evoenergy

Attachment 6: Depreciation

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

This attachment describes Evoenergy's proposed approach to regulatory depreciation for the access arrangement 2026–31 access arrangement period.

ACT Government policy

Evoenergy's approach to depreciation is driven by the ACT Government's policy to reduce greenhouse gas emissions in the ACT to achieve net zero emissions by 30 June 2045.

This policy is reflected in the ACT emissions target under the Climate Change and Greenhouse Gas Reduction Act 2010 (ACT). To facilitate this, the ACT Government proposes that gas supply in the ACT will cease, Evoenergy's gas network will be decommissioned, and renewable electricity will make up the bulk of energy use. The ACT Government's IEP includes steps and timeframes for reaching its net zero emissions target. The IEP envisages that phased decommissioning of sections of the gas network will commence from 2035. Since December 2023 Evoenergy has been restricted from establishing most new gas network connections.[1]

The clarity of outlook and strength of the policy signals in respect of the imminent cessation of any role for Evoenergy's gas network in the ACT distinguish Evoenergy's gas distribution network from the gas distribution networks in Victoria and NSW in respect of which the AER has previously provided for accelerated depreciation.

Depreciation approach under current access arrangement

The current regulatory depreciation approach for recovering past infrastructure investment costs is based on a straight-line depreciation method with regulated asset lives reflecting their technical engineering life (ranging between 50 and 80 years).

In the context of declining gas demand through to 2045, the current depreciation approach will result in gas prices escalating rapidly through the second half of the transition as fewer and fewer customers are left to share depreciation costs, as well as the ongoing costs to maintain and operate the gas network.

The current depreciation approach leaves those customers that will find it hardest to transition, such as those who are financially vulnerable, renters, occupants of multi-occupant dwellings and gas dependent businesses, with a disproportionate share of the past investment costs. The escalation in gas prices expected under the current approach is likely to reach unsustainable levels, accelerating customer exit and risking leaving those customers unable to transition early with a potentially unviable gas service.

In the context of ACT Government policy, the current depreciation approach will not achieve an equitable transition path for the community and will no longer achieve the long-term interests of customers with respect to price, quality, safety, reliability or security of supply.[2]

Further, the current depreciation approach will no longer meet the requirements of the gas regulatory framework,[3] including providing Evoenergy with a reasonable opportunity to recover

[1] Climate Change and Greenhouse Gas Reduction Act 2010 (ACT) and Climate Change and Greenhouse Gas Reduction Regulation 2011 (ACT). Evoenergy is restricted from establishing new gas connections in all residential, commercial and community facility land-use zones; and all residential use buildings in non-residential zones (Class 1-4 buildings, as classified under the National Construction Code).
[2] Required under National Gas Law, section 23.
[3] Encompassing the National Gas Objective, National Gas Law and National Gas Rules.

its efficient costs,[4] or with compensation for the risk of not doing so, and meeting the specific depreciation criteria.[5]

Proposed depreciation approach

During our stakeholder engagement we heard that the community strongly support us taking measures which will ensure a fair and equitable energy transition. When considering options available within the current regulatory framework, our community support us bringing forward depreciation to promote more equitable outcomes for the community through to 2045.

We therefore propose a different approach to depreciation for the 2026–31 access arrangement period which better reflects the ACT context and aligns with our stakeholder feedback. Our proposed approach involves two changes to the depreciation of past infrastructure investment costs to reflect the unique ACT context, including:

- **setting the asset lives to end at 2045** to directly reflect the remaining economic life of the assets, consistent with the ACT Government's legislated emission reduction targets and policy direction to transition away from gas by 2045
- **reprofiling the depreciation amount over time,** using the sum-of-years'-digits accelerated depreciation method, to more equitably share the recovery of the past infrastructure investment costs earlier while more customers remain on the network.

Our proposed depreciation approach promotes the NGO and the long-term interests of consumers, by allowing for a more equitable transition, ensuring hard-to-transition customers are not left to carry a disproportionate share of past infrastructure investments, in addition to bearing a larger share of the ongoing costs to safely operate and maintain the network, as other customers leave.

Importantly, our proposed depreciation approach also reflects the long-term interests of customers by providing a stable and predictable price path through to 2045 and enabling us to make the efficient investments, and incur the efficient operating and maintenance expenditure, required to maintain safe and reliable gas services, thus facilitating a safe, reliable and secure gas supply, whether customers transition early or remain longer. Our proposed approach also meets the specific requirements of the regulatory framework, as discussed in section 4.

2. Current approach to depreciation

For the reasons explained below, the current approach to regulatory depreciation is no longer fit for purpose in the context of the ACT Government's policy to phase out gas network services by 2045 and commence the phased decommissioning of sections of Evoenergy's gas distribution network from 2035.

[4] Required under National Gas Law, section 24.
[5] National Gas Rule 89.

2.1 Evoenergy's operating context

Evoenergy operates its gas distribution networks in the following context:

- The demand for gas will continue to decline and reach zero by 2045, when the gas network is to be fully decommissioned in line with the ACT Government's legislated emissions target of net zero by 2045 and IEP to phase out gas.
- The ACT Government banned most new gas connections from December 2023 and has introduced a legislated limitation on the supply of gas services.[6] The IEP indicates further regulatory measures to limit gas services will be introduced from 2030, if not sooner.
- The ACT Government has a wide range of incentives and subsidies to encourage customers to electrify their household appliances. Recent data demonstrates a strong customer response to these measures and customer research indicates customers will continue to electrify their appliances in line with ACT policy to achieve emissions reductions (refer to attachments 1 and 2).
- Gas demand for our NSW customers is expected to follow a similar path to our ACT customers given the inter-dependency of the network configuration, the commercial and social connectedness, and the likelihood of it being uneconomic to service our NSW customers as phased decommissioning of the network commences from 2035.
- The ACT Government is not considering repurposing the gas network for distributing hydrogen or biomethane in the future.[7] Instead the IEP is for phased decommissioning of the gas network to commence from 2035.[8]

2.2 Current approach no longer fit for purpose

Since the development of the gas network in 1981, Evoenergy has made substantial investments in expanding, replacing and maintaining the gas network to ensure it provides safe and reliable gas services to our customers and to meet our regulatory obligations. At the commencement of the 2026–31 access arrangement period, the value of our past infrastructure investments, the opening capital asset base (CAB), is forecast at $412 million.

These past investments were made under the existing regulatory framework, which aims to promote the efficient investment and operation of gas networks for long-term customer benefit[9] by providing a reasonable opportunity for networks to recover at least their efficient costs incurred in providing gas services and meeting regulatory obligations, while providing a return commensurate with the regulatory and commercial risks in providing the services.[10]

Under the regulatory framework, the prices that Evoenergy has been permitted to charge customers to recover the past investment costs have been based on the:

[6] Climate Change and Greenhouse Gas Reduction Act 2010 (ACT) and Climate Change and Greenhouse Gas Reduction Regulation 2011 (ACT).
[7] ACT Government, The Integrated Energy Plan 2024–2030, our pathway to electrification, June 2024, p.35.
[8] The ACT Government's IEP does not foresee a role for Evoenergy's gas network in providing wide-spread green gas solutions. Green gas is only envisaged under the IEP as a potential for niche application for industrial users with no alternative solution. We expect it would be uneconomic to invest in repurposing Evoenergy's existing gas network to provide a green gas solution to a niche set of users.
[9] National Gas ACT, Schedule - National Gas Law, section 23.
[10] National Gas ACT, Schedule - National Gas Law, section 24.

- **technical asset life** reflecting the expected technical engineering life of the assets, as a proxy for their economic life. This is currently set to 50 to 80 years for assets commissioned before 1 July 2021 and 30 to 50 years for assets commissioned from 1 July 2021[11]
- **straight-line depreciation method,** where the asset depreciation cost is equally allocated over the technical asset life.

The current approach to depreciation was appropriate in the circumstance where gas services were expected to continue to be delivered to customers for at least as long as the technical asset life and where demand for gas services was stable or growing. In the circumstance of stable demand and continuing service provision beyond the technical asset life, the straight-line depreciation approach provided for:

- price stability and predictability over time
- an equitable sharing of past investment costs across customers using the network in different periods of time, i.e. intergenerational equality
- a reasonable opportunity for Evoenergy to recover its past investment costs, and effective incentives in order to promote economic efficiency.

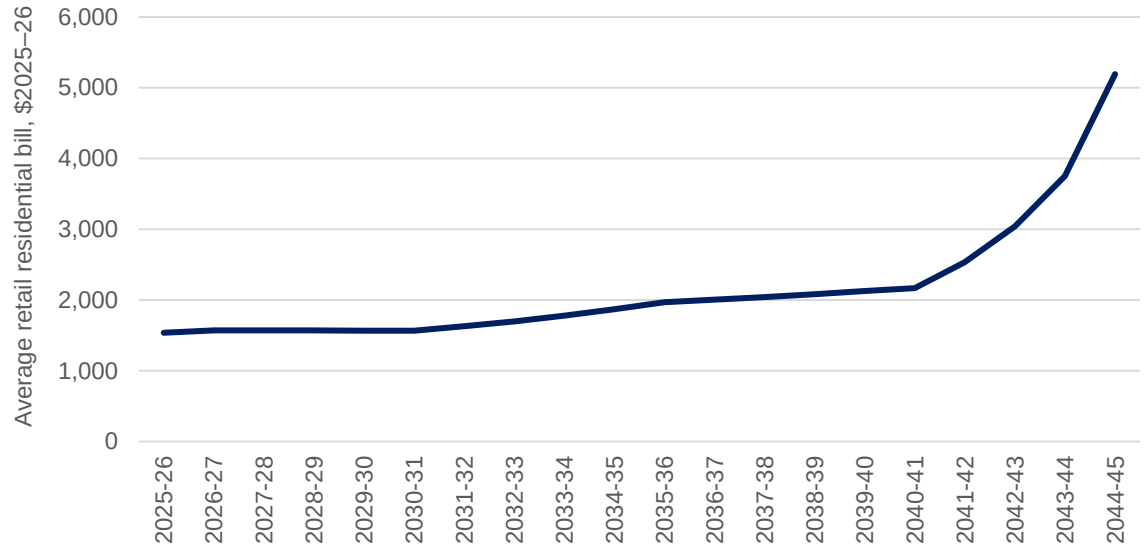
However, in the new context of the ACT Government's legislated emission reduction target, a ban on new residential gas connections, incentives and subsidies for households to electrify appliances and a clear policy direction to phase out gas network services by 2045 and commence phased decommissioning of the network from 2035 under the ACT Government's IEP, the current approach:

- **will not achieve price stability for customers over time**. Figure 1 demonstrates that the current depreciation approach will lead to rapidly escalating gas prices in the second half of the transition as fewer and fewer customers share in the costs of the past investments, as well as ongoing costs to maintain the network. Indicative residential gas bills could be expected to more than double, or triple, in real terms under the current approach
- **will not ensure equitable sharing of past investment costs across different customers over time.** As shown in Figure 2, customers that leave the network early will pay a smaller share of the past investment costs which were made to ensure a safe, reliable and secure network while they used it, leaving a greater share of the costs for those customers left behind, such as the financially vulnerable, renters, the occupants of multi-occupant dwellings and businesses with limited economically and/or technically viable solutions to fully electrify
- **will not provide Evoenergy with a reasonable opportunity to recover its efficient past investment costs or provide effective incentives for Evoenergy to undertake efficient investment in or for the efficient use of its gas distribution network.** As shown in Figure 3, retaining the current technical asset lives would guarantee that Evoenergy would not recover a large proportion of its past investment costs, with $140 million (34 per cent of the 2026–27 opening CAB) in past investment costs left to be recovered when there are no longer any gas customers to recover the costs from. In circumstances where the return on capital does not compensate Evoenergy for the

[11] AER Final Decision, Evoenergy Access Arrangement 2021 to 2026, Attachment 4: Regulatory depreciation, April 2021.

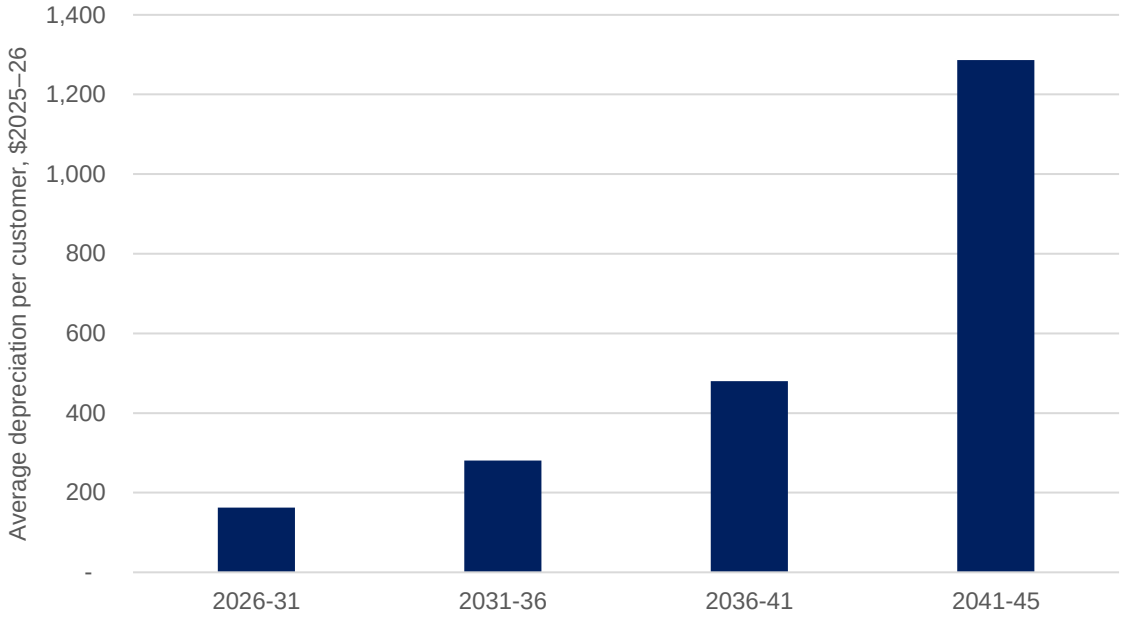
imminent risk of stranding, this will deter Evoenergy from undertaking the efficient investment, or incurring the efficient operating and maintenance expenditure, required for a safe, reliable and secure gas supply during the transition period.

Figure 1 Indicative residential bill impact of current approach: straight-line depreciation using technical asset lives



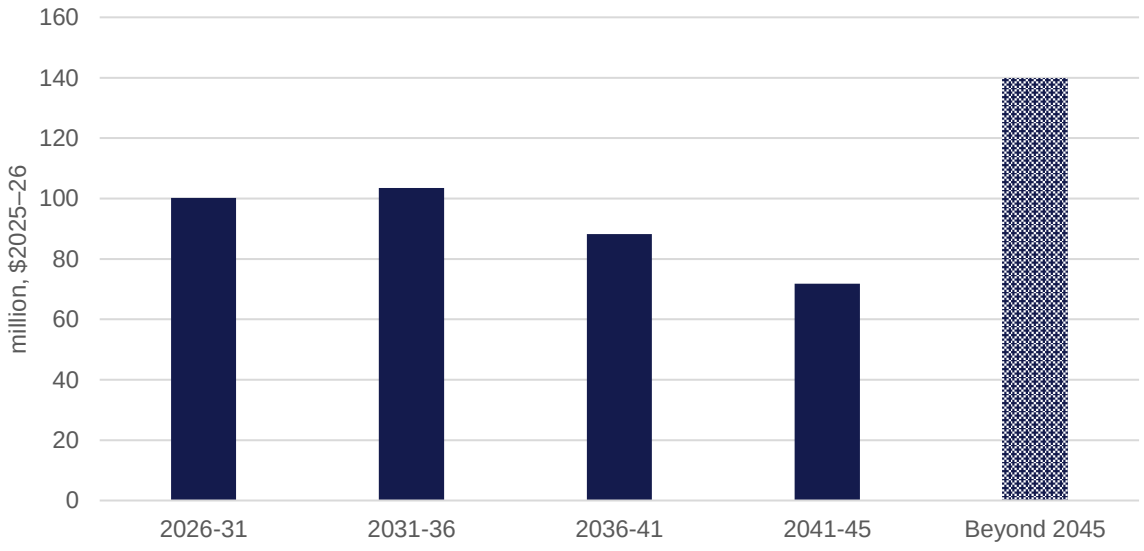
Notes: Retail bill impacts reflect changes in distribution network charges and forecast ACT Government taxes and levies. All other components of the retail bill (gas transmission, wholesale gas and retail) are held constant. Retail bill impacts are calculated for an average residential customer using 27 GJ of gas per year. Changes in network charges are based on Evoenergy's demand forecast to 2045, Evoenergy's expenditure forecasts for the 2026–31 access arrangement period and placeholder expenditure forecasts thereafter, excluding future network decommissioning costs.

Figure 2 Indicative depreciation per customer under current approach: straight-line depreciation using technical asset lives



Notes: Depreciation refers to the recovery of the CAB. It does not include the adjustment for the indexation of the CAB that the AER includes in the regulatory depreciation building block. Depreciation per customer is calculated by dividing the total depreciation for each access arrangement period by the total number of customers in each access arrangement period.

Figure 3 Depreciation per access arrangement period and beyond 2045 under current approach: straight-line depreciation using technical asset lives



Notes: Depreciation refers to recovery of the CAB. It does not include the adjustment for the indexation of the CAB that the AER includes in the regulatory depreciation building block.

Further, in the ACT context, the current approach will no longer comply with the depreciation criteria in the National Gas Rules (Rules):[12]

- the use of technical asset lives is no longer a reasonable proxy for the economic life of the assets. The economic life of Evoenergy's gas assets is clearly defined by ACT Government policy to end the gas service by 2045 and commence phased decommissioning of the network from 2035, which equates to a maximum remaining life of only 19 years and the likelihood of a materially shorter remaining economic life for a number of those assets.
- the straight-line depreciation approach will no longer allow:
    - gas prices to vary over time to promote efficient growth (including negative growth) in the market, as prices will escalate to unsustainable levels in the second half of the transition, as shown in Figure 1, potentially leading to mass exit from the network (for those that can) earlier than planned under the ACT Government's IEP
    - Evoenergy to meet its reasonable cash flow needs through to 2045, as too few customers will be left on the network to recover the costs of depreciation alongside the ongoing costs to safely and reliably maintain and operate the gas network for the remaining hard-to-transition customers.

In the ACT context, therefore, the current approach would lead to social and intergenerational inequity as hard-to-transition customers are left with rapidly rising gas prices and a potentially unviable gas service. This is contrary to NGO and revenue and pricing principles which govern the exercise of AER discretion, including those that provide for the regulatory framework to promote efficient investment in and efficient operation of gas networks in the long-term interests of gas consumers with respect to price, safety, reliability and security of supply.

[12] National Gas Rules, Rule 89(1).

3. How we engaged and what we heard from stakeholders

3.1 How we engaged with consumers and stakeholders

Over the past 18 months we have engaged with our stakeholders on our approach to depreciation of past infrastructure investment costs. We used a largely consistent approach to engagement on this topic across our forums, including our community forum, the Energy Consumer Reference Council (ECRC), large customers through the Energy Matters Forum, the Energy Regulatory Advisory Panel (ERAP), and the ACT Government. Details of our engagement program and our consumer and stakeholder voices are set out in Attachment 1: Consumer and stakeholder engagement.

The focus of our engagement with stakeholders on depreciation was first on ensuring a base level of understanding of the concepts and challenges. Using simplified examples, we engaged on:

- what depreciation is, using a simple car lease analogy
- the challenge we face recovering infrastructure costs and managing long-term bill impacts within the regulatory framework, setting the context for depreciation as a potential approach to address this challenge
- what depreciation means for Evoenergy and how it fits in the revenue building blocks
- how depreciation is currently calculated and the circumstances where this approach works well, i.e. when demand is stable and time available for the recovery of asset costs is as long as the asset life
- different depreciation approaches to asset cost recovery using placeholder demand and expenditure information to show potential bill impacts of different approaches
- the challenge for depreciation in the ACT policy context, where demand is declining and the time period for the recovery of asset costs is limited to 2045 (if not earlier), less than the current technical asset life.

We then engaged with our stakeholders on the options for depreciation in the ACT context and within the current regulatory framework, i.e., under the assumptions of full cost recovery by 2045, recovery of costs through gas customers only, no change in policy direction, a declining demand profile and all other components of the retail bill held constant.

The presentation of options involved demonstrating the indicative retail level bill impacts and the amount of depreciation per customer in each five-year access arrangement period through to 2045 relative to the current approach. We asked our community forum to consider the customer impacts of the options against the values they had developed. Options discussed included: [13]

- straight-line depreciation method, with asset lives aligned to the phase out of gas by 2045 to achieve the ACT Government's net zero emissions target
- customer-weighted depreciation method, with asset lives aligned to 2045 – we explained that this method is where the depreciation is weighted by the number of customers using

[13] Evoenergy community forum presentations, sessions 4, 7 and 9 available at: Gas network plan.

the network each access arrangement period, with more depreciation recovered when customer numbers are high, so each customer pays an equal share annually

- sum-of-years'-digits method, with asset lives aligned to 2045 – we presented this option as an alternative approach in response to feedback from engagement on straight-line and customer-weighted depreciation, and concern about price impacts. We explained that this method is calculated by dividing the remaining useful life of the asset by the sum of the years of the asset's life[14]
- introducing an exit fee for customers leaving the gas network and applying straight-line depreciation with asset lives aligned to 2045 for customers remaining on the gas network. This approach involved an exit fee recovering some of the past investment costs from customers as they leave the gas network (we likened it conceptually to a break-fee on a mortgage) and thereby reducing the depreciation amount to be recovered from remaining gas customers. We provided a range of different values for the exit fee if it were to be applied during the 2026–31 access arrangement period.

Next, we engaged with our stakeholders on their views of options to recover past investment costs beyond the regulatory framework. Through this engagement, we asked stakeholders to be unconstrained in their assumptions and to test and challenge the assumptions we had initially put forward.

3.2 What we heard from stakeholders

3.2.1 Community forum

Throughout our engagement on various topics, including the recovery of past investment costs, our community forum has emphasised the importance of equity through the energy transition.[15] Community forum members consistently expressed a desire to mitigate adverse impacts on customers who will remain on the gas network for longer. Members recognised many gas customers will have less ability to transition early, whether that be due to financial constraints, low control over their situation (e.g. renters), or limited technically or economically viable solutions (e.g. multi-unit dwellings).

Specifically on the issue of recovering past investment costs, we engaged with the community forum three times over the past 18 months to firstly build their understanding of depreciation concepts and approaches, and then to discuss options and understand their preferences.

In July 2024, the members shared their views on ways to address the challenge of recovering past investment costs with declining demand. In the first instance, there were mixed views, including views that Evoenergy should not fully recover its costs or that it should be a shared responsibility between Evoenergy and the ACT Government.[16] Members observed that the current regulatory framework is no longer appropriate for the ACT's circumstances and shared innovative ideas including consideration of a holistic approach to gas and electricity networks in

[14] For example, consider an asset with an initial cost of $100 and a useful life of 4 years. The sum of the years for this asset is 1+2+3+4=10. Depreciation is the first year will be 4/10 * $100 or $40, depreciation in the second year will be 3/10 * $100 or $30, depreciation in the third year will be 2/10 or $20 and depreciation in the fourth and final year will be 1/10 or $10.
[15] Appendix 1.2: Communication Link, Report of feedback from community forum sessions 1-10, June 2025, pp. 60–61.
[16] Appendix 1.2: Communication Link, Report of feedback from community forum sessions 1-10, June 2025, pp. 33–34.

the ACT. Similar observations were made by forum members in their report to Evoenergy, prepared at session 6 in August 2024.[17] When presented with straight-line and customer-weighted depreciation options, forum members did not indicate a clear preference for either method, observing that:

- the straight-line approach is conceptually easier to understand and creates an incentive for customers to transition off gas earlier. However, this approach disadvantages customers remaining on the network, including future customers and young people
- the customer-weighted approach does not provide a strong signal to customers to leave the network, as it results in more consistent and stable costs over time. Under the customer-weighted approach, costs are shared more equitably.

In response to a subsequent session where we presented the sum-of-years'-digits depreciation methodology, members observed that this option was generally preferred as it aligned with their priorities and preference to share the cost of the energy transition fairly and equitably.[18]

In later sessions, when presenting our draft five-year gas plan, the feedback on our proposed options for recovering past investment costs was supportive of acting early to promote a more equitable distribution of costs, especially for hard-to-transition customers, and incentivise the electrification of appliances. When considering the options available within the regulatory framework, there was in-principle support for bringing forward depreciation (with the sum-of-years'-digits approach was considered reasonable[19]) to avoid significant escalating future gas prices for hard-to-transition customers, while also acknowledging concerns about short-term bill impacts for low-income households due to current cost-of-living pressures.[20]

There was no support from the community forum for the introduction of an exit fee to recover past investment costs. The community were concerned that an exit fee, designed to recover some of the past investment costs, would act as a disincentive for customers to fully electrify their properties. An exit fee was not considered to align with the ACT Government's emissions reduction policy and therefore was not supported.[21]

Our community forum also suggested that we explore options beyond the regulatory framework, for example, recovering costs across electricity and gas customers, recovering costs through taxpayers and/or Evoenergy not recovering its costs, and encouraged us to engage with the ACT Government in relation to any innovative options.[22]

3.2.2 Other stakeholders

When presented with the depreciation challenge and options, our ECRC members were concerned about disproportionate impacts on vulnerable customers. While ECRC members expressed an appreciation for our focus on an equitable approach to cost recovery, they

[17] Appendix 1.2: Communication Link, Report of feedback from community forum sessions 1-10, June 2025, pp. 60–61.
[18] Appendix 1.2: Communication Link, Report of feedback from community forum sessions 1-10, June 2025, p. 39.
[19] Appendix 1.2: Communication Link, Report of feedback from community forum sessions 1-10, June 2025, pp. 39–40.
[20] Appendix 1.2: Communication Link, Report of feedback from community forum sessions 1-10, June 2025, p. 43.
[21] Appendix 1.2: Communication Link, Report of feedback from community forum sessions 1-10, June 2025, pp. 36 and 61.
[22] Appendix 1.2: Communication Link, Report of feedback from community forum sessions 1-10, June 2025, p. 61.

highlighted the fact that the equitable recovery of costs will be dependent on the ACT Government, in terms of policy implementation and support. ECRC members questioned whether we could pursue more innovative or flexible cost-recovery mechanisms, a sentiment shared by other stakeholders, including our community forum.[23]

Large customers highlighted a shared concern that a faster transition by large customers could lead to increased costs for those remaining on the network. There was interest in understanding how costs would be shared fairly and whether alternative uses of the gas network could be considered to mitigate this issue. Several large customers expressed concern about being unable to transition within the timeframe expected by ACT policy. This raises a risk of being stranded on the network and bearing a larger share of remaining costs. Some customers noted this could create perverse incentives, pushing those with the capacity to exit early to do so, while leaving vulnerable sites behind.[24]

When considering options within the regulatory framework, the ERAP considered that a linear (straight-line) accelerated depreciation method would result in unacceptable intergenerational outcomes.[25] The ERAP encouraged Evoenergy to also explore options for recovering past infrastructure investment costs beyond the regulatory framework, particularly noting Evoenergy's ownership of the ACT's electricity network.[26] The ERAP also considered that Evoenergy should engage with the community forum on the option to identify assets as redundant and not fully recover the costs of the redundant assets.[27]

3.3 How we are responding to stakeholder feedback

Our proposed approach to depreciation, set out in section 4 below, to align asset lives to 2045 and accelerate depreciation using the sum-of-years'-digits method, directly reflects stakeholder feedback to:

- enable an equitable approach through the ACT's transition to 2045
- avoid adverse and unfair impacts on hard-to-transition customers who will remain on the network for longer, such as the financially vulnerable customers, renters and large customers with limited technical or economic solutions.

Our proposed approach delivers on our stakeholder feedback by sharing more of the past investment costs early across a larger customer base to enable a more sustainable price path over the long term to 2045. The long-term price path enabled through our proposed depreciation approach significantly mitigates the rapid escalation in gas prices that would otherwise occur under the current straight-line method. This is demonstrated in Figures 7 and 8 below.

Our proposed approach avoids our hard-to-transition customers, such as the financially vulnerable, renters, occupants of multi-occupant dwellings and gas-dependent businesses, bearing a disproportionate share of past efficient investment costs and thereby mitigates unsustainable escalation in gas prices for these customers in the second half of the transition. Our proposed approach also reduces the risk of unsustainable gas price escalation leading to the gas network becoming unviable before all customers have transitioned.

[23] Appendix 1.3: ECRC engagement report, June 2025.
[24] Appendix 1.4: Energy Matters Forum report, June 2025.
[25] Appendix 1.5: ERAP meeting summaries, June 2025, meeting 4.
[26] Appendix 1.5: ERAP meeting summaries, June 2025, meetings 4, 5.
[27] Appendix 1.5: ERAP meeting summaries, June 2025, meetings 4, 5, 6.

Evoenergy has not engaged with stakeholders on the option of identifying and not recovering the costs of redundant assets. The regulatory framework does not provide for an access arrangement to set the CAB by reference to future asset redundancies.[28] For the 2026–31 access arrangement period, all gas network assets are required to continue to deliver safe, reliable and secure gas services to our customers. We note that, under the ACT Government's IEP, the first phase of the transition, which overlaps with the 2026–31 access arrangement period, will be customer-led. Under the IEP, phased decommissioning is intended to commence from 2035. Instead, we engaged with our community forum, ECRC, ERAP, and large customers on their views of other options for recovering past infrastructure investment costs beyond the current regulatory framework and allowed them to challenge the assumptions regarding full cost recovery and recovery from gas customers alone.

Importantly, while stakeholders raised the question of whether Evoenergy should expect to fully recover its past investment costs, in exercising any discretion with respect to depreciation, the regulatory framework requires the AER to take into account the fundamental principle that networks will be afforded a reasonable opportunity to recover at least the efficient costs of investing in and maintaining the infrastructure that provides essential services to the community.[29] This fundamental principle of economic regulation, known as the regulatory compact, applies not just to gas but also to other regulated utilities both in Australia and overseas. This principle is necessary for consistency with another fundamental principle of the regulatory framework, to encourage efficient investment in essential services at a reasonable rate of return, which ensures prices are affordable for customers. In circumstances where the return on capital does not compensate Evoenergy for the imminent risk of stranding, a failure to provide Evoenergy with a reasonable opportunity to recover its costs will deter it from undertaking the efficient investment, or incurring the efficient operating and maintenance expenditure, required to maintain a safe, reliable and secure gas supply during the transition period. This is discussed further in section 4.3.4.

Evoenergy recognises that achieving full recovery of the past infrastructure investment costs through the regulatory framework over the relatively short transition period set by the ACT Government has material implications for customer gas bills. We are particularly concerned about the customer bill impacts in the second half of the transition period when there is expected to be a significant reduction in the number of customers on the gas network. There is a real risk that customers who find it more difficult to transition could be left facing significant price increases, even under our proposed sum-of-years'-digits depreciation method.

We have therefore shared our stakeholder feedback with the ACT Government. However, there are currently no complementary measures available for recovering past infrastructure investment costs beyond the existing regulatory framework and, as it has conceded in allowing accelerated depreciation for gas distribution networks in other jurisdictions,[30] in these circumstances, the AER's decision on depreciation must abide by the current national gas regulatory framework (discussed further in section 4.3 below). Our proposed approach therefore complies with the current regulatory framework and reflects the current options available to Evoenergy under this framework to recover investments made in providing essential services for the community.

[28] National Gas Rules, Rule 85.
[29] In accordance with National Gas ACT, Schedule - National Gas Law, Clause 24.
[30] AER, Final decision, Jemena Gas Networks (NSW) access arrangement 2025 to 2030, Attachment 4 – regulatory depreciation May 2025, p. 10.

3.4 AER's expectations on engagement on accelerated depreciation

In its final decision on the recent Jemena Gas Network (JGN) 2025–30 access arrangement, the AER provided high-level guidance on the key issues on which it expects network businesses to engage with consumers regarding accelerated depreciation.[31]

The AER expects network businesses to:

- present different demand scenarios to ensure consumers are provided with a comprehensive understanding of how long-term future gas prices are dependent on the trajectory and pace of declining demand
- explain the role and limitations of accelerated depreciation, including the impact of applying accelerated depreciation in multiple access arrangement periods and on prices and customer disconnections
- maintain consistency between components of the access arrangement proposal, such as demand and expenditure forecasts and the proposal for accelerated depreciation.

We note that this decision was released on 14 May 2025, and our engagement on depreciation has been ongoing since July 2024. Nevertheless, we consider that we have met these expectations as demonstrated in the sections of this attachment that set out our engagement approach.

[31] AER, Final decision, Jemena Gas Networks (NSW) access arrangement 2025 to 2030, Attachment 4: Regulatory depreciation, May 2025, p. 22.

4. Proposed depreciation approach

4.1 Overview

Our proposed approach to recovering past investment costs for the 2026–31 access arrangement period directly reflects the ACT context of declining demand for gas services in line with the ACT Government's legislated emissions reduction targets and clear policy direction to phase out gas by 2045, with phased decommissioning commencing from 2035.

Our proposed approach is to:

- align the regulated asset life with the curtailed economic asset life resulting from legislated target in the *Climate Change and Greenhouse Gas Reduction Act 2010* to meet net zero emissions by 30 June 2045 and the ACT Government's clear electrification policy direction under the IEP
- accelerate the depreciation of the CAB using the sum-of-years'-digits method to promote more equitable sharing of past infrastructure investment costs in the context of declining gas demand to 2045.

Our approach sets the foundations for an equitable transition path in line with the values strongly expressed by our community. It delivers long-term customer benefits and better meets the requirements of the regulatory regime by:

- **equitably sharing past investment costs** across different customers over time, taking into consideration that those most likely to remain on the network for longer are also likely those least able to transition
- **enabling price stability and predictability** through to 2045 by using a methodical accelerated depreciation approach which allocates proportionally less depreciation to each remaining year through to 2045, aligned with reducing gas demand over time
- **providing Evoenergy with a reasonable opportunity** to recover efficient past investment costs, noting that our proposed depreciation approach alone may not be sufficient to enable Evoenergy to recover all of those costs given we still face a material risk of asset stranding as gas prices increase in the second half of the transition, and if gas demand falls faster than forecast
- **providing effective incentives for Evoenergy to undertake efficient investment in, and for the efficient use of, its gas distribution network**, noting that, in circumstances where the return on capital does not compensate Evoenergy for the imminent risk of asset stranding, Evoenergy will otherwise be deterred from undertaking the efficient investment, or incurring the efficient operating and maintenance expenditure, required for a safe, reliable and secure gas supply during the transition period
- **complying with the depreciation criteria in the Rules** to reflect economic asset lives, promote efficient (negative) growth in the market and seek to recover Evoenergy's reasonable cash flow needs.

4.2 One depreciation approach for ACT and NSW network assets

Evoenergy's gas network serves customers in both the ACT and the Queanbeyan-Palerang region of New South Wales (NSW). Currently, approximately 90 per cent of our customers are located in the ACT (150,000 as at 2023–24) and 10 per cent are located in NSW (15,000 as at 2023–24).

We recognise that the approach to depreciation should reflect the outlook and strength of policy signals surrounding the future role of the gas network and that, in contrast to the ACT, at present, the gas policy settings in NSW are different to the ACT. NSW has a net zero emissions reduction target by 2050, five years after the ACT, and NSW does not have a clearly defined pathway for the future of gas to achieve its net zero emissions targets nor any statewide ban on new gas connections.

Evoenergy's network was built, and has always been owned, operated and regulated as a single network. Major network assets are located in both NSW and the ACT, and these assets serve our customers in both jurisdictions. As a result, it is not possible to divide assets based on their physical location or the location of customers served. Further, the Queanbeyan-Palerang community has strong ties with the ACT in terms of employment, commercial and social activity, and media. We therefore expect the ACT policy direction will equally influence the electrification choices of our NSW gas customers.

In light of the ACT Government's IEP to phase out gas in the ACT by 2045, we are currently exploring the available technical solutions to continue to serve our customers in the NSW region. At this stage, we have not yet identified economically viable approaches. This reflects:

- the network asset configuration, which requires ACT assets to transport gas through to our NSW customers
- the associated relatively high fixed costs of continuing to safely and reliably operate the network for our NSW customers, including ongoing ACT-based technical regulation and ACT taxes, given the network asset configuration
- the relatively small customer base that would remain on the network in NSW after the ACT customers have transitioned, which would likely result in uneconomically high gas network prices for NSW customers.

Given the interdependent network asset configuration, the commercial and social connectedness of the two regions, and the expected economic non-viability of continuing to operate the gas network to supply only NSW customers, we consider it appropriate to take a holistic approach to regulatory depreciation and that the approach be guided by the ACT policy settings.

Notably, for our 2021–26 access arrangement final decision the AER accepted a holistic approach to regulatory depreciation for our ACT and NSW customers given the above network circumstances.[32]

[32] AER Final Decision, Evoenergy Access Arrangement 2021 to 2026, Attachment 4: Regulatory depreciation, April 2021.

4.3 Proposed approach in the ACT context

As discussed in section 2, the current approach to depreciation is no longer appropriate in Evoenergy's operating context.

Accordingly, for the 2026–31 access arrangement period, we propose to:

- replace the current technical asset lives with economic asset lives based on the ACT's legislated target of net zero emissions by 2045
- replace the current straight-line depreciation method with the sum-of-years'-digits depreciation method, so as to deliver a more equitable sharing of past investment costs in the long-term interest of gas customers.

The following sections describe how our proposed approach meets the requirements of the regulatory framework and enables an equitable transition pathway for our community through to 2045.

4.3.1 Aligning asset lives to 2045

We propose to set the economic lives of the gas assets to align with the ACT's legislated emissions reduction target and policy direction to phase out gas by 2045. This means that at the beginning of the 2026–31 access arrangement period, all asset lives are set to a maximum of 19 years, reflecting the remaining period before 2045. This is a conservative approach, in circumstances where the ACT Government's IEP provides for a phased decommissioning of gas assets to commence from 2035, with the result that a number of gas assets will have a maximum remaining economic life that is less than 19 years.

The Rules require the depreciation schedule to be designed so that each asset or group of assets is depreciated over the economic life of that asset or group of assets.[33] The Rules also require that the depreciation schedule should be designed to allow, as far as reasonably practicable, for adjustment reflecting changes in the expected economic life of a particular asset or a particular group of assets.[34]

The economic life of an asset is the time over which an asset is expected to generate economic returns. In the ACT context, the maximum remaining period for the gas network assets to generate an economic return is 19 years, ending in 2045 on the cessation of all gas supply in the ACT, and may be considerably less given the phased decommissioning of the gas network will commence from 2035, based on the ACT Government's IEP.

The setting of the remaining economic lives of gas assets to 2045 is necessary to meet the Rule requirements to depreciate the assets over their economic life.[35] This approach also allows for further adjustment to the expected asset life in subsequent access arrangement periods should the ACT policy direction evolve, as the sections of the gas network to be decommissioned prior to 2045 become known, or if customers reduce demand for gas more quickly than currently forecast.[36]

[33] Rule 89(1)(b).
[34] Rule 89(1)(c).
[35] Rule 89(1)(b) and 89(1)(c).
[36] In accordance with Rule 89 clause 1(c).

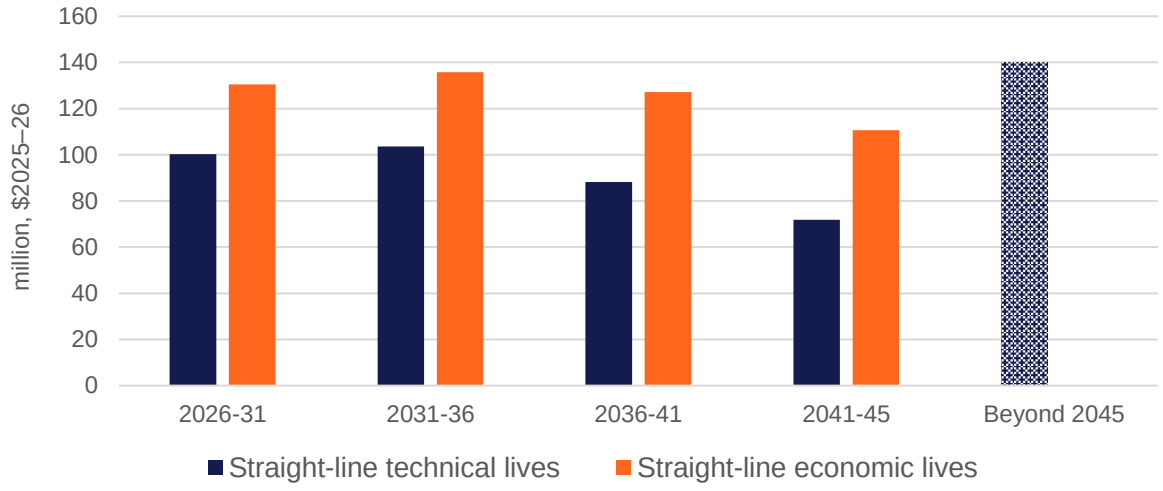
Notably, the use of economic lives, rather than technical lives, has also been widely accepted in regulatory decisions, even when the regulatory regime did not require this.[37]

Applying the economic lives aligned to the phase out of gas by 2045 is also required, but not sufficient, to meet the National Gas Law (NGL) revenue and pricing principles, which state that the service provider should be provided with a reasonable opportunity to recover at least its efficient costs incurred in providing the service and effective incentives should be created for economic efficiency.[38]

Figure 4 shows the depreciation amount under each of the next four access arrangement periods and beyond 2045, under the current approach of using technical asset lives and our proposed approach using economic asset lives aligned to the 2045 end date for the gas service.

Figure 4 demonstrates that the use of economic asset lives increases depreciation relative to technical lives in each of the next four access arrangement periods and therefore avoids leaving at least $140 million in past investment costs unrecovered beyond the end date for the gas network.

Figure 4 Straight-line depreciation using technical lives versus economic lives



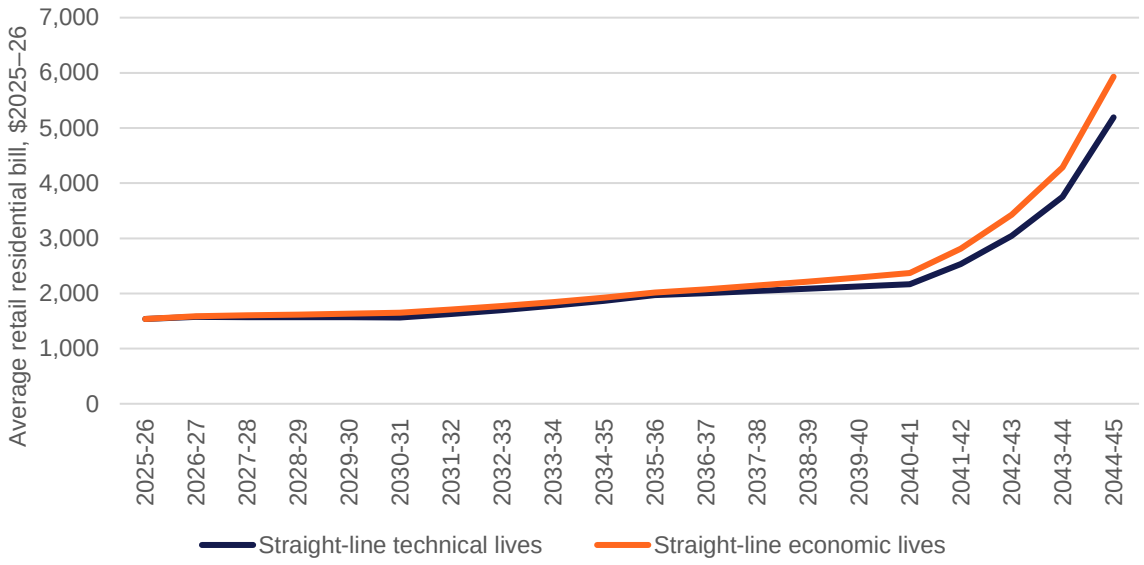
Notes: Technical asset lives are based on 50–80 years for assets commissioned before 1 July 2021 and 30–50 years for assets commissioned after 1 July 2021. Economic asset lives are based on the remaining years to 2045, aligned to the ACT Government's emissions reduction policy.

The indicative retail level gas bill impacts associated with the use of economic asset lives compared to technical lives are shown in Figure 5. There is a moderate difference between the retail bills under each approach:

- over the 2026–31 access arrangement period, retail bills would be an average of three per cent per year higher (in real terms) using economic asset lives aligned to 2045 versus technical asset lives
- over the full 19 years to 2045, retail bills would be an average of six per cent higher (in real terms) using economic asset lives aligned to 2045 versus technical lives.

[37] Some examples include the Economic Regulation Authority of Western Australia's (ERA)'s decision for the Dampier to Bunbury Pipeline, the New Zealand Competition Commission's decision for gas piplelines, the Queensland Competition Authority's decision for Dalrymple Bay Coal Terminal and the IPART decision for Hunter Valley Coal Network.
[38] NGL section 24.

Figure 5 Indicative residential retail bill using economic and technical asset lives



Notes: Retail bill impacts reflect changes in distribution network charges and forecast ACT Government taxes and levies. All other components of the retail bill (gas transmission, wholesale gas and retail) are held constant. Retail bill impacts are calculated for an average residential customer using 27 GJ of gas per year. Changes in network charges are based on Evoenergy's demand forecast to 2045, Evoenergy's expenditure forecasts for the period 2026–31, and placeholder expenditure forecasts thereafter, excluding future network decommissioning costs.

Notably, Figure 5 demonstrates that applying economic asset lives while retaining the current straight-line depreciation method still leads to significant and unsustainable gas price increases in the second half of the transition. Consequently, retaining the current straight-line depreciation method, even with economic asset lives:

- does not promote an equitable energy transition for our customers, as harder-to-transition customers will still bear a disproportionate share of past investment costs (refer to Figure 7), resulting in an unsustainable escalation in gas prices
- does not promote efficient (negative) growth in the market as the escalation in gas prices will likely lead to a mass customer exit from the service (for those who can) and leave hard-to-transition customers, particularly those with limited technical solutions, at risk of no secure (or affordable) alternative energy source
- does not provide Evoenergy with a reasonable opportunity to meet its cash flow needs to continue to provide a safe, reliable and secure gas service to remaining customers, as the escalation in gas prices over the second half of the transition reaches unsustainable levels
- does not provide Evoenergy with incentives to make the efficient investments, and incur the efficient operating and maintenance expenditure, which are required to maintain safe and reliable services for its gas network during the transition
- does not provide a reasonable opportunity for Evoenergy to recover its past investment costs. The unsustainable rate of gas price escalation in the second half of the transition means there is a very real risk that Evoenergy would be unable to recover the full amount of depreciation allocated to the second half of the transition period (refer to section 4.3.4).

The use of economic lives aligned with the 2045 end date for the gas service, while necessary, is therefore not sufficient to promote the objectives and conform with the principles on which the regulatory framework is premised, or enable an equitable transition pathway for our community through to 2045.

4.3.2 Accelerated depreciation

We propose to accelerate the depreciation of past investment costs using a common accounting approach referred to as sum-of-years'-digits.[39]

To promote the long-term interests of consumers with respect to price and a reliable, safe and secure gas service, it is necessary to also change the timing profile of depreciation to enable a more stable price path and ensure equitable outcomes for all customers through to 2045.

Our proposed approach addresses the limitations of the straight-line depreciation method by more equitably sharing past investment costs across more customers earlier in the transition. Bringing forward (accelerating) the depreciation of past investment costs changes the timing profile for when costs are recovered; it does not change the total amount to be recovered over the asset life.

This approach of using the sum-of-years'-digits depreciation profile was adopted by the regulator in the United Kingdom (Ofgem) for depreciating gas distribution and transmission assets in the RIIO-2 final determinations.[40]

Figure 6 shows the timing profile for depreciation of past investment costs under our proposed sum-of-years'-digits method versus the straight-line depreciation method, both methods applying economic asset lives aligned to 2045.[41] Under the sum-of-years'-digits profile, the level of depreciation allocated to the:

- first half of the transition period is higher than under the straight-line profile
- second half of the transition period is lower than under the straight-line profile.

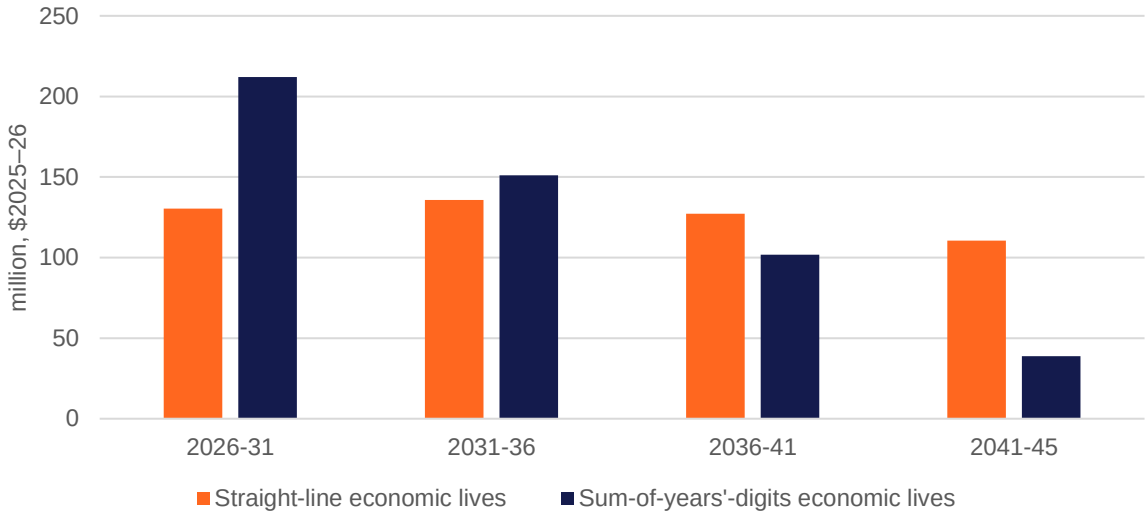
Total depreciation is the same under both methods, but with different timing of cost recovery, allowing for Net Present Value (NPV) neutrality over time.

[39] Sum-of-years'-digits depreciation is calculated by dividing the remaining useful life of the asset by the sum of the years of the asset's life. For example, consider an asset with an initial cost of $100 and a useful life of four years. The sum of the years for this asset is 1+2+3+4=10. Depreciation in the first year will be 4/10 * $100 or $40, depreciation in the second year will be 3/10 * $100 or $30, depreciation in the third year will be 2/10 or $20 and depreciation in the fourth and final year will be 1/10 or $10.

[40] Ofgem, Decision RIIO-2 Final Determination – Finance Annex (revised), 3 February 2021; Ofgem, Decision RIIO-3 Sector Specific Methodology Decision – Finance Annex, p. 168.

[41] Straight-line depreciation in this section refers to the flat profile of asset base recovery over economic asset lives.

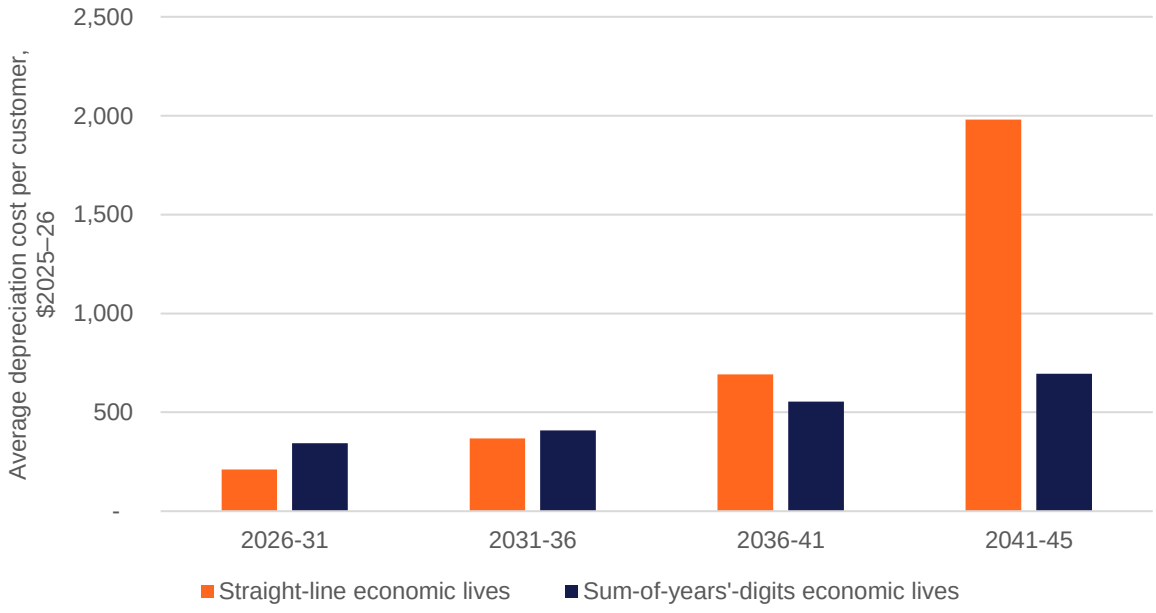
Figure 6 Depreciation timing using straight-line versus sum-of-years'-digits method, both methods applying economic asset lives aligned to 2045



Notes: Analysis based on economic asset lives aligned to 2045 for both depreciation methods.

Figure 7 shows the average depreciation per customer under our proposed sum-of-years'-digits method compared with the straight-line method, both methods applying economic asset lives to 2045. By bringing forward the depreciation of past investment costs while more customers remain on the network, the sum-of-years'-digits method promotes a more equitable sharing of past investment costs across customers, irrespective of when they leave the gas service. This is important given all customers – those that leave earlier or later – will benefit from emissions reduction and have all benefited from the provision of the gas service enabled by the past investment in the gas network made over the prior 43 years.

Figure 7 Depreciation per customer using straight-line versus sum-of-years'-digits methods, both methods applying economic asset lives to 2045



Notes: Analysis based on economic asset lives aligned to 2045 for both depreciation methods.

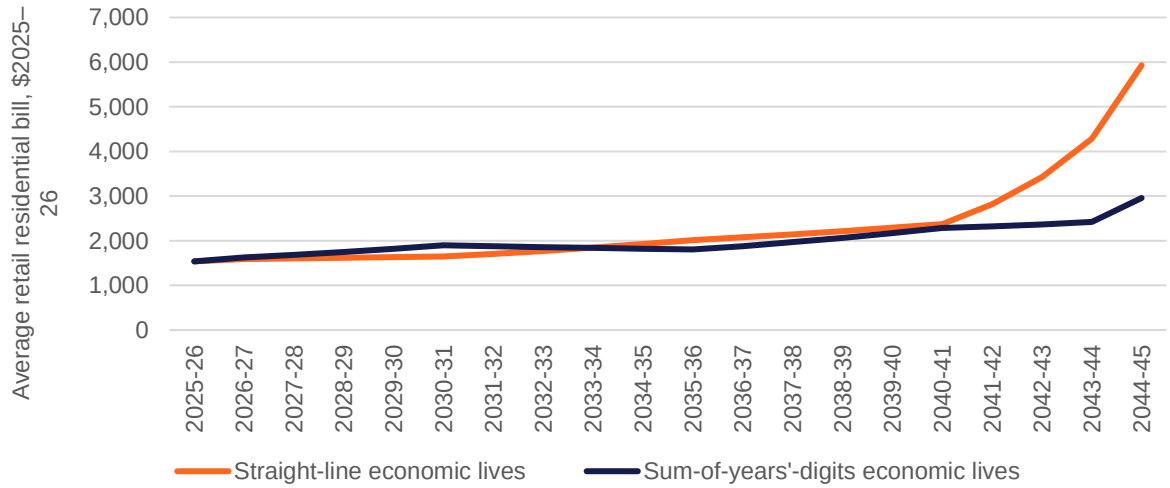
Figure 8 demonstrates that our proposed sum-of-years'-digits method, with economic asset lives aligned to 2045, enables steady and predictable gas price increases through to 2045, and materially reduces the otherwise significant price escalation in the second half of the transition under the current straight-line depreciation method. The material price difference between the two depreciation methods in the second half of the transition arises because under the:

- **sum-of-years'-digits method more depreciation is recovered earlier and shared across more customers**. This leaves relatively less depreciation to be recovered when there are fewer customers, enabling prices for remaining customers to predominantly reflect the ongoing expenditure to operate the network
- **straight-line depreciation method there is a large amount of depreciation to recover across a smaller customer base**, meaning prices for remaining customers reflect both the ongoing expenditure to operate the network and a relatively greater share of past investment costs.

Importantly, while reprofiling the depreciation enables a steady and stable price path through to 2045, it does result in relatively higher gas network price increases in the 2026–31 access arrangement period, compared with the straight-line depreciation method, where both methods apply economic asset lives to 2045.

Our community engagement considered the relative trade-offs between short- and long-term gas price impacts[42] and considered that the sum-of-years'-digits approach was more equitable for the community over the long term, while acknowledging concern for short-term impacts on low-income households.[43]

Figure 8 Indicative retail gas bill using straight-line versus sum-of-years'-digits method, both methods applying economic asset lives to 2045



Notes: Retail bill impacts reflect changes in distribution network charges and forecast ACT Government taxes and levies. All other components of the retail bill (gas transmission, wholesale gas and retail) are held constant. Retail bill impacts are calculated for an average residential customer using 27 GJ of gas per year. Changes in network charges are based on Evoenergy's demand forecast to 2045, Evoenergy's expenditure forecasts for the 2026–31 access arrangement period and placeholder expenditure forecasts thereafter, excluding future network decommissioning costs.

[42] Evoenergy Community Forum Presentations, session 9 available at: Gas network plan.
[43] Appendix 1.2: Communication Link, Report of feedback from community forum sessions 1-10, June 2025, p. 42.

By providing a stable and predictable price path over the long term to 2045, the sum-of-years'-digits accelerated depreciation method, with economic asset lives aligned to 2045, is the best method to enable gas customers to continue to have a safe, reliable and secure gas service for as long as they remain on the network, and that is available to them at a sustainable and efficient price.

The proposed sum-of-years'-digits depreciation method, with economic asset lives aligned to 2045, meets the regulatory framework requirements because it:

- **enables an equitable transition path for customers through to 2045**. By sharing past investment costs across more customers earlier in the transition (refer to Figures 6 and 7), the sum-of-years'-digits method reduces the risk of significantly rising prices for those customers who are least able to transition early (refer to Figure 8)
- **ensures gas prices vary over time through sustainable increases** over the long term to 2045 (refer to Figure 8). The approach promotes efficient (negative) growth in the market by signalling to customers the increasing cost of remaining on the gas network, enabling a steady and stable customer-led transition away from the gas service, while continuing to offer an efficiently priced service for those who cannot transition early[44]
- **leaves materially less of the past investment costs to be recovered when a smaller set of hard-to-transition customers are left to share these costs**, as well as the ongoing costs of maintaining and operating the gas network. This significantly improves the likelihood that Evoenergy's cash flow needs to deliver a safe, reliable and secure gas service can be met by remaining gas customers through the transition to 2045[45]
- **promotes long-term customer benefit** by enabling gas customers to continue to have a safe, reliable, and secure gas service for as long as they remain on the network, that is available to them at a sustainable and efficient price[46]

In addition, we observe that our proposed approach to regulatory depreciation alone may not be sufficient to enable Evoenergy to recover all of its efficient costs, as required under the National Gas Law[47] given Evoenergy still faces material risk of asset stranding as gas prices increase in the second half of the transition, and if gas demand falls faster than forecast. However, the proposed approach goes some way to enabling the recovery of efficient costs by enabling a sustainable gas network price path through to 2045 and avoiding the significant price escalation and resulting early customer exit, and/or potential policy-induced price capping, that would otherwise occur under the straight-line depreciation method (refer to section 4.3.4).

4.3.3 Impact of proposed approach over the 2026–31 access arrangement period

Figure 9 provides the breakdown and total value of regulatory depreciation under our proposed approach for the access arrangement period 2026–2031, based on applying economic asset lives to 2045 and accelerating depreciations using the sum-of-years'-digits method.

[44] In accordance with Rule 89(a).
[45] In accordance with Rule 89(e).
[46] In accordance with NGL section 23.
[47] In accordance with NGL section 24(2).

Figure 9 Impact on total depreciation of our proposed approach over the 2026–31 access arrangement period

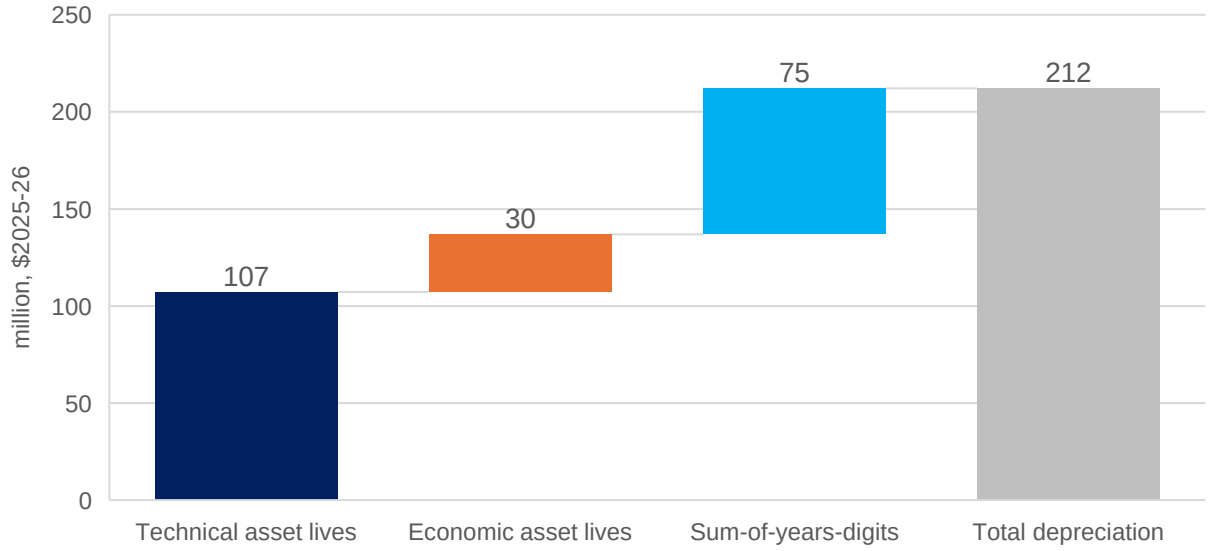


Table 1 provides the impact of our proposed depreciation approach on the CAB values at the beginning and end of the 2026–31 access arrangement period.

Table 1 Proposed CAB opening and closing values for the 2026–31 access arrangement period, $m 2025–26

	Opening value 1 July 2026	Closing value 30 June 2031
CAB	412	240

Table 2 provides the regulatory depreciation (depreciation less inflation on the opening CAB) value of our proposed approach in each year and in total for the 2026–31 access arrangement period.

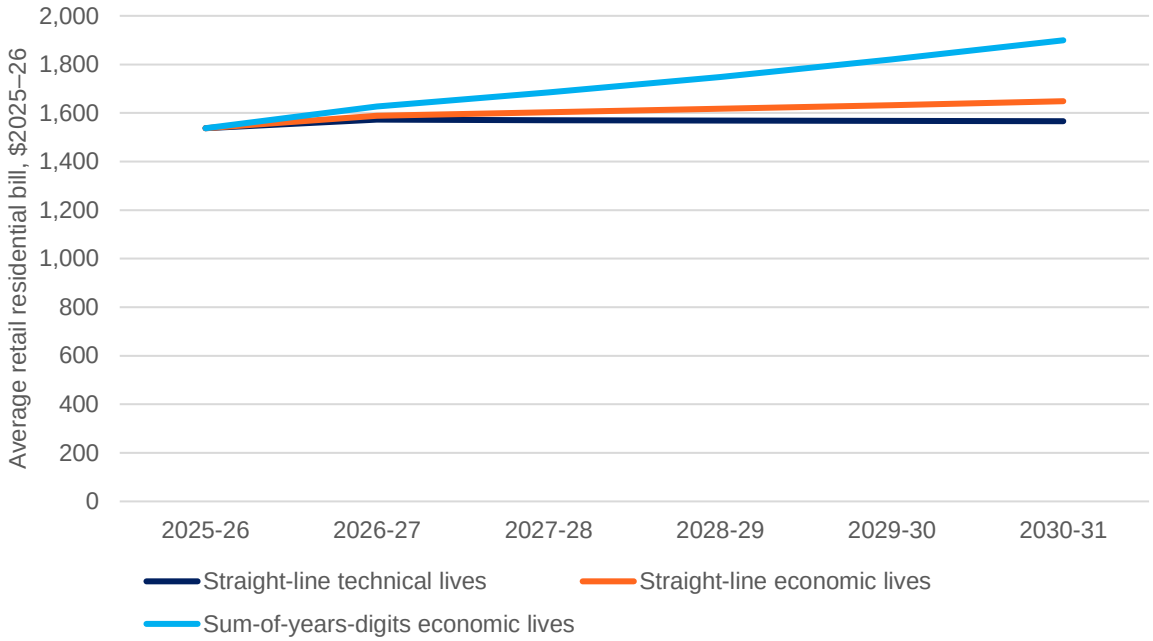
Table 2 Proposed regulatory depreciation, $m 2025–26

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Depreciation	42.2	42.7	43.1	42.1	42.0	212.1
Inflation on opening CAB	10.6	9.8	8.9	7.9	7.0	44.2
Regulatory depreciation	31.5	32.9	34.3	34.1	35.0	167.9

Refer to Attachment 5: Revenue requirement and prices.

The indicative impact on retail gas prices of our proposed depreciation approach, alongside other elements of our regulatory proposal, are shown in Figure 10.

Figure 10 Indicative retail gas bill over the access arrangement period 2026–2031 using different depreciation methods



Notes: Retail bill impacts reflect changes in distribution network charges and forecast ACT Government taxes and levies. All other components of the retail bill (gas transmission, wholesale gas and retail) are held constant. Retail bill impacts are calculated for an average residential customer using 27 GJ of gas per year. Changes in network charges are based on Evoenergy's demand and expenditure forecasts for 2026–31.

As discussed in section 4.3.2, while our proposed approach increases gas prices by materially more in the next five years compared with the current approach, taking this action now delivers long-term benefits to consumers with respect to price and a reliable, safe and secure gas supply.

In line with our community feedback to promote an equitable transition through to 2045, we consider it necessary to depreciate more of the past investment costs earlier to enable longer-term price path stability and predictability. Our proposed approach, while challenging for our customers in the short term, avoids leaving a disproportionate share of the costs and an unsustainable increase in gas prices for those customers least able to transition early.

The need to take action now to protect intergenerational equity is echoed by the United Kingdom energy network regulator Ofgem. For the upcoming RIIO-3 regulatory reviews for gas distribution networks, Ofgem has made the decision to accelerate depreciation for gas distribution and transmission companies in the context of the UK Government's net zero target date of 2050.[48] Ofgem states in its sector specific methodology decision:

> "We have decided to accelerate depreciation for gas network companies during RIIO-3. Our principal objective is to protect current and future consumers. While accelerated depreciation will lead to increased depreciation charges during RIIO-3, we consider that delay will worsen the problem as the consumer base decreases, which could result in a disproportionate risk of unsustainable increases in depreciation charges for future consumers. We also think that accelerating depreciation will provide confidence to network companies and investors that we are taking steps to mitigate the perceived asset stranding risks." [49]

[48] Ofgem Decision - RIIO-3 Sector Specific Methodology Decision – Overview Document, 18 July 2024, p. 34; Ofgem Decision - RIIO-3 Sector Specific Methodology Decision – Finance Annex, p.171
[49] Ofgem Decision - RIIO-3 Sector Specific Methodology Decision – Overview Document, 18 July 2024, p. 34

"Whilst accelerating depreciation during RIIO-3 will increase the depreciation charge within current consumer bills, this is expected to be offset by a lower depreciation charge in the future than currently forecast, with a fairer intergenerational distribution of this element of the network costs. Delaying a decision on accelerating depreciation has the possibility to worsen the problem, as the consumer base left to pay for the largely fixed cost of past investment in the network decreases." [50]

"… without pre-emptive mitigation, those consumers that continue to use the gas networks past the mid-2030s may face significant cost increases that do not reflect increases in usage or the total value that customers have gained from access to the gas networks over the preceding decades."[51]

"In addition, it may also be the case that a proportion of those who continue to use gas networks do so because switching is not feasibly available to them, or they cannot afford to do so. Constraints on consumers' ability to leave the gas network (and so avoid these rising costs) would raise further concerns about the fairness of cost allocation under these future scenarios."[52]

4.3.4 Asset stranding risk

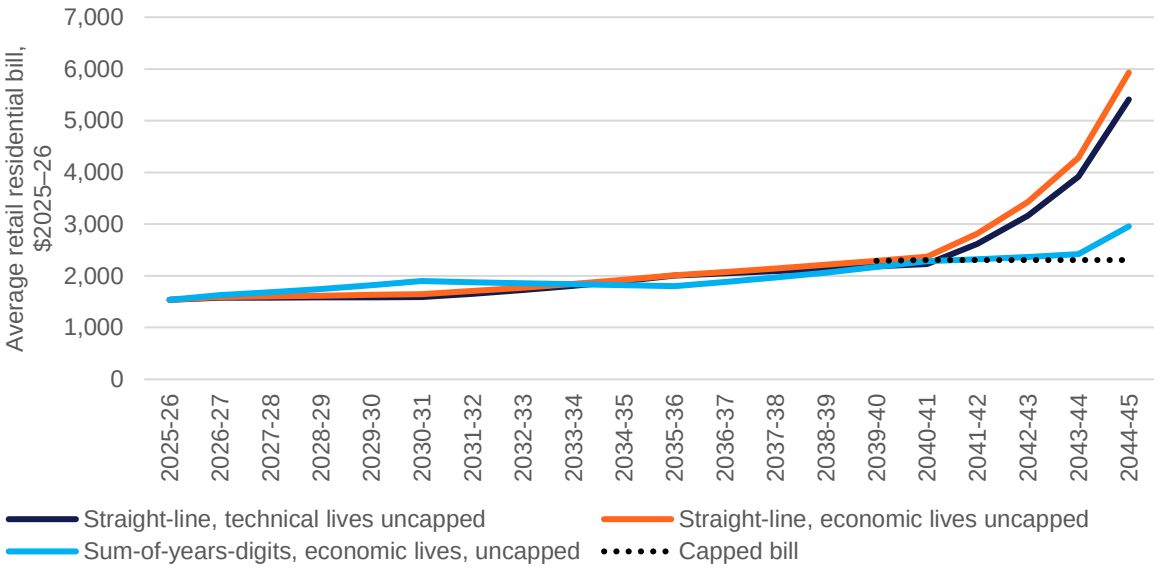
While the NGL provides that network service providers should be provided with a reasonable opportunity to recover efficient costs, given the uncertainty associated with the pace of the energy transition, the risk of under-recovering the value of past infrastructure investment costs (i.e. asset stranding) exists under all the depreciation methods discussed. We consider that the risk of asset stranding is reduced by using a method that brings forward recovery of the past investment costs while there are more customers to share these costs.

To illustrate the stranding risk under the alternative depreciation methods discussed, we have imposed a hypothetical policy-based cap[53] on price increases. The hypothetical cap is set to a 50 per cent real increase in the retail bill for an average residential customer relative to the 2025–26 retail bill. In other words, we allow network charges to increase to a level that results in a retail bill increase of 50 per cent in real terms, assuming no change to other components of the retail bill. After that, network charges are capped.

The capped versus uncapped retail bills are shown in Figure 11 and are developed on the basis of our proposed demand forecast to 2045. The 2025–26 retail bill for an average residential customer is $1,537. The hypothetical capped retail bill is 50 per cent higher at $2,307. All depreciation methods result in a retail bill that exceeds the hypothetical cap, but the sum-of-years'-digits depreciation method price is closest to the hypothetical cap.

[50] Ofgem Decision - RIIO-3 Sector Specific Methodology Decision – Finance Annex, 18 July 2024, p.171
[51] Ofgem Consultation, RIIO-3 Sector Specific Methodology Consultation – Finance Annex, p. 71.
[52] Ofgem Consultation, RIIO-3 Sector Specific Methodology Consultation – Finance Annex, p. 71.
[53] This hypothetical policy-based price cap has been applied for illustrative purposes only and should not in any way be considered indicative of customer price-demand elasticity or any government or regulatory policy position.

Figure 11 Average retail residential bill with and without capped network charges



Notes: Retail bill impacts reflect changes in distribution network charges and forecast ACT Government taxes and levies. All other components of the retail bill (gas transmission, wholesale gas and retail) are held constant. Retail bill impacts are calculated for an average residential customer using 27 GJ of gas per year. Changes in network charges are based on Evoenergy's demand forecast to 2045, Evoenergy's expenditure forecasts for the 2026–31 access arrangement period and placeholder expenditure forecasts thereafter, excluding future network decommissioning costs.

The resulting closing CAB for each depreciation method under the hypothetical capped network charges is shown in Figure 12. Straight-line depreciation using technical lives results in the highest level of asset stranding risk, while sum-of-years'-digits using economic asset lives minimises asset stranding risk. The analysis in Figure 12 is based on our proposed demand forecast to 2045.

Figure 12 Closing capital asset base with capped network charges

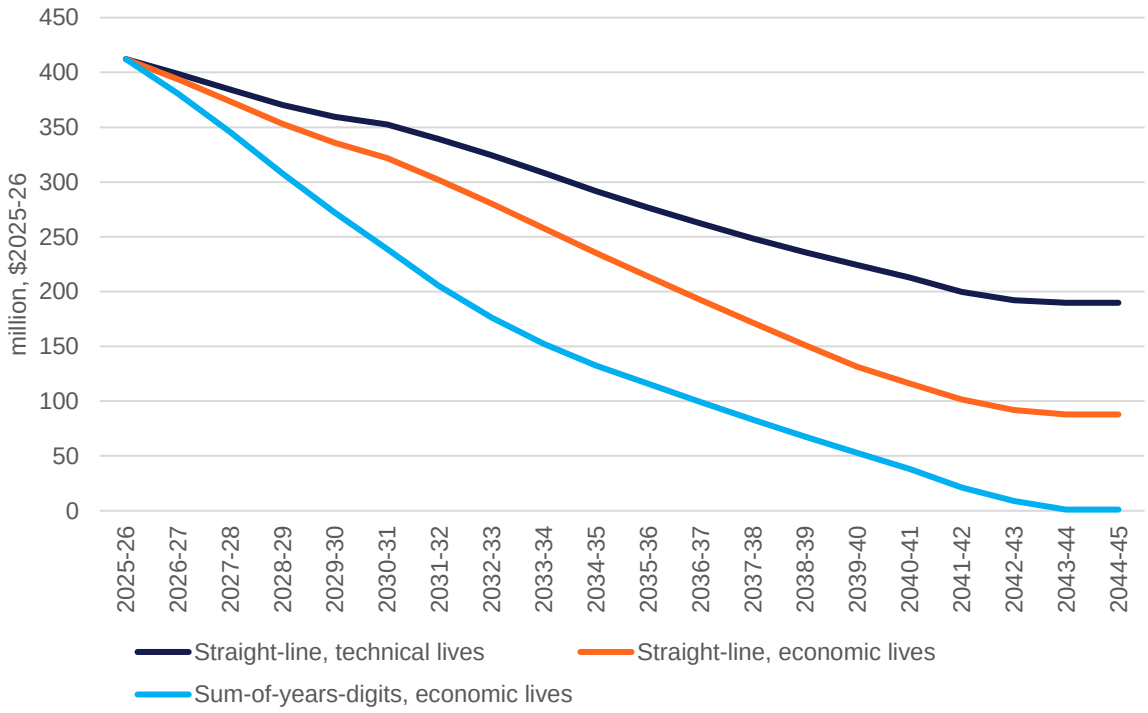


Table 3 provides the level of stranding risk under each depreciation method, based on our proposed demand forecast to 2045, and the hypothetical cap on network charges.

Table 3 Illustration of asset stranding risk under hypothetical cap on network charges

Depreciation method	Value of unrecovered CAB at 2045, $m	Unrecovered CAB as a % of 2026–27 opening value
Straight-line method, technical asset lives	$190	46%
Straight-line method, economic asset lives	$88	21%
Sum-of-years'-digits, economic asset lives	$1	0%

The sum-of-years'-digits method is therefore the only method that provides Evoenergy with a reasonable opportunity to recover its costs as contemplated by the regulatory framework.

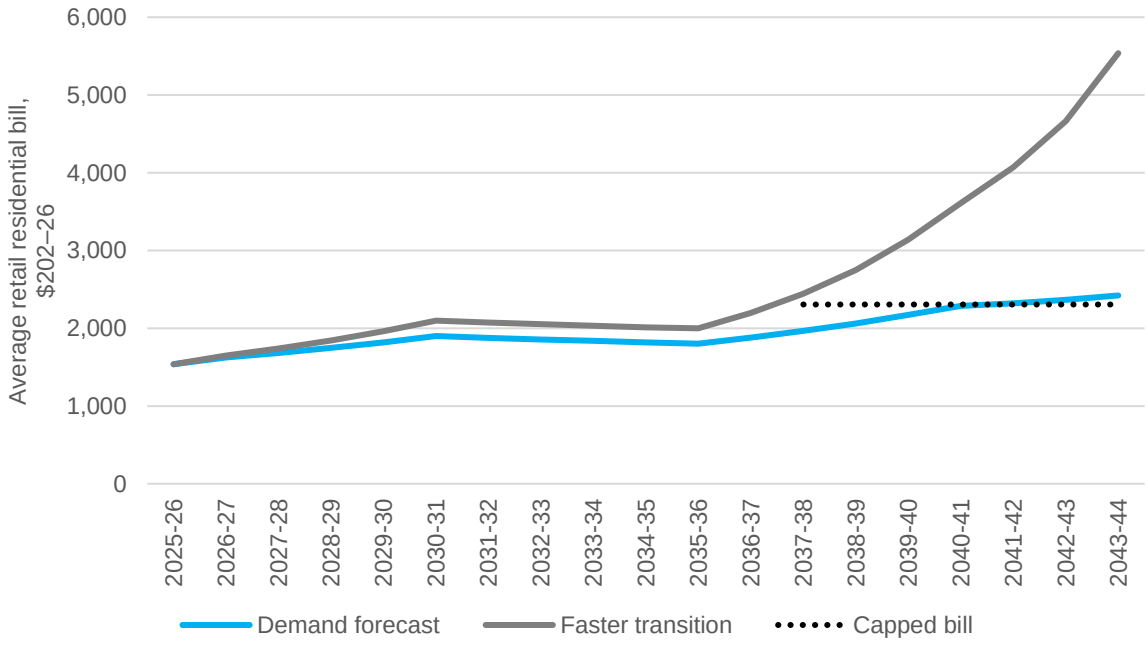
Notably, however, Evoenergy still faces a material risk of under-recovering past investments even under the proposed sum-of-years'-digits depreciation method. The sum-of-years'-digits method reflects the number of years left in the transition and is agnostic to the level of gas demand. If gas demand falls faster and consequently gas prices escalate more quickly, customers will exit the network earlier, and Evoenergy will not have sufficient time to fully recover its past investment costs.

Figures 13 and 14 provide an illustrative scenario of the asset stranding risk Evoenergy could face under the proposed sum-of-years'-digits method if gas demand falls faster than our demand

forecast to 2045. This faster transition scenario reflects the demand reduction required for the transition away from gas to progress in line with the ACT Government's interim emissions reduction targets on the journey to net zero by 2045. As shown, a faster transition would require gas prices to escalate more quickly as demand falls faster, leading to a real risk of unsustainable gas prices and more rapid exit by customers (who can). This leaves hard-to-transition customers with an uneconomic, unaffordable and potentially unviable gas service.

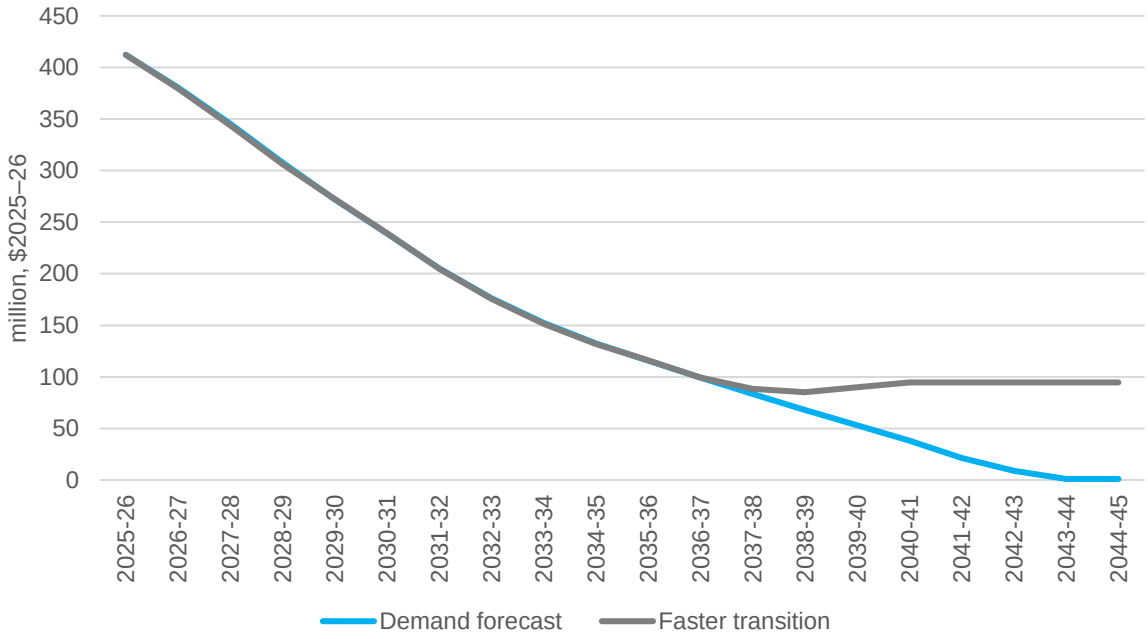
Applying the hypothetical 50 per cent cap on network charges relative to 2025–26 to this faster transition demand scenario results in Evoenergy under-recovering $95 million in past investment costs (23 per cent of the opening CAB in 2026–27).

Figure 13 Illustrative scenario of retail gas bills with a faster gas transition and sum-of-years'-digits depreciation method



Notes: Retail bill impacts reflect changes in distribution network charges and forecast ACT Government taxes and levies. All other components of the retail bill (gas transmission, wholesale gas and retail) are held constant. Retail bill impacts are calculated for an average residential customer using 27 GJ of gas per year. Changes in network charges are based on Evoenergy's expenditure forecasts for the 2026–31 access arrangement period and placeholder expenditure forecasts thereafter, excluding future network decommissioning costs.

Figure 14 Illustrative scenario of closing asset base with a faster gas transition and sum-of-years'-digits depreciation method



While we acknowledge the community and stakeholder feedback for Evoenergy to consider not fully recovering its costs, consistent with the revenue and pricing principles which the AER is required to take into account in making its decision,[54] we consider that Evoenergy should be given a reasonable opportunity to recover these costs. As demonstrated above, even under our proposed approach, Evoenergy faces a real risk of under-recovering a material proportion of its past investment costs depending on the pace of the transition.

A regulatory framework that denies Evoenergy a reasonable opportunity to achieve cost recovery would deter it from making the efficient investments, and incurring the efficient operating and maintenance expenditure, required to maintain safe and reliable services and could result in a deterioration of service quality to consumers. It would also necessitate an increase in the return required by investors, to compensate for the risk of their investments in regulated assets becoming stranded. This would raise the cost of supplying services and would ultimately result in consumers paying more. Neither of these outcomes are in the long-term interests of consumers.[55]

The regulatory framework is intended to replicate, through regulation, efficient outcomes that could be achieved in an effectively competitive market. Businesses operating in effectively competitive markets have the expectation of full cost recovery and can adjust their pricing and output accordingly. Average prices must deliver full cost recovery, inclusive of the cost of capital, in the long run if businesses in effectively competitive markets are to remain viable. Businesses in an effectively competitive market will not continue to incur capital and operating costs or provide pipeline services if prices are expected to fall below such a level on a sustained basis. Business owners would not continue to operate at a loss and it is illegal for companies in Australia to do so (i.e. while insolvent)[56]. While there are businesses in effectively competitive markets that do make losses from time to time, when this occurs on an ongoing basis, they can make the decision to shut down the business.

[54] NGL section 28(2).
[55] Frontier Economics 2022, Economic life for the purposes of setting the regulatory depreciation allowance, p.4.
[56] Corporations Act 2001, section 1.5.5, clause 5.3 Duties and liabilities of directors.

Evoenergy's expectations around cost recovery are no different to businesses operating in an effectively competitive market and are consistent with the rules that govern the regulatory framework. If we are to continue operating and to provide safe and reliable pipeline services for as long as customers remain on the gas network, it is reasonable to expect to continue to be given a reasonable opportunity to fully recover our costs, including our past investment costs.

Evoenergy recognises that achieving full cost recovery through the regulatory framework over the relatively short transition period set by the ACT Government has material implications for consumer gas bills. We are particularly concerned about the customer bill impacts in the second half of the transition period, when there is expected to be a significant reduction in the number of customers on the gas network. There is a real risk that customers who find it more difficult to transition could be left facing material price increases, even under the sum-of-years'-digits depreciation method.

We have therefore shared our stakeholder feedback with the ACT Government and are considering potential complementary approaches to recovering past investment costs. However, there are currently no measures available for recovering past infrastructure investment costs beyond the regulatory framework and, as it has conceded in allowing accelerated depreciation for gas distribution networks in other jurisdictions,[57] in these circumstances, the AER's decision on depreciation must abide by the current national gas regulatory framework. Our proposed approach therefore complies with the current regulatory framework and reflects the current options available to Evoenergy under this framework to recover investments made in providing essential services for the community.

Table 4 demonstrates how we have addressed the AER's expectations in relation to the asset stranding risk set out in its "Regulating gas pipelines under uncertainty information paper"[58] in this attachment.

Table 4 How Evoenergy has addressed the AER's expectations relating to asset stranding risk

AER expectation	Evoenergy response
Provide plausible future energy scenarios that cover a spectrum of outlooks from the most pessimistic to the most optimistic for their networks, and to: • estimate the likelihood (probability) of each scenario • demonstrate the magnitude of stranded asset risk and possible	The ACT Government has a defined plan for the phase out of the gas service by 2045, with phased decommissioning commencing from 2035 under the IEP.[59] The ACT Government does not foresee a role for green gas except potentially in niche applications where there is no alternative.[60] It would likely be uneconomic to operate the gas network for a small number of customers, i.e. niche applications or for NSW customers. Relative to our proposed demand forecast to 2045 (refer to Attachment 2), we have included the scenario where the demand for gas declines at a faster rate in line with the ACT

[57] AER, Final decision, Jemena Gas Networks (NSW) access arrangement 2025 to 2030, Attachment 4 – regulatory depreciation May 2025, p. 10.
[58] AER, Regulating gas pipelines under uncertainty, November 2021, p. 45, available on AER website.
[59] ACT Government, The Integrated Energy Plan 2024–2030: Our pathway to electrification, June 2024.
[60] ACT Government, The Integrated Energy Plan 2024–2030: Our pathway to electrification, June 2024.

AER expectation	Evoenergy response
divestment and investment plans under each scenario	Government's interim emissions targets through to net zero by 2045. The stranded asset risk associated with this faster transition scenario is set out in Figures 13 and 14.
Provide compelling evidence to identify the factors that influence the estimates of expected economic lives, such as applicable government policies, evidence of their customers' sentiments in switching away from gas, developments in competing technology, etc.	The ACT Government has legislated a net zero emissions target by 2045 and banned new gas connections from December 2023.[61] The ACT Government has also set out a clear three-phase pathway to transition customers from gas to electricity, commencing with a customer-led phase from 2024 to 2030, an acceleration through additional regulatory measures from 2031 to 2035, and phased decommissioning from 2035.[62] The ACT Government has a wide range of incentives and subsidies to encourage customers to electrify their household appliances. Attachment 2 sets out our demand forecasts, which reflect customer switching intentions derived from a sophisticated and robust choice modelling survey reflecting 1,900 residential customers, as well as interviews and surveys with commercial and industrial customers on their transition plans. The setting of a maximum remaining economic life for Evoenergy's gas assets of 2045 is, therefore, conservative, in that a number of those assets are likely to have a shorter maximum remaining economic life reflecting the ACTG's IEP for phased decommissioning of the gas network to commence from 2035.
Identify those assets that may be repurposed for transporting hydrogen and those that cannot	The ACT Government does not foresee a role for green gas except potentially in niche applications where there is no alternative.[63] It would likely be uneconomic to operate the gas network for a small number of customers, i.e. niche applications or for NSW customers only.
Identify those assets whose economic lives may need to be adjusted to reflect the potential decline in long-term demand	Under the ACT Government policy to decommission the gas service by 2045, all assets' economic lives will end by 2045 if not earlier. Evoenergy therefore proposes that maximum remaining economic lives for its gas assets be set by reference to the cessation of gas services in 2045. It may, however, be

[61] ACT, *Climate Change and Greenhouse Gas Reduction Act 2010* and ACT Government, Climate Change and Greenhouse Gas Reduction Amendment Regulation 2023.
[62] ACT Government, The Integrated Energy Plan 2024–2030: Our pathway to electrification, June 2024.
[63] ACT Government, The Integrated Energy Plan 2024–2030: Our pathway to electrification, June 2024.

AER expectation	Evoenergy response
	necessary to make further adjustments to the remaining economic lives for some or all of Evoenergy's gas assets in subsequent regulatory periods should the ACT policy direction evolve, as the sections of the gas network to be decommissioned prior to 2045 become known, or if customers reduce demand for gas more quickly than currently forecast. Refer to section 4.3.1. While 10% of Evoenergy's customer base is located in NSW, gas demand for our NSW customers is expected to follow a similar path to our ACT customers given the inter-dependency of the network configuration, the commercial and social connectedness, and the likelihood of it being uneconomic to service only our NSW customers as phased decommissioning of the network commences from 2035. Refer to section 4.2.
The value of stranded assets under the different forecasting scenarios	The stranded asset risk associated with a faster transition scenario that is required to achieve the ACT Government's interim emissions reduction targets is set out in Figures 13 and 14.
The costs that may be avoided or incurred in the different forecasting scenarios	We do not expect a material difference in costs under the faster transition scenario, given: • the predominantly fixed costs of operating the network irrespective of demand levels • the declining demand under all scenarios to zero by 2045 • the variance in demand compared with our proposed demand forecast is unlikely to be sufficient to materially impact costs until 2036.
The level of customer support for the business's proposed action to manage the risk and the quality of that customer engagement	Section 3 of this attachment sets out our customer engagement approach and outcomes. In summary, our customers support an equitable transition pathway that avoids leaving a disproportionate share of past investment costs to those customers least able to transition early. When considering options within the regulatory framework, customers supported our proposed approach to depreciation, taking into account the relative short-term and long-term forecast price impacts under different depreciation approaches.
Analysis of the price impact for the business's proposed action	Figures 8 and 10 provide the price path under our proposed approach relative to other depreciation approaches over the 2026–31 access arrangement period and through to 2045.

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
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.
ECRC	Energy Consumer Reference Council
Economic asset lives	The time over which an asset is expected to generate economic returns. In the ACT context, the maximum remaining period for the gas network assets to generate an economic return is 19 years until 2045.
ERAP	Energy Regulatory Advisory Panel
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
NGL	National Gas Law
NSW	New South Wales
Straight-line depreciation method	Where the asset is depreciated in equal amounts over the asset life
Sum-of-the-years'-digits depreciation method	Calculated by dividing the remaining useful life of an asset by the sum of the years of the asset's life
Technical asset lives	50 to 80 years for assets commissioned before 1 July 2021 and 30 to 50 years for assets commissioned from 1 July 2021
The Rules or Rules	National Gas Rules