Draft decision

Evoenergy (ACT) access arrangement 2026 to 2031

(1 July 2026 to 30 June 2031)

Attachment 6 – Capital expenditure sharing scheme

November 2025

AUSTRALIAN ENERGY REGULATOR

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AER reference: AER24008741

Amendment record

Version	Date	Pages
1	28 November 2025	11

List of attachments

This attachment forms part of our draft decision on the access arrangement that will apply for period of 1 July 2026 to 30 June 2031 (2026–31 period) for Evoenergy (ACT). It should be read with all parts of our draft decision.

The draft decision includes the following documents:

- Overview
- Attachment 1 – Capital base, Regulatory depreciation and Corporate income tax
- Attachment 2 – Capital expenditure
- Attachment 3 – Operating expenditure
- Attachment 4 – Demand
- Attachment 5 – Reference services, tariffs and non-tariff components
  - Includes: Services covered by the access arrangement, reference tariff settings, reference tariff variation mechanism, and non-tariff components
- Attachment 6 – Capital expenditure sharing scheme
- Attachment 7 – Efficiency carryover mechanism

Contents

6 Capital expenditure sharing scheme

In this attachment, we outline our assessment of Evoenergy's capital expenditure sharing scheme (CESS) for the 2026–31 access arrangement period (2026–31 period). This includes CESS rewards or penalties to be applied in the 2026–31 period based on Evoenergy's performance during the 2021–26 period.

The CESS is designed to incentivise efficient spending on capital expenditure (capex) by rewarding Network Service Providers (NSP) for lowering their capex below the amount approved for the access arrangement period. The rewards are shared between the NSPs and consumers.

To ensure lower capex does not compromise service standards, the reward amounts are modified by a contingent payment factor (CPF). If service standards fall below target levels, reward amounts are reduced. Below a certain service standard threshold, rewards are reduced to $0. Conversely, the CESS will lead to a penalty if the NSP spends above its approved capex forecast. The CPF does not apply to penalties, so if a penalty is incurred, it will not be reduced.

Our draft decision on Evoenergy's CESS design for the 2026–31 period is based on the CESS designed to apply to Evoenergy for 2021–26 period, but with adjustments. The most significant adjustment our draft decision requires is that the CESS should only penalise overspends, without rewarding underspends.

6.1 Draft decision

6.1.1 CESS amounts from the 2021–26 period

For the 2021–26 period, Evoenergy is expected to spend less capex than our final decision forecast capex. This results in a CESS reward being added to Evoenergy's revenue in the 2026–31 period. Our draft decision is to not approve Evoenergy's proposed CESS revenue increment of $4.9 million ($2025–26). Our draft decision is an alternative CESS revenue increment of $5.3 million. The difference between Evoenergy's proposal and our draft decision is that we have updated the consumer price index (CPI) and real vanilla weighted average cost of capital (WACC) figures.[1] We have also corrected historical CPI figures. Table 6.1 outlines Evoenergy's proposal and our draft decision.

Table 6.1 Draft decision on Evoenergy's CESS increments ($ million, $2025-26)

	2026-27	2027–28	2028–29	2029–30	2030–31	Total
Evoenergy's proposal	1.0	1.0	1.0	1.0	1.0	4.9
AER Draft decision	1.1	1.1	1.1	1.1	1.1	5.3

Source: AER analysis; Evoenergy, *Evoenergy-RIN Attachment 6-Workbook 4 Gas CESS-June 2025*, June 2025.

1 Attachment 1 on the capital base sets out our CPI draft decision, while section 3.2 on rate of return and value of imputation credits in the Overview details our vanilla WACC draft decision.

6.1.2 Application of CESS in the 2026–31 period

We do not accept Evoenergy's proposal not to apply the CESS in the 2026–31 period.

Instead, our draft decision requires Evoenergy to apply an asymmetrical CESS, where Evoenergy foregoes any of its rewards for underspending its capex allowance but would incur a penalty for overspending its capex allowance.

We consider the asymmetrical CESS accommodates Evoenergy's proposal that a greater share of rewards for underspending its capex allowance should flow onto customers.[2] But it also addresses stakeholder concerns, namely the ACT Council of Social Service (ACTCOSS), that Evoenergy's incentive to incur capex efficiently is reduced without a CESS.[3]

We also consider the CESS should apply as it includes performance targets for Evoenergy to, at least, measure the quality of its service levels.

Our draft decision also seeks for Evoenergy to provide Asset Performance Index (API)[4] targets for the 2026–31 period. The API's are required for setting the contingent payment factor of the CESS that incentivises Evoenergy to maintain its service standards. Evoenergy did not include these in its proposal given it was proposing that the CESS not apply.

6.2 Evoenergy's proposal

6.2.1 CESS amounts from the 2021–26 period

Evoenergy proposed a $4.9 million reward be added to its revenue in the 2026–31 period due to its performance against its capex forecast in the 2021–26 period.[5]

As part of its API, Evoenergy adopted 4 target measures to monitor service performance:

- unplanned System Average Interruption Frequency Index (SAIFI) (weighting 30%)
- unplanned System Average Interruption Duration Index (SAIDI) (weighting 30%)
- mains and services leaks (weighting 20%)
- meter leaks (weighting 20%)

Performance targets for each measure were set in our final decision for the 2021–26 period using 4 years of historical data. Evoenergy's performance against all its targets is represented by the API, which then informs the CPF.

The API measures performance and can have any value based on its performance against the specific targets.

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2 Evoenergy, *Evoenergy-Attachment 3-Capital expenditure-June 2025*, June 2025, p 28.

3 ACTCOSS, *ACTCOSS - Submission on Evoenergy 2026-31 Access Arrangement proposal - August 2025*, 22 August 2025, pp 3-4.

4 The Asset Performance Index is sometimes referred to as the Contingent Payment Index or CPI. In this Attachment, we will consistently use "Asset Performance Index" and "API" to avoid confusion with the "Consumer Price Index" or "CPI".

5 Evoenergy, *Evoenergy-RIN Attachment 6-Workbook 4 Gas CESS-June 2025*, June 2025.

The CPF is used to scale down CESS rewards if service performance is less than the target. The threshold of performance below which no reward is payable to Evoenergy for an underspend is an index score of 80 (base is 100). That is, the CPF is equal to the API only between the values of 80 and 100:

- when the API is above 100, the CPF equals 100% (full CESS reward payment)
- when the API is below 80, the CPF equals 0% (no CESS reward payment).

The CPF is applied asymmetrically. For penalties, the CPF does not have an effect in most cases, and the business will receive its full penalty.[6]

As seen in Table 6.2, owing to strong performance against its most heavily weighted targets, Evoenergy has an API of 110.7, leading to a CPF of 100%. As such, Evoenergy will receive 100% of its CESS reward.

Table 6.2 Evoenergy's reported performance and CPF

Measure	Actual	Target	Index	Weight	Contribution
Unplanned SAIFI	1.0	0.7	56.8	30%	17.0
Unplanned SAIDI	1.0	2.6	161.9	30%	48.6
Mains and services leaks	0.1	0.1	92.2	20%	18.5
Meter leaks	7.9	11.8	133.1	20%	26.6
API	110.7				
CPF	100%				

Source: Evoenergy, *Evoenergy-RIN Attachment 6-Workbook 4 Gas CESS-June 2025*, June 2025.

6.2.2 Application of CESS in the 2026–31 period

Evoenergy proposed that the CESS is no longer appropriate to apply going forward due to the ACT Government's decision to phase out gas supply.[7]

Evoenergy noted that while it has proposed the minimum capex required to maintain its network, any underspend would flow to customers in a greater share than under the CESS. Evoenergy acknowledged that it would still receive some reward through standard regulatory mechanisms (i.e. financing benefit).

Evoenergy also considered that the removal of the CESS will not weaken incentives to minimise costs as it already has market-based and government policy-driven incentives to minimise investment and achieve capex efficiencies. Any overspend on its capex allowance would increase stranded asset risk.

6 There are limited cases where the CPF will influence a CESS penalty. Specifically, this would be when the NSP's 30% share of the overspend is less than or equal its net financing benefit/cost for the period.

7 Evoenergy, *Evoenergy-Attachment 3-Capital expenditure-June 2025*, June 2025, p 28.

6.2.2.1 Asset performance index targets

As noted, Evoenergy did not submit updated API targets for the 2026–31 period as it proposed that the CESS not apply.[8]

6.3 Assessment approach

A full access arrangement may include (or we may require it to include) one or more incentive mechanisms to encourage efficiency in the provision of services by the service provider.[9] Incentive mechanisms may provide for carrying over increments for efficiency gains, or decrements for efficiency losses, from one access arrangement period into the next.[10] An incentive mechanism must be consistent with the revenue and pricing principles.[11]

We consider the following revenue and pricing principle is most relevant for assessing Evoenergy's proposed incentive scheme:

> 'A scheme pipeline service provider should be provided with effective incentives in order to promote economic efficiency with respect to reference services the service provider provides. The economic efficiency that should be promoted includes—
>
> (a) efficient investment in, or in connection with, a pipeline with which the service provider provides reference services; and
>
> (b) the efficient provision of pipeline services; and
>
> (c) the efficient use of the pipeline.'[12]

6.4 Submissions on the proposal

We received 1 submission on the CESS from the ACT Council of Social Service (ACTCOSS) which considered that the CESS apply to Evoenergy during the 2026–31 period.

ACTCOSS submitted that, although consumers would receive a greater portion of an underspend without a CESS, Evoenergy would have less incentive to achieve an underspend.[13]

ACTCOSS compared Evoenergy's actual capex against the AER approved allowance for the 2016–21 period (when the CESS did not apply), and the 2021–26 period (when the CESS did apply). In 2016–21 period, Evoenergy underspent its allowance by 12.6%, while in the

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8 Evoenergy, *Evoenergy-Attachment 3-Capital expenditure-June 2025*, June 2025, p 28.

9 NGR, r. 98(1).

10 NGR, r. 98(2).

11 NGR, r. 98(3).

12 NGL, s. 24(3).

13 ACTCOSS, *ACTCOSS - Submission on Evoenergy 2026-31 Access Arrangement proposal - August 2025*, 22 August 2025, pp 3-4.

2021–26 period it underspent by 17.6% when the CESS was introduced. ACTCOSS submitted that this demonstrates the effectiveness of the CESS.[14]

6.5 Reasons for the draft decision

6.5.1 CESS amounts from the 2021–26 period

We consider Evoenergy's proposed CESS reward of $4.9 million is consistent with its performance against the CESS mechanism in its 2021–26 period access arrangement.

As Evoenergy performed strongly against its API targets, its CPF is 100%, meaning it will receive 100% of its reward. However, we have updated the CESS calculations to reflect our draft decision on CPI and WACC, and we have also corrected historical CPI figures.

These updates lead to a CESS reward of $5.3 million for our draft decision.

For its revised proposal, we require Evoenergy to use updated CPI, WACC, reported performance measures, and reported capex, as well as corrected historical CPI data.

6.5.2 Application of the CESS in the 2026–31 period

We do not accept Evoenergy's proposal not to apply the CESS in the 2026–31 period.

As noted above, the CESS mechanism for the 2026–31 period can be set to accommodate both Evoenergy's and stakeholder views on how it should apply.

Similar to Evoenergy's proposal, the CESS guidelines allow NSPs to forgo their rewards.[15] Evoenergy has proposed to forgo any CESS rewards from capex underspends so that a greater share of its underspend flows onto customers.[16]

We also agree with ACTCOSS that the CESS provides an incentive for Evoenergy to incur its capex efficiently.[17] On this basis, we consider the CESS penalty provisions continue to apply to Evoenergy to provide discipline and the incentive to incur capex efficiently and reduce the incidence of overspending its capex allowance.

We also consider the CESS should apply as it includes performance targets for Evoenergy to, at least, measure its service levels against.

As such, our draft decision applies an asymmetrical CESS which would require Evoenergy to forgo its rewards but maintains the incentive for it to incur capex efficiently by penalising any overspend.

Apart from this change, the CESS should be otherwise the same as the one applied in its 2021–26 period.

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[14] ACTCOSS, *ACTCOSS - Submission on Evoenergy 2026-31 Access Arrangement proposal - August 2025*, 22 August 2025, pp 3-4.

[15] AER, *AER Capital Expenditure Incentive Guidelines - August 2025*, August 2025, p 6.

[16] Evoenergy, *Evoenergy-Attachment 3-Capital expenditure-June 2025*, June 2025, p 28.

[17] ACTCOSS, *ACTCOSS - Submission on Evoenergy 2026-31 Access Arrangement proposal - August 2025*, 22 August 2025, pp 3-4.

6.5.2.1 Asset performance index targets

Our draft decision also requires Evoenergy to provide updated API targets as part of its revised proposal based on the last 5 years of actual historical data. As noted, Evoenergy did propose API targets for the 2026–31 period as it proposed that the CESS not apply.

The updated API targets will be used to measure Evoenergy's service performance over the 2026–31 period. While Evoenergy has proposed to forgo its rewards, the performance against the API's will allow us to measure service levels over the 2026–31 period.

6.6 Revisions

We require the following revisions to make the access arrangement proposal acceptable as set out in Table 6.3.

Table 6.3 CESS revisions

Revision	Amendments
Revision 6.1	Make revisions necessary to update CPI, real vanilla WACC, reported performance inputs, and reported capex inputs in the calculation of the CESS revenue increment, in line with our draft decision.
Revision 6.2	Reincorporate the CESS mechanism into the access arrangement, making adjustments so that Evoenergy will forgo any rewards but maintains the penalty provisions for any overspends.
Revision 6.3	Update API targets for the 2026–31 period.

Glossary

Term	Definition
ACT	Australian Capital Territory
ACTCOSS	Australian Capital Territory Council of Social Service
AER	Australian Energy Regulator
API	asset performance index
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPF	Contingent Payment Factor
NGL	National Gas Law
NGR	National Gas Rules
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index