

Final decision

Evoenergy (ACT) access arrangement 2026 to 2031

(1 July 2026 to 30 June 2031)

Attachment 6 – Capital expenditure sharing scheme

May 2026

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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

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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 for lowering their capex below the amount approved for the access arrangement period. The rewards are shared between the network service providers 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 contingent payment factor does not apply to penalties, so if a penalty is incurred, it will not be reduced.

Our final 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 final decision requires is that the CESS should be updated in line with the most recent CESS guidelines. The specific adjustments are a tiered sharing ratio and the ability for a business to voluntarily decrease a CESS reward or increase a CESS penalty.¹

6.1 Final 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 final decision is to not approve Evoenergy’s proposed CESS revenue increment of \$5.35 million (\$2025–26). Our final decision is an alternative CESS revenue increment of \$5.42 million. The difference between Evoenergy’s proposal and our final decision is that we have updated the consumer price index (CPI) and real vanilla weighted average cost of capital (WACC) figures.² Table 6.1 outlines Evoenergy’s proposal and our final decision.

¹ AER, [Capital Expenditure Incentive Guidelines](#), August 2025, pp 3-6.

² 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.

Table 6.1 Final decision on Evoenergy’s CESS increments (\$ million, \$2025-26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Evoenergy’s proposal	1.07	1.07	1.07	1.07	1.07	5.35
AER final decision	1.08	1.08	1.08	1.08	1.08	5.42

Source: AER analysis; Evoenergy, [Appendix 6.5 CESS model](#), January 2026.

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 final decision requires Evoenergy to apply the CESS as it was applied in the 2021–26 period, but with the following adjustments:

- Applying a tiered sharing factor to its CESS mechanism and voluntary changes to CESS reward or penalty if applicable, as per the AER’s update to the CESS mechanism in August 2025. Details of this update and our reasons are given in section 6.5.2.2.
- Updating the Asset Performance Index (API) targets for 2026–31. Details of this update and our reasons are given in section 6.5.2.3.

6.2 Evoenergy’s revised proposal

6.2.1 CESS amounts from the 2021–26 period

Evoenergy proposed a \$5.4 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.³

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 asset performance index, which then informs the contingent payment factor.

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

The contingent payment factor 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 contingent

³ Evoenergy, *Evoenergy-RIN Attachment 6-Workbook 4 Gas CESS-June 2025*, June 2025.

payment factor is equal to the asset performance index only between the values of 80 and 100:

- when the asset performance index is above 100, the contingent payment factor equals 100% (full CESS reward payment)
- when the asset performance index is below 80, the contingent payment factor equals 0% (no CESS reward payment).

The contingent payment factor is applied asymmetrically. For penalties, the contingent payment factor does not have an effect in most cases, and the business will receive its full penalty.⁴

As seen in Table 6.2, owing to strong performance against its most heavily weighted targets, Evoenergy has an asset performance index of 109.5, leading to a contingent payment factor of 100%. As such, Evoenergy will receive 100% of its CESS reward.

Table 6.2 Evoenergy’s reported performance and contingent payment factor

Measure	Actual	Target	Index	Weight	Contribution
Unplanned SAIFI	1.0	0.7	46.5	30%	13.9
Unplanned SAIDI	0.7	2.6	171.0	30%	51.3
Mains and services leaks	0.1	0.0	90.9	20%	18.2
Meter leaks	8.2	11.8	130.4	20%	26.1
Asset Performance Index	109.5				
Contingent Payment Factor	100%				

Source: Evoenergy, [Appendix 6.5 CESS model](#), January 2026.

6.2.2 Application of CESS in the 2026–31 period

Evoenergy proposed that the CESS should not apply in the 2026–31 period.⁵ It stated that stranded asset risk already incentivises it to discipline spending, and that applying a CESS could incentivise excessive restraint, discouraging even prudent spending. It stated that if it does overspend its capex allowance, the ex-post review mechanism is a sufficient safeguard.⁶

Evoenergy responded to our concern that removing the CESS would also remove the CESS’s service level incentive mechanism. Evoenergy noted that it is subject to Guaranteed

⁴ 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.

⁵ Evoenergy, [Attachment 4 Capital expenditure](#), January 2026, pp 14-18

⁶ Evoenergy, [Attachment 4 Capital expenditure](#), January 2026, p 15.

Service Levels under the Utilities (Consumer Protection Code) Determination 2020.⁷ These require automatic rebates to customers if service standards are not met (e.g., timely connections, notice of planned interruptions, response times, and limits on outage duration).⁸

Evoenergy submitted a consultant report from HoustonKemp and a legal opinion by the Hon. John Middleton AM KC, both of which address (among other things) our draft decision to apply an asymmetrical CESS.

HoustonKemp submitted that our draft decision does not provide Evoenergy with a reasonable opportunity to recover at least its efficient costs. A penalty-only CESS means that the expected value of each additional \$1 invested in capex is less than \$1. Each additional investment increases the risk of Evoenergy overspending and incurring a penalty, but without a compensating possibility of receiving a reward for underspending. Further, the lack of a CESS reward means Evoenergy has no incentive to continuously improve efficiency. Evoenergy would have an incentive to avoid an overspend, but without a possible reward for underspending, it has less incentive to increase the size of its underspend.⁹

Mr Middleton drew on HoustonKemp's conclusions that a penalty-only CESS would not allow Evoenergy to recover its efficient costs. Mr Middleton submitted that by not providing a reasonable opportunity to recover efficient costs, a penalty-only CESS would be inconsistent with the revenue and pricing principles, and thereby in contravention of the National Gas Law and National Gas Rules.¹⁰

Although Evoenergy submitted that a CESS should not apply in the next period, it stated that if we decide to apply a CESS that it should be based on our updated CESS guidelines.¹¹ Evoenergy also provided updated CESS provisions meant to reflect the guidelines should we decide to apply the CESS.¹²

6.2.2.1 Asset performance index targets

Although Evoenergy did not propose to apply the CESS, it provided performance targets for the 2026–31 period for if the AER decides to apply a CESS. It calculated these targets based on the last 5 years of actual data (2020–21 to 2024–25).¹³

⁷ The Utilities (Consumer Protection Code) Determination 2020 is a determination made by the Independent Competition and Regulatory Commission under the *Utilities Act 2000* (ACT). The determination establishes an industry code under Part 4 of that Act.

⁸ Evoenergy, [Attachment 4 Capital expenditure](#), January 2026, p 16.

⁹ Evoenergy, [HoustonKemp Appendix 3.3 Assessment of the AER's draft decision on depreciation](#), January 2026, pp 29-30.

¹⁰ In particular, NGL, 28(1)(a) and NGR, 68B(1)(a)-(b) and 98(3). Evoenergy, [The Hon. John Middleton AM KC Appendix 3.2 Legal opinion on the AER's draft decision](#), January 2026, pp 26-27.

¹¹ Evoenergy, [Attachment 4 Capital expenditure](#), January 2026, pp 14-18

¹² Evoenergy, [Appendix 4.7 CESS provisions for access arrangement 2026-31](#), January 2026.

¹³ Evoenergy, [Attachment 4 Capital expenditure](#), January 2026, pp 17.

Table 6.3 Evoenergy’s hypothetical API targets and AER’s final decision targets for 2026–31

Measure	Target	Weight
Unplanned SAIFI	1.0	30%
Unplanned SAIDI	0.6	30%
Mains and services leaks	0.1	20%
Meter leaks	8.7	20%

Source: Evoenergy, [Appendix 4.3 API targets for CESS](#), January 2026.

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.¹⁴ Incentive mechanisms may provide for carrying over increments for efficiency gains, or decrements for efficiency losses, from one access arrangement period into the next.¹⁵ An incentive mechanism must be consistent with the revenue and pricing principles.¹⁶

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.’¹⁷

6.4 Submissions on our draft decision and the revised proposal

We received 1 submission on the CESS, from Energy Networks Australia. It was concerned that our draft decision to apply a penalty-only CESS may deny Evoenergy a reasonable opportunity to recover at least their efficient costs of providing regulated services. Further, a

¹⁴ NGR, r. 98(1).

¹⁵ NGR, r. 98(2).

¹⁶ NGR, r. 98(3).

¹⁷ NGL, s. 24(3).

CESS that only penalises overspends may incentivise Evoenergy to defer or avoid necessary investment.¹⁸

We take account of Energy Networks Australia’s concern. Our final decision applies a CESS that would both penalise overspends and reward underspends.

6.5 Reasons for the final decision

6.5.1 CESS amounts from the 2021–26 period

We consider Evoenergy’s proposed CESS reward of \$5.4 million is consistent with its performance against the CESS mechanism in its 2021–26 period access arrangement.

As Evoenergy performed strongly against its asset performance index targets, its contingent payment factor is 100%, meaning it will receive 100% of its reward. However, we have updated the CESS calculations to reflect our draft decision on inflation and rate of return parameters.

These updates lead to a CESS reward of \$5.5 million for our final decision.

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. Our final decision requires Evoenergy to apply the CESS as it was applied in the 2021–26 period, but with the following adjustments:

- applying a tiered sharing factor to its CESS mechanism and voluntary changes to CESS reward or penalty if applicable, as per the AER’s update to the CESS mechanism in August 2025.
- updating the Asset Performance Index targets for 2026–31.

We do not agree with Evoenergy’s arguments that the CESS is unnecessary given Evoenergy’s circumstances. Even if stranded asset risk provides inherent incentive to discipline spending, the CESS mechanism provides further incentive to discipline spending. Evoenergy expressed concern that the CESS mechanism would discourage even prudent spending. However, the CESS’s contingent payment factor mitigates this, by reducing CESS rewards if the service provider allows service standards to deteriorate. We acknowledge Evoenergy is subject to Guaranteed Service Levels. However, the CESS’ contingent payment factor incentivises continuous improvement of service standards, which we consider is more in the customer’s interest.

However, we agree with Evoenergy and stakeholder submissions that, should a CESS apply, it should both penalise overspends and reward underspends.

We compliment Evoenergy for providing hypothetical CESS provisions and asset performance index targets in the event we decided to apply a CESS.¹⁹ We consider them

¹⁸ Energy Networks Australia, [Submission on Evoenergy’s 2026–31 revised proposal and draft decision](#), February 2026, pp 2-4.

¹⁹ Evoenergy, [Appendix 4.7 CESS provisions for access arrangement 2026-31](#), January 2026; Evoenergy, [Appendix 4.3 API targets for CESS](#), January 2026.

broadly adequate to be included in Evoenergy’s access arrangement for 2026–31. We require Evoenergy to include its hypothetical CESS provision regarding the tiered sharing factor and its hypothetical asset performance index targets in its access arrangement. Further, we require Evoenergy to include an additional provision that would allow it to voluntarily vary the CESS, as explained in 6.5.2.2.

6.5.2.1 The sharing factor

The CESS includes a sharing factor or ratio, which determines how an efficiency gain/loss is shared between the service provider and its customers. That is, if the service provider underspends/overspends, it will only receive certain percentage of that underspend/overspend as a CESS reward/penalty. That percentage is the sharing factor.

Following a review in 2023, the CESS mechanism was updated, most relevantly the sharing factor. Previously, the sharing factor was 30% without variation for both underspends and overspends. The updated guideline introduces a tiered sharing factor for underspends. 30% will apply to any underspend amount up to and including 10% of the approved capex forecast; and 20% will apply to any underspend amount greater than 10% of the approved forecast. For overspends, the sharing factor remains a constant 30%. In short, the updated scheme reduces the rewards when a network business outperforms against its approved forecast by more than 10% but maintains the same penalties for underperformance. This asymmetry is intended to reduce the costs of the CESS to consumers while maintaining strong incentives for efficiency.²⁰

Evoenergy’s hypothetical CESS provisions adequately reflect the updated CESS guideline’s tiered sharing factor.²¹ We require Evoenergy to include these CESS provisions in its access arrangement for 2026–31.

6.5.2.2 Voluntary changes to the CESS reward or penalty

The CESS guidelines allow a service provider to propose to vary its CESS reward (or penalty) to voluntarily reduce its CESS reward (or increase its CESS penalty), as this may directly benefit consumers.²²

Evoenergy’s hypothetical CESS provisions do not reflect this mechanism. We require Evoenergy to update its access arrangement to incorporate this CESS guideline mechanism.

We emphasise that using this mechanism would be entirely voluntary. Evoenergy would be under no obligation to reduce CESS rewards or increase penalties. It would merely have the option to do so.

6.5.2.3 Asset performance index targets

Evoenergy has provided hypothetical asset performance index targets for the 2026–31 based on 5 years of historical data from 2020–21 to 2024–25.

²⁰ AER, [Capital Expenditure Incentive Guidelines](#), August 2025, pp 3-6.

²¹ Evoenergy, [Appendix 4.7 CESS provisions for access arrangement 2026-31](#), January 2026

²² AER, [Capital Expenditure Incentive Guidelines](#), August 2025, pp 3-6.

We consider Evoenergy has appropriately calculated these targets. We require Evoenergy to include these targets in its access arrangement. These targets for the 2026–31 period are provided in Table 6.3.

6.6 Revisions

We require the following revisions to make the access arrangement proposal acceptable as set out in Table 6.4.

Table 6.4 CESS revisions

Revision	Amendments
Revision 6.1	Make revisions necessary to update CPI, real vanilla WACC in the calculation of the CESS revenue increment, in line with our final decision.
Revision 6.2	Amend section 4 Capital Expenditure Incentive Mechanism to be as in section 4 of “Evoenergy Appendix 4.7 CESS provisions for access arrangement 2026–31 January 2026”, ²³ with the following addition: <ul style="list-style-type: none"> - Evoenergy will have the ability to voluntarily reduce any CESS reward and increase any CESS penalty.
Revision 6.3	Amend Schedule 1 Definitions to reflect the definitions of the following terms as defined in Schedule 1 of “Evoenergy Appendix 4.7 CESS provisions for access arrangement 2026–31 January 2026”: ²⁴ <ul style="list-style-type: none"> - CESS - Contingent Payment Factor - Contingent Payment Index
Revision 6.4	Incorporate Schedule CESS Contingent Payment Index as in Schedule 10 of “Evoenergy Appendix 4.7 CESS provisions for access arrangement 2026–31 January 2026”. ²⁵

²³ Evoenergy, [Appendix 4.7 CESS provisions for access arrangement 2026-31](#), January 2026.

²⁴ Evoenergy, [Appendix 4.7 CESS provisions for access arrangement 2026-31](#), January 2026.

²⁵ Evoenergy, [Appendix 4.7 CESS provisions for access arrangement 2026-31](#), January 2026.

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
CPI	Consumer Price Index
NGL	National Gas Law
NGR	National Gas Rules
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
WACC	Weighted average cost of capital
