evoenergy

Attachment 9: Tariff variation mechanism

ACT and Queanbeyan-Palerang gas network
2026–31

Access arrangement information

Submission to the Australian Energy Regulator

June 2025

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1. Executive summary

Evoenergy proposes to adopt a revenue cap tariff variation mechanism (TVM) for the 2026–31 regulatory period for our Transportation (including metering) Reference Service, as signalled in our Reference Service Proposal (RSP).[1] We propose to adopt a price cap TVM for our Ancillary Activities Reference Service. Our proposal is guided by the National Gas Law (NGL), National Gas Rules (NGR), our operating context, and community views.

Our regulatory and operating environment (including the level of reliance on natural gas in the ACT and the applicable ACT policy settings) is materially different to that of other gas distributors, and has substantially changed during the current 2021–26 period:

- The ACT Government has introduced the strongest policy settings in Australia to achieve net zero by 2045 through the electrification of gas
- Our customer electrification intentions are stronger than any other Australian jurisdiction, consistently demonstrated through multiple research studies
- Our customer demand characteristics are unique, with a predominately residential customer base and highly seasonal demand profile reflecting the cooler Canberra winters.

The unprecedented energy transition underway in the ACT, coupled with our unique demand and customer characteristics, means that forecasting demand for gas over the forthcoming five-year regulatory period is more challenging than ever before.

Adding to the demand forecasting challenge is the ACT Government's planned 2027 mid-point review of the first phase of the Integrated Energy Plan and the implementation of additional regulatory measures to accelerate customer electrification decisions to be introduced within the 2026–31 regulatory period.

The TVM determines the approach to managing the variation between the demand forecast set in the AER's final determination at the beginning of the five-year regulatory period and the actual demand that eventuates during the period. Importantly, the TVM does not address the more fundamental challenge of recovering network costs from a declining customer base.

Given the demand forecasting challenge resulting from the unprecedented nature of the ACT's transition, our unique demand and customer characteristics and the regulatory risk of additional policy measures to accelerate the transition, we consider a revenue cap TVM for Transportation (including metering) Reference Services best serves the long-term interests of consumers and meets the specific TVM related requirements of the regulatory framework.[2]

In Evoenergy's operating context, unlike a weighted-average price cap (WAPC) or hybrid TVM (and to a larger extent a WAPC-hybrid than a revenue-hybrid TVM), a revenue cap:

- Ensures revenues recovered from customers reflect no more and no less than the AER approved allowance which is derived from the forecast efficient costs to safely and reliably operate the network. This fundamental principle of a revenue cap reflects the highest priority consideration for our community forum.
- Removes demand forecasting risk for both customers and Evoenergy by updating the demand forecast annually throughout the period, for actual, estimated and updated forecast demand. Demand is approved by the AER every year. This is particularly relevant in the context of greater demand forecasting uncertainty in an unprecedented transition with a highly residential and seasonal demand profile.
- Provides for consistent regulatory arrangements between gas and electricity energy substitutes for our customers, which will facilitate an efficient energy transition, provide

[1] Evoenergy, Reference Service Proposal (access arrangement period 2026-31), June 2024, p. 33.
[2] NGL, sections 23, 24; NGR rule 97.

effective price signals, and enable a total energy bill hedge as energy prices adjust in line with the pace of transition.

- Avoids price variability by allowing prices to incrementally adjust annually reflecting the actual pace of the transition relative to the forecast.
- Ensures consistency of Evoenergy's incentives with the ACT emissions reduction policy.

Conversely, given our operating context and ACT policy direction, a WAPC or hybrid TVM (to a greater degree under a WAPC-hybrid than a revenue-hybrid) increases the risk of customers paying, and Evoenergy receiving, more or less than the AER approved allowance without any commensurate:

- benefit to customers from network growth leading to lower prices
- compensation to Evoenergy for the unnecessary increase in revenue risk at a time of unprecedented change due to factors outside of our control and with reduced options to manage that risk.

Our proposed TVM reflects feedback from the AER and our stakeholders

In light of AER and customer concerns regarding the potential for price variability under a revenue cap TVM, our proposed revenue cap design includes several smoothing measures, such as:

- a rolling unders and overs mechanism to minimise year-on-year price variability
- consistent regulatory approaches between energy substitutes within our operating footprint provides a natural hedge against demand uncertainty to support total energy bill stability for customers (our gas customers are also electricity customers)
- a side constraint of 2 per cent on individual tariff classes
- a robust demand forecast based on sophisticated techniques to reflect our customers transition intentions
- retaining the relative balance of fixed charges and usage charges in our tariffs, providing stability in annual revenue recovery, while undertaking gradual and measured re-balancing of tariff blocks 1-4
- rolling annual updates to reflect actual ACT Government taxes and levies that constitute around 15 per cent of our costs to avoid locking-in five-year forecasts which have contributed to price variability under the current true up arrangements, given the relative high materiality of these costs for Evoenergy, and their variability over time. Updates are approved by the AER every year. Our approach:
    - was strongly supported by our community forum (in a session held in May 2025, i.e. after the AER's non-binding RSP decision on our proposed revenue cap).[3] The forum members considered this proposed change provided "much more certainty" and allows for "greater responsiveness to changes in government policy."[4]
    - ensures consistency between the ACT gas and electricity network which both pay for ACT Government taxes and levies,
    - ensures customers pay, and Evoenergy receives, no more or less than the amount of the tax or levy, which is a regulatory obligation that is beyond our control and can change through government budget processes.

[3] AER, Evoenergy's Reference Service Proposal 2026–31: Final Decision, November 2024.
[4] Communication Link-Appendix 1.2-Report of feedback from community forum sessions 1–10-June 2025_Public, pp.44–45.

- reflects regulatory precedent set over an extended period across both gas and electricity regulatory decisions
- improves transparency and reduces administrative costs.

2. The regulatory framework

The National Gas Rules (NGR) specify that an access arrangement must include a TVM.[5] The TVM sets out how gas network tariffs are updated each year. The TVM enables regulated networks to respond to changing market conditions, such as inflation.

The National Gas Law (NGL) provides that the Australian Energy Regulator (AER) must, in performing its economic regulatory function, perform that function in a manner that will or is likely to contribute to the achievement of the National Gas Objective (NGO), including promoting efficient investment in and efficient operation of our gas network for the long term interest of gas consumers with respect to certain factors, including the achievement of emissions reduction targets set by a participating jurisdiction. This includes achievement of the ACT Government's greenhouse gas emission reduction targets legislated in the *Climate Change and Greenhouse Gas Reduction Act 2010*.[6] The AER must also take into account revenue and pricing principles when exercising discretion in approving or making those parts of an access arrangement relating to a reference tariff or when making an access determination relating to a rate or charge for a pipeline service.[7] The revenue and pricing principles include the following principles:[8]

- a scheme pipeline service provider should be provided with a reasonable opportunity to recover at least the efficient costs incurred in providing reference services and complying with regulatory obligations; and
- a scheme pipeline service provider should be provided with effective incentives to promote economic efficiency with respect to reference services; and
- a reference tariff should allow for a return commensurate with regulatory and commercial risks involved in providing the reference service to which that tariff relates.

Rule 97(3) of the NGR sets out certain factors that the AER must have regard to in deciding whether "a particular reference tariff variation mechanism is appropriate to a particular access arrangement", including 'any other relevant factor'.[9] We consider that the specific circumstances of the ACT, particularly in the context of the energy transition, is a relevant factor that the AER should consider in deciding whether our TVM is appropriate to our access arrangement. This is supported by the AER's 2023 decision on TVMs and declining block tariffs, where the AER noted that it will consider TVMs on a case-by-case basis, which will allow the AER to better account for the differing levels of reliance on natural gas an energy source across different jurisdictional markets, different policy settings applicable in each of those markets, and the views of distributor-specific stakeholders.[10]

As such, Evoenergy has reviewed the TVM for the forthcoming 2026–31 access arrangement to ensure that it meets the criteria in clause 97(3), and that it is fit for purpose and appropriate to ACT-specific circumstances, with regard to enabling Evoenergy to be provided with an opportunity to recover efficient costs, comply with our regulatory obligations, promote efficient investment in and efficient operation of our gas network in the long term interests of gas consumers, and having regard to our commercial and regulatory risk profile, as well as impacts on our customers and their preferences.

In the current 2021–26 access arrangement period, Evoenergy's single Reference Service (comprising of both transportation and ancillary services) tariffs are adjusted annually subject to compliance with a tariff basket price control,[11] which is applied as a WAPC. Tariffs are updated

[5] NGR, rule 92(1).
[6] NGL, section 23.
[7] NGL section 28(2).
[8] NGL, section 24.
[9] NGR, rule 97(3).
[10] AER, Final Decision: Review of gas distribution network reference tariff variation mechanism and declining block tariffs, October 2023, p. 1.
[11] AER, Evoenergy access arrangement 2021-26 - Approved Access Arrangement, April 2021, clause 8.

each year to reflect the actual Consumer Price Index (CPI), X-factor, ACT Government taxes, licence fees, unaccounted for gas (UAG), and pass throughs.

The AER approved Evoenergy's Reference Service Proposal, including to separate our single Reference Service into the following services:[12]

- Transportation (including metering) Reference Service; and
- Ancillary Activities Reference Service.

Given our changing operating context in the ACT and Queanbeyan-Palerang region, we propose a revenue cap for the Transportation (including metering) Reference Service during the 2026–31 access arrangement period because it is the most appropriate option for the ACT and Queanbeyan-Palerang region to meet the regulatory framework requirements, deliver on the best interests of our customers and reflects our community's feedback and preferences. What we heard from stakeholders is described in sections 3, and the reasons for our proposed approach, including how we respond to stakeholders is outlined in section 4.

We propose a price cap TVM for the Ancillary Activities Reference Service, reflecting real price change to account for inflation and movements in labour costs, discussed in section 5.

[12] AER, Final decision Evoenergy Gas Distribution Determination 2026 to 2031 Reference service, tariff variation mechanism and tariff structure, November 2024.

3. How we engaged and what we heard from our stakeholders

We engaged with various stakeholders on the TVM a lot earlier than we ordinarily would have, due to a new, informal, requirement by the AER to include our proposed TVM in our reference service proposal.[13] We recognised the complexity of understanding the TVM and revisited the complex TVM topic on several occasions with our stakeholders, using various analogies to aid understanding and build capacity. At later deliberative sessions, we revisited this topic considering price impacts in the context of the overall revenue requirement and our operating environment for the 2026–31 period and beyond.

We note the AER's views on the importance of stakeholder feedback in determining the appropriate TVM for our network, and have undertaken extensive consultation which has informed our decision to propose a revenue cap TVM for our Transportation (including metering) Reference Service.

Stakeholders initially had mixed views on a revenue cap, which we understand was reflected in the feedback that the AER received in the context of our RSP. However, throughout the course of our consultation and capacity building with our stakeholders, which continued after the AER's non-binding decision on our RSP, stakeholders informed us that their key priorities were:

- ensuring that customers only pay what is needed to maintain a safe and reliable gas network, regardless of actual demand compared to forecast demand
- ensuring (to the extent possible) price stability,
- adopting an approach that is fair and equitable,
- adopting an approach that results in consistency between gas and electricity network pricing approaches.

We took this feedback into account when developing our TVM, and designing our TVM, such that there is now general support for our proposed revenue cap control mechanism on the basis that customers pay no more, or less than efficient costs as a result of demand forecasting risk to ensure that we can continue providing safe and reliable gas distribution services. Since we submitted our RSP, we have undertaken considerable stakeholder engagement, including extensive capacity building, which has informed and shaped our revenue cap TVM, including its design to smooth price variability throughout the energy transition.

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.

3.1 Community forum

We engaged with our community forum on the TVM on four different occasions over the past 18 months.

At a community forum 2 held on 9 May 2024, participants were introduced to the regulatory framework governing Evoenergy's maximum allowed revenue, and how the level of demand for gas influences tariffs. We also introduced the different types of TVMs and how they can be used to manage demand forecasting uncertainty. We asked forum members to consider an example of how gas network prices would be adjusted under both a price cap and revenue cap in a range of circumstances, including where some customers have electrified and stopped using gas. Participants' preferences shifted as understanding of the impacts of different demand scenarios

[13] AER, Final Decision: Review of gas distribution network reference tariff variation mechanism and declining block tariffs, October 2023, p. 1.

increased. We heard mixed views from our forum members on their preference between a revenue cap and price cap, with 37 per cent of members stating, “I don’t know yet”, seeking more information and an understanding of the magnitude of price variability under different scenarios. The importance of price predictability and certainty and avoiding large intra-period price variances were identified as important.[14] Forum members also encouraged us to consider their values, including adaptability, transparency, communication and equity as we developed our TVM approach.

Responding to our forum members' need for more information on the TVM and the resulting impacts on gas prices, we revisited the topic at a follow up session on 20 May 2024 and presented detail on the differences between the revenue cap and price cap and the implications for tariffs under different demand scenarios both within the five-year regulatory period, and between regulatory periods. Forum members were asked to consider the long-term benefits and risks of the different options. We heard concern about inter-period and intra-period price variability associated with the different approaches and the implications for those customers who remain on the network for longer. Some participants observed that revenue certainty is necessary to ensure the long-term viability of our gas network, which is necessary for those who remain on the network longer.[15] At this session we also introduced the concept of a hybrid TVM, and some participants expressed support for consideration of an approach that incorporated elements of both a revenue and price cap.[16]

The community forum’s report to Evoenergy was prepared at session 6 on 27 August 2024 in which they observed, “we discussed the various revenue recovery options and had mixed views about the benefits of price cap and/or revenue cap and hybrid.”[17] In the report, members observed:

- The cost of transition should be fairly distributed across all customers, both those leaving the network early and those remaining on the network for a longer period, and
- Predictability and certainty over the longer term, beyond five years, is important when considering prices and the structure of tariffs.

At session 9 on 27 March 2025, we sought feedback from members on our proposal to adopt a revenue cap. We worked through a simple example to illustrate the price and revenue implications of incorrectly forecasting demand between a revenue cap, price cap, and hybrid TVM (see Figure 1). We then asked the forum members to identify their revenue adjustment priorities. With regard to price and revenue outcomes under scenarios where actual demand was either less than or greater than forecast demand, and based on different TVM approaches, 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. Members also rated the need for low price variability as a high priority and valued consistency between gas and electricity pricing. Forum members generally supported our proposed revenue cap approach and observed that it provides the greatest certainty for customers and Evoenergy.[18]

[14] Communication Link, Appendix 1.2: Report of feedback from community forum sessions 1–10 June 2025, pp. 23-30.
[15] Our community also recognised that without revenue certainty Evoenergy’s ability to provide safe and reliable gas services into the future could be jeopardised.
[16] Communication Link, Appendix 1.2: Report of feedback from community forum sessions 1–10, June 2025, pp. 29–30.
[17] Communication Link, Appendix 1.2: Report of feedback from community forum sessions 1–10, June 2025, pp. 61.
[18] Communication Link, Appendix 1.2: Report of feedback from community forum sessions 1–10, June 2025, pp. 42–43.

Figure 1 Community Forum session 9 slides of illustrative example of price and revneue implications if demand is incorrectly forecast under different TVMs

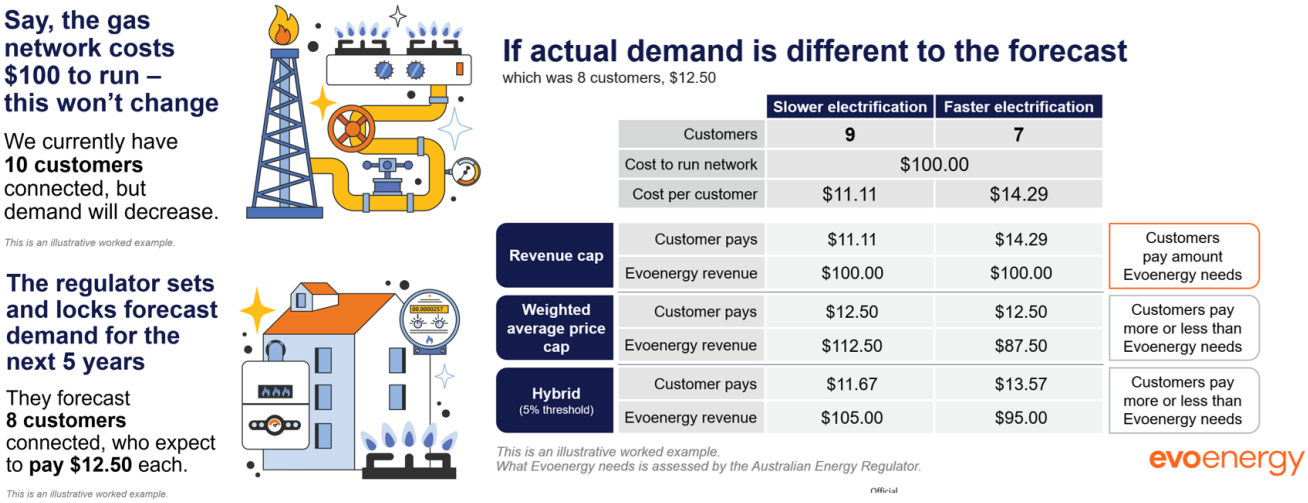
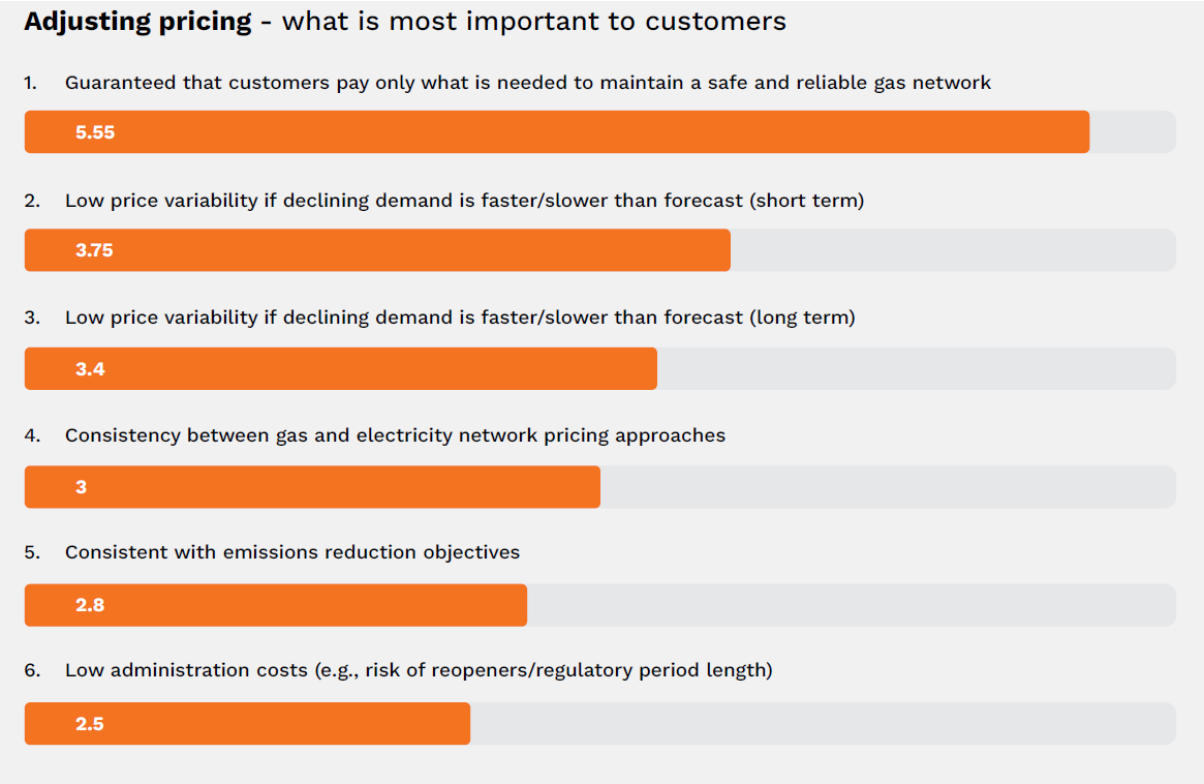


Figure 2 Community forum ranking activity for what is important against TVM considerations



Source: Communication Link, Appendix 1.2: Report of feedback from community forum sessions 1-10, June 2025, p. 42.

In our final community forum (session 10, held on 22 May 2025) before submitting our five-year gas plan to the AER, we sought to address member concerns about price variability by setting out our approach to address price variability under a revenue cap including:

- adopting a leading-edge approach to demand forecasting that reflects ACT-region customer preferences and price responsiveness (see Attachment 2: Demand forecast);

- flattening our residential tariffs blocks to ensure bills are more affordable for small customers, improving emissions reduction incentives for large customers, and maintaining the current balance of fixed and volume charges to provide price stability (see Attachment 7: Transportation (including metering) reference service and tariffs);
- excluding changes to our residential fixed charge to stabilise bills for smaller customers; and
- updating forecast ACT Government charges and levies annually to smooth year-on-year price changes and allow for a consistent approach with electricity pricing (see section 4.3.1).

The community forum strongly supported our approach to addressing price variability, including our proposed approach to forecasting ACT Government taxes and levies, consistent with the approach adopted for the electricity network.[19]

3.2 Energy Consumer Reference Council

Through our discussions on the TVM approach, ECRC members have consistently advocated for fairness and equity through the energy transition, particularly for vulnerable customers and those who may stay on the gas network longer (such as renters or businesses who are reliant on gas).[20]

ECRC members highlighted the need for fairness and transparency on the outcomes of a price or revenue cap for all customers (commercial, industrial, and residential). Members also emphasised the importance of addressing cost impacts over a declining customer base, the need for accurate demand forecasts and the impact on the network over the long-term.

3.3 Energy Regulatory Advisory Panel

The Energy Regulatory Advisory Panel (ERAP), in their submission to our Reference Service Proposal (RSP), recognised the complexity of engaging with consumers on the TVM. The ERAP expressed concern about "shifting demand risk onto consumers, and the gaps in awareness and capacity that consumers have to understand those risks and manage them".[21] Members considered that price volatility resulting from a revenue cap would incentivise customers to leave the network, leaving vulnerable and harder to transition customers (including renters and those in complex buildings) to bear that risk.

[19] Communication Link, Appendix 1.2: Report of feedback from community forum sessions 1-10, June 2025, pp. 44–45.
[20] Appendix 1.3: ECRC engagement report, June 2025, p. 7.
[21] Energy Regulatory Advisory Panel, Submission on Evoenergy Access Arrangement 2026-31 (GN26) – Reference Service Proposal (RSP), 9 August 2024, pp. 3-5.

4. Transportation (including metering) Reference Service tariff variation mechanism

In this section, we explain how our proposed revenue cap TVM for our Transportation (including metering) Reference Service is consistent with the NGR requirements relating to tariff variation mechanisms, the NGO, and the NGL revenue and pricing principles. In particular:

- we explain the rationale for our proposed revenue cap TVM, as required by rule 72(1)(k). In brief, we consider that a revenue cap TVM is appropriate in light of the specific operating and regulatory circumstances of the ACT and Queanbeyan-Palerang region;
- we assess our proposed TVM against the factors set out in rule 97(3); and
- we provide further supporting information on the detail of the TVM as set out in our proposed access arrangement.

4.1 Tariff variation mechanism approaches

The NGR specifies that the formula for variation of a reference tariff may provide for:[22]

- variable caps on the revenue to be derived from a particular combination of reference services;
- a tariff basket price control;
- a revenue yield control; or
- a combination of all or any of the above.

As described in Table 1, the main differences between a revenue cap and a WAPC is that under a revenue cap actual, estimated and forecast revenue (including government taxes and levies) and demand is updated each year and for the remaining years of a regulatory period.

Table 1 Tariff variation mechanism options and descriptions

TVM option	Description
Revenue cap	A revenue cap limits the maximum annual revenue recovered to the efficient revenue allowance set by the AER. Service providers can only recover efficient costs, preventing windfall gains and losses. Revenue and demand are updated annually for actuals, estimates, and forecasts, to account for the most recently available information. Prices are adjusted annually to account for any differences between actual revenue recovered in prior years and the efficient revenue allowance, including an updated forecast of demand for remaining years of a regulatory period.
Tariff basket price control (WAPC)	A WAPC is a form of tariff basket price control, which sets initial tariffs, and the maximum average adjustment for varying tariffs each year, based on a forecast of demand set five years ahead of time. Under a WAPC, if actual demand is higher than forecast demand, the gas network profits, and customers pay more than the efficient price (and vice versa when demand is lower).

[22] NGR, rule 97(2).

	Prices are based on the demand forecast set by the AER, which is locked in during the five-year regulatory period.
Combination (hybrid)	A hybrid is a combination of TVMs, most commonly a weighted average between a revenue and price cap. Subject to the design, under a hybrid, if actual demand is higher than forecast demand, the gas network profits, and customers pay more than the efficient price (and vice versa when demand is lower). Prices may be updated based on actual demand beyond a certain threshold (depending on the design of the hybrid TVM), but gas networks still incur windfall gains/losses, and customers still pay more or less than is needed to safely and reliably operate the gas network.

4.2 Tariff variation mechanism rationale and consistency with NGR and NGL requirements

Evoenergy's 2026–2031 access arrangement must include a rationale for any proposed reference TVM.[23] In exercising its discretion in approving or making those parts of an access arrangement relating to reference tariffs, the AER must have regard to the factors in rule 97(3) of the NGR and take into account the NGL revenue and pricing principles, which include that Evoenergy should be provided with a reasonable opportunity to recover efficient investment costs, effective incentives to promote economic efficiency, and a return commensurate with regulatory and commercial risks.[24]

Among other specified factors, section 97(3)(e) of the NGR requires the AER to have regard to 'any other relevant factor' in deciding whether a particular reference tariff variation mechanism is appropriate to a particular access arrangement. The jurisdictional circumstances and operating environment affecting the provision of gas network services in the ACT and Queanbeyan Palerang region is a relevant factor for the AER's decision within section 97(3)(e) of the NGR.

We propose a revenue cap TVM for our Transport (including metering) Reference Service in our 2026–31 access arrangement, which is one of the permissible TVMs under the NGR.[25] We consider that a revenue cap is the most appropriate approach to varying tariffs for our Transport (including metering) Reference Service for the following reasons:

- It will mean that the TVM is fit for purpose in the context of an unprecedented electrification transition with a highly residential and seasonal load profile in the ACT and Queanbeyan-Palerang region, while providing Evoenergy with an opportunity to recover at least efficient costs during the 2026–31 regulatory period, where customers only pay what is needed for safe and reliable gas distribution services.
- It removes the incentive to grow or retain gas network volumes which has previously benefited customers under a WAPC but is now inconsistent with the ACT Government's decarbonisation policy. Detaching revenue from outturn demand (given we have limited influence over connections and volumes) means we will not be rewarded nor penalised for the difference between the demand forecast and the actual pace of customer transition, and nor will our customers.
- It will reduce dependence on accurate demand forecasts, driven by factors outside of our control and due to regulatory uncertainty during the period, is critical to providing Evoenergy with an opportunity to recover at least efficient costs as well as ensuring that customers only pay efficient costs.

[23] NGR, rule 72(1)(k).
[24] NGL, section 28(2).
[25] NGR, rule 97(2)(c).

- Consistent revenue cap approaches between gas and electricity networks within our operating footprint will provide effective incentives to promote economic efficiency throughout the energy transition, supported with efficient price signals between energy substitutes, providing a natural hedge for energy customers and total bill stability.
- Prices can incrementally change at an efficient pace under a revenue cap, avoiding the risk of significant price corrections between five-year regulatory periods due to forecast errors. Our revenue cap is designed to minimise short-term and long-term price variability, including several regulatory mechanisms to smooth bill impacts within the period, in response to stakeholder feedback.
- It will ensure that risk sharing arrangements implicit in the 2026–2031 access arrangement are appropriate in the changed operating context, including removing demand forecasting risk for us and our customers while allowing for returns commensurate with our changed and unique regulatory and commercial risk profile so that we can recover the AER approved efficient costs to safely and reliably provide gas distribution services as parts of the network are progressively decommissioned from 2035.

Our operating circumstances have changed. Customers should pay efficient costs, no more and no less. Evoenergy's allowed revenue and prices should be set to drive efficient outcomes, mimicking a competitive market structure, and be robust to the pace of electrification and future government decisions to influence declining gas demand. During the 2026–31 access arrangement period, a revenue cap offers us an opportunity to recover costs within our regulatory risk profile, provides economic efficiency between gas and electricity substitutes, and signals that the energy sector is shifting away from fossil fuel dependency.

We acknowledge that our proposal to adopt a revenue cap TVM is a departure from the AER's views expressed in its decision on our RSP, where it suggested that we develop a hybrid TVM for our haulage services. We gave extensive consideration to the AER's decision when considering our proposed TVM, and our view remains that our 2026–2031 access arrangement should contain a revenue cap TVM rather than a WAPC or hybrid TVM. After the AER's decision on our RSP and substantial consultation and capacity building, our community forum considered that the most important factor for varying prices is that they pay no more or no less than needed for safe and reliable gas distribution services, even if actual demand is different to forecast demand.

In its decision on our RSP, the AER considered "Evoenergy should develop, in consultation with stakeholders, a hybrid tariff variation mechanism for haulage services" and that Jemena's hybrid mechanism "would be capable of acceptance in Evoenergy's context."[26] The AER accepted a hybrid-WAPC in its final decision for Jemena Gas Networks 2025–30 Access Arrangement, comprising of a ±5 per cent revenue threshold and a 50:50 volume risk sharing ratio.[27]

A hybrid tariff variation approach does not address the inherent problems with a WAPC.[28] Under a hybrid TVM, and to a greater extent a WAPC-hybrid than a revenue-hybrid, accurate demand forecasts remain critical to providing an opportunity to at least recover efficient costs while incentivising economic efficiency, and allowing a return commensurate with demand uncertainty and regulatory risk in the ACT. Our operating environment is fundamentally different to other jurisdictions in all respects – policy settings, demand characteristics, and customer electrification intentions. Demand uncertainty due to regulatory risk is not removed under a hybrid TVM, and to a greater extent a WAPC-hybrid than a revenue-hybrid, per the AER's preliminary preferred TVM included in its decision on our RSP. Under a hybrid TVM, like a WAPC, service providers will recover an inefficient revenue allowance and customers will pay

[26] AER, Fina decision Evoenergy Gas Distribution Determination 2026 to 2031 Reference service, tariff variation mechanism and tariff structure, November 2024, pp. 2, 13.
[27] AER, Final decision Jemena Gas Networks (NSW) access arrangement 2025 to 2030 (1 July 2025 to 30 June 2030) Attachment 10 – Reference tariff variation mechanism, May 2025, p. 3.
[28] The AER recognised in its 2013 framework and approach decision for NSW electricity distributor: AER, Stage 1 Framework and approach - NSW distributors, March 2013, p. 54.

inefficient prices where actual and forecast demand are different. This is contrary to the NGO of promoting efficient investment in, and operation and use of, covered gas services for the long term interests of gas consumers.

The following sections detail the key reasons why a revenue cap is the most appropriate TVM for the 2026–31 regulatory period for the ACT and Queanbeyan-Palerang region having regard to the factors in section 97(3) of the NGR, the NGO, and the NGL revenue and pricing principles.

4.2.1 The tariff variation mechanism needs to be fit for purpose in our circumstances

In deciding whether a particular reference TVM is appropriate to a particular access arrangement, the NGR requires the AER to have regard to 'any other relevant factors'.[29] The jurisdictional circumstances and operating environment affecting the provision of gas network services in the ACT and Queanbeyan Palerang region is a relevant factor for the AER's decision for the purpose of rule 97(3)(e) of the NGR. Although this factor is listed last in rule 97(3), we are addressing it first here because the ACT operating environment also informs the other rule 97(3) factors.

In October 2023, the AER published its final decision on the 'Review of gas distribution network reference tariff variation mechanism and declining block tariffs', concluding that it will consider proposed TVM and tariff structures on a 'case-by-case' basis.[30] In considering the TVM, the AER highlighted the need to account for varying levels of reliance on natural gas as an energy source across jurisdictional markets, policy settings applicable in each of those markets, and the views of distributor-specific stakeholders.

Consistent with our views set out above that the specific circumstances of the ACT are a 'relevant factor', and the AER's view that TVMs should be assessed on a case-by-case basis, we have formulated our TVM to ensure that it is appropriate for the ACT and Queanbeyan-Palerang region and for the 2026–31 regulatory period. Given that around 90 per cent of our customers are Canberrans, ACT-specific circumstances are relevant to the appropriateness of the TVM, including a legislated declining reliance on natural gas, strong customer electrification intentions, regulatory uncertainty, and the specific challenges of forecasting demand as energy consumption shifts from gas to electricity.

Operating in an environment of regulatory uncertainty

The NGL requires that the AER set reference tariffs allowing for a return commensurate with the regulatory and commercial risks involved in providing the reference service to which that tariff relates.[31] During our current 2021–26 access arrangement period, several regulatory risks have developed, including:

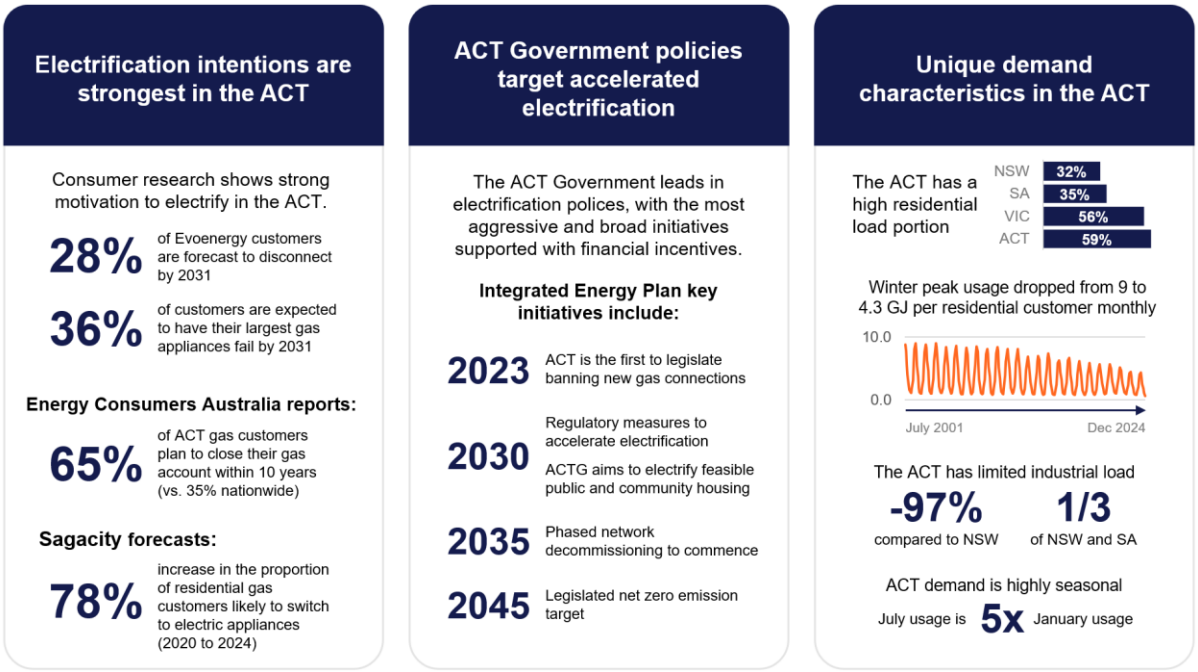
- The ACT Government's commitment to increasing regulatory intervention during the 2026–31 access arrangement period to make certain declining reliance on natural gas, supported with legislation, a commitment to commence phased decommissioning from 2035, and economic incentives; and
- The higher probability that we cannot recover efficient investment costs with customer electrification intentions,[32] noting that insufficient revenue recovery limits our ability to meet regulatory obligations to safely and reliably operate the gas network.

[29] NGR, rule 97(3)(e).
[30] AER, Final decision - Review of gas distribution network reference tariff variation mechanism and declining block tariffs, October 2023, p. 1.
[31] NGL, section 24(5).
[32] For example, see AER, AER Information Paper - Regulating gas pipelines under uncertainty, 15 November 2021, p. 29.

Regulatory risks are pertinent to assessing the appropriateness of the TVM for the 2026–31 access arrangement because the NGL requires us to be allowed a return commensurate with that risk[33] (further detailed in section 4.2.5). We operate in the context of increasing risk with progressed government policy and unique demand characteristics defined by a decreasing reliance on natural gas.

Australian Capital Territory policy settings target disconnections and declining consumption

Figure 3 ACT Queanbeyan-Palerang region operating environment



The ACT Government is committed to electrification, supported by a wide range of initiatives and economic incentives, including:

- Legislated net zero emissions by 2045,[34] where most other jurisdictions have legislated for 2050.
- Banned new gas connections (except in limited circumstances), first amongst all Australian states and territories, and no wide-spread role for green gas substitutes.[35]
- The 2024–30 Integrated Energy Plan (IEP) outlines a clear policy direction, providing a comprehensive plan for reaching its net zero emission targets.[36]
- A commitment to review (in 2027) and introduce (in 2030) regulatory intervention measures to support electrification and ensure success of its legislated zero emission targets.[37]
- Several funding measures to support electrification, including but not limited to:
    - the Sustainable Household Scheme
    - the Energy Efficiency Improvement Scheme

[33] NGL, section 24(5).
[34] Climate Change and Greenhouse Gas Reduction Act 2010, 2010, s. 6.
[35] ACT Government, Climate Change and Greenhouse Gas Reduction Amendment Regulation 2023; Climate Change and Greenhouse Gas Reduction Act 2010 13A(1).
[36] ACT Government, The Integrated Energy Plan 2024–2030, our pathway to electrification, June 2024.
[37] ACT Government, The Integrated Energy Plan 2024–2030, our pathway to electrification, June 2024, p. 13.

- the Sustainable Business Program.[38]
- "accelerate funding to upgrade gas appliances to appropriate electric alternatives in 1,600 public housing properties, including make-good requirements, associated ancillary electrical works and gas connection abolishment charges by 2028"[39]
- committing to "electrify all feasible public and community housing by 2030"[40]
- establishing an 'Access to Electric Program Trial', providing eligible homeowners who are experiencing extreme and ongoing financial hardship to access fully funded electric appliance and ceiling insulation upgrades.[41] Specifically, the ACT Government are providing "$5.2 million for a pilot to cover the upfront costs of electrification for private households that most need support"[42]
- Developing a 'Home Energy Support Program' that provides up to $5,000 in rebates for low-income homeowners for rooftop solar, heating and cooling systems, hot water systems, stove top/ovens and ceiling insulation[43]
- commencement of the Commercial Building Electrification pilot program to transition commercial buildings off gas[44]

- Dedication to commence phased decommissioning of the gas network from 2035.[45]

Of all Australian jurisdictions, the ACT has the most progressed policy and plan to deliver its full electrification strategy, as shown in Table 2.

Table 2 Australian state and territory government energy transition policies

	ACT	NSW	VIC	QLD	SA	WA	NT	TAS
Legislated net zero emissions by 2045	●	●	●	●	●	●	●	●
Ban on new gas connections	●	●	●	●	●	●	●	●
Gas Network decommissioning from 2035 or earlier	●	●	●	●	●	●	●	●
Hydrogen not being explored	●	●	●	●	●	●	●	●

● *Jurisdictional policy exists* ● *No jurisdictional policy exists* ● *Jurisdictional policy partially exists (in Victoria the ban on new gas connections only applies to residential homes requiring a planning permit)*

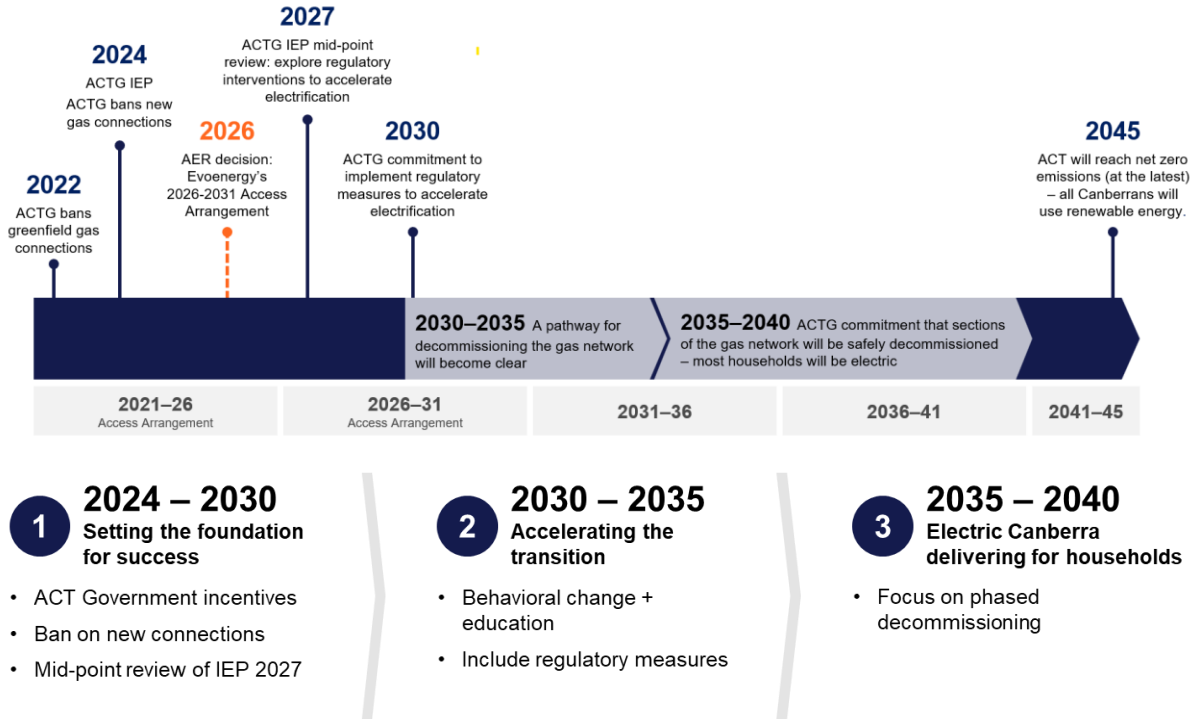
[38] ACT Government, ACT Emergency Backstop Capability. Consultation Paper, April 2024, p. 11; ACT Government, https://www.climatechoices.act.gov.au/rebates-and-incentives, accessed 20 May 2025
[39] ACT Government, Australian Capital Territory 2025-26 Budget Outlook, June 2025, p. 97
[40] ACT Government, Integrated Energy Plan 2024-2030, June 2024, p. 16.
[41] ACT Government, ACT Emergency Backstop Capability consultation paper, 2025, p. 11.
[42] ACT Government, Integrated Energy Plan 2024-2030, June 2024, p. 16.
[43] ACT Government, ACT Emergency Backstop Capability consultation paper, 2025, p. 11.
[44] ACT Government, Australian Capital Territory 2025-26 Budget Outlook, June 2025, p. 98.
[45] ACT Government, The Integrated Energy Plan 2024–2030, our pathway to electrification, June 2024, p. 19.

The IEP states that "The ACT Government will need to explore options to accelerate the transition and move towards regulatory options to ensure emissions reduction targets are met."[46] The ACT Government is committed to reviewing regulatory intervention in 2027 (a year after the AER's final decision on Evoenergy's 2026–2031 Access Arrangement) [47] and, under the Integrated Energy Plan 2, from 2030 (within our regulatory period 2026–31) the ACT Government will introduce: [48]

> "additional measures to accelerate transition. This could include implementation of regulatory measures, such as requiring replacement of gas appliances with electric, or measures to ensure housing providers electrify rental properties or increase energy efficiency so renters can experience the benefits of the transition."

The timing of Evoenergy's access arrangement periods, the AER's determinations, and ACT Government decisions for regulatory intervention (to meet legislated greenhouse gas emission reduction targets) creates significant regulatory uncertainty during our 2026–31 access arrangement period.

Figure 4 ACT Government and AER decision timeline against Evoenergy's access arrangement periods



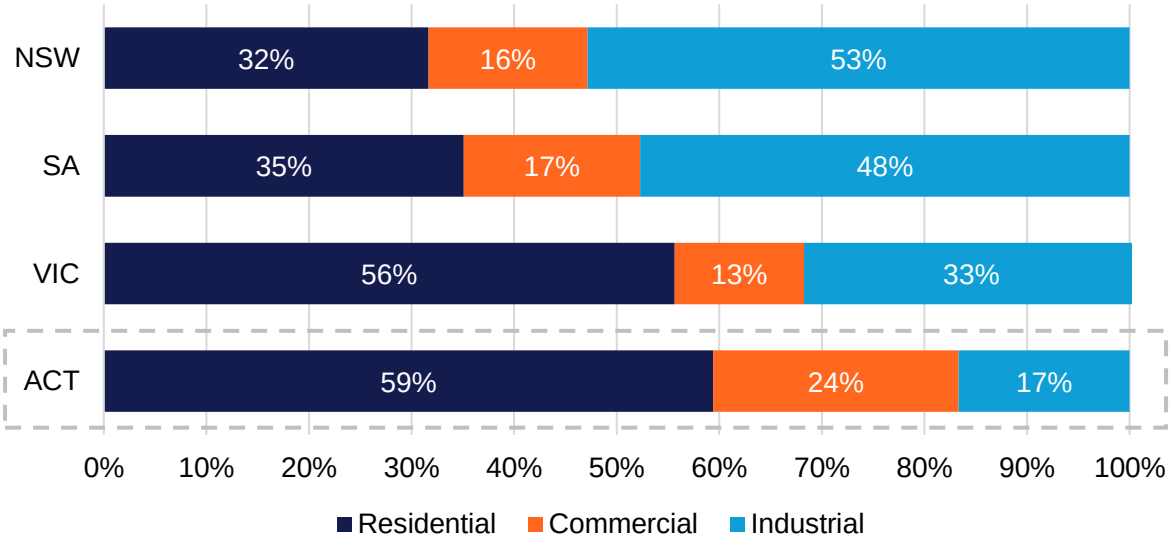
The ACT and Queanbeyan-Palerang region has unique demand characteristics and reliance on gas is decreasing

Gas demand forecasts are dependent on factors external to the regulatory framework[49] that are outside of our control. Demand is driven by variables such as weather, economic conditions, customer electrification intentions, appliance efficiency, government policy, and financial incentives. Demand forecasting for the ACT is challenging due to our unique demand characteristics, including:

[46] ACT Government, The Integrated Energy Plan 2024–2030, our pathway to electrification, June 2024, p. 27.
[47] ACT Government, The Integrated Energy Plan 2024–2030, our pathway to electrification, June 2024, p 13.
[48] ACT Government, Developing act's integrated energy plan Canberra is electrifying: Towards a net zero emissions city, August 2023, p. 14.
[49] AER, Electricity and gas networks performance report, 2024, p. 56.

- The ACT has the highest proportional residential load across jurisdictions, which is nearly twice that in NSW and SA (see **Error! Reference source not found.**).
- Gas usage per residential customer has decreased over time, driven by energy efficiency improvements, government policy, and customer preferences (see Figure 6).[50] Residential customers will disconnect at a faster rate than commercial and demand customers.[51]
- Evoenergy has low industrial load (customers consuming more than 10 terajoules annually), with industrial throughput being 97 per cent lower in the ACT compared to NSW. In 2023-24, industrial customers made up 17 per cent of total ACT throughput compared to 53 per cent in NSW. Demand customers are different in the ACT, with many public sector buildings and universities compared to other jurisdictions with higher commercial manufacturing demand.
- Demand in the ACT is highly seasonal with large peaks and troughs (see Figure 7). Average winter usage is 477 per cent higher than average summer throughput.
- As the owner of both the ACT's electricity and gas networks, we are in a unique position to observe trends in tandem across both networks. We can see that energy demand is shifting from gas to electricity - winter peak demand on the gas network has consistently been declining since 2018 and peak demand on the electricity network has increased. Evoenergy has recorded four consecutive years of unexpectedly high winter electricity peaks, culminating record-high demand of 730 MW peaks as of June 2025 (six years ahead of the 2030 forecast included in our electricity network proposal to the AER for 2025–29).[52] There is emerging evidence from Evoenergy's new electricity tariffs showing that off-peak electricity demand (9pm–9am) in winter and autumn is now exceeding the traditional peak period (5pm–9pm), signalling early-morning heating loads shifting to electricity.[53]

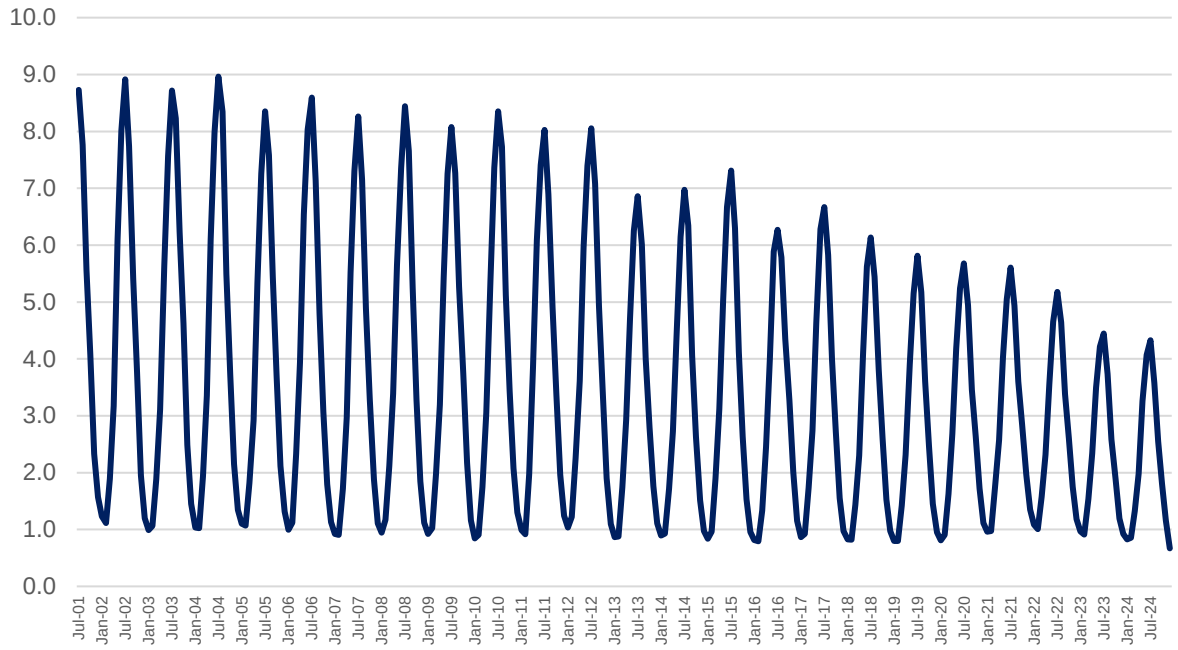
Figure 5 Composition of gas demand across jurisdictions by customer type in 2023–24



Source: Regulatory Information Notice 2023-24; Evoenergy Analysis. Note that values may not add due to rounding.

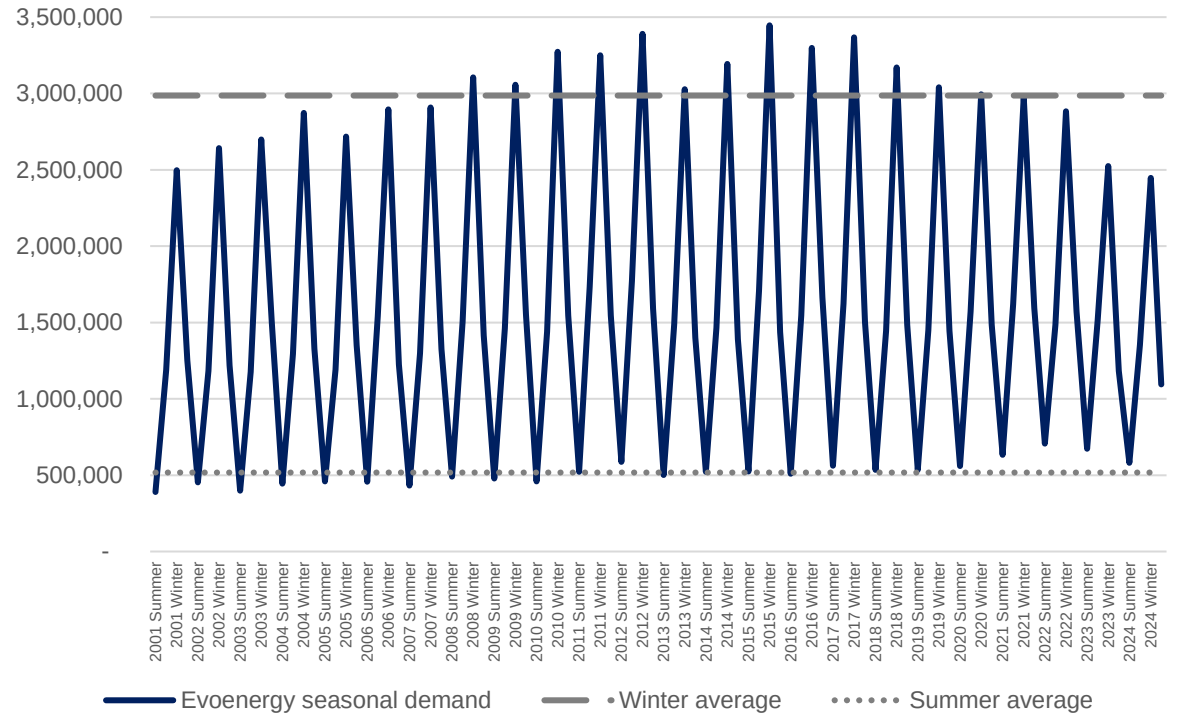
[50] CIE, Appendix 2.1: Evoenergy gas demand, June 2025, pp. 54-57.
[51] CIE, Appendix 2.1: Evoenergy gas demand, June 2025, p. 86.
[52] Preliminary analysis of 20 June 2025.
[53] Evoenergy, 2025-26 Electricity Network Pricing Proposal, March 2025.

Figure 6 Usage per customer per month (GJ)



Source: Appendix 2.1: CIE-Evoenergy gas demand, June 2025, p. 56.

Figure 7 Evoenergy seasonal throughput (GJ)



Source: Evoenergy analysis.

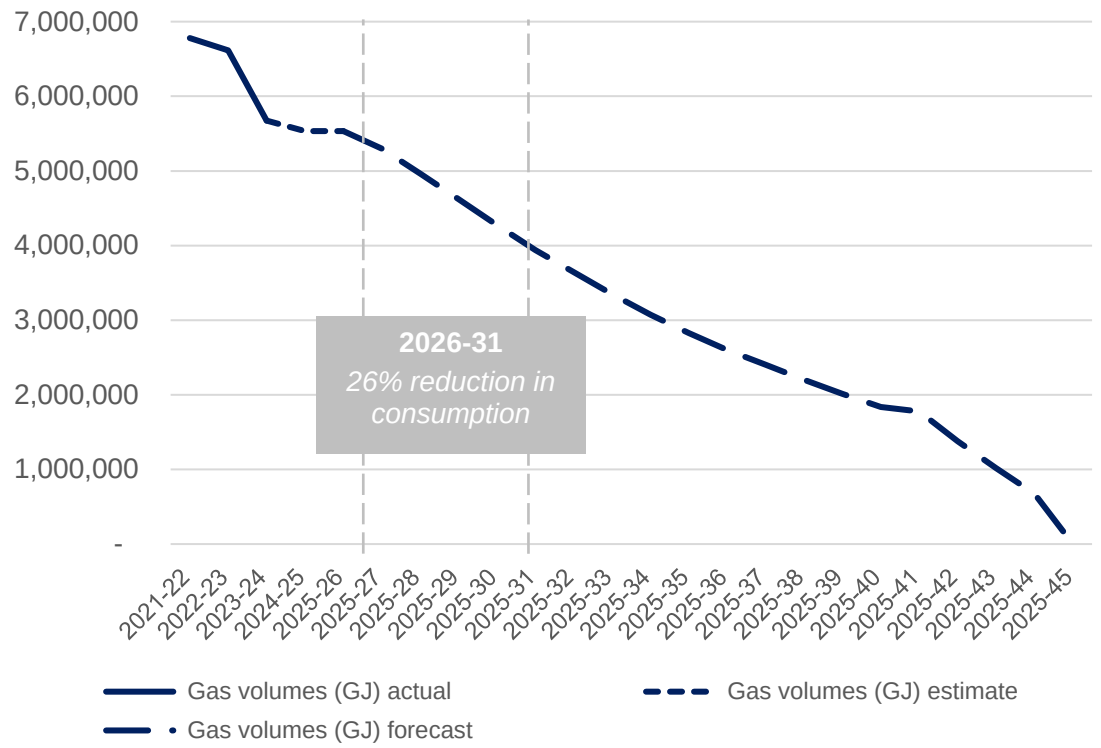
Reliance on natural gas is decreasing, and our customers have strong electrification intentions. Customer research undertaken by Energy Consumers Australia (ECA), Sagacity, the Centre for International Economics (CIE), and Evoenergy all indicate that ACT gas customers are highly motivated to electrify, more so than customers from any other Australian state or territory. Some key findings include:

- Based on what our customers have told us, we expect that 28 per cent will disconnect between 2026 and 2031, which is driven by:[54]
    - the fact that half of gas appliances on our network are over 10 years old, and an average appliance life of 16 years means that almost half of appliances are expected to reach end of life by 2031 (a key decision-point for replacement),
    - most households will switch to electric appliances when their appliance fails, and
    - an additional 10 per cent of households will disconnect pre-emptively from gas before appliance failure by 2031, regardless of costs.
- ECA found that 65 percent of ACT gas customers intend to close their gas account in the next ten years, compared to the national average of 35 percent.[55]
- ECA found that 64 percent of ACT households agree that reducing gas consumption is extremely or quite important, compared to the national average of 46 percent.[56]
- Sagacity found that 32 per cent of residential gas customers are likely to change existing gas appliances to electric in the next five years (up from 18 per cent of customers in the 2020 study).[57]

We know that demand in the ACT and Queanbeyan-Palerang region will significantly decrease, to reflect the restrictions on gas under the *Climate Change and Greenhouse Gas Reduction Act 2010*. Our demand forecast is shown in Figure 8 (detailed in Attachment 2: Demand). We expect that demand will be even lower if the ACT Government implements additional regulatory interventions based on its 2027 review of progress towards its legislated emission reduction targets. Implementation of regulatory measures are expected by 2030, the final year of our 2026–31 access arrangement period, and may occur earlier following the 2027 review.

[54] CIE, Appendix 2.2: Evoenergy gas price elasticity, June 2025, pp. 2-3, 47.
[55] Energy Consumers Australia, How households use gas and their attitudes towards electrification, 2024, p 9.
[56] Energy Consumers Australia, How households use gas and their attitudes towards electrification, 2024, p 8.
[57] Sagacity, Demand for Natural Gas Report, 2024, p. 8.

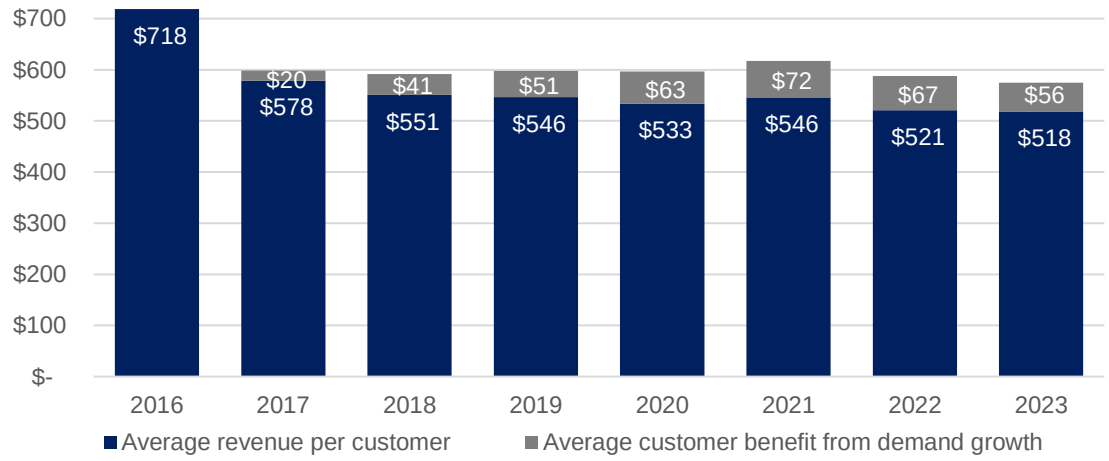
Figure 8 Evoenergy's forecast gas volumes to 2045



A WAPC is no longer appropriate during the ACT's electrification transition

The WAPC has historically been effective in creating positive incentives for the network to grow its customer base. Demand incentives implicit in a WAPC have historically benefited both distributors and customers through improved asset utilisation as relatively fixed costs are shared across more customers. As shown in Figure 9, average network bills have been decreasing, and customers have benefited from growing demand.

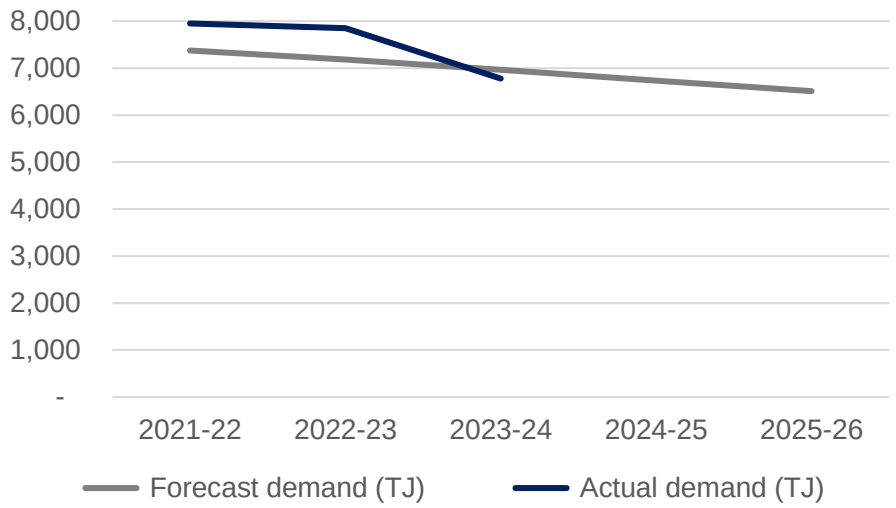
Figure 9 Evoenergy's customer benefits from a weighted average price cap ($2025–26)



Source: AER, 2024 Electricity and gas networks performance report; Evoenergy analysis.

In the current regulatory period 2021–26, actual demand has varied from the demand forecast set by the AER, shown in Figure 10. The main drivers of the difference between actual and forecast demand relates to delayed ACT Government intervention, lower wholesale gas prices, weather, and other factors (such as COVID impacts on global supply chains and working from home arrangements, as well as high inflation affecting consumer plans for appliance replacement).[58]

Figure 10 Forecast and actual consumption (TJs)



Source: AER, Final Decision Attachment 12 - Demand, April 2021; Regulatory Information Notices N1.1.

Incentives to grow demand are no longer appropriate given emissions reduction objectives are now incorporated into the NGO, the ACT Government's electrification policy, and a legislated ban on gas connections that limits our ability to slow the decline of demand. Evoenergy faces a customer-led energy transition for part of our 2026–31 access arrangement period, ratcheting financial incentives for electrification, uncertainty as to the extent of the ACT Government's regulatory intervention during the period to meet interim emission reduction targets, and phased gas network decommissioning to commence from 2035. In these circumstances, Evoenergy has limited ability to manage revenue risk through influencing gas demand and incentivising consumption growth.

ACT-specific circumstances, including an unprecedented transition, regulatory risk during the period, and our unique customer and demand characteristics that make forecasting demand more challenging are likely to contribute to a greater risk of more material variations between forecast and actual demand and mean that a WAPC or a hybrid TVM (more so a WAPC-hybrid than a revenue-hybrid) are not appropriate for our 2026–31 access arrangement. Any actions taken by the ACT Government during the 2026–31 regulatory period, including further initiatives aimed at encouraging electrification, are likely to significantly influence demand for gas, and this is outside of our control. A revenue-based form of TVM in the ACT context is necessary to enable Evoenergy to be provided with an opportunity to recover at least our efficient costs while earning a return commensurate with our regulatory risks. Further, our customers should not bear the increased risk of variances between actual and forecast demand under a WAPC or hybrid TVM, when there is no commensurate benefit of demand growth leading to lower gas prices in future.

[58] CIE Appendix 2.1: Evoenergy gas demand, June 2025, pp. 18-19.

4.2.2 Demand incentives implicit in the TVM should be harmonised with jurisdictional emissions reduction targets to promote the NGO

A revenue cap is more likely to facilitate the achievement of the ACT-specific targets set in the *Climate Change and Greenhouse Gas Reduction Act 2010* and promote the NGO than a WAPC or hybrid TVM.

In making a decision on the TVM, the AER is required to exercise its power in a manner that will or is likely to contribute to the achievement of the NGO[59] to "promote efficient investment in, and efficient operation and use of, covered gas services for the long-term interests of consumers of covered gas with respect to … the achievement of targets set by a participating jurisdiction for reducing Australia's greenhouse gas emissions …".[60]

The ACT Government's legislated greenhouse gas emission targets include "zero net emissions by 30 June 2045" and interim targets in 2025, 2030, and 2040.[61] The ACT Government's greenhouse gas emission targets, alongside targets recalculated by Evoenergy relative to 2024 emission levels, are shown in Table 3.

Table 3 ACT Government greenhouse gas emission legislated targets

ACT Government legislated targets % reduction from 1990 levels	Ambition	2020	2025	2030	2040	2045
	Low	-40%	-50%	-65%	-90%	-100%
	High	-40%	-60%	-75%	-95%	-100%
Emission reduction targets relative to 2024 levels	Midpoint		-9%	-40%	-85%	-100%

Source: Climate Change and Greenhouse Gas Reduction Act 2010 (ACT); ACT Government, ACT Climate Change Strategy 2019-25, p. 35; Evoenergy Attachment 2: Forecasting demand in uncertainty, June 2025.

The ACT Government does not support reticulated natural gas alternatives (such as hydrogen and biogas) and have outlined the pathway to full electrification. Biogas is not a viable replacement for natural gas due to insufficient supply.[62] Accordingly, the ACT Government has stated that future use of renewable hydrogen and biomethane will be limited and 'targeted', only used to ensure decarbonisation 'where electrification is not feasible.[63] The ACT Government has concluded that green gas could be used for hard to abate industrial uses, but not household use.[64]

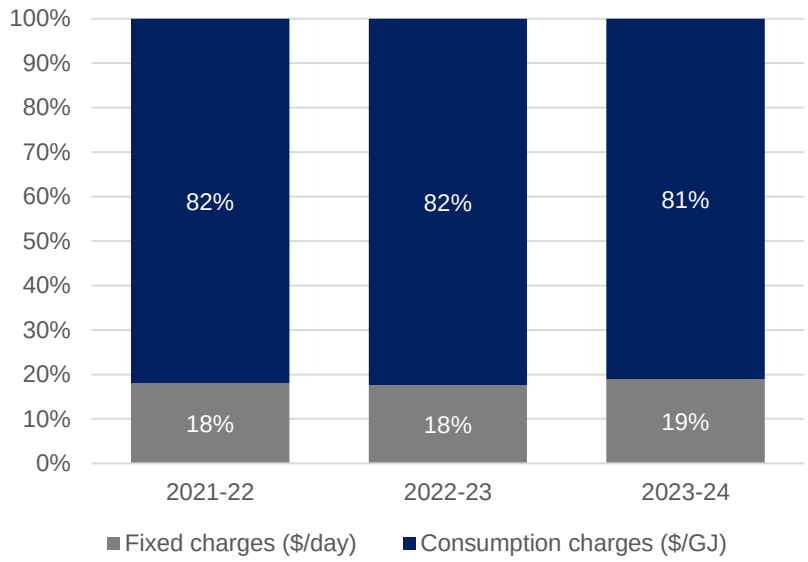
Our customer base is comprised of 98.04 per cent residential customers, 1.93 per cent commercial customers, and 0.03 per cent industrial customers.[65] Around 90 per cent of our customers are located in the ACT. For the ACT Government to meet its legislated emission reduction objectives for reticulated natural gas, demand must materially decrease. Indeed, "The ACT Government acknowledges that current policies will put downward pressure on gas demand over the coming period."[66]

[59] NGL, section 28(1).
[60] NGL, section 23.
[61] Climate Change and Greenhouse Gas Reduction Act 2010, Part 2, 6(1).
[62] ACT Government, ACT Climate Change Strategy to 2019-25, 2019, p. 66.
[63] ACT Government, The Integrated Energy Plan 2024–2030, our pathway to electrification, June 2024, p 36.
[64] ACT Government, The Integrated Energy Plan 2024–2030, our pathway to electrification, June 2024, p. 33.
[65] Based on 2023-24 Regulatory Information Notice.
[66] ACT Government, Minister Rattenbury - Submission - Evoenergy reference service proposal, August 2024, p. 2.

Under a price cap and hybrid TVM, and to a greater extent a WAPC-hybrid than a revenue-hybrid, increased gas consumption is perversely incentivised because gas service providers can earn more revenue by selling more gas. While gas networks have high fixed costs and lower marginal costs for gas volumes, with consumption-based network tariffs, marginal revenues are greater than marginal cost for the consumption component of the tariff class, allowing profits to increase when actual sales are higher than expected.

Evoenergy's revenues are directly linked to actual volumes of gas sold because consumption-based tariffs have been adopted for most customers. For example, around 80 percent of revenue on our Volume Individual (VI) tariff is recovered through the consumption component (see Figure 11).

Figure 11 Volume Individual tariff revenue by component



Source: Evoenergy analysis.

Incentives to slow the decline in demand under a WAPC or hybrid, more so a WAPC-hybrid than a revenue-hybrid, are inconsistent with the ACT Government's greenhouse emission reduction targets because revenue is linked to volumes. WAPC regulation incentivises demand growth, which the AER has recognised is "inconsistent with efforts to reduce fossil fuel use and decarbonise the Australian economy."[67]

Evoenergy considers that the ACT-specific targets set in the *Climate Change and Greenhouse Gas Reduction Act 2010* will be most effectively achieved, and the NGO promoted, through a revenue cap. Demand incentives under a revenue cap align with the ACT Government's policy to reduce fossil fuel use and meet net-zero targets. Evoenergy proposes a revenue cap as it is neutral on demand incentives and allows revenue recovery to be independent of government policy, so that we will not be financially rewarded nor penalised by the pace of electrification that will be customer-led and then ACT Government driven during the regulatory period. It means that customers only pay what is necessary for a safe and reliable gas distribution services.

Section 4.2.5 details the relationship between risk sharing arrangements implicit in the TVM and allowing returns commensurate with commercial and regulatory risk in the context of legislated emission reduction targets. The TVM needs to be appropriate while allowing for a return commensurate with commercial and regulatory risk associated with incentives and ability to manage revenue risk in circumstances where Evoenergy does not have the ability to influence demand due to legislated emission reduction targets.

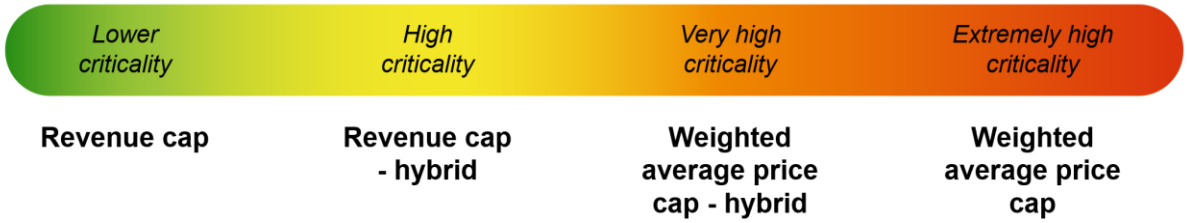
[67] AER, AER Information Paper - Regulating gas pipelines under uncertainty, 15 November 2021, p. 54.

4.2.3 Reducing dependence on demand forecasts with regulatory uncertainty is critical to provide an opportunity for efficient cost recovery

Under a revenue cap TVM, there is less reliance on demand forecasts than under a WAPC or hybrid mechanism. Demand forecasting is challenging for the ACT and Queanbeyan-Paralang region, particularly at this stage of the transition from gas to electricity. In these circumstances, a revenue cap mechanism will be better able to provide Evoenergy with an opportunity to recover at least its efficient costs than a WAPC or hybrid mechanism and promote efficient investment in and efficient operation of our gas network in the long term interests of gas consumers.[68]

The criticality of an accurate demand forecast exponentially increases from a revenue cap to a price cap, and there is a risk that we will not be able to recover at least our efficient costs under a WAPC and a hybrid (to a greater extent under a WAPC-hyrbid than a revenue-hybrid) as a result of the increased uncertainty in demand forecasts and increase in regulatory risks. Given our operating context, the unprecedented nature of the transition underway, relatively fixed costs, and regulatory uncertainty during the 2026–31 period in the ACT, reducing reliance on the five-year ahead demand forecasts is necessary to provide Evoenergy with an opportunity to recover at least is efficient costs.

Figure 12 Criticality of demand forecast to recovery of efficient costs



Demand forecasts are more crucial under a WAPC than under a revenue cap because if volume forecasts are not accurate at the time of the regulatory determination, the price path over the regulatory period will be incorrect.[69] The criticality of demand forecasts under a price cap and a hybrid is higher because revenue depends on actual gas sales.

The need for accurate demand forecasting, to underpin tariff setting, is not reduced under a hybrid mechanism. Accurate demand forecasts remain more critical under a WAPC-hybrid, and to a lesser extent a revenue-hybrid TVM, compared to a revenue cap. The difference between the demand forecast set by the AER five years in advance and actual demand determines the extent of inefficient revenue recovery and an inefficient price path, contrary to the NGL and not in the long-term interests of gas consumers.

Demand forecasting is challenging for the ACT and Queanbeyan-Paralang region, particularly at this stage of the transition, due to limited trend data of our customers' electrification decisions, lack of domestic or international precedent to draw upon, our unique customer and demand profile, changing climate, and ratcheting ACT Government electrification incentives creating regulatory uncertainty. We acknowledge that the ACT Government's assessment and implementation of additional regulatory intervention during our 2026–31 regulatory period substantially increases the likelihood that actual and forecast demand set by the AER may be different.

A revenue cap reduces reliance on volume forecasts.[70] There is regulatory precedent for moving from a price to a revenue cap due to the challenge of forecasting demand and to ensure that regulated businesses only recover efficient costs. The New Zealand Commerce Commission

[68] NGL, sections 23, 24(2) and 28(2).
[69] AER, Stage 1 Framework and approach - NSW distributors, March 2013, pp. 52-53.
[70] AER, Stage 1 Framework and approach - NSW distributors, March 2013, pp. 52-53.

(NZCC) moved to a revenue cap for gas transmission businesses because it considered that "demand is difficult to forecast and that transmission businesses have little ability to influence demand."[71] Given the potential magnitude of possible forecasting error, the NZCC considered that the benefits of removing the quantity forecasting risk outweigh the demand uncertainty risk that would shift further to consumers.[72]

The control mechanism should limit revenue recovery above efficient costs,[73] and restrict sustained revenue recovery below efficient costs (associated risks are discussed in section 4.2.5) which is inconsistent with the NGL revenue and pricing principles. Windfall gains and losses for us and for our customers are removed under a revenue cap, facilitating efficient electrification of the ACT. Under a revenue cap, any under or over recovery of revenue is offset through a rolling unders-and-overs mechanism, which automatically adjusts the revenue allowance in the following years. Under the revenue cap, the present value of the actual revenue equals the present value of allowed efficient revenues, derived from the building block model, safeguarding consistency with NGR requirements.[74]

The community forum informed us that customers paying only what is needed to maintain a safe and reliable gas network was the most important factor to them in how prices are adjusted annually, regardless of outturn demand. The ACT Government has noted that "It is important during the energy transition that gas customers pay no more than is necessary for maintaining the gas network and also that Evoenergy receives sufficient revenue to maintain its operations."[75]

As efficient revenue is fixed under a revenue cap for a regulatory period, additional profits can only be maximised by reducing costs, consistent with the intent of incentive-based regulation. Given that capital intensive gas distribution network costs are largely fixed and unrelated to energy sales, revenue recovery should also largely be fixed and unrelated to energy sales.[76]

While Evoenergy is not guaranteed full cost recovery, the NGL revenue and pricing principles, which the AER is required to take into account in exercising its discretion, provide that Evoenergy should be provided with a reasonable opportunity to recover efficient costs. A revenue cap does not remove the risk of not fully recovering sunk investment costs, but it does account for demand uncertainty risk (inherent uncertainty in future demand due to regulatory intervention) and demand forecasting risk (extent to which the forecast set by the AER diverges from the expectations of other stakeholders or a 'perfect' forecast) during the regulatory period.

4.2.4 Aligning regulatory arrangements between energy substitutes supports an economically efficient energy transition

In determining the TVM, the AER is required to have regard to the regulatory arrangements for the distribution of electricity under section 97(3)(c) of the NGR and/or as a relevant factor under section 97(3)(e) of the NGL. This is because electricity is viewed as a substitute for gas. In particular, the AER should have regard to the revenue cap mechanism that applies to Evoenergy's electricity distribution business and align the gas distribution business with the electricity distribution business by approving a revenue cap TVM for the gas distribution business to promote economic efficiency. This is also consistent with our stakeholder feedback, as

[71] New Zealand Commerce Commission, Input methodologies review decisions Topic paper 1: Form of control and RAB indexation for EDBs, GPBs and Transpower, 20 December 2026, p. 41.
[72] New Zealand Commerce Commission, Input methodologies review Emerging views on form of control, 29 February 2016, p. 7.
[73] AER, Final framework and approach for ActewAGL's electricity distribution business, July 2017, p. 41.
[74] NGR, rule 92(2).
[75] ACT Government, Minister Rattenbury - Submission - Evoenergy Reference service proposal, August 2024, p. 2.
[76] For example, see AER, Stage 1 Framework and approach paper Ausgrid, Endeavour Energy and Essential Energy Transitional regulatory control period 1 July 2014 to 30 June 2015 Subsequent regulatory control period 1 July 2015 to 30 June 2019, March 2013, p. 51.

stakeholders considered it was important for us to achieve alignment between the network pricing approaches for our gas and electricity network.

The NGR requires the AER to have regard to "the desirability of consistency between regulatory arrangements for similar services (both within and beyond the relevant jurisdiction)" in deciding whether a particular TVM is appropriate to a particular access arrangement.[77] The AER has noted that natural gas and electricity are substitute energy sources[78] because consumers can choose between gas and electric appliances for heating, hot water, and cooking. Moreover, electricity is increasingly becoming more competitive than gas, supported by strong government messaging, financial rebates for electrification, and customer preferences and environmental concerns.

Consistent regulatory arrangements between energy substitutes within our operating footprint are critical to facilitating efficiency. The AER has acknowledged that, "It is becoming increasingly important that the AER considers the interdependencies between electricity and gas in this energy transition and targets economically efficient outcomes in the energy sector as a whole."[79] Our community forum supported a move away from treating gas and electricity networks separately, and considering the energy system as a whole.[80] We consider that the presence and extent of electricity substitute services within the ACT is an important and relevant factor in deciding whether a particular TVM is appropriate for our 2026–31 access arrangement.[81]

Currently, the AER applies different control mechanisms for gas and electricity distribution services in the ACT – a WAPC for Evoenergy's gas network and a revenue cap form of control for our electricity network.[82] Retaining a WAPC or moving to a hybrid approach (to a greater extent a WAPC-hybrid than a revenue-hybrid TVM) – based on perceived price stability – creates the risk that customers' electrification decisions will be sped up or slowed down based on inefficient price signals, contrary to the NGO and the ACT Government's emissions reduction policy.

Aligning the gas network to a revenue cap, consistent with the electricity network, provides a natural hedge against demand uncertainty and supports total energy bill stability for customers. As electricity is a substitute for gas for most customers, if gas demand declines more rapidly than forecast due to electrification, electricity demand is likely to increase more rapidly. With both networks under a revenue cap, price adjustments in each network respond inversely to demand changes. Where prices for gas increase due to declining demand, prices for electricity will decrease, holding all other factors constant. The offsetting effect of prices smooths the total energy bill for gas customers (all of whom are also electricity customers), ensuring a more stable and predictable outcome in the face of demand uncertainty. A price path reflecting gradual changes in demand between substitutes facilitates allocative efficiency and creates a natural hedge in the total customer bill.

The NGL revenue and pricing principles provide that gas service providers should be provided with "effective incentives in order to promote economic efficiency with respect to reference services".[83] Economic efficiency includes allocative efficiency (resources are allocated to their highest valued uses), productive efficiency (value of resources used is minimised for a given level of output), and dynamic efficiency (resources are allocated efficiently over time). Allocative efficiency is achieved when production is aligned with consumer preferences, occurring where a

[77] NGR, rule 97(3)(d).
[78] AER, Regulating gas pipelines under uncertainty, November 2021, p. 61.
[79] AER, AER Information Paper - Regulating gas pipelines under uncertainty, 15 November 2021, p. 59.
[80] Appendix 1.2-Communication Link-Community Forum Report, May 2025, p. 6.
[81] NGL, section 97(3)(e).
[82] AER, Framework and Approach Evoenergy (ACT) Regulatory control period commencing 1 July 2024, July 2022, pp. 32-34.
[83] NGL, section 24(3).

service has a marginal benefit equal to the marginal cost, reflecting an optimal distribution of services.[84]

Adopting a consistent revenue cap approach between substitute gas and electricity distribution services within the ACT and Queanbeyan-Palerang region will ensure allocative efficiency during the energy transition. It will do so because gas and electricity prices will work in tandem to capture actual aggregated consumer preferences and willingness to pay, ensuring customers are provided with efficient price signals both within and between energy systems. A revenue cap during the 2026–31 period provides for accurate and efficient price signals between gas and electricity substitutes to be incrementally adjusted every year in response to customer decisions and government incentives and regulation, while accounting for actual elasticity of demand. A revenue cap allows a customer-driven pricing approach that is independent of future government decisions and based on efficient price signals between energy substitutes.

Allocative efficiency is reduced when a distributor recovers additional revenue from price sensitive services through prices above marginal cost.[85] Service providers can earn more or less than efficient revenue under a WAPC and a hybrid (and to a greater extent a WAPC-hybrid than a revenue-hybrid), but cannot earn more or less than efficient revenue under a revenue cap.

Aligning regulatory approaches across gas and electricity within our operating footprint simplifies regulation and improves transparency which is critical to achieving the NGO and an efficient energy transition in the long term interests of customers.

A revenue cap most closely aligns with incentivising economic efficiency while directly accounting for the presence and extent of substitutes, including elasticity of demand for gas and electricity. A revenue cap ensures that the energy transition occurs at an efficient pace, allowing an independent approach to regulation that mimics a competitive market structure.

4.2.5 Risk sharing arrangements need to be appropriate, allowing returns commensurate with commercial and regulatory risk in the context of emissions reduction

The NGR requires that the AER have regard to the risk sharing arrangements implicit in the access arrangement in deciding whether a TVM is appropriate to a particular access arrangement.[86] Consistent with the NGL revenue and pricing principles, which the AER must take into account in exercising its discretion, Evoenergy's reference tariffs should allow a rate of return commensurate with the commercial and regulatory risks involved in providing reference services.[87] As such, Evoenergy should be provided a return commensurate with commercial and regulatory risks assumed by Evoenergy under our access arrangement, which reflect our specific operating circumstances, including legislated restrictions on influencing declining demand. A revenue cap TVM is the most appropriate TVM given the risk sharing arrangements implicit in the access arrangement in the face of declining demand and regulatory risk with ACT Government intervention during the period to ensure it achieves its legislated emission reduction targets.

Some risk is held by customers over the short and long term, regardless of the TVM. Under a WAPC and a hybrid TVM, customers bear the risk of paying more or less than the efficient allowance required to safely and reliably operate the gas network. Customers hold short term demand risk where an access arrangement reopener is needed to recalibrate for a material change in demand. Customers bear long term risk if the forecast is consistently set too high such

[84] The AER state that “Allocative efficiency is achieved when the value consumers place on a good or service (reflected in the price they are willing to pay) equals the cost of the resources used up in production. The condition required is that price equals marginal cost. When this condition is satisfied, total economic welfare is maximised.” (AER, Stage 1 Framework and approach paper Ausgrid, Endeavour Energy and Essential Energy Transitional regulatory control period 1 July 2014 to 30 June 2015 Subsequent regulatory control period 1 July 2015 to 30 June 2019, March 2013, p. 46).
[85] AER, Final framework and approach for ActewAGL, July 2017, p. 41.
[86] NGR, rule 97(3)(d1).
[87] NGL, 24(5).

that the network cannot recover the efficient costs of maintaining safe and reliable operations. Customers also bear long term demand risk when demand is recalibrated between regulatory resets.

If a fall in demand below the regulatory forecast occurs within the regulatory period, the demand decline is incorporated into the next regulatory period through higher prices. While demand forecasting risks still exist under a revenue cap, it better manages this risk and mitigates the impacts on customers and Evoenergy through gradual adjustments to price (using a rolling unders and overs mechanism) over the course of the regulatory period, based on the latest available demand information.

Under a WAPC and a hybrid TVM, networks assume volume risks with the opportunity to profit or the potential to recover less than the efficient revenue needed to safely and reliably operate the gas network and meet regulatory obligations.

Our current returns are based on the accuracy of the demand forecast set by the AER and the return on capital derived using the weighted average cost of capital with an equity beta equivalent to that of regulated electricity networks. However, Evoenergy does not receive a return commensurate with the additional risks that have developed during the 2021–26 period. Specifically, risks that have developed include:

- A higher commercial risk of recovering materially less than the efficient revenue allowance (especially in the outer years of a regulatory period due to demand being set 5 years prior under a WAPC or a hybrid TVM at a time of greater uncertainty over demand forecasting given the unprecedented change underway).
- A regulatory risk associated with a legislated restriction on influencing demand outcomes based on the ACT Government's emission reduction targets, ban on new gas connections and commitment to implement additional regulatory measures during the 2026–31 period.

Given demand uncertainty driven by regulatory risks during a period of unprecedented change, the probability of under or over recovering efficient required revenue is far greater than ever before. The consequences of under recovering efficient required revenue are more material than in the past as predominantly fixed costs continue to be recovered over a declining customer base. While demand is driven by factors outside of our control, if actual volumes are significantly below forecasts, under a WAPC or a hybrid TVM (and to a greater extent a WAPC-hybrid than a revenue-hybrid):

- Evoenergy may recover insufficient revenue to cover at least the efficient costs of safely and reliably maintaining and operating the gas network, to meet our regulatory obligations and relevant service standards.
- This will prevent a reasonable opportunity to recover at least our efficient costs, including AER approved depreciation of the capital asset base within the regulatory period.
- The price path set by the AER will be inefficient where customers pay less than necessary, contributing to distorted customer decisions about gas usage and disconnections, which may be inconsistent with ACT policy objectives.
- This will increase the likelihood to re-open the access arrangement, adding to the cost of regulation when the ACT Government intends to commence phased gas network decommissioning from 2035.
- Sustained revenue recovery below the efficient allowance over an extended period will undermine Evoenergy's financial viability,[88] whereas an analogous business operating in a competitive market would cease trading under insolvency provisions, and declare voluntary administration.

[88] The annual audit process includes an assessment of impairment testing.

Our commercial and regulatory risk profile has changed based on ACT Government policy. Under a price cap and a hybrid TVM, Evoenergy may materially under or over recover the revenue needed to safely and reliably operate the network during the customer-led phase of the energy transition. Evoenergy's Transportation (including metering) Reference Service tariffs do not include a return commensurate with the developing regulatory and commercial risks specific to our changing circumstances.

The AER has noted that government "policies to mitigate further growth in distribution networks in those jurisdictions [i.e. the ACT and Victoria] can be seen as addressing the incentive properties of price cap regulation. That is, they will counteract price cap incentives for distributors to grow volumes, at least in respect of new connections if not in terms of demand by customers at existing connections. In this sense, these new jurisdictional policies weaken the case for changing from price caps to alternative tariff variation mechanisms."[89]

Contrary to the above, new jurisdictional policies in the ACT do not mitigate gas network growth incentives under price cap regulation, and do not weaken the case for changing from a WAPC to a revenue cap TVM. While ACT legislation prohibits new customer gas connections in the ACT, under a WAPC or hybrid TVM, Evoenergy faces incentives to set network tariffs in a way that keeps existing customers connected longer, and using more gas. This incentive is inconsistent with the NGO and ACT Government policy.

Revenue risk management under a WAPC or hybrid TVM is restricted by the AER's preferred flatter tariff structure that is consistent with the revised NGO. Contrary to the NGO, our ability to manage revenue risk under a WAPC and a hybrid TVM, has been restricted based on the ACT Government's emissions reduction legislation, including a ban on connections. Based on these regulatory developments, additional returns commensurate with additional commercial and regulatory risk associated with not being able to manage revenue risk under a flatter tariff structure would be required under a WAPC or a hybrid TVM, consistent with the NGL.

That is, under WAPC or hybrid TVM, for consistency with the revenue and pricing principles, Evoenergy would need to be provided with a return commensurate with the increased commercial and regulatory risk associated with the greater probability of underperforming a demand forecast set by the AER due to our reduced ability to influence demand under ACT Government policy and as a result of greater demand forecasting uncertainty reflecting the unprecedented nature of the transition, coupled with our unique demand and customer characteristics. Given that our ability to manage revenue risk under a WAPC and a hybrid is reduced by legislation targeting emissions reductions through electrification, alongside a preference for flatter tariff structures, an alternative TVM (i.e. a revenue cap TVM) is required in the absence of a regulated return on capital, for example, commensurate with that risk.

Specifically, under a WAPC and a hybrid TVM, and to a greater extent WAPC-hybrid than a revenue-hybrid, Evoenergy acquires additional financial risk associated with a demand forecast set by the AER at a time of unprecedented change, with reduced ability to influence demand, and without a return commensurate with that associated increased regulatory and commercial risk profile. Similarly, customers face a risk of paying either too much or too little, without the opportunity to benefit from lower prices associated with growing demand, as has been the case in the past.

To facilitate efficiency, the form of regulation should be neutral to the pace of the transition, which is based on factors outside of our control, including regulatory intervention during the 2026–31 period. While WAPC and hybrid TVMs incentivise demand retention in the short and long run due to implicit risk sharing arrangements, a revenue cap does not. Revenue cap regulation removes the financial incentive for Evoenergy "to increase connections and gas consumption even when not efficient to do so."[90]

[89] AER, Final decision - Review of gas distribution network reference tariff variation mechanism and declining block tariffs, October 2023, pp. 7-8.
[90] AER, AER Information Paper - Regulating gas pipelines under uncertainty, 15 November 2021, p. 54.

Revenue caps are neutral to the pace of electrification, driven by ACT Government policy and customer preferences, because revenue is not linked to the amount of gas sold – revenue is completely independent of gas demand. A revenue cap ensures demand neutrality – decoupling revenue from demand is consistent with competing elements of the NGO relating to efficiency and emission reduction targets, and consistent with our legislated restrictions.

A revenue cap is appropriate where we have limited ability to influence demand outcomes relative to the forecast due to ACT Government policy. A revenue cap means that we are not penalised for not being able to slow the pace of electrification to manage our regulatory and commercial risks. A revenue cap ensures that Evoenergy is not financially rewarded nor penalised for the outcomes of the ACT Government's emission reduction targets relative to the five-year ahead forecast. Similarly, the TVM should not influence the pace of electrification – neither speed up nor delay an efficient energy transition.

Given the ACT context, we consider a revenue cap best meets the NGL and NGR risk sharing considerations that allows for an opportunity to recover at least efficient costs and return more commensurate with our commercial and regulatory risk profile. A revenue cap ensures that customers do not face the risk of paying too much or too little for gas network services, and the consequent risks that network charges may be set at an inefficient level which sends price signals that are incongruent with ACT Government policy and the customer-led pace of the energy transition. Under a revenue cap, Evoenergy is provided with revenue independence from the pace and trajectory of the ACT Government's emission reduction targets relative to the forecast set in the AER's final decision.

4.2.6 Price variability occurs under all tariff variation approaches and should not operate as a deterrent to a revenue cap TVM

Given the AER's reference to price variability as a relevant consideration for the TVM in its RSP decision, we engaged with our stakeholders on the relative impacts on price variability within and between periods under different TVM approaches.[91] Our community forum considered price predictability was important, including avoiding jumps in prices at the end of a five-year regulatory period.[92]

Under a revenue cap, some stakeholders consider that updated demand forecasts within the regulatory period create price volatility for customers. However, price volatility can minimised using several regulatory smoothing tools, including a rolling unders and overs mechanism.

Price increases and variability under alternative tariff variation approaches

We acknowledge that some stakeholders and customers are concerned about sustained price increases under a revenue cap. Sustained price increases will eventuate under any TVM as fixed costs are recovered over a declining customer base. This is the outcome of ACT Government policy and does not result from the choice of TVM. The choice of TVM only concerns the management of the variation between forecast demand set by the AER's final decision at the beginning of the regulatory period and actual demand.

In its final decision on our RSP, the AER considered that year-on-year tariff volatility is a flaw of revenue caps.[93] However, price variability occurs under any TVM as various annual price adjustments are required regardless of the control mechanism. In the short run, prices are updated for economic factors (inflation and the cost of debt) and regulatory obligations (Energy

[91] AER, Final decision Evoenergy gas distribution determination 2026 to 2031 reference service, tariff variation mechanism and tariff structure, November 2024, p. 13.
[92] Appendix 1.2-Communication Link-Community Forum Report, May 2025, p. 22-28.
[93] AER, Final decision Evoenergy Gas Distribution Determination 2026 to 2031 Reference service, tariff variation mechanism and tariff structure, November 2024, p. 13

Industry Levy and the Utilities Network Facilitates Tax).[94] Customers are exposed to demand risk in the long term under any TVM because they face price changes between regulatory periods, reflecting updated demand forecasts. The difference is that a revenue cap provides for a gradual and efficient adjustment of prices to correct for deviations between the forecast and the actual demand that eventuates based on the actual pace of the transition as it occurs.

Figure 13 Drivers of price variability

	Revenue cap	Price cap and hybrid TVM
Short term	• Economic factors (inflation, regulatory obligations) • Where actual and forecast demand is different	• Economic factors (inflation, regulatory obligations) • Tariff rebalancing incentives • Access arrangement reopeners and trigger events
Long term	• Pace of electrification	• Pace of electrification • Demand recalibration between regulatory periods

Under a price cap, tariffs do not vary within the regulatory period to account for the difference between actual and forecast volumes. Under a hybrid (more so a revenue-hybrid than a WAPC-hybrid), tariffs may vary within the regulatory period if actual and forecast volumes are different, depending on the hybrid design. Therefore, there is a perception that prices are relatively stable within a regulatory period. However, under a WAPC and a hybrid (to a greater extent under WAPC-hybrid than a revenue-hybrid), there can be price instability within and between regulatory periods.

Prices under a WAPC or a hybrid will vary within a regulatory period due to economic factors, regulatory obligations and tariff rebalancing (such as due to regulatory risk), and are more likely to give rise to the need for reopeners or trigger events than a revenue cap. A WAPC or hybrid TVM does not necessarily increase price stability or predictability for individual tariffs or customers because gas service providers face an incentive to re-balance tariffs to ensure cost recovery/maximise profit during the regulatory period (detailed in section 4.2.8).[95] While the side constraint limits the degree of relative price changes between tariff classes, there are typically fewer limits surrounding relative changes between components within a tariff class, or within individual tariffs. Prices may also be adjusted within regulatory periods to the extent of reopeners and trigger events.

Price variability between regulatory periods over the longer term under a WAPC or hybrid TVM depends on the accuracy of the demand forecast set by the AER, more than five years prior compared to outturn demand. Under a price cap or hybrid TVM, as demand forecasts are recalibrated for regulatory resets, there could be material price adjustments, especially where the demand forecast set in the preceding regulatory period was materially incorrect. Price shocks between regulatory periods are exacerbated if a trend of falling volumes sets in throughout the regulatory period at a rate faster than expected, promoting a larger upward adjustment of the X-

[94] The NGL defines the meaning of regulatory obligation or requirement, including "an Act of a participating jurisdiction, or any instrument made or issued under or for the purposes of that Act, that levies or imposes a tax or other levy that is payable by a service provider".
[95] For example, see AER, Stage 1 Framework and approach - NSW distributors, March 2013, p. 52.

factors for the next regulatory period under a WAPC or hybrid TVM.[96] There is no opportunity to correct course early – within a regulatory period – to avoid snowballing of forecast errors and stabilise prices.

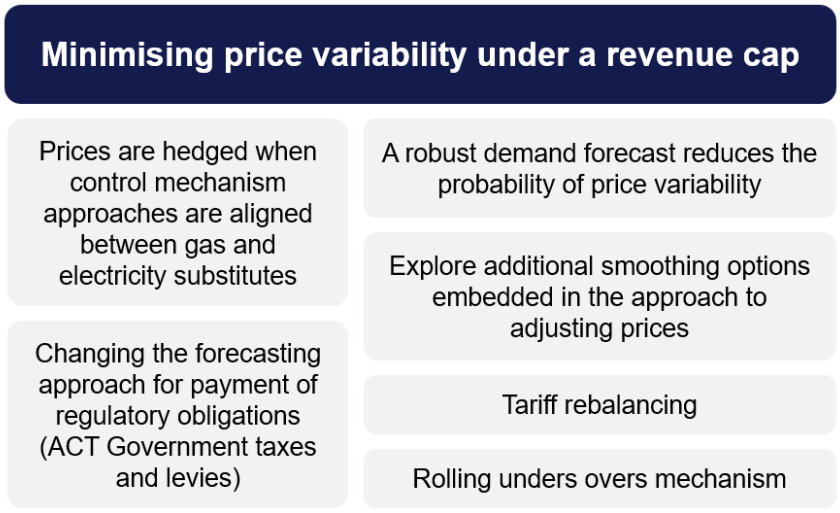
Price variability under a revenue cap is more gradual and depends on actual demand relative to the prior year and, more generally, factors outside of our control, including the pace of the energy transition and ACT Government regulation. A revenue cap allows tariffs to vary gradually within the regulatory period in tandem with the pace of customer electrification decisions (rather than jump up or down at the end of the period).

We acknowledge, however, that, even under a revenue cap, there may be rare situations where more significant changes in demand dictate material price adjustments (for example, due to highly abnormal weather conditions, or new policy measures from the government). We consider that there are a range of regulatory measures to manage the risk of customer bill shock due to such circumstances.

Addressing price variability concerns

Evoenergy has developed, in consultation with stakeholders, a revenue cap design that addresses price variability.

Figure 14 How we are minimising price varibility under a revenue cap



Evoenergy has adopted several approaches to minimising price variability under a revenue cap, including:

- **A rolling unders and overs mechanism implicitly smooths prices.** Evoenergy proposes a rolling unders and overs mechanism, which implicitly smooths revenue (and therefore prices). The revenue cap is designed to include a rolling annual update of actual (t-2), estimated (t-1), and forecast (t) revenue and demand, supporting reduced revenue and price variability over time. The design of the unders and overs account limits large price adjustments, allowing prices to be updated gradually to account for new information over a rolling three-year window covering more than half of the five-year regulatory period.
- **Aligning the gas network to a revenue cap, consistent with the electricity network, provides a natural hedge against demand uncertainty – supporting total energy bill stability for customers.** As electricity is a substitute for gas for most customers, if gas demand declines more rapidly than forecast due to electrification, electricity demand is likely to increase more rapidly. With both networks under a revenue cap, price

[96] The x-factor represents the real change in price based on updated NPV of the efficient revenue allowance in the regulatory period to account for the AER's benchmark cost of debt.

adjustments in each network respond inversely to demand changes. Falling gas volumes would lead to higher gas prices, while rising electricity volumes would lead to lower electricity prices. The offsetting effect helps smooth the total energy bill for gas customers (all of whom are also electricity customers), ensuring a more stable and predictable outcome in the face of demand uncertainty.

- **Managing the impacts of ACT Government taxes and levies through annual pricing significantly reduces risks of large price adjustments due to compounding forecast errors over the regulatory period.** Evoenergy proposes to change the forecasting approach for payment of the Utilities Network and Facilities Tax (UNFT) and the Energy Industry Levy, which are outside of our control (discussed in section 4.3.1). Allowing the forecasts to be updated in a rolling unders and overs mechanism using the latest available information helps support stable prices and avoids large annual true-ups that can occur if the five-year cost forecast is locked in at the start of a regulatory period. This approach was strongly supported by our community forum to allow greater responsiveness to government policy.[97]
- **A gradual and measured approach to tariff rebalancing helps reduce price variability from more volatile demand on the upper consumption blocks.** We are proposing a flattening of the consumption blocks on the Volume Individual (VI) tariff, with a decrease to Block 1, and commensurate increases in Blocks 2, 3, and 4 (see Attachment 7: Transportation (including metering) reference service and tariffs). In response to stakeholder concerns around price variability, we will implement the tariff rebalancing through a gradual and measured approach to tariff rebalancing over the 2026–31 period. We do not propose rebalancing the fixed charge, which will help stabilise prices during periods of volume variability on the consumption block charges. Our approach will reduce bill impacts for smaller gas customers and ensure that customers' bills are smooth during the regulatory period.
- **A robust demand forecast reduces the probability of price variability.** We have included a robust demand forecast tailored to our operating context and reflecting our customers' unique electrification circumstances and decisions, accounting for the elasticity of demand and consumer preferences between gas and electricity substitutes (see Attachment 2: Demand).
- **The side constraint prevents large price shocks.** Evoenergy proposes a side constraint of two percent to limit price shocks for individual customer classes. The side constraint limits how much revenue can be recovered from each tariff class relative to the revenue recovered from the same tariff class in the preceding year, preventing large movements of revenue recovery between tariff classes, and large price shocks for individual customer classes, during the regulatory period.[98]

We are committed to exploring additional smoothing options embedded in the revenue cap. This may include additional smoothing options to adjust for exceptional circumstances, such as significant changes in demand due to weather or an accelerated/decelerated timeline for ACT Government regulatory intervention for electrification. We note that there is regulatory precedent for a smoothing factor (P-factor), such as where the AER smoothed the revenue under-recovery for CitiPower to reduce price impacts following significantly reduced electricity consumption caused by the COVID-19 pandemic. We recognise that there may be risks associated with smoothing, such as a snowballing effect of continued under-recoveries or over-recoveries, where the impact can be exacerbated with larger price shocks over time. However, we also recognise that gas demand is more sensitive to weather compared to electricity in the ACT, which may mitigate smoothing risks. The AER considered "that in exceptional circumstances that deferrals or smoothing of revenue recovery can be allowed. In making these decisions, we take into

[97] Communication Link, Appendix 1.2: Community Forum Report, May 2025, May 2025, p. 44.
[98] AER, Annual Pricing Process Review Final position paper – Side constraint mechanism, November 2022.

consideration the impacts to both the distributors and, importantly, customers." [99] Additionally, to mitigate smoothing risks, an approach could be incorporated in the revenue cap formulae similar to the AER's Service Target Performance Incentive Scheme (STPIS) symmetrical banking mechanism.[100]

We note that regulatory measures to smooth price variability or volatility under a revenue cap are established for electricity networks. A smoothing approach could be implemented using a P-factor developed by the AER, a symmetrical banking mechanism, a multiplier on the revenue balancing adjustment (B-Factor), or by targeting a zero-closing balance in the unders-and-overs account at a future time (e.g., as t+1) where required.

4.2.7 Minimising administrative costs and complexity

The NGR requires the AER to have regard to administrative costs for the AER, Evoenergy, and customers in deciding whether a particular TVM is appropriate.[101] The TVM should minimise the complexity and administrative burden for the AER, distributors and users. Our proposed revenue cap TVM minimises administrative costs for the AER, Evoenergy and our customers.

TVM implementation and compliance

Administrative costs are a particularly relevant consideration during Evoenergy's 2026–31 access arrangement period given that the ACT Government has committed to review and implement additional regulatory measures during the period and "develop policy and regulatory frameworks to support safe, efficient and equitable decommissioning of the gas network".[102]

We consider that a WAPC or a WAPC-hybrid TVM could incur substantial administrative costs during the 2026–31 access arrangement period due to the likelihood of needing to reopen the access arrangement or bring forward the next regulatory review.

A more complex revenue-hybrid is likely to result in higher ongoing compliance and administrative costs as it could include maintenance of an unders and overs mechanism. The higher administrative costs under a revenue-hybrid outweigh the benefits.[103]

The application of a consistent control mechanism for gas and electricity distribution services allows for reduced complexity and administrative burden for the AER and other stakeholders through standardisation of modelling approaches. A revenue cap has well established precedent and implementation procedures. We consider that implementation and ongoing administration costs of a revenue cap are not material.[104] Aligning gas network regulation with electricity frameworks simplifies regulation, enhances transparency, and minimises administration costs.

Access Arrangement reopeners and trigger events

The NGR provides for an access arrangement variation proposal, whereby service providers may apply to the AER to vary an approved access arrangement.[105] The NGR also provides for an earlier access arrangement review submission date if an access arrangement provides for acceleration on the occurrence of a trigger event, and that trigger event occurs.[106]

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[99] AER, Final Decision AusNet Services, CitiPower, Jemena, Powercor, and United Energy, Distribution Determination 2021 to 2026 Attachment 14 Control mechanisms, April 2021, pp. 16–18.
[100] For example, see AER, Service Target Performance Incentive Scheme v 2.0, December 2018, p. 36.
[101] NGR, rule 97(3)(b).
[102] ACT Government, The Integrated Energy Plan 2024–2030 Our Pathway to Electrification, 2024, pp. 9, 19.
[103] AER, Stage 1 Framework and approach paper Ausgrid, Endeavour Energy and Essential Energy, March 2013, pp. 54-55.
[104] Evoenergy must identify in the materials submitted to the AER the possible effects of the proposed reference tariff variation mechanism on the pipeline service provider's administrative costs and, if known, the administrative costs of users or potential users. (AER, Draft 2026-31 Reset RIN for Gas Distributor, February 2025, Section 4.17(1.1.4)).
[105] NGR, rule 65(1)-(3).
[106] NGR, rule 51(1)-(3).

We consider that reopening an access arrangement (applying for a variation or including a trigger event) is not the first best option as it is a costly and complex process in the context of winding down the gas network. The AER has stated that the "use of re-openers (with a pre-defined trigger event) may introduce additional complexity to an access arrangement review and significant administrative burden."[107]

It is not clear that consumer benefits outweigh the costs of an access arrangement reopener or bringing forward the next access arrangement review. Accounting for a materially inaccurate demand forecast due to regulatory uncertainty during the 2026–31 period will likely exacerbate price impacts and financial risks for customers as the costs of reopening and reassessing an access arrangement variation are shared over fewer gas customers over time.

Regulatory uncertainty increases the probability of an access arrangement reopener to address a material change in policy settings which causes the demand forecast to be materially incorrect. We are mindful the reopener provisions are only accessible by the service provider and not the customer and therefore there is an asymmetry of risk to the customer under a WAPC or hybrid TVM.

A revenue cap provides flexibility to account for regulatory uncertainty and material changes in demand while minimising administrative costs. However, we do recognise the NGR reopener and access arrangement acceleration trigger provisions as a subordinate measure within the existing regulatory framework to account for differences between actual and forecast demand under a WAPC or hybrid TVM.

Shorter Access Arrangement period

An access arrangement must state the review submission date and the revision commencement date.[108] The AER must approve the dates proposed by the service provider if it is satisfied that those dates are consistent with the NGO and the revenue and pricing principles, or set an alternative review submission date.[109] We consider that our proposed five-year access arrangement period is consistent with the NGO and revenue and pricing principles based on a revenue cap.

However, we recognise that, in our circumstances, where there is substantial regulatory risk, a departure from precedent with a shorter regulatory period may be considered as a measure to mitigate demand risks under a WAPC or hybrid TVM. Shortening the current five-year access arrangement period, to more regularly recalibrate demand forecast and manage risk under a WAPC or a hybrid TVM, will increase administrative costs associated with regulating the gas network, and could be avoided using a revenue cap.

4.2.8 Need for efficient tariff structures

The NGR requires that the AER have regard to the need for efficient tariff structures in deciding whether a particular TVM is appropriate for Evoenergy's 2026–31 access arrangement.[110] A tariff is the rate by which a charge for a pipeline service is calculated.[111] The AER considers tariff structures are efficient if they reflect the underlying cost of supplying distribution services (the marginal cost), and reflect customer willingness to pay.[112]

Given gas networks have predominately fixed costs, cost reflective network tariffs generally involve higher fixed charges and usage charges that incrementally decrease with higher levels of consumption. A revenue cap facilitates a tariff structure that more accurately reflects fixed costs, and which allows for a more dynamic adjustment of price structures as the customer base

[107] AER, Regulating gas pipelines under uncertainty information paper, November 2021, p. 56.
[108] NGR. rule 48(1)(i); 50(1).
[109] NGR, rule 50(2)-(3).
[110] NGR, rule 97(3)(a).
[111] NGL, section 2.
[112] For example, see Final framework and approach for ActewAGL, July 2017, pp. 37, 85.

declines, avoiding inefficient cross-subsidies, inaccurate price signals, and sudden price shocks between regulatory periods.

Cost reflective tariffs tend to include declining blocks, allowing for a decreasing cost per unit of gas with higher network utilisation. Declining block structures have supported growth in the network by providing customers with a lower marginal price for higher gas usage. Such incentives are no longer consistent with ACT Government policy to phase out natural gas. Evoenergy has proposed a flatter tariff structure to better signal the value of emissions reduction, and to support affordability for smaller gas customers through the energy transition (see Attachment 7: Transportation (including metering) reference service and tariffs). However, a WAPC or hybrid TVM creates a tension between the desirability of a flatter tariff structure and a distributor's revenue and profit incentives. This tension exists for two key reasons:

1. Under a WAPC or hybrid TVM, there is an incentive for a distributor to increase gas consumption on the network to manage revenue risk in a declining gas market, encouraging tariffs that reward higher gas use with inefficiently low prices, contrary to the benefits of a flatter structure.
2. Under a WAPC or hybrid TVM, tariff flattening contributes to greater revenue risk because it requires increasing prices for upper consumption blocks where volumes are much more variable – creating revenue uncertainty. Consequently, there is an incentive to inefficiently increase fixed and Block 1 charges, where volumes are much more stable and there is less revenue risk.

The AER consider that "Evoenergy should develop and submit for AER consideration one or more implementation pathways to incrementally flatten its declining block tariff structure."[113]

Flatter tariffs under a WAPC or hybrid TVM increases revenue risk. That is, there is a trade-off between tariff structures and commercial risk which we are not compensated for under a WAPC or a hybrid TVM based on our operating context. Consistent with the NGL, the combination of flatter tariff structures and the AER's preferred WAPC-hybrid TVM design, Evoenergy would need to be compensated to earn a return commensurate with this additional risk.

Under a revenue cap, the link between changes in consumption and profit are weakened and a flatter tariff structure becomes more feasible, aligning incentives with the ACT Government's emission reduction targets, the NGO, and our community's preferences.

Given that efficient tariffs should lie between the bounds of avoidable and stand-alone costs, a revenue cap will allow tariffs to be adjusted in tandem with consumer-led electrification during the energy transition.

To align the need for efficient tariff structures and emission reduction targets, while ensuring an opportunity to recover efficient costs, we propose to gradually flatten tariffs annually under a revenue cap. Our ability to achieve flatter tariffs is strongly contingent on a revenue cap to ensure prices are set at efficient levels, and customers pay only what is needed for Evoenergy to maintain a safe and reliable gas distribution network.

Our proposed revenue cap will ensure consistency with ACT Government emissions reduction policies and with the AER's preference for flatter tariff structures. The AER has stated that if "revenue cap regulation is adopted, the resulting tariff structures would likely be changed from declining block tariffs to one that has less incentives on consumption growth."[114]

[113] AER, Final decision Evoenergy Gas Distribution Determination 2026 to 2031 Reference service, tariff variation mechanism and tariff structure, November 2024, p. 2.
[114] AER, Regulating gas pipelines under Uncertainty Information paper, November 2021, p. 55.

4.3 Transportation (including metering) Reference Service tariff variation mechanism formulae

In this section, we provide further information on the details of our proposed revenue cap TVM.

Under the NGR, the TVM may provide for variation of a reference tariff:[115]

- in accordance with a schedule of fixed tariffs; or
- in accordance with a formula set out in the access arrangement; or
- as a result of a cost pass through for a defined event (such as a cost pass through for a particular tax); or
- as a result of the application of a portion of the revenue generated from the sale of rebateable services to reduce the reference tariff as contemplated under rule 93(3); or
- by the combined operation of 2 or more or the above.

Evoenergy's revenue cap formulae for the Transportation (including metering) Reference Service allows tariffs to vary annually in accordance with a formula set out in the access arrangement (Schedule 4 and Schedule 5), including for defined cost pass through events.

Evoenergy has based its revenue cap formulae on the standard approach used by the AER for electricity distribution networks, including accounting for costs and revenues in a rolling unders and overs mechanism which is updated each year for forecast, estimated, and actual revenues as part of an annual tariff variation notice that is approved by the AER.

Our current 2021–26 access arrangement includes an automatic adjustment factor (expressed as a percentage adjustment to notional revenues) which accounts for costs incurred for license fees and unaccounted for gas (UAG).

For the 2026–31 access arrangement, we propose to transition to individual cost factors (expressed in dollars) to be treated in a rolling unders and overs mechanism, which will improve transparency and provide consistency with the implementation of revenue caps for electricity distribution networks.[116] Specifically, we have included in the TVM factors for government taxes and levies and licence fees (G-factor), Unaccounted for gas based on a benchmark (U-factor), carbon cost (C-factor), and Relevant Taxes (T-factor).

The NGR allows for the TVM to account for defined cost pass throughs (detailed in sections 4.3.1 and 6). While Evoenergy has proposed changes to the formulae reflecting a transition to a revenue cap, the approach continues to reflect the intent embodied in the 2021–26 access arrangement that these costs should be passed-through in network charges based on the actual amounts incurred by Evoenergy each year (or, in the case of UAG, the allowable benchmark amount) to ensure we can recover at least the efficient costs we incur in complying with regulatory obligations, consistent with the NGL revenue and pricing principles.

The proposed revenue cap formulae include transitional arrangements to account for differences between forecast and actual licence fees and UAG which were incurred in the final two years of the 2021–26 regulatory period to avoid double counting costs. These costs have historically been a category specific forecast[117] as incurred expenditure is outside of the control of Evoenergy and outside of the control of the AER.

We have maintained a side constraint mechanism that is consistent with the approach adopted for electricity networks to prevent any large rebalancing of revenue recovery between tariff classes and large price shocks for individual customers for each regulatory year after the first

[115] NGR, rule 97(1).
[116] In the context of electricity networks, costs in the nature of state/territory government fees and charges are typically itemised as 'jurisdictional scheme' amounts in an unders/overs account which is updated each through annual pricing submissions.
[117] AER, AER - Final decision - Evoenergy access arrangement 2021-26 - Overview, April 2021.

regulatory year in a regulatory period. The side constraint mechanism, in general terms, operates to ensure any increases in revenues for a particular tariff class do not exceed increases provided under the control mechanism by more than two per cent.

4.3.1 ACT Government taxes and levies pass throughs

For the purposes of the NGL and NGR, 'regulatory obligations' include "an Act of a participating jurisdiction, or any instrument made or issued under or for the purposes of that Act, that levies or imposes a tax or other levy that is payable by a service provider". [118] Evoenergy's regulatory obligations include the following ACT Government taxes and levies:

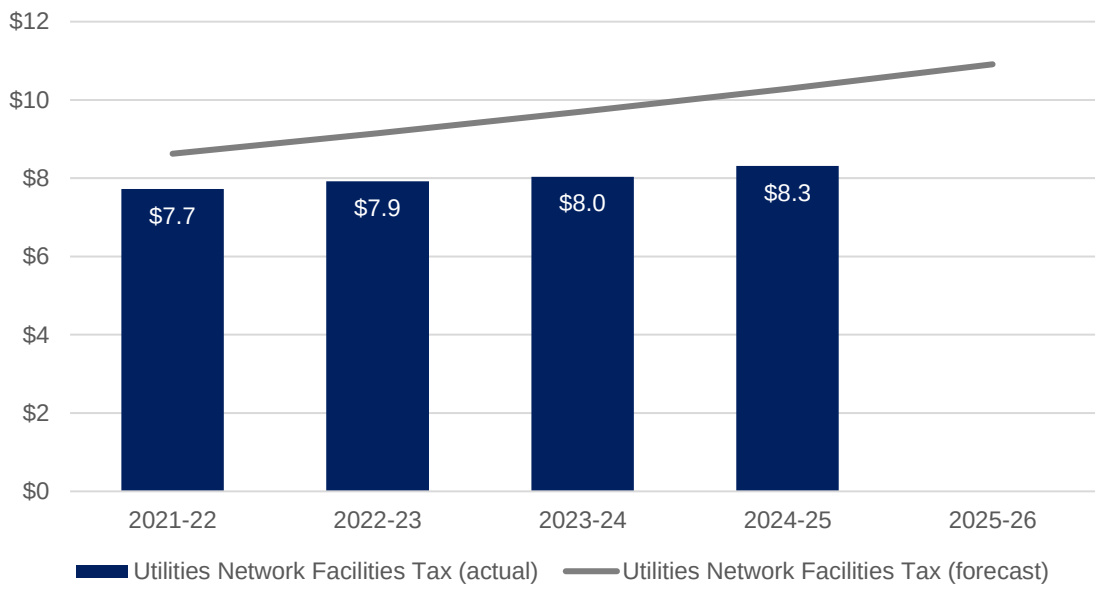
- Utilities (Network Facilities) Tax (UNFT) – is payable by the owners of any network facility on land in the ACT. A network facility is any part of the infrastructure of a utility network not fixed to land subject to a lease, a license granted by the Territory or any right prescribed by regulation. Utility networks include networks for transmitting and distributing electricity, gas, sewage, water and telecommunications.[119]
- Energy Industry Levy (EIL) –is used to recover costs associated with regulating utilities to companies providing services in the ACT.[120]

UNFT constitutes a material proportion of our total revenue, with forecasts contributing around 15 per cent of the AER's regulatory allowance during the current 2021–26 period (see Attachment 4: Operating expenditure).

Government taxes and levies are outside of our control, can be unpredictable and constitute a material proportion of our revenue requirement so that we can meet our regulatory obligations. The UNFT rate and EIL are determined annually, and can change from year to year, as determined either by the ACT Government or levy administrator. The difference between actual and forecast UNFT (Figure 15) is driven by factors outside of our control, such as a different methodology of cost escalation being applied year to year by the ACT Government, making forecasting challenging. For example, in 2019-20, the ACT Government decided to freeze the UNFT rate as part of its COVID economic support package. Additionally, the UNFT can vary unpredictably at short notice, such as for the ACT Government's 2025–26 budget, the UNFT will increase by an additional 2.5 per cent above the WPI to "increase own-source taxation to sustainably deliver public services and infrastructure for the Canberra community".[121]

[118] NGL, section 6(1)(b)(ii); NGR Part 1, 3(1A(b)(iii).
[119] Utilities (Network Facilities Tax) Act 2006 (ACT); ACT Government, https://www.revenue.act.gov.au/network-facilities-tax, accessed 3 June 2025.
[120] Utilities Act 2000 (ACT), Part 3A; ACT Government, https://www.revenue.act.gov.au/levies/energy-industry-levy, accessed 3 June 2025.
[121] ACT Government, Australian Capital Territory Budget 2025–26 Budget Outlook, June 2025, p. 88

Figure 15 Forecast and actual Utilities (Network Facilities) Tax ($millions, nominal)



The NGL revenue and pricing principles provide that "A scheme pipeline service provider should be provided with a reasonable opportunity to **recover at least** the efficient costs the service provider incurs in … complying with a regulatory obligation or requirement or making a regulatory payment" [emphasis added].[122] Our proposed approach to recovering ACT Government taxes and levies, that are outside of our control, ensures that we recover at least the costs incurred, consistent with the NGL, and that customers do not pay more than necessary for us to meet our obligations. Given the materiality of ACT Government taxes and levies, we consider that a true-up is necessary to maintain NGL compliance.

The NGR states that "A reference tariff variation mechanism may provide for variation of a reference tariff … as a result of a cost pass through for a defined event (such as a cost pass through for a particular tax)"[123] The TVM in our 2021–26 access arrangement provides for true-ups, through an automatic adjustment factor, for ACT Government taxes and levies to account for the difference between the AER ex ante forecast allowance and the actual costs incurred by Evoenergy. This provides Evoenergy with an opportunity to recover at least the efficient costs associated with meeting our regulatory obligations in relation to current government taxes and levies that are outside of our control. It means that customers do not pay more than necessary for us to meet our regulatory obligations. If ACT Government taxes and levies are not trued-up, such as the AER's approach adopted for Jemena Gas Networks,[124] then there is a risk that customers will pay more than necessary or Evoenergy does not recover at least the efficient costs for complying with our regulatory obligations. We propose that ACT Government taxes and levies continue to be included as a cost pass through and accounted for in the revenue cap TVM.

There is substantial regulatory precedent for the AER's treatment of the ACT Government's UNFT and EIL, including decisions for the 2014–19, 2019–24, and 2024–29 regulatory control period for Evoenergy's electricity network. The AER considered that actual costs associated with jurisdictional obligations should be recovered and that, instead of providing an allowance for costs at each regulatory determination and having networks apply for under/over recovery of costs, networks can recover both the allowance and under/over cost recovery through annual pricing.[125] This approach reduces administrative burdens for the network and the AER.

[122] NGL, rule 24(2)(b).
[123] NGR, rule 97(1)(c).
[124] AER, Final decision JGN access arrangement 2025–30 - Attachment 6 - Operating expenditure, May 2025, pp. 8-10.
[125] AER, Determination on ActewAGL Distribution jurisdictional scheme request, January 2014, p. 5.

Accordingly, our access arrangement proposal excludes ACT Government taxes and levies as a category-specific forecast in operating expenditure and the building block modelling. Our proposed approach is consistent with the NGR, consistent with the approach in the TVM in our current 2021–2026 access arrangement and the approach adopted for electricity networks, reduces administrative burden, improves transparency of costs that are outside of our control, minimises year-on-year price variability, and was supported by our stakeholders. The community forum strongly supported our approach to addressing ACT Government taxes and levies as it allows for greater responsiveness to changes in Government policy. Further, community forum participants considered this approach reasonable as it allows for flexibility to adjust prices and is transparent, thus boosting customer confidence in decision making.[126]

Our access arrangement proposal includes ACT Government taxes and levies in the TVM formula, as allowed under the NGR, to be approved by the AER annually as part of the annual tariff variation proposal process (discussed in section 6). We propose that tariffs are adjusted each year to account for any under or over recovery in payment amounts associated with ACT Government taxes and levies through the unders and overs mechanism, consistent with the approach adopted for regulated electricity networks.

Similar to the approach in the 2021–26 access arrangement, in the annual tariff variation process the AER has the opportunity to scrutinise the amounts passed through for Evoenergy's licence fees, government taxes and levies, and adjust for the difference between forecast and benchmark UAG costs, and must approve those amounts prior to their being included in Evoenergy's prices. The key point of difference is that the forecast (year t), estimated (year t-1) and actual costs (year t-2) will be updated each year, rather than the current approach which reflects a static ex-ante five-year forecast of the costs included in Evoenergy's smoothed revenue. Evoenergy expects that this will result in smoother price changes for customers and improve regulatory transparency throughout the energy transition.

4.3.2 Tariff variation mechanism formulae approach

Evoenergy's proposed formulae to give effect to a revenue cap for the Transportation (including metering) Reference Service during the 2026–31 regulatory period is set out in Schedule 4 of the access arrangement.

Evoenergy's proposed approach for the Transportation (including metering) Reference Service TVM formulae:

- Maintains a methodology consistent with that adopted by the AER for electricity distribution networks, where defined non-controllable costs are accounted for in an unders and overs mechanism.
- Improves transparency for all stakeholders regarding Evoenergy's controllable costs as distinct from incurred expenditure that is outside of Evoenergy's and the AER's control, such as ACT Government taxes and levies.
- Gives Evoenergy an opportunity to recover uncontrollable costs, meaning customers pay no more than they should for these costs.
- Addresses concerns about price variability through reduced forecasting risk for ACT Government taxes and levies. Our approach reduces ex ante forecast risk and price shocks throughout the regulatory period, particularly in the outer years. Currently, there can be large pass through adjustments towards the end of a regulatory period as actual costs drift further away from forecasts included in the smoothed revenue, for reasons outside of our control. As the rolling unders and overs mechanism accounts for actuals, estimates and forecasts for each cost component, including changes in how the ACT Government calculates licence fees over time, year-on-year price variability is smoothed

[126] Communication Link, Appendix 1.2: Report of feedback from community forum sessions 1-10, June 2025, p. 44 and 56.

over the regulatory period. Using the rolling unders and overs mechanism, each year the AER would approve updated forecasts and estimates of ACT Government taxes and levies, reducing year-on-year price variability. This approach reduces forecasting risk for licence fees and ACT Government taxes and levies, which, in turn, reduces year-to-year customer price variability.

- Allows a flexible approach to accurately embed current and future jurisdictional regulatory schemes in the TVM. We note that regulatory obligations to facilitate full electrification (with either positive or negative costs for gas customers) could be explored or implemented during the regulatory period.
- Seeks to reduce administrative burden for Evoenergy and the AER as the methodology is automated within the TVM formula.
- Was supported by our Community Forum, which favoured the flexibility to adjust pricing, improves transparency, giving customers more confidence in decision making, and allowing for greater responsiveness to changes in government policy.[127]

[127] Communication Link, Appendix 1.2: Community Forum Report, May 2025, pp. 44, 56.

5. Ancillary Activities Reference Service tariff variation mechanism

Ancillary Activities Reference Services are provided to individual customers on request. The cost of providing these services is directly attributable to the person to whom the service is provided (in contrast to transportation services, which are provided using shared network assets). Ancillary charges seek to recover the cost of user-initiated activities.

The AER accepted Evoenergy's reference service proposal to separate the single reference service into a Transportation (including metering) Reference Service and an Ancillary Activities Reference Service.[128] Service classification is important where there is a likelihood that a competitive market should develop for some ancillary activities.

To ensure our ancillary charges continue to reflect the cost of undertaking these activities, we may adjust charges year-on-year. Under the NGR, the TVM may provide for variation of a reference tariff in accordance with a:[129]

- schedule of fixed tariffs,
- formula set out in the access arrangement,
- result of a cost pass through for a defined event (such as a cost pass through for a particular tax),
- as a result of the application of a portion of the revenue generated from the sale of rebateable services to reduce the reference tariff as contemplated under rule 93(3), or
- by a combined operation of two or more of the above.

Evoenergy proposes a price cap TVM for our Ancillary Activities Reference Services. Evoenergy's price cap formulae for fee-based Ancillary Activities Reference Services allows for tariffs to vary annually in accordance with a formula set out in our proposed access arrangement.[130]

The TVM formula adjusts prices for Ancillary Activities Reference Services annually for inflation and real price change. The proposed real price change is set as the forecast real labour input cost changes, accounting for expected movements in labour costs that make up most of the costs incurred for providing ancillary services. Accounting for real changes in labour costs is consistent with the AER's preferred approach for electricity distribution networks.[131]

We propose adjusting ancillary charges on an annual basis for CPI-X to ensure that charges remain cost reflective over the access arrangement period. The annual X-factors, reflecting the real wage escalators, are presented in Table 4. We note that the x-factors may be updated in our revised proposal, consistent with the AER's forecast of the EGWWS WPI (discussed in Attachment 4: Operating expenditure).

Table 4 X-factors for each year of the 2026 access arrangement period, per cent

	2026-27	2027-28	2028-29	2029-30	2030-31
Annual X-factor		-0.9301%	-1.0795%	-1.1987%	-1.2893%

[128] AER, Final Decision Evoenergy Gas Distribution Determination 2026 to 2031, Reference service, tariff variation mechanism and tariff structure, November 2024.
[129] NGR 97(1).
[130] NGR 97(1); Evoenergy Access Arrangement 2026–31, Schedule 5.
[131] For example, see AER, Final Decision Evoenergy Electricity Distribution Determination 2024 to 2029 (1 July 2024 to 30 June 2029) Attachment 16 Alternative control services, April 2024, p. 1.

6. Cost pass throughs

A TVM may provide for variation of a reference tariff as a result of a cost pass through for a defined event (such as a cost pass through for a particular tax).[132]

A pass through factor is included in the TVM formula, but only has effect in the calculation of an annual tariff variation if the AER approves it on the basis that one of the predetermined cost pass through events occurred. These are events outside Evoenergy's control that either increase or decrease costs to supply the reference service.

The purpose of the cost pass through framework is to recognise that a service provider can be exposed to risks beyond its control, which may have a material impact on costs, and to enable the service provider to recover (or pass through) the costs or savings of defined unpredictable, high cost events.[133]. These costs or savings cannot be included at the time of developing the proposed access arrangement or the final decision because it is not known in advance if the events will occur during the 2026–31 period, and if they occur, what the cost impact would be. Cost pass through events are driven by:

- regulation, which includes regulatory change and service standard events; or
- market changes, which includes insurance, terrorism and natural disaster events.

Our proposed cost pass through events are unchanged from those approved by the AER for the purposes of our current 2021–26 access arrangement, including:

- a Regulatory Change Event,
- a Service Standard Event,
- an Insurance Coverage Event,
- an Insurer Credit Risk Event,
- a Terrorism Event, and/or
- a Natural Disaster Event.

Cost pass through events are subject to AER approval and a materiality threshold of 1 per cent of annual revenue.[134] The cost pass through event application process is outlined in our access arrangement.[135]

Similar cost pass through events are in place for both regulated gas and electricity businesses. Where such external events occur that affect Evoenergy's costs, they are assessed to consider whether they fall into a category of cost pass through event and the potential value of the cost impacts.

Cost Pass Through Events in the 2026–31 access arrangement period which are not passed through during the period will be passed through in the following access arrangement period.

[132] NGR 97(1)(c)
[133] AER, Draft Decision, Evoenergy Access Arrangement 2021–2026, Attachment 10 Reference Tariff Variation Mechanism, p. 16.
[134] Evoenergy, Proposed 2026–31 access arrangement, clause 8.8 – 8.18.
[135] Evoenergy, Proposed 202–31 access arrangement, clause 8.8 – 8.13.

7. Annual variation notice and assessment

Evoenergy's proposed 2026–31 access arrangement sets out the process for submitting and approving Transportation (including metering) Reference Service tariffs and Ancillary Activities Reference Service charges. The proposed tariff variation process is generally consistent with the process applied in the current 2021–26 access arrangement period.

Evoenergy's annual Tariff Variation Notice process involves the following components:

- Submission of a tariff variation proposal, with supporting information, to the AER for approval by 15 March of the year prior to the relevant financial year to which the proposed tariffs will apply.
- The proposal will include updated CPI, X-factor for the return on debt approved by the AER, pass through amounts, and details demonstrating compliance with the tariff variation mechanism.
- AER compliance review of the tariff variation proposal to ensure consistency with the approved access arrangement, including notification of amendments.

Evoenergy's first annual pricing proposal for the 2026–31 access arrangement period will be submitted after the AER has made its final determination. An indicative timeline of the pricing process for 2026–31 is shown in Table 5, and detailed in our proposed access arrangement. We note that the timeline may shift based on when the AER publish the 2026–31 access arrangement determination.

Table 5 Indicative timeline for annual Tariff Variation Notice and assessment for 2026–27

Timeline	Obligation	Source
30 April 2026	AER publishes final 2026–31 Access Arrangement Determination.	AER Initiating Notice
21 May 2026	If Evoenergy submits an initial Tariff Variation Notice for the 2026-27 Financial Year to the AER, it must be within 15 business days of the AER publishing its final determination for the Access Arrangement Period.	Proposed access arrangement, Clause 8.20
25 May 2026	Evoenergy must notify retailers of any proposed changes to its reference tariffs within two business days of submission to the AER.	NGR 512(1)(a)
1 June 2026	The AER must, as soon as practicable, but no later than 1 June 2026, inform Evoenergy in writing of whether it has approved the proposed reference tariffs as compliant with the relevant Reference Tariff Variation Mechanism.	Proposed access arrangement, Clause 8.24
1 June 2026	If the AER fails to provide written notification of its decision to Evoenergy by 1 June 2026, the AER will be deemed to have approved the variation proposed in the Tariff Variation Notice.	Proposed access arrangement, Clause 8.27
1 June 2026	If the AER does not approve any part of the proposal in the Variation Notice, the AER must provide Evoenergy with a written statement of reasons for	Proposed access arrangement, Clause 8.26

Timeline	Obligation	Source
	that decision at the time it informs Evoenergy of that decision.	
1-17 June 2026	If the AER assesses that a Tariff Variation Notice should not be approved, the AER may: (a) allow Evoenergy to resubmit an amended proposal within 10 business days of receiving notification of the original assessment; or (b) itself make the amendments necessary for the proposal to approved.	Proposed access arrangement, Clause 8.28
TBC	Evoenergy must notify retailers of any approved changes to its tariffs within two business days of the AER notifying Evoenergy of the approval.	NGR 512(1)(b)

During the 2026–31 period, from financial year 2027-28, this timeline shifts because the AER will have already made its final determination. The timeline is shown in in Table 6 and detailed in our proposed access arrangement.

Table 6 Indicative timeline for Annual Variation Notice and assessment for 2027–28 to 2030–31

Date	Obligation	Source
15 March	Evoenergy may submit its variation notice by 15 March (or next closest business day) of the year prior to the relevant financial year to which the proposed tariffs will apply.	Proposed access arrangement, Clause 8.21
17 March to 19 March (depending on financial year)	Evoenergy must notify retailers of any proposed changes to its reference tariffs within two business days of submission to the AER.	NGR 512(1)(a)
28 April to 1 May (depending on financial year)	After receiving notice from Evoenergy of a Variation Notice, the AER must, within 30 business days, inform Evoenergy in writing of whether or not it has approved the proposed variations to reference tariffs as compliant with the Reference Tariff variation mechanism.	Proposed access arrangement, Clause 8.25
28 April to 1 May (depending on financial year)	If the AER fails to provide written notification of its decision to Evoenergy within 30 business days, the AER will be deemed to have approved the variation proposed in the Variation Notice.	Proposed access arrangement, Clause 8.27
28 April to 1 May (depending on financial year)	If the AER does not approve any part of the proposal in the Variation Notice, the AER must provide Evoenergy with a written statement of reasons for that decision.	Proposed access arrangement, Clause 8.26

12 May to 15 May (depending on financial year)	If the AER assesses that a Variation Notice should not be approved, the AER may: a) allow Evoenergy to resubmit an amended proposal within 10 business days of receiving notification of the original assessment; or b) itself make the amendments necessary for the proposal to approved.	Proposed access arrangement, Clause 8.28
TBC	Evoenergy must notify retailers of any approved changes to its tariffs within two business days of the AER notifying Evoenergy of the approval.	NGR 512(1)(b)

Evoenergy may also vary Transportation (including metering) Reference Service tariffs and Ancillary Activities Reference Service charges at any time during this access arrangement period with the approval of the AER in accordance with the access arrangement. Such variations may be affected through, without limitation, the intra-year tariff variation process. Consistent with our current 2021–26 access arrangement, the process involves:

1. Evoenergy proposes to the AER to vary the tariffs effective from a date other than the start of the financial year;
2. The intra-year reference tariff proposal must be made 50 days prior to the proposed date that it would take effect and must include the adjustments to apply for the remainder of the financial year;
3. The tariff variation proposal would include a pricing model that demonstrates compliance with the tariff variation mechanism.
4. The AER would then review this proposal for compliance with the intra-year tariff variation mechanism and approve or reject the proposal consistent with the access arrangement terms.

Evoenergy considers the TVM complies with NGR[136] as:

- the submission of a formulaic model minimises administrative burden on the AER by providing an objective and transparent means for the AER to exercise its oversight and powers of approval for the tariff variation; and
- it aligns with equivalent processes in other jurisdictions.

[136] NGR 97(4)-(5)

8. Glossary of terms and acronyms

Term or acronym	Definition
access arrangement	Evoenergy's access arrangement
ABS	Australian Bureau of Statistics
ACT	Australian Capital Territory
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
CAB	Capital asset base
Capex	Capital expenditure
CESS	Capital Expenditure Sharing Scheme
Decommissioning	Decommissioning refers to the complete or partial shutting down and removal of the infrastructure of the gas network that is no longer in use.
Draft five-year gas plan	Evoenergy's publication of an initial position on its access arrangement proposal shaped by consumer and stakeholder engagement, for public consultation. The draft five-year gas plan was released on 3 March 2025 and is available on Evoenergy's website.
EBSS	Expenditure Benefit Sharing Scheme
ECM	Expenditure Carryover Mechanism
ECRC	Energy Consumer Reference Council
EGWWS	Electricity, Gas, Water and Waste Services sector
ERAP	Energy Regulatory Advisory Panel
Five-year gas plan	Evoenergy's gas plan for the 2026–31 access arrangement period
FTE	Full time equivalent
GJ	Gigajoule – unit of measurement of energy consumption
IEP	ACT Government's Integrated Energy Plan
MIRN	Meter Installation Registration Number is the unique reference number associated with gas connection points for business and residential customers.
NGL	National Gas Law
NGO	National Gas Objective
NSW	New South Wales

NZ45	ACT Government's commitment to achieve net-zero emissions in the ACT by 2045
Opex	Operating expenditure
Permanent disconnection	The permanent disconnection of a gas connection at the premises. A permanent disconnection involves the removal of the gas meter and the physical disconnection of any pipeline to the property. This is considered the safest option as it removes all risks associated with having a pressurised gas pipe, including the risk of gas leaks and excavation strikes.
PJ	Petajoule– unit of measurement of energy consumption
PTRM	Post Tax Revenue Model (AER model) used to calculate Evoenergy's revenue forecast
RFM	Roll Forward Model (AER model) used to apply depreciation approach to roll forward the capital asset base
RIN	Regulatory Information Notice
RSA	Reference Service Agreement
RSP	Reference Service Proposal
SEIFA	Socio-economic Indexes for Areas
Temporary disconnection	A disconnection is a temporary closure of a gas connection on a premises. It involves disabling the meter equipment by introducing a plug, wad, meter lock or blanking device to the inlet of the meter, preventing gas flow through the meter. A temporary disconnection does not disconnect the pipeline to the premises, meaning the gas pipeline is still active and pressurised. A temporary disconnection can be reversed.
TJ	Terajoule – unit of measurement of energy consumption
NGR	National Gas Rules
TVM	Tariff Variation Mechanism
UAG	Unaccounted for gas