

# Final decision

**Evoenergy (ACT) access arrangement 2026 to 2031**

(1 July 2026 to 30 June 2031)

**Attachment 7 – Efficiency carryover mechanism**

**May 2026**

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### **Amendment record**

<b>Version</b>	<b>Date</b>	<b>Pages</b>
1	21 May 2026	11

## 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:

- 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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## 7 Efficiency carryover mechanism

An efficiency carryover mechanism (ECM) is intended to provide a continuous incentive for service providers to pursue efficiency improvements in operating expenditure (opex), and provide for a fair sharing of these between service providers and network users.

This attachment sets out our final decision on the ECM carryover amounts that Evoenergy accrued over the 2021–26 access arrangement period (2021–26 period), and the ECM that we will apply in the 2026–31 access arrangement period (2026–31 period).

### 7.1 Final decision

Our final decision is to approve carryover amounts totalling \$1.4 million (\$2025–26) from the application of the ECM in the 2021–26 period.<sup>1</sup> This is \$0.1 million higher than Evoenergy’s proposal of \$1.3 million.<sup>2</sup>

The difference between our final decision and Evoenergy’s revised proposal reflects that we have updated actual ancillary reference services expenditure, consistent with the amount as reported in Evoenergy’s 2024–25 regulatory information notice (RIN) and updated for inflation. We discuss these changes further in section 7.4.

Table 7.1 sets out our final decision on the ECM carryover amounts Evoenergy accrued during the 2021–26 period, along with Evoenergy’s proposal and the difference.

**Table 7.1 AER final decision on Evoenergy’s carryover amounts (\$million, 2025–26)**

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Revised proposal	1.2	–0.5	–3.6	–	4.2	<b>1.3</b>
AER final decision	1.2	–0.5	–3.7	–	4.3	<b>1.4</b>
Difference	0.0	–0.0	–0.1	–	0.1	<b>0.1</b>

Source: Evoenergy, *Appendix 6.6 – ECM model*, January 2026; AER analysis.

Note: Numbers may not add due to rounding. Amounts of ‘0.0’ and ‘–0.0’ represent small non-zero amounts, and ‘–’ represents zero.

Our final decision is to continue to apply the ECM to Evoenergy in the 2026–31 period, subject to amendments that we discuss in section 7.4.2.1. We have set out the related revisions to Evoenergy’s access arrangement in section 7.5.

<sup>1</sup> All dollars are in \$2025–26, unless otherwise stated.

<sup>2</sup> Evoenergy, *Appendix 6.6 ECM model*, January 2026.

## 7.2 Evoenergy’s revised proposal

### 7.2.1 Carryover amounts from the 2021–26 period

Evoenergy’s revised proposal included ECM carryover amounts totalling \$1.3 million from the application of the ECM in the 2021–26 period.<sup>3</sup> Evoenergy excluded the following cost categories in calculating its ECM carryover amounts:<sup>4</sup>

- debt raising costs
- unaccounted for gas
- Utilities Network Facilities Tax
- Energy Industry Levy
- ancillary reference services opex
- movements in provisions related to opex.

### 7.2.2 Application in the 2026–31 period

Evoenergy did not raise concerns regarding our draft decision, which was consistent with its initial proposal, to continue to apply the ECM in the 2026–31 period.<sup>5</sup> In its revised proposal, Evoenergy also addressed our draft decision revisions to the 2026–31 access arrangement, and largely adopted these in its revised access arrangement.<sup>6</sup> We discuss the additional changes and revisions for the final decision in section 7.4.2.1.

### 7.2.3 Stakeholder submissions

We have not received any stakeholder submissions on Evoenergy’s revised proposal ECM.

## 7.3 Assessment approach

An ECM is a form of incentive mechanism. A full access arrangement may include (and we may require it to include) one or more incentive mechanisms to encourage efficiency in the provision of services by the service provider.<sup>7</sup> An incentive mechanism must be consistent with the revenue and pricing principles.<sup>8</sup>

We consider the following revenue and pricing principle is most relevant for assessing Evoenergy’s proposed ECM:

A service provider should be provided with effective incentives in order to promote economic efficiency with respect to reference services the service provider provides.

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<sup>3</sup> Evoenergy, *Appendix 6.6 ECM model*, January 2026.

<sup>4</sup> Evoenergy, *Appendix 6.6 ECM model*, January 2026.

<sup>5</sup> Evoenergy, *Attachment 5 Operating expenditure*, January 2026, p. 14.

<sup>6</sup> Evoenergy, *Attachment G Response to AER required revisions*, January 2025, pp. 9–11.

<sup>7</sup> NGR, r. 98(1).

<sup>8</sup> NGR, r. 98(3).

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.<sup>9</sup>

### 7.3.1 Interrelationships

The ECM is intrinsically linked to our opex revealed cost forecasting approach.

Our opex forecasting method typically relies on using the 'revealed costs' of the service provider in a chosen base year to develop a total opex forecast, if the chosen base year opex is not considered to be 'materially inefficient'. Under this approach, a service provider would have an incentive to spend more opex in the expected base year. Also, a service provider would have less incentive to reduce opex towards the end of the access arrangement period, where the benefit of any efficiency gains is retained for less time.

The application of the ECM serves 2 important functions:

1. It removes the incentive for a service provider to report higher opex in the expected base year to gain a higher opex forecast for the next access arrangement period.
2. It provides a continuous incentive for a service provider to pursue efficiency improvements across the access arrangement period.

The ECM does this by allowing a service provider to retain efficiency gains (or losses) for a total of 6 years, regardless of the year in which the service provider makes them. Where we do not propose to rely on the single year revealed costs of a service provider in forecasting opex, this has consequences for the service provider's incentives and our decision on how we apply the ECM.

When a business makes an incremental efficiency gain, it receives a reward through the ECM, and consumers benefit through a lower revealed cost forecast for the subsequent access arrangement period. This is how efficiency improvements are shared between consumers and the business. If we subject costs to the ECM that are not forecast using a revealed cost approach, a business would in theory receive a reward for efficiency gains through the ECM (at a cost to consumers), but consumers would not benefit through a lower revealed cost forecast in the subsequent access arrangement period. Therefore, we typically exclude costs that we do not forecast using a single year revealed cost forecasting approach.

For these reasons, our decision on how we will apply the ECM has a strong relationship with our decision on a business's opex (see Attachment 3). We have careful regard to the effect of our ECM decision when making our opex decision, and our ECM decision is made largely in consequence of (and takes careful account of) our past and current decisions on opex.

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<sup>9</sup> National Gas Law, s. 24(3).

## 7.4 Reasons for the final decision

### 7.4.1 Carryover amounts from the 2021–26 period

We do not accept Evoenergy’s proposed carryover amounts totalling \$1.3 million from the application of the ECM in the 2021–26 period.<sup>10</sup> Our final decision is to approve carryover amounts totalling \$1.4 million, which is \$0.1 million higher than Evoenergy’s proposal. This difference reflects that we have:

- updated actual ancillary reference services expenditure for 2024–25, consistent with the amounts reported in Evoenergy’s 2024–25 regulatory information notice
- used the most recent inflation data to convert amounts into 2025–26 dollars.

We discuss these changes below. Full details of our draft decision are set out in our ECM model, which is available on our website.

#### 7.4.1.1 2024–25 Ancillary reference services

Consistent with Evoenergy’s proposal, we removed actual 2024–25 ancillary reference services opex when we calculated the ECM carryover amounts. We have used the amounts Evoenergy reported in its 2024–25 regulatory information notice for the actual expenditure amounts.

#### 7.4.1.2 Inflation

Consistent with our standard approach, and our opex forecast, we used unlagged inflation to convert amounts to 2025–26 dollars.<sup>11</sup> Evoenergy used the same approach.<sup>12</sup>

We have used the latest inflation values available, which were not available at the time Evoenergy submitted its revised proposal. For 2024–25, we used the actual headline consumer price index figure published by the Australian Bureau of Statistics.<sup>13</sup> For 2025–26, we used the inflation forecast in the Reserve Bank of Australia’s May 2026 Statement on Monetary Policy.<sup>14</sup>

### 7.4.2 Application in the 2026–31 period

We accepted Evoenergy’s proposal to apply the ECM to Evoenergy during the 2026–31 period for Transportation Reference Services in the draft decision.<sup>15</sup> Our final decision remains unchanged from our draft decision, and Evoenergy did not raise any further concerns with this approach in its revised proposal. We consider applying the mechanism will benefit the long-term interests of gas consumers, as it will provide continuous incentives for Evoenergy to reduce opex. Provided we forecast Evoenergy’s future opex using its revealed

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<sup>10</sup> Evoenergy, *Appendix 6.6 ECM model*, January 2026.

<sup>11</sup> This ensures Evoenergy is not accruing carryovers that are not being passed on to customers.

<sup>12</sup> Evoenergy, *Appendix 6.6 ECM model*, January 2026.

<sup>13</sup> Australian Bureau of Statistics, *Consumer Price Index, Australia, March quarter 2026*.

<sup>14</sup> Reserve Bank of Australia, *Statement on Monetary Policy*, May 2026.

<sup>15</sup> AER, *Draft decision – Evoenergy access arrangement 2026–31 – Attachment 7 – Efficiency carryover mechanism*, November 2025, p. 1; Evoenergy, *Attachment 4 – Operating expenditure*, June 2025, p. 22.

costs in the 2026–31 period, any efficiency gains it achieves will lead to lower opex forecasts, and thus lower network tariffs.

The ECM specifies our approach to adjusting forecast or actual opex when calculating carryover amounts. We provide details on this below.

#### 7.4.2.1 Adjustments to forecast or actual opex when calculating carryover amounts

The ECM allows us to exclude categories of costs that we do not forecast using a single year revealed cost forecasting approach in the following access arrangement period. We do this to fairly share efficiency gains and losses. We specified the adjustments we will make when we calculate the carryover amounts accrued during the 2026–31 period in our draft decision.<sup>16</sup> Evoenergy has largely accepted these and updated its access arrangement accordingly.<sup>17</sup>

For the final decision, we have required the following revisions:

1. Revision 7.1 – amend clause 3.7(a)(ii) as follows:

any cost that the AER determines to exclude from the operation of the efficiency carryover mechanism in the relevant period, which would not promote the National Gas Objective; and

This revision is consistent with that set out in our draft decision.<sup>18</sup> We note the concerns Evoenergy raised in its revised proposal in response to our draft decision on this clause.<sup>19</sup> However, we note this clause is consistent with that set out in our other recent access arrangement decisions,<sup>20</sup> and we consider it desirable to take a consistent regulatory approach across access arrangements. Importantly, we are satisfied that retaining this text (Revision 7.1) is consistent with the propose-respond regulatory framework, and will not undermine confidence to pursue efficiency improvements. That is, in the exceptional circumstance that we consider changes may be warranted, Evoenergy retains the capacity to provide evidence that any proposed changes do not demonstrably promote the NGO, and thus consequently should not be applied to the ECM. This is consistent with our ex-ante incentive scheme intent to promote certainty and economic efficiency, and thus consistent with our framework. Conversely, Evoenergy’s proposed amendment provides inappropriate authority to Evoenergy to prevent the AER from freely exercising our powers and functions to make decisions that best promote the achievement of the NGO.<sup>21</sup> We consider this

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<sup>16</sup> AER, *Draft decision – Evoenergy access arrangement 2026–31 – Attachment 7 – Efficiency carryover mechanism*, November 2025, pp. 5–8.

<sup>17</sup> Evoenergy, *Attachment 5 Operating expenditure*, January 2026, pp. 14–15.

<sup>18</sup> AER, *Draft decision – Evoenergy access arrangement 2026–31 – Attachment 7 – Efficiency carryover mechanism*, November 2025, p. 7.

<sup>19</sup> Evoenergy, *Attachment G Response to AER required revisions*, January 2026, p. 10; Evoenergy, *Attachment 5 Operating expenditure*, January 2026, pp. 14–15.

<sup>20</sup> Jemena Gas Networks, *2025–2030 AA Final*, May 2025, p. 30; AusNet Services, *Access Arrangement 2024–28 – Part B*, June 2023, p. 23; MGN, *Access Arrangement 2023–28*, June 2023, p. 27.

<sup>21</sup> Evoenergy, *Attachment 5 Operating expenditure*, January 2026, p. 15.

amendment therefore continues to ensure consistency with the revenue and pricing principals.

2. Revision 7.2 – delete clause 3.7(a)(iv) in Evoenergy’s revised access arrangement, that states: [3.7(a) the following operating expenditure will be excluded:]

(iv) any expenditure incurred in respect of taxes and levies determined by the ACT Government or the Independent Competition and Regulatory Commission including (but not limited to) the Utilities (Network Facilities) Tax and the Energy Industry Levy;

We note clause 3.7(a)(iv) provides a broad definition of expenditure which could be captured by this exclusion. Evoenergy did not specify the reason for adding this clause to its revised access arrangement. We are concerned Evoenergy’s intention was to capture categories it may classify as uncontrollable costs arising from taxes and levies that it may incur from the ACT Government or the Independent Competition and Regulatory Commission. We consider the uncontrollability of costs is not a reason for excluding cost categories from opex incentive schemes, such as the Efficiency Benefit Sharing Scheme and the ECM. The explanatory statement on the Efficiency Benefit Sharing Scheme discusses this issue and explains the reason for this position in detail.<sup>22</sup>

To the extent that a material change in the cost of taxes and levies occurs, we note that we have approved a tax change cost pass through event for Evoenergy’s 2026–31 access arrangement. This is our preferred approach to managing the risk of material changes in costs, and is detailed in the explanatory statement.<sup>23</sup> Further, we note that clause 3.7(a)(i) in Evoenergy’s access arrangement allows cost categories which have not been forecast on a revealed cost basis to be excluded from the ECM. We excluded the Utilities (Network Facilities) Tax and the Energy Industry Levy from the ECM in the 2021–26 period on this basis.<sup>24</sup> If we were to exclude another tax or levy from the ECM in the 2026–31 period it would also be on this basis. Consequently, we consider the proposed clause 3.7(a)(iv) is not necessary.

## 7.5 Revisions

**Table 7.2 Evoenergy ECM revisions**

Revision	Amendment
Revision 7.1	Amend clause 3.7(a)(ii) to read:  (ii) any cost that the AER determines to exclude from the operation of the efficiency carryover mechanism in the relevant period, which would not promote the National Gas Objective; and
Revision 7.2	Delete clause 3.7(a)(iv)
Revision 7.3	Make revisions necessary to update the carryovers from the application of the efficiency carryover mechanism in the 2021–26 Access Arrangement period, in line with our final decision.

<sup>22</sup> AER, *Explanatory statement – efficiency benefit sharing scheme*, November 2013, pp. 19–21.

<sup>23</sup> AER, *Explanatory statement – efficiency benefit sharing scheme*, November 2013, p. 19.

<sup>24</sup> Evoenergy, *Attachment C Access arrangement 2026–31*, January 2026, p. 8.

# Glossary

Term	Definition
ACT	Australian Capital Territory
AER	Australian Energy Regulator
ECM	Efficiency Carryover Mechanism
NGR	National Gas Rules
opex	operating expenditure

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