Final decision

Evoenergy (ACT) access arrangement 2026 to 2031

(1 July 2026 to 30 June 2031)

Attachment 2 – Capital expenditure

May 2025

AUSTRALIAN ENERGY REGULATOR

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1	21 May 2026	19

List of attachments

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

A number of issues were settled at the draft decision stage or required only minor updates so that detailed attachments to this final decision are not needed. Where this is the case, our draft decision reasons form part of this final decision. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision.

The final decision includes the following documents:

- Overview
- Attachment 1 – Capital base, regulatory depreciation and corporate income tax
  - Appendix A – Regulatory depreciation
- Attachment 2 – Capital expenditure
- Attachment 3 – Operating expenditure
- 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

2 Capital expenditure

Capital expenditure (capex) refers to the capital costs and expenditure incurred in the provision of pipeline services.[1] This investment mostly relates to assets with long lives, and these costs are recovered over several access arrangement periods.

In this attachment, we outline our assessment of Evoenergy's capex revised proposal for the 2026–31 access arrangement period (2026–31 period). Our final decision consists of 2 parts:

- whether capex incurred prior to the 2026–31 period should be treated as conforming capex and rolled into the opening capital base[2]
- whether Evoenergy's forecast of capex for the 2026–31 period meets the conforming capex criteria in the National Gas Rules (NGR).[3]

2.1 Final decision

2.1.1 Capex for 2020–21 and the 2021–26 period

We approve Evoenergy's actual capex for 2020–21 and the 2021–26 period as conforming capex.

We accept $53.8 million as conforming capex for the 2021–22 to 2024–25 years and will assess whether capex incurred in 2025–26 is conforming at the next (2031–36) access arrangement review, when actual expenditure for that year is available.

In reaching this view, we have considered the following factors:

- Evoenergy's capex is expected to be $64.9 million or 20 per cent less than the $81.1 million we approved for the 2021–26 period
- The largest underspends in the 2021–26 period occurred in the meter replacement category, primarily reflecting lower than forecast replacement volumes, including fewer defective meters requiring replacement than anticipated.

2.1.2 Capex for the 2026–31 period

We do not accept Evoenergy's revised capex forecast of $33.0 million ($2025–26) for the 2026–31 period as conforming capex under the NGR.[4] Our final decision includes an alternative estimate of $31.4 million ($2025–26), $1.6 million or 5% lower than Evoenergy's proposal.

Overall, we found most aspects of Evoenergy's proposal were likely to be conforming capex. We accept the proposed costs for connections. We also accept Evoenergy's meter replacement forecast as it is attributed to compliance with current regulatory obligations. We did not accept Evoenergy's proposed expenditure on network overheads ($1.7 million

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1 NGR, r. 69.

2 NGR, r. 77 sets out the process for determining the opening capital base.

3 These criteria are set out in NGR, r. 79.

4 The criteria for conforming capital expenditure are set out in NGR, r. 79.

reduction). This reduction to network overheads also results in a slight reduction to customer contributions which serve network overheads associated with connections ($0.1 million reduction).

Table 2.1 compares our alternative estimate to Evoenergy's forecast.

Table 2.1 AER final decision net capex by category ($ million, 2025–26)

Category	Evoenergy revised proposal	AER alternative estimate	Difference over capex category ($/%)	
Connections	1.7	1.7[5]	0.0	0%
IT	0.1	0.1	0.0	0%
Other capex	1.5	1.5	0.0	0%
Meter replacement	15.2	15.2	0.0	0%
Overheads	17.3	15.6	-1.7	-10%
Network overheads	14.3	12.6	-1.7	-12%
Corporate overheads	3.0	3.0	0.0	0%
Gross Total	**35.8**	**34.1**	**-1.7**	**-5%**
Less Customer contribution connections (including overheads) (a)	2.8	2.7	-0.1	-5%
Less Disposals	0	0	0	0%
Modelling adjustment		0.01(b)		0%
Net Total	**33.0**	**31.4**	**-1.6**	**-5%**

Source: Evoenergy, *Appendix 4.1 Capex model*, January 2026; AER, *Evoenergy access arrangement 2026–31 - Final Decision - Capex model*, May 2026.

Note: Numbers may not sum due to rounding.

(a) Evoenergy's overheads for the forecast connections is $1.4 million. This offsets the component recovered in the overheads of $15.6 million and ensures that the upfront capital contribution recovers the full cost of the connection and other customers are not cross subsidising the connection costs. The customer contribution connections excluding overheads is $1.4 million.

(b) Our final decision includes standard modelling adjustments for updated inputs to inflation and labour real cost escalation.

[5] The net connections capex is $0.3 million, derived by subtracting the capital contribution of $1.4 million (without overheads) from the gross connections capex of $1.7 million.

2.2 Evoenergy's revised proposal

2.2.1 Capex in 2020–21 and the 2021–26 period

Evoenergy reports that its actual net capex in 2020–21 was $13.7 million, and that its actual and estimated capex in the 2021–26 period is $50.8 million.[6] Evoenergy's allowance for 2020–21 was $19.2 million, and for 2021–26 it was $81.0 million.[7]

2.2.2 Capex in the 2026–31 period

Evoenergy proposed $33.0 million ($2025–26) net capex for the 2026–31 period.[8] This is 49% lower than actual/estimated capex in the 2021–26 period ($64.6 million).[9] Evoenergy's reduction in proposed capex aligns with its intentions to wind down its network and the ACT Government's policy to phase out the gas network to meet its net zero emissions target by 2045.

For the 2026–31 period, Evoenergy proposed no expenditure for mains augmentation or mains replacement. Some minor expenditure has been proposed for information and communications technology (ICT), as well as $1.5 million for its 'Other capex' program to undertake the replacement of obsolete components at the Bungendore Package Offtake Station.

Evoenergy's proposed connections capex is significantly lower than in the 2021–26 period, reflecting the policy for no new gas connections in the ACT. It has, however, included some connections capex to meet its obligations to provide new connections in Queanbeyan and surrounding areas in New South Wales (NSW). Evoenergy's revised forecast also reflects the impact of changes to gas connection charging arrangements, which require connecting customers to pay the full upfront cost incurred by the network for their connection. Previously, the cost of a new customer's connection would be recovered from Evoenergy's broader customer base.

The only category for which Evoenergy proposed increased capex relative to the 2021–26 period is its meter replacement program, which is largely driven by current regulatory obligations to replace defective meters. This obligation extends to meters installed at temporarily disconnected services and where there is no immediate safety risk. Evoenergy

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6 AER analysis; Evoenergy, *Evoenergy-Appendix 5.2-Gas distribution RFM-June 2025*, June 2025. The 2021-26 net total capex does not reconcile with the net total capex in **Error! Reference source not found.**. The capex category level figures in **Error! Reference source not found.** were provided by Evoenergy in an information request in $2025-26 terms. However, when assessing conforming capex, we use the RFM. The RFM recorded figures in $2020-21 terms, and we have escalated for inflation using more up-to-date CPI figures than Evoenergy had access to.

7 AER analysis; Evoenergy, *AER - Evoenergy distribution access arrangement - 2020-21 return on debt update - PTRM - January 2020*, January 2020; Evoenergy, *AER - Evoenergy access arrangement 2021–26 - PTRM - 2025–26 Return on debt update - March 2025*, March 2025.

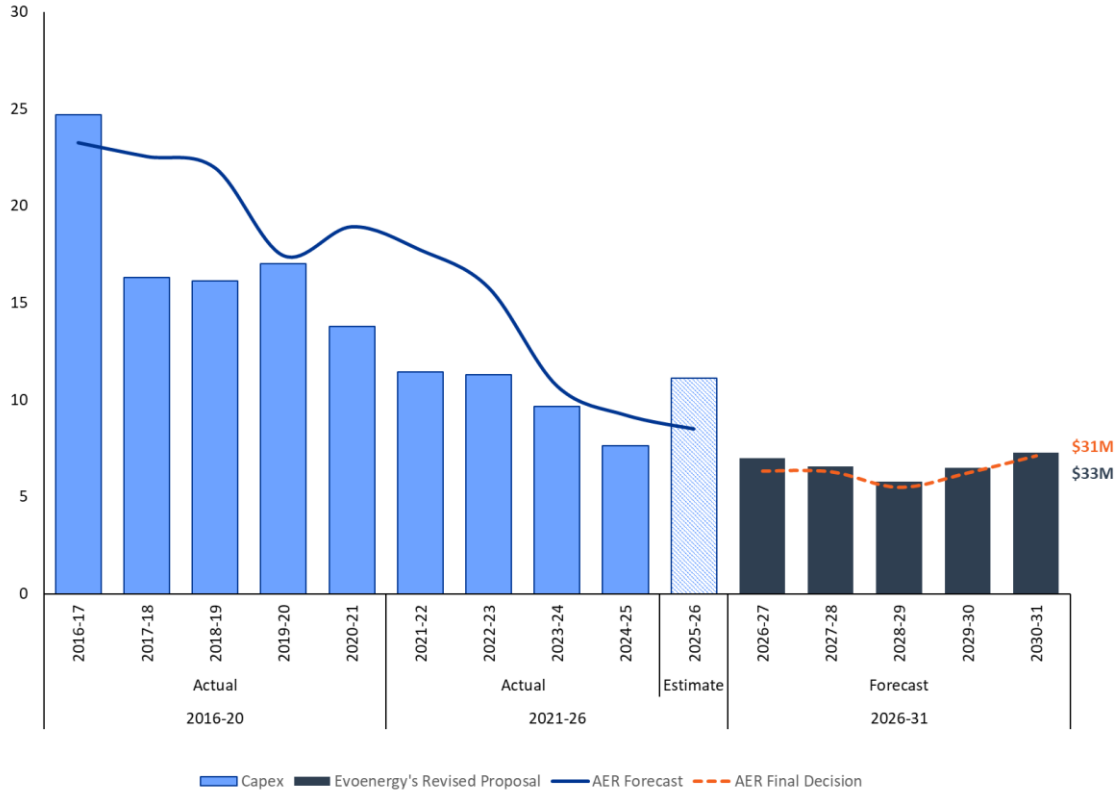
8 Net capex is net of capital contributions and asset disposals.

9 Evoenergy, *Response to IR009*, October 2025. The 2021-26 actual/estimated total net capex figure does not reconcile with the amount quoted in section 2.2.1. The capex category level figures in **Error! Reference source not found.** were provided by Evoenergy in an information request in $2025–26 terms. However, when assessing conforming capex, we use the RFM. The RFM recorded figures in $2020–21 terms, and we have escalated for inflation using more up-to-date CPI figures than Evoenergy had access to.

and the AER have engaged with the ACT Utilities Technical Regulator (UTR) to explore life extension options for these affected meters, which could alleviate the need to replace them.

Figure 2.1 shows Evoenergy's actual and estimated expenditure over the last 2 access arrangement periods alongside our forecast, as well as its proposed capex for the 2026–31 period alongside our draft decision alternative estimate.

Figure 2.1 Evoenergy's historical and forecast capex ($2025–26, million)



Source: Evoenergy's Roll Forward Model (RFM) and Post-tax Revenue Model (PTRM) responses; AER analysis.

2.3 Assessment approach

We must make 2 decisions on Evoenergy's capex. First, we assess past capital expenditure to determine whether it is conforming capex that can be added to the opening capital base.[10] Second, we assess Evoenergy's forecast of required capex for the 2026–31 period to determine whether it meets the new capex criteria set out in the NGR.[11]

The following sections set out our approach and the tools and techniques we employ in forming these decisions.

2.3.1 Capex in 2020–21 and the 2021–26 period

We reviewed Evoenergy's submission and supporting material to assess its actual and estimated capex for the 2021–26 access arrangement period. Where capex was higher than

[10] Under NGR, r. 77(2)(b), we add capital expenditure to the capital base only if it is conforming capital expenditure.

[11] NGR, r. 79.

forecast in our final decision, we scrutinised AGN's reasons for the overspend. We also had regard to the presence of the capital expenditure sharing scheme (CESS), and the incentive this provides to deliver efficient capex.[12] We used this information to identify whether capex over the 2021–26 period was conforming capex.

2.3.2 Capex in the 2026–31 period

Our draft decision is made on total forecast capex in accordance with the new capex criteria in the NGR.[13]

To make a decision, we construct an alternative estimate of conforming capex and compare it to Evoenergy's proposal. If our alternative estimate is not materially different to Evoenergy's proposal, we will accept Evoenergy's proposal. On the other hand, if there is a material difference at the total capex level, we will not accept Evoenergy's forecast and substitute it with our alternative estimate.

We assessed the key drivers of forecast capex to consider whether Evoenergy's proposed capex complies with the new capex criteria. In doing so, we relied on the following:

- Evoenergy's access arrangement submission and access arrangement information, which outlines its capex program and the main drivers of those programs
- business cases that detail the expenditure requirements for specific projects
- Evoenergy's Regulatory Information Notice (RIN) responses
- Evoenergy's capex forecast model
- responses to information requests
- submissions from interested parties.

Our assessment was particularly focused on the materiality of the capex categories, whether our decision would serve as a substantial precedent in future decisions, or where stakeholders raised significant issues. We also took into consideration the interrelationships between the capex forecast and other constituent components of our draft decision, to assist in determining if it contributes to the achievement of the National Gas Objective (NGO).[14]

2.3.3 Interrelationships

In assessing Evoenergy's total forecast capex, we also considered other components of its access arrangement proposal, including:

- possible trade-offs between capex and operating expenditure (opex)
- any differences in capitalisation policies applied in the 2021–26 and 2026–31 periods
- the growth in the price of labour for opex and capex

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12 The capital expenditure sharing scheme provides an incentive for a service provider to realise savings on its capex program by rewarding those service providers that spend less capex than forecast and penalising those that spend more than forecast. Further information can be found in the CESS section in the final decision Overview.

13 NGR, r. 79(1).

14 We are required to do this under NGL, s. 28(1).

- demand forecasts, particularly relating to forecast new gas connections
- Evoenergy's proposal for accelerated depreciation.

2.4 Submissions on our draft decision and the revised proposal

As part of our draft decision process, we received 4 stakeholder submissions that commented on Evoenergy's initial capex proposal. These were from the ACT Government,[15] Energy Consumers Australia (ECA),[16] ACT Council of Social Services (ACTCOSS),[17] and Consumer Challenge Panel, sub-panel 33 (CCP33).[18]

We have addressed stakeholder views on specific capex categories in the draft decision.

We did not receive any additional stakeholder submissions on capex following the draft decision or in response to Evoenergy's revised proposal.

2.5 Reasons for the final decision

Below we outline the reasons for our final decision on capex for the current and forecast periods.

2.5.1 Capex for the 2020–21 and the 2021–26 period

Evoenergy's actual and estimated capex for the 2021−26 period is $64.9 million ($2025-026), compared with the AER's final decision of $81.1 million.[19] During the 2021–26 period, Evoenergy's actual and estimated expenditure was lower than the final decision across most expenditure categories, except for connections and ICT capex.

We reviewed Evoenergy's proposal and supporting material to assess its actual and estimated capex for the 2021–26 period and were satisfied that it reasonably reflects the capex criteria. We are also satisfied that Evoenergy's capex for 2020–21 is conforming.

Evoenergy exceeded its allowance only for ICT ($0.3 million higher) and connections expenditure ($6.8 million higher). However, Evoenergy's lower than forecast expenditure for meter replacement ($6.3 million lower) and network renewal ($6.0 million lower) compensated for this.[20] Evoenergy explained its lower than forecast network renewal expenditure owed to the cancellation of 3 major projects as evolving circumstances meant

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15 ACT government**,** *ACT Government - Submission on Evoenergy 2026-31 Access Arrangement Proposal - August 2025*, August 2025.

16 ECA, *Energy Consumers Australia - Submission on AGN SA and Evoenergy 2026-31 Access Arrangement Proposal - August 2025*, August 2025.

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

18 CCP33, *CCP33 - Advice to AER - Submission on Evoenergy 2026-31 Access Arrangement Proposal - August 2025,* August 2025.

19 AER analysis; Evoenergy, *Evoenergy-Appendix 5.2-Gas distribution RFM-June 2025*, June 2025; Evoenergy, *AER - Evoenergy access arrangement 2021–26 - PTRM - 2025–26 Return on debt update - March 2025*, March 2025. This figure does not reconcile with the one provided in **Error! Reference source not found.**, as we are using more up to date CPI data than Evoenergy had when it reported actual 2021–26 category level spending.

20 Evoenergy, *Attachment 4 Capital expenditure*, January 2026, p 19.

the cost no longer justified the benefits.[21] It explained its lower than forecast meter replacement expenditure owed to the extension of meter lives based on statistical sampling.

Evoenergy reported higher than forecast expenditure in connections ($6.8 million higher). Evoenergy explained that its higher than forecast connections expenditure owed to a delay in the implementation of the ACT's *Climate Change and Greenhouse Gas Reduction (Natural Gas Transition) Amendment Act 2023*. The ACT Government originally planned to phase out new gas connections in greenfield developments from 2021 and urban infill connections from 2023, but the formal regulation came into effect on 8 December 2023, with a transition period until 1 March 2024. As such, Evoenergy was still obliged to conduct new connections in the ACT for the beginning of the 2021–26 period.[22]

Our decision on conforming capex also relates to capex for 2020−21, which was included as an estimate in the 2021−26 opening capital base. Evoenergy's actual capex for 2020−21 of $13.7 million was $5.5 million lower than the amount included in the AER's final decision for the 2016–21 period of $19.2 million.[23]

Evoenergy's actual and estimated capex outcomes reflect a declining expenditure profile over the 2021–26 period. This is broadly consistent with changes in the scope of its capital program, including reductions in connections and other capital activities associated with the transition of the gas network.

We are satisfied that Evoenergy's actual capex reasonably reflects the capex criteria and is conforming.

Table 2.2 Evoenergy's actual capex compared to capex allowance – 2020–21 and 2021–26 access arrangement period ($million, 2025–26)

Category	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Total net capex allowance	19.2	17.7	15.7	10.7	9.2	8.5	81.0
Total net actual and estimated capex	13.7	11.4	11.3	9.6	8.8	9.7	64.6
Capex overspend / underspend	-5.5	-6.3	-4.5	-1.0	-0.3	1.3	-16.4

Source: AER analysis; Evoenergy, *AER - Evoenergy access arrangement 2021–26 - PTRM - 2025–26 Return on debt update*, March 2025; Evoenergy, *AER - Evoenergy distribution access arrangement - 2020–21 return on debt update - PTRM*, January 2020; Evoenergy, *2026–31 access arrangement, Attachment 5.2 – Gas Distribution RFM*, June 2025.

21 Evoenergy, *Attachment 3: Capital Expenditure: Access arrangement information: ACT and Queanbeyan-Palerang gas network access arrangement 2026-31*, June 2025, p 8.

22 Evoenergy, *Attachment 3: Capital Expenditure: Access arrangement information: ACT and Queanbeyan-Palerang gas network access arrangement 2026-31*, June 2025, p 8.

23 AER analysis; Evoenergy, *Evoenergy-Appendix 5.2-Gas distribution RFM-June 2025*, June 2025; Evoenergy, *AER - Evoenergy distribution access arrangement - 2020-21 return on debt update - PTRM - January 2020*, January 2020.

2.5.2 Capex for the 2026–31 period

We do not accept Evoenergy's forecast of $33.0 million capex. We have instead adopted our alternative estimate of $31.4 million, as likely to reflect conforming capex. We formed our alternative estimate by undertaking a top-down assessment of Evoenergy's capex, followed by a more detailed review of Evoenergy's forecast capex categories. Our assessment was focused on the materiality of the capex categories, whether the capex related to a new type of asset, where expenditure was significantly higher than historical, where our decision would serve as a substantial precedent in future decisions, or where stakeholders raised significant issues. We did not undertake a detailed analysis of capex that was relatively small, forecast using established modelling approaches and that had inputs in line with our expectations.

The reasons for our draft decision are set out in Table 2.3 while a more detailed assessment of the key drivers is provided in Appendix A.

2.5.2.1 Capex category assessment

Table 2.3 summarises our review of Evoenergy's capex categories.[24] We consider capex relating to capitalised overheads (specifically network overheads), were higher than necessary to meet the capex criteria. We consider an alternative estimate of $31.4 million (net capex) is reasonably likely to reflect prudent and efficient costs, which is $1.6 million (5%) lower than Evoenergy's forecast of $33.0 million. We also consider that all capex included in our alternative estimate is justifiable capex under one or more of clauses 79(2)(a)-(c)(i)-(iv) of the NGR. Our analysis of key capex drivers is further explained in Appendix A.

Table 2.3 Summary of our findings and reasons, by capex driver

Issue	Findings and reasons
Connections	We have included Evoenergy's proposed $1.7 million (excluding overheads) for the connections capex forecast. We have not included Evoenergy's proposed $2.8 million in capital contributions forecast (including overheads). Our final decision is to include $2.7 million. We do accept Evoenergy's methodology for estimating capital contributions. However, consistent with the application of this method, we adopt a lower estimate of capital contributions, owing to reductions in network overheads. These capital contributions exceed Evoenergy's estimate of gross connections capex, as the capital contributions also fund Evoenergy's overheads allocated to connections. We accept Evoenergy's overall approach and forecast of connections capex as reasonable. Evoenergy proposed $1.7 million ($2025–26) in gross connections capex, a substantial reduction from the 2021–26 period, reflecting the cessation of ACT connections. We accept this gross capex forecast.

[24] Our findings on each capex driver are part of our broader analysis. They should not be considered in isolation. We do not approve a forecast of expenditure for each individual capex driver or project/program. Instead, we use our findings on the different capex drivers to assess the proposal as a whole and arrive at an alternative estimate for total capex where necessary. Our decision on total capex does not limit service provider's actual spending.

Issue	Findings and reasons
	Our decision reflects that: • no connections capex is forecast in the ACT in line with legislative changes • NSW connections are modest and based on historical demand trends • Evoenergy's estimation approach is appropriate, with a minor adjustment to capital contributions On 11 December 2025, the AEMC made its rule change for *updating the regulatory framework for gas connections,*[25] requiring gas network distributors, which are subject to the National Energy Customer Framework for gas, to charge a cost-reflective, upfront connection fee on newly connecting retail gas customers from 1 October 2026. Up until now when new customers connected to Evoenergy's network, we treated connection costs as regulated capex and added them into the regulatory asset base, subject to assessment and approval. After 1 October 2026, we will no longer include connection costs related to new customers in the regulatory asset base and Evoenergy can only recover these costs from connecting customers as capital contributions. The implementation of the new rule means Evoenergy has a much-reduced net connections capex forecast from the commencement of the 2026–31 access arrangement period on 1 July 2026 to 30 September 2026. Its net connections forecast is negative, owing to capital contributions serving not just direct connections capex, but also overheads allocated to those connections. Evoenergy incorporated the impacts of the rule change on its revised proposal forecast for connections capex, estimating that it is likely to reduce the number of connection requests. Evoenergy's revised proposal forecast of connections capex is $1.3 million, or 43%, lower than its initial proposal forecast of $3.0 million. Evoenergy estimated that 2025–26 and 2026–27 will be a transitional period, where 50% of connections would be new connection requests fully funded by capital contributions, and the other 50% would be legacy connection requests subject to the old connection charges. We consider these to be reasonable estimates of the impact of the rule change on forecast connections. We consider Evoenergy's connections forecast is consistent with the rules and is a reasonable amount of connections capex required to connect customers in its transitional period.
ICT	We have included Evoenergy's ICT forecast of $0.1 million in the total forecast capex. This was considered and accepted in our draft decision.
Meter replacement	We have included Evoenergy's proposed meter replacement program of $15.2 in the total forecast capex. Evoenergy's forecast is based on the same methodology we accepted in our draft decision, updated with revised historical unit rates and volumes.

25 https://www.aemc.gov.au/rule-changes/updating-regulatory-framework-gas-connections

Issue	Findings and reasons
	Evoenergy proposed a relatively large meter replacement program, primarily driven by its regulatory obligations to ensure meters are accurate, compliant, tested and replaced where defective. This obligation applies even where meters are "temporarily" disconnected, and which may never be reconnected before the network decommissions in 2045. This contributes to relatively high forecast replacement volumes. The program is also driven by the need to replace ageing meters, including a significant cohort of residential and hot water meters that are over 30 years old and failing sample tests. We consider Evoenergy's forecast to be prudent and efficient under the current regulatory framework. It reflects its ongoing obligations and the condition of its existing meter fleet, notwithstanding the broader transition of the gas network. We note that potential changes to regulatory obligations have been explored, including in discussions between Evoenergy, the AER and the ACT Utilities Technical Regulator on options to enable a more efficient approach to meter replacement, particularly where meters may never be reconnected. However, at the time of this final decision, there remains uncertainty regarding the timing and form of any such changes. Given this uncertainty, we have not adjusted Evoenergy's forecast and instead include it as proposed. We recognise that any future changes to regulatory obligations could materially affect the efficient level of meter replacement expenditure. Should such changes occur during the access arrangement period, we expect Evoenergy to seek to adjust its capex allowance through a cost pass-through application pursuant to clauses 8.8 through 8.17 of its 2026–31 access arrangement.
Other capex	We have included Evoenergy's "other capex" forecast of $1.5 million in the total forecast capex. This was considered and accepted in our draft decision.
Overheads	We have included $15.6 million of Evoenergy's capitalised overheads in the total forecast capex. This is $1.7 million million (or 10%) less than the $17.3 million ($2025–26) in capitalised overheads proposed by Evoenergy. This is because we have not included Evoenergy's proposed network overheads of $14.3 million. Instead, we include $12.6 million in our final decision. This represents a reduction of around 12% relative to Evoenergy's proposal, but an increase of 24% relative to our draft decision of $10.1 million. We consider Evoenergy's proposal has not appropriately reflected the declining nature of its capex program and its position as a decommissioning network. At the same time, we recognise that not all overhead costs are fully variable in the short term. For our final decision, we adopt a 30:70 fixed-to-variable ratio for network overheads. This approach recognises that while some overhead costs are fixed, a prudent and efficient service provider should seek to increase the variability of overheads as its capital program declines. This results in a lower, more efficient estimate of network overheads. We have included Evoenergy's corporate overheads forecast of $3.0 million in the total forecast capex. The methodology for calculating corporate overheads was considered and accepted in our draft decision.

Issue	Findings and reasons
	Our reasons for this are set out in Appendix A.1 (Overheads).
Modelling adjustments	Our final decision includes standard modelling adjustments for updated inputs to inflation and labour real cost escalation. This leads to a reduction of $0.01 million. In its proposal Evoenergy forecast its total capex for the 2026–31 period by applying real labour price escalation to both its internal labour and its contract labour. We generally apply no real price escalation to contract labour in our capex forecasts.[26] When purchasing contract services, businesses typically do not hire set labour quantities but instead purchase an overall service outcome. Our capex assessment considers the prudency and efficiency of these outcomes overall, which incorporates consideration of changes to both labour prices and labour productivity. As such, we typically do not apply further labour cost escalation to contract labour. We did not address this issue in our draft decision. We also note that the effect of applying no escalation to contract labour would only have a minor effect on our final decision forecast for Evoenergy's net capex, a reduction of $0.5 million. In response to an information request Evoenergy submitted that changes to capex input price forecasts should be considered holistically, having regard to how its forecast unit rates were derived. Evoenergy also submitted that recent developments in global supply chains, such as the middle east conflict, are likely to have increased forecast input prices.[27] Taking these matters into account, we consider that our forecast of total capex, estimated with real price escalation for contract labour included, remains prudent and efficient. We will re-consider this issue in greater detail for Evoenergy's 2031–36 access arrangement.

2.6 Revisions

We require the following revisions to make the access arrangement proposal acceptable as set out in Table 2.4.

Table 2.4 Capex revisions

Revision	Amendments
Revision 2.1	Make all necessary amendments to reflect our final decision on the proposed capex forecast for the 2026–31 access arrangement period, as set out in section 2.5.2.1

[26] For opex, we undertake a holistic assessment of overall opex requirements, considering together both real input price escalation and forecast productivity gains, reflecting that often labour compensation is related to labour productivity. For capex we typically undertake detailed bottom-up assessments of individual projects and programs, leading to a separate consideration of potential productivity (efficient) gains.

This approach was applied in Evoenergy's 2024-29 electricity distribution determination.

[27] Evoenergy, *Response to IR026*, April 2026.

A Assessment of key capex categories

This appendix sets out our assessment of a key capex category within Evoenergy's total capex forecast. It also sets out the reasons for our decision.

A.1 Overheads

Overheads are costs that are not directly attributable to the output of distribution businesses but are necessary to support its operations. Examples of overhead costs include network planning, procurement, and human resources.

A.1.1 AER's final decision

We do not accept Evoenergy's proposed network overheads of $14.3 million. We include $12.6 million in our final decision, which is approximately 12% lower than Evoenergy's proposal.

We have included Evoenergy's corporate overheads forecast of $3.0 million in our total forecast capex. The forecast methodology for corporate overheads was considered and accepted in our draft decision.

A.1.2 Evoenergy's revised proposal

Evoenergy proposed $17.3 million in capitalised overheads for the 2026–31 period, comprising $14.3 million in network overheads and $3.0 million in corporate overheads. Network overheads represent the majority of this expenditure and around 52% of Evoenergy's revised proposal total net capex.

Evoenergy changed its forecasting approach for this period, applying the overhead forecasting method that is built into our standardised capital expenditure model for electricity distribution. This method assumes that a certain portion of historical overheads are fixed in nature and will be incurred again in the forecast period, and that remaining overheads will vary in proportion with the amount of capex forecast to occur. Our standard electricity distribution capex model assumes a fixed-to-variable ratio of 75:25. Evoenergy's revised proposal adopted a fixed-to-variable ratio of 50:50. This differs from Evoenergy's capex forecast for its 2021–26 period, where network overheads were not separately reported.

Evoenergy also cited advice from the AER's consultant Zincara from our assessment of Evoenergy's 2021–26 access arrangement. Zincara advised that the fixed component of Evoenergy's network overheads may be in the range of 30-40%, but that a higher fixed cost share of around 50% may be appropriate as a transitional arrangement considering the ACT Government's police to phase out gas by 2045.[28]

A.1.3 Reasons for decision

We do not accept Evoenergy's proposed network overheads. Given the scale and pace of decline in its capex program, Evoenergy has overestimated the efficient costs of its network overheads forecast. We do not consider it appropriate to apply a 50:50 fixed-to-variable ratio.

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[28] AER, *Zincara - Final Decision - Evoenergy access arrangement 2021-26 - Capex report to AER*, April 2021, p 12; Evoenergy, *Attachment 4 Capital expenditure*, January 2026, p 11.

We consider that an efficient operator of a decommissioning gas network would seek to reduce its overheads to a greater degree as demand for its services, and its capex program, declines.

We instead adopt a 30:70 fixed-to-variable ratio for network overheads as a more reasonable estimate of prudent and efficient overhead costs. This approach:

- recognises that a portion of overhead costs is fixed and may not be reduced immediately
- reflects that a prudent and efficient service provider should seek to reduce fixed overheads over time as the network decommissions
- ensures overheads decline with the capex program while avoiding underestimation of fixed costs in the short term
- forecasts a decline in network overheads that is consistent with the historical rate of change in Evoenergy's network overheads.

In our draft decision we estimated network overhead costs by applying the ratio of network overheads to non-overhead capex experienced by Evoenergy in its 2021–26 period to our forecast of direct capex in the 2026–31 period. This approach effectively treated overheads as fully variable by maintaining a constant ratio of overheads to capex. Our final decision approach better reflects that a portion of Evoenergy's network overheads may be fixed in nature, at least in the short-term and particularly where capex is declining significantly and rapidly. Additionally, our final decision better reflects the historical trend in Evoenergy's network overhead costs. The overheads to non-overhead capex ratio applied in our draft decision reflected the ratio experienced in the 2021–26 period, but our forecast of non-overhead capex for the 2026–31 period is a significant decline relative to the 2021–26 period, and as such this ratio may not hold. Our final decision is more consistent with the historical trend in actual network overhead spend.

We note that Evoenergy referenced advice from our consultant received during our assessment of Evoenergy's 2021–26 access arrangement, which estimated a range of 30-40% for the fixed portion of Evoenergy's network overheads.[29] The 30% fixed share adopted in our final decision sits within this range and reflects a balanced assessment of cost structure.

We acknowledge Evoenergy's use of a higher fixed cost assumption (around 50%) is partially based on "transitional arrangements" identified by Zincara. However, we consider this interpretation is not appropriate. The transitional arrangements referred to by Zincara were specific to the 2021–26 period and related to the introduction of the ACT Government's policy to cease new gas connections by 2023. They were not intended to establish an ongoing benchmark for fixed overheads in future periods. Rather, it was to acknowledge that there may be some additional fixed costs associated with Evoenergy re-organising its overheads in preparation for it transitioning from a network with increasing customer numbers to a network with decreasing customer numbers.[30] We consider this transitional

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29 AER, *Zincara - Final Decision - Evoenergy access arrangement 2021-26 - Capex report to AER*, April 2021, p 12; Evoenergy, *Attachment 4 Capital expenditure*, January 2026, p 11.

30 AER, *Zincara - Final Decision - Evoenergy access arrangement 2021-26 - Capex report to AER*, April 2021, p 12; Evoenergy, *Attachment 4 Capital expenditure*, January 2026, p 11.

period has expired, and a prudent and efficient operator of a declining network would structure its network overheads to increase its variability with the size of its direct capex program.

Evoenergy incurs network overheads under its outsourced delivery model under its Distribution Asset Management Services (DAMS) Agreement with Jemena Asset Management (JAM), which manages the network and subcontracts most capital works and all repair and maintenance services to Zinfra. Evoenergy submitted that:[31]

- it reviews its network overhead costs annually,
- as its capital programs declined it leveraged the flexibility of its outsourced model to transition these overhead functions toward supporting repair and maintenance activities and ancillary tasks, such as disconnections, and
- as a result network overhead costs decreased by about 40% since the 2013–18 period.

We expect a prudent and efficient network operator would continue to leverage this outsourced delivery model to continue to rationalise its network overhead costs as its non-overhead capex declines.

Overall, we consider that adopting a 30:70 fixed-to-variable ratio provides a more reasonable and efficient estimate of network overheads, consistent with Evoenergy's declining capex program and its transition towards a decommissioning network.

[31] Evoenergy, *Attachment 4 Capital expenditure*, January 2026, pp 12-13.

Glossary

Term	Definition
ACT	Australian Capital Territory
ACTCOSS	Australian Capital Territory Council of Social Service
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CCP33	Consumer Challenge Panel, sub-panel 33
CESS	capital expenditure sharing scheme
ECA	Energy Consumers Australia
ICT	information communications technology
NGO	National Gas Objective
NGL	National Gas Law
NGR	National Gas Rules
opex	operating expenditure
PTRM	Post-Tax Revenue Model
RFM	Roll Forward Model
UTR	Utilities Technical Regulator