex forecast of $123.4 million. The AER's alternative forecast opex is $169.3 million, $45.9 million higher than Evoenergy's proposal. The key reason for a materially higher opex forecast, is the AER's draft decision to include the government taxes and levies (UNFT and EIL) in the opex forecast as step changes. This is offset to some extent by the AER's draft decision to not accept our approach to calculate output growth net of productivity.

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] The ACT Government's commitment phase out gas and complete network decommissioning by 2045, and achieve emissions reductions required by the legislated target of net zero by 2045 for the ACT. See ACT Government (2024). The Integrated Energy Plan 2024–2030: Our pathway to electrification, June; Climate Change and Greenhouse Gas Reduction Act 2010, 6(1).

[3] Evoenergy (2025). ACT and Queanbeyan-Palerang gas network access arrangement 2026–31 - Attachment 4 - Operating expenditure, June.

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

million, $2025–26	Evoenergy's initial proposal	AER's draft decision	Difference
Base year	113.0	112.3	-0.7
Trend: output growth	-1.3	-4.6	-3.3
Trend: real price growth	1.5	2.1	0.5
Trend: productivity growth	0.0	0.1	0.1
Step changes	0.0	48.2	48.2
Controllable opex	113.2	158.0	44.9
Unaccounted for gas (UAG)	9.4	10.2	0.8
Debt raising costs	0.8	1.1	0.3
Opex including UAG and debt-raising costs	123.4	169.3	45.9

3. Our response to the AER's draft decision

Evoenergy accepts most of the AER's draft decision adjustments to forecast opex. However, we do not accept the AER's draft decision in relation to:

- the calculation of output growth net of productivity,
- the treatment of ACT Government taxes and levies, and
- the UNFT forecast.

3.1 Output growth net of productivity

The AER's draft decision is to reduce Evoenergy's opex forecast by $4.6 million to reflect declining customer numbers and throughput. The AER estimates a positive productivity adjustment of $0.1 million, resulting in a total reduction of $4.5 million in opex from output growth net of productivity. This reduction represents a 4 per cent decline in the adjusted base year opex. However, the AER provides no explanation of why this reduction in opex is reasonable or why it represents the best forecast or estimate possible in the circumstances, as required by the NGR (74(2)).

The level of opex savings assumed in the AER's forecast is unrealistic during a period where customers will lead the transition away from the gas network. The disconnections from the gas network over the 2026–31 access arrangement period will be geographically dispersed and uncoordinated and customers remaining on the network can be located anywhere. As a result, Evoenergy must continue to operate and maintain the entire network over this period. In other

words, there are no opportunities for opex savings during the upcoming access arrangement period and the AER's forecast, which reflects its standard approach for *growing* networks, significantly understates the costs that would be incurred by a prudent service provider acting efficiently (NGR(91)(1)).

The AER's opex forecast is not only inconsistent with the opex criteria in the NGR, but also with its own decision on depreciation. As discussed in Attachment 3: Depreciation, the AER's draft decision on depreciation purposely sets asset lives beyond 2045, making it highly unlikely that Evoenergy will be able to recover its existing asset base and providing a strong disincentive to invest in new long-lived assets. Instead, the AER's draft decision on depreciation incentivises Evoenergy to substitute capex for opex but then provides Evoenergy no reasonable opportunity to recover these higher costs through its punitive decision on opex.

Evoenergy engaged the Competition Economists Group (CEG) to advise on the AER's draft decision approach.

CEG's key findings are as follows:

- The mechanical application of historical benchmarking models to Evoenergy's circumstances is not robust. The econometric studies used by the AER were estimated over historical periods where the key output variables (mains length, customer numbers and throughput) moved closely together. In this setting, multicollinearity means that models can fit historical data well but cannot be used to identify the true, separate contribution of each output to cost. This problem is acute in Evoenergy's case when the variables no longer move together. In this case, the individual output coefficients cannot safely be treated as reliable estimates of causal weights for forecasting, because the underlying econometric identification relied on historical co-movement rather than clean independent variation.
- A compounding issue is that the time trend in these regressions is unstable in the presence of multicollinearity. This matters for Evoenergy because its network scale is effectively static in the forecast period (i.e. no material change in mains length). In this environment, models that combine high output coefficients with a strongly negative time trend will mechanically drive opex down sharply. In practical terms, these models tend to push opex down through declining customer and throughput variables and the modelled effect of assumed productivity improvements, even though the underlying asset footprint being operated and maintained is largely unchanged.
- Economic fundamentals and international precedent suggest the AER's method is flawed. There is an important asymmetry between network expansion and network contraction. When customer numbers grow, new connections often require extensions of the physical network, increasing both usage and asset scale together. In contrast, when customers disconnect in an uncoordinated manner, as occurs during an early-stage energy transition, the physical network does not shrink. The asset base remains largely unchanged even as usage declines. Economic and engineering fundamentals therefore imply that operating costs will remain broadly stable until disconnections become sufficiently concentrated, geographically and temporally, to permit coordinated decommissioning of infrastructure. In this context, forecasting operating expenditure based mechanically on declining customer numbers or throughput risks conflating usage metrics with cost drivers.
- The operating and maintenance costs of gas networks are driven by the scale, complexity and condition of the assets that must be operated and maintained and by

safety and reliability obligations rather than utilisation metrics. This is reflected in overseas regulatory approaches. In the United Kingdom, Ofgem's gas distribution cost modelling has long relied on a proxy for network scale and complexity (Modern Equivalent Asset Value) rather than customer counts or throughput. Under this framework, a falling customer base does not mechanically imply falling opex unless the asset base being maintained reduces. In New Zealand, the Commerce Commission has explicitly applied a zero opex partial productivity factor in the current transition context.

CEG conclude that the most defensible approach is to anchor forecasts to a measure of network scale (mains length), treat customer and throughput metrics as secondary until decommissioning is feasible and avoid imposing aggressive negative time trends that are not robustly identified. Further, CEG notes that the transition may create incentives for efficient opex/capex substitution (to avoid stranding long-lived replacement capex), which further weakens any presumption that falling utilisation should translate to falling opex in the near term.

CEG's report is provided as Appendix 5.2: Declining customer impact on operating expenditure.

3.2 Treatment of ACT Government taxes and levies

Evoenergy's initial proposal included jurisdictional taxes and levies (also known as jurisdictional charges) in the annual tariff variation mechanism and excluded these costs from the opex forecast.

The AER did not accept this approach. Instead, the AER's draft decision was to include jurisdictional charges in the opex forecast and redefine these costs from category specific costs, as they are in the current access arrangement period, to step changes. The AER considered that recovering jurisdictional charges on a cost-of-service basis is inconsistent with an incentive-based framework and Evoenergy should be provided with an incentive to lower these costs.[4] The AER does not explain why Evoenergy should be incentivised to reduce its taxes, defined as a regulatory obligation under the NGL.

The incentive-based regulatory framework is complemented with cost-of-service mechanisms which limit or remove some ex-ante incentives for costs outside of distributor's control, such as cost pass throughs. The AER's current approach for gas and electricity networks is to treat jurisdictional charges as a cost outside of distributors' control. The AER's draft decision includes no evidence of a shift in circumstances whereby Evoenergy can control or reduce incurred jurisdictional taxes, derived in the ACT to meet the Government's own-source taxation requirements and set by the relevant Minister pursuant to legislation.

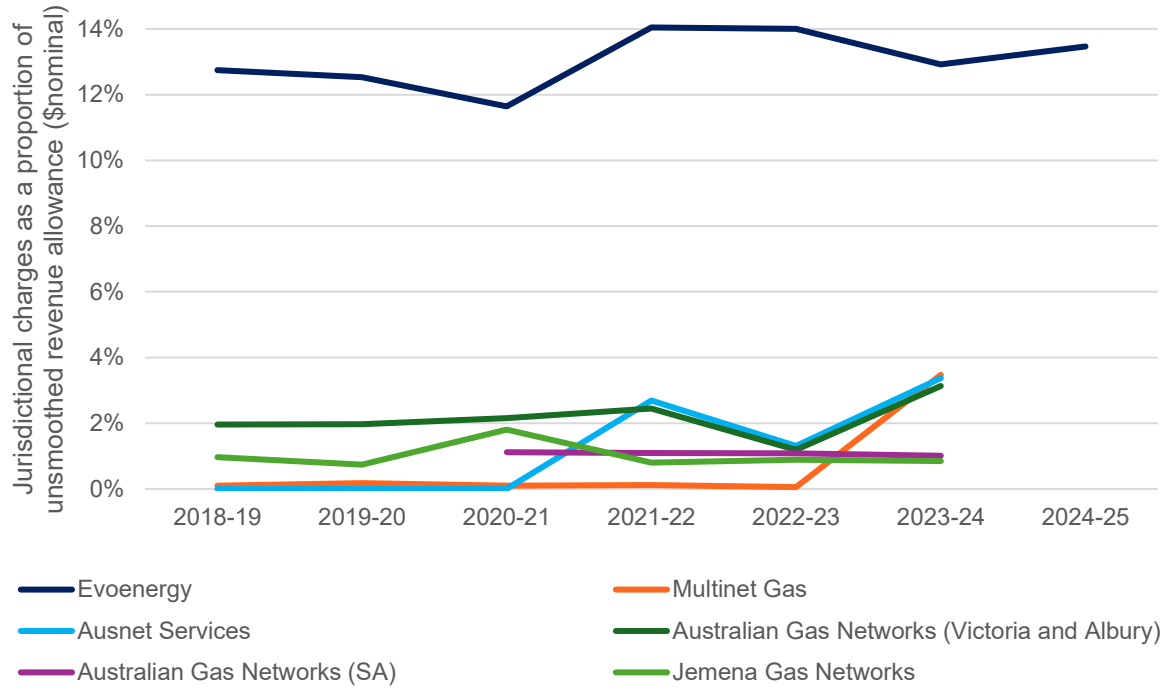
While we accept the AER's draft decision to include these costs in the opex forecast, we do not accept the draft decision to reclassify jurisdictional charges from category specific costs to step changes.

Evoenergy's jurisdictional charges are comprised of the UNFT and the EIL. Evoenergy's jurisdictional charges are substantial, accounting for 28 per cent of Evoenergy's total opex forecast, and around 13 per cent of its revenue allowance. This is materially higher than other jurisdictions, where government taxes and levies only account for around one per cent of revenue allowances, as shown in Figure 1. These charges are also highly variable from year to

[4] AER (2025). Draft decision - Evoenergy access arrangement 2026–31 - Attachment 3 - Operating expenditure, November, pp. 19–20.

year, as demonstrated in Evoenergy's response to the AER's information request on these costs (refer to response to information request #011).

Figure 1 Jurisdictional charges as a proportion of unsmoothed revenue allowance ($nominal)



Source: RIN data, AER final decision PTRM.

The ACT Government determines the UNFT rate each year and sets the methodology for calculating network route length. Evoenergy's responsibility is to levy the ACT Government's tax on network charges and pass the resulting revenue back to the ACT Government. The ACT Government uses UNFT revenue to provide a range of services to the ACT community. Evoenergy has no control or influence over ACT Government decisions on the rate or collection of tax revenue in the ACT, as these decisions are unilaterally determined by the relevant Minister pursuant to legislation.

For example, for 2025–26 and 2026–27, the ACT Government increased the UNFT rate by an additional 2.5 percentage points above the wage price index to 'increase own-source taxation to sustainably deliver public services and infrastructure for the Canberra community'.[5] In contrast, in 2019–20, the ACT Government froze the UNFT rate to provide cost of living relief to the community.[6]

Similarly, the EIL funds national and local regulatory costs and is determined annually by the Independent Competition and Regulatory Commission (ICRC). Again, Evoenergy has no influence over the rate or collection of this levy.

Evoenergy cannot act to lower jurisdictional charges, including UNFT and EIL, and the AER's suggestion that Evoenergy should be provided with the incentive to do so is inappropriate. These

[5] ACT Government (2025). Australian Capital Territory Budget 2025–26 Budget Outlook, June, p. 88.

[6] ACT Government (2020). Australian Capital Territory ACT Economic Survival and Recovery Initiatives, ACT Treasurer's Update, June, p. 15.

costs are outside of Evoenergy's control and should be treated as such, consistent with the historic treatment of these costs as category specific for gas and the current treatment of these costs in electricity, water and sewerage. Requiring Evoenergy to bear the risk associated with changes to ACT Government taxation decisions and the costs incurred by regulatory authorities, particularly given the materiality of these costs, is inconsistent with the National Gas Objective to provide Evoenergy with a reasonable opportunity to recover at least the efficient costs it incurs in providing reference services.

Similarly, the implication of the AER's decision would be to reward or penalise Evoenergy through the Efficiency Carryover Mechanism (ECM) in the next access arrangement period if the ACT Government's taxation decisions in relation to UNFT differ to the approved forecast or if regulatory authorities spend more or less than the approved forecast. Further, the UNFT and EIL would become part of the base year and therefore adjusted by the general opex trend, regardless of the UNFT rate determined by the ACT Government. This is clearly inconsistent with the NGO and with the NGR criteria governing operational expenditure.[7]

By refusing to maintain Evoenergy's current true-up mechanism via the TVM under our 2021–26 access arrangement for any differences in our actual UNFT and EIL payments from forecast, the AER increases the risk of forecasting errors in respect of these payments for Evoenergy. The AER suggests that cost pass through arrangements are sufficient to deal with material changes in the UNFT and EIL. A cost pass through would only provide Evoenergy with an opportunity to recover at least the efficient costs it incurs in the event a materiality threshold is reached.[8] Further, it imposes an unnecessary administrative burden on Evoenergy and the AER compared with the current and simple methodology of including an annual true-up in the tariff variation mechanism. While Evoenergy has included a tax change event as part of its revised access arrangement, in line with industry practice[9], it does not accept the AER's approach of including the UNFT and EIL as step changes.

3.3 UNFT forecast

We do not accept the AER's forecast of the UNFT for the 2026–31 access arrangement period. The AER states that it has applied the March 2025 UNFT rate and extrapolated the rates for 2026 to 2031 by applying a 5 per cent per annum increase (escalated to June 2026 dollars). It then multiplied the resulting rates by Evoenergy's forecast mains lengths.[10]

The AER references a 2015 ACT Government Budget Review document as the source of the 5 per cent per annum increase in the UNFT rate. The UNFT rate is no longer indexed by 5 per cent per annum. From 2020–21, the UNFT rate has been indexed annually by the ACT Wage Price Index for the preceding annual December quarter.[11] As set out in Evoenergy's response to the AER's information request on the UNFT (IR#011), the ACT Government announced that it would

[7] NGR 91(1) requires that operating expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services in a manner consistent with the achievement of the national gas objective.

[8] The Cost Pass Through materiality (Administrative Cost Impact) threshold is equal to or greater than 1 per cent of revenue for that Financial Year (see Attachment C: Access Arrangement 2026–31, schedule 1).

[9] See Attachment 9: Network access.

[10] AER (2025). Draft Decision: Evoenergy (ACT) access arrangement 2026 to 2031, Attachment 3 – Operating expenditure, November, p.21.

[11] In 2023–24, the ACT Government indexed the UNFT rate by an additional 2.5 percentage points above the annual ACT Wage Price Index

increase the UNFT rate by a further 2.5 percentage points above the ACT Wage Price Index for 2025–26 and 2026–27.

Further, the AER's draft decision incorrectly applies the mains lengths from Evoenergy's opex model as the relevant route length for the UNFT calculation. The network route length for the purposes of calculating the UNFT is total mains lengths plus total service lengths on land in the ACT.

4. Our revised opex proposal

Our revised opex forecast is $175.4 million, four per cent higher than the AER's draft decision. Each of the elements of Evoenergy's revised opex forecast is discussed below. Our opex model is provided as Appendix 5.1.

4.1 Base year

Evoenergy accepts the AER's draft decision adjusted final year opex of $112.3 million. We note that the AER will update this again for inflation in its final decision.

4.2 Trend

As discussed above, we do not agree with the AER's draft decision forecast of the change in output growth net of productivity. Instead, we have adopted the approach recommended by CEG to:

- adopt the Ofgem precedent that opex is driven by the current scale, age and complexity of the network,
- choose mains length as the best available proxy for network scale (noting that network age and complexity are already captured in Evoenergy's base year opex),
- given that multicollinearity makes individual coefficients unreliable, sum the coefficients for all three parameters (main length, customer numbers and throughput) in each regression and treat the summed value as the coefficient for mains length,
- do not exclude any regression models based on monotonicity violations,
- give a zero weight to variation in the regulated asset base cost driver, and
- ignore the time trend components of the models and set the productivity trend to zero consistent with NZ Commerce Commission precedent.

We accept the AER's draft decision on the forecast price change.

4.3 Step changes

4.3.1 Safety control program opex step change

Evoenergy has included an opex step change for safety control program costs of $1.5 million.

The safety control program is driven by regulatory obligations under the *Utilities (Technical Regulation) (Gas Safety and Network Operation Code)* introduced during the current 2021–26 period, and needed to support our targeted approach to permanent disconnections based on

safety assessment findings. The safety assessment (including the 'As Low As Reasonably Practicable') findings are included in our proposal: Appendix 8.1: Disconnection services.[12]

GHD's report to the ACT Government[13] on gas connection abolishment recommended:

> 'an awareness campaign aimed at informing customers on the differences and implications between temporary disconnections and abolishment" and "an awareness campaign on gas appliance removal and the risks of a connected non-consuming service. This would support public safety and address the risk of DIY removal of gas appliances. ***The same campaign could remind customers that gas is still connected to non-consuming services and the risk of a third-party strike releasing gas is still present***.' [emphasis added].

The safety control program is specifically designed to target temporarily disconnecting and disconnected customers. The safety control program is in addition to Evoenergy's business as usual gas and electricity safety awareness campaign, which meets public safety communication requirements under the *Utilities (Technical Regulation) (Gas Safety and Network Operation Code)*. Evoenergy's current safety awareness campaign includes established media collateral and channels that are designed to address gas network safety risks across the broader community. The safety control program requires the development of new, tailored content and targeted paid and owned media channels, which is separate and complementary to existing campaigns. It is specifically designed to target a different customer audience – customers who have electrified their appliances and elected to temporarily disconnect from the gas network – and addresses safety risks that arise only in this context. The safety control program includes notification to temporarily disconnected customers advising them that live or pressurised gas is on their premises.

The safety control program was strongly supported by our stakeholders.[14]

4.3.2 Safety control program cost recovery

In our initial proposal, we proposed to recover costs through temporary disconnection charges on the basis that costs directly attributable to reference services should be allocated to those services, in accordance with the NGR 93(2)(a).

However, in its draft decision, the AER considered that safety control program costs are standard operating costs, rather than directly related to a specific service.[15]

The safety control program is specifically brought about by allowing temporary disconnections (rather than a permanent disconnection) where all appliances have been electrified, consistent with the findings of an independent safety assessment or ALARP review. Hence, we proposed to recover safety control program costs on a cost-reflective causer pays basis – that is, from temporarily disconnection customers.

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[12] Evoenergy (2025). ACT and Queanbeyan-Palerang gas network access arrangement 2026–31 – Appendix 8.1, June.

[13] GHD Advisory (2025). Gas connection decommissioning (abolishment) technical review, p. ii. Available at ACT Gas Decommissioning (Abolishment) Technical Review.

[14] Evoenergy (2025). Access arrangement proposal 2026–31, Appendix 1.2, Report of feedback from community forum sessions 1-10-June 2025_Public, June, p. 44; see also Appendix 1.1: Communication Link-Evoenergy community and customer forums-January 2026, p. 24.

[15] AER (2025). Draft decision – Evoenergy access arrangement 2026–31 – Attachment 5 Reference services, tariffs and non-tariff components, November, p. 23, p. 16.

Given the need for such a program to maintain compliance with our regulatory obligations, as customers progressively electrify appliances, and the AER's consideration that associated costs are 'standard operating costs', rather than directly related to a specific service,[16] the safety control program is included as an opex step change.

The safety control program meets the AER's opex step change criteria,[17] such that the costs are:

- incremental to that included in the opex base year – as explained above, the costs were not incurred in the 2023–24 opex base year, are above and beyond business as usual, and therefore have not been double counted in the 2026–31 forecast.
- not reflected in the opex trend, including for labour price growth, output growth, and productivity changes – these costs are instead increasing with the number of temporary disconnections occurring on the network.
- necessary to meet our regulatory obligations under the *Utilities (Technical Regulation) (Gas Safety and Network Operation Code)* in the context of our new targeted approach to permanent disconnections (informed by an independent safety assessment) and the associated increased in the volume of temporary disconnections forecast over 2026–31 period.
- an efficient approach to safely manage the network in lieu of the significantly more costly approach of permanently disconnecting all sites, where the targeted approach results in around $32 million of avoided costs over the 2026–31 period, and significantly more beyond the period through the ongoing phase-out of gas to 2045.[18] It is important to note that Evoenergy will continue to assess whether the targeted approach to permanent disconnections, and supporting controls – including the safety control program – are successful in maintaining an acceptable level of risk as more and more customers disconnect. If an acceptable level of risk is not observed, including for example, because there is inadequate awareness at temporarily disconnected sites, it may need to reconsider the targeted approach, which would significantly increase costs to customers.

The safety control program meets the NGR opex criteria,[19] including that costs are incurred by a prudent service provider acting efficiently, in accordance with our jurisdictional regulatory requirements, and the NGO to provide safe and reliable services.

Our community strongly support the provision of safety information for temporarily disconnecting customers were particularly critical of the AER's draft decision to remove the safety control program include:[20]

> '…things like not supporting a customer safety program are a worry.'
>
> 'The AER…should be partially responsible for safety incidents if they occur after rejecting funding for [a] safety campaign.'
>
> 'My greatest concerns at the moment are over safety.'

[16] AER (2025). Draft decision – Evoenergy access arrangement 2026–31 – Attachment 5 Reference services, tariffs and non-tariff components, November, p. 23, p. 16.

[17] AER, Expenditure Forecast Assessment Guideline, October 2024, pp. 9-10, 24-25.

[18] Evoenergy, Evoenergy-Appendix 8.1-Disconnection services-June 2025_Public.pdf, p. 25

[19] NGR, 91.

[20] Appendix 1.1: Communication Link-Report of feedback from community and customer forum sessions-January 2026, pp. 30–31.

Gas retailers also observed the importance of providing customers with safety information and the changes to the National Energy Retail Rules foreshadowed in the AEMC's draft determination requiring retailers to provide general information on disconnection services.[21,22]

4.4 Category specific costs

Consistent with the 2021–26 period, Evoenergy has maintained three category specific costs in its revised opex forecast:

- Unaccounted for gas (UAG),
- UNFT, and
- EIL.

The AER's draft decision updated Evoenergy's UAG forecast for inflation and the Frontier Economics demand forecast. Otherwise, we understand the AER adopted the same approach as Evoenergy's initial proposal. Evoenergy has applied the same inflation update as the AER and our revised demand forecast to estimate UAG. The resulting UAG forecast for the 2026 to 2031 access arrangement period is $9.7 million. This is lower than the AER's draft decision of $10.2 million due to a lower demand forecast.

We have forecast UNFT using the latest information available on the UNFT rate and our forecast of mains lengths and service lengths on ACT land. Our UNFT forecast is $44.9 million with details of the calculation provided in Table 2. This is slightly higher than the AER's forecast of $44.4 million.

We accept the AER's draft decision forecast for EIL of $3.8 million.

Table 2 Evoenergy's UNFT forecast (2026–31)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
UNFT rate ($ per km)	1,677	1,733	1,791	1,854	1,920	
Mains length ACT (km)	4,233	4,233	4,233	4,233	4,233	
Service length ACT (km)	1,252	1,186	1,115	1,041	966	
Total network route length ACT (km)	5,485	5,419	5,348	5,274	5,199	
UNFT nominal, million	9.2	9.4	9.6	9.8	10.0	47.9
UNFT $2025–26, million	**9.1**	**9.0**	**9.0**	**8.9**	**8.9**	**44.9**

4.5 Debt raising costs

We have calculated debt raising costs in accordance with the PTRM. The resulting debt raising costs are $1.1 million, the same as the AER's draft decision.

[21] Attachment 1: Revised plan engagement report-January 2026, p. 13.

[22] AEMC (2025). Establishing a regulatory framework for retail customer initiated gas abolishment, October.

5. Our revised opex forecast for the 2026–31 access arrangement period

Our revised opex forecast for the 2026–31 access arrangement period is set out in Table 3.

Table 3 Revised forecast opex: 2026–31

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Base year	22.5	22.5	22.5	22.5	22.5	112.3
Trend: output growth net of productivity	0.0	0.0	0.0	0.0	0.1	0.2
Trend: real price growth	0.1	0.2	0.4	0.5	0.7	2.0
Step changes	0.4	0.3	0.3	0.3	0.3	1.5
Opex excluding category specific and debt-raising costs	**22.9**	**23.0**	**23.1**	**23.3**	**23.5**	**115.9**
UAG	2.4	2.1	1.9	1.7	1.6	9.7
UNFT	9.1	9.0	9.0	8.9	8.9	44.9
EIL	0.7	0.8	0.8	0.8	0.8	3.8
Debt raising costs	0.2	0.2	0.2	0.2	0.2	1.1
Opex including category specific and debt-raising costs	**35.4**	**35.1**	**35.0**	**35.0**	**34.9**	**175.4**

6. Efficiency Carryover Mechanism (ECM)

The AER's draft decision accepts Evoenergy's proposal to continue to apply the ECM during the 2026–31 access arrangement period for Transportation Reference Services. However, the AER proposes a number of revisions to the ECM section of Evoenergy's proposed access arrangement[23]. While we accept most of the AER's proposed revisions, we do not accept the proposed revisions to 3.7(a)(ii) or 3.7(b).

The current wording of 3.7(a)(ii) allows for expenditure to be excluded from the operation of the ECM when both Evoenergy and the AER agree to exclude this expenditure. The AER's proposed revisions remove Evoenergy from this clause, with the effect that it is solely the AER's decision to exclude expenditure from the operation of the ECM. In our view, this provides unlimited discretion for the AER to omit costs from the ECM at any time, undermining the purpose of the ECM. The purpose of the ECM is to make the treatment of expenditure clear ex-ante, at the beginning of the regulatory period. Distribution businesses must have certainty that they will be rewarded for outperforming their opex allowance, in order to be incentivised to make efficiency

[23] AER (2025). Draft Decision: Evoenergy (ACT) access arrangement 2026 to 2031, Attachment 7 – Efficiency carryover mechanism, November, p.5–8.

gains. Providing full discretion to the AER to remove expenditure from the operation of the ECM would undermine the incentives provided to Evoenergy.

We propose the following revisions to 3.7a(ii):[24]

> any operating expenditure that Evoenergy and the AER agree to exclude from the operation of the efficiency carryover mechanism on the basis that such exclusion is necessary to ensure the operation of the efficiency carryover mechanism will contribute to the National Gas Objective as intended; and

The AER proposes that clause 3.8 of the current access arrangement be deleted and replaced with a new clause 3.7(c) that refers to approved forecast operating expenditure in the most recent Evoenergy Post Tax Revenue Model published by the AER from time to time. Evoenergy proposes that this language be tightened to ensure that the ECM operates with respect to the regulatory processes established by the NGL and NGR.

We propose the following revisions to 3.7(b):[25]

> subject to the exclusions set out in clause 3.7(a), the forecast operating expenditure amounts for the 2026 Access Arrangement Period that are used as the basis for measuring efficiencies are the forecast operating expenditure amounts for the Period approved by the AER in its Final Decision, as amended from time to time in accordance with the National Gas Law, National Gas Rules or this Access Arrangement (such as to pass through any Determined Pass Through Amounts), and will likely be reflected in the version of the PTRM published by the AER with the most recent of its decisions on Evoenergy's operating expenditure for the 2026 Access Arrangement Period under these instruments; and

[24] Attachment C: Access arrangement 2026–31-clean-January 2026 (clause 3.7(a)(ii)).
[25] Attachment C: Access arrangement 2026–31-clean-January 2026 (clause 3.7(b)).

Glossary

Term or acronym	Definition
AA	Evoenergy's access arrangement
ACT	Australian Capital Territory
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
ALARP	As Low As Reasonably Practicable safety assessment
Capex	Capital expenditure
CEG	Competition Economists Group
CPI	Consumer price index
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.
ECM	Efficiency carryover mechanism
EIL	Energy Industry Levy
ICRC	Independent Competition and Regulatory Commission
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules
Ofgem	Energy regulator for Great Britain
Opex	Operating expenditure
Permanent disconnection	The permanent disconnection of a gas connection at the premises. A permanent disconnection involves the removal of the gas meter and the physical disconnection of any pipeline to the property. This is considered the safest option as it removes all risks associated with having a pressurised gas pipe, including the risk of gas leaks and excavation strikes.
PTRM	Post Tax Revenue Model (AER model) used to calculate Evoenergy's revenue forecast
The Rules or Rules	National Gas Rules
UAG	Unaccounted for gas
UNFT	Utilities (Network Facilities) Tax
VB	Volume Boundary tariff
VI	Volume Individual tariff