evoenergy

Attachment 4: Operating expenditure

Access arrangement information

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

Submission to the Australian Energy Regulator

June 2025

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1. Introduction

Operating expenditure (opex) refers to the ongoing costs Evoenergy incurs to deliver safe and reliable gas network services to our customers. It includes activities such as ongoing network maintenance, emergency response, network planning, customer service, field operations and corporate support.

The National Gas Rules (NGR) require an access arrangement (access arrangement) proposal to include information on opex for the earlier access arrangement period and a forecast of opex for each year of the access arrangement period. This attachment addresses these requirements by providing information on Evoenergy's opex for the 2021–26 access arrangement period, including a comparison against the AER's allowance, and our opex forecast for each year of the 2026–31 access arrangement period and details on how we developed our forecasts.

Through its Integrated Energy Plan (IEP)[1] the ACT Government has committed to phase out the gas network in the ACT in order to meet its net zero by 2045 target. To support an equitable transition to the Government's net zero objective, Evoenergy is committed to constraining opex to the lowest sustainable level required to maintain network safety and reliability for the period 2026–31.

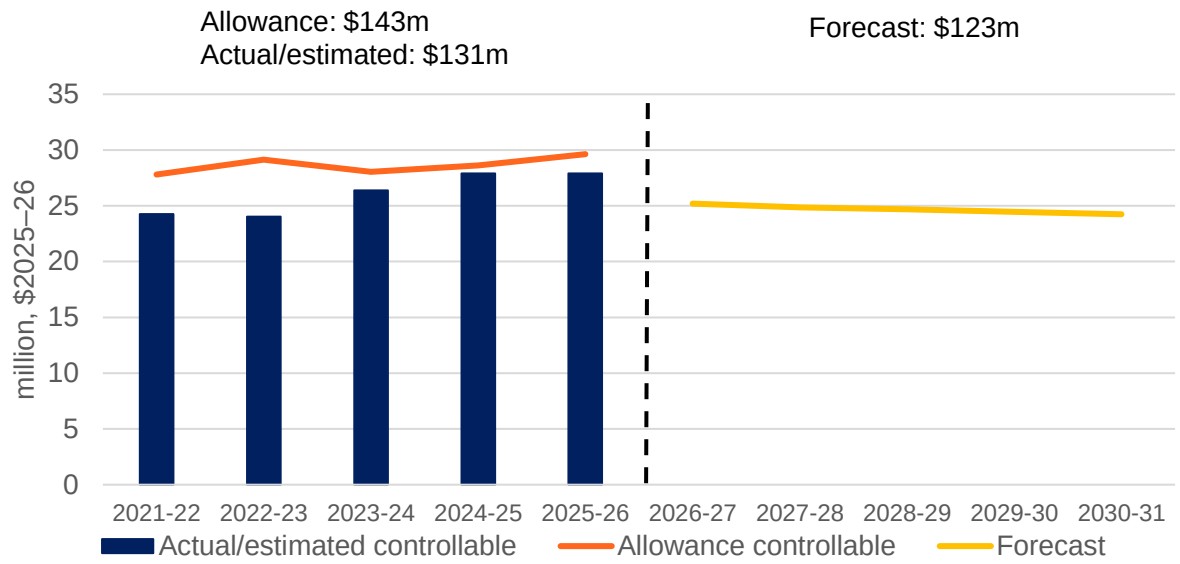
We have made two important changes to our opex forecasts for the 2026–31 access arrangement period compared with the approach used for the current period:

- we have separated transport services from ancillary services, and the opex forecasts discussed in this attachment are only for transport (including metering) services[2]
- we have excluded government taxes and levies from our opex forecasts[3].

We forecast opex to be $123 million (real, $2025-26) for the 2026–31 access arrangement period.[4] When compared on a like-for-like basis (i.e. excluding ancillary services and government taxes and levies), this is 14 per cent below the AER's allowance for the 2021–26 access arrangement period and 5 per cent lower than expected opex for the 2021–26 access arrangement period (see Figure 1).

[1] ACT Government, The Integrated Energy Plan 2024–2030: Our pathway to electrification, June 2024.
[2] For ancillary services, we have used a cost build-up methodology, which is discussed in Attachment 8: Ancillary activities reference services and tariffs, June 2025.
[3] We propose excluding the ACT Government's Utilities (Network Facilities) Tax and Energy Industry Levy from opex and instead include these costs in annual pricing, consistent with the approach used for electricity. See Attachment 9: Tariff variation mechanism, June 2025.
[4] This is total transport opex, including unaccounted for gas and debt-raising costs.

Figure 1 Transport opex, current 2021–26 access arrangement period versus forecast ($million, 2025–26)



Our community and stakeholders have told us that they are concerned about the immediate and longer-term costs associated with the transition from gas to electricity, particularly the impact on customers remaining on the network for longer. They expect gas network expenditure to be limited to the costs required to ensure the network is safely, securely and reliably maintained and operated.

While the cost of operating the gas distribution network cannot be scaled down in proportion to the number of customers leaving the network, we have responded to stakeholder feedback by adopting inputs and assumptions that minimise our opex forecasts, including:

- assuming 2023–24 as the base year reflecting an efficient start point based on actual audited data
- including a downward output growth adjustment 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
- excluding any step changes from our opex forecast and instead managing cost increases within our proposed allowance.

We consider our opex forecast to represent the lowest sustainable costs that would be incurred by a prudent service provider acting efficiently to deliver safe, reliable and secure gas pipeline services while also facilitating the ACT Government's policy to reduce greenhouse gas emissions by phasing out the gas network in the ACT by 2045.

2. Current period performance (2021–26)

Rule 72(1)(a)(ii) requires that our access arrangement proposal include information on opex by category over the earlier access arrangement period. The earlier access arrangement period in this case is the current 2021–26 access arrangement period, which commenced on 1 July 2021 and will finish on 30 June 2026.

For the current 2021–26 access arrangement period, opex included both ancillary services and category-specific costs. The categories of opex forecast for the current period are controllable opex (for both transport and ancillary services) and category specific costs. Category-specific costs can be broken down further into the Utilities (Facilities Network) Tax (UNFT), the Energy Industry Levy (EIL), and Unaccounted for Gas (UAG).

- The UNFT is a tax levied by the ACT Government on owners of any network facility on land in the ACT. Utility networks include networks for transmitting and distributing electricity, gas, sewerage, water and telecommunications. Registered owners of utility networks in the ACT must lodge an annual return and make payment by 30 May each year. The amount payable is calculated by multiplying the determined rate by the linear route length of the network. For the year ending 31 March 2025, the determined rate is $1,494 per kilometre of network facility route length.[5] For the current 2021–26 access arrangement period, the UNFT is expected to make up 24 per cent of our total opex.
- The EIL is a levy used to recover costs associated with regulating utilities providing services in the ACT.[6] The Independent Competition and Regulatory Commission calculates and determines the annual level of the EIL.[7]
- UAG is the difference between the measured gas entering the network and the measured gas delivered to customers. Differences can arise because of measurement errors (due to meter accuracy and estimation of various gas measurement parameters including energy density of the gas, ambient temperature and ambient pressure), leaks, venting of gas for normal operation and gas theft. Evoenergy is responsible for purchasing the additional gas required to replace UAG.

Table 1 presents a breakdown of actual and estimated opex for the current 2021–26 access arrangement period by category. This breakdown has been prepared on the basis of actual expenditure to 2023–24 and estimated expenditure for 2024–25 and 2025–26.

Table 1 Actual and estimated opex by category, million $2025–26

	2021–22	2022–23	2023–24	2024–25	2025–26	Total
Controllable expenditure (including ancillary services)	22.28	20.19	22.84	26.64	26.33	118.28
UNFT	9.33	9.07	8.62	9.20	9.19	45.41
EIL	0.86	0.73	0.39	0.72	0.72	3.41

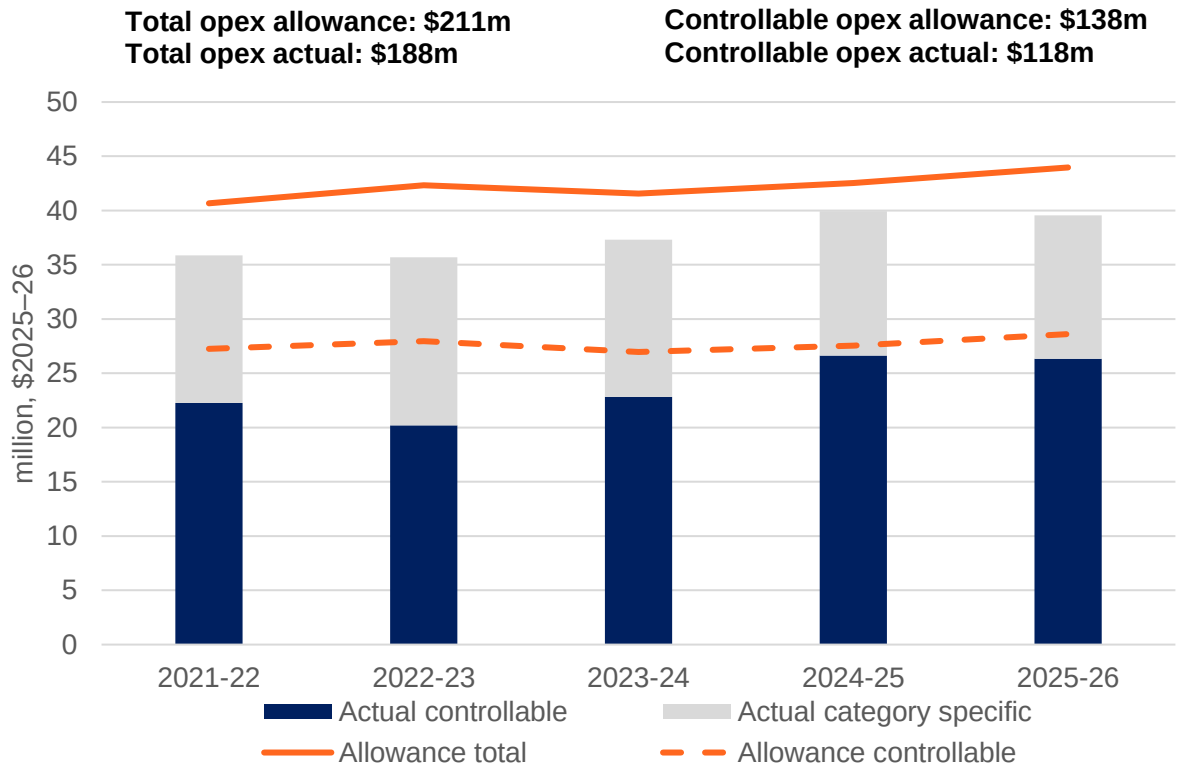
[5] ACT Revenue Office, Utilities (network facilities) tax | ACT Revenue Office - website.
[6] ACT Revenue Office, Energy industry levy | ACT Revenue Office - website.
[7] ACT Independent Competition and Regulatory Commission, Licence Fees and the Energy Industry Levy .

	2021–22	2022–23	2023–24	2024–25	2025–26	Total
UAG	3.40	5.72	5.45	3.40	3.33	21.30
Total	35.87	35.70	37.31	39.95	39.57	188.41

Totals may not sum due to rounding.

Evoenergy's actual opex performance against the AER's allowance for the current 2021–26 access arrangement period is shown in Figure 2. We expect to underspend the total allowance (including ancillary services and category-specific costs) by $23 million or 11 per cent. We expect to underspend the controllable opex allowance (including ancillary services) by $20 million or 15 per cent.

Figure 2 Opex allowance versus actual/estimated



3. Proposed approach to operating expenditure for the period 2026–31

The costs of operating and maintaining a gas distribution network safely and reliably are largely fixed, meaning the costs have not historically increased in line with customer growth (i.e. productivity has improved), and similarly will not materially decrease as customers leave the network.

Over the next five years, Evoenergy is committed to limiting network opex to only what is required to safely and reliably manage the gas network and meet legal obligations relating to the supply of gas services as gas demand continues to decline, as set out in section 4 below.

3.1 How we engaged and what we heard from stakeholders

Over the past 18 months, we have engaged extensively with our community on our five-year gas plan through deliberative forums and additional channels to ensure we heard from a broad range of stakeholders about their values, concerns and priorities. Information on the key consumers and stakeholders we engaged with on our five-year gas plan is provided in Attachment 1: Consumer and stakeholder engagement.

We heard from our deliberative forums[8] and other stakeholders, including the ACT Government in its submission to our reference service proposal (RSP),[9] 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.

Through our draft five-year plan and in discussions with our community forum, we sought views on the appropriateness of including in our five-year gas plan a step-change measure to support customers through the electrification transition (by providing reliable and accessible information), and a step-change to provide information about safely disconnecting from the gas network.[10] We did not receive written feedback in response to this question in the draft five-year plan. Feedback on a customer support measure was mixed, with many in the community forum observing that other stakeholders, including the ACT Government and retailers, also play an important role in supporting customers.[11] As such, we have not included a step change for this in our opex forecast. Our community forum indicated support for the proposed safety control program and for the program costs to be included in the temporary disconnection charge.[12] Our proposed approach to the disconnection safety control program can be found in Attachment 8: Ancillary activities reference service and tariffs and Appendix 8.1: Disconnection services.

In November 2024, we presented our preliminary forecasts to the community forum. In our presentation and our subsequent publication of our draft five-year gas plan, we emphasised our

[8] Appendix 1.2: Communication Link, Report of feedback from community forum sessions 1-10, June 2025, pp. 42–43.
[9] ACT Government, Minister Rattenbury – Submission: Evoenergy reference service proposal, August 2024, p. 2.
[10] Evoenergy's draft five-year gas plan, access arrangement proposal 2026–31, March 2025, pp. 37–38.
[11] Appendix 1.2: Communication Link, Report of feedback from community forum sessions 1-10, June 2025, p. 38.
[12] Appendix 1.2: Communication Link, Report of feedback from community forum sessions 1-10, June 2025, p. 44.

continued commitment to keep costs down where we can while maintaining a safe and reliable gas supply for customers.[13]

3.2 How the regulatory framework applies in Evoenergy's context

The NGR criteria governing opex[14] are:

a. 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

b. the forecast of the required operating expenditure of a pipeline service provider that is included in the access arrangement must be for expenditure that is allocated between:

   i. reference services

   ii. other services provided by means of the scheme pipeline

   iii. other services provided by means of non-scheme parts (if any) of the pipeline in accordance with rule 93.

Our opex forecast reflects our best estimate of the efficient costs required to continue to provide safe and reliable gas pipeline services to consumers, while supporting the ACT Government's policy to reduce greenhouse gas emissions by phasing out the gas network by 2045. Consistent with stakeholder feedback, we have sought to minimise our opex forecasts where possible.

We have adopted the AER's preferred approach to forecasting opex and, to the extent possible given the NGR criteria, we have developed our opex forecast consistently with the AER's expectations on operating expenditure forecast proposals, as set out in its Better Reset Handbook.[15] The AER's expectations for a business's opex proposal are drawn from the NGR, the AER's guidelines and previous decisions.[16] The AER states that it will assess a proposal against these expectations to determine whether to apply a targeted review.

For the 2026–31 access arrangement period, we have split our reference services into transport and ancillary services. We have allocated expenditure between these reference services by deducting ancillary services revenue from the base year for forecasting transport service opex. Given that our pricing is cost-based, we consider this a reasonable approach to allocating expenditure between reference services.

Evoenergy does not provide any other services by means of the scheme pipeline and there are no non-scheme parts of the pipeline.

The remainder of this section compares Evoenergy's approach to forecasting opex with the AER's expectations and then provides a summary of our total opex forecast.

[13] See community forum session 7 presentation available on Evoenergy's website.
[14] National Gas Rules, Rule 91.
[15] AER 2024, Better Resets Handbook: Towards consumer centric network proposals, July 2024.
[16] AER, Better Resets Handbook: Towards consumer centric network proposals, July 2024, p. 24.

4. Our opex forecasting approach for the 2026–31 period

AER expectations

Operating expenditure is forecast using the 'base-step-trend' approach set out in the Expenditure Forecast Assessment Guideline.[1] The AER expects that the inputs and assumptions used to forecast opex are consistent with those used to calculate opex incentive scheme carryover amounts.[1]

Evoenergy confirms that it has used the AER's preferred base-step-trend methodology for forecasting opex for transport reference services for the 2026–31 access arrangement period.[17] The base-step-trend methodology starts with Evoenergy's actual opex for a representative efficient base year (base opex). Opex is trended forward to account for forecast changes in the cost of inputs, outputs and productivity. If applicable, step changes are then added, which are costs that are expected to be incurred during the forecast period but are not reflected in the base year or provided for in the trend.

The opex inputs and assumptions used in the opex forecast are consistent with those used in the Efficiency Carryover Mechanism (ECM).

We have used the AER's opex model (v2.3) to calculate the opex forecast, and this is provided as Appendix 4.1: Opex model.

4.1 Base opex

AER expectations

Forecast opex uses a base year for which audited actual opex is available and that a network business can demonstrate is not materially inefficient[1]. For gas distribution, the AER rely on the benchmarking studies undertaken by consultants.

Evoenergy has used 2023–24 as the base year, the most recent year for which audited actual data is available. Total opex for 2023–24 is taken from Evoenergy's annual RIN response. Given that the base-step-trend methodology is used for forecasting controllable opex for transport reference services, we need to exclude both ancillary services opex and category-specific costs from our base year.

- For ancillary services, we have removed ancillary services revenue from the base year. The revenue excluded is equal to the ancillary services revenue from Evoenergy's 2023–24 RIN response.
- Category specific costs excluded from the base year are also taken from Evoenergy's 2023–24 RIN response.

[17] Evoenergy has used the AER's opex model v2.3.

The AER's opex model takes our total reported opex for the base year, excluding ancillary services but including category-specific costs, and adds the estimated change in opex between the base year and the final year. This is calculated as the difference between the approved base year and the approved final year opex. The model then deducts estimated final year category-specific costs. This is calculated as the base year category-specific costs plus the difference between the base year and final year approved category-specific costs. The result is the adjusted final year opex – the calculation is shown in Table 2.

Table 2 Base opex, million $2025–26

Opex model description	Value	Source/calculation
A: Reported opex excluding ancillary services	35.41	2023–24 RIN, total opex less ancillary service revenue
B: Approved base year opex	41.57	AER final decision 2021–26
C: Approved final year opex	43.97	AER final decision 2021–26
D: Estimated final year opex	37.81	A + (C - B)
E: Reported category-specific costs	14.47	2023-24 RIN
F: Approved base year category-specific costs	14.61	AER final decision 2021–26
G: Approved final year category-specific costs	15.36	AER final decision 2021–26
H: Adjusted final year opex	22.59	D - (E + G - F)

To assess the efficiency of the base year, Evoenergy engaged the Competition Economists Group (CEG) to perform an analysis of trends in absolute and relative productivity of Evoenergy's opex. CEG's report is provided as Appendix 4.2: Benchmarking Evoenergy's productivity. CEG finds that Evoenergy consistently ranks in the middle amongst all the gas distribution businesses (Figure 3).[18] Consistent with this, CEG finds that Evoenergy's opex per customer is below the average predicted level when a simple comparison of opex to customer or energy density is made with other gas distribution businesses. This holds true whether the comparison is made over the period 2010 to 2018 or over the more recent period (Figure 4).[19]

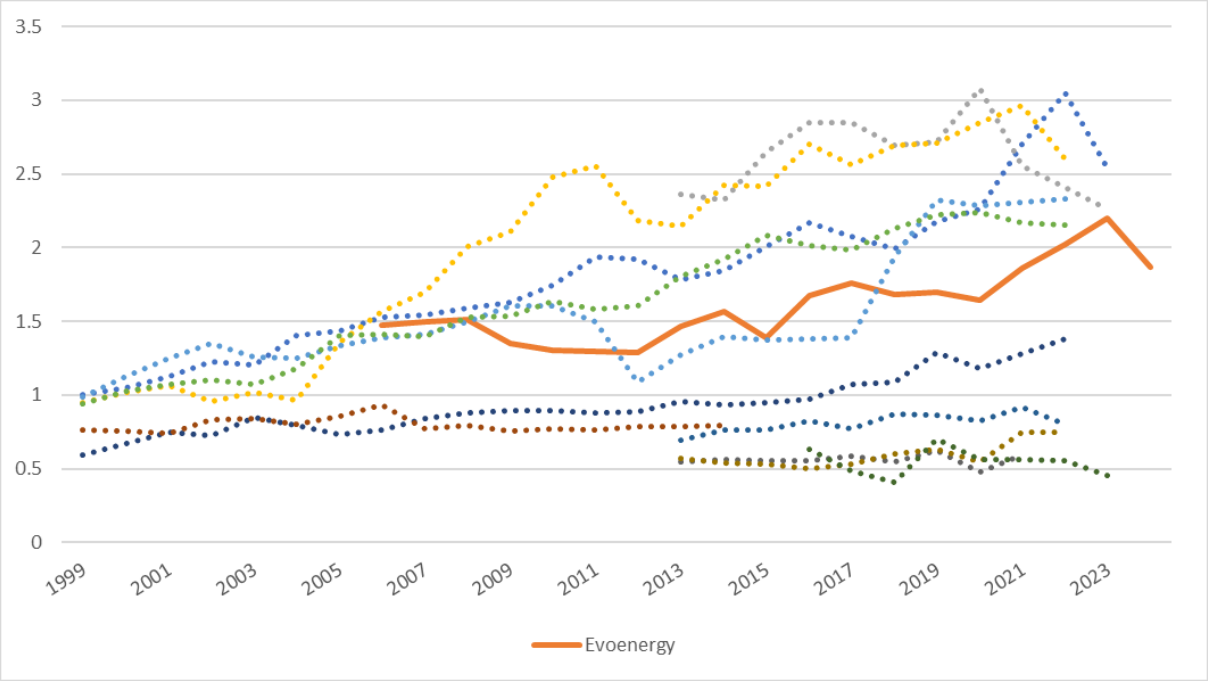
In addition to the benchmarking results, Evoenergy has also been subject to the incentives of the ECM over the current 2021–26 access arrangement period. As a result, we have had a

[18] Appendix 4.2: CEG, Benchmarking Evo productivity: a report for Evoenergy, February 2025, p. 5.
[19] Appendix 4.2: CEG, Benchmarking Evo productivity: a report for Evoenergy, February 2025, p. 7.

continuous incentive to make efficiency gains and no incentive to increase our opex above efficient levels in the base year.

Evoenergy considers that its approach to estimating the base year meets the AER's expectations and demonstrates that base opex is not materially inefficient.

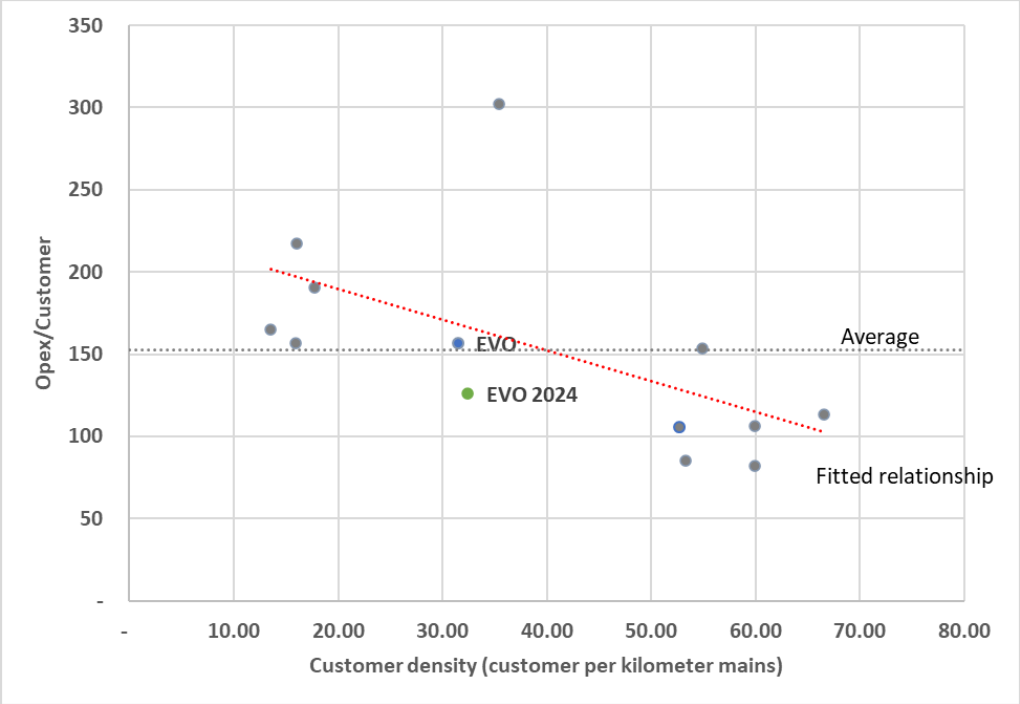
Figure 3 Multilateral opex PFP index



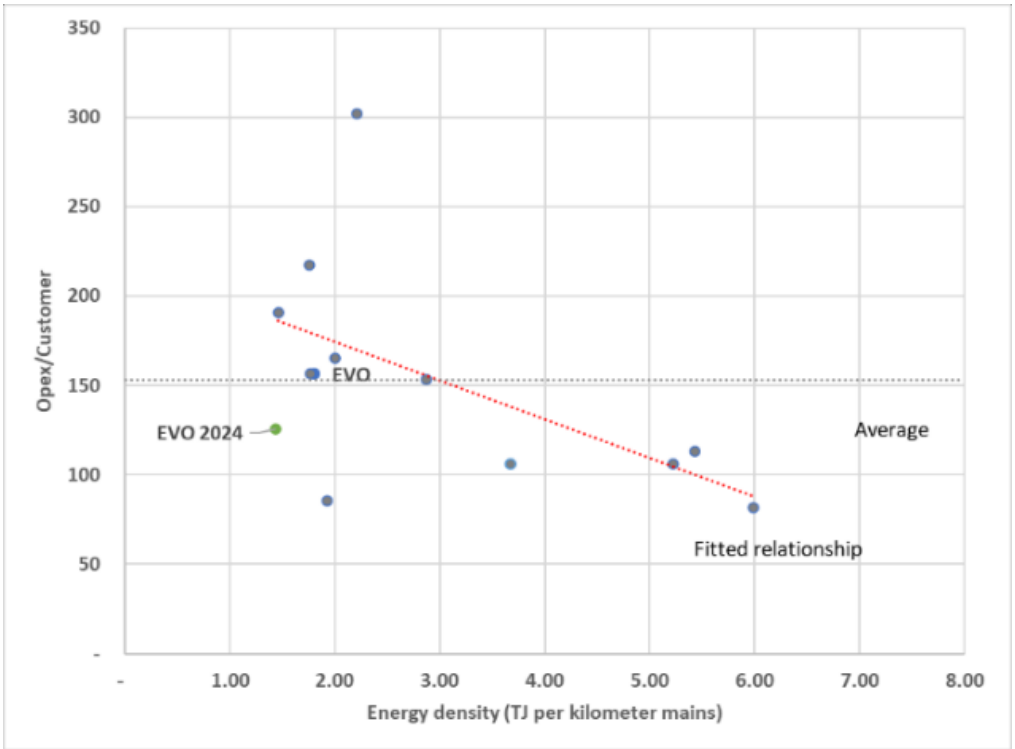
Source: CEG analysis

Figure 4 Opex per customer ($2022)

a) 2010-2024, Customers per kilometre



b) 2018-2024, TJ per kilometre



Source: CEG analysis

4.2 Trend

AER expectations

Forecast opex incorporates a trend that adopts our approach to output, price and productivity growth. We expect that a reasonable trend forecast would be consistent with:

- output and productivity growth forecast
    - for gas distribution, output growth net of productivity growth should be no greater than the midpoint of the reasonable range based on econometric analysis
    - adopting AEMO's forecasts of consumption and demand
    - forecasting customer number growth consistent with the historic trend
- price growth forecast
    - forecasting zero real non-labour price growth
    - using an average of 2 state-specific utilities industry wage price index growth forecasts for forecast real labour price growth, including one engaged by the AER.

For output growth, Evoenergy has used two factors, customer numbers and mains lengths, which are consistent with the AER's final decision for the current 2021–26 access arrangement period. Given the ACT Government's policy to phase out the gas network in the ACT by 2045, we do not consider historic trends to be an appropriate basis for forecasting customer numbers. Our alternative approach to forecasting customer numbers is detailed in Attachment 2: Demand forecast. Mains lengths are calculated by taking our actual mains lengths for 2023–24 and adding forecast mains lengths from our market expansion model.

We have not relied on econometric modelling to forecast weights for the output trend. This is because the modelled relationship between opex and outputs would be entirely informed by data over a period when outputs have been growing. In our view, historical relationships estimated with positive growth in the independent variable cannot be reliably assumed to apply when the independent variable is falling. In the case of the gas network, the relationship between variables is likely to be asymmetric.

Our gas network, which has been expanded over time to serve a growing customer base, cannot be scaled back in proportion as the number of customers on the network declines. Once in place, the network must be operated and maintained. This is particularly the case over the 2026–31 access arrangement period, where the ACT Government has stated that the phase out of the gas network will be customer-led. This means that gas customers remaining on the network can be located anywhere on Evoenergy's gas network. As a result, Evoenergy will still need to operate and maintain the network in all geographic areas. Actual opex savings are unlikely to be realised until a coordinated, geographic-based approach to decommissioning the network is implemented. Under the ACT Government's Integrated Energy Plan phased decommissioning of the gas network is not expected to commence until 2035.

Given these circumstances, Evoenergy has considered three options for setting output weights:

- apply 100 per cent weight to mains lengths
- adopt weights that recognise that historical demand for capacity drives network design and associated opex costs (similar to the use of ratcheted maximum demand in electricity)
- apply a low weight to customer numbers to reflect the very limited opportunity for opex reductions during the 2026–31 access arrangement period.

For this proposal, and consistent with Evoenergy's approach to minimising its opex forecast while ensuring a reliable and safe network, we have adopted the low weight option for customer numbers, and have adopted a weight of 10 per cent.

The resulting customer numbers, mains lengths and output trend are presented in Table 3.

Table 3 Customer numbers and mains lengths

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Customer numbers	149,504	143,226	133,766	123,599	113,289	103,368
Mains length	4,822	4,827	4,832	4,836	4,841	4,846
Growth rate customer numbers		-4.29%	-6.83%	-7.91%	-8.71%	-9.16%
Growth rate mains length		0.10%	0.10%	0.10%	0.10%	0.10%
Forecast output change year on year		-0.34%	-0.60%	-0.70%	-0.78%	-0.83%

Given the significant decline in forecast customer numbers and consumption, we expect productivity growth over the 2026–31 access arrangement period to be zero or negative as we experience declining customer density and lost economies of scale. Consistent with our approach to minimising opex, we have adopted a conservative productivity trend of zero for the 2026–31 access arrangement period.

For the price trend, Evoenergy engaged Oxford Economics to forecast the ACT wage price index (WPI) for the Electricity, Gas, Water and Waste Services (EGWWS) sector. Oxford Economics' report is provided as Appendix 3.8: Labour cost escalation forecasts. The weight applied to the real WPI is 62% per cent, consistent with recent AER determinations following the 2022 ACIL Allen Opex productivity study.[20] Non-labour real price growth is set to zero. This gives an average annual price growth of 0.68 per cent. Table 4 sets out the WPI forecast by Oxford Economics and the forecast price change used in the opex model. Evoenergy understands that

[20] ACIL Allen 2022, Opex partial productivity study Report, p. 11.

the AER will engage its own consultant to forecast the WPI and use the average of this and the index forecast by Oxford Economics.

Table 4 Real Wage Price Index for the EGWWS sector, % change

	2026–27	2027–28	2028–29	2029–30	2030–31
Real wage price index	0.95%	0.93%	1.08%	1.20%	1.29%
Non-labour real price index	0%	0%	0%	0%	0%
Labour weight	62%	62%	62%	62%	62%
Forecast price change, year on year	0.59%	0.58%	0.67%	0.74%	0.80%

4.3 Step changes

AER expectations

The number of forecast step changes is limited to a few well-justified ones, or none at all.

While Evoenergy expects some cost increases relative to the base year, including insurance costs and meter reading costs, we have not included any step changes in our proposal. Consistent with our stakeholder feedback to minimising opex, we intend to manage these costs within the proposed allowance.

In our draft five-year gas plan,[21] we sought feedback from the community on whether we should include a consumer support step change in our access arrangement proposal 2026–31 aimed at assisting consumers through their electrification journey. The feedback we received is discussed above in section 3.1.

While we consider the safety support measure to be important for ensuring safe outcomes for customers choosing a temporary disconnection, we do not consider it appropriate to include these costs in transport services opex. The NGR[22] require costs directly attributable to reference services to be allocated to those services. Consistent with the NGR, we have included these costs in our charges for temporary disconnections.[23]

[21] Evoenergy, Evoenergy's draft five-year gas plan, access arrangement proposal 2026–31, March 2025.
[22] National Gas Rules, Rule 93(2)(a).
[23] The safety support control costs are discussed in Attachment 8: Ancillary activities reference services and tariffs.

4.4 Category-specific costs

AER expectations

Category-specific forecasts should be limited to cost categories that have been included as category-specific costs in previous AER decisions.

Evoenergy has removed government taxes and levies (UNFT and EIL) from the opex forecasts. Instead, we propose accounting for these costs directly in the tariff variation mechanism (TVM). This is discussed in Attachment 9: Tariff variation mechanism.

The remaining category-specific cost included in the opex forecast is UAG. We have calculated UAG as total gas receipts multiplied by the UAG rate multiplied by the wholesale gas price. Each of these inputs is calculated as follows:

- total gas receipts are calculated by taking total forecast gas consumption (see Attachment 2: Demand forecast) and uplifting this for UAG. The uplift is calculated as gas consumption multiplied by the forecast UAG rate
- the forecast UAG rate is estimated by taking the four-year historical average UAG rate, consistent with the approach used for the two previous access arrangement periods. Further details of the proposed UAG rate are set out in Appendix 4.3: Unaccounted for gas
- the forecast wholesale gas price is taken from the forecasts prepared by ACIL Allen for the 2025 Gas Statement of Opportunities.[24]

Each of these inputs and the resulting UAG forecast included in the opex forecast is shown in Table 5. Consistent with the current access arrangement 2021–26, we propose that the UAG forecast be updated for actual gas receipts and the actual wholesale gas price in the annual pricing process (see Attachment 9: Tariff variation mechanism).

Table 5 UAG forecast, $2025–26

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Total gas consumption (TJ)	6,272	5,891	5,506	5,114	4,744	27,527
Total gas receipts (TJ)	6,434	6,043	5,648	5,246	4,867	28,237
UAG rate (% of gas receipts)	2.58%	2.58%	2.58%	2.58%	2.58%	2.58%
Wholesale gas price ($/GJ)	14.13	13.01	12.95	12.34	11.87	12.93
UAG ($ million)	2.35	2.03	1.89	1.67	1.49	9.42

[24] ACIL Allen 2024 Natural Gas Price Forecasts workbook: East Coast – Step change (Industrial, Sydney). AEMO | Gas Statement of Opportunities.

As discussed in section 4.1, UAG is removed from the base year and then added back as a category-specific cost. This approach reflects the requirements of the NGR[25] by ensuring that our opex forecast reflects the costs that would be incurred by a prudent service provider acting efficiently. UAG expenses can change significantly over time, both as a result of changes to the wholesale gas price and changes in consumption. Given that we expect consumption to decline over the 2026–31 access arrangement period, using the UAG from the base year is unlikely to provide a reasonable estimate of prudent and efficient costs.

4.5 Debt-raising costs

Debt-raising costs are calculated consistent with the AER's methodology included in the post-tax revenue model (PTRM). Specifically, debt-raising costs are calculated by applying the AER's debt-raising cost benchmark of 0.081 per cent to the debt share (60 per cent) of the capital asset base.

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

Based on the methodology discussed above, Evoenergy's proposed opex forecast for the 2026–31 access arrangement period is $113 million excluding UAG and debt-raising costs, and $123 million (real, $2025–26) including UAG and debt-raising costs. Table 6 provides the annual breakdown of this forecast by each of the base-step-trend elements.

Table 6 Base-step-trend opex forecast 2026-31, million $2025-26

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Base year	22.59	22.59	22.59	22.59	22.59	112.96
Trend: output growth	-0.08	-0.20	-0.32	-0.38	-0.36	-1.34
Trend: real price growth	0.13	0.25	0.36	0.41	0.39	1.55
Trend: productivity growth	0.0	0.0	0.0	0.0	0.0	0.0
Step changes	0.0	0.0	0.0	0.0	0.0	0.0
Opex excluding UAG and debt-raising costs	22.65	22.64	22.64	22.62	22.62	113.17
UAG	2.35	2.03	1.89	1.67	1.49	9.42

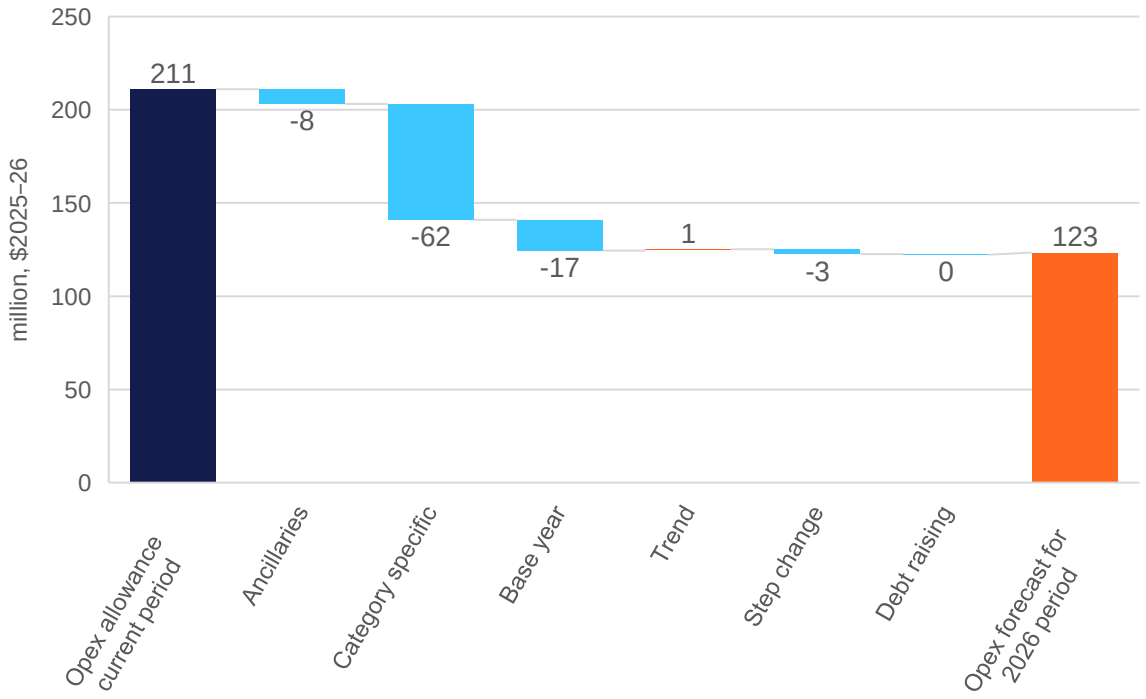
[25] National Gas Rules, Rule 91(1).

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Debt raising costs	0.20	0.18	0.17	0.15	0.13	0.83
Opex including UAG and debt-raising costs	25.19	24.86	24.69	24.44	24.24	123.42

The major drivers of the decrease in forecast opex for the 2026–31 access arrangement period compared with the current 2021–26 access arrangement period are shown in Figure 5 and include:

- the removal of ancillary costs to reflect opex for the transport reference service
- a reduction in category-specific costs to reflect the removal of the UNFT and EIL from the transport opex forecast
- a reduction in base year costs, reflecting the use of 2023–24 as the base year
- no step changes in the opex forecast for the 2026–31 access arrangement period versus the inclusion of a step change for pigging costs in the current 2021–26 access arrangement period.

Figure 5 Opex forecast for 2026–31 versus opex allowance for 2021–26



6. Efficiency carryover mechanism

Under the access arrangement 2021–26, Evoenergy is subject to an opex ECM. The scheme provides a continuous incentive for Evoenergy to achieve opex efficiencies throughout the access arrangement period. We propose to retain the current ECM for the 2026–31 access arrangement period.

Under the scheme, Evoenergy retains opex underspends and overspends for a fixed 'carryover period' of five years before they are passed to customers (subject to being deemed prudent and efficient by the AER). Any opex underspends or overspends are shared with customers in a ratio of approximately 70 per cent (customers) and 30 per cent (Evoenergy).

The ECM also provides an incentive for Evoenergy to reveal its efficient opex in the base year, which is then used to determine the opex allowance for the next access arrangement period.

The ECM currently applied to Evoenergy is consistent with the Efficiency Benefit Sharing Scheme (EBSS) introduced for electricity distributors and incorporates a number of opex exclusions and adjustments for the purposes of carryover amounts, such as:

- approved revenue increments or decrements (e.g. pass throughs)
- costs that are not forecast using a single year revealed cost approach
- an adjustment for one-off factors that result in non-recurrent cost increases/decreases in the base year.

6.1 Current access arrangement ECM performance

The ECM outcome for the current 2021–26 access arrangement period has been calculated using the AER's ECM model. Consistent with the access arrangement for the current period, ancillary services have been excluded from the ECM calculation. The ECM allowance inputs are taken from the AER's final decision for the current 2021–26 access arrangement period. The ECM actual and estimated inputs are taken from the annual RINs for 2019–20 to 2023–24, and Evoenergy's estimate for 2024–25. The ECM model calculates the final year (2025–26) opex estimate as the allowance for 2025–26 minus the difference between the allowance and actual opex for the base year (2023–24).

The annual incremental gains and losses calculated in the ECM model are presented in Table 7. The gains and losses are carried over for a period of five years. The carryover amounts for the 2026–31 access arrangement period are presented in Table 8.

Table 7 Annual ECM gains and losses

$millions, 2025–26	2021–22	2022–23	2023–24	2024–25	2025–26
ECM gains/losses	1.6	3.2	-3.7	-3.1	3.1

Table 8 ECM carryover for the 2026–31 access arrangement period

$millions, 2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	Total
2021–22	1.6					
2022–23	3.2	3.2				
2023–24	-3.7	-3.7	-3.7			
2024–25	-3.1	-3.1	-3.1	-3.1		
2025–26	3.1	3.1	3.1	3.1	3.1	
Total carryover amount	1.1	-0.5	-3.7	0.0	3.1	0.0

6.2 Our proposed approach to the ECM in the 2026–31 access arrangement period

Evoenergy proposes to retain the current ECM for its 2026–31 access arrangement period (see Evoenergy's access arrangement 2026–31, clause 3) to continue to provide incentives to deliver opex efficiencies and remain cost competitive in the long-term interests of consumers. In particular, the ECM provides:

- increased credibility of using base-year expenditure to set future allowances, and hence promotes greater confidence in Evoenergy's opex forecast
- a uniform incentive to achieve cost efficiencies across the regulatory period, and greater certainty in the regulatory treatment of opex under- and over-spends
- an incentive to bring forward opex efficiencies where it is in the best interests of consumers.

The key features of the ECM which Evoenergy proposes to retain include:

- a five-year carryover period
- approximately 30:70 sharing ratio between Evoenergy and customers
- exclusion from the calculation of carryover amounts of approved revenue increments or decrements (e.g. pass throughs), and costs that are not forecast using a single year revealed cost approach
- an adjustment to the calculation of incremental gains or losses to account for one-off factors that result in non-recurrent cost increases/decreases in the base year.

Glossary of terms and acronyms

Term or acronym	Definition
access arrangement	Evoenergy's access arrangement
ACT	Australian Capital Territory
AER	Australian Energy Regulator
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.
EBSS	Efficiency Benefit Sharing Scheme
ECM	Efficiency Carryover Mechanism
EGWWS	Electricity, Gas, Water and Waste Services
EIL	Energy Industry Levy
Five-year gas plan	Evoenergy's gas plan for the 2026–31 access arrangement period.
GJ	Gigajoule – unit of measurement of energy consumption
IEP	ACT Government's Integrated Energy Plan
NGR	National Gas Rules
Opex	Operating expenditure
PTRM	Post Tax Revenue Model (AER model) used to calculate Evoenergy's revenue forecast
RIN	Regulatory Information Notice

Term or acronym	Definition
RSP	Reference Service Proposal
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.
TJ	Terajoule – unit of measurement of energy consumption
The Rules or Rules	National Gas Rules
TVM	Tariff Variation Mechanism
UAG	Unaccounted for gas
UNFT	Utilities (Facilities Network) Tax
WPI	Wage price index