evoenergy

Attachment 7: Transportation (and metering) reference service and tariffs

Access arrangement information

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

Submission to the Australian Energy Regulator

June 2025

Contents

List of tables

List of figures

1. Introduction

This attachment sets out Evoenergy's proposed gas transportation (including metering) reference service tariffs for the access arrangement (access arrangement) period 2026–31. It explains how our proposal reflects stakeholder engagement and complies with the National Gas Rules (NGR).

This attachment should be read in conjunction with:

- Attachment 9: Tariff variation mechanism, which sets out our approach to updating tariffs annually
- Attachment 8: Ancillary activities reference services and tariffs, which outlines our proposed ancillary service tariffs.

Unless otherwise stated, references to "tariffs" in this attachment refer to tariffs for the Transportation (including metering) reference service.

Our tariff proposal reflects the ACT's policy and customer context, including:

- the ACT Government's legislated emissions reduction targets and clear policy pathway to transition off natural gas
- our customers' nation-leading preference for electrification, and the accelerating pace of declining gas demand on our network (see Attachment 2: Demand forecasts)
- our community's values, including that tariffs should enable the ACT's transition off gas, while supporting affordability
- recent amendments to the National Gas Objective (NGO) to incorporate emissions reduction targets.

Informed by this context, community feedback, and regulatory requirements, our tariff approach aims to:

- **support affordability**, including for smaller customers and those least able to transition
- **better align price signals with emissions reduction goals**, particularly for larger gas users
- **set efficient prices** that support, but do not distort, the pace of transition off gas
- **ensure long-term stability and clarity through the ACT's transition**, with tariffs that are simple, durable, and cost-effective to administer.

These guiding principles, together with the requirements of the NGR, have informed our proposed tariffs for the 2026–31 access arrangement period, which are described in the sections below.

1.1 The Transportation (including metering) reference service

In November 2024, the AER approved Evoenergy's proposal to separate its single reference service into two distinct reference services: a Transportation (including metering) reference service and an Ancillary activities reference service.[1] This approach aligns with industry practice

[1] AER, Evoenergy's Reference Service Proposal 2026–31: Final Decision, November 2024 (available on AER website).

and reflects the diverging demand for these services over the 2026–31 access arrangement period and beyond.

The 2026–31 Transportation (including metering) reference service will provide a service for:

- the transportation and delivery of gas by Evoenergy through the Network to an eligible Delivery Point for use and consumption within the premises served by that Delivery Point
- metering-related services, including:
    - the provision, installation and maintenance of a standard metering installation at the Delivery Point
    - cyclical meter reading (not including special meter reads) and associated data activities as appropriate for the required capacity and planned meter reading frequency.

The access arrangement 2026–31 Transportation (including metering) reference service does not include ancillary activities.

1.2 Tariff classes and tariffs for 2026–31

In access arrangement 2026–31, Evoenergy proposes to retain the existing tariff classes and tariffs for its transportation (including metering) reference service. This approach builds on the significant tariff simplification achieved in access arrangement 2021–26.

As in the current 2021–26 access arrangement period, we propose to group our customers into two classes:

- demand class (for very large customers, generally using more than 10 TJ per annum)
- volume class (covering all other residential and commercial customers on the gas network).

Evoenergy also proposes to retain the current tariffs within each class, reflecting the effectiveness of the simplified structure in meeting customer and regulatory expectations.

1.2.1 Proposed flattening of the Volume Individual tariff in 2026–31

Following extensive community engagement and in light of strengthened emissions reduction policies, Evoenergy proposes a gradual flattening of its Volume Individual (VI) tariff during the 2026–31 access arrangement period.

The proposed change involves rebalancing the VI tariff's usage blocks by:

- **reducing the Block 1 charge** by a target level of approximately ten per cent in real terms by 2030–31
- **increasing charges for Blocks 2–4** by a commensurate amount, maintaining revenue neutrality.

Over time, this rebalancing will reduce the price gap between usage blocks, resulting in a flatter tariff structure that:

- improves affordability for smaller gas customers
- sends stronger emissions-related price signals to higher-usage customers

- preserves the simplicity and cost-reflectivity of the current design, which aligns with the fixed-cost nature of the gas network.

Evoenergy proposes to implement this change through its annual tariff variation process, allowing prices to remain responsive to factors such as gas demand, the Consumer Price Index (CPI), cost of debt, and government-imposed levies (see Attachment 9: Tariff variation mechanism). Our proposed approach to flatten the VI tariff is consistent with the National Gas Law (NGL) revenue and pricing principles in the context of a revenue cap tariff variation mechanism (TVM).

The proposed transition to a flatter tariff will apply to around 99.9 per cent of Evoenergy's gas customers, who are currently on the VI tariff.

1.2.2 Demand customer tariffs

Evoenergy proposes to retain the existing tariff structures for the demand class, which comprises approximately 40 of our largest gas customers.

The current Demand Capacity (DC) tariff is already relatively flat, reflecting network costs through capacity-based block charges and metering charges that vary by customer size and connection type. The Demand Throughput (DT) tariff includes a single usage rate and reflects a flat structure.

Maintaining the current tariff structure provides longer-term certainty for demand customers, who are generally less responsive to price signals and may face significant and unmanageable bill impacts from structural changes. Many of these customers, including large government users, already have their own emissions reduction targets and electrification plans. Our customer research found that, compared to smaller non-residential customers, demand tariff customers are much more likely to have formed an intention to completely disconnect from gas appliances by 2045.[2] However, their electrification decisions are typically driven by complex, site-specific feasibility considerations rather than tariff design (see Attachment 2: Demand forecasts).

Consistent with the 2021–26 access arrangement period, Evoenergy proposes to automatically reset chargeable demand for DC customers at the start of the 2026–31 access arrangement period where this would result in lower network charges. Ordinarily, such adjustments require a formal request under the access arrangement provisions. This proactive approach will enhance customer experience, reduce administrative burden, and ensure demand forecasts are appropriately recalibrated for the new regulatory period.

[2] CIE, Appendix 2.2: Price elasticity of demand for natural gas, June 2025, p. 32.

2. Overview of tariff reforms implemented in the current 2021–26 access arrangement period

During the 2021–26 access arrangement period, Evoenergy implemented significant tariff reforms to simplify and streamline its gas network pricing. These changes, which were supported by stakeholders and approved by the AER, included:

- **halving the number of tariff classes**: from 1 July 2021, Evoenergy consolidated its tariff classes into two groups (demand and volume) by removing sub-classifications that previously separated residential and business customers
- **reducing and rationalising tariffs**: the number of network tariffs was reduced from nine to four by removing legacy tariffs with low or no customer uptake (e.g. tariffs for small/medium business and gas heating)
- **simplifying demand customer processes**: Evoenergy amended its reference service agreement (RSA) to streamline the process for reducing chargeable demand, removing time and materiality thresholds that previously applied.

These reforms:

- reduced complexity and administrative costs for both Evoenergy and retailers
- improved alignment with retail offers, many of which did not reflect previous network tariff structures[3]
- supported customer understanding of tariffs.

Customers previously on obsolete tariffs (mainly commercial customers) were transitioned to the VI tariff, which now applies to almost all residential and commercial customers. This consolidation reflects the relatively small number of commercial customers on Evoenergy's network (around 3,000 in 2023–24, or less than two per cent of the total customer base).

The VI tariff's declining block structure directly supported Evoenergy's tariff consolidation by accommodating a wide range of usage levels within a single tariff, ranging from under 3.75 GJ/quarter (Block 1) to over 180 GJ/quarter (Block 4). This structure enables differentiated, cost-reflective pricing within a single, unified tariff that eliminates the need for separate residential and business tariffs.

A key advantage of the simple, consolidated structure of the VI tariff is that it is generally passed through by major gas retailers. Not only does this support customers being able to respond to network price signals, but it also makes it easier for customers to compare retail offers, since they generally follow the same structure.

The tariff reforms in the 2021–26 access arrangement period have laid the foundation for Evoenergy's proposed tariffs for the 2026–31 access arrangement period. This includes Evoenergy's proposal to gradually transition to a flatter VI tariff (described in section 4) that is

[3] This was at least partly due to the absence of broader market systems to support multiple tariffs. For example, there is no gas equivalent of MSATs, which enables electricity retailers to identify what network tariffs to apply to a site.

consistent with the ACT Government's emission reduction targets and manages price and revenue risks in conjunction with our proposed revenue cap TVM.

3. Evoenergy's proposed tariff structure and charge components (2026–31)

Evoenergy proposes to retain its current tariff classes and tariffs for the 2026–31 access arrangement period, building on the simplification achieved in 2021–26 (see section 2).

A customer's Delivery Point will be assigned to a tariff based on:

- the applicable tariff class
- the relevant tariff category within the class.

3.1 Tariff classes

A customer's Delivery Point will continue to be assigned to a tariff class based on the characteristics of the energy requirements at the Delivery Point:

- **demand class**, which is available to a single business end-customer who is reasonably expected to use equal to or more than 10 TJ of gas per year at their Delivery Point. These customers will need to provide Evoenergy with emergency load management (ELMS) information before they can be eligible for the demand tariffs, given the large impacts they may have on the network
- **volume class**, which is available to a customer who does not satisfy the criteria for a demand tariff and who is:
    - a single residential customer who uses gas at the Delivery Point
    - a single business customer who uses gas at the Delivery Point, or
    - a single customer who on-supplies gas or hot water to end-customers at the Delivery Point.

3.2 Tariffs

Evoenergy proposes to retain the existing four tariffs within the volume and demand classes.

A customer (through their retailer) may request to be assigned to a tariff based on the criteria set out in Table 1. Evoenergy recognises that customers differ in how they use gas at a Delivery Point. To support our pricing objectives (section 6.4), the tariff assignment criteria ensure that similar customers pay similar prices that reflect the costs they impose on the network.

Table 1 Evoenergy's 2026–31 tariff categories

Tariff category	Type of customer
Volume Individual (VI)	End-customers who have individual gas meters and use only small quantities of gas at the Delivery Point. These include both residential and commercial customers.
Volume Boundary (VB)	End-customers in multi-occupancy dwellings or commercial complexes, such as shopping centres, that are supplied gas for their gas appliances, gas hot water, or applications by an energy intermediary that sits between the boundary meter and end-customers.
Demand Capacity (DC)	Major customers who are reasonably expected to use equal to or more than 10 TJ of gas per year, and are charged based on their chargeable demand.
Demand Throughput (DT)	Major customers who are reasonably expected to use equal to or more than 10 TJ of gas per year, and are charged based on their throughput.

The corresponding 2026–31 tariff structure and charge components are set out in Table 2.

Table 2 Evoenergy's 2026–31 tariff structure and charge components

Reference service	
Transportation (and metering) reference service	
Tariff class	
Volume (V)	Demand (D)
Tariff categories	
Volume Individual (VI) • One fixed charge • Four usage block sizes **Volume Boundary (VB)** • One fixed charge • Three usage block sizes	**Demand Capacity (DC)** • One fixed charge • Three capacity usage block sizes **Demand Throughput (DT)** • One fixed charge • One usage charge

3.2.1 Demand capacity

Most demand customers are charged based on their "chargeable demand" – a measure of the network capacity they require. Chargeable demand is calculated as the highest of:

- the ninth highest daily withdrawal in the previous 12 months
- ten times the maximum hourly quantity (MHQ)
- the maximum daily quantity (MDQ).

To ensure that customers pay for the network capacity they use, chargeable demand is automatically adjusted upwards if a customer's capacity increases. Customers may also request a reduction in their chargeable demand if their capacity declines due to operational changes. Evoenergy also proposes, as in the current 2021–26 access arrangement period, to automatically reset chargeable demand at the start of the 2026–31 access arrangement period where this would reduce network charges.

At the start of the period, on 1 July 2026, and if it results in lower network charges, Evoenergy will reduce a customer's chargeable demand to the highest of:

- their ninth highest daily withdrawal between 1 July 2025 and 30 June 2026
- ten times their MHQ on 30 June 2026
- the MDQ on 30 June 2026.

Evoenergy also proposes to maintain simplified provisions in the RSA that allow demand customers to apply for capacity reductions where they have undertaken equipment or process changes. This approach supports emissions reduction and encourages efficient reductions in capacity, consistent with ACT Government policy and the amended NGO (see section 6.1).

4. A gradual and measured transition to a flatter volume tariff

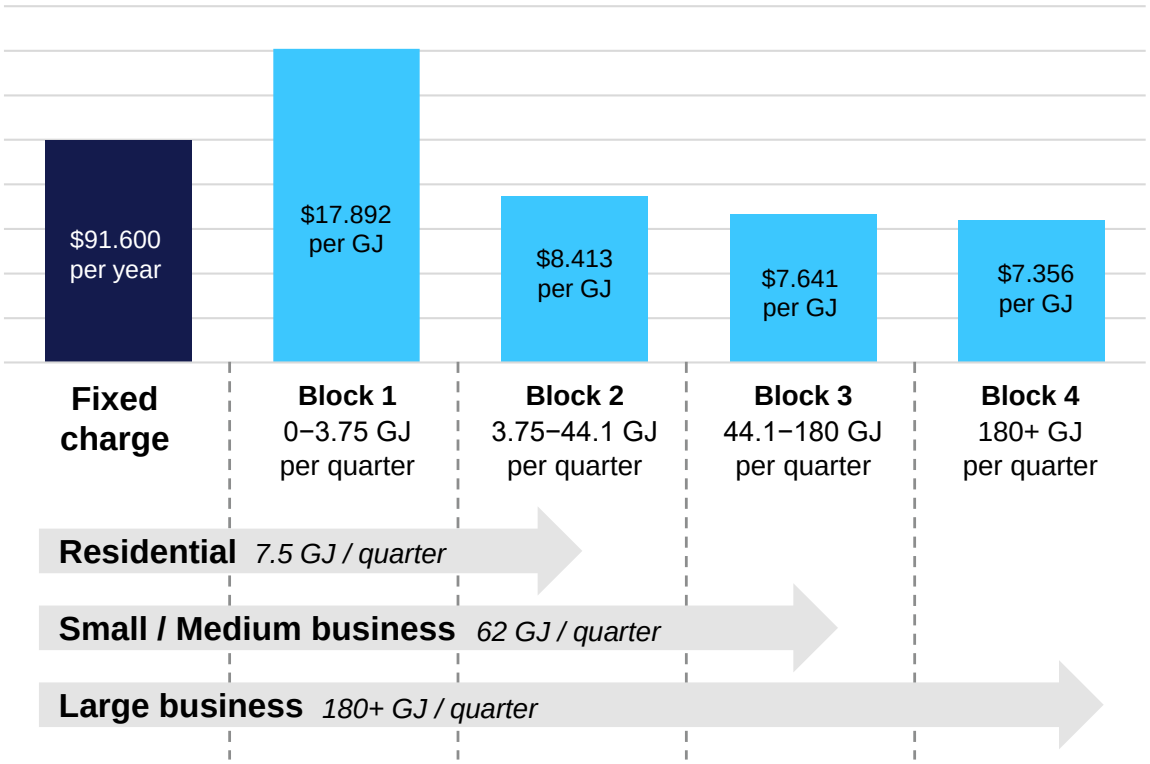
Evoenergy proposes to gradually flatten the VI tariff during the 2026–31 access arrangement period. This reform responds to evolving ACT Government policy, stakeholder feedback, and the need to align network price signals with emissions reduction objectives while maintaining fairness, efficiency and price stability.

This section explains the current structure of our VI tariff, our proposal to flatten the tariff, and the factors that have influenced our proposal. Section 6 describes the broader regulatory requirements, efficiency objectives, and price-setting principles that we have applied in developing our tariff proposal. We will continue to be guided by these factors as we set prices each year in the 2026–31 access arrangement period.

4.1 Current VI tariff structure

The VI tariff applies to nearly all of Evoenergy's around 150,000 gas customers. Its current design reflects the diversity of customer usage profiles on the tariff, encompassing both residential and commercial customers of varying sizes. The current structure and price levels for the VI tariff are shown in Figure 1.

Figure 1 Volume individual tariff (2025–26 price levels)



The structure includes:

- **a fixed charge**, payable by all connected customers, which recovers a portion of Evoenergy's largely fixed network costs. It currently represents around 21 per cent of an

average residential gas network bill (27 GJ/year) and around six per cent for a typical commercial customer (160 GJ/year)

- **declining block usage charges**, where the per-GJ rate decreases with higher consumption:
    - **Block 1**: Covers the first 3.75 GJ/quarter and is priced significantly higher than subsequent blocks (more than double the Block 2 rate)
    - **Blocks 2–4**: Apply to higher usage and are priced at lower rates, with a relatively flat structure. These blocks generally reflect residential space heating (Block 2), small to medium business usage (Block 3), and larger commercial usage (Block 4).

The current structure serves several purposes, explained in the sections below. However, in the current context of a legislated phase-out of gas, this structure increasingly misaligns with emissions reduction objectives.

4.1.1 Economic efficiency and the fixed cost nature of gas distribution services

The structure of the VI tariff reflects the fact that the costs of operating a gas distribution network are largely fixed and do not vary materially with customer usage. These include capital costs associated with the existing infrastructure, ongoing maintenance, metering, and network operation.

To reflect this cost structure, the VI tariff incorporates:

- **a fixed charge**, payable by all connected customers regardless of usage
- **a relatively high Block 1 charge**, applied to the first 3.75 GJ of gas consumed each quarter.

The Block 1 charge effectively acts as a second fixed charge, ensuring all consuming customers make a meaningful contribution to recovering fixed network costs, even if their total usage is low. This design recognises that simply being connected imposes ongoing costs on the network, such as maintaining the connection and servicing the meter.

Beyond Block 1, the VI tariff applies progressively lower per-unit charges in Blocks 2–4. This declining block structure reflects the fact that higher levels of usage do not significantly increase network costs. The marginal cost of transporting an additional GJ of gas is low, especially in a network that is not capacity-constrained. Through Blocks 2–4, larger customers make a declining marginal contribution to Evoenergy's fixed costs over incrementally higher levels of gas usage.

In this way, the VI tariff achieves:

- **cost reflectivity**, by aligning charges with the underlying cost structure of the network
- **economic efficiency**, by signalling that larger volumes of gas use impose relatively little additional cost on the network.

However, as demand declines, supported by emissions reduction targets and incentives, this structure increasingly results in weaker price signals for larger users and relatively higher cost recovery from smaller users. This underpins the rationale for our proposed tariff flattening

(discussed in section 4.2), consistent with the revised NGO and ACT Government emissions reduction policies.

4.1.2 A simple, unified tariff catering to nearly all residential and commercial customers

Evoenergy's VI tariff is intentionally designed as a single, unified tariff that applies to both residential and commercial customers of varying sizes. This approach reflects the unique characteristics of the ACT and Queanbeyan-Palerang gas network, where the proportion and absolute number of commercial customers are relatively low compared to other gas distribution networks.

During the 2021–26 access arrangement period, Evoenergy removed several underutilised tariffs previously available to specific customer segments, such as business customers. These reforms reduced complexity and addressed retailer feedback that many network tariffs were not reflected in retail offerings. As a result, nearly all residential and commercial customers are now assigned to the VI tariff.

The block structure of the VI tariff allows it to cater to the full spectrum of residential and commercial usage levels within a single design. For example:

- Block 1 generally captures usage from small residential customers
- Block 2 includes medium residential usage, often related to winter heating
- Blocks 3 and 4 accommodate larger commercial users.

This structure provides two key benefits:

a. **cost-reflectivity and efficiency**: customers pay marginal prices that reflect their usage and the costs they impose on the network. The declining block structure recognises that additional usage places little additional cost on a network with no capacity constraints

b. **administrative simplicity**: a single tariff reduces the need to design, administer, and explain multiple pricing structures. It also increases the likelihood that retailers adopt and pass through the network tariff, improving transparency and simplicity for end-customers.

This simple, scalable approach helps Evoenergy manage diverse usage levels across the customer base while keeping the tariff easy to understand and implement. For example, the structure provides levers for Evoenergy to adjust prices in response to usage changes within particular blocks, helping keep network bills smoother over time. These attributes are particularly valuable as the network enters a long-term period of declining demand, and the pace for transitioning off gas will differ across customer types.

4.1.3 Supporting fairness, bill stability and our customers' preferences

While Evoenergy's network costs are largely fixed, our customers have expressed a preference for usage-based pricing and lower fixed charges, particularly to support affordability for small or vulnerable users.

The VI tariff balances these objectives by:

- recovering fixed costs through a fixed charge, a high Block 1 charge (payable only when gas is consumed), and to a lesser extent Blocks 2–4
- maintaining a declining block structure that allows customers to influence their bills through consumption choices.

This structure also helps manage seasonal bill variability. Many residential customers reach Block 2 during the winter months for space heating. By setting a lower rate for Block 2, the tariff reduces winter bill spikes and improves bill stability over the year.

In this way, the VI tariff supports fairness, aligns with customer preferences, and provides smoother network bills as our customers navigate their transition away from gas.

4.1.4 Historically, growing network utilisation for the benefit of customers and the network

The VI tariff's declining block structure has historically supported network utilisation and growth at times when demand was still increasing. This was enabled by a price-cap regulatory framework, where both customers and Evoenergy benefited from increased network utilisation.

As gas was typically a secondary energy source competing with electricity, lower marginal charges in Blocks 2–4 encouraged residential customers to add gas heating and other appliances, and business customers were incentivised to scale up their gas usage.

This growth helped reduce average network bills by spreading fixed costs across a larger customer base. It also aligned with incentives under a price-cap to outperform demand forecasts and retain additional revenue.

However, with ACT Government policy targeting a phase-out of gas by 2045, these growth incentives are no longer appropriate and are inconsistent with ACT regulations banning new gas connections. To ensure consistency with the NGL revenue and pricing principles, and improve alignment with emissions reduction policies, Evoenergy is proposing to shift to a revenue cap TVM (Attachment 9: Tariff variation mechanism) and a flatter VI tariff.

4.2 A flatter VI tariff in 2026–31

Evoenergy proposes to progressively flatten its VI tariff over the 2026–31 access arrangement period, in response to community feedback and the ACT Government's clear policy direction to phase out natural gas by 2045.

Stakeholder engagement (see section 5) showed general support for a flatter VI tariff, noting that:

- the current declining block structure does not effectively signal emissions reduction priorities, particularly for higher-use customers
- the relatively high Block 1 and fixed charges affect affordability for smaller customers, including those least able to transition off gas.

However, stakeholders also raised concerns about the potential impacts of a flatter tariff structure. These included:

- the risk that higher usage charges could accelerate the exit of larger customers, placing greater cost pressure on those remaining
- that residential customers who rely on gas for winter space heating may face higher bills

- that shifting more revenue recovery to usage charges could increase price and revenue variability, particularly as demand forecasting has become more challenging in the ACT context.

4.2.1 Our proposal

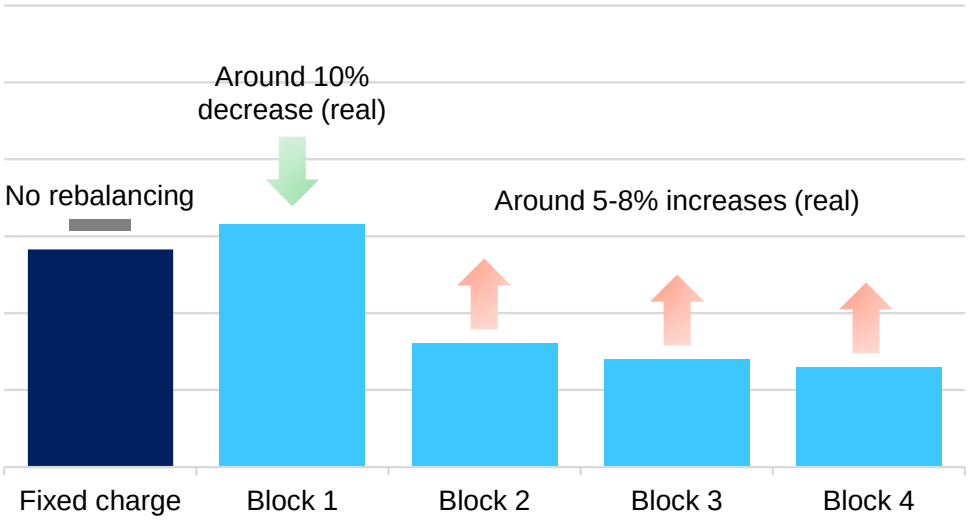
Our proposed approach seeks to balance the benefits and risks of flatter tariffs. We recognise that our VI tariff has the advantage of being simple and efficient (see section 4.1). However, we also acknowledge that changes are needed so the tariff better aligns with the ACT's transition away from gas while maintaining compliance with the NGL and NGR. To deliver a balanced outcome, Evoenergy proposes:

- targeting a reduction in Block 1 of approximately ten per cent (in real terms) by 2030–31
- corresponding increases to Blocks 2–4 (approximately five to eight per cent in real terms), to counterbalance the lower Block 1.

The proposed flattening of the VI tariff is illustrated in Figure 2.

Our proposed tariff flattening does not change the total revenue we collect from customers. Under our proposed revenue-cap framework (Attachment 9: Tariff variation mechanism), Evoenergy can recover from customers only the efficient costs approved by the AER, no more and no less, regardless of outturn demand. Rather, our proposed changes relate to the balance of revenue recovery across VI tariff charges, which in turn affects how different types of customers contribute to Evoenergy's predominantly fixed costs. To maintain revenue neutrality, decreasing Block 1 requires increasing Blocks 2–4, as shown in Figure 2.

Figure 2 Illustration of our proposed flattening of the VI tariff



Note: Final price levels will be determined through annual tariff variations, approved by the AER each year in the 2026–31 access arrangement period.

To manage customer impacts, we propose to implement this flattening gradually and incrementally over the five-year access arrangement period through Evoenergy's annual tariff variation process (see Attachment 9: Tariff variation mechanism). Table 3 shows indicative network bill impacts for different customer types in 2030–31, once the target level of flattening is achieved.

Table 3 Indicative annual network bill impacts of tariff flattening in 2030–31 ($real 2025–26)

Indicative annual network bill 2030–31	Small residential (7 GJ per annum)	Average residential (27 GJ per annum)	Typical commercial (160 GJ per annum)
Current structure	$369	$757	$2,645
Proposed flatter structure	$347	$732	$2,749
Difference	-$21 (-6%)	-$26 (-3%)	+$104 (+4%)

Note: Indicative bill impacts exclude inflation and government taxes and levies. Final price levels will be determined through annual tariff variation notices, subject to AER approval. Tariff flattening will be applied gradually during the 2026–31 access arrangement period. Bill impacts are shown for the final year of the period (2030–31), having achieved the target level of flattening. Bill impacts are rounded to the nearest dollar.

While prices for all gas customers will rise during the 2026–31 access arrangement period, our approach will reduce price increases for smaller gas customers who consume primarily in Block 1. Conversely, larger gas users will see higher price increases, better aligning with emissions reduction objectives under ACT Government policy.

For a small residential gas customer using 7 GJ per year, we estimate gas network bills to increase by an average of 9.9 per cent per year during 2026–31 (excluding inflation and government taxes and levies). Larger customers will see higher bill increases, with a typical commercial customer (160 GJ per year) expected to have annual increases of 12.0 per cent on average during 2026–31. The bill impacts of our access arrangement proposal are detailed in Attachment 5: Revenue requirement and Price Impacts.

Implementing tariff flattening through our annual tariff variation process

Tariff flattening will be implemented incrementally through Evoenergy's annual tariff variation process, as set out in Attachment 9: Tariff variation mechanism. Each year, Evoenergy will submit its proposed tariffs to the AER for approval and will set prices consistent with the proposed revenue cap TVM.

Our proposed TVM includes:

- an annual cap on total revenue, ensuring customers pay no more and no less than the efficient network costs approved by the AER, regardless of outturn demand
- adjustments for inflation, cost of debt, and government taxes and levies
- an unders/overs account with a rolling three-year update to smooth prices over time.

Final price levels for the VI tariff, including rebalanced block charges, will be determined annually based on these parameters. This approach ensures that tariffs remain responsive to changes in gas demand and market factors, while enabling Evoenergy to smooth bill impacts and manage price variability over time.

We will report on our progress toward flattening the VI tariff each year as part of our annual tariff variation submissions to the AER.

4.2.2 Managing the risks of flatter tariffs

While a flatter VI tariff supports emissions reduction objectives and improves affordability for smaller users, Evoenergy recognises that it also introduces a number of risks. Our proposal adopts a measured and gradual approach to flattening, designed to balance competing considerations and manage customer impacts over time.

Key risks identified through our analysis and stakeholder engagement include:

- **bill impacts on larger users** – increasing charges for Blocks 2–4 could raise costs for larger commercial users as well as residential customers who rely on gas for space heating. This may accelerate exit from the network and shift more fixed cost recovery to the remaining, smaller customers
- **impacts on vulnerable customers** – some vulnerable customers use more gas than average and may face higher bills from increased Block 2 charges despite being less able to transition to electric alternatives
- **loss of existing benefits** – the current VI tariff structure is simple, well understood, and widely adopted by retailers. Significant structural changes could undermine these benefits, increase administrative burden, or reduce customer clarity
- **increased price and revenue variability** – shifting more revenue recovery to Blocks 2-4 increases exposure to more uncertain and fluctuating levels of demand (discussed below). This can lead to more variable revenues and prices year to year and increase revenue recovery risk under a price cap or hybrid TVM.

Some members of our community forum suggested that Evoenergy should go further in flattening the VI tariff or reducing fixed charges. Others proposed new block structures to better support small users. While we considered these options, we are mindful of the trade-offs involved and the potential for unintended consequences.

As a result, Evoenergy has proposed a moderate level of flattening, targeting a ten per cent real reduction in Block 1 by 2030–31, with corresponding increases in Blocks 2–4. This preserves the structure of the VI tariff while gradually adjusting price signals in line with community preferences and ACT Government policy objectives.

We will continue to monitor customer behaviour, demand trends, and tariff impacts during the 2026–31 access arrangement period, and consider further adjustments in future regulatory periods if warranted.

Price and revenue variability under uncertain and declining demand

A key priority identified by our customers is ensuring that gas prices remain fair and stable. Specifically, that customers pay no more and no less than needed for safe and reliable gas distribution services. To support this in our unique operating context, Evoenergy is proposing a revenue-cap form of control for the 2026–31 access arrangement period, which protects customers by limiting total revenue to that approved by the AER (see Attachment 9: Tariff variation mechanism).

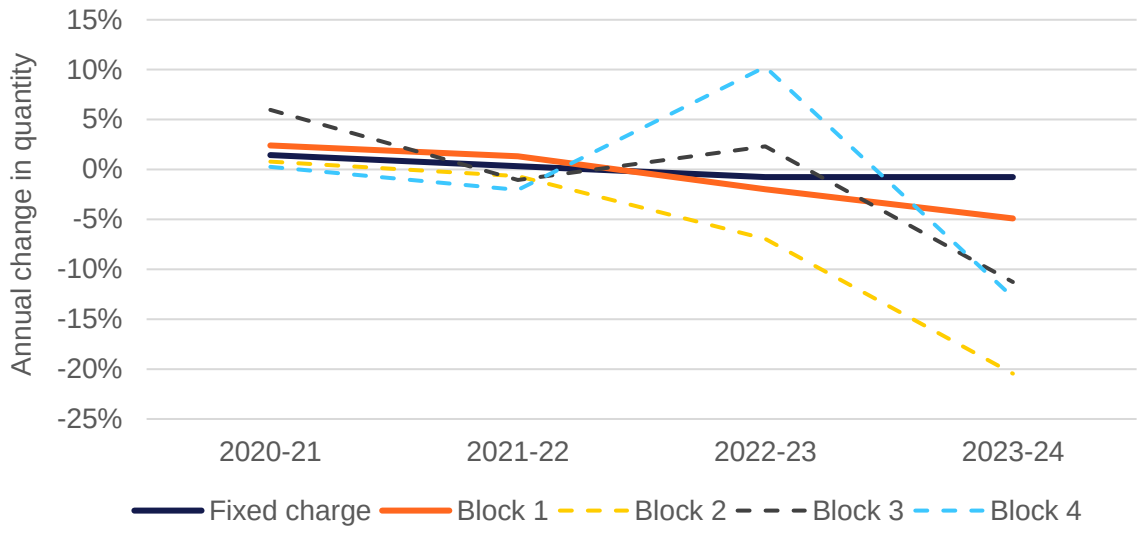
However, tariff design also affects how stable prices are over time. Flattening the VI tariff increases the proportion of revenue recovered from Blocks 2–4, which are:

- more variable year to year, particularly due to weather and progressive electrification of heating loads
- declining more rapidly, as customers transition larger appliances off gas.

In contrast, the fixed charge and Block 1 have historically been the most stable and predictable components of the VI tariff.

As shown in Figure 3, demand in Blocks 2–4 has exhibited greater annual variability and, more recently, sharper declines. This reflects the sensitivity of these blocks to winter heating loads, appliance replacement trends, and the ageing stock of gas heaters in the ACT, which is a trigger for our customers' electrification decisions (see Attachment 2: Demand forecasts).

Figure 3 Stabillity of VI tariff fixed and block charges over time (annual per cent change)



Source: Evoenergy analysis of demand data.

Based on these trends, and with a flatter tariff structure, demand variability increasingly heightens the risk of under- or over-recovery of revenue in a given year.

Under a price cap or hybrid TVM, the same demand variability results in over- or undercharging customers, undermining the highest priority identified by our community forum: paying no more and no less than Evoenergy's efficient costs.

Evoenergy's proposed gradual flattening of the VI tariff mitigates these risks by moderating the shift away from more stable charges, applying flattening incrementally over the 2026–31 access arrangement period, and preserving the current VI tariff structure. Achieving this through our annual tariff variation notices allows us to be responsive to changes in block-level demand and smooth customer bill impacts over time.

Our gradual and measured approach allows Evoenergy to align price signals with policy objectives while managing the price variability risks associated with declining and uncertain demand outcomes that will be influenced by ACT Government policy.

In addition to gradual and measured tariff flattening, Evoenergy's proposed revenue cap design embeds a range of regulatory tools to minimise price variability and smooth prices equitably throughout the ACT's energy transition, including:

- an unders and overs mechanism that implicitly smooths prices through gradual updates covering a rolling three-year window
- aligning regulatory approaches with the electricity network to support price hedging of total energy bills
- increasing the accuracy of forecasts for ACT Government taxes and levies
- robust and reasonable demand forecasts for our gas network
- a side constraint to prevent large revenue adjustments across tariff classes (see Attachment 9: Tariff variation mechanism for details).

4.3 Consideration of the demand class and volume boundary tariff

While Evoenergy's proposal to flatten the VI tariff will apply to approximately 99.9% of our gas customers, we are not proposing changes to the demand or VB tariffs during the 2026–31 access arrangement period. This reflects the specific characteristics of these tariffs and the relatively small number of customers they serve.

4.3.1 Demand class

The demand class includes approximately 40 of Evoenergy's largest customers, many of whom are government or large commercial entities. Evoenergy recognises that demand customers make a valuable contribution to network utilisation and sharing in the network's fixed costs.

Our demand tariffs are already comparatively flat and highly cost-reflective, including:

- a DT tariff, with a single consumption rate
- a DC tariff, with a declining block structure comprising three relatively flat blocks[4]
- metering charges vary based on customer size and connection characteristics.

Our demand customers are diverse, often using gas to operate specialised equipment, and facing complex, site-specific electrification challenges. In 2023–24, the average network bill for a demand customer was $78,000, compared to around $400 for customers on our volume tariffs. However, bills for individual demand customers show a high degree of variance, with many significantly above average.

Our engagement with demand customers found they are typically less price-sensitive than volume customers due to the complexity and capital intensity of modifying their gas usage (Attachment 2: Demand forecasts).

Some of our demand customers have begun considering pathways to transition off gas, but some electrification solutions are not yet known. Many of our demand customers are large

[4] The DC tariff has three blocks for chargeable demand, compared to four consumption blocks on the VI tariff. The DC tariff also has proportionally smaller price differences across its blocks.

government and commercial customers that already have policies and targets to reduce their emissions.

Noting these factors, the value of tariff changes in the demand class is not clear. Structural changes to demand tariffs could create material uncertainty for longer-term business planning, and result in unintended or unavertable bill impacts for individual customers. Given the small size of the demand class, such changes could shift costs disproportionately and unfairly across demand customers with highly diverse uses for the gas network and variable abilities to respond to price changes. The operation of the side-constraint under the TVM limits our ability to shift revenue between the demand class and the much larger volume class to manage these bill impacts.

As in the current 2021–26 access arrangement period, Evoenergy proposes to automatically reset chargeable demand from 1 July 2026 where this would reduce network charges. We will also retain the simplified process for demand customers to request reductions where changes in equipment or processes have lowered their gas capacity requirements. These measures provide flexibility, reduce administrative burden, and incentivise demand customers to pursue changes that reduce their demand and support emissions reduction objectives.

4.3.2 Volume boundary (VB) tariff

The VB tariff applies to a small number of customers (around 15) located at multi-occupancy premises, such as apartment complexes and commercial centres, where gas is withdrawn at a single Delivery Point and on-supplied by an intermediary.

The current VB network tariff has an efficient structure, including:

- a relatively high fixed charge, reflecting metering requirements and a higher contribution to shared network infrastructure
- three declining blocks of usage charges.

Evoenergy proposes to retain the current VB tariff structure, noting that:

- **customer numbers and revenue materiality are low** – the VB tariff represents less than 0.5 per cent of network revenue, and the already small number of customer numbers is expected to decline further in 2026–31, which is unlikely to justify the costs of tariff reforms
- **network price signals are unlikely to reach end-users** – individual end-customers on the VB tariff are supplied through an intermediary and typically do not face network tariff structures
- **transition constraints are non-price related** – electrifying gas systems in multi-occupancy premises often requires substantial capital investment and coordination, and gas uses typically reflect essential hot water and cooktop applications where there is limited scope for price-response by end-customers.

In this context, we consider that structural reforms to the VB tariff would impose additional implementation costs on Evoenergy and retailers without delivering improved outcomes for customers or emissions targets.

5. How we engaged on tariffs and what we heard from stakeholders

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

We sought feedback on our current tariff structure and how it could be changed to better reflect the ACT Government's commitment to achieve net zero emissions by 2045, the NGO, as well as meeting our community's priorities.[5] Our stakeholders have consistently told us that Evoenergy's gas tariffs should:

- ensure that customers pay no more or less than needed for us to safely and reliably operate and maintain the gas network, regardless of outturn demand
- minimise year-on-year price variability over the short and long term
- signal emissions reduction objectives (especially for larger customers)
- support customers moving off gas while managing impacts for those left behind (including vulnerable customers)
- consider customers' ability and willingness to respond
- be easy to understand and simple for retailers to adopt.

5.1 Community forum

We sought the views of our community forum on tariff structures at three sessions over the past 18 months.

In an early session in May 2024, we introduced the concept of tariff classes and tariffs and how we use them to set prices for different types of customers. We particularly sought to explain the characteristics of the VI tariff, as it is the tariff that applies to the vast majority of our customers. In this session, we also sought feedback on the principles used to guide our review of our tariffs. Our community forum agreed with the principles we proposed (section 6.4), and told us that they consider the following two principles as being especially important to guide our tariff approach:

- equity across customers and over time
- the value of emissions reductions.

Members also noted that the long-term stability of the network is important to ensure equity and that vulnerable customers are not penalised for being unable to transition.[6]

We presented our proposed tariff flattening options for inclusion in our draft five-year gas plan, and sought feedback on a proposal to consider a gradual flattening of our VI tariff to reduce the fixed and Block 1 charges by around ten per cent, and apply corresponding increases to charges

[5] AER, Review of gas distribution network reference tariff variation mechanism and declining block tariffs, Final decision, October 2023.
[6] Communication Link, Appendix 1.2: Report of feedback from community forum sessions 1–10, June 2025, pp. 30–31.

in Blocks 2–4.[7] Our community forum members were generally supportive of this approach as it could benefit smaller customers and better signal emissions objectives. However, there was some scepticism about the overall impact of flattening on customer behaviour. We heard mixed suggestions, including the need for a stronger price signal to discourage higher residential usage, an additional block for smaller users, and a suggestion to have fewer blocks for large users.[8] At this session, we also shared our proposal to not change the demand tariffs on the basis that changing these tariffs could have a significant impact on these customers and may accelerate their exit from the gas network.

At our final community forum session in May 2025 before submitting our five-year gas plan to the AER, we tested our proposal to take a gradual and measured approach to flattening the VI tariff by ten per cent over the 2026–31 access arrangement period (by lowering Block 1 and increasing Blocks 2–4) on the basis that this approach:

- supports electrification and emissions reduction objectives by improving incentives to reduce consumption for large users
- supports affordability outcomes for smaller users.

We also shared that by keeping the current balance of the fixed charge, our approach reduces price and revenue variability and aligns with fixed network costs.

In general, community forum members supported our flattening approach. In particular, on the decision to maintain the current fixed charge, participants observed that it provides a "solid base of the fixed charge as customers leave the network".[9] However, some thought that more consideration should be given to reducing the fixed charge, or to achieving larger reductions in Block 1 to support affordability for smaller customers.

Using an example to illustrate the price implications of incorrectly forecasting demand, we asked the forum members to identify their priorities in relation to varying tariffs. Forum members considered that the most important factor for adjusting prices annually is that customers only pay what is needed to maintain a safe and reliable gas network, regardless of outturn demand, and rated the need for low price variability as a high priority.

5.2 Energy Consumer Reference Council (ECRC)

In an early discussion with ECRC members on the proposed gradual flattening of the VI tariff to reflect a less declining block structure, members were generally supportive of simple and equitable tariffs designed to encourage emission reduction. As with the community forum, members also expressed some scepticism about how customers would respond to changes in network price signals.[10]

In subsequent sessions, ECRC members observed that tariff changes could influence large customers' decisions to remain on the network and that the early exit of larger customers could have a detrimental impact on those customers who remain connected for longer.[11]

[7] See Community forum session 7 (14 November 2024) presentation available on Evoenergy's website.
[8] Communication Link, Appendix 1.2: Report of feedback from community forum sessions 1–10, June 2025, p. 40.
[9] Communication Link, Appendix 1.2: Report of feedback from community forum sessions 1–10, June 2025, p. 45.
[10] Appendix 1.3: ECRC engagement report, June 2025, p. 8.
[11] Appendix 1.3: ECRC engagement report, June 2025, pp. 10–12.

5.3 Energy Matters (large customer forum)

In response to our proposal to gradually rebalance the VI tariff, large customers generally supported the approach on the basis that it achieved a fair outcome for customers who used more gas. However, some raised concerns about the ability of large customers to electrify and the impact on those commercial customers who are unable to transition quickly from gas to electricity.[12]

5.4 Retail users

Our retail users noted the challenges of increasing energy prices for customers. In particular, a number of users highlighted concerns with our proposed gradual flattening of the volume tariff, noting that many hardship customers are also large consumers of gas, particularly through the ACT region winter period. Retail users highlighted that these customers may face further hardship as a result of the proposed changes. Retail users also expressed support for simple tariffs that are easy to pass through to customers.

5.5 Other stakeholders

In its submission to our reference service proposal (RSP), the ACT Government stated that it supports tariff structures that will "support achievement of both the Integrated Energy Plan and the legislated Emissions Reduction Targets". It further observed:

> Tariff structures can play a significant role in setting signals and helping to reduce demand for gas in the Territory. The current declining block structure does not incentivise large gas consumers to reduce use and conflicts with the achievement of emissions reduction targets of the Territory.[13]

The Energy Regulatory Advisory Panel (ERAP) emphasised the need for the design of tariffs to be enduring, provide price stability and consider the intergenerational and long-term impacts on customers.[14]

Section 4 explains how we have accounted for these factors in our tariff proposal, including better signalling emissions reduction objectives to larger gas users through a flatter VI tariff structure.

[12] Appendix 1.4: Energy Matters Forum report, June 2025.
[13] ACT Government, Minister Rattenbury, Submission: Evoenergy reference service proposal, August 2024, p. 2, available on the AER website.
[14] Appendix 1.5: ERAP meeting summaries, June 2025, p. 12.

6. How the regulatory framework applies in Evoenergy's context

This section explains how Evoenergy has addressed regulatory requirements in developing its tariffs, including considerations of efficiency, cost-reflectivity, and policy objectives relating to emissions reduction.

6.1 Government policy and the National Gas Objective

Evoenergy's gas network operates in a unique policy and customer context. The ACT Government has set a clear pathway to transition away from gas through the Integrated Energy Plan (IEP), and our customers have shown amongst the highest willingness and ability to shift away from gas nationally.

The regulatory framework is also changing. In 2023, the NGO was amended to introduce a new objective related to emissions reduction.[15] In addition to the existing objectives, it requires considering the achievement of targets set by jurisdictions for reducing greenhouse gas emissions.

This policy context has direct implications for Evoenergy's tariff proposal. As explained in section 4.1, the current tariff structure was designed at a time when both customers and Evoenergy could benefit from a growing gas network. We recognise that these benefits no longer exist, and growth is no longer supported by our customers and ACT Government policy.

Notwithstanding emissions reduction policies, the regulatory framework still requires economic efficiency and cost-reflective pricing. To balance these requirements, we are proposing a gradual transition to a flatter VI tariff that better aligns with the ACT policy direction, the amended NGO, and our community's values. Our proposal for a flatter VI tariff:

- gives customers clearer price signals aligned with emissions reduction goals, especially for larger gas customers
- helps maintain fair and stable bills during the transition, and avoids inefficiently accelerating or decelerating the pace of change
- maintains the broad features of the VI tariff structure that signal the efficient, and largely fixed, costs of gas distribution services
- provides for gradual and measured rebalancing of charges over the 2026–31 access arrangement period, managing customer bill impacts and the risks of price and revenue variability.

Our proposal to flatten the VI tariff operates in tandem with our proposed move to a revenue cap form of control (Attachment 9: Tariff variation mechanism). This approach allows us to preserve pricing stability while aligning regulatory incentives with ACT policy, customer preferences, and regulatory risks.

6.2 Regulatory decisions on flatter tariffs

[15] *National Gas (South Australia) Act 2008*, s.23.

In its November 2024 final decision on Evoenergy's RSP, the AER encouraged Evoenergy to consider incrementally flattening its declining block tariff structure over one or more access arrangement periods to better align with the amended NGO.[16] The AER emphasised the need to carefully consider the pace of change, bill impacts on high-consumption customers, and the importance of adequate transition periods.

This followed the AER's October 2023 review of gas distribution reference TVMs and declining block tariffs, which examined the broader merits of flatter tariff structures.[17] That review noted the potential for improved alignment with emissions objectives, but also highlighted the need to consider impacts on low-income customers, efficiency objectives, retailer pass-through of tariffs, and customer responsiveness to price signals.

Evoenergy agrees with the AER's position that a flatter volume tariff is increasingly justified in the current environment. As outlined in section 4, our proposal for the 2026–31 access arrangement period reflects a gradual and measured transition, consistent with the AER's guidance and past considerations.

We make the following observations on our proposal for flattening the VI tariff and its alignment with the themes in the AER's decisions.

- **support for emissions reduction** – our proposal shifts more cost recovery to Blocks 2–4 to better align tariffs with ACT Government emissions reduction goals and send stronger price signals to larger gas users
- **a gradual and measured transition** – we will implement flattening incrementally through the annual tariff variation process, allowing us to monitor impacts and consider further changes in future periods if appropriate
- **balanced bill outcomes** – the flattening reduces the Block 1 charge to support small users and manage affordability. At the same time, we have moderated the increases to Blocks 2–4 to manage bill impacts for larger customers, recognising that even before rebalancing charges, all gas customers will face price increases under our access arrangement proposal 2026–31
- **preserving efficiency and structure** – the existing VI tariff already supports economic efficiency by signalling fixed network costs and catering to diverse customer types. We have retained these benefits by preserving the core structure and achieving flattening by adjusting relative block charges
- **recognising customer responses** – we have considered how higher prices could accelerate disconnection among large users and create cost pressure on remaining customers. We have also accounted for the higher demand volatility in Blocks 2–4, and have proposed moderate flattening to reduce risks of revenue and price instability
- **simplicity and retailer pass-through** – by avoiding structural changes, we reduce administration costs and maximise the likelihood of ongoing retailer pass-through of our VI tariff structure. This also supports customers' familiarity and ability to engage with network price signals

[16] AER, Final Decision, Evoenergy Gas Distribution Determination 2026 to 2031 Reference Service, tariff variation mechanism and tariff structure, November 2024.
[17] AER, Review of gas distribution network reference tariff variation mechanism and declining block tariffs, October 2023.

- **targeted, high-impact reform** – with Blocks 2–4 already relatively flat, our proposal focuses on narrowing the remaining gap between Block 1 and the rest of the tariff blocks. This results in a targeted adjustment that provides maximum value for signalling emissions reduction and supporting affordability
- **building on previous simplification** – significant tariff simplification in the 2021–26 access arrangement period reduced the number of VI tariff blocks and eliminated commercial tariffs with low uptake. This has created a foundation for targeted reforms in the 2026–31 access arrangement period, with Evoenergy already having fewer tariff components overall and broad customer coverage under a single VI tariff.

Finally, we note the AER's direction to consider tariff flattening across all tariff classes, not only volume tariffs.[18] While our VI tariff flattening covers approximately 99.9 per cent of gas network customers, we have carefully reviewed, but are not proposing changes to, our demand class or VB tariffs at this time, consistent with the rationale set out in section 4.3.

Evoenergy's approach is broadly aligned with the AER's recent decision for Jemena Gas Networks (JGN) for the period 2025–30.[19] The AER approved JGN's proposal to maintain the structure of its demand tariffs, and Evoenergy has similarly proposed to retain its existing demand tariff structures. The AER also accepted JGN's proposal to reduce the number of blocks in its volume tariffs to four, and progressively flatten those blocks over time. Evoenergy's VI tariff already comprises four blocks, and we similarly propose to flatten the tariff during the access arrangement period through incremental annual rebalancing.

Unlike JGN, which will implement separate VI tariffs for small and large customers, Evoenergy proposes to retain a single VI tariff for residential and commercial volume customers of all sizes. This reflects the smaller scale of our network and the outcomes of our previous tariff simplification reforms, which removed underutilised business tariffs. As a result, Evoenergy has a more compact tariff structure, with fewer overall usage blocks under a single VI tariff with broad customer coverage.

6.3 Allocation of revenue to reference services

Rule 93 of the NGR contains requirements for allocating total revenues over reference and non-reference services. It includes the requirement that revenues should be allocated between services based on the costs attributable to those services.

In November 2024, the AER approved Evoenergy's proposed change to separate our current single reference service into a Transportation (including metering) reference service and an Ancillary activities reference service in line with industry practice.

Evoenergy's ancillary reference service revenue is determined based on a cost build-up and hence reflects the costs directly attributable to those services (see Attachment 8: Ancillary activities reference services and tariffs).

The required costs for the Transportation (and metering) reference service are reflected in the "building block" revenue requirement which is allocated to this service (see Attachment 5: Revenue requirement and price impacts)

[18] AER, Evoenergy's Reference Service Proposal 2026–31: Final Decision, November 2024 (available on AER website).
[19] AER, Final decision Jemena Gas Networks (NSW) access arrangement 2025 to 2030, May 2025.

Evoenergy has no customers on non-reference services, and no revenue has been allocated to these services.

6.4 How we set network prices

Evoenergy sets its prices each year having regard to a range of factors, including:

- revenue and pricing principles in the NGL, including an opportunity to recover at least efficient costs, effective incentives to promote economic efficiency, and allowing for returns commensurate with the regulatory and commercial risks involved in providing services
- economic efficiency principles under the NGR (section 6.4.1)
- our pricing objectives and strategy (section 6.4.2)
- limits on annual price changes and revenues, and any required pass-through of costs, via our proposed TVM (Attachment 9: Tariff variation mechanism)
- for the 2026–31 access arrangement period, the proposed approach to gradual and measured flattening of the VI tariff (section 4.1).

6.4.1 Efficiency principles

Rule 94 of the NGR requires distribution reference tariffs to be set with regard to a number of efficiency principles. These include the need to group customers on an economically efficient basis, set prices based on the costs of providing services to customers, and give consideration to transaction costs and customer responses to price signals.

This section outlines how Evoenergy's tariffs meet the requirements and support allocative efficiency. It provides:

- demonstration of efficient prices, including Evoenergy's estimates of standalone and avoidable costs
- Evoenergy's assessment of long-run marginal costs (LRMC) in the context of declining gas demand
- Evoenergy's assessment of transaction costs
- consideration of customers' ability and likelihood to respond to price signals.

Standalone and avoidable costs

Rule 94(3) requires that the expected revenue recovered for each tariff class should lie on or between the standalone cost of providing the reference service and the avoidable cost of not providing the reference service. Evoenergy has estimated standalone and avoidable costs using a cost of service model prepared by Houston Kemp for prior regulatory periods,[20] updated with current forecasts. The methodology for calculating standalone and avoidable costs is unchanged from the 2021–26 access arrangement period.

[20] Houston Kemp, Development of a Cost of Service Model for ACT and Queanbeyan-Palerang Gas Distribution Network, June 2015.

The standalone cost for a tariff class represents the costs incurred by Evoenergy to provide a gas distribution network to only support customers within that tariff class. In contrast, the avoidable cost for a tariff class represents all the costs that are directly caused by the supply of services to customers within that tariff class. It represents the theoretical lower bound revenue to be recovered from customers within a class. If revenue were to fall below this amount, then the revenue that Evoenergy receives from supplying the class would be less than the additional costs incurred to supply the class, requiring Evoenergy to recover the difference from other classes (i.e. cross-subsidise) or earn a lower return.

To estimate standalone and avoidable costs, Evoenergy's total costs are first decomposed into:

- costs that are attributable to a single tariff class (i.e. dedicated costs)
- costs that are common to multiple tariff classes (i.e. shared costs).

The forecast capital base has been used to determine the dedicated costs for each tariff class (i.e. volume and demand tariffs), with the remaining costs identified as shared costs to be shared between the tariff classes. After decomposing the total costs, avoidable costs for a tariff class are estimated as the dedicated costs for that tariff class, and the standalone costs are calculated as the avoidable costs for the tariff class plus the total shared costs.

Evoenergy's standalone and avoidable costs for volume and demand tariffs are provided in Table 4. This demonstrates that Evoenergy's expected revenue sits between the two efficiency measures, as required under the NGR.

Table 4 Evoenergy's standalone and avoidable costs and tariff class revenue

	2026–27	2027–28	2028–29	2029–30	2030–31	Compliance
Volume tariff class ($m, real $2025–26)						
Standalone cost	76.82	79.84	82.32	84.05	85.58	✓ Compliant
Tariff revenue	76.44	79.30	81.53	83.22	84.57	
Avoidable cost	33.28	34.59	35.40	37.83	39.35	
Demand tariff class ($m, real $2025–26)						
Standalone cost	46.24	48.00	49.66	49.12	49.23	✓ Compliant
Tariff revenue	3.09	3.30	3.55	3.77	4.05	
Avoidable cost	2.70	2.75	2.75	2.91	3.00	

Long-run marginal cost

Rule 94(4)(a) of the NGR requires charging parameters within a tariff (consisting of two or more charging parameters) to take into account LRMC.

LRMC is a measure of the future costs that would be caused by an incremental change in demand, including the need to expand the capacity of the network so as to satisfy the incremental change in demand. In prior regulatory periods, Evoenergy has typically estimated LRMC using an average incremental cost (AIC) approach. This involved calculating the present value of the future stream of growth-related capital and operating expenditure, divided by the present value of the growth in volumes over the same period.

However, Evoenergy's circumstances have changed significantly from prior regulatory periods. The ACT is accelerating its shift away from gas, underpinned by a legislated target of net zero emissions, a ban on new gas connections, and a clear plan to phase out gas by 2045. Demand on Evoenergy's gas network has passed its peak, with both connection numbers and consumption now in decline. This decline is expected to accelerate during the 2026–31 access arrangement period in line with ACT Government policy and endure until 2045 as the network moves through staged decommissioning.

This means that Evoenergy's network will not have net growth in demand between now and 2045, and there are no foreseeable capacity constraints requiring future investment. In the context of declining demand and no foreseeable capacity growth, LRMC is not a well-defined or meaningful measure for Evoenergy's gas network. That is, there is no clear causal connection between a hypothetical marginal increase in demand and an increase in long-run costs. In turn, this means that LRMC cannot be meaningfully signalled to customers through tariffs.

The NGR implicitly recognises the potential limitations of LRMC, requiring only that we must "take into account" LRMC, and allows for tariffs to be adjusted away from LRMC to ensure the recovery of expected revenue with minimum distortion to efficient patterns of consumption (Rule 94(5)).

These considerations are relevant to Evoenergy's context, where network revenues represent the recovery of past capital costs and the largely fixed costs of operating the network, rather than the costs of future growth. We are also given guidance by the NGO, which requires consideration of emissions reduction objectives.

Our pricing objectives are, therefore, increasingly shifting to the recovery of expected revenues, having regard to efficient levels of consumption, emissions reduction objectives, signalling fixed network costs, and our customers' long-term interests. In particular, relevant factors for price-setting include:

- **recovering and signalling Evoenergy's predominantly fixed network costs over a declining customer base –** the NGR permit Evoenergy to recover its building block costs of services, which include a return on sunk costs (i.e. the regulatory asset base) and operating expenditure. Even if LRMC could be defined for Evoenergy's network, pricing based on LRMC would not allow Evoenergy to recover past investment costs and efficient revenues (Rule 94(5)) in the context of the ACT's transition away from gas
- **long-term equity and fairness in the ACT energy transition –** our customers told us that affordability and bill impacts are a key concern during the ACT's transition away from gas, and want us to set tariffs in a way that minimises impacts on those customers least able to transition, including vulnerable customers
- **consistency with government policy and emissions reduction objectives** – there is a need to ensure our tariffs are aligned with the ACT's policy direction to transition off gas, including adequately signalling emissions reduction incentives

- **maintaining price stability –** even if it were possible to estimate LRMC for Evoenergy's network, the theoretical marginal cost is likely to be extremely volatile as gas usage and connections decline, and the network descales through to 2045.

We have reflected these principles in our proposal to gradually transition to a flatter VI tariff during the 2021–26 access arrangement period.

Transaction costs

Rule 94(2)(b) of the NGR requires each tariff class to be constituted with regard to the need to avoid unnecessary transaction costs. It also requires that a tariff, and each charging parameter, be determined with regard to the transaction costs associated with the tariff or charging parameter.

Evoenergy has considered transaction costs, such as administrative costs, when determining its tariff classes and charge components. This includes establishing an appropriate balance of transaction costs that supports Evoenergy's pricing objectives and is consistent with the revenue and pricing principles under the NGL and the NGR. Evoenergy has heard from customers that keeping costs low is a high priority, especially as the ACT transitions away from gas and customers are already facing cost and complexity associated with electrification decisions (section 5).

Evoenergy notes that transaction costs were a major factor in driving the significant tariff simplification and consolidation achieved in the 2021–26 access arrangement period. Reducing the number of tariff classes and removing tariffs with only a few customers has reduced complexity and administrative costs for both Evoenergy and retailers. It has made Evoenergy's tariffs easier for customers to understand and better aligned to existing retail offers.

The need to minimise transaction costs was also a key factor in Evoenergy's proposal to retain the current tariff classes and tariffs for the 2026–31 access arrangement period. Evoenergy notes that major gas retailers generally pass through the structure of Evoenergy's tariffs in their retail offers. Simplicity of network tariffs and reducing implementation costs are consistently main concerns raised by retailers in engagement with Evoenergy. By retaining the current structure and avoiding significant changes, Evoenergy is keeping transaction costs low and maximising the likelihood that its tariffs will continue to be reflected in retail offers. This also reduces transaction costs for end-customers since having similar and stable tariff structures improves the comparability of retail offers.

Another outcome of the tariff simplification achieved in the 2021–26 access arrangement period is that Evoenergy no longer has separate tariffs for business and residential customers within the volume tariff class. This is in contrast to some other gas networks that maintain separate tariffs for business and residential customers. In contrast to other networks, Evoenergy has a relatively small number of commercial customers (both proportionally and in absolute number), which means the cost of maintaining separate tariffs exceeds the benefits.

Evoenergy's current VI tariff provides a more cost-effective means of targeting both residential and commercial customers under a single, simple, unified tariff, delivering benefits of simplicity and lower transaction costs (section 4.1).

Evoenergy considers that its proposed tariffs and tariff classes for the 2026–31 access arrangement period strike an appropriate balance between minimising transaction costs and ensuring that customers have incentives to respond to price signals. This is because:

- our proposal to retain tariff classes based on customer size (volume and demand customers) is economically efficient. Our approach groups customers into classes based on similarities in how they use the gas network. It ensures that more costly and complex demand tariff structures are only deployed for customers above a size threshold that generally triggers different costs of service (including specialised metering arrangements and emergency load management requirements). By comparison, it would be inefficient to charge volume customers using less than 10 TJ a year based on their capacity, as the costs of the metering requirements and data handling processes would not be justified
- postage stamp pricing for customers helps minimise transaction costs. It would be considerably more costly to charge customers based on their location, with limited benefit
- we charge demand customers based on capacity, as they have the necessary metering equipment for daily reads. The size of the customers' usage and associated impact on the network warrant the additional costs of targeted price signalling to manage capacity demand
- our Transportation (and metering) reference service supports low transaction costs by having a single fixed charge component for each tariff class. Maintaining this simple approach supports customer understanding of our charges. It also reduces the administration costs and complexity of retailer price comparisons since major retailers generally pass through the same network tariff structure.

Response to price signals

Rule 94(4)(b)(ii) requires that, where a tariff consists of two or more charging parameters, each parameter for a tariff class must be determined having regard to whether the customers belonging to the relevant tariff class are able or likely to respond to price signals.

Evoenergy has structured its tariffs and charging components to allow end-customers to respond to price signals. In particular:

- despite Evoenergy's largely fixed network costs, maintaining both fixed charges and volume charges in our tariffs empowers customers to control their bills by changing their usage of gas, which is consistent with the ACT Government's emission reduction objectives
- having a simple tariff structure and avoiding structural changes to our tariffs in the 2026–31 access arrangement period maximises the likelihood that retailers will continue to pass through our tariff structure to end-customers, and supports customers' ability to respond to network price signals
- our proposal to gradually flatten the VI tariff reflects stakeholder feedback on the need to better signal emissions reduction objectives for larger customers and support ACT Government emissions reduction policies. Our customer research showed that price was an important consideration for many commercial customers when deciding to reduce their gas usage or disconnect from the network (Attachment 2: Demand forecasts)
- our proposal to flatten the VI tariff also responds to community concerns about affordability for customers least able to transition off gas, including vulnerable customers. We have responded by proposing to reduce Block 1, while moderating increases in Block 2, to support affordability for residential customers and help keep bills stable year-round (noting many residential customers rely on Block 2 for winter space heating)

- our demand forecast explicitly accounts for the relationship between gas network prices and demand (Attachment 2: Demand forecasts). We found that approximately one in three residential customers would consider gas prices when determining whether they would disconnect from the network. This has been a consideration in flattening the VI tariff to better signal emissions reduction objectives, but undertaking gradual and measured rebalancing of charges to avoid inefficiently accelerating customer exit.

6.4.2 Our approach to price setting

When we set the charges within our tariffs, we will seek to give effect to the efficiency measures described in section 6.4.1, our proposed approach to flatten the VI tariff (section 4.1), and our broader pricing principles.

Our pricing principles for 2026–31, which were shaped by input from our community forum, are set out below:

- **cost reflectivity and efficiency** – Evoenergy needs to recover at least its efficient costs to continue providing safe and reliable network services to customers now and into the future, as the ACT transitions away from natural gas. Our costs are largely fixed and are increasingly weighted towards the recovery of past capital investments, continuing to provide a safe and reliable network for customers who remain connected, and meeting our regulatory obligations
- **equity across customers and over time** – as the ACT energy system moves through a period of unprecedented change, it is important that we fairly share network costs across customers and recognise that different customer groups will be impacted differently as the ACT transitions away from gas. Our approach to pricing ensures similar customers are grouped together and pay prices that reflect our costs, as well as supporting affordability for customers who are least able to transition
- **emissions reduction objectives** – ACT Government policy and the NGO require us to consider emissions reduction objectives in the context of the ACT's policy direction to transition off gas. Our proposed tariffs are set consistently with these objectives and support our customers' transition off gas, including better signalling the value of emissions reduction to larger customers
- **tariff simplicity and consistency** – keeping tariffs simple and avoiding significant structural changes reduces administrative costs for all stakeholders (including Evoenergy and retailers), maximises the likelihood of retailers passing through network tariffs, and helps customers understand tariffs and compare retail offers
- **long-term price stability and endurability** – through our proposed TVM, we are working to keep our tariffs stable over time and minimise price variability, both within the regulatory period and over the longer term (between regulatory periods). We will consider how our tariffs influence customers' choices, demand for gas, and what impact tariffs will have on longer-term prices
- **communication and consultation** – we have designed our tariffs in consultation with our customers, and recognise that we have a role in explaining how tariffs work. Throughout each regulatory period, we provide regular updates on our tariffs through our ECRC, our large customer forum (Energy Matters), as well as updates on our website and retailer communications.

Our proposal to gradually flatten the VI tariff during the 2026–31 access arrangement period is a key lever for achieving these principles. Below, we also outline some other strategic considerations for setting prices across the 2026–31 access arrangement period.

Volume and demand class revenue recovery

We have historically recovered around five per cent of our revenue allowance from the demand customer class (major customers) and 95 per cent from our volume class (residential and commercial customers). Relative to consumption, the balance of revenue recovery is more heavily weighted towards the volume tariff class.[21] This reflects two features of Evoenergy's gas network:

a. out of Evoenergy's approximately 150,000 gas customers, all except approximately 40 demand customers are in the volume tariff class

b. Evoenergy's network costs are largely fixed and do not materially vary with gas consumption, particularly in the context of declining gas demand and no capacity constraints on the network.

Therefore, volume customers, which are greater in number, contribute proportionally more to the recovery of Evoenergy's fixed network costs.

Our approach in the 2026–31 access arrangement period is to broadly maintain the current revenue allocations, recognising the small nature of the demand class and its potential sensitivity to any movements in the customer base. We have proposed a two per cent side-constraint to limit annual movements of revenues between tariff classes, consistent with prior access arrangement periods, approaches typically adopted by other gas networks, and the approach generally adopted by the AER for electricity networks. The operation of the side-constraint is described in Attachment 9: Tariff variation mechanism.

Recovery of fixed costs across fixed and usage charges

A fixed supply charge is an annual charge that applies to each Delivery Point. We consider it important to maintain fixed charges that signal the predominantly fixed cost nature of gas distribution services. However, we are also cognisant of the need to ensure that our fixed charge is not so high as to overly disadvantage smaller gas customers. We set our fixed charge to signal to customers:

- the fixed cost nature of natural gas distribution services
- the fixed nature of metering services
- that there is a cost to maintain a gas connection point even where there is no consumption at that connection point
- an incentive for non-consuming customers to consider disconnection options where this is appropriate.

To achieve a balance across our pricing principles (which include considerations of efficiency and other factors, such as equity), we also recover some fixed costs through our usage block charges. In particular, our Block 1 charge is higher than Blocks 2–4, reflecting a higher loading of fixed costs. In the ACT's context of declining gas demand, our approach ensures that tariffs:

[21] For example, in 2023–24, the demand market accounted for approximately five per cent of revenue, but around 17 per cent of gas volumes.

- promote affordability for smaller gas customers, and still allow customers to influence their gas bills by changing their consumption
- are set in a way that is consistent with ACT Government policies, and signal the value of emissions reduction through usage-based pricing
- are efficient for a range of different customer sizes, by adopting a declining block structure which progressively reduces the marginal recovery of fixed costs for higher consumption levels.

Taken together, these pricing measures position Evoenergy to meet the challenges of a declining gas network while continuing to deliver fair, efficient and transparent tariffs that reflect the ACT's policy direction and our customers' evolving priorities.

Glossary of terms and acronyms

Term or acronym	Definition
access arrangement	Evoenergy's access arrangement
ACT	Australian Capital Territory
AER	Australian Energy Regulator
AIC	Average incremental cost
CPI	Consumer Price Index
DC	Demand capacity
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
DT	Demand throughput
ECRC	Energy Consumer Reference Council
ELMS	Emergency load management system
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
JGN	Jemena Gas Networks
LRMC	Long-run marginal cost
MDQ	Maximum daily quantity
MHQ	Maximum hourly quantity
MSATS	Market settlement and transfer solution
NGL	National Gas Law

NGO	National Gas Objective
NGR	National Gas Rules
NSW	New South Wales
RSA	Reference Service Agreement
RSP	Reference Service Proposal
TJ	Terajoule – unit of measurement of energy consumption
The Rules or Rules	National Gas Rules
TVM	Tariff variation mechanism
VB	Volume boundary
VI	Volume individual