

Issues Paper

Evoenergy

Electricity Distribution

Determination

1 July 2024 – 30 June 2029

March 2023

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Contents

1	Introduction	1
1.1	How can you get involved?	2
2	Our initial observations	3
2.1	Drivers of revenue in the proposal	4
3	Evoenergy consumer engagement	6
3.1	Nature of engagement	6
3.2	Breadth and depth of engagement.....	8
3.3	Clearly evidenced impact.....	9
4	Key elements of Evoenergy’s revenue proposal	10
4.1	Rate of return.....	10
4.2	Regulatory asset base and depreciation	12
4.3	Capital expenditure.....	13
4.4	Operating expenditure	18
4.5	Corporate income tax	21
5	Incentive schemes and allowances	22
6	Network Pricing	24
6.1	Control mechanisms	24
6.2	Tariff structure statement	25
6.3	Alternative control services	29
6.4	Transmission pricing.....	32
	Summary of questions	33
	Shortened forms	35

1 Introduction

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable and affordable energy future for Australia. We regulate electricity networks in all jurisdictions except Western Australia. Our primary role is in setting the maximum revenue that network businesses can recover from users of their networks. Our goal is to make decisions that ensure consumers pay no more than necessary for safe and reliable energy.

Evoenergy is the electricity distribution network service provider servicing customers in the Australian Capital Territory (ACT). It was formerly known as ActewAGL Distribution.

On 31 January 2023, Evoenergy submitted its regulatory proposal for the five years commencing 1 July 2024 (2024–29 period).¹ Its proposal set out the revenue it proposes to recover from its customers for the provision of electricity distribution services, and the methodology it proposes to use to set its prices each year. Our Better resets handbook (Handbook), together with the regulatory framework, sets out our expectations for each network’s revenue proposal. In addition to expectations on consumer engagement it sets out our expectations on the basis of estimation of the key revenue components, such as capital and operating expenditure (capex and opex), depreciation and Tariff structure statements (TSS). These expectations and the regulatory framework provide the framework for our assessment of the revenue components and may help guide stakeholders’ submissions on the proposal. As we stated in the Handbook:

As the economic regulator of energy networks, we are required to make decisions that best advance the long-term interests of consumers, as expressed in the National Electricity Objective and National Gas Objective. If a network business meets our expectations this will increase the likelihood that its regulatory proposal advances the long-term interests of consumers, giving us the confidence to rely on a more targeted assessment to meet our obligations.²

However, over the 2024–29 period, there are several additional factors that may affect the total revenue that Evoenergy will recover from its consumers, including:

- contingent projects that have been put forward by Evoenergy as part of its 2024–29 proposal that may trigger
- renewable energy; ACT government policy such as Towards Net Zero Emissions strategy and *Powering Canberra; Our pathway to electrification*
- cost pass through events defined in the National Electricity Rules (NER or Rules) and our decision.

Evoenergy has highlighted the ACT government’s ambitious emissions reduction programs. Evoenergy notes the timing of many announcements occurred during the current period.³ For example, the ACT government’s Climate Change Strategy 2019–25 has resulted in a legislated target of net zero by 2045 being instituted. This strategy is underpinned by reduction in emissions from transport in a move to electric vehicles. This has been reflected in Evoenergy’s capex proposal. Such projects will impact pricing outcomes for consumers in the 2024–29 period and, as completed investments are added to Evoenergy’s regulatory asset base (RAB),

¹ Evoenergy, *Regulatory Proposal*, January 2023

² AER, *Better Resets Handbook*, December 2021, p.3.

³ Evoenergy, *Regulatory Proposal*, January 2023, p. 17.

will have ongoing impact. We think it is important for stakeholders to be aware of these additional potential projects when considering the proposal put forward by Evoenergy.

This issues paper highlights some of the key elements of the proposal, and identifies issues that on preliminary review, are likely to be the focus of our assessment⁴. Stakeholders can assist our process by providing their views on these or any other aspects of the proposal.

1.1 How can you get involved?

Consumer engagement is a valuable input to our determinations. When we receive stakeholder submissions that articulate consumer preferences, address issues in a revenue proposal, and provide evidence and analysis, our decision-making process is strengthened.

You can contribute to our assessment by:

- making a written submission on Evoenergy proposal to AERresets2024-29@aer.gov.au by **12 May 2023**⁵
- joining us, Evoenergy and our Consumer Challenge Panel (CCP26)⁶ at an online public forum on **6 April 2023**. Details of how to register for this forum are available on our website and through [Eventbrite](#) (external link).

Table 1 sets out the key milestones planned for this review.

Table 1 Key dates for Evoenergy’s 2024–29 revenue determinations

Milestone	Date
AER publishes Issues Paper on Evoenergy proposal	28 March 2023
AER holds public forum on Issues Paper and Evoenergy’s proposal	6 April 2023
Submissions due on Evoenergy’s proposal and Issues paper	12 May 2023
AER publishes draft decision	September 2023
AER holds public forum on draft decision (predetermination conference)	October 2023
Evoenergy submits revised proposal to AER	December 2023
Submissions due on draft decision and Evoenergy revised proposal	January 2024
AER publishes final decision	April 2024

Note: Timelines are indicative and subject to change.

⁴ As required under the NER, cl. 6A.11.3(b1).

⁵ [See Evoenergy Submission](#) for full details on making a submission. For further information regarding the AER’s use and disclosure of information provided to it, see the [ACCC/AER Information Policy](#).

⁶ The role of the Consumer Challenge Panel is to assess and advise the AER on the quality of engagement undertaken by network businesses and whether the interests of customers are adequately reflected in regulatory proposals.

2 Our initial observations

Evoenergy's proposal would allow it to recover \$1078.5 million⁷ (\$nominal, smoothed) from its customers over the 2024–29 period. This is 27.8% higher than what we approved for the 2019–24 period.⁸ Evoenergy estimates this would flow through to customers as nominal increases of \$26 per year for residential electricity consumers, and \$151 per year for small businesses over the period.⁹

Evoenergy's proposed charges are for the network components of the electricity bill for their customers and determine the revenue allowance that Evoenergy will use to calculate network charges each year in accordance with its approved pricing methodology. The cost of the network components of the electricity supply chain make up about 32% of the average electricity bill for both household and small business customers in the ACT and are ultimately recovered through electricity retail charges.¹⁰

Evoenergy's proposal is the first step in a 15-month review process. Over the course of this process, as we move from proposal to draft decision, and then to revised proposal and final decision, components of forecast revenue are likely to change. These changes may result from our taking a different view on proposed revenue to Evoenergy. In addition, a standard part of our process is to update the forecast revenue for movements in market variables such as interest rates, bond rates and inflation. Movements in these market variables can have a material impact on the final revenue and, therefore, consumer bills. Therefore, projected bill impacts at this stage should be treated as no more than potential impacts subject to changes in interest rates and inflation.

For illustrative purposes, though, Evoenergy estimates that its proposal would result in:¹¹

- an average annual increase of \$7 per year for residential customers, or 1.3% in real terms.
- for small business customers, which use more electricity, an average annual increase of \$43, or 1.3% in real terms, for the five year period.

This equates to an average increase in nominal terms of 13% per year to average annual electricity bills for both residential and small business customers.¹²

Evoenergy notes in its 2024–29 proposal that:¹³

- its expenditure forecasts do include changes to assumptions underpinning peak demand forecast and capex program to reflect the ACT Government's policy announcements in 2022.
- the costs of projects have been presented to consumers noting uncertainty about the pace and scale of the transition (\$150m for contingent projects).¹⁴
- Triggers and mechanisms have been included in the proposal to increase capex if required.
- consumers will only pay for the projects if they are approved by the relevant regulator.

⁷ Includes both distribution and transmission revenues.

⁸ In real terms (\$2023–24), this is \$127.2 million (14.7%) higher than approved for 2019–24.

⁹ Calculation based on Evoenergy, *Attachment 3, Revenue and bill impacts, January 2023*, Table 18

¹⁰ Evoenergy, *Attachment 3, Revenue and bill impacts, January 2023*, p.6.

¹¹ Evoenergy, *Attachment 3- Revenue and bill impacts January 2023* p 6.

¹² Evoenergy, *Overview for Consumers January 2023* page 21

¹³ Evoenergy, *Overview for Consumers-January 2023* page 16

¹⁴ Evoenergy, *Regulatory proposal- January 2023*, page 56

Evoenergy submits that it prepared its proposals to achieve the lowest price outcome for its customers while establishing the foundation for the bi-directional energy network of the future. The investments Evoenergy are making now are supported by consumers as they will deliver community wide benefits such as improved efficiency and lower overall energy costs.¹⁵

Evoenergy submits that it has heard loud and clear that its customers consider reliability and resilience to be generally acceptable, but affordability is their primary concern.¹⁶ Evoenergy's customers expect them to invest for the future but make a clear case for any expenditure decisions that will increase prices.¹⁷

Evoenergy is proposing to provide tariffs that are fit for future users of the network by continuing a process of tariff reform to gradually move towards more cost reflective pricing. The proposal includes new tariffs designed to send signals to owners of electric vehicles, solar panels and batteries to support efficient network use (and investment decisions) by these owners. These tariffs will more accurately reflect the impact that customers' use of electricity has on the cost of running the network.

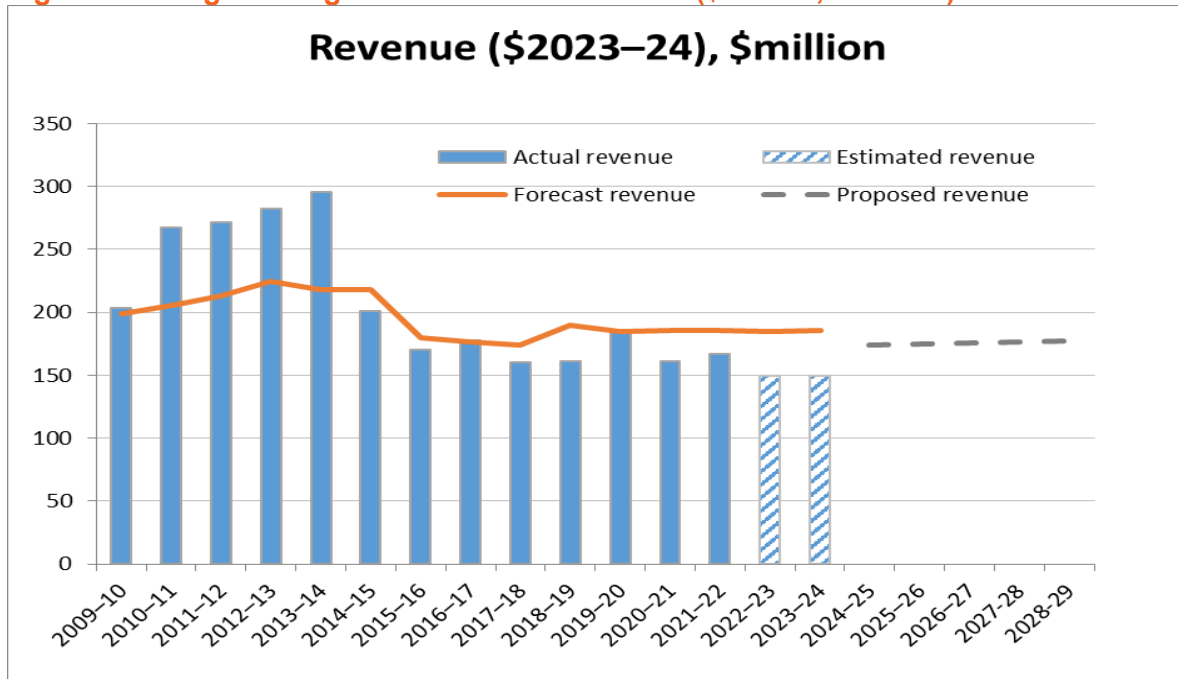
2.1 Drivers of revenue in the proposal

To compare revenue from one regulatory period to the next on a like-for-like basis, we make an adjustment for the impact of inflation. To do this, we use “real” values based on a common year (in this case, 2023–24) which have been adjusted to remove the impact of inflation.

In real terms, Evoenergy's proposal, if accepted would allow it to recover \$990.2million (\$2023–24, unsmoothed) from its consumers over the 2024–29 period.¹⁸

Although Evoenergy proposes higher nominal revenue over the 2024–29 period compared to what we approved for the 2019–24 period, Figure 1 shows a 4% decrease in proposed real revenue for the 2024–29 period compared to the 2019–24 period. Lower real revenues over the 2023–28 period are largely driven by a decline in the rate of return in recent years and inclusion of contingent project revenues in the 2019–24 period.

Figure 1 Changes in regulated revenue over time (\$million, 2023–24)



Source: AER analysis

¹⁵ Evoenergy- *Overview for Consumers*- January 2023 page 2

¹⁶ Evoenergy, *Overview for Consumers* – January 2023 page 3

¹⁷ Evoenergy- *Overview for Consumers*- January 2023 page 13,

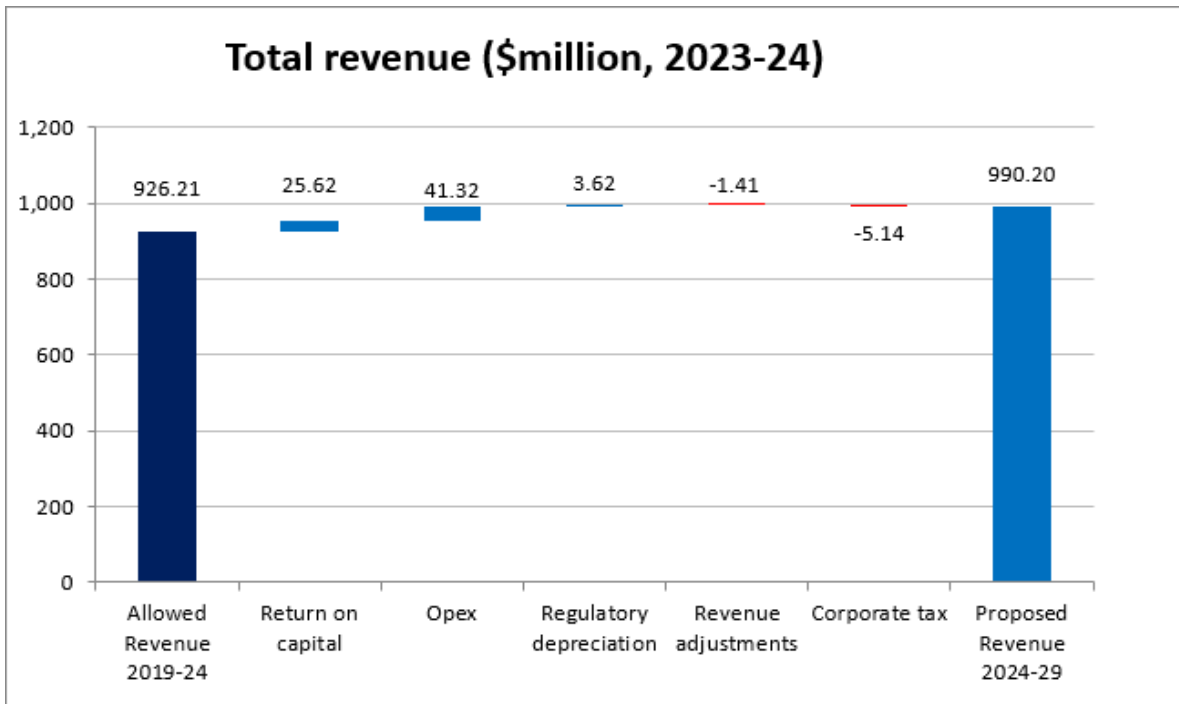
¹⁸ Evoenergy- *Attachment 3; Revenue and bill impacts* page 8

Figure 2 highlights changes in Evoenergy’s proposal at the “building block” level to illustrate what is driving its proposed decrease in real revenue from 2019–24 to 2024–29.

The overall trend in revenue is primarily driven by:¹⁹

- Increase in the return on capital; which is being driven by an increase in forecast rate of return.
- Higher operating expenditure; driven by higher insurance costs, increases in cyber security capabilities, and expenditure to incorporate community energy resources (DER) into the network. Offsets to the above are delivered from incentives schemes and a fall in Evoenergy’s net tax allowance.

Figure 2 Changes in building blocks: Evoenergy’s total revenue 2019–24 to forecast revenue 2024–29 (\$million, 2023–24)



Source: AER analysis.

Note: Allowed revenue and proposed revenue in the chart are unsmoothed total revenue for the regulatory period.

¹⁹ Evoenergy- Attachment 3: Revenue and bill impacts, page 9.

3 Evoenergy consumer engagement

Evoenergy is a natural monopoly supplying an essential service. Genuine, high quality consumer engagement by Evoenergy is essential to ensuring that its proposal is driven by consumer preferences, supports delivery of services that meet the needs of its consumers, and does so at a price that is affordable and efficient. We've seen through experience that a regulatory proposal developed through genuine engagement with consumers is more likely to be largely or wholly accepted in our decisions.

Our framework for considering consumer engagement in network revenue determinations is set out in the Handbook.²⁰ Used in conjunction with our technical analysis, the framework for our regulatory decision making allows us to place weight on the outcomes of the engagement activities undertaken by a business to assist in providing an overall assessment of a proposal.

Evoenergy's consumer engagement strategy stated that the 2024–29 proposal presented the 'next evolution in consumer engagement', following successful engagement through its recent engagement initiatives such as its 2021–26 gas reset Citizens' Jury and its Energy Consumer Reference Council (ECRC), which was established in 2014.²¹ The strategy acknowledges that 'consumer engagement has become embedded across Evoenergy enabling engagement to operate as a 'business as usual' function'.²²

Hearing from local energy consumers has been a key focus of Evoenergy's engagement program. Through a variety of initiatives, it sought to understand consumers values and what their priorities and expectations are for the services it provides, including how the business prepares and responds to future opportunities and challenges.²³ Throughout its engagement, Evoenergy was informed by its ECRC, which provided pivotal guidance in the design of its consumer engagement program. It also established its Community Panel and Pricing Panels, which provided diverse representation of voices from across the Canberra community.²⁴ The Consumer Challenge Panel, sub-panel 26 (CCP27) and AER staff have had the opportunity to observe much of Evoenergy's engagement, including meetings with its ECRC and Community Panels.

3.1 Nature of engagement

The nature of engagement is about how networks engage with their consumers. Our expectations are that network businesses will sincerely partner with consumers and equip them to effectively engage in the development of their proposal.

Evoenergy's approach was undertaken through several phases as outlined by Evoenergy in Figure 3. Its approach provided for multiple channels of engagement, such as its customer panels, workshops, surveys and forums.

²⁰ AER, *Better Resets Handbook*, December 2021.

²¹ Evoenergy, *Communications Link – Appendix E EN24 and TSS consumer engagement strategy*, August 2021, p.3.

²² Evoenergy, *Communications Link – Appendix E EN24 and TSS consumer engagement strategy*, August 2021, p.3.

²³ Evoenergy, *Appendix F Consumer engagement program report*, January 2023, p. 4.

²⁴ Evoenergy, *Appendix F Consumer engagement program report*, January 2023, p. 4.

Figure 3 Evoenergy’s consumer engagement program phases



Source: Evoenergy, *Appendix F Consumer engagement program report*, January 2023, p. 5. See Figure 1.

Evoenergy’s consumer engagement approach aimed to continually increase the influence and impact that consumers had. Overall, its objectives were to:

- Inform, consult, involve and collaborate stakeholders; gather diverse inputs to inform its proposal; and build consumer knowledge through active engagement.²⁵

Key engagement strategies for Evoenergy included, but were not limited to:

- ECRC health checks – the ECRC membership represent a broad cross-section of consumers and meet every two months. The regulatory proposal and tariff structure statement stood as regular agenda item to be presented and reflect on. A new feature of the consultation of the ECRC engagement, was the introduction of the Health Check and development of a report card to align with key program milestones and meeting dates.²⁶
- Community panel – comprised of around 20 representatives reflecting the demographic stratification of the ACT. Community panel members met through 6 planned meetings from November 2021 to August 2022, culminating on the presentation of key features of Evoenergy’s draft plan. A further meeting was arranged following the release of its Draft plan, where a selection of panel members reconvened to discuss recent ACT government announcements that impacted initial consultation.²⁷
- Community pricing panel – an additional panel established to allow Evoenergy to deeply explore pricing issues and the development of the tariff structure statement.²⁸
- ACTCOSS engagement - A joint initiative with Evoenergy and ACTCOSS, was a workshop held to engage with organisations who represent energy consumers in the ACT region who are on low incomes, culturally and linguistically diverse (CALD), experiencing disadvantage, or at risk of hardship.²⁹

The key performance indicators on Evoenergy’s engagement objectives the principles reflected the International Association of Public Participation Spectrum (IAP2). In Evoenergy’s Community panel final report, prepared by participants, they provided feedback that they felt the process had been genuine, but indicated that the ‘regulatory environment, economic circumstances, and other constraints restricted the areas that the Panel were able to explore’.³⁰ Throughout the ECRC health check, Evoenergy noted its objective to achieve active and diverse

²⁵ Evoenergy, *Appendix F Consumer engagement program report*, January 2023, p. 5.

²⁶ Evoenergy, *Communications Link – Appendix E EN24 and TSS consumer engagement strategy*, August 2021, p. 17-18. A copy of the EN24 engagement health check report card is provided.

²⁷ Evoenergy, *Appendix F Consumer engagement program report*, January 2023, p. 10-11. See Table 2 for a full list of the topics covered across all Community panel meetings held.

²⁸ Evoenergy, *Communication link – Addendum 7.1.1. Community pricing report panel*, January 2023, p.4.

²⁹ Evoenergy, *Communication link Appendix K ACTCOSS Evoenergy workshop listening report*, January 2023, p. 2.

³⁰ Evoenergy, *Communication link Appendix H Community panel recommendations report*, September 2022, p. 2.

engagement at the collaborative level had been rated as “on track” for its December and June 2022 checks. In the December 2022 check, the ECRC had rated this as ‘requiring work’ indicating ‘members felt it was important to acknowledge a continual aspiration for improvement’.³¹

3.2 Breadth and depth of engagement

The breadth and depth of engagement is about the scope of engagement with consumers and the level of detail at which network businesses engage on issues. The breadth and depth of engagement also covers the variety of avenues used to engage with consumers.

As discussed in section 3.1, the Community panel ‘deliberative’ community engagement process was also built to align with the involve and collaborate levels of the IAP2 spectrum.³² The process was initially designed to build the knowledge and capacity of its panel members, but also encouraged members to identify areas and topics that they wanted to specifically hear about. Allowing the engagement to be tailored for later meetings.³³

The Community Panel provided 10 recommendations to Evoenergy, spanning issues from reliability, net zero discussions, tariffs, and bill impacts. It stated that the:

*operating environment is actively evolving, such that it would be inappropriate to prioritise one recommendation over another, and that each may need to adapt to changing circumstances.*³⁴

The Panel recommended that the consumer values identified being: reliability of supply, affordability, supporting vulnerable consumers, effective climate change responses, responsive tariffs, and ongoing education and engagement, were values that Evoenergy should proactively and continuously incorporate when planning for the future.³⁵

The Community Panel also engaged in-depth on the proposed Customer Service Incentive Scheme (CSIS).³⁶ With customers recommending that the proposed measurement options, prioritise notification of unplanned outages through timely notifications.³⁷ The Panel then prioritised (in order listed) the speed of visibility of new outages (including social media, radio and websites); speed of telephone answering; and provision of flexibility for the differing technology accessibility options of their customers.³⁸

In addition to its in-depth engagement, Evoenergy sought to reach customers more broadly. For example, on release of its Draft EN24 plan it promoted it through social media, media releases, radio interviews, as well as its traditional stakeholder channels.³⁹ A quantitative survey was also conducted, receiving 718 responses, and provided a snapshot of energy perceptions and sentiment across the community.⁴⁰

³¹ Evoenergy, *Regulatory Proposal*, January 2023, p. 34.

³² Evoenergy, *Communication link Appendix G Community panel recommendations report*, November 2022, p. 3.

³³ Evoenergy, *Communication link Appendix G Community panel recommendations report*, November 2022, p. 8.

³⁴ Evoenergy, *Communication link Appendix H Community panel recommendations report*, September 2022, p.11.

³⁵ Evoenergy, *Communication link Appendix H Community panel recommendations report*, September 2022, p.5. See recommendation 2.

³⁶ Evoenergy, *Regulatory Proposal*, January 2023, p.67.

³⁷ Evoenergy, *Communication link Appendix H Community panel recommendations report*, September 2022, p.5. See recommendation 2. See recommendations 6 and 7.

³⁸ Evoenergy, *Communication link Appendix H Community panel recommendations report*, September 2022, p.5.

³⁹ Evoenergy, *Regulatory Proposal*, January 2023, p. 42.

⁴⁰ Evoenergy, *Regulatory Proposal*, January 2023, p. 42-43. See Table 7 for an outline of the quantitative engagement feedback received.

Evoenergy indicated it utilised the Handbook throughout its strategy development, to design a program that it believed delivered a proposal which reflects the long-term interests of its consumers.⁴¹

3.3 Clearly evidenced impact

Evoenergy submitted that its engagement approach on its 2024–29 proposal has helped inform the development of its proposal. Regard has been given to identifying and understanding what is important to its customers and stakeholders and feedback, the IAP2 Spectrum best practice engagement, and guidance from the AER and CCP27.

Evoenergy has given significant consideration on its engagement strategy, trusting its customer panels, and other stakeholders, to recommend and influence its proposal. Consumers have been given the opportunity to build their skills and capacity and have expressed their thanks in being able to have the opportunity to participate in developing the proposal.⁴² The commitment from Evoenergy to genuinely listen and build the capacity of its customers is demonstrated through this process.

Since the release of Evoenergy's Draft EN24 plan, the ACT Government further indicated its intent to pursue full electrification.⁴³ As a result, Evoenergy reconvened its Community Panel to discuss these issues and we are particularly interested in stakeholders' views on how Evoenergy will address key developments since its Draft EN24 plan release.

Questions

1. Do the key themes from Evoenergy's engagement resonate with your own preferences? Are there additional issues you would like to see influence Evoenergy's proposal and our assessment of the proposal?
2. Do you think Evoenergy has engaged meaningfully with consumers on all key elements of its 2024–29 proposal? Are there any key elements that require further engagement?
3. To what extent do you consider you were able to influence the topics engaged on by Evoenergy? Please give examples.

⁴¹ Evoenergy, *Regulatory Proposal*, January 2023, p. 30.

⁴² Evoenergy, *Communication link Appendix H Community panel recommendations report*, September 2022, p.11.

⁴³ Evoenergy, *Regulatory Proposal*, January 2023, p. 23.

4 Key elements of Evoenergy’s revenue proposal

The regulatory framework governing electricity networks and our assessment of Evoenergy proposal is set out in the National Electricity Law and Rules (NEL and NER). Our work is guided by the National Electricity Objective (NEO) which promotes efficient investment in, and operation and use of, electricity services in the long-term interests of consumers.⁴⁴

The foundation of our regulatory approach is a benchmark incentive framework to setting maximum revenues: once regulated revenues are set for the five-year period, a network that keeps its actual costs below the regulatory forecast of costs retains part of the benefit. Service providers have an incentive to become more efficient over time, as they retain part of the financial benefit from improved efficiency. This delivers benefits to consumers as efficient costs are revealed over time and drive lower cost benchmarks in subsequent regulatory periods. By only allowing efficient costs in our approved revenues, we promote delivery of the NEO and ensure consumers pay no more than necessary for the safe and reliable delivery of electricity.

Evoenergy’s proposed revenue reflects its forecast of the efficient cost of providing distribution network services over the 2024–29 period. Its 2024–29 proposal, and our assessment of it under the Law and Rules, are based on a “building block” approach which looks at five cost components⁴⁵ :

- return on the RAB – or return on capital, to compensate investors for the opportunity cost of funds invested in this business
- depreciation of the RAB – or return of capital, to return the initial investment to investors over time
- forecast operating expenditure (opex) – the operating, maintenance and other noncapital expenses, incurred in the provision of network services
- revenue increments/decrements – resulting from the application of incentive schemes and allowances, such as for opex, capex and demand management innovation
- estimated cost of corporate income tax.⁴⁶

4.1 Rate of return

The return each business is to receive on its capital base (“return on capital”) is a key driver of proposed revenues. We calculate the regulated return on capital by applying a rate of return to the RAB value.

We estimate the rate of return by combining the returns of two sources of funds for investment: equity and debt. The allowed rate of return provides the business with a return on capital to service the interest rate on its loans and give a return on equity to investors.

The approach that Evoenergy, and we, must take to estimate the rate of return, including the return on debt and the return on equity, as well as the value of imputation credits, is set out in our binding Rate of Return Instrument. We publish a new Rate of Return Instrument every 4 years. For the purpose of its proposal, Evoenergy has applied the current, 2018 Rate of Return Instrument (2018 Instrument). Our final decision on Evoenergy proposal, which will be made in April 2024, will apply the new 2022 Rate of Return Instrument which was published in February

⁴⁴ National Electricity Law (NEL or Law), s.7.

⁴⁵ See Figure 3.4 in AER, *State of the Energy Market*, June 2022, p66.

⁴⁶ See figure 3.4 in AER, *state of the Energy Market*, June 2022, p65

2023. Therefore, stakeholders should treat the rate of return estimates submitted by Evoenergy as indicative pending the 2022 Rate of Return Instrument.

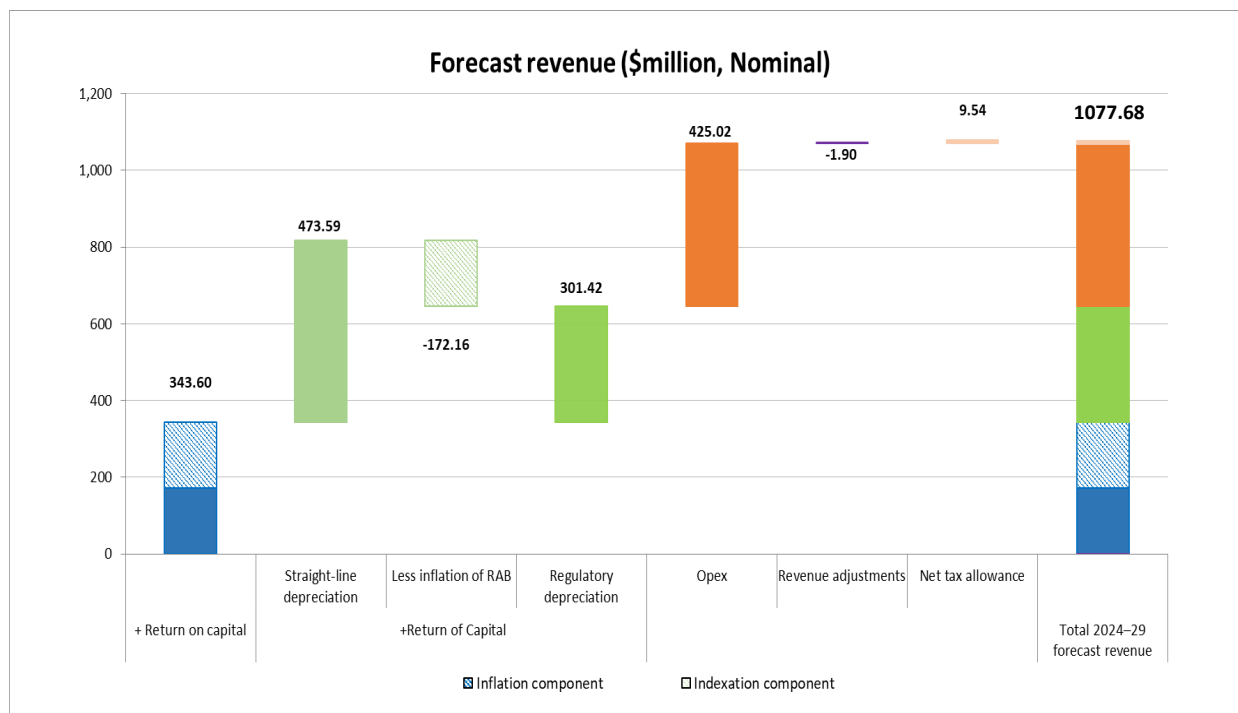
4.1.1 Inflation

In 2020, we concluded a review of our approach to estimating expected inflation. Evoenergy has applied the approach we established in that review, but once again, the estimates provided by Evoenergy should be considered indicative because estimates of inflation may change as we move through the process.

An allowance for expected inflation provides compensation for the risk to investors for the prospect of inflation eroding the investor’s purchasing power. Figure 3 shows the interaction of expected inflation on the forecast building block revenue.

- The return on capital building block applies a nominal rate of return to the RAB. As the nominal rate of return includes expected inflation, part of that building block compensates for expected inflation. Higher expected inflation increases the return on capital mainly due to RAB and capex.
- The return of capital building block removes expected inflation indexation of the RAB from forecast depreciation. This avoids compensation arising from the effects of inflation being double counted by including it in the return on capital building block and also as a capital gain (through the indexation of the RAB). Higher expected inflation therefore reduces the regulatory depreciation allowance.
- Other building blocks (such as operating expenditure or opex, and revenue adjustments) include an inflation component, as the costs forecast in real dollar terms are escalated to nominal dollars using expected inflation in determining the required nominal revenues. Higher expected inflation will increase opex and revenue adjustments.

Figure 4 Inflation components in proposal revenue building blocks (\$nominal, million)



Source: AER analysis.

Note: Proposed revenue in the chart are unsmoothed total revenue for the regulatory period. It includes both distribution and transmission revenues.

4.2 Regulatory asset base and depreciation

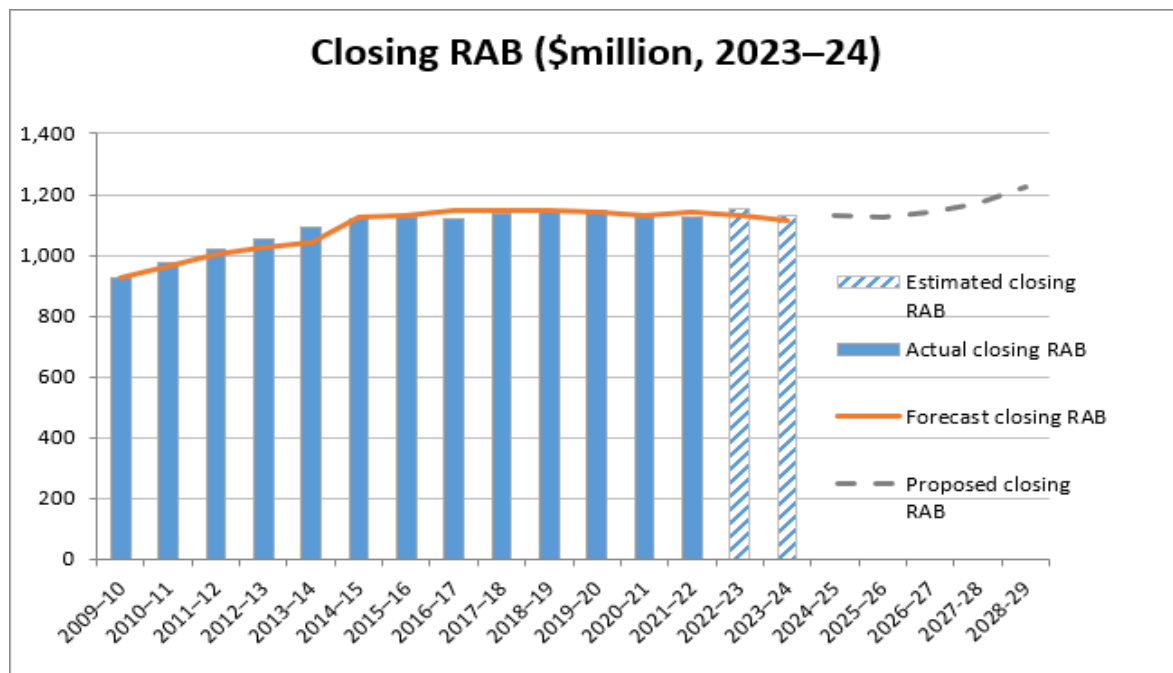
The RAB is the value of assets used by Evoenergy to provide distribution and transmission (dual function assets) network services. Evoenergy's dual function assets are high voltage assets which support the broader NSW/ACT transmission network owned and operated by Transgrid. Our framework and approach decision established that we would apply transmission pricing rules to Evoenergy's dual function assets.⁴⁷

The value of the RAB substantially impacts Evoenergy's revenue requirement, and the price consumers ultimately pay. Other things being equal, a higher RAB would increase both the return on capital and depreciation components of the revenue determination.

Evoenergy proposed a forecast combined RAB of \$1407.8 million (\$ nominal) by the end of the 2024–29 period, which is \$276.6 million higher than for the estimated RAB at the end of the 2019–24 period. This follows an increase of \$158.0 million (\$ nominal) in the estimated RAB over the 2019–24 period.

The proposed RAB increase (in both nominal and real terms) for the 2024–29 period is primarily driven by a higher forecast of capex for that period. Figure 5 shows the value of Evoenergy's RAB over time in real terms.

Figure 5 Evoenergy's RAB value over time (\$million, 2023–24)



Source: AER analysis

Regulatory depreciation is provided so investors recover their investment over the economic life of the asset ("return of capital").

The Handbook sets our expectations for depreciation. In summary, we expect a network business:

- To use the AER's post-tax revenue model, roll forward model, and depreciation tracking module (where relevant) without amendments

⁴⁷ AER, *Final framework and approach for Evoenergy for the 2024–29 regulatory control period*, July 2022, p. 49; NER, cl. 6.25.

- To apply the same asset classes from the last regulatory determination and the asset lives would also reflect those approved in previous decisions

Evoenergy proposes regulatory depreciation of \$277.8 million (\$2023–24) for the 2024–29 period, which is \$22.0 million (8.6%) higher than for the 2019–24 period. The higher depreciation is driven largely by new capex.

Evoenergy proposes to change its approach for implementing straight-line depreciation of existing assets from a weighted average remaining life approach to a year-by-year tracking approach for the 2024–29 period. Based on our previous assessment, we consider this change is consistent with the requirements of the Rules.

Evoenergy also proposes to maintain the same asset classes and standard asset lives as approved for the 2019–24 period.

Overall, based on our initial assessment, we consider Evoenergy has performed well against the depreciation expectations as set out in the Handbook.

Question

4. Do you have views on Evoenergy’s proposed depreciation approach, as set out in its 2024–29 proposal?

4.3 Capital expenditure

Capital expenditure (capex) refers to the capital cost and expenditure incurred in the provision of Evoenergy’s distribution services. Capex is added to the RAB, and so forms part of the capital costs of the building blocks used to determine total revenue. Top-down testing is a starting point when assessing the overall reasonableness of a business’ capex proposal. Where a business is responding to the incentives created by the capital efficiency sharing scheme, we consider current period spend is a good initial basis to test the reasonableness of capex required to maintain the network in the forecast period. This is particularly the case for recurrent types of expenditure such as replacement capex (repex) and recurrent information and communication technology (ICT).

The Handbook sets our expectations for capex forecasts. In summary:

- The business should demonstrate that the proposed expenditure is not significantly above current period spending
- The components of capex should be well-justified, consistent with past spending for recurrent components, and, for repex, not materially above our repex model
- The business shows evidence of prudent and efficient decision-making on key projects/programs
- There should be evidence of genuine consumer engagement.

Based on our initial assessment, Evoenergy has substantially increased its proposed capex for 2024–29 regulatory control period relative to the actual/estimated capex in the current 2019–24 regulatory control period. Evoenergy has also used the AER repex model to cross-check and validate its repex forecast. Subject to our further review, Evoenergy proposed \$8.3 million (or 8%) less modelled repex compared to the AER repex model threshold.

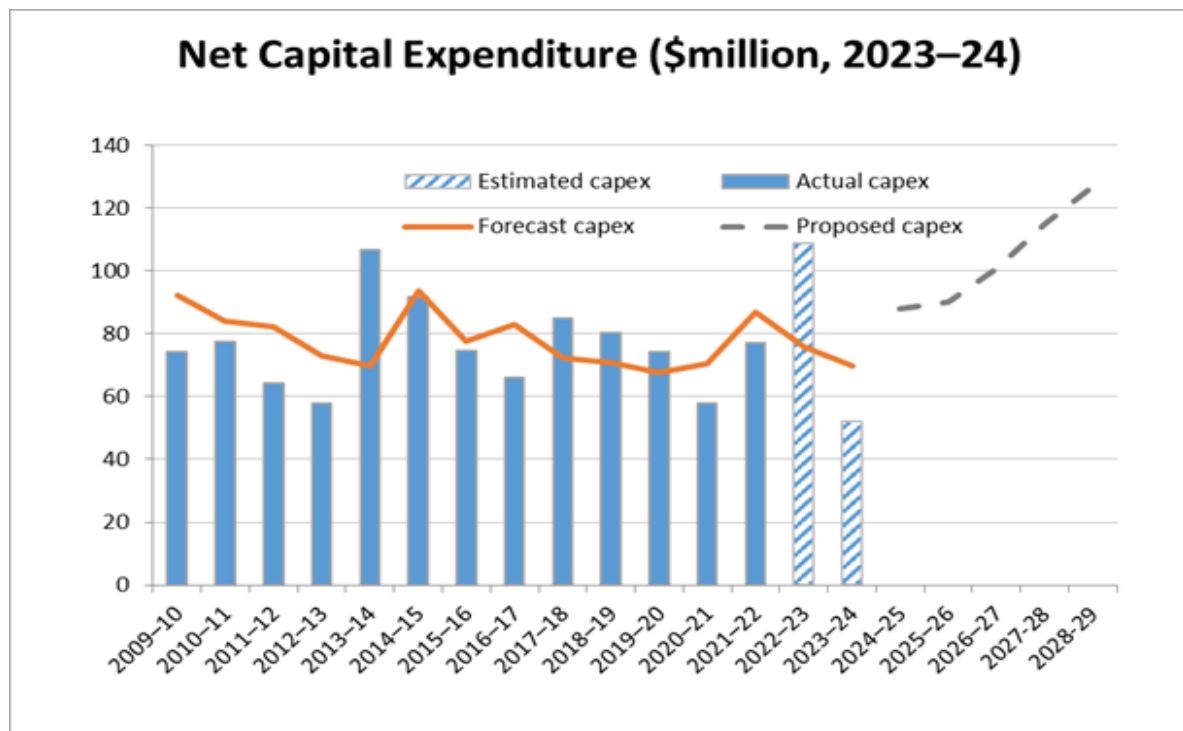
4.3.1 Evoenergy’s capex proposal

Evoenergy proposes forecast capex of \$520.8 million (\$2023–24) for the 2024–29 period. This represents a 51% increase compared to its actual/expected expenditure for the 2019–24 period.

A large proportion of Evoenergy’s 2024–29 capex proposal is underpinned by the ACT Government’s climate change response, including the legislated target of net zero carbon emissions by 2045.⁴⁸ The ACT Government released its Climate Change Strategy 2019–25 in September 2019, which focuses on measures to reduce emissions from transport and gas which make up the bulk of the ACT’s emissions.⁴⁹ A key foundation to the ACT Government’s climate change strategy is harnessing renewable energy through electrification. The ACT Government has recently released further policies regarding its climate change strategy that are relevant to Evoenergy’s capex proposal. These are the Zero Emissions Vehicles Strategy 2022–30, July 2022 and Powering Canberra: Our pathway to electrification, August 2022.⁵⁰

Figure 6 shows Evoenergy’s proposed capex forecast compared to historic levels.

Figure 6 Comparison of past and forecast capex (\$million, 2023–24)



Source: AER analysis.

Overall, Evoenergy expects to underspend against its regulatory allowance by \$7 million or 2% for the current regulatory period (2019–24).⁵¹

The increase in estimated capex for 2022–23 is because Evoenergy expects to overspend on its non-network capex in that year.⁵² This is primarily driven by an expected \$25 million overspend on Evoenergy’s Greenway office and depot upgrade due to increased construction costs, a \$9 million overspend on other non-network capex including replacement of the aged Financial Information Management System (FIMS), and further spending on property and facilities.⁵³

⁴⁸ Evoenergy, *Revenue proposal 2024–29*, January 2023, p. 17.

⁴⁹ [ACT Government, ACT Climate Change Strategy 2019–25](#).

⁵⁰ ACT Government, [ACT Zero Emissions Vehicles Strategy 2022–2030](#); ACT Government, *Powering Canberra, Our Pathway to Electrification*, ACT Government Position Paper, August 2022 <https://energy.act.gov.au/>

⁵¹ Evoenergy, *Appendix 1.1: 2019–24 period capital expenditure*, January 2023, p. 5.

⁵² Evoenergy, *Appendix 1.1: 2019–24 period capital expenditure*, January 2023, p. 13.

⁵³ Evoenergy, *Appendix 1.1: 2019–24 period capital expenditure*, January 2023, p. 15.

4.3.2 Key drivers of the capex proposal

Table 2 shows a breakdown of Evoenergy’s proposed capex by driver categories.

Table 2 Evoenergy’s forecast capex categories verses current period actual/estimates (\$2023–24)

Category	2024–29 forecast	% of total forecast	2019–24 actual/estimate	Difference
Replacement	117,621	20%	95,014	24%
Augmentation	181,610	31%	48,614	274%
Connections	122,529	21%	168,541	-27%
Property	2,944	1%	21,905	-87%
ICT	39,034	7%	34,727	12%
Fleet	13,839	2%	12,520	11%
Non-network capex - other	12,324	2%	16,235	-24%
Capitalised overheads	87,643	15%	82,845	6%
Gross Capex Total	577,543		480,401	20%
Customer connections	52,591		130,524	-60%
Disposals	4,151		4,159	0%
Net Capex Total	520,801		345,718	51%

Source: AER analysis. Totals may not add due to rounding.

The key drivers of Evoenergy’s proposed capex are augmentation, replacement capex, connections and capitalised overheads. These categories are a substantial proportion of Evoenergy’s proposed capex and are discussed further below. The largest component is Evoenergy’s proposed augmentation capex, which is being guided by the forecast uptake of electric vehicles (EV’s) in response to the ACT Government’s zero emissions vehicles strategy. The remaining categories of non-network capex (ICT, property and fleet) make up 12% of Evoenergy’s total capex.

Augmentation capex (augex)

Evoenergy proposed \$181.6 million for augex representing 31% of total gross capex with an overall increase of 274% compared with the current period actual/estimated capex. The proposed augex includes \$12.3 million for reliability and quality improvements and \$5.5 million for DER. Demand-driven projects of \$161.5 million is by far the largest portion of the total augex. The bulk of Evoenergy’s proposed demand driven projects are for new major substation construction (around \$50 million)⁵⁴ and low voltage (11kv) feeders to existing residential and commercial premises (around \$76 million),⁵⁵ to address forecast capacity constraints.

The step-up in proposed augex from the current regulatory control period is primarily driven by both the growth of the region and the need to meet increasing demand as the ACT moves to electrify transport and the gas network to achieve the ACT Government’s net zero emissions policy by 2045.⁵⁶ The demand-driven portion of the augex program is informed by the Net Zero Model developed by Marsden Jacob Associates which quantifies the impacts of emission reduction targets and policies on Evoenergy, customers, and other key stakeholders.⁵⁷ Evoenergy utilised AEMO forecasts and engaged with the ACT Government on matters

⁵⁴ Evoenergy, *Attachment 1 – capital expenditure*, January 2023, p. 45.

⁵⁵ Evoenergy, *Attachment 1 – capital expenditure*, January 2023, pp. 46–47.

⁵⁶ Evoenergy, *Attachment 1 – capital expenditure*, January 2023, p. 10.

⁵⁷ Evoenergy, *Marsden Jacobs, Appendix 1.4 Net Zero Modelling Journey*, January 2023, p. 4.

including cost profile and customer impacts (from both a shareholder and government/policy lens) as well as timing and opportunity.⁵⁸

A key focus of our review on augex will be on the reasonableness of the assumptions used for the demand forecast for both electricity and gas in response to the ACT's Climate Change Strategy, and the cost-benefit analysis for the relevant demand-driven projects. Our consideration of both its capital expenditure and tariff structure statement will include whether Evoenergy has accounted for the rollout of its new tariffs in determining the forecast load associated with the electric vehicles.⁵⁹ This includes whether Evoenergy has accounted for the potential full roll out of smart meters by 2030, a target considered in AEMC's draft report on the review of the regulatory framework for metering services.⁶⁰

As part of our assessment of Evoenergy's augex forecast, we are interested in stakeholder views on Evoenergy's forecast uptake of electric vehicles and whether there are alternatives, such as non-network solutions, including appropriate tariffs and load controls that would be expected to alleviate the forecast network constraints driving the need to augment the network.

Replacement capex (repex)

Evoenergy proposed \$117.6 million for repex representing 20% of total gross capex. This is an increase of 24% compared with the current period actual/estimated capex.

A key component of Evoenergy's repex program is \$36 million for the replacement of its aging timber poles, which makes up 31% of total repex forecast. It also forecasts \$13.4 million (11% of total repex) on a protection program to replace components of the protection systems based on asset health conditions⁶¹ and \$11.1 million (9% of total repex) on overhead lines and pole hardware replacements. Evoenergy notes a deterioration in its SAIDI and SAIFI performance is due partly to assets reaching the end of life for the first time.⁶²

Connections

Evoenergy proposed \$122.5 million for connections, representing 21% of total gross capex. This is a decrease of 27% compared with the current period actual/estimated connections capex. It also proposed a 60% reduction in capital contribution with a forecast of \$52.6 million. The forecast net connection capex is \$69.9 million.

Evoenergy's forecast gross connections capex is very close to the current forecast for the 2019–24 period (\$124 million (\$2023–24)).⁶³ It is lower than the actual/estimated connections capex for the 2019–24 period because there were some large unexpected connections expenditures that Evoenergy states are expected to be more 'one off' in nature.⁶⁴

Capitalised overheads

Capitalised overheads account for 15% of the forecast capex in the 2024–29 period. Evoenergy's forecast of \$87.6 million for capitalised overheads is similar to reported capitalised overheads for the current and previous regulatory periods.⁶⁵ Evoenergy's capitalised overheads in the 2024–29 period is for corporate overheads. Evoenergy does not include network

⁵⁸ Evoenergy, *Marsden Jacobs, Appendix 1.4 Net Zero Modelling Journey*, January 2023, p. 8.

⁵⁹ Refer to Issues Paper section 6.1 – Tariff Structure Statement.

⁶⁰ AEMC, Draft report, Review of the regulatory framework for metering services, 3 November 2022. <https://www.aemc.gov.au/market-reviews-advice/review-regulatory-framework-metering-services>

⁶¹ Evoenergy, *Appendix 1.13 Asset Portfolio Strategy-Secondary Systems Assets*, January 2023, pp. 29–39.

⁶² Evoenergy, *Attachment 1 – capital expenditure*, January 2023, p. 33.

⁶³ Evoenergy, *Attachment 1 – capital expenditure*, January 2023, p. 51.

⁶⁴ Evoenergy, *Attachment 1 – capital expenditure*, January 2023, p. 50.

⁶⁵ Evoenergy, *Attachment 1 – capital expenditure*, January 2023, p. 65.

overheads in its capitalised overheads forecast.⁶⁶ As noted in Table 2 above, Evoenergy’s forecast capitalised overheads are slightly higher (6%) than its estimated capitalised overheads for the current regulatory period.

Evoenergy’s forecast increase in capitalised overheads, particularly in the latter two years of the 2024–29 period, is relative to the size of the capex program in these years, which increased with an uplift in augmentation and connections capex.⁶⁷ As previously noted, Evoenergy’s proposed total forecast capex is 51% greater than its actual/expected expenditure for the 2019–24 period.

Questions

5. Do you consider Evoenergy’s capex proposal addresses the concerns of electricity consumers as identified in the course of its engagement on the proposal?
6. Do you consider Evoenergy has demonstrated and supported the need for the increase in augmentation capex?
7. Do you consider Evoenergy has explored all non-network options to address or alleviate the likely capacity constraints arising from the uptake of electric vehicles, including the consideration of tariff solutions and network load control options?
8. Do you consider Evoenergy’s approach to forecasting replacement capex is appropriate and likely to produce a forecast of efficient replacement capex?

4.3.3 Contingent projects

Evoenergy’s proposal includes one contingent project with a total indicative cost of \$100–150 million (\$nominal). The project is a program of substation and feeder works in response to an increase in forecast peak demand due to a higher than currently projected uptake of EVs and/or faster electrification. The trigger for this contingent project is where evidence emerges that the speed of the energy transition is greater than assumed in the capex forecasts put forward in Evoenergy’s regulatory proposal, and as a consequence, Evoenergy is required to undertake a material program of works during the regulatory period.⁶⁸

We will assess whether Evoenergy’s proposed trigger events for this new contingent project are appropriate. We may amend the wording of trigger events, if necessary, to ensure consistency across our determinations.

Our determination will not include pre-approved capex for any contingent projects. If, during the 2024–29 period, Evoenergy considers an approved contingent project is ‘triggered’, a second assessment and consultation process will commence. It is at that point that Evoenergy will be required to demonstrate that the trigger has been met, that the cost implications of the project are material, and that its related expenditure (capex and opex) is prudent, efficient and in accordance with expenditure requirements under the Rules.

Question

9. Do you consider Evoenergy’s proposed contingent project should be included as contingent project for the 2024–29 period? Are the proposed project triggers appropriate?

⁶⁶ Evoenergy, *Attachment 1 – capital expenditure*, January 2023, p. 65.

⁶⁷ Evoenergy, *Appendix 1.1: 2019–24 period capital expenditure*, January 2023, p. 16.

⁶⁸ Evoenergy, *Attachment 1 – capital expenditure*, January 2023, p. 44.

4.4 Operating expenditure

Operating expenditure (opex) refers to the operating, maintenance and other non-capital expenditure incurred in the provision of network services. It includes labour costs and other non-capital costs that a prudent service provider is likely to require for the efficient operation of its network. Forecast opex is one of the “building blocks” used to determine Evoenergy’s total revenue requirement.

The Handbook sets our expectations for opex forecasts. In summary:

- the business will use our base-trend-step approach, including our standard assumptions
- step changes will be small in number and well-justified
- category specific costs will be small in number and well-justified
- there should be evidence of genuine consumer engagement.

Based on our initial assessment, Evoenergy has adopted a base-trend-step approach, using opex in 2021–22 as the base from which to forecast. However, Evoenergy has not used our standard inputs and assumptions in some areas, including for output and price growth.

Evoenergy has proposed three step changes, totalling \$31.2 million or 8% of total forecast opex. Evoenergy stated that it had utilised the Handbook for guidance in the development of its consumer engagement program⁶⁹ and considers it has delivered a regulatory proposal which reflects the long-term interests of consumers in the ACT.

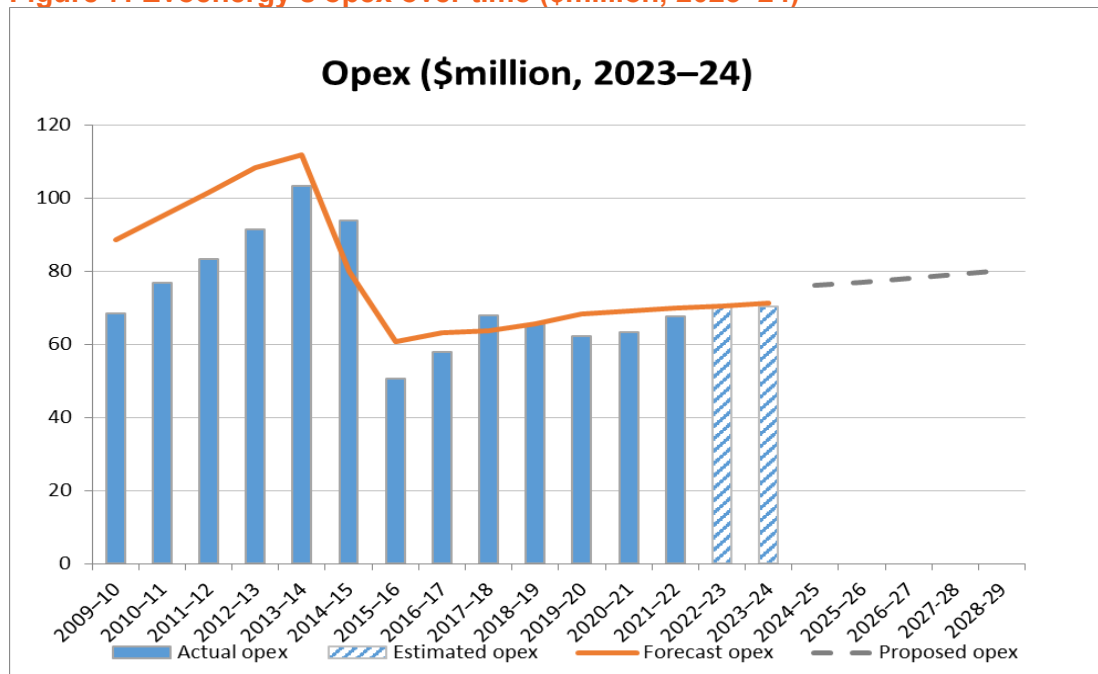
4.4.1 Evoenergy opex proposal

Evoenergy proposed total opex of \$390.1 million (\$2023–24) for the 2024–29 period, or:⁷⁰

- \$50.3 million (14.8%) more than Evoenergy’s actual/estimated opex for the 2019–24 period
- \$30.2 million (8.4%) more than the opex forecast we approved for the 2019–24 period.

Figure 7 shows the trend in Evoenergy’s total opex over time.

Figure 7: Evoenergy’s opex over time (\$million, 2023–24)



Source: Evoenergy, Economic benchmarking – Regulatory Information Notice response 2009–22; AER, Final decision PTRM 2009–14; AER, Final decision 2014–19 PTRM; AER, Final decision 2019–24 PTRM and Opex model; Evoenergy, 2024–29 Regulatory proposal, January 2023; AER analysis.

⁶⁹ Evoenergy, *Regulatory proposal For the ACT electricity distribution network – 1 July 2024 to 30 June 2029*, January 2023, p. 30.

⁷⁰ Including debt raising costs

4.4.2 Key drivers of the opex proposal

Evoenergy used a base-step-trend approach to forecast opex for the 2024–29 period.⁷¹ This is broadly consistent with our approach to assessing opex, as outlined in our Expenditure Forecast Assessment Guideline.⁷²

Evoenergy used opex in 2021–22 as the base from which to forecast (\$337.2 million (\$2023–24)), as Evoenergy considers that this realistically represents the efficient level of sustainable costs to provide standard control services, including considering the AER’s economic benchmarking results, as revised by Evoenergy to incorporate recently updated ratcheted maximum demand (RMD) data.⁷³ Evoenergy then:

- removed \$2.9 million for the administration of the Large-feed-in tariff scheme, which is recovered through the network tariffs as a jurisdictional scheme amount and approved and updated annually by the relevant Minister
- added \$7.2 million to reflect the change in opex between the base year (2021–22) and the final year (2023–24), using the approach outline in the Expenditure Forecast Assessment Guideline
- applied a rate of change comprising:
 - output growth – Evoenergy forecast \$14.1 million for the 2024–29 period for output growth, driven by Evoenergy’s expectations of network size, including due to ACT government policy, net zero modelling and customer views on the transition to a net zero future. Evoenergy did not use the output weights published in our recent 2022 Annual Benchmarking Report, but rather weights derived from its own revised benchmarking analysis for revised maximum demand data.
 - real price growth – Evoenergy forecast output growth of \$5.3 million for the 2024–29 period, based on the wage price index (WPI) from its consultant, BIS Oxford Economics. Evoenergy did not adopt our standard approach for calculating the WPI, which is to average the BIS Oxford Economics forecasts with a forecast from our consultant
 - productivity growth – Evoenergy reduced its opex by \$5.1 million associated with forecast productivity growth of 0.5% per annum for the 2024–29 period. This is consistent with our March 2019 final decision on forecasting productivity growth for electricity distributors.⁷⁴
- added three step changes totalling \$31.2 million (or 8% of total forecast opex) for:
 - Insurance premium – Evoenergy proposed a \$5.0 million step change to account for forecast increases to insurance premiums for the 2024–29 period to reflect a tighter market based on increased risk
 - Distributed energy resource integration – Evoenergy proposed an \$11.6 million step change for integrating DER into its network, to both support the energy transition and enable customer benefits, but also increase its network visibility and to increase its management capacity of network thermal and voltage constraints

⁷¹ Evoenergy, *Attachment 2: Operating expenditure – Regulatory proposal for the ACT electricity distribution network 2024–29*, January 2023, p. 7.

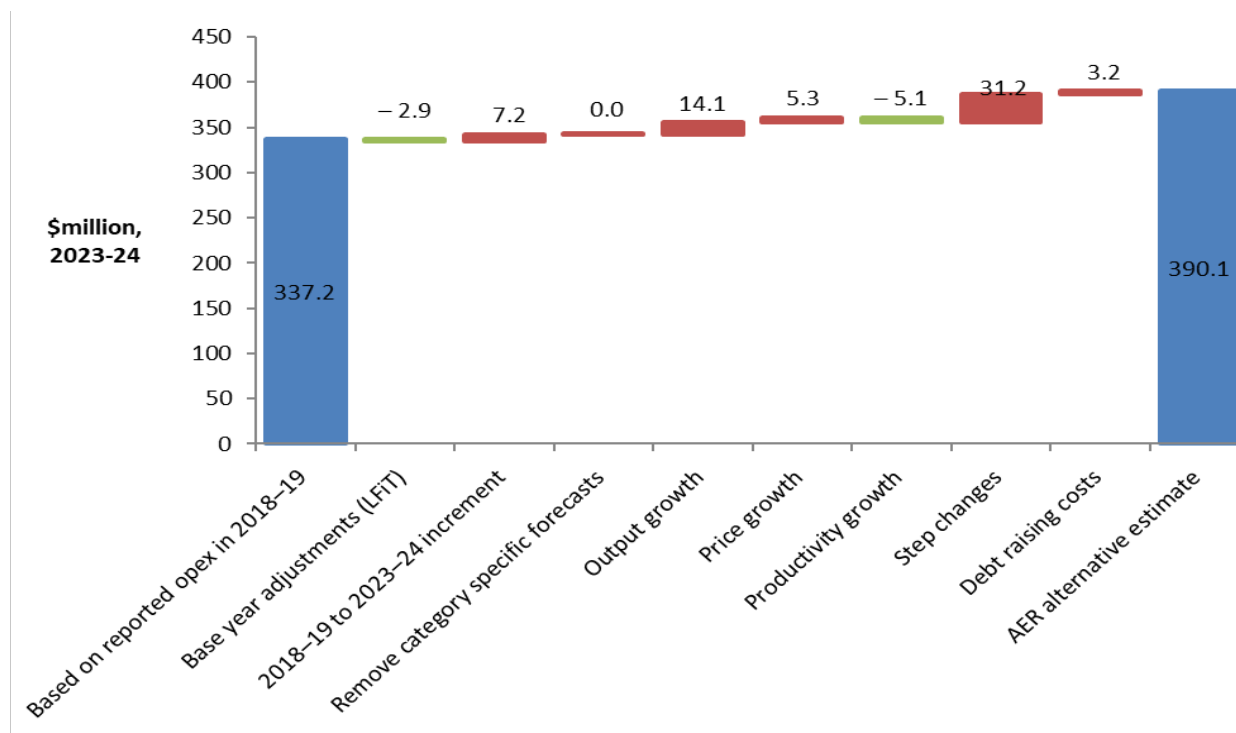
⁷² AER, *Expenditure Forecast Assessment Guideline*, November 2013.

⁷³ Evoenergy, *Attachment 2: Operating expenditure – Regulatory proposal for the ACT electricity distribution network 2024–29*, January 2023, p. 18; And see Evoenergy, *Regulatory Proposal – Appendix 2.1 – Base year efficiency*, January 2023.

⁷⁴ AER, *Final decision paper – Forecasting productivity growth for electricity distributors*, March 2019.

- Security of critical infrastructure – Evoenergy proposed a \$14.6 million step change to build on its current critical risk management practises and controls, based on the security level outlined in the *Security Legislation Amendment (Critical Infrastructure Protection) Act 2022*.
- added \$3.2 million for debt raising costs. Figure 8 shows how each of these components contribute to Evoenergy’s total opex forecast.

Figure 8 Evoenergy's opex forecast (\$million, 2023–24)



Source: AER analysis

In its proposal, Evoenergy stated that consumers across all demographics expect it to take action to invest in the future as soon as possible, to facilitate DER integration, enable electrification and progressively contribute to achieving net zero emissions by 2045. It submitted that this was in acknowledgement that doing so would result in additional costs.⁷⁵ As part of our opex assessment, we are particularly interested in stakeholder views on the following, which will form a focus in our determination of whether the proposal is prudent and efficient:

- Evoenergy’s stakeholder engagement in the development of its opex proposal, including whether the opex components accurately reflect engagement outcomes
- the efficiency of Evoenergy’s base year opex, taking into account its performance in economic benchmarking
- distributed energy resource integration step change, including whether this accurately reflects engagement outcomes and meets consumer expectations
- security of critical infrastructure step change, including if consumers are satisfied that sufficient information (e.g. capacity building information session) had been provided for an informed discussion

⁷⁵ Evoenergy, *Regulatory proposal For the ACT electricity distribution network – 1 July 2024 to 30 June 2029*, January 2023, p. 47.

Questions

10. Do you consider Evoenergy’s opex proposal addresses the concerns of electricity consumers, as identified in the course of its engagement on the 2024–29 proposal?

11. Do you consider Evoenergy’s forecast opex for the 2024–29 period reasonably reflects the efficient costs of a prudent operator?

12. Do you consider Evoenergy’s opex in its base year of 2021–22 as providing an efficient basis for forecast base opex for the 2024–29 period?

13. Do you support Evoenergy’s distributed energy resource integration step change, and consider that it meets stakeholder expectations?

14. Do you support the security of critical infrastructure step change, and consider that Evoenergy has provided a sufficient level of information to articulate the requirement to uplift its relevant security program?

4.5 Corporate income tax

The building block approach to calculating the annual revenue includes an amount for the estimated cost of corporate income tax payable by the business. We forecast tax in accordance with the requirements of the Rules.⁷⁶

Using the approach set out in the post-tax revenue model, Evoenergy proposes a forecast corporate income tax amount of \$8.9million (\$2023–24) for the 2024–29 period. We note that Evoenergy has:

- forecast immediate expensing of capex for the 2024–29 period using an approach consistent with its current tax policy
- adopted the diminishing value method for tax depreciation to all future capex.

We will assess the appropriateness of the proposed amount of immediate expensing, based on the approach we have taken in recent revenue determinations.

Questions

15. Do you have views on the approach to corporate income tax in Evoenergy’s 2024–29 proposal?

⁷⁶ NER, cl. 6.5.3.

5 Incentive schemes and allowances

Incentive schemes are a component of incentive-based regulation and complement our approach to assessing efficient costs. They provide important balancing incentives under network determinations, encouraging businesses to pursue expenditures efficiencies while maintaining the reliability and overall performance of its network. Our Framework and Approach Paper for Evoenergy noted our intention to apply the four incentive schemes and allowances in the 2024–29 period that are set out below⁷⁷. Evoenergy agreed with this approach in its 2024–29 proposal.

- **Efficiency benefit sharing scheme (EBSS):** provides Evoenergy with a continuous incentive to pursue efficiency improvements in opex, and provides for a fair sharing of these between Evoenergy and network users. Consumers benefit from improved efficiencies through lower opex in regulated revenues for future periods. Evoenergy proposed EBSS carryover amounts totalling -\$4.3 million (\$2023–24) from the application of the EBSS in the 2019–24 period.
- **Capital expenditure sharing scheme (CESS):** incentivises Evoenergy to undertake efficient capex throughout the period by rewarding efficiency gains and penalising efficiency losses, each measured by reference to the difference between forecast and actual capex. The CESS applies to Evoenergy for the 2019–24 period. Evoenergy is forecasting a small capex underspend of \$2.2 million (\$2023–24) for 2024–29 that results in a forecast revenue increment of 0.48 million (\$2023–24) under the CESS.⁷⁸
- **Service target performance sharing scheme (STPIS):** provides a financial incentive to Evoenergy to maintain and improve service reliability performance.⁷⁹ The STPIS is intended to ensure that distributors’ service levels do not deteriorate due to distributors’ effort to achieve efficiency gains under our expenditure schemes, which are typically associated with a reduction in expenditure. Evoenergy proposed to apply the STPIS in its 2024–29 regulatory period.⁸⁰ This is consistent with our final Framework & Approach paper for Evoenergy.⁸¹
- **Customer service incentive scheme (CSIS):** creates an incentive for distributors to maintain and improve customer services not covered by the STPIS, or other mechanisms.⁸² To apply the CSIS, Evoenergy must demonstrate to us that its customer engagement has been genuine and that its customers support the proposed customer service parameters and incentives. Consistent with our final Framework & Approach paper, Evoenergy opted to apply a CSIS in its 2024–29 regulatory period, to drive improvements in its service delivery performance and to focus on areas of service that are the most valuable to its customers.⁸³ Evoenergy should note that robust data oversight is a vital component of the CSIS.
- **Demand management innovation allowance Mechanism (DMISM) / Demand management innovation scheme (DMIS):** fund research, development and implementation of demand management projects that have the potential to reduce long-

⁷⁷ AER, *Framework and approach, Evoenergy (ACT) – Regulatory control period commencing 1 July 2024*, July 2022, p. 39.

⁷⁸ Evoenergy – *RIN Appendix 5 Final RIN – Workbook 4 – CESS*, January 2023; Evoenergy, *Attachment 4: Incentive Schemes*, January 2023, p. 7.

⁷⁹ AER, *Electricity distribution network service providers - service target performance incentive scheme v2*, November 2018.

⁸⁰ Evoenergy, *Regulatory proposal for the ACT electricity distribution network 2024–29, Attachment 4: Incentive schemes*, January 2023, pp. 7–11.

⁸¹ AER, *Final Framework and Approach for Evoenergy (ACT) Regulatory control period commencing 1 July 2024*, July 2022, pp. 40–41.

⁸² AER, *Explanatory Statement Customer Service Incentive Scheme*, July 2020, p. 4.

⁸³ Evoenergy, *Regulatory proposal for the ACT electricity distribution network 2024–29, Attachment 4: Incentive schemes*, January 2023, pp. 13–20.

term network costs. Projects to be funded under the DMIAM and DMIS must meet the approval criteria in both schemes.⁸⁴ Evoenergy proposed to apply the DMIS and the DMIAM in its 2024–29 regulatory period.⁸⁵ This is consistent with our final Framework & Approach paper for Evoenergy.⁸⁶

Questions

16. Do you consider the EBSS carryover amounts proposed by Evoenergy provide for a fair sharing of the efficiency gains and losses it has achieved in the 2019–24 period?

17. Do you consider applying the EBSS to Evoenergy again in the 2024–29 period would provide it a continuous incentive to reduce its opex?

18 If we apply the EBSS to Evoenergy in the 2024–29 period, are there any cost categories that we should exclude from the scheme?

⁸⁴ AER, *Demand Management Incentive Scheme for Electricity distribution network service providers*, December 2017, clause 2. AER, *Demand Management Innovation Allowance Mechanism Electricity distribution network service providers*, December 2017, clause 2.

⁸⁵ Evoenergy, *Regulatory proposal for the ACT electricity distribution network 2024–29, Attachment 4: Incentive schemes*, January 2023, p. 12.

⁸⁶ AER, *Final Framework and Approach Evoenergy Regulatory control period commencing 1 July 2024*, p. 43.

6 Network Pricing

In the Framework and Approach paper we published last year, we set out our intended classification of the distribution services Evoenergy provides its customers:⁸⁷

- Standard control services are those that can only be provided by Evoenergy, and are common to most, if not all, of Evoenergy' customers. The costs of providing these services are captured in the building block revenue determination we've discussed in previous sections of the paper and shared between all customers.
- Alternative control services, which are either:
 - services that can only be provided by Evoenergy, but will only be required by some of its customers, some of the time; or
 - services that can be purchased from Evoenergy, but which can also—or have the potential to be—purchased from a competing provider.

The cost of providing alternative control services is recovered from users of those services only. Evoenergy has proposed changes in its tariffs in its new tariff structure statement (TSS), which sets out the tariff structures through which Evoenergy will recover its regulated revenue for standard control services. It has also proposed a number of changes to prices for alternative control services. We discuss the key features of these elements of Evoenergy' proposal below.

6.1 Control mechanisms

A distribution determination must impose controls over the prices and/or revenues of direct control services (standard and alternative control services). The form and formulae of the control mechanisms in our distribution determination are set out in the relevant Framework and Approach. There are only limited circumstances in which the AER can depart from this. Evoenergy accepted the form and formulae of the control mechanisms as set out in the Framework and Approach.

In our distribution determinations, we provide further definition for elements of these control mechanisms. We also define other mechanisms that are not required to be incorporated in the Framework and Approach, such as the side constraint and unders/overs mechanisms. In November 2022, we published our final decision on the side constraint mechanism that will be applied in our draft decisions, following stakeholder engagement.⁸⁸ We are interested in stakeholder's feedback in relation to the aspects detailed below.

Quoted services price cap control formula

As set out in section 6.3.1, quoted services prices are determined at the time of a customer's enquiry and reflect each customers' individual requirements. They are subject to a price cap form of control based on a build-up of inputs such as labour, contactor costs, materials.

In our framework and approach paper, we identified the quoted services price cap control formulae was inconsistently applied across jurisdictions. As such, we proposed the inclusion of margin and tax components to reflect the desirability of consistency between regulatory arrangements for similar services, as well as cost reflectivity. However, we did not define the margin and tax components. This will be done in our distribution determinations.

⁸⁷ AER, *Final Framework and approach for Evoenergy for the 2024–29- Regulatory control period*, July 2022, pp. 14–31.

⁸⁸ <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/annual-pricing-process-review>

Some distributors proposed the margin to be the nominal weighted average cost of capital (WACC) either for a particular year or an average of the forecast nominal WACC over the 2024–29 period (at present, these values are around 6%). Others have proposed a fixed value margin set close to the forecast nominal WACC, such as 6%.

For the tax component, a pragmatic approach would be to set the rate at the corporate tax rate of 30%. However, some distributors have proposed the tax rate could be set at a rate that better reflects the actual tax payable, which may differ from the corporate tax rate. We are interested in stakeholder views on the appropriate definitions for these components.

Metering form of control

The AEMC is currently undertaking a review of the regulatory framework for metering services which includes an indicative timeline to retire legacy meters by 2030. The AEMC’s final report is due prior to our draft decision on Evoenergy’s 2024–29 determination.

We consider that if the AEMC’s metering review constitutes a material change in circumstances, it may allow us to depart from the form of control set in the Framework and Approach. An alternative form of control might be warranted if it provides better consumer outcomes. We address metering issues further in section 6.3.2 of this paper.

Questions

19. What do you consider to be an appropriate rate for a margin recovered on quoted services? Should this be set at the average nominal WACC for the period, or some fixed value (e.g., 6%)?
20. Do you consider the tax component of the quoted services price control formulae should be set at the corporate tax rate of 30%, or an alternative rate?
21. Do you consider the AER should review the current price cap form of control for legacy metering services following the AEMC’s decision?
22. More generally, do you have any comments on Evoenergy’s proposed control mechanisms?

6.2 Tariff structure statement

As part of their regulatory proposal, distributors are required to submit to us a tariff structure statement (TSS).⁸⁹ The TSS will apply for the 5-year regulatory control period. A TSS must set out a distributor’s:

- proposed network tariffs
- network tariff structures
- charging parameters
- policies and procedures the distributor will use to assign customers to network tariffs or reassign customers from one network tariff to another.

The tariff structures provide the charging framework through which distributors collect their annual allowed revenue. Once approved, a TSS becomes a compliance document against which the AER assesses the distributor’s annual pricing proposals.

TSSs are also how distributors progressively reform their network tariffs for standard control services to better signal to customers the cost of providing network services. As customers

⁸⁹ This requirement came out of the AEMC 2014 rule change for distribution pricing.

ultimately pay for upgrades to network services, tariff reform that encourages more efficient use of the network will lead to lower network costs for all customers.

We assess a TSS in the context of the distributor's full regulatory proposal. For Evoenergy, this includes considering its TSS in the context of its proposed step-up in network augmentation expenditure. Evoenergy proposed \$182 million augmentation expenditure for the 2024–29 regulatory period, with electric vehicle uptake a key driver.⁹⁰

Based on our initial review, we consider the high-level structure of the TSS Evoenergy has submitted is broadly in line with what we expect. However, we are concerned Evoenergy has not sufficiently explored options for mitigating its proposed substantial increase in capital expenditure through targeted pricing and/or implementation of controlled load systems. We may be unable to approve Evoenergy's proposed TSS and/or capex unless we observe better integration between its network tariffs and capital expenditure program. We are aware that other distributors are seeing strong responses to network price signals within tariff trials and we consider Evoenergy should factor such responses into its network planning. Two-way pricing is a new feature of this round of TSSs so we also intend to closely examine Evoenergy's two-way pricing proposal, along with all distributors' two-way pricing proposals.

We are looking for submissions on what changes to its proposal we ought to require of Evoenergy in order to mitigate this proposed capital expenditure. We are also interested to understand the level of stakeholder support for its proposed contingent tariff assignment of electric vehicle (EV) owners to its demand tariff (discussed below). Or should electric vehicle owners, and their retailer, retain opportunity to be assigned to a time of use network tariff?

Questions

23. Is there any adjustment to its TSS you think Evoenergy should make in order to mitigate its proposed capital expenditure?
24. Do you consider Evoenergy has demonstrated and supported its proposed contingency to assign electric vehicle owners to its demand tariff if its triggers are met?

6.2.1 Expectations for tariff structure statements

The Handbook sets out our expectations for TSSs:

- Demonstrate progression of tariff reform consistent with the network pricing objective and pricing principles set out in the Electricity Rules
 - Evoenergy increased the cost reflectivity of its residential tariffs and proposed new tariffs to address energy sector developments: two-way pricing and grid scale battery tariffs
- Demonstrate incorporation of its tariff strategy in its overall business plan
 - Evoenergy's tariff structure explanatory statement explained links between tariff reform, network expenditure and other parts of its regulatory proposal. The AER will consider whether Evoenergy sufficiently used targeted pricing through its TSS to protect customers from inefficient network investment.
- Demonstrate significant stakeholder engagement and broad stakeholder support
 - Evoenergy undertook significant stakeholder engagement to inform its TSS. Stakeholders were not consulted on a late inclusion of the contingent assignment of electric vehicle owners to Evoenergy's demand tariff.
- Demonstrate insight into and management of any adverse customer impacts

⁹⁰ Associated with increased investment in zone substation and high voltage feeders driving Evoenergy's \$169 million augex program (Evoenergy, *Regulatory Proposal Attachment 1, Capital Expenditure*, January 2023, p. 24.

- Evoenergy modelling of customer impacts indicated the average residential customer would be better off on Evoenergy’s more cost reflective tariffs compared to its flat tariffs.
- Evoenergy proposed to manage adverse impacts through a 12-month reassignment lag and the provision of choice between demand and time of use (TOU) tariffs.

6.2.2 Progress on tariff reform

Evoenergy’s proposed tariff reforms focussed on providing increasingly cost reflective tariffs with new (restructured) residential demand and TOU tariffs. Further key reforms include⁹¹:

- a secondary export tariff for residential customers
- four new tariffs for large scale batteries that include export rewards for each tariff but export charges only for batteries connected in predominantly residential areas
- three contingent adjustments to key tariff parameters⁹²:
 - extending the evening peak period by 1 hour in residential demand and TOU tariffs
 - reducing the threshold for the second-tier charges of its proposed residential TOU tariff off-peak charge (initially set at 6kW)
 - automatic assignment of customers with electric vehicles to Evoenergy’s proposed residential demand tariff (i.e. removing the ability to opt out to a TOU tariff).
 - three triggers which would lead to adoption of the contingencies.

Contingent tariff adjustments are a new feature of this round of TSSs. The rapid pace of change makes it difficult for distributors to accurately forecast the rate of uptake of consumer energy resources over the regulatory period, particularly electric vehicles. To be flexible in response to potential step changes in load that may result from rapid but unpredictable uptake, some distributors, including Evoenergy, are proposing tariff adjustments they would only introduce if load profiles shift in ways that could induce network constraints (i.e. contingent tariff adjustments). We consider the incorporation of a contingent adjustment to tariff parameters is, when well defined and its trigger is made clear, a reasonable way of balancing certainty and flexibility.

6.2.3 Electric vehicles

The uptake of electric vehicles poses opportunities but also challenges for electricity networks. Cost reflective network tariffs are enabled once a smart meter has been installed. Under a smart meter roll out target of 100% by 2030⁹³, Evoenergy should be approaching universal coverage of cost reflective tariffs by the end of the 2024–29 regulatory period. We expect Evoenergy to see customer responses to the price signals of its proposed tariffs. As discussed in section 4.3 Capital expenditure, our consideration of capital expenditure will include whether Evoenergy’s forecast load has accounted for its new tariffs and the potential for universal penetration of smart meters by 2030.

Evoenergy has introduced new tariff design elements specifically to influence electric vehicle charging behaviour:

- a tiered overnight off-peak period (8pm and 9am) in its new residential ToU Tariff, comprising a higher off-peak energy charge for hourly consumption above 6kWh
- overnight off-peak demand charges (8pm and 9am) in its new residential demand tariff

⁹¹ Evoenergy, *Attachment 7 - Tariff Structure Statement*, January 2023, section 7.4.,.

⁹² Evoenergy, *Tariff Structure Statement*, January 2023, pp .17-20.

⁹³ Foreshadowed in AEMC draft report, *Review of the regulatory framework for metering services*, November 2021.

- electric vehicle owners could also opt into Evoenergy’s existing controlled load tariff.

Given Evoenergy’s proposed \$182 million augmentation expenditure and its link back to demand from electric vehicle charging (see 4.3 Capital expenditure), we will also consider whether there is further scope for Evoenergy to consider its tariffs as a mechanism to reduce its proposed capital expenditure. Whether Evoenergy has examined, for example:

- the optimal difference between its peak and off-peak charges to support charging behaviour that limits network costs
- the merits of controlled load systems for electric vehicles, supported by controlled load tariffs, including with default assignment for electric vehicle owners.

For charging stations, Evoenergy intends to introduce a trial in the 2024-2029 regulatory control period.⁹⁴ We encourage distributors, including Evoenergy, to trial new tariff structures suitable for peaky loads with low consumption such as electric vehicle charge point operators. Evoenergy may be able to draw from trials undertaken by other DNSPs to inform a more developed approach now.

6.2.4 Export reward tariffs

Evoenergy proposed to introduce two-way pricing (providing rewards and charges for customers who export electricity to the grid) as allowed for under the AEMC’s Access, pricing and incentive arrangements for distributed energy resources rule change.⁹⁵ Evoenergy included customer protections as required by the NER, including:

- a basic export level (the amount of electricity a customer may export at no cost)
- an export tariff transition strategy
- not assigning existing customers to a two-way tariff before 1 July 2025.

Table 3 Evoenergy’s proposed two-way pricing

Proposed tariff(s)	Assignment	Basic export level	Export charge and rewards (NUoS)
Residential export tariff	Opt-in from 2024 for all exporting residential customers with a smart meter. Mandatory from 1 July 2025 for residential customers who install new export capacity. No opt-out provision applies.	5kW ⁹⁶	Export charge of 1.642 c/kWh. Export charge applies only to exports above 5kW between 11am and 3pm. Export reward of 4.926 c/kWh. ⁹⁷ Export reward applies to all exports between 5pm and 8pm.

Source: AER Analysis

Our Export Tariff Guidelines published in May 2022 set out considerations distributors should have regard to in proposing two-way tariffs.⁹⁸ In the context of the updated rules and our guidelines, Evoenergy proposed an export reward tariff for small customers, incorporating an export reward three times the level of its proposed export charge.

⁹⁴ Evoenergy, *Tariff Structure Explanatory Statement*, January 2023, p. 7.

⁹⁵ In 2021 the AEMC made a new rule change, Access, pricing and incentive arrangements for distributed energy resources, to integrate distributed energy resources more efficiently into grid and allow two-way pricing.

⁹⁶ i.e., all exports above 5 kW in a single hour will be subject to an export charge

⁹⁷ Evoenergy – *Appendix 7.2 SCS Indicative Pricing Schedule*, January 2023.

⁹⁸ These include: Individual network circumstances to warrant the introduction of two-way pricing, including the network’s intrinsic hosting capacity, how customers may be impacted if two-way pricing is not introduced, evidence of current or estimates of future DER penetration on the network and its impact on network costs and stakeholder feedback. AER, *Export tariff guidelines*, May 2022, p. 5.

Evoenergy submitted documents supporting its proposed export reward tariff and export tariff transition strategy, including analysis of its networks' capacity to host solar exports, solar PV forecasts, and LRMC calculations. Evoenergy also undertook a tariff trial, using the results of the trial to inform the design of its export reward tariff.

Based on a sample of 833 existing exporting customers Evoenergy concluded that most residential export customers would see network bill decreases relative to not being assigned to its export reward tariff. Evoenergy submitted that 92 per cent of customers with maximum exports less than 7.5 kW would be better off on its export reward tariff.

6.3 Alternative control services

Alternative control services are requested, and paid for, only by customers using those services.

6.3.1 Ancillary network services

Ancillary network services are non-routine services provided to individual customers on request. These services are either charged on a fee or quotation basis.

Fee-based services tend to be homogeneous in nature and can be costed in advance of supply with reasonable certainty. Quoted service prices are determined at the time of a customer's enquiry and reflect each customers' individual requirements.

In March 2022, we published a standardised model for use by electricity distributors to develop their prices. The standardised model streamlines our assessment, increases consistency, and provides stakeholders greater scope to engage in our distribution determinations.

Labour costs make a large proportion of ancillary network service costs. Another significant cost element is the time taken to perform the service, including travel time. Our assessment includes review of these elements for the most requested ancillary network services. We also benchmark proposed labour rates and prices for fee-based services across distribution networks as well as with prices from the current regulatory period.

Ancillary network services are regulated by price cap. Our distribution determination sets first year price caps for fee-based services, labour escalators used to escalate prices for the remaining years of the regulatory period, and capped labour rates used in quoted services.

6.3.1.1 Distributors' engagement and service offering

Evoenergy had no engagement with stakeholders for its proposed ancillary network services.

Evoenergy has proposed to remove 18 fee-based services and added 8 new services. Most of the services removed were due to low usage or were consolidated into other services⁹⁹. The new services include preliminary network advice fees, a design fee, enquiries related to micro embedded generation and possum guards for overhead cables. It also proposed to reclassify embedded generation network services as quoted services due to their complexity.¹⁰⁰

6.3.1.2 Benchmarking labour rates

Labour rates are a key cost input for ancillary network service prices. The distributors proposed labour rates are assessed against benchmark efficient maximum labour rates developed using

⁹⁹ Evoenergy, *Attachment 6: Alternative Control Services*, January 2023, p. 21-23

¹⁰⁰ Evoenergy, *Attachment 6: Alternative Control Services*, January 2023, p. 19-20

a bottom-up cost build up across six categories (administration, field worker, technical specialist, engineer, senior engineer, and engineering manager) ¹⁰¹.

The benchmark rates include increases to the superannuation allowance and the vehicle allowance because of the changes in the superannuation guarantee and inflation. The ‘transmission line design engineer’ have been removed from the engineer benchmark category as this occupation is not an appropriate benchmark for distributors’ engineers.

Evoenergy’s proposed labour rates are mostly higher than our preliminary maximum efficient benchmark rates (these preliminary rates are based on inputs which will be updated for our draft decision). Most of the proposed labour rates are also higher than Evoenergy’s current approved rates (we escalate the current rates to compare them on a like-for-like basis).

Our draft decision on Evoenergy’s labour rates will be dependent on the updated maximum efficient benchmark rates we determine after applying the most recent inputs.

6.3.1.3 Benchmarking fee-based services prices

Proposed fee-based services are also benchmarked against prices from the current regulatory control period as well as similar services supplied by other distributors. Cost inputs may also be benchmarked. While around half of Evoenergy’s proposed fee-based services had modest changes in prices, other services such as network connections saw large increases in prices.

Questions

25. Do you consider that sufficient justification has been provided in the provision of new services?

26. Do you consider the proposed labour rates and fee-based prices to be reasonable?

6.3.2 Metering

Metering services are currently provided by electricity distributors, retailers and other third parties. Since the AEMC’s Power of Choice reform, retailers and/or other third parties have been responsible for the installation and replacement of meters, with smart meters now being the meters installed. Evoenergy is responsible for providing services, including operation and maintenance, for the accumulation meters it historically installed (legacy meters).

The AEMC is currently undertaking a review of the regulatory framework for metering services which includes an indicative timeline to retire legacy meters by 2030. The AEMC’s final report is due prior to our draft decision on Evoenergy’s 2024–29 determination.

Due to the retirement of legacy meters, we are interested in stakeholder’s feedback in relation to the aspects detailed below. Our consideration of these aspects will also be influenced by the AEMC’s final report.

6.3.2.1 Cost recovery

The current framework for the cost recovery of legacy meters involves a separation of metering charges into capital and non-capital charges. These are charged to individual customers (user pays) and are regulated under a price cap.

¹⁰¹ Marsden Jacob Associates, *Review of ancillary network services: Advice to the Australian Energy Regulator*, September 2018.

Capital charges relate to the recovery of costs associated with installation and management of the legacy metering asset base. All customers who had a legacy meter prior to 30 June 2015 incur capital charges, regardless of whether they still have a legacy meter or not. Non-capital charges relate to the recovery of costs associated with the operation of the remaining legacy meters and are charged to customers who still have Evoenergy-owned legacy meters installed at their premises.

As legacy meters are replaced by smart meters, the per unit cost of operating and maintaining legacy meters increases. Greater distances are required to be travelled to do manual meter reads, testing or maintenance of legacy meters. As more legacy meters are retired, customers with legacy meters could face material increases in their charges.

We are interested in stakeholder views on whether the current cost recovery framework (user-pays approach) is appropriate. An alternative approach could include the socialisation of operating expenditure (spread across all customers) to ensure customers who are last to transition to smart meters do not incur substantive prices for these services, particularly if they are vulnerable customers. The socialisation of these costs may occur through removing the capital/non-capital split for cost recovery, or by reconsidering the service classification for legacy metering services and shifting them to standard control services.

Our initial view is that we see merit in moving legacy meter charges into standard control services by revising the service classification. This would allow costs to be spread across the entire customer base. We consider that the expected accelerated rollout of smart meters from the AEMC metering review will constitute a material change in circumstances required to depart from the Framework and Approach. We propose to make this change in our draft decision and would like stakeholder views before we lock-in the change.

We are aware that retailers generally socialise both network metering charges (for legacy meters) and their own metering charges (for smart meters) across their customer base. We note this approach is not mandated for retailers and therefore socialisation of these costs may be better suited at the network level which would create a universal and more equitable approach.

6.3.2.2 Accelerated depreciation

The ongoing cost recovery of the historical legacy metering asset base is expected to continue for some networks until the 2034–39 regulatory control period. Some DNSPs have engaged with stakeholders on the accelerated depreciation of these remaining asset bases to ensure cost recovery is finalised within the upcoming 2024–29 regulatory control period.

We are interested in stakeholder views on whether accelerated depreciation of these asset bases is appropriate. The benefits of this include the avoided regulatory and administrative burden of the recovery of those asset bases in future regulatory control periods. We note that accelerated depreciation will increase costs in the short term. Increases may be accentuated by other expected short-term cost increases resulting from the increasing per-unit cost of operating expenditure, and any accelerated retirement of legacy meters.

We see merit in accelerating depreciation because it means that customer will not continue to pay for assets that are no longer in service. If we were to accelerate the depreciation of these meters, the impact would be to increase network charges for all customers by an estimated \$8.40 per year.

Questions

27. Do you consider legacy metering cost recovery should be socialised at the network level, or be left to retailers?

28. Do you consider accelerated depreciation of the legacy metering asset bases to be preferable to wind up legacy metering charges?

29. More generally, do you have any comments on Evoenergy’s proposed cost recovery for legacy metering services?

6.4 Transmission pricing

Our determination for Evoenergy must specify a transmission pricing methodology for its dual function assets, which provide prescribed transmission services.¹⁰² Its role is to answer the question “who should pay how much” in order for a business to recover its costs.¹⁰³

Evoenergy’s proposed pricing methodology for the 2024–29 period is largely identical to the 2019–24 period’s pricing methodology. That being the case, subject to the issue discussed below, we consider this proposed pricing methodology capable of acceptance.

In NSW, including the ACT, there are multiple networks that provide transmission services – Transgrid, Evoenergy, Ausgrid and Directlink. Where there are multiple transmission service providers, a Coordinating Network Service Provider (CNSP) is appointed to be responsible for allocating all the AER-determined regulated revenue in that region. Transgrid is the CNSP for the NSW region. It is also the System Strength Service Provider (SSSP).

Transgrid is responsible for a number of elements of Evoenergy’s pricing methodology, including the system strength charging arrangements.¹⁰⁴ As such, Evoenergy’s proposed pricing methodology for 2024–29 includes updates to reflect the Transgrid’s approved 2023–28 pricing methodology.^{105, 106}

Evoenergy’s proposed pricing methodology does not address the recovery of the annual system strength charges. We will confirm with Evoenergy that these requirements are not applicable to its circumstances.

Questions:

30. Do you consider Evoenergy’s proposed changes to its pricing methodology for the 2024–29 period appropriate and that they give effect to the pricing principles for prescribed transmission services and the pricing methodology guidelines?^{107, 108}

31. More generally, do you have any comments on Evoenergy’s proposed pricing methodology for the 2024–29 period?

¹⁰² NER, cl. 6.26(d) and 6A.2.2(4); AER, [Final framework and approach for Evoenergy for the 2024–29 regulatory control period](#), July 2022, pp. 49-50.

¹⁰³ AEMC, *Rule determination: National Electricity Amendment (Pricing of Prescribed Transmission Services)*, 21 December 2006.

¹⁰⁴ Evoenergy, *Appendix 5.1 Transmission pricing methodology*, January 2023, Public, pp. 6-9, 16-18.

¹⁰⁵ Transgrid’s 2023–28 pricing methodology was approved by the AER in its Draft Determination. See: [AER, *Transgrid 2023-28, Draft Decision – Overview*, September 2022 and Transgrid, *2023-2028 Pricing Methodology*, 30 Nov 2022, Public]

¹⁰⁶ Evoenergy, *Appendix 5.1 Transmission pricing methodology*, January 2023, Public, p. 6.

¹⁰⁷ NER, cl. 6A.23.

¹⁰⁸ AER, *Pricing methodology guidelines 2022 – System strength pricing*, 25 August 2022.

Summary of questions

<p>Consumer engagement</p> <ol style="list-style-type: none"> 1. Do the key themes from Evoenergy’s engagement resonate with your own preferences? Are there additional issues you would like to see influence Evoenergy’s proposal and our assessment of the proposal? 2. Do you think Evoenergy has engaged meaningfully with consumers on all key elements of its 2024–29 proposal? Are there any key elements that require further engagement? 3. To what extent do you consider you were able to influence the topics engaged on by Evoenergy? Please give examples.
<p>Regulatory asset base</p> <ol style="list-style-type: none"> 4. Do you have views on Evoenergy’s proposed depreciation approach, as set out in its 2024–29 proposal?
<p>Capital expenditure</p> <ol style="list-style-type: none"> 5. Do you consider Evoenergy’s capex proposal addresses the concerns of electricity consumers as identified in the course of its engagement on the proposal? 6. Do you consider Evoenergy has demonstrated and supported the need for the increase in augmentation capex? 7. Do you consider Evoenergy has explored all non-network options to address or alleviate the likely capacity constraints arising from the uptake of electric vehicles, including the consideration of tariff solutions and network load control options? 8. Do you consider Evoenergy’s approach to forecasting replacement capex is appropriate and likely to produce a forecast of efficient replacement capex?
<p>Contingent projects</p> <ol style="list-style-type: none"> 9. Do you consider Evoenergy’s proposed contingent project should be included as contingent project for the 2024–29 period? Are the proposed project triggers appropriate?
<p>Operating expenditure</p> <ol style="list-style-type: none"> 10. Do you consider Evoenergy’s opex proposal addresses the concerns of electricity consumers, as identified in the course of its engagement on the 2024–29 proposal? 11. Do you consider Evoenergy’s forecast opex for the 2024–29 period reasonably reflects the efficient costs of a prudent operator? 12. Do you consider Evoenergy’s opex in its base year of 2021–22 as providing an efficient basis for forecast base opex for the 2024–29 period? 13. Do you support Evoenergy’s distributed energy resource integration step change, and consider that it meets stakeholder expectations? 14. Do you support the security of critical infrastructure step change, and consider that Evoenergy has provided a sufficient level of information to articulate the requirement to uplift its relevant security program?
<p>Corporate income tax</p> <ol style="list-style-type: none"> 15. Do you have views on the approach to corporate income tax in Evoenergy’s 2024–29 proposal?

Incentive schemes and allowances

16. Do you consider the EBSS carryover amounts proposed by Evoenergy provide for a fair sharing of the efficiency gains and losses it has achieved in the 2019–24 period?
17. Do you consider applying the EBSS to Evoenergy again in the 2024–29 period would provide it a continuous incentive to reduce its opex?
18. If we apply the EBSS to Evoenergy in the 2024–29 period, are there any cost categories that we should exclude from the scheme?

Control mechanisms

19. What do you consider to be an appropriate rate for a margin recovered on quoted services? Should this be set at the average nominal WACC for the period, or some fixed value (e.g., 6%)?
20. Do you consider the tax component of the quoted services price control formulae should be set at the corporate tax rate of 30%, or an alternative rate?
21. Do you consider the AER should review the current price cap form of control for legacy metering services following the AEMC's decision?
22. More generally, do you have any comments on Evoenergy's proposed control mechanisms?

Tariff structure statement

23. Is there any adjustment to its TSS you think Evoenergy should make in order to mitigate its proposed capital expenditure?
24. Do you consider Evoenergy has demonstrated and supported its proposed contingency to assign electric vehicle owners to its demand tariff if its triggers are met?

Ancillary network services

25. Do you consider that sufficient justification has been provided in the provision of new services?
26. Do you consider the proposed labour rates and fee-based prices to be reasonable?

Metering

27. Do you consider legacy metering cost recovery should be socialised at the network level, or be left to retailers?
28. Do you consider accelerated depreciation of the legacy metering asset bases to be preferable to wind up legacy metering charges?
29. More generally, do you have any comments on Evoenergy's proposed cost recovery for legacy metering services?

Transmission pricing

30. Do you consider Evoenergy's proposed changes to its pricing methodology for the 2024–29 period appropriate and that they give effect to the pricing principles for prescribed transmission services and the pricing methodology guidelines? ,
31. More generally, do you have any comments on Evoenergy's proposed pricing methodology for the 2024–29 period?

Shortened forms

Terms	Definition
ACS	alternative control services
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulatory
ASP	Accredited Service Provider
capex	capital expenditure
CCP26	Consumer Challenge Panel, sub-panel 26
CESS	capital expenditure sharing scheme
CNSP	Coordinating Network Service Provider
CSIS	customer service incentive scheme
DER	Distributed Energy Resources
DMIAM	demand management innovation allowance mechanism
DMIS	demand management incentive scheme
DNSP or distributor	Distribution Network Service Provider
DUoS	Distribution Use of System Charges
EBSS	efficiency benefit sharing scheme
ECA	Energy Consumers Australia
ENA	Energy Networks Australia
ESB	Energy Security Board
F&A	framework and approach
GSL	guaranteed service level
ICT	information and communication technologies
NEL	National Electricity Laws
NEM	National Electricity Market
NEO	National Electricity Objectives
NER	National Electricity Rules
opex	operating expenditure
PIAC	Public Interest Advocacy Centre
RAB	regulated asset base
repex	replacement expenditure
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SAPS	stand-alone power systems
SCS	standard control service
Service classification guideline	Electricity distribution service classification guideline 2018
SSSP	System Strength Service Provider
STPIS	service target performance incentive scheme
VCR	value of customer reliability
WACC	weighted average cost of capital