evoenergy

18 August 2023

Dr Kris Funston
Executive General Manager, Networks
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

By email to: aerinquiry@aer.gov.au

Kris

Dear Dr Funston,

Re: Draft guidance on applying the amended National Energy Objectives

Evoenergy welcomes the opportunity to provide a submission to the Australian Energy Regulator's (AER) draft guidance on applying the amended National Energy Objective (NEOs).

Evoenergy owns and operates the electricity distribution network in the Australian Capital Territory (ACT) and gas distribution networks in the ACT and the Queanbeyan–Palerang Regional Council (QPRC) and Shoalhaven City Council local government areas of New South Wales.

Evoenergy supports the AER issuing guidance ahead of the passage of legislative changes incorporating an emissions reduction objective into the NEOs. This is particularly relevant to Evoenergy as the AER considers our regulatory proposal for the 2024–29 period. As such, Evoenergy strongly supports the AER applying the amended objectives when making decisions for our current regulatory proposal – which will impact network investment in the ACT for the next 5 years.

Evoenergy is at the forefront of the energy transition and is contemplating the changes required in our revised regulatory proposal to reflect increased forecast demand, changes to market conditions and regulatory developments including the amendment to the NEOs.

One of the key areas of recent discussion between Evoenergy and the AER has been the level of investment needed to support the energy transition. The ACT Government and community are committed to reaching net zero emission targets. In addition to legislated emissions reduction targets, the ACT Government continues to advocate for and incentivise take-up of zero emission vehicles (ZEV) and intends to establish a legal framework to end new gas network connections in the ACT. The impact of these decisions will increase the pace of electrification in the ACT.

In the short term, the need for greater network investment will be driven by consumer demand for ZEVs. ZEV take up in the ACT is significantly higher than in other jurisdictions, and indeed higher than the ACT Government and Evoenergy's previous modelling suggested. This is expected to

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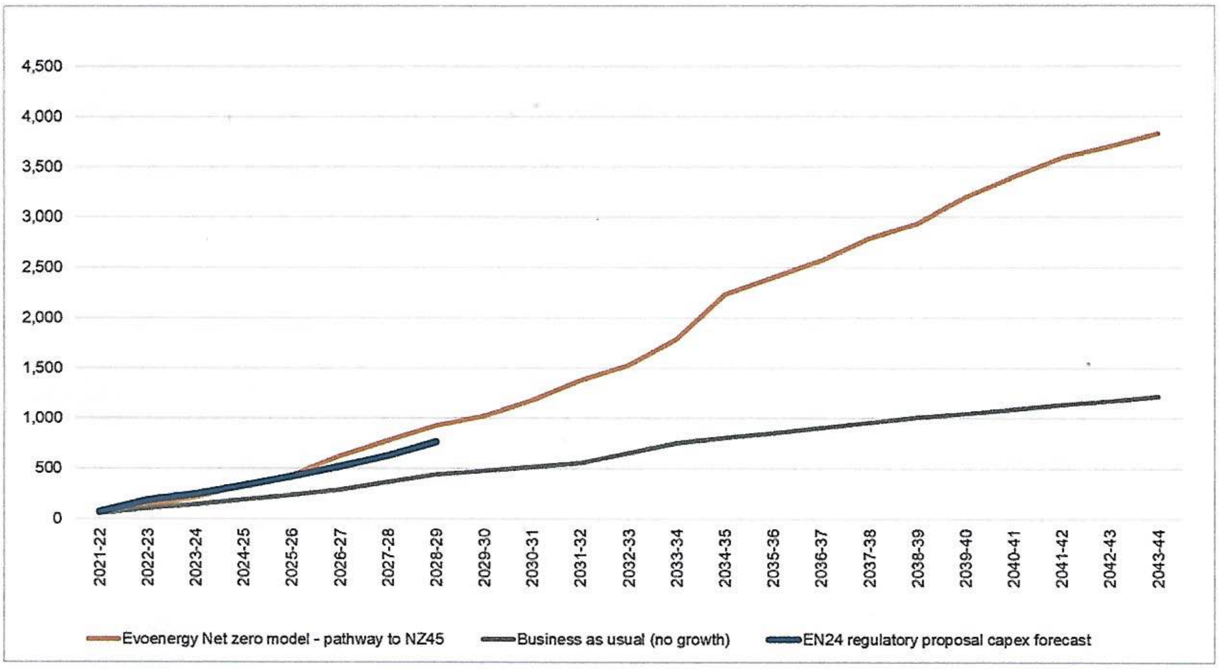
continue and without sufficient investment in the network now, and in the immediate future, there is a significant risk that network constraints could undermine the energy transition.

Evoenergy's 2024–29 capital expenditure (capex) forecast reflects the investment needed to meet demand and achieve net zero objectives

Evoenergy's regulatory proposal is underpinned by an evidence-based demand forecast that demonstrates a step change in investment is needed over the next 5 years and into the future to enable the energy transition. Since submitting our regulatory proposal in January 2023, we have seen the uptake of ZEVs outpace expectations, and we are currently reassessing our forecasts to reflect the latest available information. Our network investment must keep pace with the demand of ACT consumers to enable decarbonisation of transport in the ACT, which is essential for the achievement of the ACT Government's net zero emissions target and is consistent with amendments to the NEO. Evoenergy has modelled capex scenarios to achieve net zero emissions in the ACT by 2045 (Figure 1). Under-investment now will impact our ability to meet the target and community expectations of an orderly energy transition.

Figure 1: Evoenergy's capital investment needed to achieve electrification in the ACT*



*indicative numbers subject to change

Despite the significant increase in required capex, Evoenergy will retain one of the lowest Regulatory Asset Bases (RAB) in the NEM when measured on a per customer basis. Evoenergy is committed to ensuring a successful energy transition in the ACT that considers the impact on price and service performance.

Operationalising the amended NEO

The AER's draft guidance considers the suite of assessment tools at its disposal (for expenditure proposals) is sufficiently flexible to allow consideration of an emissions reduction objective. It does not however provide any examples or specifics on how it might take this into account.

The draft guidance notes that alongside use of the Expenditure Forecast Assessment Guidelines, it will consider "the extent to which proposed forecast expenditure is consistent with, or takes into account, consumer preferences identified during engagement". As evidenced in Evoenergy's proposal, and through policy actions of the ACT Government, the appetite for climate change mitigation is strong across our customer base.

The AER indicates that the final guidance will be available in September to allow businesses time to incorporate the guidance in revised proposals due in early December 2023. However, the draft guidance notes a value of emissions reduction is not due to be released by the Commonwealth Government until November 2023 – and may be available too late to incorporate into our revised proposal.

When revising cost benefit analysis for Evoenergy's revised proposal, we intend to identify the emissions reduction benefits and where feasible attribute a monetised value of emissions reduction, which may need to be updated in the future to reflect the Commonwealth Governments value of emissions reduction.

Evoenergy looks forward to continuing to engage with the AER as part of this review and with the community as we head into the latter phase of our regulatory determination reset.

Should you wish to further discuss matters raised in this submission, please contact Cameron Shields, Group Manager Regulatory Finance & Strategy at [redacted]

Yours sincerely

[redacted]

Peter Billing
General Manager, Evoenergy

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Jemena Networks (ACT) Pty Ltd (ABN 24 008 552 663) and Icon Distribution Investments Limited (ABN 83 073 052 224) t/as Evoenergy (ABN 76 670 568 688).