evoenergy

Attachment 2: Operating expenditure

Regulatory proposal for the ACT electricity distribution network 2024–29

January 2023

Contents

List of tables

List of figures

List of appendices

Appendix	Document	Author
Appendix 2.1	Base year efficiency	Evoenergy
Appendix 2.2	Workers' compensation	Marsh
Appendix 2.3	Insurance premium step change business case	Evoenergy
Appendix 2.4	Premium projections and insurance market update report	Marsh
Appendix 2.5	Distributed energy resources integration step change business case	Evoenergy
Appendix 2.6	Security of critical infrastructure step change	Evoenergy

2.1. Overview

Operating expenditure (opex) refers to the operating, maintenance, and other non-capital costs incurred in providing standard control services (SCS)[1]. It is one of the building blocks used to determine the regulated revenue requirement of a Distribution Network Service Provider (DNSP). Opex is a critical component of the building block costs, accounting for around 37 per cent of Evoenergy's total allowance during the current regulatory period (2019–24).

This document provides information on Evoenergy's historical opex performance and forecast opex requirements, including how Evoenergy has derived its opex forecast for SCS for the regulatory period covering 1 July 2024 to 30 June 2029 (the next regulatory control period). This document also examines how the feedback Evoenergy received from customers has informed the forecast. This document and its supporting appendices demonstrates that the opex forecast is prudent, efficient, complies with relevant legislation and rules, and reflects government policy. Specifically, Evoenergy's opex forecast complies with the requirements of the National Electricity Law (*National Electricity (South Australia) Act 1996*) (NEL), the National Electricity Rules (NER), and a suite of other national and jurisdictional regulatory obligations.

This attachment is structured as follows:

- Section 2.2 details Evoenergy's historical opex performance, including opex category analysis.
- Section 2.3 outlines how Evoenergy has derived the opex forecast in accordance with the approach preferred by the Australian Energy Regulator (AER).
- Section 2.4 features the efficient base year from which the opex forecast is trended, including what adjustments have been applied to the base year and benchmarking analysis.
- Section 2.5 details the underlying assumptions used to trend the opex forecast, including how Evoenergy derived key inputs.
- Section 2.6 includes information on step changes and category specific forecasts that are added to the opex forecast.
- Section 2.7 summarises Evoenergy's total opex forecast.

Evoenergy's forecast opex for the 2024–29 regulatory period is $390.1 million ($2023/24), which is an increase of 8.4 per cent compared to the AER's allowance for the 2019–24 regulatory period. Figure 1 shows Evoenergy's historical, estimated, and forecast opex relative to the AER's regulatory allowance.

[1] While Alternative Control Services (ACS) include opex, the revenue forecast for ACS is developed separately to SCS and covered in Attachment 6.

Figure 1 Evoenergy historical, estimated, and forecast opex ($ million, 2023/24)

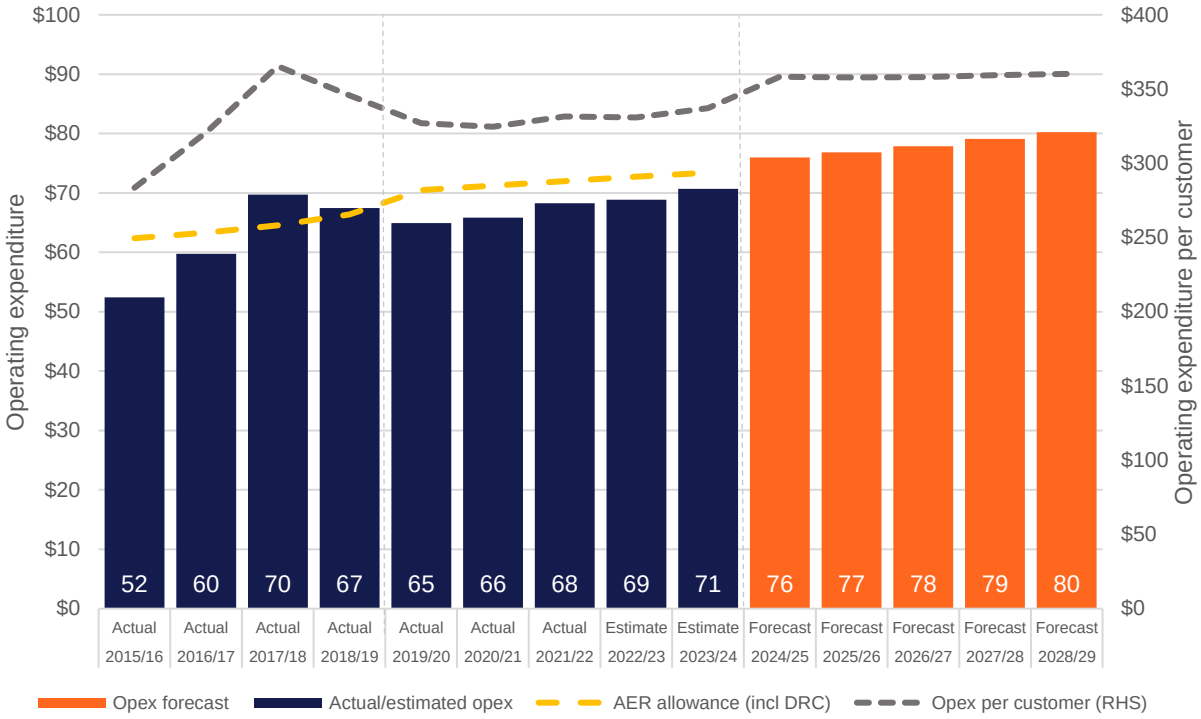


Figure 1 also shows that opex per customer is expected to remain stable over the next 2024–29 regulatory period. However, an increase in opex between periods is needed to:

- comply with additional regulatory obligations;
- respond to changes in market conditions;
- facilitate continued increases in demand; and
- enable the energy transition with the growth of customer-owned distributed energy resources across the ACT.

Evoenergy's opex forecast for the 2024–29 regulatory period reflects an efficient and prudent level of costs required to sustainably deliver safe and reliable network services while maintaining the quality of supply. It also meets Evoenergy's regulatory obligations and reasonable projected increases in demand for SCS. Evoenergy considers that its opex forecast represents value for money for customers and captures the prudent and efficient costs needed to meet the operating expenditure objectives in the NER.

Additionally, opex for the forthcoming regulatory period is:

- based on the AER's preferred base-step-trend forecasting approach;
- derived using an efficient base year under an incentive based regulatory framework with the application of the AER's Efficiency Benefit Sharing Scheme (EBSS); and
- adopts the AER's standard approach to estimating real price escalation, output growth, and forecast productivity.

As part of developing the Evoenergy Electricity Distribution Network Determination 2024–29 (EN24) Regulatory Proposal and opex forecast, Evoenergy engaged with its customers to understand their key preferences concerning the services Evoenergy provides now and into the future.

During the initial phases of our engagement program (including community panels and workshops as well as quantitative surveys) six key values emerged. Consumers told us that they want Evoenergy to:

- Maintain reliability and balance decisions with costs;
- Play our role in energy affordability;
- Take action towards achieving a net zero future;
- Enable increased customer and distributed energy resources;
- Ensure network tariffs are fit for future users of the network; and
- Play a bigger role in communicating and informing the community.

More detail on our broader program of consumer engagement is contained in section 3 of the EN24 regulatory proposal.

Table 1 provides further detail on insights relevant to Evoenergy's opex forecast, grouped by key customer value. In particular, the community panel strongly supported each of the step changes as Evoenergy manages financial and cyber risks, and the transition to a net zero future with more distributed energy resources (DER) in the electricity network. Consistent with customer views and expectations outlined in Table 1, Evoenergy considers that the right balance between managing financial and cyber security risks, reliability, and service standards in the context of an energy transition is carefully balanced in its opex forecast.

Table 1 Consumer values and the influence on Evoenergy's proposal

Consumer values and community panel recommendations	How consumer values have influenced our operating expenditure forecast program
Maintain reliability and balance decisions with costs Community panel reliability recommendation: Minimise consumer impacts, particularly considering the needs of vulnerable customers, when scheduling works.	Evoenergy customers expect that network reliability will be maintained, and accommodate changes in the future. Based on the 'Have your say' survey results, around 74 per cent of Canberrans are happy with the current duration and frequency of planned outages. The community panel expects the network to be resilient and respond to national energy impacts and planned and unplanned outages. Customer survey results showed that 78 per cent of Canberrans believe that Evoenergy should provide real time outage communication at no extra cost. Consumers expect Evoenergy's investments to prepare the network for extreme weather, recognising that some outages will occur but should be rare events and recoverable. To achieve customer expected outcomes, Evoenergy's opex forecast allows it to undertake operating and maintenance activities that maintain the provision of the same level of service and reliability standards. To limit the impact of outages on customers, Evoenergy's opex forecast includes managing the control room, sending crews to respond to outages and emergencies, including vegetation management expenditure which is critical to reducing the risk of network outages in the event of extreme weather events.
Take action towards achieving a net zero future and enabling increased customer and distributed energy resources Community panel net zero recommendation: The panel recommends that Evoenergy move quickly to reduce emission in the network, including supporting the increase in distributed energy resources, remaining responsive	The community panel supported Evoenergy's Net Zero position, including responding to government decisions on emission reduction and quickly reduce network emissions, such as through DER integration, and preparing for a future without gas. Evoenergy's customers support improved network resilience, and based on 'Have your Say' survey results, 62 per cent of Canberrans are willing to pay more to help tackle climate change. With 92 per cent of the community panel's support, Evoenergy proposes a DER integration step change to enable increased DER and multi-directional power flows while proactively addressing network voltage and thermal constraints through greater network visibility.

to government policy, and keeping customers informed during the transition.	
Play a bigger role in communicating and informing the community Community panel operating expenditure recommendation: The panel recommends that Evoenergy proceed with its proposed opex step changes and that these changes are supported by education to help consumers understand the need for this additional investment.	All community panel members supported increased expenditure associated with improving Evoenergy's cyber security posture, with 50 per cent of the panel suggesting that Evoenergy should do more. Evoenergy's opex forecast includes a Security of Critical Infrastructure (SOCI) step change to comply with recent amendments to legislation. The Evoenergy 2024–29 EN24 proposal includes expenditure associated with a higher cyber security profile level than that put forward to the panel. This document provides additional information to help consumers understand the need for SOCI-related expenditure. Most of the community panel (85 per cent) supported a proposed increased investment in insurance as a response to the impacts of climate change and extreme weather events. Evoenergy has included an updated estimate of incremental insurance premiums as a step change in its opex forecast to mitigate financial risks, ensure customer impacts are minimised, and maintain services standards in the case of an insurable event. Appendix 2.3 includes additional information to help customers understand the drivers and reasons for an insurance premium step change.

Source: Appendix G (Evoenergy Community Panel member recommendations report).

Evoenergy's opex forecast reflects its current and projected operating environment, including for high inflation, additional regulatory obligations, an increased need for cyber security resilience, changes in ACT Government policy, and the NER related to the energy transition.

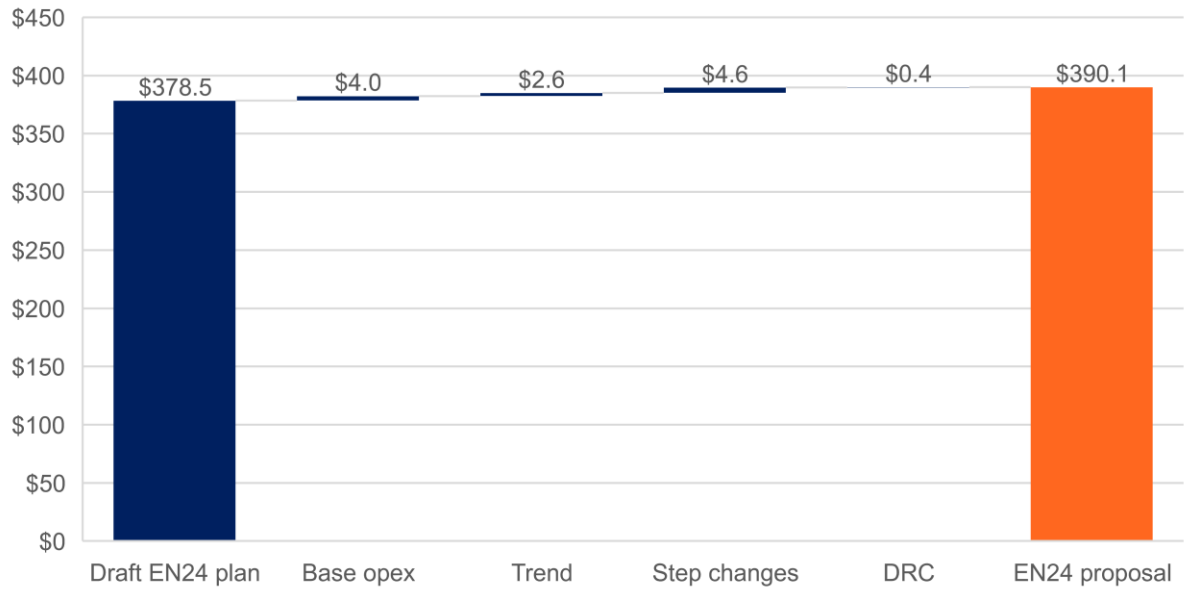
2.1.1. Updates from the Draft EN24 plan

Evoenergy's Draft EN24 plan included an opex forecast of $378.5 million over for the 2024–29 regulatory period,[2] which is three per cent lower than the proposed forecast. The increase is driven by several factors, including revisions to the following components:

- Base year to capture actual 2021/22 expenditure, reflecting more up to date information, including inflation adjustments, movements in provisions, and the administration the ACT Government's Large Feed in Tariff (LFiT).
- Trend escalation forecasts for labour, customer numbers, and network capacity reflected through maximum demand and circuit length.
- Step change estimates to reflect updated information and to better capture the expectations of customers, with insights gleaned from the community panel.
- Category specific forecasts, including debt raising costs (DRC) based on Evoenergy's updated capital expenditure (capex) program.

Figure 2 summarises the impact of each change from Evoenergy's Draft EN24 plan to the EN24 proposal for the total opex forecast over the next 2024–29 regulatory period.

Figure 2 Key drivers impacting the opex forecast from the Draft EN24 plan to the EN24 regulatory proposal ($ million, 2023/24)



[2] Evoenergy, *Evoenergy Draft EN24 plan*, August 2022

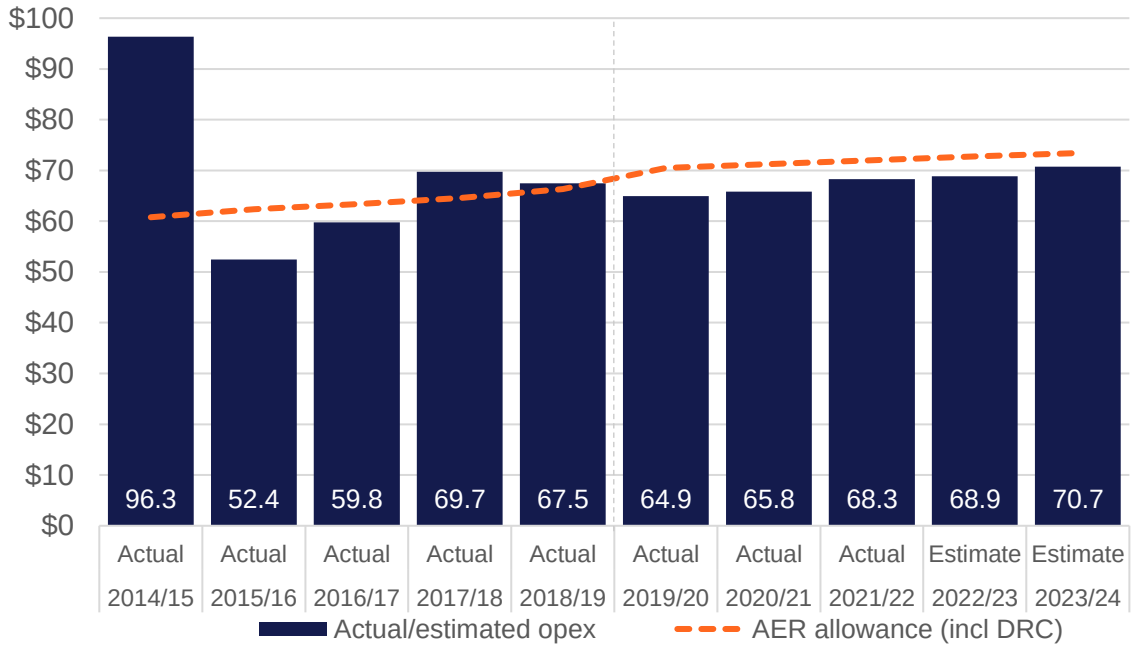
2.2. Historical opex performance

While most operating costs are recurrent, some expenditure is cyclical and fluctuates based on climate events or major projects such as net zero modelling exercises.

Over the current 2019–24 regulatory period, Evoenergy's expected opex is $338.6 million, which is $21.3 million or 5.9 per cent lower than the efficient allowance of $359.9 million. A reduction in opex has been achieved despite significant cost pressures in a challenging economic environment and additional regulatory obligations that Evoenergy needs to comply with.

Figure 3 shows opex for each of the past regulatory years of the previous and current regulatory control period, and the expected opex for each of the last two regulatory years of the current regulatory control period, categorised in the same way as for the forecast.[3] It shows Evoenergy's actual and expected opex, which Evoenergy expects to remain below the AER's allowance over the current 2019–24 regulatory period.

Figure 3 Evoenergy opex relative to the AER allowance ($ million, 2023/24)



[3] NER S6.1.2(7)

2.2.1. Operating cost categories

Evoenergy incurs costs for network maintenance, vegetation management, network design and planning, emergency response, safety training, and corporate support services. Evoenergy's operating cost categories, including the nature of costs, and definitions are shown in Table 2.[4]

Table 2 Evoenergy operating cost categories

Cost category	Nature of costs	Description
Vegetation management	Fixed and variable	Vegetation management includes activities for managing vegetation such as trimming inspections, customer notifications and liaison, operational support such as temporary generation, and clearing tree branches from power lines to maintain safe and regulated clearances from powerlines and other network assets.
Maintenance	Variable	Maintenance includes a range of core operating activities on low and high voltage assets such as inspecting, testing, and repairing the network to ensure electricity is reliably delivered to customers.
Emergency response	Variable	Emergency response includes costs incurred to restore a failed component of an operational state, including all expenditures relating to the work incurred where supply has been interrupted or assets damaged or rendered unsafe by a breakdown, making immediate operations and/or repairs necessary. Work needs to be undertaken primarily due to network failure caused by weather events, vandalism, traffic accidents, or other physical interference by non-related entities.
Network overheads	Fixed and variable	Network overhead costs refer to the provision of the network control and management services. This includes managing the network, system and network planning, safety functions, network control and operational switching, and advertising. It also comprises the call centre, including responding to customer enquiries about network services (including new connection and power outages), and project governance functions such as procurement, works management and logistics to ensure that Evoenergy can reliably meet customer demand.
Non-network	Fixed and variable	Non-network expenditure includes costs associated with recurrent IT and communications; buildings and property; the replacement, installation, maintenance, and operation of non-network assets such as mobile generators and elevated work platforms not mounted to a vehicle.
Corporate overheads	Fixed	Corporate overheads include business support costs for executive management, legal, secretariat, human resources, finance, and other corporate head office activities needed to meet regulatory obligations.
Export services	Fixed and variable	Export services includes costs associated with enabling customers to export electricity onto the distribution network. Export service costs includes expenditure associated with quality of supply investigations and resolutions, DER data storage and analytics, dynamic network connections, network monitoring, and DER-related capacity augmentation. Export service costs exclude amounts relating to the Demand Management Incentive Allowance (DMIA).

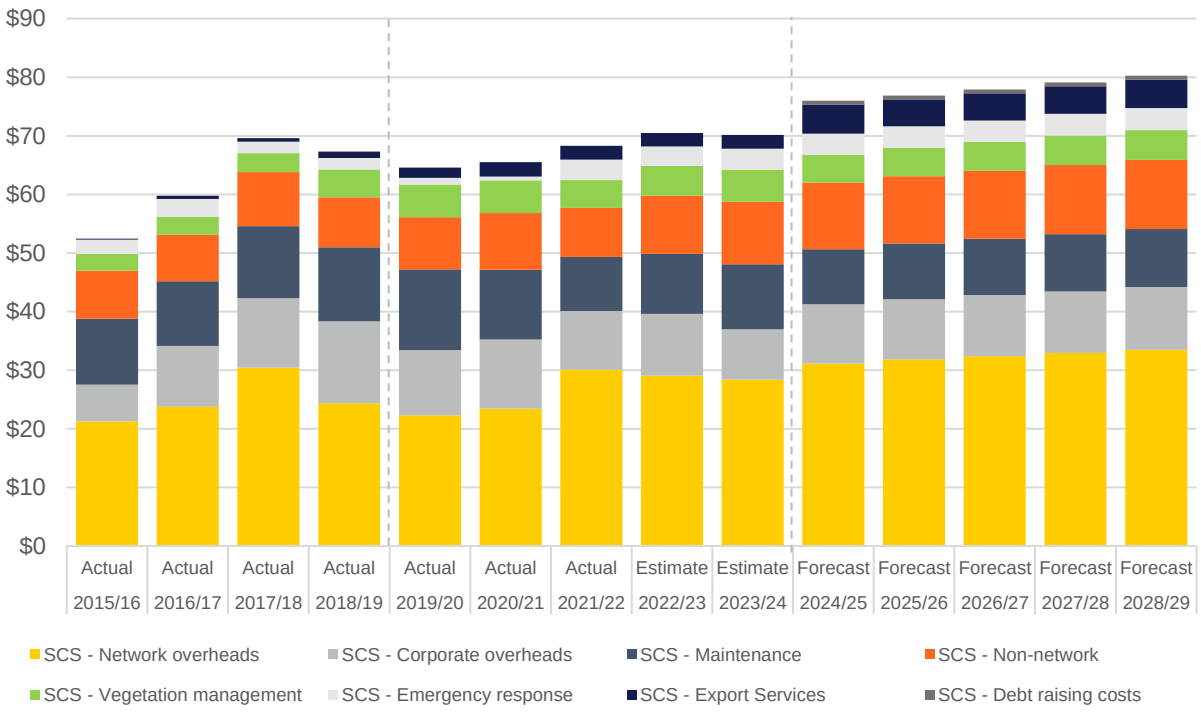
[4] Note that the nature of costs listed satisfy the NER S6.1.2(1)(iii)-(iv).

As shown in Figure 4, the costs of each opex cost category[5] change over time. The main drivers of opex between the historic 2014–19, current 2019–24, and the next 2024–29 regulatory periods include the following: [6]

- An uplift in vegetation management costs between the 2014–19 and 2019–24 regulatory periods, driven by an additional regulatory obligation under amendments to the ACT *Utilities (Technical Regulation) Act 2014*, and which the AER approved a prudent and efficient step change in the 2019 Determination.
- Increases in emergency response activities due to major storm events, including the hailstorm event in 2020 and destructive storms in 2022.
- Increased network overhead costs from 2019–24 to 2024–29 as Evoenergy incurs higher premiums influenced by major global climate events impacting insurance markets.
- Additional expenditure from 2019–24 to 2024–29 in export service costs to facilitate the energy transition as DER adoption increases.
- An uplift from 2019–24 to 2024–29 in non-network expenditure as Evoenergy complies with additional SOCI regulatory obligations as a result from legislative amendments.

There are also broader economic and regulatory drivers of Evoenergy's operating costs as the energy landscape has shifted over time and at an increasing pace. Despite the significant cost pressures, Evoenergy's actual and estimated opex is expected to be lower than the AER's efficient allowance for the current regulatory period.

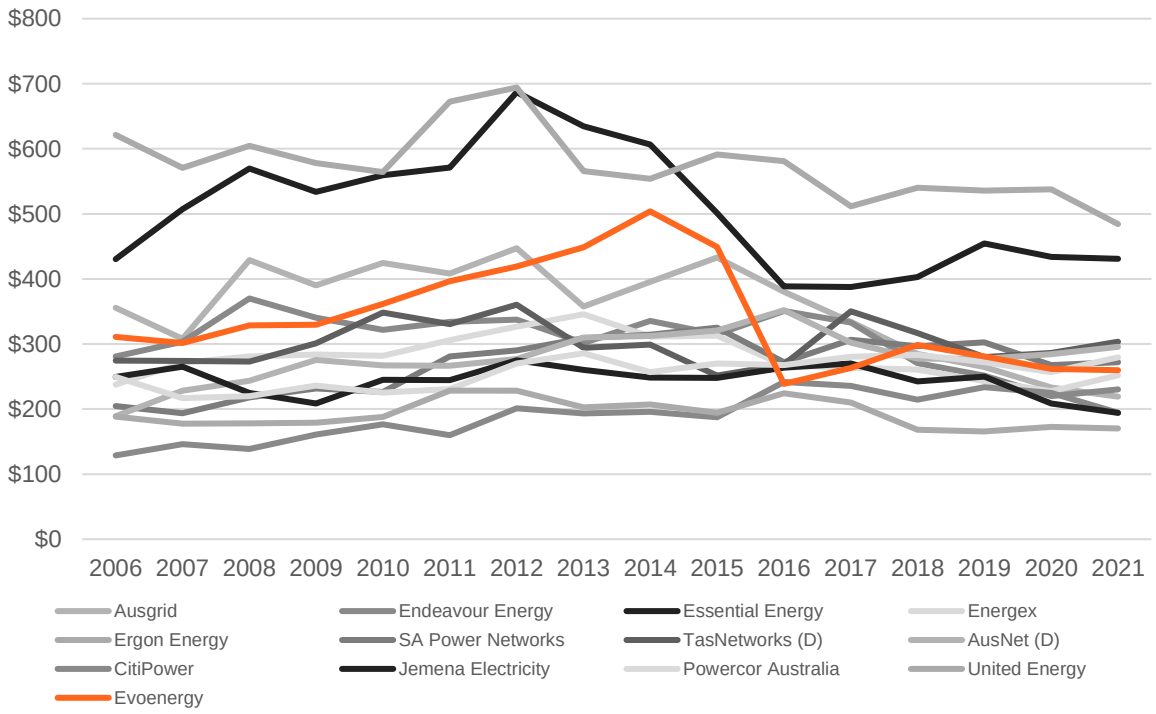
Figure 4 Actual, estimated, and forecast opex by category ($ million, 2023/24)



[5] NER S6.1.2(1)(i)-(ii)
[6] NER S6.1.2.(8)

Over the current regulatory period (2019–24), Evoenergy's operating costs per customer have been declining in real terms, as shown in Figure 5.

Figure 5 Opex per customer 2006–2021 ($2020/21)



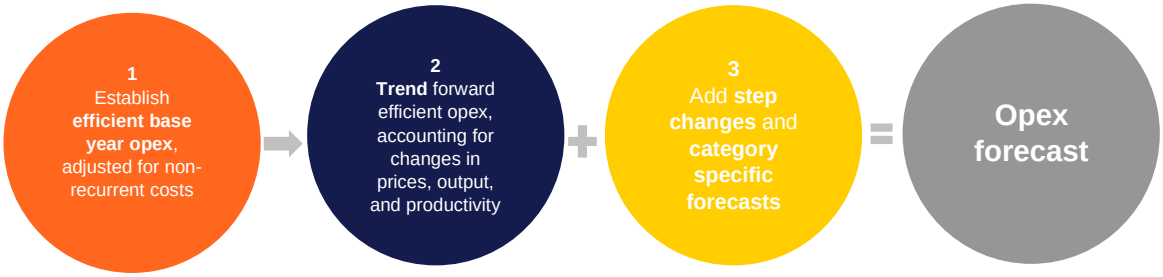
Source: Data obtained from AER Electricity DNSP Operational Performance data 2006–2021.

2.3. Opex forecasting approach

Evoenergy's opex forecast has been developed using the AER's preferred base-step-trend approach, shown in Figure 6. The AER's preferred base-step-trend approach to forecasting opex includes the following components:[7]

1. The forecast opex is built on revealed efficient base year operating costs, adjusted to reflect recurrent expenditure.
2. The adjusted base opex is trended forward by applying the rate of change formula, which accounts for changes in input prices such as labour, network growth, and productivity.
3. Step changes are added to the forecast, reflecting new regulatory obligations, a substitution between capex and opex, and other costs driven by factors outside Evoenergy's control, capturing additional expenses not reflected in the base year or the trend. Bottom-up category specific forecasts, such as debt raising costs, are also added to the forecast.

Figure 6 Base-step-trend forecasting approach



Evoenergy's opex forecast is prepared consistently with the AER's Expenditure Forecast Assessment Guideline (EFAG),[8] the AER's Better Resets Handbook,[9] the NER, and Evoenergy's Expenditure Forecasting Methodology 2024–29.[10] Evoenergy has developed its opex forecast accounting for the actual and expected opex during current and previous regulatory periods, consistent with the NER.[11] Evoenergy's costs used for developing the opex forecast have been allocated in accordance with the AER approved Cost Allocation Methodology (CAM).[12] Evoenergy's CAM outlines how costs are allocated between the services Evoenergy provides, including the allocation of expenditure between SCS and ACS, negotiated services and unregulated services. Evoenergy's SCS opex forecast has been derived in accordance with the approved CAM.[13]

Evoenergy's opex forecast is also consistent with the operation of incentive schemes that will apply to the 2024–29 regulatory period, including the EBSS, the Capital Expenditure Sharing Scheme (CESS), the Demand Management Incentive Scheme (DMIS), and the Service Target Performance Incentive Scheme (STIPIS).[14] These schemes disincentivise inefficient substitution between opex and capex, ensuring that efficiencies are not achieved at the expense of service standards.

The forecast accounts for the interaction and substitution possibilities between opex and capex.[15] Evoenergy considers opex and capex in its investment decisions[16] to optimises asset lives and life-

[7] NER S6.1.2(2)
[8] AER, *Expenditure Forecast Assessment Guideline for Electricity Distribution*, August 2022
[9] AER, *Better Resets Handbook Towards Consumer Centric Network Proposals*, December 2021
[10] Evoenergy, *Expenditure Forecasting Methodology 2024–29*, June 2022
[11] NER 6.5.6(e)(5)
[12] NER 6.15.4
[13] NER 6.5.6(b)(2)
[14] NER 6.5.6(e)(8). Incentive schemes are detailed in Attachment 4.
[15] NER 6.5.6(e)(7)
[16] NER 6.5.6(e)(6)

cycle costs to deliver defined levels of service and safety that benefit consumers. Evoenergy manages assets in accordance with risk management approaches to deliver sustainable and cost-efficient network investments, offering continuous improvement while maintaining safety and reliability. This considers both capital and operating costs which are balanced with risk in terms of safety and reliability. Opex included in the forecast enables delivery of Evoenergy's maintenance program which has been developed in accordance with the asset-specific plans, which set out the maintenance approach for each asset class, including both capex and opex requirements, which optimises asset lives and life-cycle costs to deliver defined levels of service and safety that are in the long-term interests of consumers. Evoenergy's Asset Management System (Appendix 1.2) provides detailed information on the approach to asset management and governance.

Evoenergy has established commercially prudent outsourcing and procurement practices. This ensures the opex forecast is based on arrangements that reflect arm's length terms.[17]

The opex forecast is based on actual and expected costs for the 2019–24 period as it is trended from a base year in the current regulatory period,[18] which Evoenergy expects to be sufficient to achieve defined service performance levels. Specifically, the forecast reflects efficient and prudent costs to maintain service quality, reliability, and safety standards.[19] Evoenergy has developed the opex forecast to achieve the operating expenditure objectives based on the operating expenditure factors, outlined in Table 3.

The following sections detail each of the components of Evoenergy's opex forecast, including the key inputs and assumptions to derive the opex forecast.[20]

Table 3 Opex forecast incorporation of opex objectives

Opex objectives	Opex forecast
Meet and manage expected demand for SCS	In preparing the opex forecast, Evoenergy captured maximum demand based on corrected historical data, and has trended the base year to account for expected changes in output growth, including for customer numbers and system capacity. Evoenergy has accounted for increasing demand on the network in the opex forecast. The ratcheted maximum demand (RMD) forecast is consistent with Evoenergy's Annual Planning Report, Evoenergy's Network Development Plan, and the Demand Management Strategy (Appendix 1.20).
Comply with regulatory obligations related to the quality of supply	Evoenergy has quality of supply obligations under the under the Utilities (Electricity Distribution Supply Standards Code) Determination 2013, detailed in the Quality of Supply Strategy (Appendix 1.6). The opex forecast will enable Evoenergy to maintain quality of supply standards.
Comply with regulatory obligations related to the reliability of supply	Evoenergy has regulatory obligations related to the reliability of supply, outlined in Evoenergy's Network Reliability Strategy (Appendix 1.14), including the Utilities (Electricity Distribution Supply Standards Code), the industry code contained in the Consumer Protection Code, the National Electricity Law, and consequently, the National Electricity Rules. Evoenergy's opex forecast includes a step change for Distributed Energy Resources integration, which will enable visibility of the low voltage network to better address quality of supply issues, reliability, and customer complaints.
Comply with regulatory obligations related	Evoenergy's opex forecast includes a step change for SOCI, making allowances to build on existing controls related to cyber, physical hazards, personnel, and supply chain resilience. Evoenergy's base year opex makes allowance for electrical security, which covers planned and unplanned events, supply shortfall management, and black

[17] NER 6.5.6(e)(9)
[18] NER 6.5.6(e)(5)
[19] NER6.5.6(a)(1)-(4)
[20] NER S6.1.2 (2)-(3), (5)

to the security of supply	start capabilities. Evoenergy Emergency Management Plan, approved by the Utilities Technical Regulator, focuses on multiple events such as load shedding, addressing requirements of the ACT's Utilities (Emergency Planning Code) 2011, and National Electricity Market requirements.
Comply with regulatory obligations	Evoenergy's base year opex allows it to meet existing obligations, such as: • *Security of Critical Infrastructure Act 2018* • *ACT Utilities (Technical Regulation) Act 2014* • *ACT Emergencies Act 2004* Costs associated with new obligations relating to SOCI (including *Security Legislation Amendment (Critical Infrastructure) Act 2022*) and DER have been accounted for in the proposed step changes.
Maintain the reliability, safety, and security of the distribution system	Evoenergy's opex forecast captures costs to maintain the safety of the distribution system through the supply of SCS. This includes maintaining an externally certified safety management system that enables effective control of critical safety risks, ongoing assurance on the effectiveness of these controls, identifies opportunities for continual improvement and ensures accountability across timely reporting and escalation processes. Maintaining the reliability, safety, and security of the distribution system is supported by ongoing investment in secure technology systems that provide capability and capacity in managing data and information. Evoenergy's opex forecast includes expenditure to uplift cyber resilience to mitigate risks and build on established critical asset risk management practices and controls.

2.4. Efficient base year

The opex forecast is trended from the base year, reflecting recurrent, prudent, and efficient costs. The base year captures costs that Evoenergy incurs for ongoing activities to maintain the quality, safety, and reliability standards of Evoenergy's network, consistent with the expectations of customers. To ensure that the opex forecast represents value for money for customers, the AER assesses the efficiency of revealed or actual expenditure in a recent base year using various approaches, including benchmarking. The following sections outline Evoenergy's selected base year, adjustments, and summarises Evoenergy's benchmarking performance.

2.4.1. Base year selection and adjustments

Evoenergy has forecast its operating costs using 2021/22 as the base year for the next regulatory period (2024–29). Evoenergy considers that operating expenses in the nominated base year realistically represents the efficient level of sustainable costs to provide prescribed services, which:

- Is the most recent regulatory year for which actual audited data is available for the regulatory submission;
- Captures expenditure required to sustainably maintain safety and service standards, meet and manage network demand within the current operating environment, consistent with customer expectations;
- Reflects revealed efficient costs under an incentive based regulatory framework, incorporating the efficiency gains that Evoenergy has achieved to date, including incurring expenditure below the AER's approved efficient regulatory allowance; and
- Accounts for the current and prudent costs to comply with all applicable regulatory obligations and requirements associated with the provision of SCS, as required under the NER.

To ensure that the base year reflects efficient and recurrent costs, the following adjustments have been made:

- Removed categories of opex that will be forecast separately and not on a revealed basis, including debt raising costs and for the DMIA, consistent with the EBSS.
- Deducted movements in provisions to ensure that opex excludes incurred costs of which the liability has not yet been paid by the business,[21] consistent with treatment in the EBSS, and previous regulatory determinations.[22]
- Removed administrative costs associated with administering the ACT Government's Large-Feed-in-Tariff (LFiT) scheme. Administrative costs for the LFiT are accounted for under ACT legislation and are approved annually through a Reasonable Costs Determination (RCD) by the ACT Minister for Climate Change and Sustainability. The costs are then recovered as a jurisdictional scheme amount, updated annually in Evoenergy's network prices. The administrative costs can vary from year to year, and in recent years have seen significant increase due to spot price volatility, materiality, and complexity of the scheme.

  In prior regulatory periods, Evoenergy's opex allowance included an amount for administering the ACT Government's LFiT scheme. Therefore, to avoid double-counting, the LFiT administration RCD amount included only the incremental costs above the regulatory allowance. Given the recent growth in administration costs for the scheme,

[21] Notably, the provision adjustment for employee entitlements in 2021/22 may be skewed as employees have generally taken less leave due to covid travel restrictions, and general labour costs continue to increase consistent with the Enterprise Agreement. Evoenergy notes that opex provisions historically reported in the Economic Benchmarking Regulatory Information Notice (EBRIN) do not include a partial allocation to capital expenditure, impacting the EBSS revenue adjustment.

[22] For example, AER, *Final decision CitiPower distribution determination Attachment 7 Operating expenditure*, May 2016, p. 9

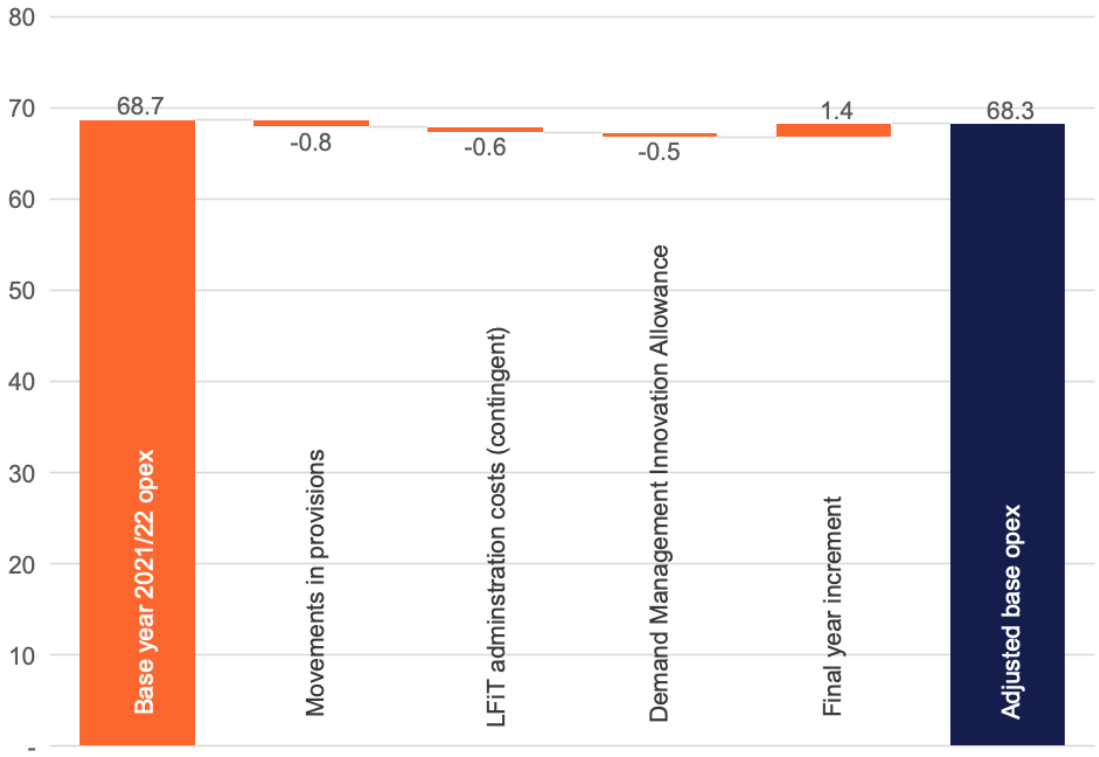
Evoenergy proposes to include the full administrative costs in the LFiT RCD going forward. That is, the costs would be removed from Evoenergy's regulated base year opex for the 2024–29 regulatory period.

This treatment would provide a more simple and transparent way for Evoenergy to meet its obligations under ACT legislation. It would also better reflect the intended pass-through nature of LFiT administrative costs. Moreover, Evoenergy considers the administration costs should be removed from its base year efficiency assessment, as this expenditure is not associated with Evoenergy's core business of delivering network distribution and transmission services.

Evoenergy has made a proposal to the ACT Government to reflect the full administration costs in the annual LFiT RCD. Accordingly, Evoenergy's proposal to remove these costs from the base year is contingent on the ACT Government approving this proposed treatment.[23]

Each of the base year opex adjustments is shown in Figure 7 below.

Figure 7 Base year opex adjustments ($ million, 2023/24)



Note: includes DMIA not reported in the Economic Benchmarking Regulatory Information Notice.

[23] The ACT Government's RCD for 2023/24 is expected in late February 2023. The ACT Government is also undertaking a review of the LFiT scheme, and the outcome is expected to be published early 2023.

2.4.2. Benchmarking

Economic benchmarking can measure how productively efficient networks deliver electricity distribution services over time compared with peers. While benchmarking can inform the reasonableness of costs included in regulatory proposals, key operating differences in electricity networks impact the comparability of expenditure levels between DNSPs. The AER uses benchmarking and productivity analysis to measure the quantitative relationship between inputs used and outputs produced. To assess the efficiency of costs, base year revealed opex provides a reasonable estimate of the efficient and recurrent costs required to provide safe and reliable services while meeting regulatory obligations.

The AER uses several top-down benchmarking techniques, including historical performance, category analysis, partial performance indicators (PPIs), and productivity index numbers (PIN). Index based productivity numbers include total factor productivity (TFP), multilateral total factor productivity (MTFP), and multilateral partial factor productivity (MPFP).

Appendix 2.1 details Evoenergy's benchmarking performance, its views on the limitations of benchmarking, and its proposed adjustments to the AER's benchmarking methodology used to assess base year efficiency. Given that operating and market conditions can materially affect benchmarking results, Evoenergy has reviewed factors unique to the ACT, including backyard reticulation and higher worker compensation costs, which are incorporated into the analysis.

Evoenergy has also incurred material increases in prudent and efficient costs, such as those associated with increased regulatory obligations, not accounted for in the AER's opex roll forward approach to assessing opex efficiency.[24] Additional prudent and efficient costs incurred since the midpoint of the AER's benchmarking period, such as for vegetation management due to a change in legislative obligations, are not adequately captured in the approach used to assess the efficiency of base year opex. Evoenergy considers that significant change has occurred in economic markets and the energy sector over the benchmarking period and since the midpoint of the benchmarking period, that should be adequately captured in any assessment of the prudency and efficiency of opex.

The analysis presented in Appendix 2.1 incorporates recently updated ratcheted maximum demand (RMD) data, which has been corrected to ensure it is measured and reported consistently over the benchmarking period and to adequately capture the utilised network capacity of dual function assets, which has a material impact on benchmarking outcomes.

Together with understanding the limitations of benchmarking analysis, incorporating prudent and efficient step changes, corrected demand data, accounting for OEFs, and the material impacts of differences in capitalisation practices, Evoenergy considers that the 2021/22 base year opex is efficient. Evoenergy will continue to monitor the outcome of the AER's final guidance note on how the AER will assess the impact of capitalisation differences on benchmarking[25] analysis throughout the regulatory review process as it may materially impact how base year efficiency is assessed.

[24] For example, in Evoenergy's 2019 Determination, the AER approved a step change for vegetation, management due to amendments to the *Utilities (Technical Regulation) Act 2014*.
[25] The AER's final guidance note is expected to be published in March 2023, after the due date of Evoenergy's regulatory proposal.

2.5. Trending the base year

Revealed actual costs included in the base year reflect Evoenergy's economic and network operating environment for the 2021/22 financial year. However, Evoenergy expects its operating environment and conditions will change over the 2024–29 regulatory period. The trend captures some changes and is calculated using the AER's rate of change formula included in the EFAG,[26] accounting for NER opex objectives, changes in government policy, and expectations aligned with network planning.

Evoenergy has trended opex consistently with the AER's preferred approach, reflecting that the efficient level of opex changes over time due to:

- Prices change as input costs needed to operate the business increase, such as labour and materials, and impacts the efficient level of opex.
- Output increases as the scale of Evoenergy's operations grows, and the efficient level of opex will change to deliver more services at the same reliability and safety standards. It reflects the incremental cost of forecast changes in the scale of activities undertaken based on Evoenergy's network size and demand.
- Productivity captures a shift in the industry productivity frontier, which reflects forecast cost reductions as technology develops and the industry evolves to provide ongoing operational efficiencies.

Evoenergy's base operating costs are trended to account for the rate of change of efficient opex for the next regulatory period. Table 4 shows the cost drivers that will impact Evoenergy's opex forecast and is based on the rate of change for the 2024–29 regulatory period. Evoenergy's approach and assumptions are detailed in the following sections and in supporting appendices for each component of the rate of change.

Table 4 Forecast rate of change

Rate of change	2024/25	2025/26	2026/27	2027/28	2028/29
Input price change	0.63%	0.55%	0.45%	0.30%	0.49%
Output change	1.18%	1.49%	1.36%	1.40%	1.49%
Productivity change	0.50%	0.50%	0.50%	0.50%	0.50%
Forecast annual rate of change	**1.31%**	**1.54%**	**1.30%**	**1.20%**	**1.48%**

2.5.1. Real price change

Evoenergy's base year opex captures current price inputs for labour and non-labour prices such as materials. Input prices capture the change in operating costs that increase or decrease at a different rate to inflation. ACT-specific labour price escalators have been developed independently by BIS Oxford Economics (BISOE).[27] BISOE is forecasting that wages in the Electricity, Gas, Water and Wastewater Services (EGWWS) sector will increase by more than the national average over the next regulatory period due to the following drivers:

[26] Rate of change $_t$ = output growth $_t$ + real price growth $_t$ – productivity growth
[27] BIS Oxford Economics, *Appendix 1.7 Electricity-related Labour Escalation Forecasts to 2028/29*, September 2022

- The electricity sector is a capital-intensive industry whose employees have higher skills, productivity, and commensurately higher wage levels compared to most other sectors.
- There is a strong union presence in the utilities sector, ensuring higher Enterprise Agreement wage outcomes for collective agreements.
- Increases in individual agreements are expected as the labour market tightens with a low unemployment rate.
- Demand for skilled labour is expected to increase as investment strengthens.
- The utilities sector is obligated to provide essential services and retain skilled labour.

The ACT-specific labour price growth projections are provided in Table 5.

Table 5 ACT-specific EGWWS labour cost escalator forecasts 2024–29

	2024/25	2025/26	2026/27	2027/28	2028/29
Real EGWWS labour price growth	1.06%	0.94%	0.76%	0.51%	0.83%

Labour costs represent a significant proportion of operating costs. Based on the AER's 2022 Annual Benchmarking Report, Evoenergy has adopted a weight of 59.2 per cent for labour and 40.8 per cent for non-labour price growth.[28] Evoenergy has applied forecast inflation to non-labour costs.

2.5.2. Output change

Operating costs change as the level of output that Evoenergy delivers increases. Evoenergy has forecast the change in output growth using the AER's preferred approach, which is based on an average product of the growth rate and output elasticity for each output measure, including customer numbers, circuit length, and RMD, consistent with the AER's benchmarking analysis. Evoenergy's assumptions underpinning each category are described in Table 6.

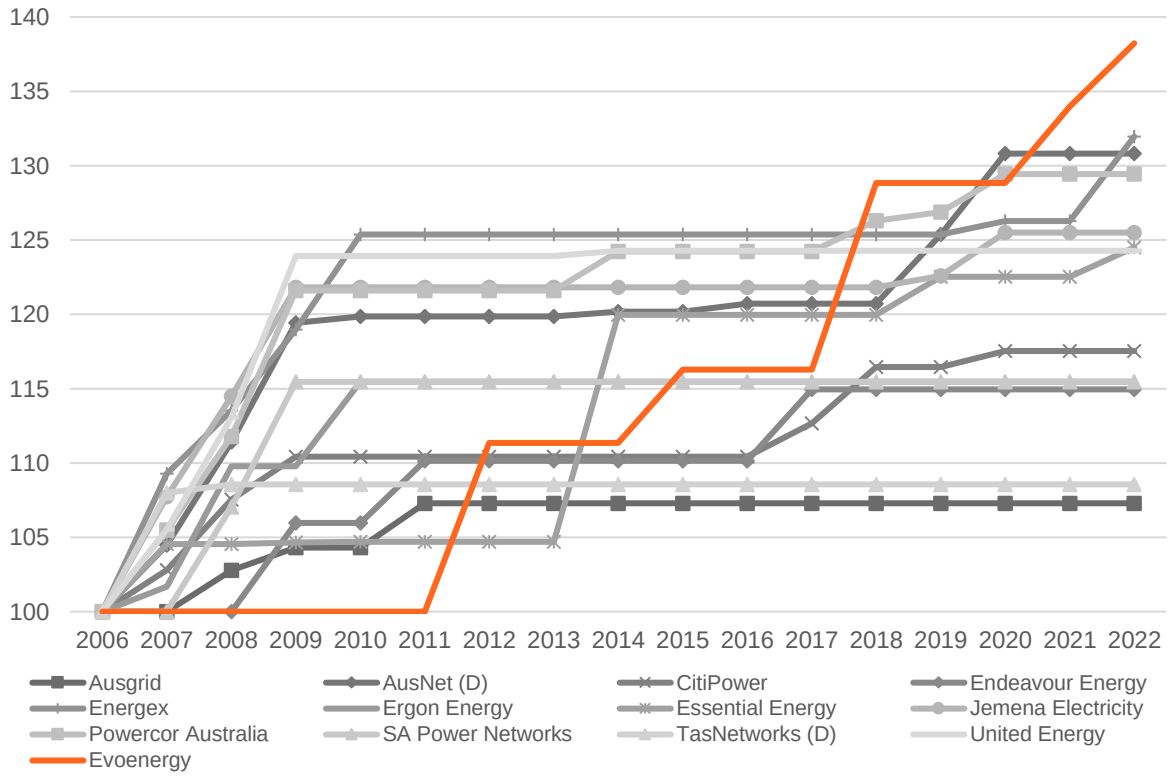
Table 6 Output change assumptions

Output measure	Assumptions underpinning growth rate
Customer numbers	Customer numbers include metered and unmetered customers. Metered customers are the number of active national meter identifiers (NMIs). Unmetered customers capture the number of connections that are not metered (excluding public lighting connections), where the energy usage for billing purposes is calculated using an assumed load provided, such as bus shelters. The assumptions underpinning growth in customer numbers are included in the Volume and customer number forecast (Appendix J) part of the EN24 regulatory proposal.
Circuit length	Circuit length is measured in kilometres of distribution lines in service. Circuit length reflects the distance over which Evoenergy delivers services to customers and is used to measure the density or geographic distribution of customer connections across the network. Circuit length forecast reflects expected changes in the Evoenergy network. It captures growth in Evoenergy's capital augmentation program, greenfield developments for customer-initiated projects, and high voltage feeder uplift in the capital expenditure program. Evoenergy has projected that the average circuit length will grow by 1.24 per cent annually.

[28] Economic Insights, *Memorandum Review of reports submitted by CitiPower, Powercor and United Energy on opex input price and output weights*, 18 May 2020, p. 8

Ratcheted Maximum Demand (RMD)	The RMD output recognises utilised network capacity, measured as the non-coincident annual maximum demand at the bulk supply points of Evoenergy's network. The RMD captures the utilisation of dual function assets that support the NEM transmission system (more detail is provided in Appendix 2.1). Evoenergy's historic RMD growth relative to other DNSPs is shown in Figure 8, showing that non-coincident maximum demand has the fastest average annual growth rate from 2006 to 2022. Evoenergy's opex forecast incorporates network demand as the EN24 regulatory proposal must include what Evoenergy considers will enable it to meet and manage the expected demand for standard control services.[29] Evoenergy expects that the electricity load on its network will continue to increase considerably over the 2024–29 regulatory period, as it has historically and accelerated by the ACT Governments' Pathway to Electrification and Zero Emissions Vehicles Strategy 2022-30. Evoenergy's RMD forecasts, which average 1.7 per cent annual growth, are conservative and considerably lower than the historical growth of 2.1 per cent.[30] The RMD forecasts have been considered in the context of historical growth, and the ACT pursuing a net zero future. The forecast is derived consistently with Evoenergy's Annual Planning Report. Evoenergy will update its forecast in the revised regulatory proposal based on more recent data as it becomes available.

Figure 8 Ratcheted maximum demand index numbers 2006 to 2022



Source: AER Electricity network performance report 2022; EBRIN data; and Evoenergy corrected EBRIN data.

Given that Evoenergy has recently revised non-coincident summated raw system annual maximum demand data captured reported in the EBRIN, the output weights included in the AER's 2022 Annual

[29] The expected demand for standard control services is in line with NER 6.5.6(a)(1).
[30] The 2.1 per cent historical growth is the simple average of the RMD growth rate based on corrected EBRIN data for the period from 2005/06 to 2021/22.

Benchmarking Report have been updated consistently with the AER's methodology using a range of econometric cost function models.

While the AER must have regard to the most recent Annual Benchmarking Report that has been published in accepting an efficient opex forecast,[31] the opex forecast must reasonably reflect the opex criteria. The opex forecast should reflect a realistic expectation of the demand forecast and cost inputs required to achieve the opex objectives, including meeting and managing expected demand for SCS over the regulatory period. Evoenergy has updated output weights as it was found that the output weights materially change with revised and consistent RMD data, as shown in Table 7.

Table 7 Output weights from elasticities

Output measures	Stochastic Frontier Analysis Cobb-Douglas model	Least Squares Estimation Cobb-Douglas model	Least Squares Estimation Translog model	Stochastic Frontier Analysis Translog model
Based on AER 2022 Benchmarking Report				
Customer numbers	43.1%	60.9%	45.1%	47.6%
Circuit length (km)	10.8%	15.7%	17.2%	8.4%
Ratcheted maximum demand	46.1%	23.4%	37.6%	43.9%
Updated output weights based on revised RMD data				
Customer numbers	46.1%	61.0%	45.6%	52.8%
Circuit length (km)	11.3%	15.7%	17.2%	8.6%
Ratcheted maximum demand	42.6%	23.2%	37.3%	38.6%

Notes: includes data up to 2021 based on the AER's 2022 Annual Benchmarking Report. Evoenergy's revised regulatory proposal may include updated output weights to reflect revised data used by Quantonomics between the draft and final benchmarking analysis, not available at the time of finalising the opex forecast.

Evoenergy's opex forecast reflects conservative expectations of growth in network scale as demand on the network increases with the rise of electric vehicles (EVs) and the impact of government policy and incentives in the ACT. The assumptions included in the opex forecast capture Evoenergy's expectations associated with network size based on a range of factors, including ACT Government policy, net zero modelling, and what customers have said about transitioning to a net zero future.

2.5.3. Productivity change

The productivity growth factors reflect the improvement in the efficient production frontier within the electricity distribution industry. It captures the improvements in good industry practice that efficient networks implement as part of operations achieved through new technologies, changes to management practices, and other factors.

[31] NER 6.5.6(e)(4)

Consistent with the AER's preferred methodology, detailed in the 2019 decision on forecasting productivity growth for electricity distributors, and recent regulatory decisions, Evoenergy has included a forecast productivity improvement of 0.5 per cent per annum in the opex forecast. In the AER's productivity review, it based its forecast productivity growth rate on:[32]

- Assessing efficiency for a few DNSPs over the 2011–17 period to avoid capturing the impacts of increased regulatory obligations relating to safety and reliability imposed on the electricity sector before 2011.
- The rate of technical change estimated using econometric cost function models, which includes individual DNSP efficiency catch-up.
- Efficiency for the gas distribution industry based on econometric modelling.
- Labour productivity forecasts for the utilities and non-utilities sectors derived by various consultants.

Given the AER's analysis, Evoenergy's forecast productivity changes minimises the impacts of cost increases due to changes in regulatory obligations and requirements.

Despite considerable cost pressures driven externally by economic markets and uncertainty with a significant energy transition underway, Evoenergy is committed to improving efficiency over the next regulatory period. The opex forecast includes $5.4 million of productivity savings for the 2024–29 regulatory period.

[32] AER, *Final decision paper Forecasting productivity growth for electricity distributors*, March 2019

2.6. Step changes and category specific forecasts

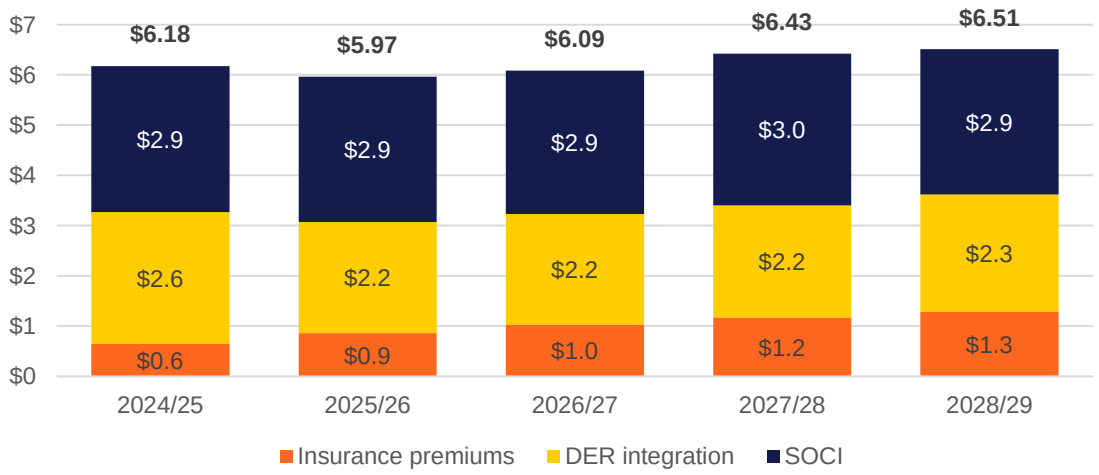
As the energy industry operates in a dynamic environment with new emerging technologies, shifting consumer preferences, mounting regulatory obligations, and evolving government energy policies, there are material cost changes that are not captured in the base year opex or the trend. To ensure that the forecast reasonably reflects the opex criteria, Evoenergy proposes several step changes to be added to the opex forecast. These include accommodating changes in international markets outside of Evoenergy's control, gaining greater visibility over the electricity network as part of transitioning to a net zero carbon emissions future and increased customer energy resources, and responding to additional regulatory obligations. More specifically, Evoenergy is proposing step changes for an uplift in insurance premiums, integrating DER, and amendments to SOCI legislation.

Evoenergy has assessed its step changes against the EFAG, the AER's Better Resets Handbook, and the NER to ensure that it has not double counted costs included in other components of the opex forecast. Evoenergy's opex step changes do not double count the costs of scale, increased regulatory burden accounted for in forecast productivity, or costs associated with discretionary changes in inputs. Evoenergy is proposing the step changes to ensure that it can recover efficient and prudent expected expenditures based on a realistic expectation of demand and cost inputs required to achieve the opex objectives. Additionally, Evoenergy considers that its proposed step changes will be largely recurrent in nature.

In the early development stages of its proposed step changes, Evoenergy consulted with customers through a community panel.[33] The feedback received from customers provided strong support for the proposed step changes. The community panel considered that Evoenergy's proposed step changes appropriately balance customer expectations regarding risk and the changing needs of the network with affordability considerations. Evoenergy has included step changes endorsed by the community panel in the opex forecast, and updated estimates based on additional and more recent information to reflect changes in expectations and current market conditions.

Figure 9 provides a summary of Evoenergy's opex step changes included in the opex forecast, and the following sections provide further detail of each step change.

Figure 9 Proposed step changes ($ million, 2023/24)



Notably, there are several step changes that Evoenergy excluded from its proposal that may be considered as part of the revised EN24 regulatory proposal, including cloud computing, where Evoenergy identified that ICT capital projects may be opex in nature based on relevant accounting standards, and metering requirements under the AEMC's current review of the regulatory framework for metering services.

[33] See recommendation 9 from the community panel in Appendix H.

2.6.1. Insurance premiums

Insurance premiums have increased substantially over the current regulatory period, driven by increased climate events, malicious cyber-attacks, and general macroeconomic conditions. As a result, many insurers have withdrawn available market capacity and reduced coverage, placing upward pressure on premiums.

Evoenergy procures many different insurance policies, each having relevant and differing drivers that impact expected costs to varying extents. Increases in insurance premiums are not driven by a single factor, such as growth in the number of vehicles insured, but by multiple factors, including claims history, risk appetite, market capacity, and the availability of coverage. Appendix 2.3 provides more information on the insurance premium step change.

Evoenergy has included an insurance premium step change of $5.0 million to reflect a tighter market based on increased risk,[34] which are incremental to the base year and are outside of Evoenergy's control. The costs Evoenergy expects to incur are based on independent advice from an expert insurance broker. The step change costs are aligned with Evoenergy's CAM approved by the AER and adjusted to ensure that policies with drivers associated with network scale are held constant, ensuring that forecast expenditure is not double counted. In its forecast, Evoenergy has assumed that there is no growth in the insurable asset base, revenue, or motor vehicle fleet to ensure that a scale factor is not captured in the forecast.

The insurance premium step change is calculated consistently with the AER's preferred base-step-trend approach included in the EFAG, expectations outlined in the Better Resets Handbook, and the approved CAM. Evoenergy has included its expected efficient and prudent costs for the 2024–29 regulatory period based on the differential between costs included in the base year and the year of expected expenditure, holding network scale factors constant, which is consistent with the AER's approach of trending opex from an adjusted base, noting that the difference between the base and final year opex does not reflect recent changes in insurance market conditions.

Evoenergy discussed the drivers behind this step change with the Community Panel and received customer support.[35]

Evoenergy considers that the rising costs of prudent insurance premiums above the base year cannot continue to be absorbed into an efficient and prudent operating envelope and has included expected costs in its opex forecast. Evoenergy's forecast insurance premium step change is shown in Table 8.

Table 8 Insurance premium step change ($ million, 2023/24)

	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Insurance premiums	$0.65	$0.86	$1.03	$1.17	$1.28	**$4.99**

Note: Numbers may not add due to rounding.

[34] For example, see Marsh McLennan and Zurich Insurance Group, *The Global Risks Report 2023*, January 2023.
[35] 85 per cent of panel members supported increased investment in insurance as a response to potential impacts of climate change and extreme weather events. See recommendation 9 in Appendix H.

2.6.2. Distributed Energy Resource Integration

The energy landscape is rapidly evolving in response to the growing demand for DER across the NEM, including the increase of rooftop solar photovoltaics (PV), battery energy storage systems (BESS), and EVs. Distribution networks are crucial in enabling the energy transition towards the future net zero carbon emission landscape. The AEMC's Access, Pricing, and Incentive Arrangements for Distributed Energy Resources rule change[36] has introduced clear obligations on Evoenergy to support more DER connecting to the grid, which customers also support. Based on support from the community panel,[37] Evoenergy has included an opex step change for integrating DER into its network, enabling the energy transition and consumer benefits, as outlined in Figure 10.

Figure 10 Delivering DER integration

Network visibility	Network operation	Enabling projects
• Increasing visibility on the low voltage network to enable data-driven planning, forecasting, decision making, and compliance monitoring on customers and network performance. • Improve existing business functions and efficiency in network investment, and enable dynamic network connections for DER.	• Capability to implement and communicate flexible access for DER customers and aggregators through providing non-zero export limits (unless exemptions apply). • Dynamically communicate and allocating network capacity to DER customers through dynamic operating envelopes to improve efficiency and utilisation of the network • Developing a base level of DSO capability to safely and reliably manage bi-directional power flows as a network service.	• Proactively resolving forecasted network constraints and alleviating customer curtailment through trialling innovative technologies and targeting economic network investment based on avoided curtailment. • Avoids the need to reactively address quality of supply and reliability issues and enable additional DER to actively participate in the network as the preferences of customers evolves.

DER enabling capabilities will enable increased network visibility, allowing Evoenergy to operate the network dynamically, and address thermal and voltage constraints more readily on the network reducing quality of supply issues.

Evoenergy has assessed several options for integrating increased levels of DER penetration on the network while maintaining core service obligations in line with customer, regulatory, and government expectations. The options that Evoenergy has considered as part of a cost-benefit analysis include:

- **Option 1 Base Case**: reflects the business-as-usual scenario where Evoenergy will continue to enable DER through reactively addressing network constraints as they are identified and restrict export capacity through increasing curtailment of new DER customers. While the base case carries the lowest cost, increased opex is required to maintain compliance with power quality standards required under the ACT Utilities (Electricity Distribution Supply Standards Code) Determination 2013.[38]
- **Option 2 DER Readiness**: is the preferred option that enables Evoenergy to prepare for increasing levels of DER across the ACT electricity network by developing a base capability level to manage bi-directional energy flows, improve access through dynamic limits, and improve overall network utilisation. Option 2 provides a greater level of export services by gaining increased network visibility through the use of smart meter and

[36] Australian Energy Market Commission, *National Electricity Amendment (Access, Pricing and Incentive Arrangements for Distributed Energy Resources) Rule 2021*, August 2021
[37] Over 77 per cent of community panel members supported an increase in expenditure. 15 percent suggested that more should be invested and 8 per cent suggested less investment. See recommendation 9 in Appendix H.
[38] For example, increased tap change operations to maintain compliance with AS 60038 Standard Voltages.

aggregator data along with analytical capabilities to support optimal network planning, and compliance monitoring. The DER Readiness case involves trialling static synchronous compensators (STATCOMs) and community batteries in targeted areas to assist in alleviating network constraints and enable improved hosting capacity in the areas where it is most needed. Evoenergy considers this a conservative approach in the context of evolving consumer preferences and ACT Government policy with DER incentives.

- **Option 3 Rapid Transition**: allows Evoenergy to manage its electricity network in the context of high DER penetration through facilitating greater Distribution Service Operator (DSO) capabilities. Option 3 builds on option 2, including obtaining higher visibility over Evoenergy's low voltage network, developing analytical capabilities, larger rollout of STATCOMs and community batteries, and proactively resolving network constraints where it is economically justified.

Based on cost-benefit analysis, Evoenergy has found that option 2 is the preferred option as it allows Evoenergy to continue meeting regulatory obligations related to network constraints and export capacity while providing customers the greatest level of benefits. Evoenergy also considers that a DER Readiness program reflects the expectations of customers and adequately responds to the ACT Government and AEMC regulatory policy with the accelerated transition to enabling a decentralised energy system. The DER integration step change included in Evoenergy's opex forecast is shown in Table 9, and further outlined in Appendix 2.5.

Table 9 DER integration step change ($ million, 2023/24)

	2024/25	2025/26	2026/27	2027/28	2028/29	Total
DER integration	$2.63	$2.21	$2.20	$2.23	$2.34	**$11.61**

Note: Numbers may not add due to rounding.

2.6.3. Security of critical infrastructure

With consumer support,[39] Evoenergy is looking to build on its existing critical asset risk management practices and controls, ensuring reliable network services and protection of sensitive information (such as electricity network information and the personal information of customers). In determining the targeted level of controls to mitigate the risks to critical infrastructure, we have assessed risk in the context of the *Security Legislation Amendment (Critical Infrastructure Protection) Act 2022* requirements, an increasing external threat environment, and the convergence between information and operational technologies. In accordance with the NER, Evoenergy is seeking to maintain the reliability of supply, and reduce the risk of system failure through prudently meeting risk management expectations outlined in SOCI. Specifically, this includes ensuring that ICT support services are delivered by personnel vetted appropriately, an uplift in cyber security to protect the provision of critical electricity services in the nation's capital, safeguarding supply chain security, and build resilience from natural hazards. Evoenergy's proposed SOCI step change includes changes and costs associated with cyber security capabilities, vetting key personnel, physical security, and ensuring supply chain resilience.

Under the NER,[40] Evoenergy's opex forecast must include the costs Evoenergy expects to incur to comply with applicable regulatory obligations and requirements. Therefore, Evoenergy has included an opex step change to meet its regulatory obligations in relation to owning and operating critical

[39] All community panel members supported increased expenditure in this area, with 50 per cent of the panel suggesting that Evoenergy do more than what is proposed. See recommendation 9 in Appendix H.
[40] NER 6.5.6(a)(2)

infrastructure. Specifically, this means compliance with applicable legislation and instruments.[41] Evoenergy's opex step change for SOCI is shown in Table 10, and detailed in Appendix 2.6.

Table 10 Security of Critical Infrastructure step change ($ million, 2023/24)

	2024/25	2025/26	2026/27	2027/28	2028/29	Total
SOCI	$2.90	$2.90	$2.86	$3.02	$2.89	**$14.56**

Note: Numbers may not add due to rounding.

2.6.4. Debt raising costs

Debt raising costs (DRC) are one-off transactional costs incurred when debt is raised,[42] including fees for investment bankers, obtaining credit ratings, and legal and other expenses. DRC is derived based on a benchmark DRC rate, the debt proportion of the Regulated Asset Base, and Evoenergy's forecast capital expenditure program. Table 11 below shows Evoenergy's forecast DRC.

Table 11 Debt raising costs ($ million, 2023/24)

	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Debt raising costs	$0.64	$0.64	$0.64	$0.65	$0.66	**$3.23**

Note: Numbers may not add due to rounding.

[41] *Security of Critical Infrastructure Act 2018; Security of Critical Infrastructure (Application) Rules 2022; Security of Critical Infrastructure (Definitions) Rules 2021; Security of Critical Infrastructure (Consequential and Transitional provisions) Act 2018; Security Legislation Amendment (Critical Infrastructure) Act 2021; Security Legislation Amendment (Critical Infrastructure Protection) Act 2022.*
[42] AER, *Draft Rate of Return Instrument Explanatory Statement*, June 2022, p. 204

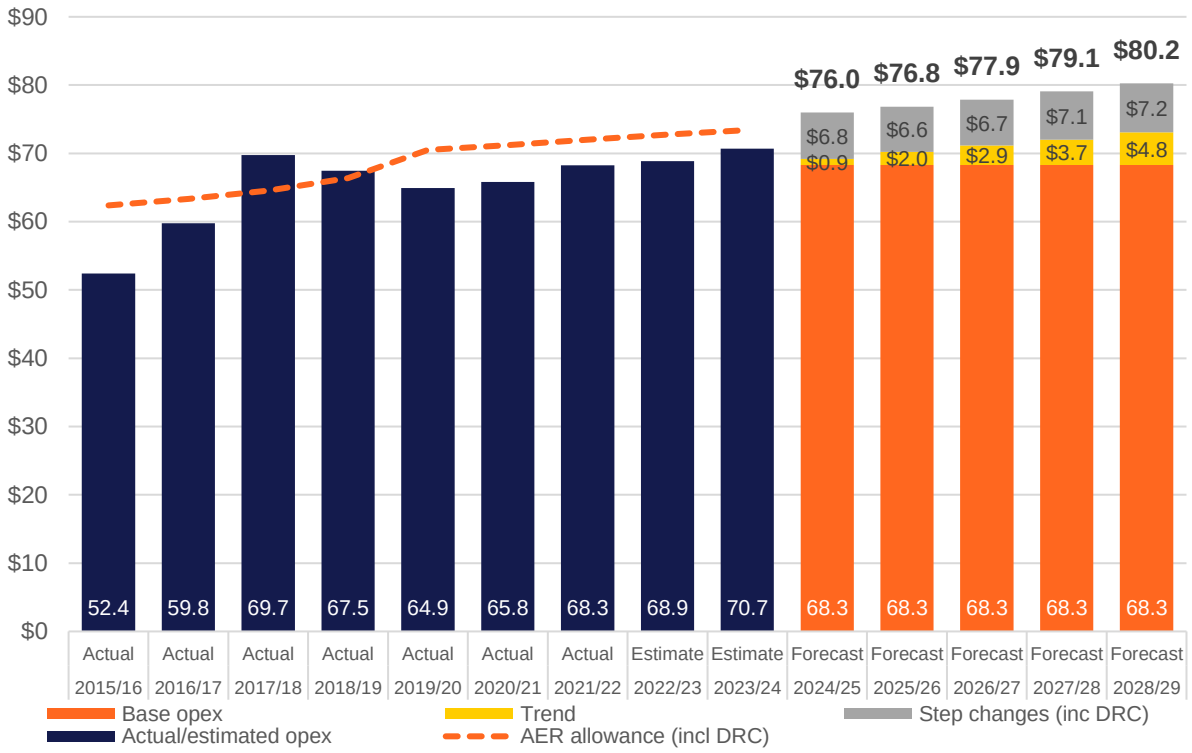
2.7. Opex forecast

Evoenergy's opex forecast for the 2024–29 regulatory period is $390.1 million, which is 8.4 per cent greater than Evoenergy's 2019–24 allowance and 15.2 per cent higher than what Evoenergy expects to spend for the current 2019–24 regulatory period.

The opex forecast represents a balanced approach between customer preferences, changes in economic market conditions, and Evoenergy's expectations to maintain service levels while accommodating increasing network utilisation and higher peak demand with an electrification pathway, rising EV uptake, responding to changing economic market conditions, and fulfilling additional regulatory obligations over the next regulatory period.

In accordance with the NER,[43] Evoenergy has included an opex forecast for the relevant regulatory control period and expected costs for each regulatory year of the 2024–29 regulatory period, shown in Figure 11.

Figure 11 Historical and forecast opex 2015/16–2028/29 ($ million, 2023/24)



The opex forecast has been allocated between distribution and transmission services as dual function assets compromise a material proportion of Evoenergy's Regulatory Asset Base (RAB), in accordance with the AER's Framework and approach decision.[44] Evoenergy allocates total opex between distribution and transmission based on average direct maintenance and shared costs. Direct maintenance opex is allocated between the average transmission and distribution proportion of direct maintenance costs. Indirect shared opex is allocated based on the average proportion of the distribution and transmission RAB. The opex forecast by service is shown in Table 12.

[43] NER 6.5.6(b)(3)(i)-(ii)
[44] AER, *Framework and approach Evoenergy (ACT) Regulatory control period commencing 1 July 2024*, July 2022

Table 12 Opex forecast by service ($ million, 2023/24)

Opex forecast	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Distribution	$64.00	$64.73	$65.60	$66.61	$67.59	**$328.53**
Transmission	$11.99	$12.12	$12.28	$12.47	$12.66	**$61.52**
Total	**$75.99**	**$76.85**	**$77.88**	**$79.08**	**$80.25**	**$390.05**

Note: Numbers may not add due to rounding.

Evoenergy's opex forecast represents efficient changes in opex over time and meets the NER objectives and criteria, accounting for prudent and efficient costs. The EN24 opex forecast captures a balanced approach that achieves the National Energy Objective to promote efficient investment in, and efficient operation and use of electricity network services for the long-term interests of customers. Based on the requirements outlined in the NER,[45] Evoenergy has developed the opex forecast with expenditure that is properly allocated to SCS in accordance with the principles and policies set out in the CAM, which the AER has approved. Evoenergy's opex forecast by component is detailed in Table 13.

Table 13 Opex forecast by component ($ million, 2023/24)

Opex components	2024/25	2025/26	2026/27	2027/28	2027/29	Total
Base opex	$66.85	$66.85	$66.85	$66.85	$66.85	**$334.24**
Base year adjustment[46]	$1.43	$1.43	$1.43	$1.43	$1.43	**$7.16**
Input price change	$0.43	$0.81	$1.12	$1.33	$1.67	**$5.36**
Output change	$0.81	$1.86	$2.83	$3.86	$4.98	**$14.34**
Productivity change	-$0.35	-$0.71	-$1.08	-$1.46	-$1.85	**-$5.45**
Step changes	$6.18	$5.97	$6.09	$6.43	$6.51	**$31.17**
Debt raising costs	$0.64	$0.64	$0.64	$0.65	$0.67	**$3.24**
Opex forecast	**$75.99**	**$76.85**	**$77.88**	**$79.09**	**$80.25**	**$390.06**

Note: Numbers may not add due to rounding.

[45] NER 6.5.6(b)(2)
[46] Base year is adjusted for the increment between the base year (2021/22) and the final year (2023/24), DMIS, movements in provisions, contingent ACT Government Large Feed in Tariff administration costs, and category specific forecasts.

Evoenergy's opex forecast reflects efficient and prudent expenditure given its operating environment, including network growth as the ACT population grows and densifies, as well as the ACT Government's electrification pathway and EV strategy. Evoenergy has also incorporated a conservate estimate of labour cost escalation. The forecast includes a step change to reflect rising insurance premiums, driven by market factors outside of Evoenergy's control, with scale factors isolated to ensure costs are not double counted. The 2024–29 opex forecast includes costs to facilitate an evolving energy landscape reflected in the NER through DER integration, and expenditure associated with additional regulatory obligations for amendments to the SOCI legislation. The EN24 regulatory proposal opex forecast incorporates the AER's productivity growth rate, and Evoenergy's commitment to achieving ongoing efficiencies to maintain low and stable network costs for customers. Finally, the EN24 opex forecast reflects what Evoenergy heard from customers, including customer insights gleaned from the community panel.