3 February 2023

Sebastian Roberts
Network Expenditure
Australian Energy Regulator
GPO Box 3131
Canberra, ACT, 2601

Lodged via email: incentivereview@aer.gov.au

Dear Mr. Roberts,

Re: Review of incentive schemes for regulated networks

Evoenergy welcomes the opportunity to make a submission to the Australian Energy Regulator's (AER) draft report for its review of incentive schemes for regulated networks.

Evoenergy broadly supports the positions the AER has reached in making its draft decision. Incentive schemes have worked to encourage networks to pursue genuine efficiency savings and to share them with customers. Continuing the current framework of incentives is appropriate given available evidence and the time that has passed since the framework was implemented.

The AER's decisions to maintain the Efficiency Benefit Sharing Scheme (EBSS) as is, and maintain the Capital Expenditure Sharing Scheme (CESS) largely unchanged will continue to provide a strong and continuous incentive for networks to become more efficient. Evoenergy will continue to seek operating (opex) and capital expenditure (capex) efficiencies over time in the interests of customers.

Evoenergy also supports the AER's approach to improve transparency by requesting additional information from networks to explain differences between expenditure forecasts and actual expenditure. Evoenergy is an effective manager of network services and welcomes the opportunity to further explain differences between actual and forecast capex.

Increased transparency may assist consumers and the AER to better understand efficiency and forecast expenditure proposals. However, it is unlikely to change Evoenergy's approach to forecasting capex or how we undertake initiatives to outperform our forecasts and become more efficient over time.

Incentive schemes need to encourage efficiency within the context of the energy transition

Evoenergy supports the AER's draft decision not to pursue its proposed *Bright-Line 10/10 Test* approach to varying the CESS. This approach would have seen a lower sharing ratio apply where a network underspent its allowance by more than 10 per cent in a previous regulatory control period and then sought an increase of more than 10 per cent in a subsequent period. The *Bright-Line 10/10 Test* approach assumed capex requirements remain stable over time, but this is not always the case.

While Evoenergy has not significantly underspent its 2019–24 regulatory allowance, we have proposed a significant increase in capex for our 2024–29 regulatory period to augment our network and meet the ACT Government's electrification pathway to achieve net-zero emissions in the Australian Capital Territory (ACT) by 2045.

Our customers support the energy transition in the ACT and expect Evoenergy to enable a smooth transition through appropriate levels of capex going forward. Within this context we are committed to finding efficiencies over time but note the degree of uncertainty that exists in capex forecasts within this changing environment.

The AER's incentive framework should provide networks with strong incentives, regardless of changes in circumstances or jurisdiction specific policies. The AER's draft position largely achieves this, and we support an approach that provides a continuous and symmetrical incentive to networks to improve efficiency over time.

Timing of when changes should apply

In its draft report the AER sought views on whether changes to the CESS should apply to the upcoming NSW, ACT and Tasmania resets. Evoenergy has no concerns with the proposed changes to incentive schemes applying from the commencement of our next regulatory period in 2024.

Evoenergy supports the positions put forward by Energy Networks Australia (ENA) in its submission to this review.

Should you have any questions in relation to this submission please contact [redacted] Group Manager Regulatory Finance & Strategy, at [redacted].

Yours sincerely

[redacted]

Peter Billing
General Manager Evoenergy

ActewAGL House 40 Bunda Street Canberra ACT 2600 I GPO Box 366 Canberra ACT 2601
t 13 23 86 | **evoenergy.com.au**