evoenergy

27 June 2025

Mr Arek Gulbenkoglu
General Manager, Network Expenditure
Australian Energy Regulator
via aerinquiry@aer.gov.au

Dear Mr Gulbenkoglu,

Re: Capital Expenditure Incentive review - Draft guidelines

Evoenergy welcomes the opportunity to respond to the AER's Capital Expenditure Incentive review – Draft guideline (draft Guideline). Evoenergy owns and operates the electricity network in the ACT and the gas network in the ACT and surrounding region.

Evoenergy supports the intent of the Draft guideline to address the challenges of forecasting connections capital expenditure (capex) through Australia's energy transition. Our submission addresses the practical implementation challenges with the proposed approach to achieve that intent for distribution network service providers (DNSPs).

Ex-post modifications to CESS

Evoenergy agrees with the proposed amendments in clause 2.8.1 of the draft Guideline to allow the AER to reduce the capital expenditure sharing scheme (CESS) penalty where a contributing cause of a DNSPs overspend is a 'large bespoke connection' not included in the capex forecast and the investment is demonstrably efficient.

To improve clarity of intent and provide greater certainty to DNSPs, Evoenergy recommends the AER provide a non-exhaustive list of examples of the nature of connections projects which would be considered 'large bespoke connections'. Evoenergy supports all *negotiated connection services*[1] under Chapter 5A, Part C of the National Electricity Rules (NER) being considered 'large bespoke connections'.

In light of the pace of the energy transition, which is well underway across Australia, Evoenergy encourages the AER to assess the available options for the ex-post CESS modifications to apply to DNSPs regulatory determinations already in progress, perhaps through an opt-in transitional arrangement. Evoenergy considers this approach would avoid unduly penalising DNSPs for facilitating unanticipated and uncontrollable large customer connections over the next four to five years which coincide with a critical period in Australia's energy transition.

Ex-ante modifications to the CESS

Evoenergy supports the intent of the proposed amendments in clause 2.6.1 of the draft Guideline to provide for a volumetric adjustment for 'standard connections' to ensure a DNSP is not penalised for efficiently responding to customer-driven connection volumes.

We are concerned however that this intent may not be achieved due to the practical challenges of clearly defining a 'standard connection' with a 'standardise unit rate', particularly when there are varying degrees of contestability for connections services across

[1] Negotiated connection services are cclassified as standard control services in the AER's Framework and Approach final decision for Evoenergy 2024-29 regulatory period.

jurisdictions. Evoenergy is unclear which of its standard control services customer-driven connections projects would meet the draft Guideline description.[2]

To simplify the CESS and reflect jurisdictional differences, we suggest the Guideline enable DNSPs to propose an ex-ante exclusion for connections capex in their regulatory proposals. Consistent with other elements of regulatory proposals, DNSPs would develop any proposed ex ante CESS exclusions in consultation with their community and stakeholders.

Adjustment to CESS rewards

Evoenergy does not consider it necessary for the AER to seek to 'rebalance' the CESS by reducing the current CESS rewards for efficient capex underspends in light of the proposed CESS modifications.

The intent of considering modifications to the CESS for connections projects is to respond to the rapid changes underway in the energy sector, and specifically in relation to the increased uncertainty over customer-driven connections projects. As currently drafted, we anticipate the proposed CESS modifications would only:

- apply in limited circumstances, for DNSPs subject to ex post review due to unforeseen connections
- be relevant to the connections category of capex.

Additionally, the CESS already includes a tiered sharing ratio for efficiency savings, that is a 30% sharing ratio up to a 10% underspend and a 20% sharing ratio thereafter, compared with a flat rate 30% sharing ratio for all overspends.

In these circumstances, we consider adjustments to efficiency rewards would be unduly administratively burdensome, requiring complex identification of underspends and contributing factors, and is not consistent with the incentive-based operation of the CESS and its intent of simplicity.

Should you wish to further discuss matters raised in this request, please contact Lev Yulin, Group Manager Regulatory Pricing and Analysis, Economic Regulation at [redacted]

Yours sincerely

[redacted]

Megan Willcox
General Manager – Economic Regulation

[2] Basic and standard connection services are classified as standard control services in the AER's Framework and Approach final decision for Evoenergy 2024-29 regulatory period. Under our AER approved Connection Policy for the period 2024-29, Evoenergy does not have any *standard connection services* as defined under chapter 5A Part B Division 2 of the NER. Evoenergy's *basic connections* services defined under chapter 5A Part B Division 1 of the NER are not based on an AER approved unit rate.