evoenergy

Attachment 5: Revenue requirement and prices

Access arrangement information

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

Submission to the Australian Energy Regulator

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1. Introduction

The National Gas Rules (NGR) require that the access arrangement information for an access arrangement proposal include the total revenue to be derived from pipeline services for each regulatory year of the access arrangement period (Rule 72(1)(m)).

Rule 76 of the NGR requires total revenue to be determined for each regulatory year of the access arrangement period using the building block approach, in which the building blocks are:

a. a return on the projected capital base for the year

b. depreciation of the projected capital base for the year

c. the estimated cost of corporate income tax for the year

d. increments or decrements for the year resulting from the operation of an incentive mechanism to encourage gains in efficiency

e. a forecast of operating expenditure.

Consistent with the requirements of the NGR, Evoenergy has calculated the total revenue for the Transport reference service for each year of the access arrangement period using the building block methodology.[1] We have adopted the financial models prepared and published by the AER as required by Rule 75A(2) of the NGR. These models are provided in the following appendices:

- Appendix 5.1 is the post tax revenue model (PTRM)
- Appendix 5.2 is the roll forward model (RFM)
- Appendix 5.3 is the depreciation tracking module

The remainder of this attachment discusses the building blocks that make up the annual revenue requirement for the Transport reference service, our proposed approach to smoothing the revenue requirement and the bill impacts associated with the smoothed revenue requirement.

2. Annual revenue requirement

Our revenue requirement for the 2026–31 access arrangement period is $423 million (smoothed, 2025–26 dollars).

Each of the building blocks that make up the annual revenue requirement for the 2026–31 access arrangement period is discussed below.

2.1 Return on capital

The return on capital is calculated within the PTRM by multiplying the opening nominal capital asset base (CAB) by the rate of return. This is consistent with Rule 87 of the NGR.

The opening CAB for the first year of the access arrangement period, 2026–27, is calculated using the AER's RFM, which is consistent with Rule 77 of the NGR. To roll forward the CAB,

[1] The charges and revenue for ancillary services are calculated using a cost build-up methodology (see Attachment 8: Ancillary activities reference service and tariffs, June 2025).

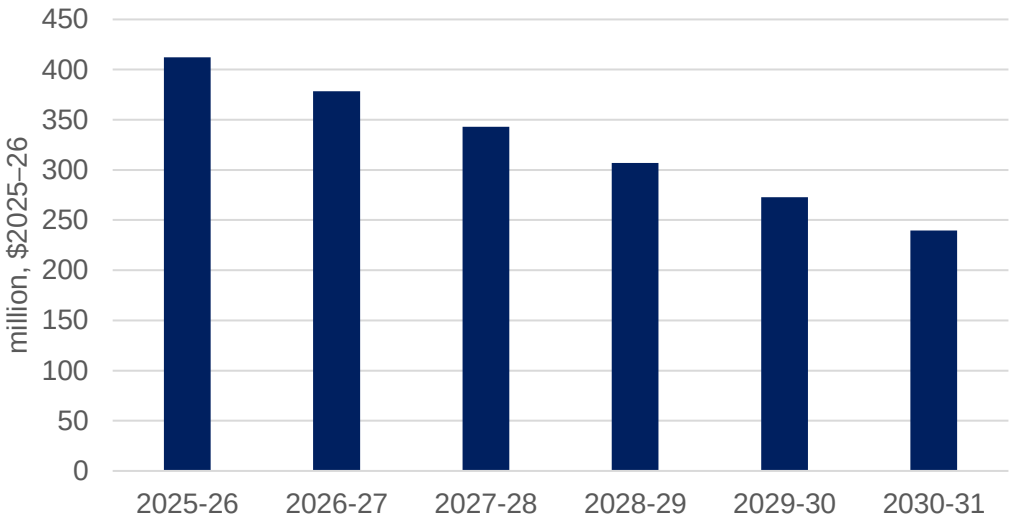
actual capital expenditure (capex) is used for the period 2021–22 to 2023–24,[2] and estimated expenditure is used for 2024–25 and 2025–26. The RFM includes an adjustment for accelerated depreciation (see section 2.2).

For subsequent years of the access arrangement period, the opening CAB is calculated in accordance with Rule 78 of the NGR by taking the opening capital base from the previous year, adding forecast capital expenditure and deducting depreciation (forecast disposals are zero). Forecast capital expenditure is discussed in Attachment 3: Capital expenditure, and the approach to depreciation is set out in Attachment 6: Depreciation.

The CAB is converted to nominal terms by applying a forecast of the consumer price index (CPI). CPI is forecast using the method included in the AER's PTRM. CPI for the first year of the access arrangement period, 2026–27, is set equal to the forecast in the RBA's February 2025 Statement on Monetary Policy, the latest available when setting our forecasts. CPI for the final year of the access arrangement period, 2030–31, is set to the midpoint of the RBA's target band, 2.5 per cent. The PTRM calculates a glidepath between these values to set CPI for the intervening years. The forecast inflation rate is then calculated as the geometric mean of CPI over the access arrangement period. This gives a forecast inflation rate of 2.65 per cent.

The closing real CAB is shown in Figure 1 and is estimated to decline by 42 per cent over the access arrangement period. The CAB decline is driven by accelerated depreciation together with minimal new capital expenditure over the period.

Figure 1 Closing capital asset base (million, $2025–26)



The rate of return is calculated in accordance with the AER's Rate of Return Instrument, Version 1.2 (RORI).[3] The parameter values used to calculate the rate of return for 2026–27 are set out in Table 1. We have used placeholder values for the cost of debt and risk-free rate, and have nominated our averaging periods in confidential Appendix 5.4: Averaging periods. Our placeholder averaging periods are:

- 20 consecutive business days to 30 April 2025 for the risk free rate

[2] The 2023–24 annual RIN includes capital expenditure for Gas Networks GIS System. This is not an existing asset category in the RFM or PTRM so we have included this expenditure in the existing IT System asset category.
[3] AER 2023, Rate of Return Instrument, updated on 31 January 2024. AER - 2022 Rate of Return Instrument (Version 1.2) | Australian Energy Regulator (AER).

- 60 consecutive business days to 30 April 2025 for cost of debt.

Our rate of return model, which sets out the rate of return parameters and calculations for all years of the access arrangement period, is provided as Appendix 5.5: Rate of return model.

Table 1 Rate of return parameters, 2026–27

Parameter	Value	Source/calculation
Risk free rate	4.32%	Placeholder
Market risk premium	6.20%	RORI
Equity beta	0.6	RORI
Return on equity	8.04%	Calculated in accordance with RORI
Trailing average cost of debt	4.77%	Placeholder
Gearing	60%	RORI
Nominal vanilla WACC	6.08%	Calculated in accordance with RORI

The value of imputation credits (gamma) is set at 0.57, consistent with the RORI, and the corporate tax rate is set at 30 per cent.

2.2 Regulatory depreciation

The regulatory depreciation building block combines the indexation of the capital base with depreciation. We discuss our proposal for accelerating depreciation using the sum-of-years-digits methodology in Attachment 6. Depreciation is implemented via the AER's depreciation tracking module. Within this module, we calculate sum-of-years'-digits depreciation over the economic lives of each asset class to determine the target level of depreciation for inclusion in the regulatory depreciation building block.[4] We then calculate the depreciation required to meet this target, given the depreciation on existing assets calculated within the depreciation tracking module and depreciation for new capital expenditure calculated within the PTRM.

The standard asset lives by asset class used to calculate depreciation are presented in Table 2 together with a comparison of the asset lives used in the current access arrangement period. It is important to note that for new capital expenditure, the asset lives used to calculate target depreciation are reduced over time to reflect the end date of the gas network in 2045. For example, if new capital expenditure had an asset life of 19 years at the beginning of 2026–27, then by the third year of the access arrangement period the standard asset life will be 17 years, reflecting the number of years remaining until the gas network is closed.

[4] This method of depreciation together with economic asset lives are used to calculate depreciation for both the existing asset base and new capital expenditure.

We have adopted the same approach as the AER in its recent Victorian and NSW gas distribution decisions to the treatment of the accelerated depreciation asset category. We have added a new asset category referred to as "Economic asset lives and accelerated depreciation", and set the asset life for this asset class to five years. We adjust the following four asset classes to meet the depreciation target in proportion to the starting CAB values:

- HP mains
- HP services
- MP mains
- MP services.

We have chosen to adjust these four asset categories, given that the remaining technical lives of these asset categories exceed the number of years remaining to phase out the gas network. These adjustments flow through to the RFM.

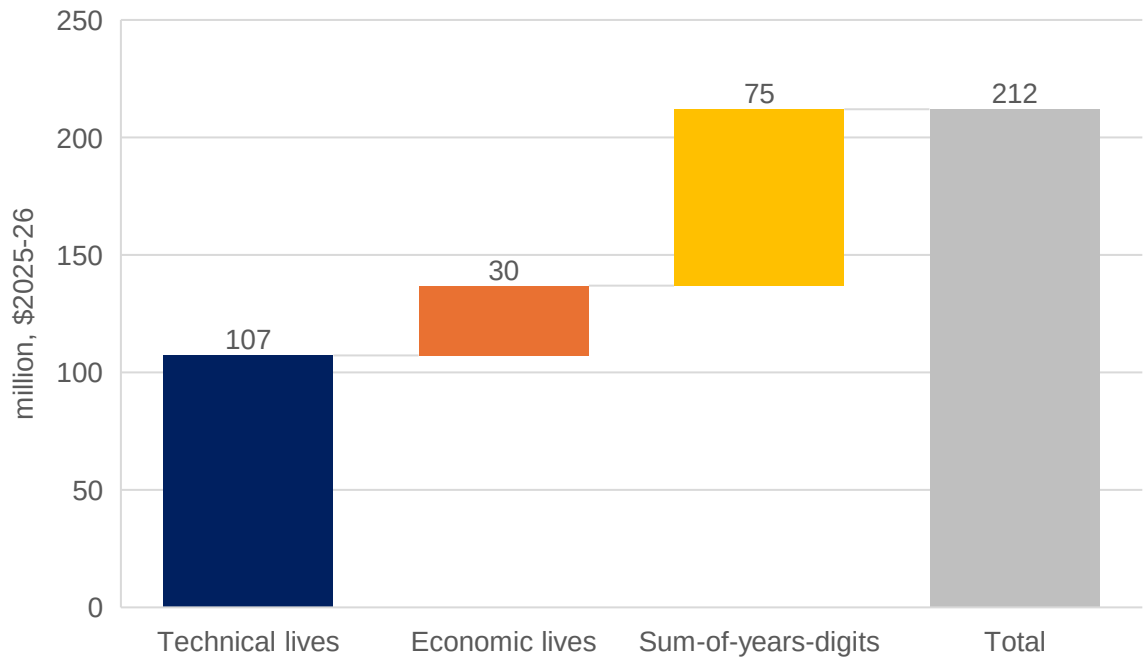
This approach ensures that the total depreciation included in the PTRM is equal to the sum-of-years'-digits depreciation.

Table 2 Standard asset lives, current and proposed as at 2026-27

Asset class	Current access arrangement period 2021–2026	Proposed access arrangement period 2026–2031
HP mains	50.0	19.0
HP services	50.0	19.0
MP mains	30.0	19.0
MP services	30.0	19.0
TRS & DRS – valves & regulators	15.0	15.0
Contract meters	15.0	15.0
Tariff meters	15.0	15.0
Regulatory costs	5.0	5.0
IT system	5.0	5.0
Land and easement	n/a	n/a
Economic lives & accelerated depreciation	n/a	5.0

To separately identify the contribution to depreciation from adopting economic lives (versus technical lives) and sum-of-years'-digits depreciation (versus straight-line depreciation), we have also run the PTRM with technical lives and straight-line depreciation and with economic lives and straight-line depreciation. As shown in Figure 2, with technical lives and the straight-line method, depreciation for the 2026–31 access arrangement period is $107 million. Adopting economic asset lives increases depreciation by $30 million. Using sum-of-years'-digits instead of straight-line depreciation contributes a further $75 million to depreciation. Total depreciation is forecast to be $212 million for the 2026–31 access arrangement period.

Figure 2 Breakdown of total depreciation for 2026–31 access arrangement period



Indexation of the capital base is calculated as the opening capital base multiplied by the forecast inflation rate (see section 2.1). This indexation amount ($44 million) is deducted from depreciation to arrive at the regulatory depreciation building block value of $168 million.

Rule 90 of the NGR requires the access arrangement to contain provisions governing the calculation of depreciation for establishing the opening capital base for the next access arrangement period after the one to which the access arrangement currently relates. We propose the calculation of depreciation for establishing the opening capital base for the next access arrangement period (commencing 1 July 2031) is to be based on actual capital expenditure, reflecting Evoenergy's commitment to minimise investment.

2.3 Net tax allowance

Consistent with Rule 87A of the NGR, the net tax allowance building block is calculated within the PTRM as tax payable (taxable income multiplied by the corporate tax rate) less the value of imputation credits.

2.4 Revenue adjustments

There are two adjustments included in this building block to reflect the outcomes of the incentive schemes that operated during the current 2021–26 access arrangement period. The first adjustment is for the capital expenditure sharing scheme (CESS), and the second adjustment is for the efficiency carryover mechanism (ECM) applying to operating expenditure.

2.4.1 CESS

The CESS outcome for the current access arrangement period is calculated using the AER's CESS model, which is provided as RIN Attachment 10. The capex allowance is based on the AER's final decision for the current access arrangement period, and actual capex is based on annual RIN responses for 2021–22 to 2023–24. For 2024–25 and 2025–26, capex is estimated. Market expansion capex is excluded from the CESS as per clause. 4.2(e) of the current 2021–2026 access arrangement.

Evoenergy has underspent the AER's allowance in the current period by $20.6 million in NPV terms (30 June 2025). For the current 2021–26 access arrangement period, the sharing ratio is 30 per cent to Evoenergy and 70 per cent to consumers. This gives a CESS benefit of $14.4 million for consumers and $6.2 million for Evoenergy. The financing benefit of the underspend received by Evoenergy during the current 2021–26 access arrangement period is $1.7 million, giving a net CESS benefit to Evoenergy of $4.5 million in NPV terms, which will be carried over into the next 2026–31 access arrangement period.

The final level of CESS benefit that Evoenergy can carry over to the 2026–31 access arrangement period is dependent on Evoenergy's actual performance against targets for the frequency of unplanned outages, unplanned customer hours off supply and publicly reported gas leaks. We have calculated actual performance for the period 2021–22 to 2023–24, where actual performance results are available. This will be updated to include 2024–25 performance data in the revised proposal.

Evoenergy has outperformed the targets and is therefore eligible to receive the full CESS benefit. The CESS benefit is converted to 2025–26 dollar terms and spread equally across each year of the 2026–31 access arrangement period, giving an annual CESS benefit of $0.98 million and a total CESS benefit of $4.92 million.

2.4.2 ECM

The ECM outcome for the current 2021–26 access arrangement period is calculated using the AER's ECM model, which is provided as Appendix 5.6: Efficiency carryover mechanism (ECM) model.[5] Consistent with the access arrangement for the current period 2021–26, ancillary service costs, category-specific costs and debt-raising costs are excluded from the ECM calculation.[6] 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 from budget estimates for 2024–25. The ECM model

[5] The ECM, calculated at a more aggregated level, is also provided as RIN Attachment 5: Workbook 3 - ECM.
[6] Access arrangement for the ACT and Queanbeyan-Palerang gas distribution network, 1 July 2021 – 30 June 2026, Clause 3.7(a)(i).

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 resulting incremental gains and losses calculated in the ECM model are presented in Table 3. The gains and losses are carried over for a period of five years. The carryover amounts included in the 2026–31 access arrangement period are presented in Table 4.

Table 3 Annual ECM gains and losses, million $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 4 ECM carryover for the 2026–31 access arrangement period, million $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	1.1	-0.5	-3.7	0	3.1	0.0

2.5 Operating expenditure

Operating expenditure is forecast using the AER's preferred base-step-trend methodology. Attachment 4: Operating expenditure provides details of our approach to forecasting operating expenditure for each year of the 2026–31 access arrangement period.

2.6 Total annual revenue requirement

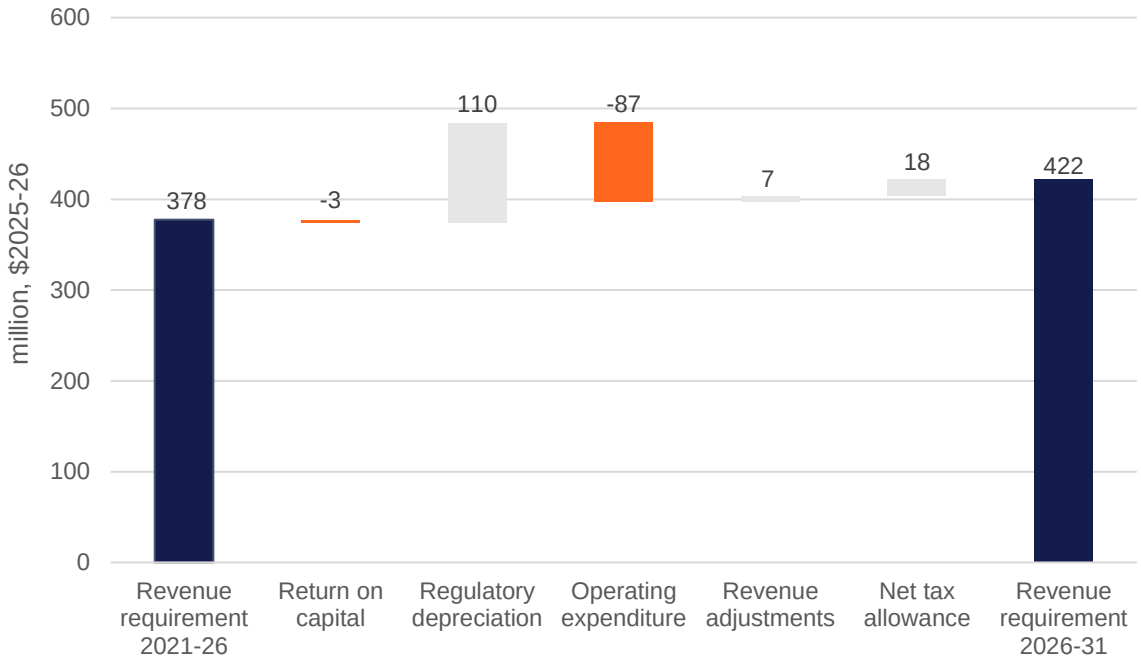
Based on the above inputs, the building block revenue requirement is $422 million in real 2025–26 dollar terms for the 2026–31 access arrangement period as summarised in Table 5.

Table 5 Building block revenue requirement, million $2025-26

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Return on capital	24.4	22.6	20.8	18.8	17.1	103.7
Return of capital (regulatory depreciation)	31.5	32.9	34.3	34.1	35.0	167.9
Operating expenditure	25.2	24.9	24.7	24.4	24.2	123.4
Revenue adjustments	2.1	0.5	-2.7	1.0	4.1	4.9
Net tax allowance	4.4	4.4	4.5	4.3	4.2	21.8
Total unsmoothed revenue	87.6	85.3	81.5	82.6	84.7	421.7

The proposed revenue requirement for the 2026–31 access arrangement period is 12 per cent higher than the approved revenue requirement for the current 2021–26 access arrangement period. This is largely driven by the use of economic asset lives (instead of technical lives) and accelerated depreciation (instead of straight-line depreciation). These factors increase the regulatory depreciation building block and the tax allowance building blocks, while reducing the return on capital building block. There is a substantial decline in proposed operating expenditure, which is largely the result of removing ancillary services and ACT Government taxes and levies from the building block costs. In the current 2021–26 access arrangement period, costs associated with ancillary services and ACT Government taxes and levies accounted for $68 million of the operating expenditure building block.

Figure 3 Building block revenue requirement, 2021–26 versus 2026–31



3. Smoothed revenue requirement

As discussed in Attachment 9: Tariff variation mechanism, we have used a revenue cap to solve the PTRM. As a result, the x-factors represent the annual change in real revenue. Consistent with Rule 92(2) of the NGR, the revenue cap x-factors equalise forecast revenue from the transport reference service with the portion of total revenue allocated to the transport reference service for the access arrangement period. The revenue requirement has been smoothed over the access arrangement period to achieve a reasonably smooth price path, which results in a reduction in the x-factors (in absolute terms) over the access arrangement period, as forecast demand declines (Table 6).

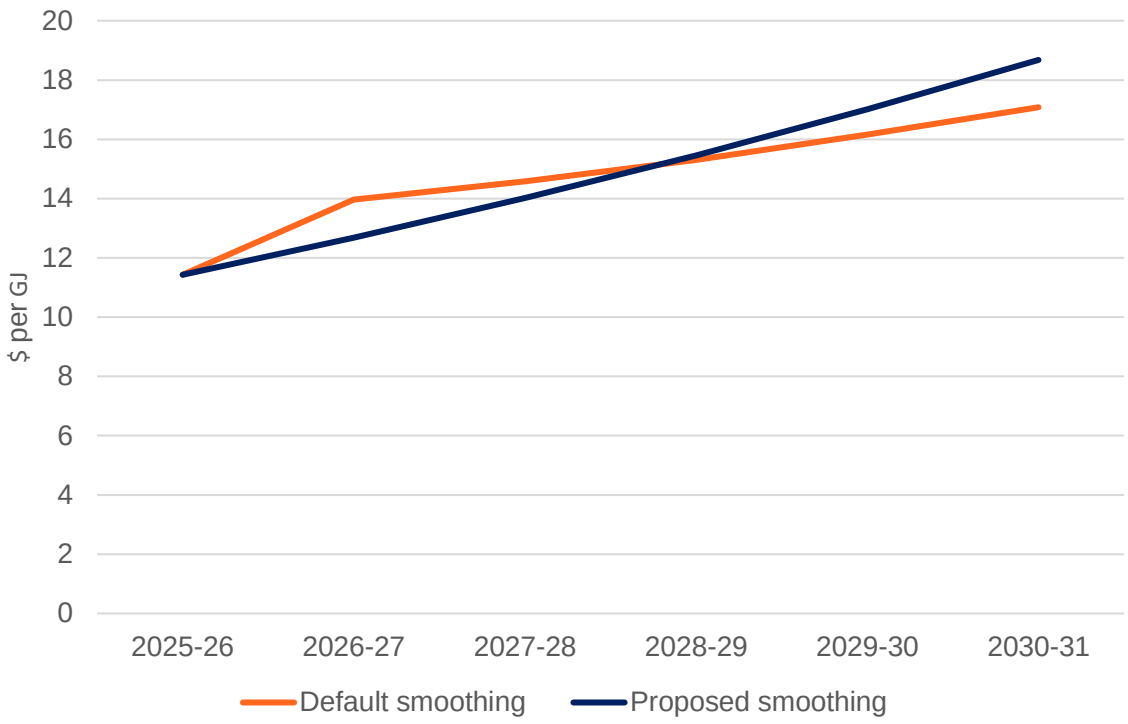
Table 6 Smoothed revenue requirement and x-factors

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Smoothed revenue (million, $2025–26)	79.5	82.6	85.1	87.0	88.6	422.8
X-factors	-6.2%	-3.9%	-3.0%	-2.2%	-1.9%	

The proposed smoothing results in a 4.7 per cent difference between smoothed and unsmoothed revenue (nominal) in the final year of the access arrangement period, which we recognise is above the AER's preferred level. However, we consider this option preferable to the AER's default smoothing, which would require a significantly higher price increase in the first year of the access arrangement period (Figure 4). Given that demand will decline further as the transition from gas to electricity accelerates, our proposed smoothing should also reduce the price

increase required between the last year of the 2026–31 access arrangement period and the first year of the access arrangement period 2031–36 relative to the price path produced by the AER's default smoothing.

Figure 4 Proposed price path versus default smoothing price path



It is important to note that we have excluded government taxes and levies from the revenue requirement for the 2026–31 access arrangement period. Had these costs been included in the revenue requirement (as they are for the current 2021–26 access arrangement period), the x-factors would have been higher in absolute terms. To ensure a like-for-like comparison with the current 2021–26 access arrangement period, we have added a placeholder forecast of these costs back when calculating retail bill impacts in section 4.

4. Bill impacts

The bill impacts presented in this section include the proposed rebalancing of tariffs as discussed in Attachment 7: Transportation (including metering) reference service and tariffs. Bill impacts are calculated for the Volume Individual (VI) tariff, which accounts for around 99.9 per cent of customers on Evoenergy's network.

We have calculated bill impacts using the following steps:

a. calculate the non-network component of retail prices as the difference between network prices and retail prices for 2024–25 and escalate by CPI to arrive at the non-network component of retail prices for 2025–26

b. calculate the retail bill for 2025–26 using the non-network component of prices calculated in step 1 and approved network prices for 2025–26 combined with usage assumptions

c. hold the non-network component of the retail bill for the access arrangement period constant at the 2025–26 value calculated in step 1

d. calculate the network component of the retail bill for the access arrangement period by escalating the 2025–26 network bill calculated in step 2 by the annual change in real prices (that correspond to the revenue cap x-factors from the PTRM) and adjusting for our proposed flattening of the VI tariff

e. add the Utilities (Network Facilities) Tax (UNFT) and Energy Industry Levy (EIL) to the retail bill.

4.1 Non-network component of retail prices

The non-network component of retail prices is calculated by starting with retail prices for 2024–25, the most recent retail prices available at the time of preparing our proposal. Retail prices are taken as the simple average of non-discounted prices for the four largest retailers in the ACT (Table 7).

Table 7 Retail prices, 2024–25

	Supply charge	Block 1	Block 2	Block 3	Block 4
	$/year	$/GJ	$/GJ	$/GJ	$/GJ
ActewAGL	277.40	50.00	42.18	36.00	32.64
Origin	292.00	48.36	41.36	38.36	38.36
Energy Australia	309.52	49.09	39.27	38.91	37.64
Red Energy	346.75	39.82	34.82	32.82	28.82
Average price	306.42	46.82	39.41	36.52	34.36

Evoenergy's 2024–25 network prices are deducted from the average retail price to arrive at the non-network component of retail prices in 2024–25 dollar terms. The non-network component of retail prices is escalated to 2025–26 dollars using CPI of 2.42 per cent, consistent with annual network pricing for 2025-26 (Table 8).

Table 8 Non-network component of retail prices for 2025–26

	Supply charge	Block 1	Block 2	Block 3	Block 4
	$/year	$/GJ	$/GJ	$/GJ	$/GJ
A: Retail prices, 2024-25	306.42	46.82	39.41	36.52	34.36

	Supply charge	Block 1	Block 2	Block 3	Block 4
B: Network prices, 2024-25	80.77	15.78	8.21	7.46	7.18
C: Non-network, 2024-25 (A - B)	225.65	31.04	31.20	29.06	27.18
D: Non-network, 2025-26 (C * 1 + 2.42%)	231.12	31.79	31.95	29.77	27.84

4.2 Retail bill for 2025–26

The retail bill for 2025–26 is calculated using the non-network component of retail prices and approved network prices for 2025–26, together with usage assumptions for three customer personas:

- small residential customer using 7 GJ of gas per year
- average residential customer using 27 GJ of gas per year
- small business customer using 160 GJ of gas per year.

The price components of the bill and usage assumptions (adjusted for seasonality) are presented in Table 9. The resulting retail bills for each customer persona are presented in Table 10. For an average residential customer, network charges account for 29 per cent of the total retail bill.

Table 9 Price components and usage assumptions

	Supply charge	Block 1	Block 2	Block 3	Block 4
	$/year	$/GJ	$/GJ	$/GJ	$/GJ
Non-network component	231.12	31.79	31.95	29.77	27.84
Network price	91.60	17.89	8.41	7.64	7.36
Total retail price	322.72	49.69	40.36	37.41	35.20
Usage 7 GJ small residential (GJ)	1	7	-	-	-
Usage 27 GJ average residential (GJ)	1	13.38	13.62	-	-
Usage 160 GJ small business (GJ)	1	15	114.51	30.49	-

Table 10 Annual retail bills for 2025–26

	Small residential (7 GJ)	Average residential (27 GJ)	Small business (160 GJ)
Non-network bill	454	1,092	5,274
Network bill	217	446	1,556
Total retail bill	671	1,537	6,831
Network share of total bill	32%	29%	23%

4.3 Network and retail bills for the 2026–31 access arrangement period

To calculate the network bill for the access arrangement period, the network bill for 2025–26 is escalated by the annual change in real network prices consistent with the x-factors from the PTRM. The revenue cap x-factors from the PTRM are converted to real price changes by finding the percentage change in price applied equally to each tariff component that returns total annual revenue equal to the smoothed annual revenue from the PTRM.

The bill impacts also reflect our proposal for a gradual and measured transition to a flatter VI tariff over the 2026–31 period, as detailed in Attachment 7: Transportation (including metering) reference service and tariffs.

The non-network component of the bill is held constant at the 2025–26 level. In practice, the non-network component of the bill is also likely to change over time, however our analysis is focused on isolating the impact of the proposed network price changes.

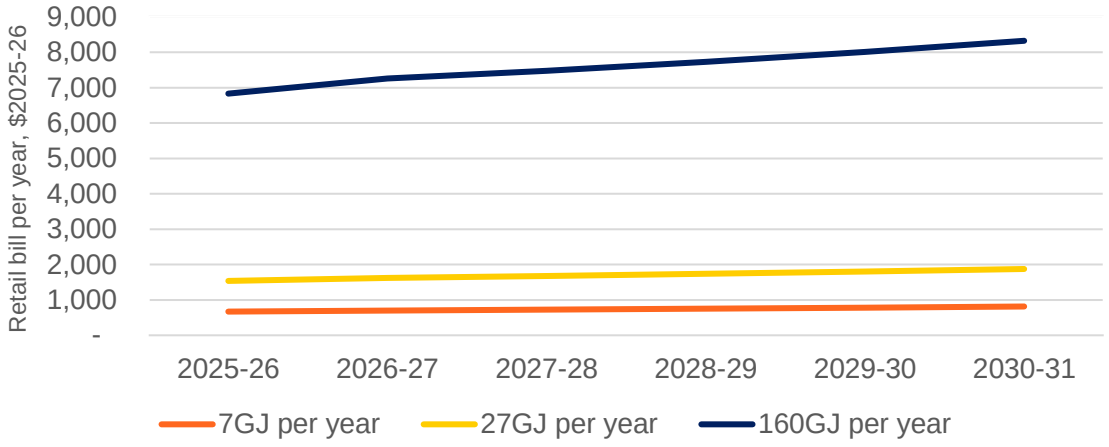
Given that we have removed the UNFT and EIL from the PTRM building blocks, we add these costs back to calculate retail prices. We have included a placeholder forecast of the UNFT and EIL for the access arrangement period for this purpose.[7] As shown in Table 11, the average annual increase in the real network bill is 10 per cent for the two residential customers and 12 per cent for the small business customer. The average annual increase in the real retail bill is 4 per cent for all three customer usage profiles (Figure 5).

[7] The placeholder values for UNFT and EIL should in no way be considered Evoenergy's forecast of these values for the 2026-31 period.

Table 11 Bill impacts for 2026–31 access arrangement period ($real, 2025–26)

Usage	Bill component	2026–27	2027–28	2028–29	2029–30	2030–31	Average annual increase
7 GJ	Non-network	454	454	454	454	454	
	Network	238	262	288	316	347	10%
	UNFT & EIL	10	11	12	12	13	
	Total retail	702	726	753	782	814	4%
27 GJ	Non-network	1,092	1,092	1,092	1,092	1,092	
	Network	492	544	600	663	732	10%
	UNFT & EIL	40	42	45	47	51	
	Total retail	1,624	1,677	1,736	1,802	1,874	4%
160 GJ	Non-network	5,274	5,274	5,274	5,274	5,274	
	Network	1,745	1,956	2,192	2,455	2,749	12%
	UNFT & EIL	236	249	264	281	300	
	Total retail	7,255	7,479	7,730	8,011	8,323	4%

Figure 5 Retail bill impact by customer size



Glossary of terms and acronyms

Term or acronym	Definition
access arrangement	Evoenergy's access arrangement
ACT	Australian Capital Territory
AER	Australian Energy Regulator
CAB	Capital asset base
Capex	Capital expenditure
CESS	Capital Expenditure Sharing Scheme
CPI	Consumer price index
ECM	Efficiency Carryover Mechanism
EIL	Energy Industry Levy
GJ	Gigajoule – unit of measurement of energy consumption
NGR	National Gas Rules
NPV	Net present value
NSW	New South Wales
Opex	Operating expenditure
PTRM	Post Tax Revenue Model (AER model) used to calculate Evoenergy's revenue forecast
RBA	Reserve Bank of Australia
RFM	Roll Forward Model (AER model) used to roll forward the capital asset base
RIN	Regulatory Information Notice
RORI	Rate of return instrument
The Rules or Rules	National Gas Rules
UNFT	Utilities (Network Facilities) Tax

Term or acronym	Definition
VI	Volume Individual
WACC	Weighted average cost of capital