Final decision

Evoenergy (ACT) access arrangement 2026 to 2031

(1 July 2026 to 30 June 2031)

Attachment 3 – Operating expenditure

May 2026

AUSTRALIAN ENERGY REGULATOR

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1	21 May 2026	25

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

3 Operating expenditure

Operating expenditure (opex) is the operating, maintenance and other non-capital expenses, incurred in the provision of pipeline services. Forecast opex is one of the building blocks we use to determine a service provider's total revenue requirement.

In this attachment, we outline our assessment of Evoenergy's opex proposal for the 2026–31 access arrangement period (2026–31 period).

3.1 Final decision

Our final decision is to include total forecast opex of $171.0 million for the 2026–31 period, excluding ancillary reference services and including debt raising costs.

We do not accept Evoenergy's total forecast opex of $175.4 million ($2025–26)[1] for the 2026–31 period, excluding ancillary reference services and including debt raising costs, because our alternative estimate of total forecast opex is materially lower (2.5% or $4.4 million) than Evoenergy's revised proposal. Therefore, we consider that Evoenergy's total forecast opex does not reasonably reflect the opex criteria[2] and the forecasts and estimates criteria.[3]

The difference between our alternative estimate and Evoenergy's revised proposal is driven by us:

- including an adjusted output growth forecast of –$6.1 million in our alternative estimate, which is $6.3 million less than Evoenergy's forecast. Our alternative forecast of output growth is based on the average of forecast growth rates of the econometric studies previously submitted to us by gas distributors. This is consistent with our draft determination.
- applying mechanical updates to reflect current forecasts, including:
  - a more recent inflation forecast from the Reserve Bank of Australia (RBA),[4] which affects multiple components of the forecast opex where nominal values are converted into $2025-26 real terms
  - an updated rate of change – in calculating labour price growth forecasts we have relied on Wage Price Index (WPI) forecasts from our consultants, Deloitte Access Economics.

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1 All numbers are in $2025–26 unless otherwise indicated.

2 Under rule 91 of the National Gas Rules (NGR), opex 'must be such as would be incurred by service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services.' Where opex satisfies the test in rule 91, we say it satisfies the opex criteria.

3 Under rule 74 of the NGR, information in the nature of a forecast or estimate must be supported by a statement of the basis of the forecast/estimate. Further, forecasts and estimates must be arrived at on a reasonable basis and must represent the best forecast or estimate possible in the circumstances. Where a forecast or estimate meets the requirements of this rule, we say it satisfies the forecasts and estimates criteria.

4 RBA, *Statement on Monetary Policy*, May 2026.

Table 3.1 sets out Evoenergy's revised opex proposal, our alternative estimate for the final decision and the differences between these forecasts.

Table 3.1 Comparison of Evoenergy's opex proposal and our alternative opex estimate ($million, 2025–26)

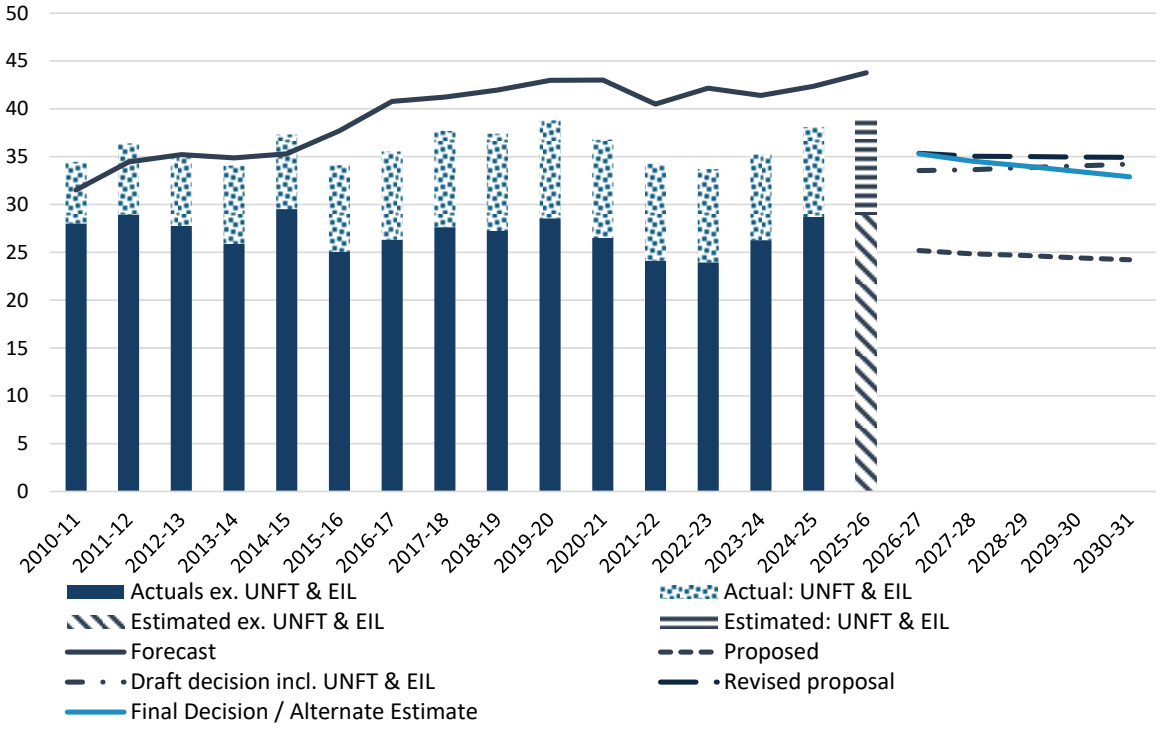
	Evoenergy proposal	AER draft decision	Evoenergy revised proposal	AER alternative estimate - final decision	Difference $
Based on estimated opex in 2023–24	**177.1**	**176.0**	**176.0**	**179.1**	**3.1**
Remove category specific forecasts	**–76.1**	**–75.7**	**–75.7**	**–77.0**	**–1.3**
2023–24 to 2025–26 increment	**12.0**	**11.9**	**11.9**	**12.1**	**0.2**
Trend – Output growth	–1.3	–4.6	0.2	–5.8	–6.0
Trend – Price growth	1.5	2.1	2.0	1.8	–0.1
Trend – Productivity growth	–	0.1	–	–0.3	–0.3
Total trend	**0.2**	**–2.4**	**2.1**	**–4.3**	**–6.4**
Step change: UNFT	–	44.4	–	–	–
Step change: EIL	–	3.8	–	–	–
Step change: Safety Control program	–	–	1.5	1.5	–
Total step changes	**–**	**48.2**	**1.5**	**1.5**	**–**
Category specific forecasts: UNFT	–	–	44.9	44.9	–
Category specific forecasts: EIL	–	–	3.8	3.8	–
Category specific forecasts: UAFG	9.4	10.2	9.7	9.7	–
Debt raising costs	0.8	1.1	1.1	1.1	0.1
Total category specific forecasts	**10.3**	**11.3**	**59.5**	**59.5**	**0.1**
Total Opex	**123.4**	**169.3**	**175.4**	**171.0**	**–4.4 (–2.5%)**

Source: Evoenergy, *Appendix 5.1 Opex model*, January 2026; Evoenergy, *Appendix 4.1– Opex model, June 2025*; AER analysis.

Note: Numbers may not add up to total due to rounding. Differences of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

In Figure 3.1, we compare our alternative estimate of opex (including and excluding the Utilities Network Facilities Tax (UNFT) and Energy Industry Levy (EIL) costs) to Evoenergy's proposal for the 2026–31 period. We also show the forecasts we approved for the last 3 access arrangement periods, and Evoenergy's actual and estimated opex over these periods.

Figure 3.1 Comparison of actual and forecast opex ($million, 2025–26)



Source: Evoenergy, *Regulatory accounts*, 2010 to 2026; Evoenergy, *Appendix 4.1Opex model, June 2025*; Evoenergy, *Appendix 5.1 Opex model*, January 2026; Evoenergy, Access arrangement, PTRM (multiple periods: 2010–15, 2015–20, 2020–25); AER analysis.
Note: Includes debt raising costs and movements in provisions.

Our final decision, which is lower than Evoenergy's revised proposal, is:

- $39.3 million (18.7%) lower than the opex forecast we approved for the 2021–26 access arrangement period
- $9.5 million (5.2%) lower than Evoenergy's actual (and estimated) opex in the 2021–26 access arrangement period.

We discuss the difference between our alternative estimate and Evoenergy's revised proposal in more detail in section 3.4.

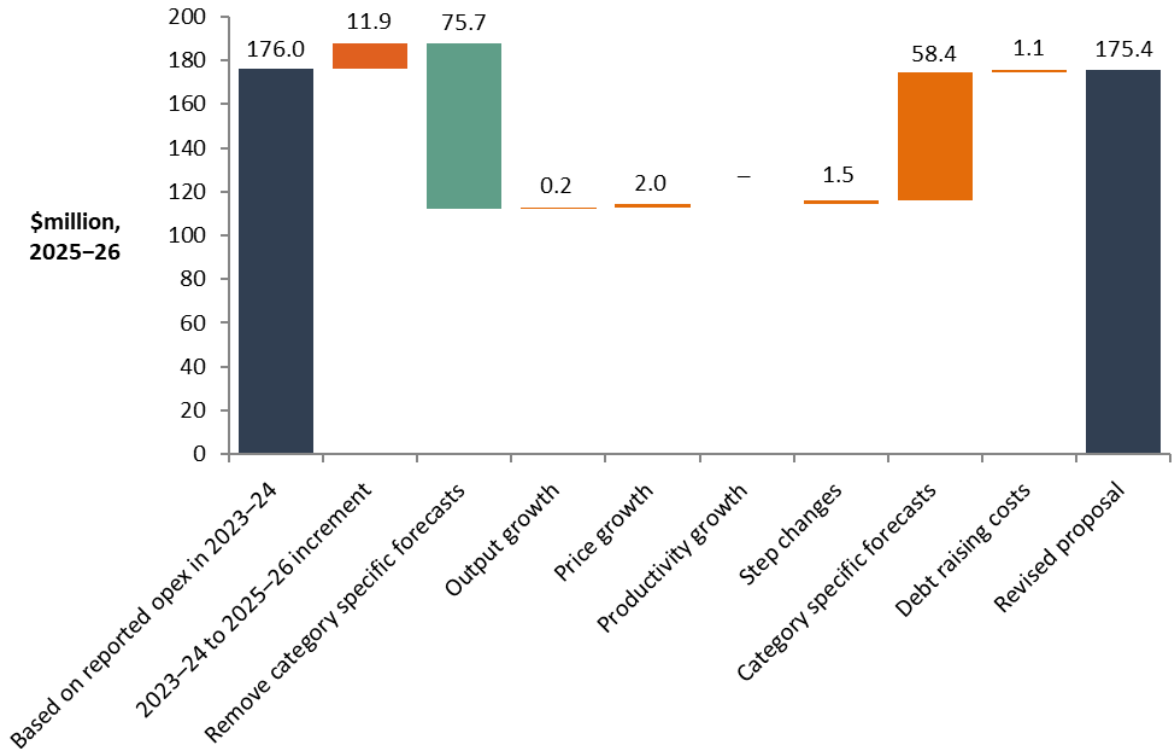
3.2 Evoenergy's revised proposal

Evoenergy used a 'base-step-trend' approach to forecast opex, consistent with our preferred approach.[5]

Evoenergy's forecast applying our base–step–trend approach is set out in Table 3.1. In Figure 3.2, we show the different components that make up Evoenergy's opex forecast for the 2026–31 period.

[5] Evoenergy, *Attachment 4 – Operating expenditure*, June 2025, p. 11.

Figure 3.2 Evoenergy's revised total forecast opex ($million, 2025–26)



Source: Evoenergy, *Appendix 5.1 Opex model*, January 2026; AER analysis.
Note: Includes debt raising costs and movements in provisions.

Evoenergy's revised total forecast opex of $175.4 million is $5.0 million, or 2.8%, lower than its actual / estimated opex over the 2021–26 access arrangement period.

3.2.1 Stakeholder views

We received 2 submissions that commented on Evoenergy's revised opex proposal, from Energy Networks Australia (ENA) and Consumer Challenge Panel (CCP33).[6] CCP33 supported Evoenergy's proposed step change for the safety control program, which relates to a customer education program focused on temporary gas abolishments. CCP33 supported a cost-effective, coordinated program involving both retailers and Evoenergy as being in customers' best interests. It submitted that Evoenergy's customers should not bear sole responsibility for funding a customer education program on safety issues related to temporary gas abolishments, anticipating that the AEMC would place obligations on retailers to provide customers with information about different disconnection services. However, CCP33 left it to the AER to assess whether Evoenergy's proposed safety control program meets the step change criteria, and the prudency and efficiency of the proposed expenditure.[7]

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6 CCP33, *Advice to the AER – Evoenergy's 2026–31 revised proposal and draft decision,* February 2026; Energy Networks Australia, *Submission on Evoenergy's 2026–31 revised proposal and draft decision,* February 2026.

7 CCP33, *Advice to the AER – Evoenergy's 2026–31 revised proposal and draft decision,* February 2026, p. 5.

ENA raised a concern that the combined effect of our draft decision positions, on depreciation, demand, tariff variation mechanism, expenditure forecasts, including the UNFT, and the asymmetric Capital Expenditure Sharing Scheme, may deny Evoenergy a reasonable opportunity to recover its efficient costs.[8]

3.3 Assessment approach

Our role is to decide whether or not to accept a business's total forecast opex. We approve the business's forecast opex if we are satisfied that it meets the opex criteria and the criteria for forecasts and estimates. We set out in detail the approach we use to determine whether a proposal meets the opex criteria in section 3.3 of our draft decision.[9]

3.4 Reasons for the final decision

Our final decision is to not accept Evoenergy's total forecast opex of $175.4 million ($2025–26), excluding ancillary reference services and including UNFT, EIL, and debt raising costs. This is because our alternative estimate of total forecast opex of $171.0 million is $4.4 million, or 2.5% lower than Evoenergy's proposal. Therefore, we consider that Evoenergy's total forecast opex does not reasonably reflect the opex criteria[10] and the forecasts and estimates criteria.[11]

Table 3.1 sets out Evoenergy's opex proposal, our alternative estimate for the final decision and the differences between these forecasts. We have set out the main drivers for the differences in section 3.1 and we discuss the components of our alternative estimate, and our assessment of Evoenergy's revised proposal, below. Full details of our alternative estimate are set out in our opex model, which is available on our website.

3.4.1 Base opex

This section provides our view on the prudent and efficient level of base opex that we consider Evoenergy needs for the safe and reliable provision of services over the 2026–31 period.

3.4.1.1 Proposed base year

Consistent with our draft decision and Evoenergy's revised proposal, we have used 2023–24 opex as the base year for forecasting our alternative estimate of opex.

We have used base year opex of $35.8 million or $179.1 million over 5 years (excluding ancillary reference services) to form our alternative estimate of total forecast opex. This is slightly higher than Evoenergy's proposal of $35.2 million or $176.0 million over the 2026–31

8 Energy Networks Australia, *Submission on Evoenergy's 2026–31 revised proposal and draft decision*, February 2026, p. 2.

9 AER, *Draft decision – Evoenergy access arrangement 2026–31 – Attachment 3 – Operating expenditure,* November 2025, pp. 5–10.

10 NGR, r. 91.

11 NGR, r. 74.

period, excluding ancillary reference services.[12] This is because we have applied a more recent inflation forecast from the RBA.[13]

3.4.1.2 Removal of category specific forecasts

In some circumstances we remove a category of opex from the base year expenditure if it is more appropriate to forecast that category separately. We refer to these as 'category specific forecasts' (see section 3.4.4).

Consistent with our draft decision and Evoenergy's revised proposal, we have removed unaccounted for gas (UAFG), the UNFT and EIL, and debt raising costs from base opex, to be forecast separately. This is consistent with our standard approach.

Accordingly, we have removed $77.0 million from base opex for the costs we forecast as category specific forecasts. This is higher than the $75.7 million that Evoenergy removed because we applied a more recent inflation forecast, which was not available at the time of Evoenergy's revised proposal.

3.4.1.3 Final year increment

Our standard approach to estimating final year opex is to add the forecast change in opex between the base year (2023–24) and the final year (2025–26) to the base year opex amount.[14]

We have included $12.1 million for the final year increment in our alternative estimate, which is slightly higher than Evoenergy's proposed amount of $11.9 million.[15] The difference between our estimate of the final year increment and Evoenergy's revised proposal is because we used more recent inflation numbers, which were not available at the time of Evoenergy's revised proposal.

3.4.2 Rate of change

Having estimated opex in the final year of the 2021–26 period, we then applied a forecast annual rate of change to forecast opex for the 2026–31 period. We have applied an average annual rate of change of –1.4% to derive our alternative estimate of opex. This is lower than Evoenergy's forecast of 0.7%.[16] We compare both forecasts in Table 3.2.

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12 Evoenergy, *Appendix 5.1 Opex model,* January 2026.

13 RBA, *Statement on Monetary Policy – Appendix: Forecast*, May 2026.

14 AER, *Final decision, Expenditure Forecast Assessment Guideline for Electricity Distribution*, October 2024, p. 23.

15 Evoenergy, *Appendix 5.1 Opex model,* January 2026.

16 Evoenergy, *Appendix 5.1 Opex model*, January 2026; AER analysis.

Table 3.2 Forecast annual rate of change in opex, %

	2026–27	2027–28	2028–29	2029–30	2030–31
Evoenergy proposal					
Price growth	0.4	0.5	0.7	0.8	0.8
Output growth	0.1	0.0	0.0	0.0	0.0
Productivity growth	–	–	–	–	–
Rate of change	**0.5**	**0.6**	**0.7**	**0.8**	**0.8**
AER alternative estimate					
Price growth	0.4	0.5	0.6	0.7	0.8
Output growth	–1.1	–1.8	–2.0	–2.2	–2.4
Productivity growth	0.2	0.1	0.0	–0.0	–0.1
Rate of change	**–1.0**	**–1.3**	**–1.4**	**–1.5**	**–1.6**
Difference	**–1.5**	**–1.9**	**–2.1**	**–2.3**	**–2.4**

Source: Evoenergy, *Appendix 5.1 Opex model*, January 2026; AER analysis.
Note: Numbers may not add up to total due to rounding. Amounts of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

We discuss our forecasts for price, output and productivity growth below, including the reasons for any differences between our forecast and Evoenergy's.

3.4.2.1 Forecast price growth

Evoenergy proposed average annual price growth of 0.6%, which increased its total forecast opex by $2.0 million.[17] We have used different annual price growth rates that also average 0.6% in our alternative estimate of total opex. The price growth rates we used increase our total opex alternative estimate by $1.8 million.

Evoenergy applied our standard approach to forecast price growth, including:

- adopting our standard input price weightings of 62% for labour inputs and 38% for non-labour inputs
- forecasting labour price growth using an average of updated forecasts of the growth in the WPI from BIS Oxford Economics (its consultant) and the Deloitte Access Economics (our consultant) WPI forecasts we published with our draft decision.

The difference between our real price growth forecasts and Evoenergy's is that we have updated our labour price growth forecast to include more recent forecasts from our consultant Deloitte Access Economics.[18]

17 Evoenergy, *Appendix 5.1 Opex model*, January 2026.

18 Deloitte Access Economics, *Labour price growth forecasts*, March 2026, p. 10.

We compare our forecasts of labour price growth to Evoenergy's revised proposal in Table **3.3**.

Table 3.3 Forecast labour price growth, %

	2026–27	2027–28	2028–29	2029–30	2030–31
Revised proposal					
WPI – Oxford Economics	1.0	0.9	1.1	1.2	1.3
WPI – Deloitte Access Economics	0.5	0.8	1.0	1.3	1.2
Forecast labour price growth	**0.7**	**0.9**	**1.1**	**1.2**	**1.2**
AER alternative estimate					
WPI – Oxford Economics	1.0	0.9	1.1	1.2	1.3
WPI – Deloitte Access Economics	0.2	0.7	0.8	1.1	1.1
Forecast labour price growth	**0.6**	**0.8**	**1.0**	**1.1**	**1.2**
Difference	**–0.2**	**–0.0**	**–0.1**	**–0.1**	**–0.0**

Source: Oxford Economics, *Labour cost escalation: Forecasts to 2030/31*, March 2025, p. 6; Deloitte Access Economics, *Labour price growth forecasts*, March 2026, p. 10; AER analysis.
Note: Numbers may not add up to total due to rounding. Amounts of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

3.4.2.2 Forecast output growth

Evoenergy proposed average annual output growth of 0.05%,[19] which increased its proposed opex forecast by $0.2 million. We have forecast average annual output growth of –1.9%. This decreases our alternative estimate of total opex by $5.8 million.

3.4.2.2.1 Evoenergy's revised proposal

Evoenergy changed the approach it used to forecast output growth from the approach it proposed in its initial proposal. This increased its forecast output growth rate, despite reducing its forecasts for the growth in customer numbers and mains length.

Evoenergy used the forecast growth in mains lengths to forecast output growth.[20] It adopted this approach based on advice from the Competition Economists Group (CEG).[21]

We show in Table 3.4 Evoenergy's proposed customer numbers and mains length forecasts and the resultant output growth forecast under its proposed approach.

19 Evoenergy, *Appendix 5.1 Opex model*, January 2026.

20 Evoenergy, *Appendix 5.1 Opex model*, January 2026.

21 Evoenergy, *Attachment 5 Operating expenditure*, January 2026, p. 10.

Table 3.4 Evoenergy's forecast customer numbers, mains length and output growth

	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31
Customer numbers	148,475	143,521	136,160	128,222	119,927	111,645
Mains length, km	4,805	4,807	4,809	4,812	4,814	4,817
Customer numbers, growth		–3.39%	–5.27%	–6.01%	–6.69%	–7.16%
Mains length, growth		0.05%	0.05%	0.05%	0.05%	0.05%
Forecast output growth		**0.05%**	**0.05%**	**0.05%**	**0.05%**	**0.05%**

Source: Evoenergy, *Appendix 5.1, Opex model*, January 2026.

Evoenergy forecast zero productivity growth, also based on advice from CEG.

3.4.2.2.2 Assessment of output growth

For electricity distribution determinations, we typically forecast output growth based on the forecast growth in a defined output measure, based on econometric modelling. However, for gas distribution decisions, we have not undertaken the modelling needed to determine a standard industry output specification.

To assess Evoenergy's output and productivity growth forecasts, we tested how the proposed output growth, net of productivity growth, compares to the output net of productivity growth forecast using the output specifications derived from the available econometric studies. These econometric studies have been submitted in previous gas reset processes and were undertaken between 2015 and 2024.[22] We have taken the opex cost functions estimated by each of these studies and produced output and productivity growth forecasts specific to Evoenergy's circumstances. This includes using the forecast growth in energy throughput, customer numbers and mains length Evoenergy submitted in its revised proposal.

When we compared the results of the different studies, we compared forecast output growth and productivity growth together because an output specification that leads to higher output growth tends to also give higher productivity growth. We therefore look at the opex rate of change from output growth net of productivity growth. This is the same approach we used for our draft decision.

In doing this analysis we used the forecast growth in customer numbers, energy throughput and mains length that Evoenergy included in its revised proposal. We are satisfied that these are the best forecasts possible in the circumstances.

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22 ACIL Allen, *Opex partial productivity analysis, Report to Australian Gas Networks Limited*, 20 December 2016; Economic Insights, *Relative opex efficiency and forecast opex productivity growth of Jemena Gas Networks*, February 2015; Economic Insights, *Gas distribution businesses opex cost function, Report prepared for Multinet Gas*, 22 August 2016; Economic Insights, *Relative efficiency and forecast productivity growth of Jemena Gas Networks (NSW)*, 24 April 2019; ACIL Allen, *Opex partial productivity study 2022, Report to Australian Gas Networks (VIC and Albury), Multinet and AusNet*, 16 June 2022; CEG, *Benchmarking and forecasting JGN opex, A report for Jemena Gas Networks*, April 2024.

When we compared average annual output growth net of productivity growth using Evoenergy's approach against the forecasts based on each of the available econometric studies, we found it to be higher than the top of the reasonable range formed by the studies, as shown in Table 3.5. Consequently, we are not satisfied that Evoenergy's forecast of output growth, net of productivity growth, is consistent with the NGR requirements for forecasts.

CEG, however, raised concerns with this approach, which we discuss below. It suggested two alternative approaches: it's preferred approach, which Evoenergy adopted, and an alternative 'aggressive' approach. We show both approaches in Table 3.5, as well as the results of using the New Zealand Commerce Commission approach. We have not included these approaches in our average or in determining the reasonable range.

Table 3.5 Comparison of forecast output growth net of productivity growth

Model specification	Output growth	Productivity growth	Output growth net of productivity growth
Proposed approach	0.05%	–	0.05%
CEG's 'aggressive' option	0.05%	0.58%	–0.53%
Commerce Commission approach	–2.83%	–0.33%	–2.50%
ACIL Allen (2016) 1	–0.57%	0.20%	–0.77%
Economic Insights (2015)	5.48%	4.10%	1.38%
ACIL Allen (2016) 2	–0.54%	0.24%	–0.78%
Economic Insights (2016)	–1.90%	–0.27%	–1.63%
Economic Insights (2019)	–2.79%	–0.54%	–2.25%
ACIL Allen (2022)	–2.89%	–0.31%	–2.59%
CEG (2024)	–2.73%	0.38%	–3.11%
Average	**–1.90%**	**–0.00%**	**–1.90%**
Minimum			**–3.11%**
Maximum			**–0.77%**

Source: Evoenergy, *Appendix 5.1 Opex model*, January 2026; ACIL Allen, *Opex partial productivity analysis, Report to Australian Gas Networks Limited*, 20 December 2016; Economic Insights, *Relative opex efficiency and forecast opex productivity growth of Jemena Gas Networks*, February 2015; Economic Insights, *Gas distribution businesses opex cost function, Report prepared for Multinet Gas*, 22 August 2016; Economic Insights, *Relative efficiency and forecast productivity growth of Jemena Gas Networks (NSW)*, 24 April 2019; ACIL Allen, *Opex partial productivity study 2022, Report to Australian Gas Networks (VIC and Albury), Multinet and AusNet,* 16 June 2022; CEG, *Benchmarking and forecasting JGN opex, A report for Jemena Gas Networks*, April 2024; AER analysis.

Note: We have only included the results of those studies that reliably estimated individual parameters (that is, the estimated coefficient is of the expected sign) in forming the reasonable range. Consequently, we have excluded the results from Economic Insights (2015) and Economic Insights (2016), which are highlighted grey.

Numbers may not add up to total due to rounding. Amounts of '0.0' and '–0.0' represent small non-zero values and '–' represents zero.

3.4.2.2.3 AER analysis

Evoenergy did not adopt our approach to forecast output growth and productivity growth. Evoenergy engaged CEG to advise how to forecast output and productivity growth.[23] CEG considered that:

- there is severe multicollinearity between mains length, customer numbers and throughput, making it difficult to attribute the historic change in opex to a specific output variable. This becomes a concern when the relationship between the forecast movement in the output variables varies significantly from the historic relationship.
- the time trends estimated by the regressions are also unreliable due to multicollinearity.
- the AER's approach is inconsistent with the approach taken in other jurisdictions, namely by Ofgem in the UK and the Commerce Commission in New Zealand.

CEG recommended:[24]

- using mains length as the best available proxy for network scale
- given that multicollinearity makes individual coefficients unreliable, sum the coefficients for all three parameters (mains length, customer numbers and throughput) in each regression and treat that summed value as the coefficient for mains length
- for the regression time trend either:
  - ignore the time trend components of the models (preferred); or
  - apply the model time trend despite multicollinearity that causes the regressions to confuse scale economies with negative time trends (CEG's 'aggressive option').

Evoenergy adopted CEG's preferred option, giving average forecast output growth of 0.05% each year and zero productivity growth.

<u>The Ofgem approach forecasts totex not opex</u>

CEG noted that Ofgem uses modern equivalent asset value (the cost to replace existing assets with new, technologically current assets that provide the same service capability) as its preferred scale driver. In the absence of a modern equivalent asset value for Evoenergy, CEG considered mains length the best available proxy. When considered alongside the multicollinearity between the output variables, CEG considered mains length was the most appropriate output variable to use.[25]

We note, however, that Ofgem does not forecast opex, but instead forecasts totex. Thus, it is also forecasting capital expenditure at the same time.

We consider it is more appropriate to consider multiple outputs given the nature of gas distribution network services. These can include measures such as energy throughput,

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23 CEG, *Appendix 5.2, Declining customer impact on operating expenditure*, January 2026.

24 CEG, *Appendix 5.2, Declining customer impact on operating expenditure*, January 2026, p. 29.

25 CEG, *Appendix 5.2, Declining customer impact on operating expenditure*, January 2026, pp. 10–15.

mains length, customer numbers, and peak demand. However, empirical work in the field can differ in terms of output specification, attributable to the lack of a comprehensive conceptual framework or limitations in the data available.

Furthermore, Regulatory Asset Base (RAB) has been included as an explanatory variable in the econometric studies considered. While we haven't explicitly included it as an output (or proxy for an output), it is included in the measured productivity in examining the net opex impact.

Given we are not looking to forecast capital expenditure, we do not consider the Ofgem approach is directly relevant.

The Commerce Commission approach sits within the reasonable range

CEG also noted that, in New Zealand, the Commerce Commission forecast a zero opex partial productivity growth rate. CEG also stated that the Commerce Commission made, in November 2025, a draft decision for New Zealand gas distributors that, if applied to Evoenergy, would result in a decline in opex of only 0.495% per year, above the top of the reasonable range we determined in the draft decision (of –0.64%).[26]

We reviewed the November 2025 Commerce Commission draft decision and could not reconcile the output growth net of productivity growth rate of –0.495% that CEG calculated. We asked Evoenergy to clarify how CEG calculated its output growth net of productivity growth using the Commerce Commission approach. CEG agreed that it had erred in its calculation of output growth net of productivity growth. After correcting the error, it calculated output growth net of productivity growth of –1.5% using the draft decision output growth rates.[27] This lies within the reasonable range (between –0.64% and –2.39%) that we calculated in our draft decision.

We also note that the Commerce Commission does not separately forecast output growth and productivity growth in the same way we do. The Commerce Commission includes forecast returns to scale within its 'opex trend factor'. We have separated out returns to scale to allow a comparison of the Commerce Commission's approach to the other approaches on a like-for-like basis, as shown in Table 3.5.

The multicollinearity problem

CEG stated that there is severe multicollinearity between mains length, customer numbers and throughput, making it difficult to attribute the historic change in opex to a specific output variable.[28] Multicollinearity is a problem we have previously noted. For example, many of the econometric functions adopt RAB as a business condition variable (to capture the substitutability between opex and capex). One would expect the elasticity of the RAB variable to be negative, since networks that adopt a capex solution should require less opex. However, the models tend to estimate positive elasticities for the RAB variable suggesting it

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26 CEG, *Appendix 5.2, Declining customer impact on operating expenditure*, January 2026, p. 8.

27 CEG, *Response to information request IR#019*, February 2026, p. 11.

28 CEG, *Appendix 5.2, Declining customer impact on operating expenditure*, January 2026, pp. 16–18.

may pick up some of the output impact. For this reason, in our draft decision, we assumed zero RAB growth rather than using forecasts of RAB decline due to accelerated depreciation.

This multicollinearity between output variables is not a problem for forecasting if the forecast movement in the output variables does not vary significantly from the historic relationship. However, this is no longer the case with customer numbers and throughput declining while mains length remains steady.

CEG's proposed solution to this problem is to sum the elasticities for all output variables and allocate them to mains length. (CEG also considered this is consistent with the Ofgem approach on the basis that mains length is the best available proxy for modern equivalent asset value).[29] However, we consider it unlikely that customer numbers and throughput will have no impact on opex. As such, we do not consider it reasonable to allocate 100% of the output weight to mains length, which is likely to over-forecast the overall output growth in a declining demand environment.

3.4.2.3 Forecast productivity growth

Evoenergy forecast average annual productivity growth of zero in its revised proposal.[30] We have included forecast average productivity growth of 0.0% in our alternative estimate, but for different reasons. We have forecast productivity growth based on the time trends and returns to scale forecast by each of the econometric studies submitted to us.

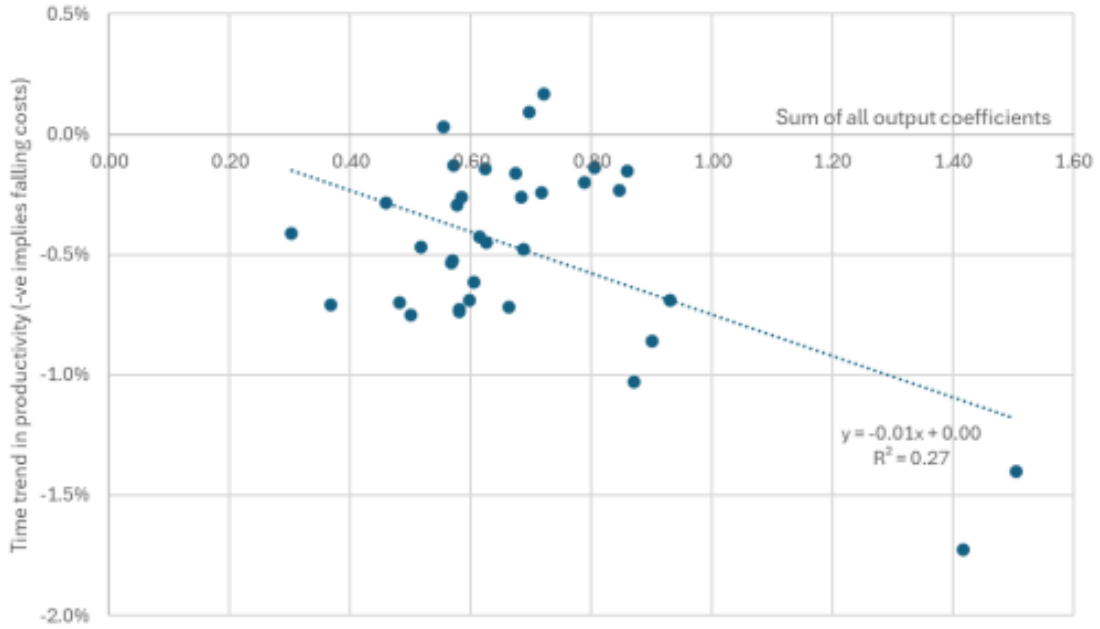
CEG, however, considered there was multicollinearity between the output variables and the time trend. CEG presented the following figure to demonstrate that there was a 'strong negative relationship' between the output coefficients and the time trend. It stated that the stronger the economies of scale (the smaller the sum of 'output' coefficients) the smaller the time trend (and vice versa). Consequently, CEG considered that we should 'follow the [Commerce Commission] lead on this and simply adopt a zero time trend'.[31]

29 CEG, *Appendix 5.2, Declining customer impact on operating expenditure*, January 2026, p. 29.

30 Evoenergy, *Appendix 5.1 Opex model*, January 2026.

31 CEG, *Appendix 5.2, Declining customer impact on operating expenditure*, January 2026, p. 23.

Figure 3-3 The relationship between the output coefficients and the time trend, CEG data set

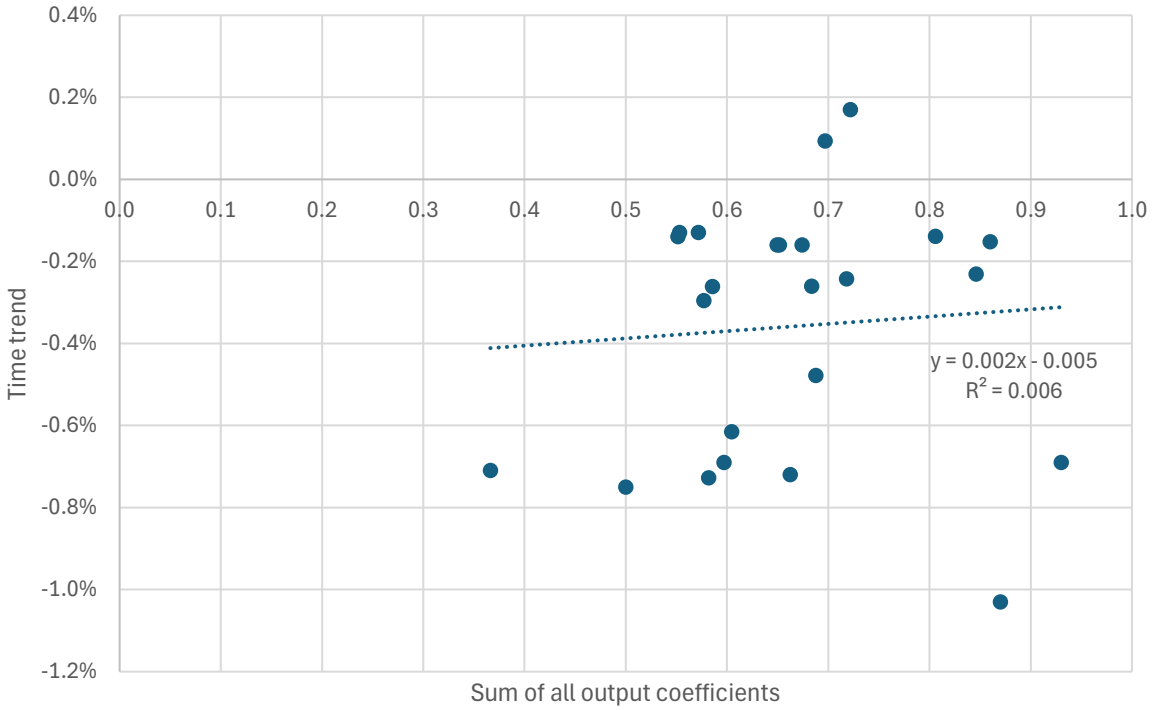


Source: CEG, *Appendix 5.2, Declining customer impact on operating expenditure*, January 2026, p. 23.

However, Figure 3-3 shows significantly more data points than we include in the set of econometric studies we use to establish the reasonable range. The negative relationship appears to be influenced by the two outlying data points in the bottom right corner. It is also unclear whether the estimated relationship sufficiently controls for other differences across the studies.

We reproduced CEG's chart using our clean data set, as shown in Figure 3-4. This showed no meaningful relationship between the output coefficients and the time trend.

Figure 3-4 The relationship between the output coefficients and the time trend, AER data set



Source: AER analysis.

We requested the analysis and the underlying data that CEG used. CEG provided this information, which showed that the two outlying observations are from the fixed-effects models in ACIL Allen's 2016 report.[32] In that report ACIL Allen rejected these results based on the Hausman test that favoured random-effects models and because the estimated output elasticities were outside the plausible range.[33] It was for these reasons that we did not include the modelling results in our data set.

Based on this analysis we are not persuaded that there is evidence of multicollinearity between the output variables and the time trend. This was one of the reasons why CEG recommended that the time trend should be set to zero. The other reason was based on the Commerce Commission precedent that sets the productivity factor (excluding scale effect) to zero. However, it is important to consider both output and productivity growth together because modelling results that produce stronger output growth also tend to produce stronger scale effects. A s discussed above, the Commerce Commission approach sits in the bottom half of our reasonable range when output and productivity growth are considered together. Given this, we are satisfied it is appropriate to use the negative time trends produced by the modelling results.

32 CEG, *Response to information request IR#019*, February 2026.

33 ACIL Allen Consulting, *Opex partial productivity analysis*, 20 December 2016, p. 22.

As we set out in our draft decision, the econometric analyses previously submitted by gas distributors found both a negative time trend and increasing returns to scale.[34] That is, the studies found that, all else being equal, opex reduces over time due to changes in technology and business conditions and that when output increases, opex increases at a lower rate. This suggests that, at least while output is growing, gas distributors should be able to achieve productivity growth associated with scale efficiency gains.

In the case of Evoenergy, output is forecast to fall. Consequently, the loss of scale economies offsets the gains from the negative time trend. At the level of output decline forecast by Evoenergy, our forecast productivity growth is 0.0%. For these reasons we are satisfied that a productivity growth of 0.0% is the best forecast possible in the circumstances, but not for the reasons put forward by Evoenergy and CEG.

3.4.3 Step changes

We have included one step change in our alternative estimate of total forecast opex for costs associated with Evoenergy's safety control program. In our draft decision, we also included step changes for forecast UNFT and EIL costs in our alternative estimate. For this final decision, we have adopted Evoenergy's proposed treatment of the UNFT and EIL as category specific forecasts, which we discuss further below (sections 3.4.4.1 and 3.4.4.2).

3.4.3.1 Safety control program

We have included a safety control program step change of $1.5 million in our alternative estimate. This is consistent with the amount Evoenergy included in its revised proposal (see Table 3.1).

The safety control program is driven by households seeking a temporary, rather than permanent, disconnection and electrifying all appliances. Evoenergy initially proposed that its safety control program costs be recovered through temporary disconnection charges. In the draft decision we did not include the safety control program in the temporary disconnection tariff, as we considered the costs of a safety program to be standard operating costs.[35]

In the revised proposal Evoenergy included a step change of $1.5 million for the safety control program.[36] We consider the safety control program step change to be prudent and efficient. The program is driven by compliance with Evoenergy's regulatory obligations and is not covered by the base and trend components of our total forecast opex.

We received three submissions, which supported Evoenergy's safety control program. The ACT Government expressed support for the safety control program, based on the ongoing risk associated with having pressurised gas within the property boundary.[37] Meanwhile, the ACT Technical Regulator provided assurance that the safety control program was

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34 AER, *Draft decision – Evoenergy access arrangement 2026–31 – Attachment 3 – Operating expenditure*, November 2025, pp. 15–18.

35 AER, *Draft decision – Evoenergy access arrangement 2026–31 – Attachment 5 – Reference services, tariffs and non-tariff components,* November 2025, p. 16.

36 Evoenergy, *Attachment 5 – Operating expenditure*, January 2026, pp. 10–11.

37 ACT Government, *Submission on Evoenergy 2026-31 Access Arrangement Proposal*, August 2025, p. 3.

proportionate and reasonable.[38] CCP33 highlighted consumer support for the step change, provided in principle support for a customer education program focused on temporary gas disconnections, but deferred to AER on assessment of the proposed step change.[39]

Table 3.6: Safety control program ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Evoenergy proposal	0.4	0.3	0.3	0.3	0.3	**1.5**
AER alternate estimate	0.4	0.3	0.3	0.3	0.3	**1.5**
Difference	**–**	**–**	**–**	**–**	**–**	**–**

Source: Evoenergy, *Appendix 5.1 Opex model*, January 2026; AER analysis.
Note: Numbers may not add up to total due to rounding. Amounts of '–' represents zero.

3.4.4 Category specific forecasts

Evoenergy's revised proposal included 4 expenditure items, or category specific forecasts, which were not forecast using the base-step-trend approach. These were for costs relating to jurisdictional charges (UNFT, EIL), debt raising costs, and UAFG.

We discuss each of these below.

3.4.4.1 Treatment of jurisdictional charges

We have included jurisdictional charges in our alternative estimate of total forecast opex as category specific forecasts, consistent with Evoenergy's revised proposal. These cost items include the UNFT and EIL.

In our draft decision, we included Evoenergy's jurisdictional charges into total opex as a step change, and we did not accept the associated true-up mechanism proposed by Evoenergy.[40]

In its revised proposal, Evoenergy accepted our draft decision to include jurisdictional charges into total forecast opex, however, as opex category specific forecast.[41] Evoenergy submitted that its jurisdictional charges are substantial, accounting for 28% of its total opex forecast, and around 13% of its revenue allowance, and they are not forecast based on a revealed costs approach.[42] Evoenergy also proposed to exclude them from the efficiency carryover mechanism (ECM), stating that this approach would avoid rewarding or penalising Evoenergy in the next access arrangement period if the ACT Government's taxation decisions in relation to these charges differ to the approved forecast or if regulatory

38 ACT Technical Regulator, *Submission on Evoenergy 2026–31 Access Arrangement Proposal,* August 2025, p. 2.

39 CCP33, *Advice to the AER – Evoenergy's 2026–31 revised proposal and draft decision*, February 2026, p. 23.

40 AER, *Draft decision – Evoenergy access arrangement 2026–31 – Attachment 3 – Operating expenditure,* November 2025, pp. 19–21.

41 Evoenergy, *Attachment 5 Operating expenditure 2026–31*, January 2026, p. 7.

42 Evoenergy, *Attachment 5 Operating expenditure 2026–31*, January 2026, p. 7.

authorities spend more or less than the approved forecast.[43] Evoenergy provided information it considered showed its jurisdictional charges are highly variable from year to year.

In addition to including an ex-ante forecast amount in its revised total forecast opex for jurisdictional charges, Evoenergy also proposed a true-up factor in its revised tariff variation mechanism to recover these charges.[44] Further, Evoenergy proposed a new cost pass through event, a tax change event, as a mechanism to recover material changes in its costs of providing reference services associated with changes in regulatory obligations or requirements.[45]

We have reviewed the material provided by Evoenergy and agree that Evoenergy's jurisdictional charges constitute a sizeable proportion of its opex forecast, which is relatively higher than the proportion of similar charges in other jurisdictions. Based on this, we accept Evoenergy's revised proposal to include these charges as category specific forecasts in total forecast opex. As such, we have included them in our alternative estimate of total forecast opex. We have also excluded them from the ECM, consistent with Evoenergy's revised proposal, because they are not forecast based on a revealed costs basis.

However, consistent with our draft decision, we do not accept the proposed true-up factor relating to these jurisdictional changes. Instead, we have accepted Evoenergy's proposed tax change event. We are satisfied that combining an ex-ante opex category specific forecast combined with the approved tax change event would provide Evoenergy with a reasonable opportunity to recover at least its efficient costs it incurs in providing reference services. This is consistent with the revenue and pricing principles.

3.4.4.1.1 The Utilities Network Facilities Tax (UNFT)

We have included $44.9 million for UNFT costs in our alternative estimate as an opex category specific forecast, consistent with Evoenergy's revised proposal. The UNFT is payable to the ACT Government by owners of any network facility on land in the ACT. It is governed by the *Utilities (Network Facilities Tax) Act 2006*, with the tax rate set by the responsible Minister. The total UNFT for any year is calculated by multiplying the determined tax rate by the total network route length.

Table 3.7 UNFT category specific forecast ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Evoenergy proposal	9.1	9.0	9.0	8.9	8.9	44.9
AER alternate estimate	9.1	9.0	9.0	8.9	8.9	44.9
Difference	–	–	–	–	–	–

Source: Evoenergy, *Appendix 5.1 Opex model*, January 2026; AER analysis.
Note: Numbers may not add up to total due to rounding. Amounts of '–' represents zero.

43 Evoenergy, Attachment 5 Operating expenditure 2026–31, January 2026, p. 9.

44 Evoenergy, Attachment 5 Operating expenditure 2026–31, January 2026, p. 9.

45 Evoenergy, *Attachment 5 Operating expenditure 2026–31*, January 2026, p. 9.

In calculating our alternative estimate of total forecast opex, we have adopted Evoenergy's revised calculations because we are satisfied this results in a forecast of UNFT costs that reflects the NGR forecast and estimates criteria.[46]

Evoenergy's revised proposal did not accept our draft decision calculations of UNFT forecasts. Evoenergy has calculated its forecast ACT total network route length, adding the average service length per forecast ACT connection to the ACT mains length. The forecast UNFT rate per km was then applied, before converting the outcome to $2025–26.

We have reviewed Evoenergy's revised calculations and the other details obtained as part of our request for additional information. We are satisfied Evoenergy's revised calculations result in a revised forecast UNFT that is consistent with the NGR requirements relating to forecasts and estimates.

3.4.4.2 Energy Industry Levy (EIL)

We have included $3.8 million for EIL costs in our alternative estimate of total forecast opex, consistent with our draft decision. Evoenergy's revised proposal accepted our draft decision.

The EIL is an ACT Government levy used to recover the costs of regulating utilities and is applied to 4 energy sectors: electricity distribution, electricity supply, gas distribution and gas supply. The ACT Government determines regulatory costs each year and apportions these between the 4 energy sectors.

Table 3.8 EIL step change ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Evoenergy proposal	0.7	0.8	0.8	0.8	0.8	3.8
AER alternate estimate	0.7	0.8	0.8	0.8	0.8	3.8
Difference	–	–	–	–	–	–

Source: Evoenergy, *Appendix 5.1 Opex model*, January 2026; AER analysis.
Note: Numbers may not add up to total due to rounding. Amounts of '–' represents zero.

3.4.4.3 Debt raising costs

We have included debt raising costs of $1.14 million in our alternative estimate. This is marginally higher than the $1.08 million that Evoenergy included in it revised proposal.[47]

[46] Under rule 74 of the NGR, information in the nature of a forecast or estimate must be supported by a statement of the basis of the forecast/estimate. Further, forecasts and estimates must be arrived at on a reasonable basis and must represent the best forecast or estimate possible in the circumstances. Where a forecast or estimate meets the requirements of this rule, we say it satisfies the forecasts and estimates criteria.

[47] Evoenergy, *Appendix 5.1 Opex model,* January 2026.

Table 3.9 Debt raising costs ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Evoenergy revised proposal	0.2	0.2	0.2	0.2	0.2	1.1
AER alternative estimate	0.2	0.2	0.2	0.2	0.2	1.1
Difference	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**

Source: Evoenergy, *Appendix 5.1 Opex model,* January 2026; AER analysis.
Note: Numbers may not add up to total due to rounding. Amounts of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

Debt raising costs are transaction costs incurred each time a business raises or refinances debt. Our preferred approach is to forecast debt raising costs using a benchmarking approach rather than a service provider's actual costs in a single year. This provides consistency with the forecast of the cost of debt in the rate of return building block. This is the basis for our alternative estimate in Table 3.9. We used our standard approach to forecast debt raising costs.

3.4.4.4 Unaccounted for gas costs

We have included forecast UAFG costs of $9.7 million in our alternative estimate, consistent Evoenergy's revised proposal, which accepted our draft decision calculation approach.[48]

Table 3.10 Unaccounted for gas costs ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Evoenergy proposal	2.4	2.1	1.9	1.7	1.6	9.7
AER alternative estimate	2.4	2.1	1.9	1.7	1.6	9.7
Difference	**–**	**–**	**–**	**–**	**–**	**–**

Source: Evoenergy, *Appendix 5.1 Opex model,* January 2026; AER analysis.
Note: Numbers may not add up to total due to rounding. Amounts of '–' represents zero.

3.5 Revisions

We require the following revisions to make the access arrangement proposal acceptable as set out in Table 3.11.

Table 3.11 Opex revisions

Revision	Amendment
Revision 3.1	Make all necessary amendments to reflect our final decision on the proposed opex forecast for the 2026–31 access arrangement period, as set out in section 3.1.

[48] Evoenergy, *Attachment 5 Operating expenditure 2026–31*, January 2026, p. 13.

Glossary

Term	Definition
ACT	Australian Capital Territory
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CCP33	Consumer Challenge Panel, sub-panel 33
CEG	Competition Economists Group
EIL	Energy Industry Levy
JGN	Jemena Gas Networks
NGL	National Gas Law
NGR	National Gas Rules
opex	operating expenditure
RAB	regulated asset base
UAFG	unaccounted for gas
UNFT	Utilities Network Facility Tax