

Draft Decision

Evoenergy

Electricity Distribution

Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Overview

September 2023

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AER reference: AER212496

Amendment record

Version	Date	Pages
1.0	28 September 2023	47

Invitation for submissions

Evoenergy has the opportunity to submit a revised proposal in response to this draft decision by **30 November 2023**.

Interested stakeholders are invited to make a submission on both our draft decision and Evoenergy’s revised proposal (once submitted) by 19 January 2024.

Submissions should be sent to: [AERresets2024-29@aer.gov.au](mailto:AERresets2024-29@ aer.gov.au)

Alternatively, submissions can be sent to:

Arek Gulbenkoglu
General Manager
Australian Energy Regulator
GPO Box 1313
Canberra ACT 2601

Submissions should be in Microsoft Word or another text readable document format.

We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. We will treat submissions as public documents unless otherwise requested.

Parties wishing to submit confidential information should:

1. Clearly identify the information that is the subject of the confidential claim.
2. Provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submission will be published on our website.

Pre-determination conference

Consumer engagement is a valuable input to our determination. We encourage all interested stakeholders to join us and Evoenergy at an online public forum on Wednesday, **11 October 2023**. Details of how to register for this forum are available on our website and through Eventbrite ([external link](#)).

List of attachments

This attachment forms part of the AER's draft decision on the distribution determination that will apply to Evoenergy for the 2024–29 period. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

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Attachment 18 – Connection policy

Attachment 19 – Tariff structure statement

Attachment 20 – Metering Services

Attachment 21 – Transmission Pricing methodology

Executive summary

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 as it transitions to net zero emissions. The regulatory framework governing electricity transmission and distribution networks is the National Electricity Law and Rules (NEL and NER). Our work in this area is guided by the National Electricity Objective (NEO) as one of the National Energy Objectives.

A regulated network business must periodically apply to us to determine the maximum allowed revenue it can recover from consumers for using its network. On 31 January 2023 we received a revenue proposal from ACT electricity distribution network service provider Evoenergy, for the period 1 July 2024 to 30 June 2029 (2024-29 period). This is our draft decision on that proposal.

Ensuring consumers pay no more than necessary for safe and reliable energy while supporting the energy transition

Our draft decision comes at a challenging time for energy consumers and the sector more broadly. It seeks to balance affordability with necessary expenditure required to support the energy transition.

Consumers are facing cost-of-living pressures and affordability is a key issue. In SEC Newgate's Mood of the Nation report June 2023¹, the number one issue among the Australian public is reducing cost increases for household bills and 84% of Australians are extremely or quite concerned about electricity bills. Energy Consumers Australia (ECA) similarly noted in a June 2023 energy consumer sentiment survey² that Australian consumers are increasingly worried about the affordability of rising energy costs, with more than 50% concerned about being able to pay electricity bills.

At the same time, the energy sector is undergoing a significant decarbonisation and electrification transition requiring expenditure to enable additional utility-scale and distributed renewables and storage connections. The June 2023 sentiment survey by ECA³ also revealed that 27% of households think Australia should transition to a 100% renewable energy market by 2030, while a further 16% of households think this should happen by 2040.

On 31 August 2023, the Australian Energy Market Operator released its annual *Electricity Statement of Opportunities*⁴. The report highlights that 'Australia's NEM is perched on the edge of one of the largest transformations since the market was formed over 20 years ago.'⁵ It flags that the 'scale of opportunity to meet an imminent and growing need for firm capacity, new forms of energy production and significant consumer energy investments is unparalleled

¹ SEC Newgate Australia, *SEC Newgate Mood of the Nation* – June 2023.

² Energy Consumers Australia, June 2023 - *Energy Consumer Sentiment Survey*, June 2023.

³ Energy Consumers Australia, June 2023 - *Energy Consumer Sentiment Survey*, June 2023.

⁴ AEMO, [Electricity Statement of Opportunities](#), August 2023.

⁵ AEMO, [Electricity Statement of Opportunities](#), August 2023, p.3

in Australia’s energy history’⁶. The sentiments of the report are timely for our draft decision and assessment of how to move towards the future.

Many households are actively investing in consumer energy resources (CER) such as solar, batteries and electric vehicles (EVs). While these investments will provide benefits to individual households and the overall energy system, their integration into the existing energy network will require increased expenditure by network businesses.

Tariff reform is required to support the energy transition, particularly around CER such as EVs. Appropriately structured tariffs can enable growth in the value of and number of people with CER, while creating investment signals that limit the level of network investment required and resulting price increases for consumers. For example, export reward tariffs are now being proposed to deal with two-way flows on networks and contingent tariff adjustments are being proposed to deal with uncertainty about the rate of change in uptake of CER. We are also encouraging network businesses to explore additional tariff options to deal with increasing EV numbers.

These changes are occurring at the same time as networks are needing to increase expenditure in order to address important emerging issues such as network cybersecurity, climate resilience, and digitalisation.

In making this draft decision, we have sought to balance the need for efficient and prudent investments in new and emerging areas that support the energy transition, while ensuring consumers facing cost-of-living pressures pay no more than necessary for electricity services that meet their current and future needs. We recognise and support the need for innovative approaches to help drive an affordable energy transition.

Our assessment of Evoenergy’s proposal

Evoenergy’s regulatory proposal has been shaped by the ACT Government’s climate change response. This includes a legislated target of net zero by 2045, requiring a rapid and extensive reduction in greenhouse gas emissions. As part of this process, the transport system will be decarbonised, with zero emission vehicles becoming dominant in the 2030s. Natural (fossil) gas will gradually be phased out, with the electricity network becoming the basis for almost all energy use in the ACT over the next two decades. We also note the ACT Government’s ongoing development of its Integrated Energy Plan.⁷

Evoenergy’s regulatory proposal recognises that the electricity network needs to innovate to evolve into the platform that underpins almost all energy use in the ACT. This will involve consideration of issues such as investments in the existing low voltage grid to meet increased peak demand from EVs, and greater electrification and increased two-way energy flows associated with increased distributed asynchronous generation such as solar and batteries. Network tariffs will also need to evolve to meet changing consumer needs and preferences, at a time when a significant number of ACT consumers are facing cost-of-living pressures. Our analysis shows that Evoenergy’s distribution and transmission network charges make up around 21% of its residential customers electricity bills.

⁶ AEMO, *Electricity Statement of Opportunities*, August 2023, p.3

⁷ ACT Government, [ACT Government Integrated Energy Plan](#), 2023

This context has been central to the regulatory judgements we have had to make as part of this draft decision.

This draft decision allows Evoenergy to recover an estimated \$1,043.7 million (\$nominal, smoothed) from consumers over the 2024-29 period. Our draft decision is a 3.2% reduction from Evoenergy's proposal. The reduction in overall revenue in this draft decision compared to the Evoenergy proposal is driven by reductions in capital expenditure (capex) and operating expenditure (opex) but offset mainly by our lower inflation forecast (increasing regulatory depreciation) and higher return on capital. For illustrative purposes, we estimate that this draft decision would result in an average increase of \$14 per annum to the average annual electricity bill, as it is today, for residential customers in the ACT over the 2024-29 period.

Evoenergy has provided a good quality regulatory proposal, that it developed through a robust engagement process. Evoenergy has also engaged constructively with us through information requests to allow us to better understand the drivers of its proposal and to close gaps in its supporting information. While we have accepted many aspects of Evoenergy's proposal, our review has identified some areas, such as components of forecast capex, opex, and its tariff structure statement, where we think Evoenergy's proposal does not as yet meet the requirements under the NER.

As discussed above, uncertainty, evolving threats around cybersecurity, climate risk and the transitioning energy market have been central considerations for all businesses in developing their current proposals. Similar to other businesses, Evoenergy has proposed investments in the new and emerging areas of CER integration and cybersecurity. We recognise the need for investments in these important areas as part of the energy transition.

We acknowledge the significant work Evoenergy has undertaken to understand these challenging areas of expenditure and the considerable and genuine efforts to engage with customers to understand their preferences. However, having considered its proposal against each of the criteria under the NER, our draft decision on these matters notes some of areas where we are not yet satisfied that the proposal reflects the prudent and efficient costs of meeting customer and community needs.

The guidance provided in our draft decision will provide an opportunity for Evoenergy to consider what further information and analysis may be required to support a prudent and efficient investment in its revised proposal. In doing so, we have also been mindful that these decisions consider new areas of expenditure such as CER integration, climate resilience and cybersecurity, where our assessment approaches are evolving.

Our draft decision does not approve Evoenergy's proposed capex forecast. Our draft decision on forecast capex is 20% lower than Evoenergy's proposal. Evoenergy has proposed a 51% increase in forecast capex in comparison to the current period, which we consider is not sufficiently justified in terms of prudence and efficiency. We have particular concerns with the proposed augmentation expenditure, where it has forecast a 274% increase compared to the current period for substation and feeder works to meet forecast demand for EV charging. We also have concerns around the proposed increase in replacement expenditure, which is proposed to increase by 24% compared to the current period in response to deteriorating reliability performance. We consider that Evoenergy has not sufficiently demonstrated the need for the uplift in replacement expenditure.

Much of the forecast capex increase is driven by the ACT Government policy on achieving a net zero emission target by 2045, specifically forecast EV charging demand leading to increased augex. We have identified specific areas where Evoenergy can enhance its approach to forecasting demand. We have arrived at a lower alternative forecast of demand than proposed by Evoenergy (which results in lower augex), but this is not a conclusive estimate. We recognise that further work needs to be done to refine the forecasting methodology and update key inputs, taking into account more recent data and information on EV sales and EV customer charging profiles. Evoenergy is encouraged to revisit the demand forecast and present further justification based on more detailed modelling for its revised regulatory proposal. Evoenergy also put forward a contingent project for a program of feeder and substation works with an indicative cost of \$100-150 million, to meet forecast peak demand due to a higher than projected uptake of EVs and/or faster than expected electrification. Our draft decision is not to accept this contingent project on the grounds that it is not compliant with the rule requirements. As currently drafted, we do not consider that the triggers are appropriate with insufficient information in terms of necessity, location and specification.

Our draft decision does not accept Evoenergy's proposed opex forecast. Our draft decision is 13.7% lower than Evoenergy's proposal. Our analysis of Evoenergy's opex benchmarking results and expenditure trends suggests Evoenergy's opex in its proposed 2021–22 base year is materially inefficient. Evoenergy's relative opex efficiency has declined in recent years, in part due to the improved performance of other previously poorly performing service providers. Our analysis takes into account adjustments we make to factor in Evoenergy's specific operating environment, and conservatism in applying our benchmarking tools, recognising these are not precise or perfect. Based on our benchmarking analysis, we have applied an efficiency adjustment to Evoenergy's base year opex. Importantly, we have applied this adjustment through a linear transition path over the 2024–29 regulatory control period. This recognises that it will take time and involve costs to realise opex efficiencies, and provides for prudent, practicably achievable targets that will allow Evoenergy to improve cost efficiency while maintaining the quality, reliability, security and safety of network services.

Our draft decision does not approve Evoenergy's tariff structure statement. We consider Evoenergy's proposed tariff structure statement does not comply with all elements of the NER pricing principles and does not sufficiently contribute to the NEO by promoting efficient use of electricity services. We want Evoenergy to explore how innovative tariff options could be integrated with its capex program to optimise its existing network assets. Evoenergy has been a leader in network tariff reform, but we think that with the greater numbers of EVs on ACT roads and associated charging demand being projected, it should look to go further with its current tariff proposal. We are requiring Evoenergy to investigate a controlled load tariff suitable for flexible load such as EV charging. This goes to our broader and longstanding view that distributor tariff proposals must be properly integrated with their business activities, including their network investment plans.

Evoenergy's proposed two-way tariffs, including residential and large-scale battery export reward tariffs, have been considered alongside proposals by NSW businesses. Evoenergy's residential two-way pricing proposal has been accepted. Evoenergy's grid-scale battery two-way pricing proposal has not been accepted because it does not include a basic export level.

Our draft decision on metering takes into consideration the Australian Energy Market Commission's metering review. In particular, our draft decision sets price caps to allow

Evoenergy to recover costs from all historical legacy metering customers, instead of a progressively decreasing legacy metering customer base. This change mitigates the inequitable price increases that are likely to occur for any individual customer and ensures a more equitable contribution to the roll out of smart meters.

While our draft decision maintains classifying metering services as alternative control services (ACS), we consider a reclassification to standard control services (SCS) the most equitable solution as it would allow cost recovery across all customers. We consider this appropriate since all customers benefit from the transition. We encourage Evoenergy to engage with stakeholders in considering this change in settings for their revised proposals.

In this Overview and the accompanying detailed attachments, we have set out the assessment approaches applied, and enquiries made, as part of our review, with the benefit of which we have been able to arrive at this draft decision.

This draft decision is the key mid-point in our assessment of Evoenergy’s proposal. Evoenergy now has the opportunity to respond in a revised proposal that incorporates the substance of the changes required by, and addresses matters raised in, this draft decision. Evoenergy has also signalled that it may propose additional reasoning to support its proposed capex and opex in key areas. We encourage this further information.

The role of consumer engagement in driving regulatory proposals

In December 2021, we released the Better Resets Handbook (the Handbook) for the purpose of encouraging networks to better engage and have customers preferences drive the development of regulatory proposals.⁸ The principles for considering consumer engagement in network revenue determinations is set out in the Handbook, with the objective stating:

Networks that engage in genuine engagement with consumers are likely to result in better quality proposals being submitted to the AER. Proposals that reflect consumer preferences, and meet our expectations, are more likely to be largely or wholly accepted at the draft decision stage, creating a more effective and efficient regulatory process for all stakeholders.⁹

The Handbook provides guidance on our expectations for how a network business can engage with consumers. It also sets out our expectations under the NER framework, in topic areas such as capex, opex, regulatory depreciation and tariff structure statements which tend to have the most significant impact on consumers.¹⁰

Consumer engagement is an important facet of our assessment; however, we are still required to ensure we are satisfied that the proposed forecast reasonably reflects prudent and efficient costs and a realistic expectation of future demand and cost inputs. We are looking to see how consumer values and preferences are shaping engagement. When assessing a proposal, we should be able to see how a business has linked customer preferences to the expenditure proposed. Where consumer views on an issue are diverse, a business needs to set out those views and how it has balanced the divergence of preferences. Diversity of views will always be prevalent between stakeholders and a

⁸ AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 1.

⁹ AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 3.

¹⁰ The expectations being for electricity distribution businesses only. AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p.4.

business should seek to find mutually acceptable solutions where there are divergent consumer views.¹¹

Our role in understanding consumer engagement is not to validate or invalidate the engagement undertaken by a business. All network businesses are distinct, and the engagement undertaken should reflect the purposes and needs identified for that business. We recognise that consumer engagement is dynamic and will involve continuous improvement.

We also acknowledge the different roles stakeholders will play in developing a business's engagement process and that this is an evolving space. The nature of how a network engages with its consumers may include examples such as an advisory panel, or a representative peoples panel. How a business undertakes this engagement is not prescribed in the Handbook, but it asks that engagement is undertaken sincerely with consumers to understand and reflect their preferences in proposals.¹² The AER's Consumer Challenge Panel may also have a role in a business' engagement, for example in specific circumstances of a pre-lodgement engagement process or the observation of a specific, unique piece of engagement.

We observe that Evoenergy has generally demonstrated a significant step-up in consultation with customers and stakeholders, in accordance with Better Resets Handbook expectations. This includes a demonstrated significant improvement in customer consultation prior to the lodgement of its initial proposal to ensure customer preferences have been reflected. Stakeholder submissions indicated that the consumer engagement on capex was overall conducted well. However, it was not clear to the CCP26 Consumer Challenge sub-panel (CCP26) that there had been equivalent engagement on opex¹³. In addition, the CCP26 noted that the engagement about tariffs occurred at a greater depth than Evoenergy's 'building block' topics. After consulting consumers, Evoenergy chose to withdraw from proposing a Customer Service Incentive Scheme (CSIS). The CCP26 suggested that an opportunity for Evoenergy to improve its consumer engagement is in hearing what customers are saying, including the diversity of consumer views. This includes recognising that affordability has been a central issue in consumer feedback. We encourage Evoenergy to effectively consult with customers and stakeholders on all capex, opex and contingent project proposals that could materially impact customer affordability, in its revised proposal.

The amended NEO and the current regulatory determination resets

A new emissions objective has been added to the existing economic efficiency framework in all three energy objectives, including the NEO. The long-term interests of consumers will extend to the achievement of Commonwealth, State and Territory targets for reducing Australia's greenhouse gas emissions, or that are likely to contribute to reducing Australia's greenhouse gas emissions. This is based on the *National Energy Laws Amendment (Emissions Reduction Objectives) Act* which passed the South Australian Parliament in September 2023. The Act states that the amended NEO applies to the revenue determinations for Ausgrid, Endeavour Energy, Essential Energy, Evoenergy, TasNetworks

¹¹ AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 16.

¹² AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 12.

¹³ AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, pp. 19-29.

Distribution, TasNetworks Transmission and Power and Water Corporation (NT) for the 2024-29 regulatory control period.

We published final guidance on the amended national energy objectives in September 2023. This guidance included how we will operationalise the amended NEO and applies only to the affected network service providers for the 2024-29 regulatory determinations.

We think inclusion of emissions reduction in the NEO is a significant reform in how energy systems are governed and will be invaluable to progressing the energy transition. As the independent regulator, the NEO guides our work to promote the long-term interests of consumers with respect to achieving emission reduction targets, alongside our existing considerations including price, quality, safety and reliability of energy supply.

We recognise that the transition to net zero and emissions reduction has been a feature of Evoenergy’s engagement with consumers to date and is already a key driver in its proposal. We have considered this consumer feedback in our assessment of Evoenergy’s proposals.

If Evoenergy’s revised proposal includes material new expenditure because of the amended NEO, we would expect it to demonstrate that the expenditure aligns with consumer preferences and the criteria for prudent and efficient expenditure, consistent with the Better Resets Handbook. We will continue to work with the affected network service providers as they prepare and consult on their revised regulatory proposals.

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1 Our draft decision

Our draft decision would, if implemented, allow Evoenergy to recover a total revenue of \$1,043.7 million (\$ nominal, smoothed) from its consumers from 1 July 2024 to 30 June 2029. Our draft decision provides for the combined revenue of Evoenergy’s distribution and dual function (transmission) assets.¹⁴

In the sections below we briefly outline what is driving Evoenergy’s revenue, and the key differences between our draft decision revenue and the \$1,078.5 million in Evoenergy’s proposal.¹⁵

1.1 What is driving revenue?

Revenue is driven by changes in real costs and inflation. We assess costs (such as capex and opex) in real terms.

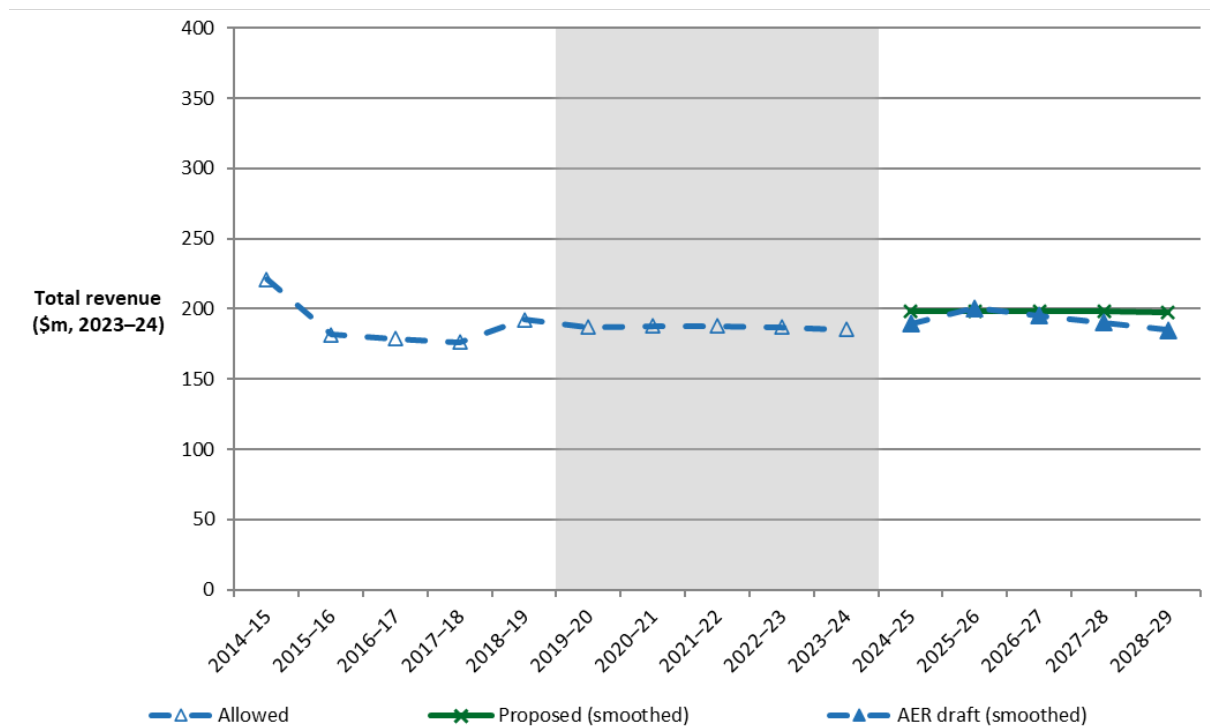
Over time, inflation impacts the spending power of money. To compare revenue from one period to the next on a like-for-like basis, in this section we use ‘real’ values based on a common year (2023–24) that have been adjusted for the impact of inflation instead of the nominal values above.

In real terms, this draft decision would allow Evoenergy to recover \$960.5 million (\$2023–24, smoothed) from consumers over the 2024–29 period. This is 2.8% higher than our decision for the current (2019–24) period. Changes in Evoenergy’s revenue over time are shown in Figure 1.

¹⁴ The costs attributed to the dual function assets are recovered through Transgrid, as the coordinating transmission network service provider for New South Wales and the ACT.

¹⁵ The amounts presented in this overview combine both the distribution and transmission networks numbers. A breakdown of the distribution and transmission numbers can be found in the attachments to this draft decision.

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



Source: AER analysis.

In real terms, this draft decision would allow Evoenergy to recover a total building block revenue of \$959.8 million (\$2023–24, unsmoothed) over the 2024–29 period. Figure 2 highlights the key drivers of the change between the revenue approved for Evoenergy for the 2019–24 period and in this draft decision for the 2024–29 period. It shows that our draft decision provides for reductions in the building blocks for:

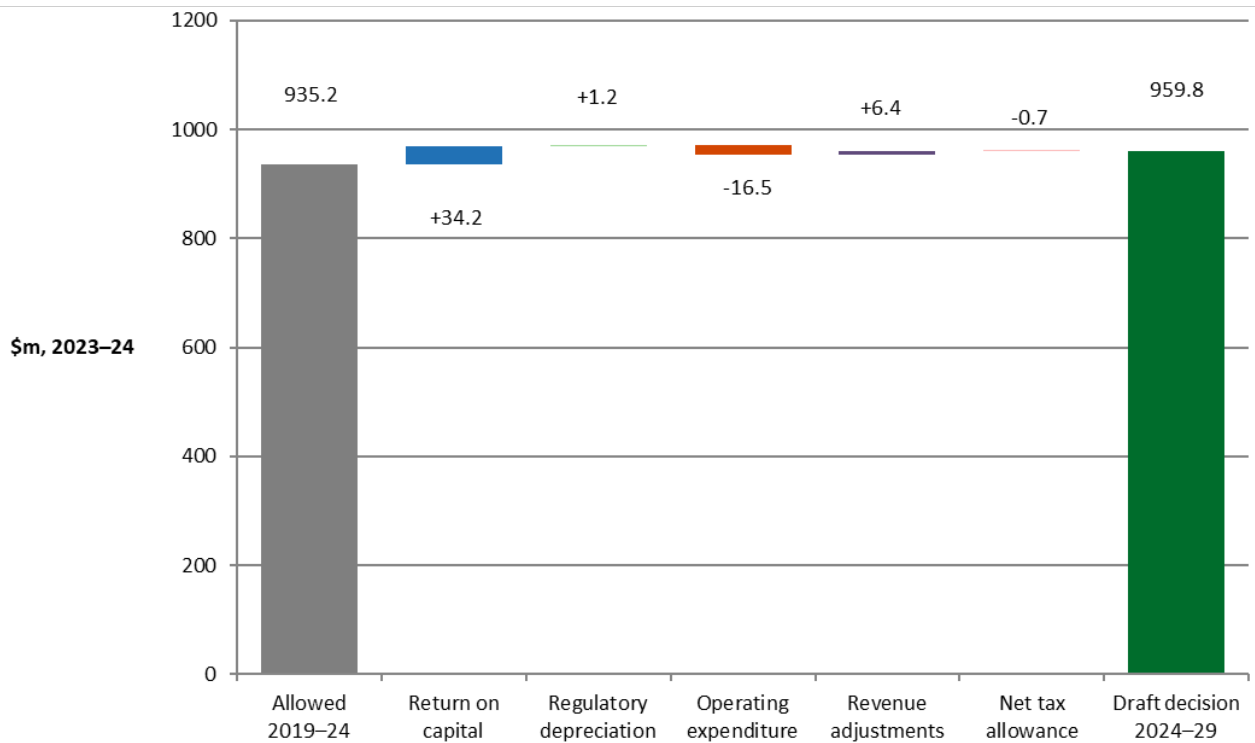
- operating expenditure (opex), which is \$16.5 million (4.7%) lower than the opex forecast we approved in the 2019–24 period.
- net tax allowance, which is \$0.7 million (5.2%) lower than the 2019–24 period, primarily due to higher immediate expensing of capex forecast for the 2024–29 period.

Our lower forecast capital expenditure (capex) has reduced the proposed increase in the regulatory asset base (RAB), but its impact in the short run has been less than other factors driving the return on capital (i.e. rate of return). Figure 2 shows that our draft decision provides for an increase in the return on capital building block. This is \$34.2 million (11.7%) higher than the 2019–24 period, driven by an increase in the RAB and a higher rate of return being applied in the 2024–29 period, in accordance with the 2022 Rate of Return Instrument. Revenue adjustments for the 2024–29 period are \$6.2 million higher¹⁶ than the 2019–24 period, mainly due to an increase to the capital expenditure sharing scheme (CESS)

¹⁶ Revenue adjustments were negative over the 2019–24 period but are forecast to be positive over the 2024–29 period.

outcome. Regulatory depreciation for the 2024–29 period has also increased marginally by \$1.2 million (0.4%).

Figure 2 Changes in total revenue between 2019–24 and 2024–29 period – distribution and transmission (\$ million, 2023–24, unsmoothed)

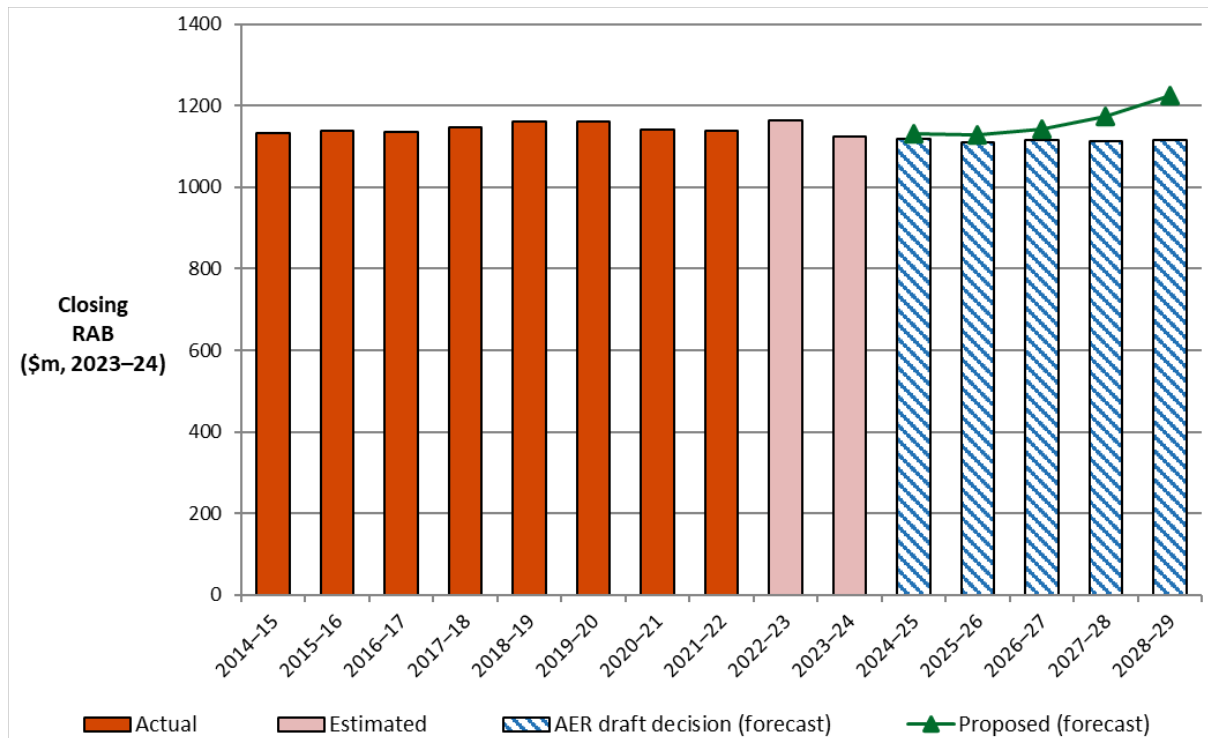


Source: AER analysis.

Note: This comparison is based on converting 2019–24 forecast opex for inflation to 2023–24 dollar terms using lagged CPI.

Figure 3 shows the value of Evoenergy’s combined RAB over time. After a RAB reduction of 3.3% over the 2019–24 period, our draft decision results in a further forecast reduction of the RAB by \$8.1 million (\$2023–24) or 0.7% over the 2024–29 period. This reduction is mainly driven by higher forecast regulatory depreciation over the 2024–29 period.

Figure 3 Evoenergy’s RAB value over time – distribution and transmission (\$ million, 2023–24)



Source: AER analysis.

1.2 Key differences between our draft decision and Evoenergy’s proposal

Our draft decision accepts some elements of Evoenergy’s proposal. However, significant differences remain in the forecast capex and opex amounts. The reduction in the forecast opex is the key driver of the overall reduction in approved revenues in this draft decision.

Our draft decision includes:

- a higher return on capital, which is driven primarily by a higher rate of return¹⁷
- a higher estimated cost of corporate income tax amount, driven primarily by our draft decision on forecast capex, which consequently decreases Evoenergy’s tax depreciation amount by reducing the amount of immediately expensed capex.

The regulatory depreciation amount is largely unchanged. The impact of the lower expected inflation in our draft decision has the effect of increasing regulatory depreciation, but this has been offset by the lower forecast capex approved in this draft decision.

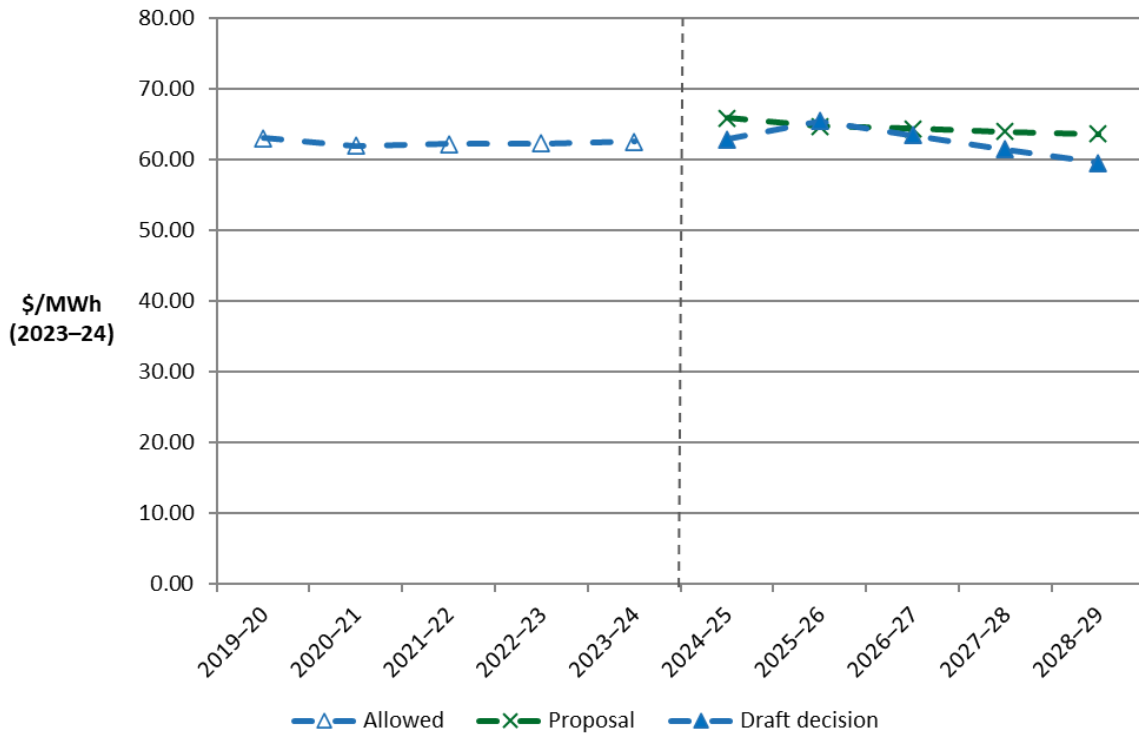
¹⁷ Average rate of return over the 2024–29 period.

1.3 Expected impact of our draft decision on electricity bills

Evoenergy recovers its distribution regulated revenue through distribution charges, set annually by reference to the tariff structure statement and pricing formulae approved by us as part of this decision. Evoenergy’s transmission (dual function assets) regulated revenues are recovered through transmission charges as we have decided to continue applying transmission pricing to these assets.¹⁸

For illustrative purposes only, we estimate that the modelled impact of this draft decision would be a total reduction to average network charges (distribution and transmission) of around 0.5% in real terms by 2028–29 compared to 2023–24 levels, or an average reduction of 0.1% per annum. This estimate is subject to ongoing revenue adjustments and changes in consumer energy consumption. Figure 4 compares this indicative price path for the 2024–29 period to the 2019–24 period.

Figure 4 Change in indicative charges for 2019–24 to 2024–29 – distribution and transmission (\$2023–24, \$/MWh)



Source: AER analysis.

Evoenergy’s network charges (distribution and transmission) make up around 21% of its residential customers’ electricity bills and 27% of its small business customers’ electricity bills. Other components of the electricity supply chain—the cost of purchasing energy from the wholesale market, core transmission network charges, environmental schemes and the costs and margins applied by electricity retailers in determining the prices they will charge

¹⁸ AER, *Framework and approach: Evoenergy (ACT), Regulatory control period commencing 1 July 2024*, July 2022, p. 49.

consumers for supply—also contribute to the prices ultimately paid by consumers.¹⁹ These sit outside the decision we are making here and will also continue to change throughout the period.

This is a draft decision, and final decision outcomes are likely to change. In nominal terms, which include the impact of expected inflation, the impact of this draft decision would be an increase to the network component of customers’ energy bills.²⁰ For illustrative purposes only, the modelled impact of our draft decision on the average annual electricity bill for a residential customer in the ACT, as it is today, would be an increase of \$69 (3.0%) by 2028–29, or an average of \$14 per annum. For small business customers, the impact would be an increase of \$381 (4.0%), or an average of \$76 per annum.

Our decision on Evoenergy’s proposal will set the revenue allowance that forms the major component of its network charges for the next 5 years. It provides a baseline or starting point for that period.

Over the 2024–29 period there are several additional mechanisms under the NER that may operate to increase or decrease those charges. These may include cost pass through events defined in the NER. They may also include contingent projects and additional cost pass through events proposed by Evoenergy and approved in our final decision. The triggers we have set out for these projects and events our decision will, if met, allow Evoenergy to apply for additional revenue for these projects throughout the period, at which point proposed costs will be subject to further consultation and assessment.

1.4 Evoenergy’s consumer engagement

Evoenergy is a natural monopoly supplying an essential service. As already outlined in the executive summary, the 2024–29 determinations are the first cohort of decisions to be made since publishing the Handbook. We believe that 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.

Evoenergy’s consumer engagement strategy stated that its 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

¹⁹ AEMC, *Data Portal*, [Trends in ACT supply chain components 2023/24](#).

²⁰ This includes the combined impact of Evoenergy’s distribution and transmission (dual function asset) component.

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.

1.4.1 Evoenergy’s engagement on its proposal

Our Issues paper for Evoenergy outlined its extensive consultation undertaken regarding the nature, breadth and depth and the impact of its consumer engagement.²³ This included setting out the engagement approach undertaken by Evoenergy, using multiple channels of engagement, such as its customer panels, workshops, surveys and forums.²⁴

Evoenergy noted it was guided by the Handbook.²⁵ In its proposal, it said that in relation to the expectation on consumer engagement it considered that factors, such as: engaging with its ECRC early to design an engagement program, undertaking in depth engagement through a variety of channels, investing in capacity building of its panel members, committed involvement from its executives and senior management and focusing its efforts with its panels on areas that could be influenced provided demonstrated the principles outlined in the Handbook.²⁶

In developing its engagement strategy, Evoenergy noted it reflected on its past consumer engagement programs, together with an assessment of the current energy landscape and reviewing new engagement practices.²⁷ During this early phase, it consulted with the ECRC to draw on the expertise of its members in developing an engagement program that was ‘inclusive and reflective of the diversity’ of its community.²⁸

Key engagement strategies for Evoenergy included but were not limited to: ECRC health checks, community panels, the community pricing panel and ACT Council of Social Services (ACTCOSS) engagement. The Community panel deliberative community engagement process was built to align with the involve and collaborate levels of the IAP2 spectrum.²⁹ CCP26 acknowledged that central to the Evoenergy engagement program was its Community Panel, a group of 20 people selected from across the ACT community, and a separate Community Pricing Panel. Both groups met on several occasions in 2021 and 2022. Evoenergy also undertook two Pricing Workshops. These formed the “deliberative engagement” streams reported by Evoenergy.³⁰

In developing its engagement strategy, Evoenergy sought to identify key consumers and stakeholders that reflected the diversity of its community. During the development process it considered who and how they needed to engage with to ensure a wide consultation.³¹

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

²³ AER, *Issues Paper - Evoenergy - 2024-29 Distribution revenue proposal*, March 2023, see pp. 6-9.

²⁴ AER, *Issues Paper - Evoenergy - 2024-29 Distribution revenue proposal*, March 2023, see pp. 6-9.

²⁵ Evoenergy, *Regulatory proposal*, January 2023, pp. 13-15.

²⁶ Evoenergy, *Regulatory proposal*, January 2023, pp. 13-15.

²⁷ Evoenergy, *Regulatory proposal*, January 2023, p.30.

²⁸ Evoenergy, *Regulatory proposal*, January 2023, p.30.

²⁹ Evoenergy, *Communication link Appendix G Community panel recommendations report*, November 2022, p. 3.

³⁰ Consumer Challenge Panel 26, *Advice to the AER - Submission - 2024-29 Electricity Determination – Evoenergy*, May 2023 p.7.

³¹ Evoenergy, *Regulatory proposal*, January 2023, p.30.

their priorities and expectations are for the services it provides, including how the business prepares and responds to future opportunities and challenges.³²

For example, Evoenergy’s proposal noted that its network is facing transformational change with the move to electrification and the ACT Government’s policy of net zero by 2045.³³ It has acknowledged that through its Phase 1 and 2 engagement program, it received feedback across 2 conflicting areas: keeping costs down in the regulatory period and investing in the network above business as usual to prepare for the future.³⁴

Evoenergy said that in exploring this discussion with customers:

We consciously balanced our role to provide factual expertise and guide discussion on all aspects of adjusting the level and pace of investment in the electricity network, while taking time to actively listen to consumer views and answer questions as they surfaced. This approach ensured our neutrality, allowed participants to lead discussion, and provided a level of integrity during this important stage of the engagement program.³⁵

Evoenergy noted that in response to the feedback heard, it believes that its proposal reflects a pace of investment matching the current information available to it. However, it noted that the ‘the majority of consumers we’ve have engaged with to date believe this is not enough, and that we need to do more.’³⁶

1.4.2 What we’ve heard from stakeholders

In our Issues paper, we asked stakeholders to consider a number of questions in relation to Evoenergy’s engagement including whether the key themes of engagement resonated with their own preferences, if stakeholders thought Evoenergy engaged meaningfully with consumers on all elements of its proposal, and to what extent stakeholders felt able to influence the topics engaged on by Evoenergy.³⁷

We received a number of submissions on Evoenergy’s proposal (listed in Section 7 of this decision). These submissions covered issues such as, but not limited to: EVs, tariff reform, Evoenergy’s connection policy, battery uptake, Evoenergy’s increased capex, emissions reductions, and the energy transition.

The CCP26 noted that the scope of the engagement had been reasonable in terms of the topics that were discussed at reasonable depth.³⁸ It noted that in considering what ‘breadth’ means in engagement, some understand it to mean the diversity of people engaged with, others the range of topics considered.³⁹ The CCP26 observed:

³² Evoenergy, *Appendix F Consumer engagement program report*, January 2023, p. 4.

³³ Evoenergy, *Regulatory proposal*, January 2023, p. 47.

³⁴ Evoenergy, *Regulatory proposal*, January 2023, p. 47.

³⁵ Evoenergy, *Regulatory proposal*, January 2023, p. 48.

³⁶ Evoenergy, *Regulatory proposal*, January 2023, p. 48.

³⁷ AER, *Issues Paper - Evoenergy - 2024-29 Distribution revenue proposal*, March 2023, see p.6.

³⁸ Consumer Challenge Panel 26, *Advice to the AER - Submission - 2024-29 Electricity Determination – Evoenergy*, May 2023 p.9.

³⁹ Consumer Challenge Panel 26, *Advice to the AER - Submission - 2024-29 Electricity Determination – Evoenergy*, May 2023 p.9.

We consider that Evo made good efforts to engage with a breadth of consumer cohorts and perspective but there was less breadth in the range of topics considered. There was, to our observation, a lack of breadth of engagement on ‘building block’ aspects while there has been good breadth of participants with the Community and Pricing Panels in particular.⁴⁰

The CCP26 did note that there were a number of very strong points of Evoenergy’s engagement, including, but not limited: seeking diversity of perspectives (including having both solar PV owners and non-solar PV owners together for discussions on the future of the network and tariffs), beginning engagement early and exploring the future network challenges and opportunities.⁴¹

The Conservation Council ACT noted it has been an active member of the ECRC and in its submission endorsed the recommendations of the Community Panel.⁴² The Conservation Council ACT noted that its key areas of interest/concern are the environmental impacts of the transition, and that it was pleased to note that Evoenergy’s proposal had considered ‘how to achieve the lowest price outcome for its customers while establishing the foundation for the bi-directional energy network of the future.’⁴³

The CCP26 also identified opportunities for Evoenergy to improve its engagement based on what they observed as they observed that hearing what consumers are saying, including the diversity of consumer views, was a challenge to Evoenergy.⁴⁴ This includes recognising that affordability has been a central issue in consumer feedback. Further, that Evoenergy think about affordability concerns and ‘Maintain reliability but make decisions that balance this with cost.’⁴⁵ The CCP26 also noted:

There is a challenge for the Evoenergy Board and senior staff to progressively improve their ability to hear the voices of lower income and disadvantaged people and to reflect what they hear and push themselves for constructive responses.⁴⁶

The ACT Council of Social Service (ACTCOSS) was involved in the engagement leading up to the development of its proposal in a number of ways, including through membership on its ECRC and Community Panels.⁴⁷ In relation to whether the key themes resonated with its own preferences, it said:

⁴⁰ Consumer Challenge Panel 26, *Advice to the AER - Submission - 2024-29 Electricity Determination – Evoenergy*, May 2023 p.9.

⁴¹ Consumer Challenge Panel 26, *Advice to the AER - Submission - 2024-29 Electricity Determination – Evoenergy*, May 2023 p.9.

⁴² Conservation Council ACT, *Submission – 2024–29 Electricity determination – Evoenergy*, May 2023, p. 1.

⁴³ Conservation Council ACT, *Submission – 2024–29 Electricity determination – Evoenergy*, May 2023, p. 2.

⁴⁴ Consumer Challenge Panel 26 - *Advice to the AER - Submission - 2024-29 Electricity Determination - Evoenergy – May 2023* p.9

⁴⁵ Consumer Challenge Panel 26 - *Advice to the AER - Submission - 2024-29 Electricity Determination - Evoenergy – May 2023* p.9

⁴⁶ Consumer Challenge Panel 26 - *Advice to the AER - Submission - 2024-29 Electricity Determination - Evoenergy – May 2023* p.9

⁴⁷ ACTCOSS, *Submission – 2024–29 Electricity determination – Evoenergy*, May 2023, p. 6.

While ACTCOSS does not oppose the six key consumer values that arose out of Evoenergy’s engagement, the key concern for our members and the broader community sector is affordability for vulnerable consumers. To ensure a fair and inclusive energy transition Evoenergy must balance the need for expenditure to support net zero electrification and cost-of-living pressures for consumers. Ideally, we would like to see some data driven evaluation of whether consumers can and do actually respond to the price signals set by Evoenergy.

The Conversation Council ACT noted that it believed Evoenergy staff were sincere in their efforts to seek community views and iteratively improve their processes for doing so.⁴⁸ However, it did observe that the ECRC meetings ‘lacked the multicultural diversity representative of the Canberra community’ and that the Community sessions felt segregated from other interest groups, noting they never heard directly from stakeholders such as retailers, tradespeople, or climate scientists.⁴⁹

The CCP26 observed Evoenergy struggled to seek to engage in depth, particularly on topics where consumers could influence the amount of revenue sought. The CCP26 noted that the engagement about tariffs occurred at a greater depth than Evoenergy’s ‘building block’ topics, actively engaging customers and exploring options that consumers could influence.⁵⁰ It did not observe any deep engagement on, or challenge of, proposed opex.⁵¹ The engagement on proposed opex step changes was ineffective for some of the step changes discussed, including Security of Critical Infrastructure, Distributed Energy Resources and insurance premiums.⁵² The CCP26 also believe there was insufficient levels of exploration of capex and opex expenditure.⁵³ CCP26 had less confidence regarding the level of support for the introduction of export tariffs. However, they agreed that customer feedback has been very influential in shaping its design and conservative introduction.⁵⁴

The CCP26 overall noted that while they agreed that a number of aspects of Evoenergy’s engagement had improved considerably since a decade ago, there is ‘still sufficient scope for Evoenergy to embed deeper consumer understanding and engagement, and strongly embed influence from consumers in their business-as-usual engagement.’⁵⁵

48 Conservation Council ACT, *Submission – 2024–29 Electricity determination – Evoenergy*, May 2023, p. 3.

49 Conservation Council ACT, *Submission – 2024–29 Electricity determination – Evoenergy*, May 2023, p. 3.

50 Consumer Challenge Panel 26 - *Advice to the AER - 2024-29 Electricity Determination - Evoenergy* - May 2023 p. 4.

51 Consumer Challenge Panel 26 - *Advice to the AER - 2024-29 Electricity Determination - Evoenergy* - May 2023 p. 14.

52 Consumer Challenge Panel 26 - *Advice to the AER - 2024-29 Electricity Determination - Evoenergy* - May 2023 p. 14-16.

53 Consumer Challenge Panel 26 - *Advice to the AER - 2024-29 Electricity Determination - Evoenergy* - May 2023 p. 16.

54 Consumer Challenge Panel 26 - *Advice to the AER - 2024-29 Electricity Determination - Evoenergy* - May 2023 p. 17-18.

55 Consumer Challenge Panel 26 - *Advice to the AER - Submission - 2024-29 Electricity Determination - Evoenergy* – May 2023 p.10.

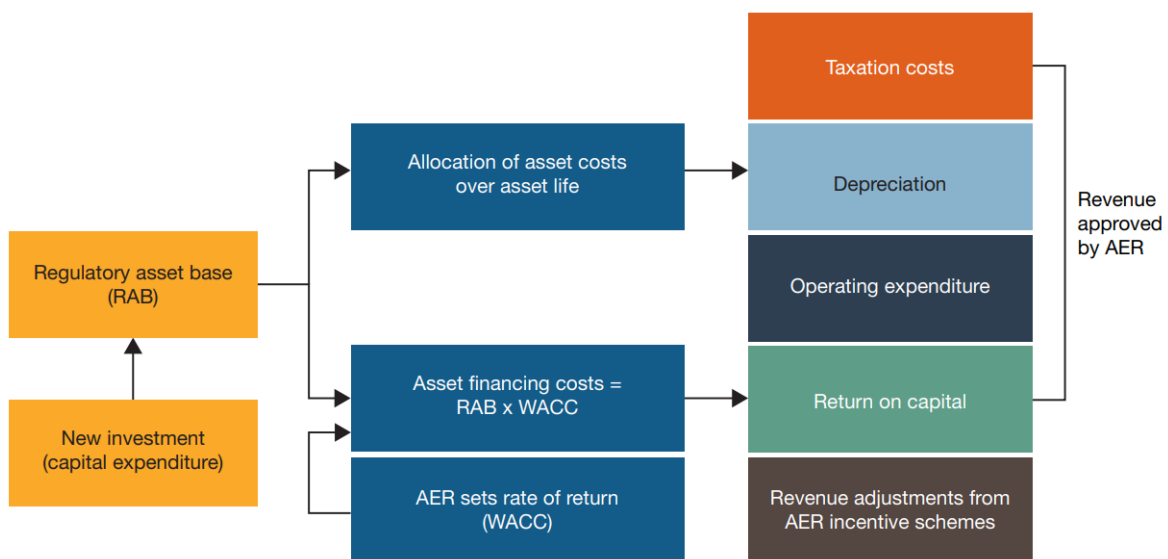
2 Key components of our draft decision on revenue

The foundation of our regulatory approach is a benchmark incentive framework to setting maximum revenues: once regulated revenues are set for a five-year period, a network that keeps its actual costs below the regulatory forecast of costs retains part of the benefit. This provides an incentive for service providers to become more efficient over time. It delivers benefits to consumers as efficient costs are revealed and drives 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 revenue proposal, and our assessment of it under the Law and Rules, are based on a ‘building block’ approach which looks at five cost components (see Figure 5):

- 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 opex – the operating, maintenance and other non-capital expenses, incurred in the provision of network services
- revenue increments/decrements – resulting from the application of incentive schemes, such as the EBSS and CESS
- estimated cost of corporate income tax.

Figure 5 The building block model to forecast network revenue



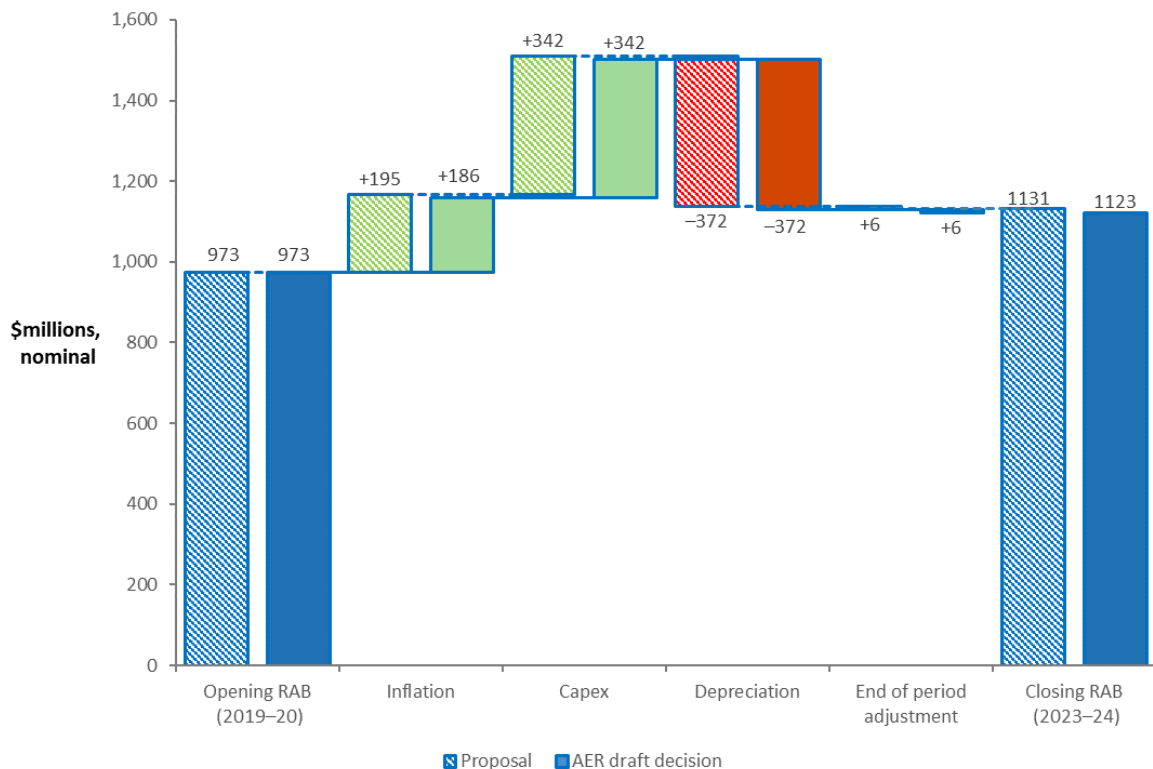
Source: AER.

2.1 Regulatory asset base

The RAB accounts for the value of regulated assets over time. To set revenue for a new regulatory period, we take the opening value of the RAB from the end of the last period and roll it forward year-by-year by indexing it for inflation, adding new capex and subtracting depreciation and other possible factors (such as disposals). This gives us a closing value for the RAB at the end of each year of the regulatory period. The value of the RAB is used to determine the return on capital and depreciation building blocks. It 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.

For this draft decision, we have determined a combined opening RAB value of \$1,122.8 million (\$ nominal) as at 1 July 2024. This value is \$8.5 million (0.7%) lower than Evoenergy’s proposed opening RAB of \$1,131.2 million. It reflects updates for actual/estimated inflation for the final two years of the 2019–24 period. Figure 6 shows the key drivers of the change in Evoenergy’s RAB over the 2019–24 period compared to its proposal.

Figure 6 Key drivers of changes in the RAB over the 2019–24 period – proposal compared with AER’s draft decision – distribution and transmission (\$ million, nominal)



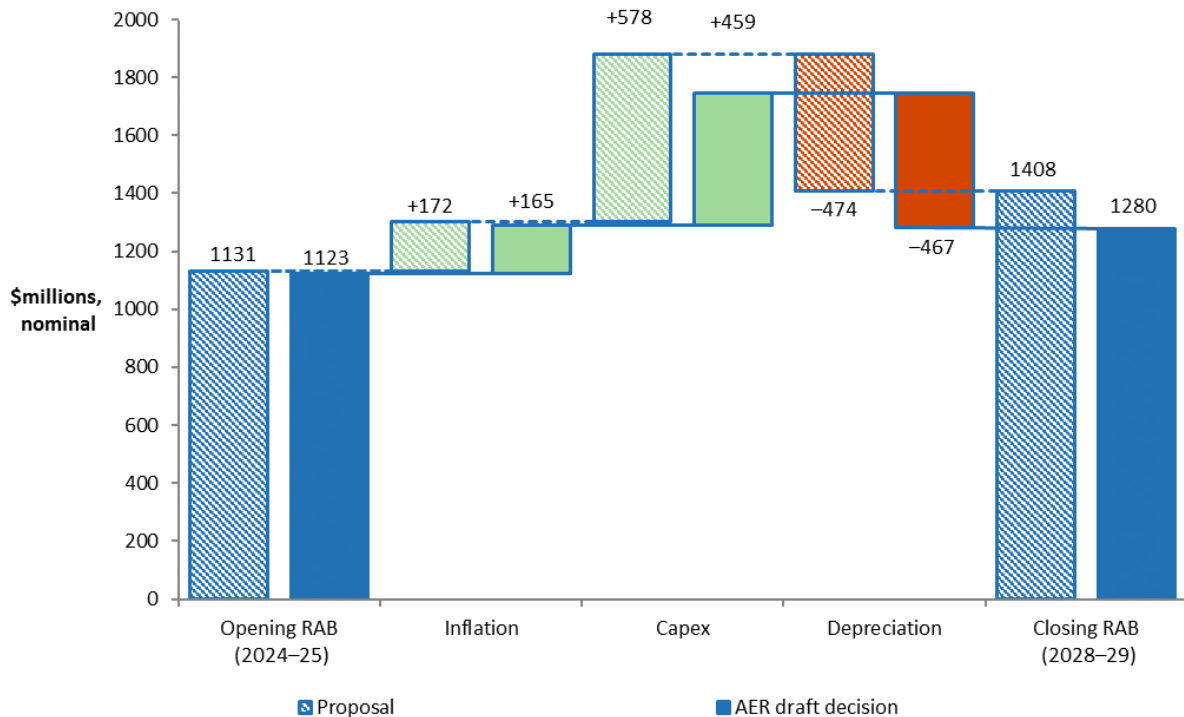
Source: AER analysis.

Note: Capex is net of disposals. It is inclusive of the half-year WACC to account for the timing assumptions in the RFM.

Figure 7 likewise shows the key drivers of the change in Evoenergy’s combined RAB over the 2024–29 period compared to its proposal. Our draft decision projects an increase of \$156.9 million (14.0%) to the RAB by the end of the 2024–29 period compared to the \$276.6

million (24.5%) increase in Evoenergy’s proposal. We have determined a projected closing RAB of \$1,279.7 million (\$ nominal) as at 30 June 2029, which is \$128.1 million (9.1%) lower than Evoenergy’s proposed \$1,407.8 million. This lower value is mainly due to the lower forecast capex that we have determined (discussed below). It also reflects our draft decisions on the opening capital base as at 1 July 2024, the expected inflation rate and forecast depreciation.

Figure 7 Key drivers of changes in the RAB over the 2024–29 period – proposal compared with AER’s draft decision – distribution and transmission (\$ million, nominal)



Source: AER analysis.

Note: Capex is net of forecast disposals. It is inclusive of the half-year WACC to account for the timing assumptions in the post tax revenue model.

2.2 Rate of return and value of imputation credits

The return each business receives on its capital base (the ‘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 value of the capital base. 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 gives a return on equity to investors.

Evoenergy’s proposal applied our 2018 Rate of Return Instrument to estimate the rate of return.⁵⁶ This draft decision applies the new 2022 Rate of Return Instrument.⁵⁷

- Our draft decision applies a rate of return of 5.81% for the first year of the regulatory period, compared to the placeholder rate of return of 5.60% used in Evoenergy’s proposal. This difference is due to updates to the return on debt, the risk-free rate, and the market risk premium in the 2022 Instrument.
- Our draft decision applies a value of imputation credits (gamma) of 0.57 as set out in the 2022 Instrument,⁵⁸ compared to 0.585 in the 2018 Instrument.⁵⁹

Our estimate of expected inflation for the purposes of this draft decision is 2.80% per annum. It is an estimate of the average annual rate of inflation expected over a five-year period based on the approach adopted in our 2020 Inflation Review⁶⁰ and the forecast from the Reserve Bank of Australia’s August 2023 Statement on Monetary Policy.⁶¹ This is lower than the estimate used in Evoenergy’s proposal (2.85%), which was taken from an earlier Statement on Monetary Policy.

Figure 8 isolates the impact of expected inflation from other parts of our draft decision, to illustrate its impact on the return on capital and regulatory depreciation building blocks and the total revenue allowance. Other elements held constant, lower expected inflation reduces the return on capital but increases regulatory depreciation.

⁵⁶ AER, *Rate of return Instrument*, December 2018. See <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/rate-of-return-guideline-2018/final-decision>

⁵⁷ The 2022 Rate of Return Instrument was amended in August 2023. See <https://www.aer.gov.au/publications/guidelines-schemes-models/rate-of-return-instrument-2022/final-decision>

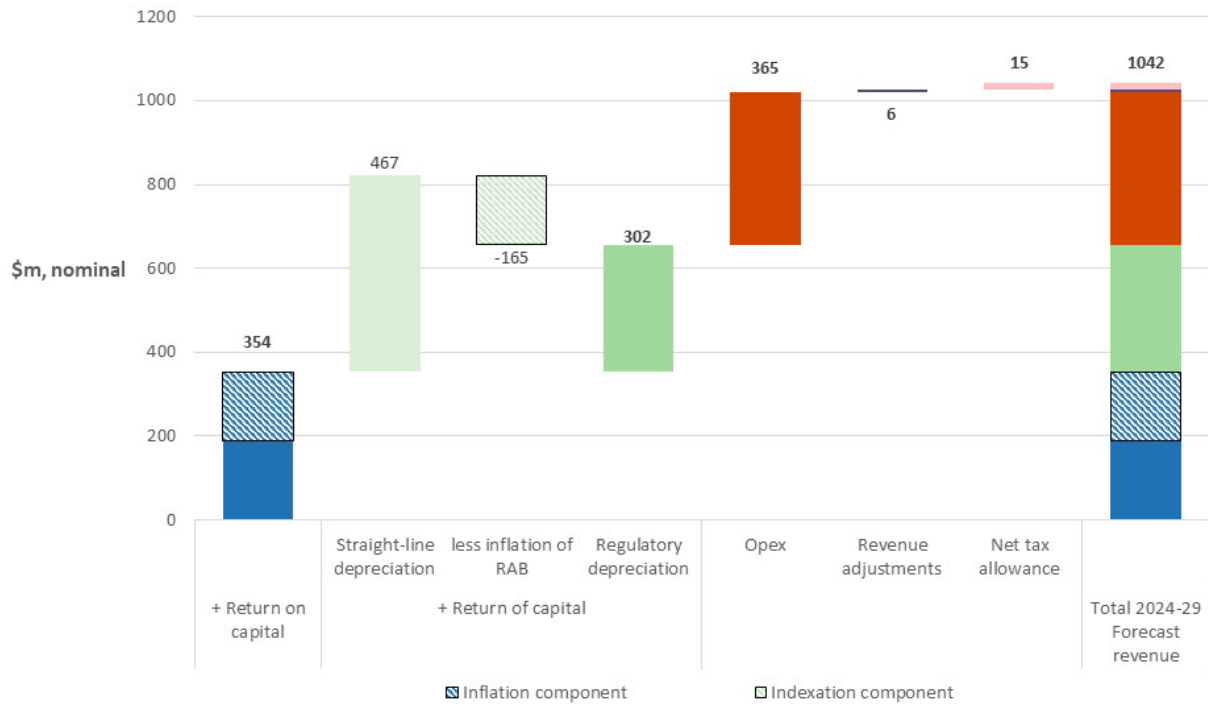
⁵⁸ AER, *Rate of return Instrument, Explanatory Statement*, February 2023, pp. 240–250.

⁵⁹ AER, *Rate of return Instrument, Explanatory Statement*, December 2018, pp. 307–382.

⁶⁰ AER, *Final position – Regulatory treatment of inflation*, December 2020.

⁶¹ RBA, *Statement on Monetary Policy*, August 2023, Table 1: Forecast Table. See <https://www.rba.gov.au/publications/smp/2023/aug/forecasts.html>

Figure 8 Inflation components in draft decision revenue building blocks – distribution and transmission (\$ million, nominal)



Source: AER analysis.

2.3 Regulatory depreciation (return of capital)

Depreciation is a method used in our decision to allocate the cost of an asset over its useful life. It is the amount provided so capital investors recover their investment over the economic life of the asset (otherwise referred to as ‘return of capital’). When determining total revenue, we include an amount for the depreciation of the projected RAB. The regulatory depreciation amount is the net total of the straight-line depreciation less the indexation of the RAB.

Our draft decision determines a combined regulatory depreciation amount of \$302.0 million (\$ nominal) for the 2024–29 period. This is an increase of \$0.6 million (0.2%) from Evoenergy’s proposal of \$301.4 million.

This increase is primarily due to our draft decision on the expected inflation rate for the 2024–29 period, which affects the projected RAB over this period. The lower expected inflation rate applied in the draft decision reduces the indexation of the RAB that is offset against straight-line depreciation in determining regulatory depreciation. Forecasts of expected inflation and components that make up the projected RAB will be updated again in Evoenergy’s revised proposal and our final decision.

2.4 Capital expenditure

Capital expenditure (capex) refers to the investment made in the distribution network to provide standard control services. This investment mostly relates to assets with long lives (30-50 years is typical) and these costs are recovered over several regulatory periods. On an annual basis, the financing and depreciation costs associated with these assets are

recovered through the return of, and on, capital building blocks that contribute to the total revenue requirement.⁶²

Our draft decision is that we are not satisfied that Evoenergy’s proposed total forecast capex of \$520.8 million (\$2023–24) reasonably reflects the prudent and efficient costs to maintain the safety, reliability and security of the network. Our substitute forecast is \$416.3 million, which is 20% below Evoenergy’s forecast. We would also like to see greater integration of Evoenergy’s tariff plans with this capex program, to optimise its existing network assets. We discuss this in Section 4 *Tariff Structure Statement*.

Table 1 outlines our substitute estimate of forecast capex and compares this to Evoenergy’s proposed forecast capex.

Table 1 AER’s draft decision on Evoenergy’s total net capex forecast (\$ million, \$2023–24)

	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Evoenergy’s proposal	88.0	90.2	100.9	115.0	126.7	520.8
AER’s draft decision	83.9	85.0	88.3	81.9	77.2	416.3
Difference (\$)	-4.1	-5.2	-12.6	-33.1	-49.5	-104.5
Difference (%)	-4.7%	-5.8%	-12.5%	-28.8%	-39.1%	-20.1%

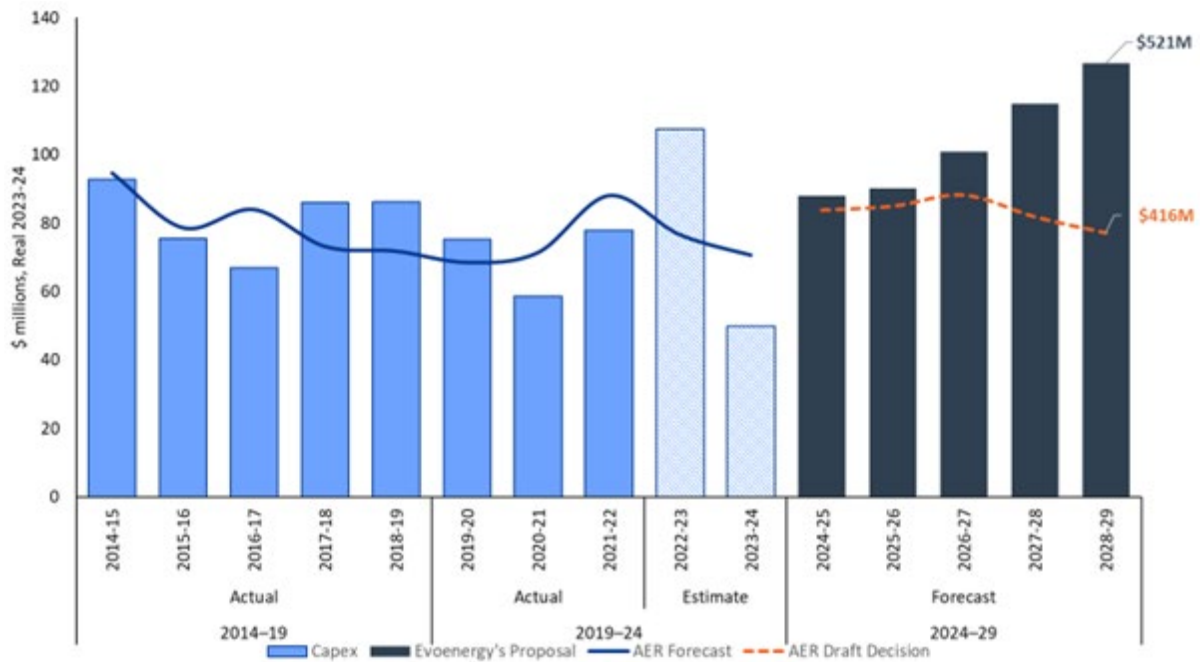
Source: AER analysis and Evoenergy’s proposal.

Note: Numbers may not add up due to rounding. Modelling adjustments relate to updates to the consumer price index (CPI), real cost escalation assumptions.

Figure 9 outlines Evoenergy’s historical capex trend, its proposed forecast for the 2024–29 regulatory control period, and our draft decision.

⁶² NER, cl. 6A.5.4(a).

Figure 9 Evoenergy’s historical and forecast capex (\$ million, \$2023–24)



Source: AER analysis

The significant increase in Evoenergy’s capex forecast compared to the 2019–24 regulatory control period is primarily due to an increase in forecast augmentation expenditure of \$133 million or 274%. This is evident in the later years of the 2024–29 regulatory control period as shown in Figure 9 above.

A large proportion of Evoenergy’s forecast augmentation increase is being driven by the ACT Government policy on achieving a net zero emission target by 2045. This represents a significant shift towards electrification and is most prevalent in the demand for electric vehicle (EV) charging services. Given the nature of EV charging services to predominately residential customers, Evoenergy has proposed a number of zone substation and low voltage feeder upgrade programs to meet the forecast increases in demand across the ACT.

In addition to augmentation, Evoenergy is also proposing a 24% uplift in its replacement expenditure to address reliability performance and the aging of its network assets.

For our draft decision forecast total capex of \$416.3 million (\$2023–24), we have not included elements of Evoenergy’s proposed:

- Augmentation expenditure forecast

Evoenergy proposed \$181.6 million (\$2023–24) for augmentation capex. Our draft decision is to include \$104.6 million for augmentation capex. This is \$77.7 million or 43% less than what Evoenergy proposed. Most of the reduction is demand driven and concerns EV demand related projects that are largely deferred because the network will be able to accommodate the current projected level of demand from EV’s over the 2024–29 regulatory control period.

We have determined a lower demand forecast than proposed by Evoenergy and require Evoenergy to update its forecasting approach and modelling inputs. This will also take

into account more recent data, including the ACT Government’s updated position on its integrated energy plan and the CSIRO’s forecast on EV charging profiles.

Our lower alternative demand forecast has the effect of reducing the augmentation capital expenditure by deferring projects to future regulatory control periods. However, we anticipate that the demand forecast will change from the draft decision, and this will have an impact on Evoenergy’s proposed augmentation expenditure for its revised proposal.

- Replacement expenditure forecast

Evoenergy proposed \$117.6 million (\$2023–24) for replacement capex. Our draft decision is to include \$94.4 million for replacement capex. This is \$23.2 million or 20% less than what Evoenergy proposed.

We consider Evoenergy has not sufficiently demonstrated the need for an uplift in replacement expenditure above the historical trend. This reduction brings Evoenergy’s expenditure in line with its historic average levels.

Evoenergy also proposed a contingent project to address uncertainty around the speed of the energy transition and its impact on demand on its network during the 2024–29 regulatory period, with a total indicative cost between \$100–\$150 million for an unspecified program of substation and feeder works.

Our draft decision does not accept Evoenergy’s proposed contingent project. We consider the triggers were either too broad, not specifically clear and lacked sufficient detail, including network specific locations, and required further justification. Evoenergy informed us that it is proposing to resubmit a new contingent project in the revised proposal and is considering a specific load driven contingent project to upgrade the Mitchell zone substation with an estimated cost of at least \$50 million.

2.5 Operating expenditure

Operating expenditure (opex) is the operating, maintenance and other non-capital expenses incurred in the provision of Evoenergy’s prescribed distribution services.

Our draft decision is not to accept Evoenergy’s proposed opex forecast of \$390.1 million (\$2023–24) for the 2024–29 regulatory control period. This is because we are not satisfied that it reasonably reflects the opex criteria.⁶³

Our draft decision is to include our alternative estimate of total forecast opex of \$336.5 million (\$2023-24), which we consider reasonably reflects the opex criteria. This draft decision is:

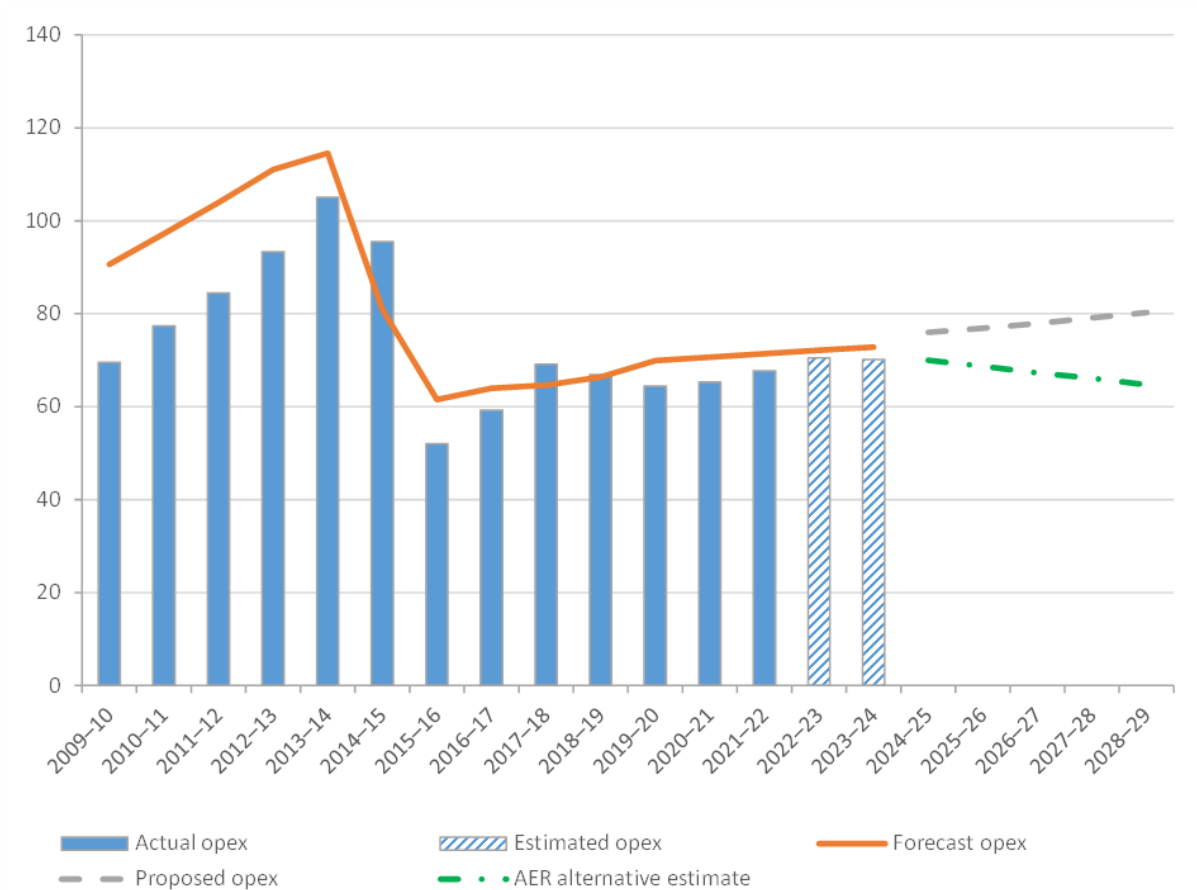
- \$53.6 million (\$2023–24) or 13.7% lower than Evoenergy’s proposal for the 2024–29 regulatory control period, largely due to the efficiency adjustment we have applied to Evoenergy’s base year (2021–22) opex through a linear transition pathway. The efficiency adjustment had regard to the results of our economic benchmarking and other supporting analysis

⁶³ NER, cl. 6.5.6(c)-(d).

- \$1.6 million (\$2023–24) or 0.5% lower than Evoenergy’s actual (and estimated) opex in the 2019–24 regulatory control period
- \$20.4 million (\$2023–24) or 5.7% lower than the opex forecast we approved for the 2019–24 regulatory control period.⁶⁴

Figure 10 compares the opex forecast we approve in this draft decision for the 2024–29 period to Evoenergy’s proposal, the forecasts we approved for the last two regulatory periods from 2009–10 to 2023–24, and Evoenergy’s actual and estimated opex across that period.

Figure 10 Historical and forecast opex (\$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.

Our lower alternative total opex forecast is primarily due to our findings that Evoenergy’s opex in its proposed base year of 2021–22 is materially inefficient, having regard to our economic benchmarking results and other analysis. As a result, our alternative estimate does not rely on actual or ‘revealed’ opex in the 2021–22 base year. Instead, we have made an efficiency adjustment to actual base year opex to reflect our view of an efficient level of recurrent opex. We have applied a base year opex efficiency adjustment, through a linear

⁶⁴ The \$20.4 million difference is calculated using our opex allowance for the five-year 2019–24 period converted to real 2023–24 dollars using unlagged inflation. The difference of \$16.5 million (\$2023–24) stated in section 1.1 has been calculated using lagged inflation.

transition pathway, of –\$30.8 million, representing a 7.9% reduction to proposed opex over the 2024–29 regulatory control period.

The other main drivers of our lower alternative estimate of total opex are:

- a lower final year increment (–\$9.3 million) as we no longer apply the standard final year equation to estimate final year opex where we make an efficiency adjustment to base opex
- lower expected output growth (–\$7.5 million), associated with lower forecasts of ratcheted maximum demand
- lower step change costs (\$–1.7 million) due to a lower estimate of efficient costs for the consumer energy resources integration step change.

Our reasoning behind these positions is outlined in further detail in Attachment 6.

2.6 Corporate income tax

Our determination of the total revenue requirement includes the estimated cost of corporate income tax for 2024–29 period. Under the post-tax framework, this amount is calculated as part of the building blocks assessment using our post-tax revenue model (PTRM).

Our draft decision determines a combined estimated cost of corporate income tax amount of \$14.5 million (\$ nominal) for Evoenergy over the 2024–29 period. This is an increase of \$4.9 million from Evoenergy’s proposal of \$9.5 million. This increase is primarily due to reductions in the forecast capex, a significant proportion of which was proposed to be immediately expensed. This in turn means there is lower tax depreciation to offset against revenues compared to the proposal, resulting in higher taxable income for Evoenergy and therefore the cost of corporate income tax.

2.7 Revenue adjustments

Our calculation of Evoenergy’s total revenue includes adjustments under the EBSS and CESS that applied in its determination for the current period. These mechanisms provide a continuous incentive for Evoenergy to pursue efficiency improvements in opex and capex, and a fair sharing of these between Evoenergy and its users.

Our draft decision includes a revenue adjustment (increment) of \$4 million (\$2023–24) under the CESS. This is \$3.6 million more than Evoenergy’s forecast of \$0.5 million because we applied updated modelling inputs, including inflation, rate of return and an adjustment for 2018–19 to reflect the difference between actual and estimated capex. The full detail on our draft decision regarding CESS is set out in attachment 9.

Our draft decision is to not apply any carryover penalties under the EBSS. This is because we have not used a base year revealed cost to forecast Evoenergy’s total opex. Rather, we have made an efficiency adjustment to actual base year opex, having regard to our economic benchmarking results and other analysis, to forecast Evoenergy’s total opex requirement. We provide further details on our decision on the EBSS in Attachment 8 of this draft decision.

Our draft decision also includes an allowance of \$1.90 million (\$2023–24) for the Demand Management Innovation Allowance Mechanism (DMIAM). In each year of the 2024–29 period, Evoenergy will submit demand management projects for approval under the DMIAM.

Any part of the \$1.90 million that is not spent on an approved project will be returned to consumers in the subsequent regulatory control period.

The combined effect of these revenue adjustments is a positive \$6.4 million (\$2023–24) revenue adjustment building block in this draft decision compared to a negative \$1.9 million in Evoenergy’s proposal.

3 Incentive schemes

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 expenditure efficiencies while maintaining the reliability and overall performance of the network. Our draft decision is that the following incentive schemes will continue to apply to Evoenergy in the 2024-29 period:

- Capital expenditure sharing scheme (CESS). This incentivises 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. Consumers benefit from improved efficiencies through a lower RAB, which is reflected in regulated revenues for future periods.
- The Service target performance incentive scheme (STPIS) balances a business' incentive to reduce expenditure with the need to maintain or improve service quality. It achieves this by providing financial incentives to businesses to maintain and improve service performance and not by simply reducing costs at the expense of service quality. Once improvements are made, the benchmark performance targets will be tightened in future years. The parameters that will apply to each component of the STPIS have been published as part of this draft decision.
- Demand Management Incentive Scheme (DMIS) and Demand Management Innovation Allowance Mechanism (DMIAM). The DMIS provides network service providers with financial incentives for undertaking efficient demand management activities. The DMIAM funds research and development in demand management projects that have the potential to reduce long term network costs.

Since our last determination for Evoenergy, we have introduced two new incentive schemes:

- A Customer Service Incentive Scheme (CSIS), which is designed to encourage electricity distributors to engage with their customers, identify (through customer engagement) the customer services their customers want improved, and then set targets to improve those services based on their customers' preferences and support.

After consulting consumers, Evoenergy chose to withdraw from proposing a CSIS.⁶⁵

- An Export Services Incentive Scheme (ESIS), which allows distributors to propose bespoke incentives related to export services based on their network circumstances, customer preferences and evidence-based performance data. The scheme is a product of our consultation with stakeholders on incentivising and measuring export service performance, which considered appropriate incentive arrangements for export services to balance existing incentive schemes related to consumption services, as well as the introduction of network performance reporting on export service performance metrics.

The ESIS was first published in June 2023, and was not available at the time of Evoenergy's proposal. Our draft decision is that an ESIS will not apply.

⁶⁵ Evoenergy, *Letter to the AER re: In response to AER feedback, Evoenergy proposes to withdraw its proposed CSIS*, 17 July 2023.

We have determined not to apply the Efficiency Benefit Sharing Scheme (EBSS) to Evoenergy in the 2024–29 regulatory control period. This is because we have not used a base year revealed cost to forecast Evoenergy’s total opex, and it is not certain that we will do so for the 2029–34 regulatory control period. Given the efficiency adjustment we have applied to Evoenergy’s actual base year opex, we consider Evoenergy will have an incentive to reduce its opex and achieve efficiencies in the 2024–29 regulatory control period. We provide further details on our decision on the EBSS in Attachment 8 of this draft decision.

4 Tariff structure statement

Evoenergy’s 2024–29 regulatory proposal includes its third tariff structure statement. Its current tariff structure statement will apply until 30 June 2024.

The requirement on distributors to prepare a tariff structure statement stemmed from significant reforms in 2014 to the rules governing distribution network pricing. The purpose of the reforms is to empower customers to make informed choices by:

- providing better price signals—tariffs that reflect what it costs to use electricity at different times so that customers can make informed decisions to better manage their bills
- transitioning to greater cost reflectivity—requiring distributors to explicitly consider the impacts of tariff changes on customers, and engaging with customers, customer representatives and retailers in developing network tariff proposals over time
- managing future expectations—providing guidance for retailers, customers and suppliers of services such as local generation, batteries and demand management by setting out the distributor’s tariff approaches for the 5-year regulatory control period.

It is important to note that distributors charge retailers for the network services they provide to the retailer’s customers (end-customers). There is no obligation on retailers or energy service providers to pass the network tariff structure through to their end-customers. The structure of retail offers is determined by retailers responding to consumer preferences and competitive pressures, while also deciding how best to manage the network price signals. A retailer may choose to pass on the network price signals exactly or repackage them into its retail offers (including in some flat rate retail offers).

Network tariff reform aims to help distributors charge retailers in a manner which more closely reflects the cost of providing electricity network capacity to their end customers and can support the energy transition currently underway. Where price signals are passed through and if customers are well placed to respond to these price signals, appropriately structured tariffs can enable growth in the value and number of people with CER. At the same time, this response to price signals can reduce network constraints and limit the level of network investment required, resulting in lower prices for all consumers.

The tariff structure statement must set out a number of matters. These include tariff classes, proposed tariffs and the structures and charging parameters, the strategy for introduction of export tariffs, and the approach to setting tariff levels in each year of the regulatory control period.⁶⁶ The policies and procedures it will use to assign customers to tariffs or reassign customers from one tariff to another must also be outlined.

In this determination we decide the structure of tariffs that will form the basis of annual pricing proposals throughout the 2024–29 period.⁶⁷ We are also required to decide the

⁶⁶ NER, cl. 6.18.1A(a).

⁶⁷ NER, cl. 6.12.1(14A).

policies and procedures for assigning or re-assigning customers to tariff classes.⁶⁸ While an indicative pricing schedule must accompany the tariff structure statement, the tariff levels for each tariff for each year of the 2024–29 period are not set as part of this determination.⁶⁹

Tariff levels for the regulatory year commencing 1 July 2024 will be subject to a separate approval process in May 2024, after we have made our final revenue determination in April 2024. Tariffs for the four years from 1 July 2025 will also be approved on an annual basis.⁷⁰

We commend Evoenergy for submitting, in terms of its high-level structure, a good quality tariff structure statement that was developed with thoughtful engagement with consumers and responsiveness to their views. We have given weight to the involvement of consumers in developing Evoenergy’s tariff structure statement, as well as the submissions we have received.

Evoenergy’s tariff structure statement generally continues its strong performance on tariff reform. With respect to the rise of CER, Evoenergy’s tariff structure statement includes many elements that support the energy transition, facilitating the growth of CER while minimising network investment. These include proposing an export reward tariff, grid-scale battery tariffs and new time-of-use and demand tariffs for small customers that have low charges in the middle of the day and charging parameters to avoid development of new demand peaks during off-peak charging windows from flexible load like EVs.

However, we consider Evoenergy’s proposed tariff structure statement does not comply with all elements of the NER pricing principles and does not sufficiently contribute to the NEO by promoting efficient use of electricity services. Given the current and anticipated uptake of EVs in the ACT and associated EV charging load on Evoenergy’s network, we think there is a further tariff option Evoenergy should consider to help manage potential network impacts from uncontrolled EV charging. This goes to our broader and longstanding view that distributor tariff proposals must be properly integrated with their business activities, including their network investment plans. We further consider that a handful of relatively minor changes are required to achieve compliance with the NER pricing principles.

We require Evoenergy to:

- consider introducing an opt-in controlled load tariff for the 2024–29 period to help further incentivise owners of electric vehicles (and other flexible load) to charge in ways that do not drive network investment
- more clearly define trigger events for proposed contingent tariff adjustments
- remove of its contingent tariff adjustment to mandatorily assign retailers of EV owners with fast chargers to residential demand tariffs
- include a basic export level for its grid-scale battery tariff to ensure Evoenergy’s revised proposal is consistent with the NER.

⁶⁸ NER, cl. 6.12.1(17)

⁶⁹ NER, cl. 6.8.2(d1).

⁷⁰ This will occur pursuant to obligations in cl. 6.18.2 and cl. 6.18.8 of the NER.

In Attachment 19 we describe in further detail these changes that we consider necessary for us to approve Evoenergy’s tariff structure statement proposal.

5 Metering

Smart meters are foundational to a more connected, modern, and efficient energy system and one mechanism to ensure that future technologies, services, and innovations are supported. The Australian Energy Market Commission (AEMC) has been considering the transitioning of legacy meters and in December 2020, initiated a review of the regulatory framework for metering services.

In our final Framework and approach (F&A) for the NSW distributors⁷¹, and Issues paper for Ausgrid,⁷² we signalled that the outcomes of the AEMC’s review may require different classification and price/revenue control settings in our draft or final decisions.

5.1 The AEMC’s final decision

The AEMC’s draft report noted that smart meters provide whole-of-system benefits which should be realised as soon as possible.⁷³ The AEMC’s final decision was released on 30 August 2023,⁷⁴ and confirms that it will target a 100% replacement of distribution network owned accumulation meters with smart meters offered by other parties by 30 June 2030.⁷⁵

We consider the AEMC’s final decision constitutes a material change in circumstances for Evoenergy which justifies departure from the classification of legacy meter services in the F&A⁷⁶. However, due to the proximity of the release of our draft decision, we have not had the opportunity to fully incorporate the findings into this decision. In preparation for the AEMC’s decision, we have been working with the affected distribution businesses to identify a proposed approach that ensures customers are not inequitably impacted from rising costs in the transition and prevented from realising the benefits the smart meters provide.

5.2 Material change in circumstances

For Evoenergy to achieve the AEMC’s targets it will be required to develop a legacy metering retirement plan (LMRP) in consultation with retailers, metering parties, and other stakeholders. It is envisaged that a LMRP will schedule bulk meter replacements (replace legacy meters with smart meters) on a geographical basis to leverage economies of scale. Customers may have little choice as to when their meter will be replaced as the replacement cycle will be determined by the distributors and other providers.

Under the F&A regulatory settings, Evoenergy’s customers with meters replaced later in the LMRP implementation will be charged inequitably higher costs for metering services than customers with meters replaced earlier, even though there is no change in the service they receive.

⁷¹ AER, *Final framework and approach for Ausgrid, Endeavour Energy and Essential Energy*, July 2023.

⁷² AER, *Issues Paper - Ausgrid – 2024–29 Distribution revenue proposal*, March 2023.

⁷³ AEMC, *Review of the regulatory framework for metering services draft report*, 3 November 2022, pp. ii.

⁷⁴ AEMC, [Final Report: Review of the regulatory framework for metering services](#), August 2023.

⁷⁵ AEMC *Final Report: Review of the regulatory framework for metering services*, August 2023.

⁷⁶ We must not depart from the classification of distribution services determined in the F&A unless we consider that a material change in circumstances justifies the departure: cl. 6.12.3(b) of the NER.

5.3 Proposed approach

Our proposed approach and guidance for legacy meter services is set out in Attachment 20 – Metering Services. Due to timing of the AEMC’s final decision, this draft decision retains the classification for metering services as alternative control services with costs recovered over a subset of customers. However, our view is that a reclassification of legacy meter services to standard control services is likely to be more appropriate. This approach will result in the benefit of recovering Evoenergy’s metering services costs across a wider customer group during the smart meter transition and maintain compliance with the pricing principles in the NER⁷⁷.

We have engaged with all impacted distribution networks on this proposed approach. However, we have had limited opportunity to engage with other stakeholders to date on the proposed broader cost recovery and change in classification. When submitting its revised proposal, we encourage Evoenergy to have regard to and consider the AEMC’s final decision of targeting the 100% replacement by 2030, and other relevant considerations. Our draft decision has also applied accelerated depreciation to wind up legacy meter asset bases within the 2024–29 period.

⁷⁷ Clause 6.18.5 of the NER.

6 Constituent decisions

Our draft decision on Evoenergy’s distribution determination for the 2024–29 regulatory control period includes the following constituent components:

Constituent component
<p>In accordance with clause 6.12.1(1) of the NER, the AER's draft decision is that the classification of services set out in Attachment 13 will apply to Evoenergy for the 2024–29 regulatory control period, for the reasons set out in that attachment.</p>
<p>In accordance with clause 6.12.1(2)(i) of the NER, the AER's draft decision is to not approve the annual revenue requirement set out in Evoenergy’s building block proposal. Our draft decision on Evoenergy’s annual revenue requirement for each year of the 2024–29 regulatory control period is set out in Attachment 1 of the draft decision.</p>
<p>In accordance with clause 6.12.1(2)(ii) of the NER, the AER's draft decision is to approve Evoenergy’s proposal that the regulatory control period will commence on 1 July 2024. Also in accordance with clause 6.12.1(2)(ii) of the NER, the AER's draft decision is to approve Evoenergy’s proposal that the length of the regulatory control period will be five years from 1 July 2024 to 30 June 2029.</p>
<p>The AER did not receive a request for an asset exemption under clause 6.4.B.1 (a) (1) and therefore has not made a decision in accordance with clause 6.12.1(2A) of the NER.</p>
<p>In accordance with clause 6.12.1(3)(ii) and acting in accordance with clause 6.5.7(d) of the NER, the AER's draft decision is to not accept Evoenergy’s proposed total forecast capital expenditure of \$520.8 million (\$2023–24). Our draft decision therefore includes an alternative estimate of Evoenergy’s total forecast capex for the 2024–29 regulatory control period of \$416.3 million (\$2023–24). The reasons for our draft decision are set out in Attachment 5.</p>
<p>In accordance with clause 6.12.1(4)(ii) and acting in accordance with 6.5.6(d) of the NER, the AER's draft decision is to not accept Evoenergy’s proposed total forecast operating expenditure, inclusive of debt raising costs and exclusive of DMIAM of \$390.1 million (\$2023–24). Our draft decision therefore includes an alternative estimate of Evoenergy’s total forecast opex for the 2024–29 regulatory control period of \$336.5 million (\$2023–24) including debt raising costs and exclusive of DMIAM. The reasons for our draft decision are set out in Attachment 6.</p>
<p>In accordance with clause 6.12.1(4A)(iv) of the NER, the AER’s draft decision is that Evoenergy’s proposed program of substation and feeder works contingent project is not a contingent project for the purpose of this revenue determination. The reasons for our decision, having regard to the requirements of clause 6.6A.1(b) are set out in Attachment 5.</p>
<p>In accordance with clause 6.12.1(5) of the NER and the 2022 Rate of Return Instrument, the AER's draft decision is that the allowed rate of return for the 2024–5 regulatory year is 5.81% (nominal vanilla), for the reasons set out in Attachment 3 of the draft decision. The rate of return for the remaining regulatory years of the 2024–29 period will be updated annually because our decision is to apply a trailing average portfolio approach to estimating debt which incorporates annual updating of the allowed return on debt.</p>
<p>In accordance with clause 6.12.1(5A) of the NER and the 2022 Rate of Return Instrument, the AER's draft decision on the value of imputation credits as referred to in clause 6.5.3 is to adopt a value of 0.57. The reasons for our draft decision are set out in Attachment 3 of this draft decision.</p>

Constituent component

In accordance with clause 6.12.1(6) of the NER the AER's draft decision on Evoenergy's combined regulatory asset base as at 1 July 2024 in accordance with clause 6.5.1 and schedule 6.2 is \$1,122.8 million (\$ nominal). The reasons for our draft decision are set out in Attachment 2.

In accordance with clause 6.12.1(7) of the NER, the AER's draft decision on Evoenergy's combined estimated cost of corporate income tax is \$14.5 million (\$nominal) for the 2024–29 regulatory control period. The reasons for our draft decision are set out in Attachment 7 and the amount for each regulatory year of the 2024–29 regulatory control period is set out in the tables below.

Distribution

(\$million, nominal)	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Tax payable	5.0	7.2	4.9	5.7	3.5	26.3
Less: value of imputation credits	2.9	4.1	2.8	3.3	2.0	15.1
Net cost of corporate income tax	2.1	3.1	2.1	2.4	1.5	11.2

Transmission

(\$million, nominal)	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Tax payable	1.2	1.7	1.6	1.8	1.3	7.6
Less: value of imputation credits	0.7	1.0	0.9	1.0	0.7	4.3
Net cost of corporate income tax	0.5	0.7	0.7	0.8	0.5	3.3

In accordance with clause 6.12.1(8) of the NER, the AER's draft decision is to not approve the depreciation schedules submitted by Evoenergy. Our draft decision substitutes alternative depreciation schedules that accord with clause 6.5.5(b). The combined regulatory depreciation amount approved in this draft decision is \$302.0 million (\$ nominal) for the 2024–29 regulatory control period. The reasons for our draft decision are set out in Attachment 4.

In accordance with clause 6.12.1(9) of the NER the AER makes the following draft decisions on how any applicable efficiency benefit sharing scheme (EBSS), capital expenditure sharing scheme (CESS), export services incentive scheme (ESIS), service target performance incentive scheme (STPIS), demand management incentive scheme (DMIS), demand management innovation allowance mechanism (DMIAM) or small-scale incentive scheme (customer service incentive scheme) is to apply:

- We will not apply the EBSS in the 2024–29 regulatory control period. Our reasons are set out in Attachment 8 of the draft decision.
- We will apply the CESS as set out in the Capital Expenditure Incentives Guideline to Evoenergy in the 2024–29 regulatory control period. This is discussed in Attachment 9.
- We will not apply the ESIS for the 2024-29 regulatory control period.
- We will apply our STPIS version 2 to Evoenergy for the 2024–29 regulatory control period. Our reasons are set out in Attachment 10.
- We will apply the DMIS and DMIAM to Evoenergy for the 2024–29 regulatory control period. Our reasons are set out in Attachment 11.

Constituent component
<ul style="list-style-type: none"> We will not apply the customer service incentive scheme (CSIS) as Evoenergy withdrew its proposed scheme.
<p>In accordance with clause 6.12.1(10) of the NER, the AER's draft decision is that all other appropriate amounts, values and inputs are as set out in this draft determination including attachments.</p>
<p>In accordance with clause 6.12.1(11) of the NER and our framework and approach paper, the AER's draft decision on the form of control mechanisms (including the X factor) for standard control services is a revenue cap. The revenue cap for Evoenergy for any given regulatory year is the total annual revenue calculated using the formula in Attachment 14, which includes any adjustment required to move the Distribution Use of Service (DUoS) unders and overs account to zero. The reasons for our draft decision are set out in Attachment 14.</p>
<p>In accordance with clause 6.12.1(12) of the NER and our framework and approach paper, the AER's draft decision on the form of the control mechanism for alternative control services is to apply price caps for all alternative control services. The reasons for our draft decision are set out in Attachment 14.</p>
<p>In accordance with clause 6.12.1(13) of the NER, to demonstrate compliance with its distribution determination, the AER's draft decision is that Evoenergy must maintain a DUoS unders and overs mechanism. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our draft decision are set out in Attachment 14.</p>
<p>In accordance with clause 6.12.1(14) of the NER the AER's draft decision is to apply the following nominated pass through events to Evoenergy for the 2024–29 regulatory control period in accordance with clause 6.5.10:</p> <ul style="list-style-type: none"> Insurance coverage event Insurer's credit risk event Terrorism event Natural disaster event <p>The definitions of these events, and our reasons for this decision are set out in Attachment 15 of the draft decision.</p>
<p>In accordance with clause 6.12.1(14A) of the NER, the AER's draft decision is to not approve the tariff structure statement proposed by Evoenergy. The reasons for our draft decision are set out in Attachment 19.</p>
<p>In accordance with clause 6.12.1(15) of the NER, the AER's draft decision is that the negotiating framework as proposed by Evoenergy will apply for the 2024–29 regulatory control period. The reasons for our draft decision are set out in Attachment 17.</p>
<p>In accordance with clause 6.12.1(16) of the NER, the AER's draft decision is to apply the negotiated distribution services criteria published in February 2023 to Evoenergy. The reasons for our draft decision are set out in Attachment 17 of the draft decision.</p>
<p>In accordance with clause 6.12.1(17) of the NER, the AER's draft decision on the procedures for assigning retail customers to tariff classes for Evoenergy is set out in Attachment 19 of the draft decision.</p>

Constituent component
<p>In accordance with clause 6.12.1(18) of the NER, the AER's draft decision is that the depreciation approach to be used to establish the RAB at the commencement of Evoenergy's regulatory control period as at 1 July 2029 is to be based on forecast capex. The reasons for our draft decision are set out in Attachment 2.</p>
<p>In accordance with clause 6.12.1(19) of the NER, the AER's draft decision on how Evoenergy is to report to the AER on its recovery of designated pricing proposal charges and account for the under and over recovery of designated pricing proposal charges is the unders and overs mechanism. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our draft decision are set out in Attachment 14.</p>
<p>In accordance with clause 6.12.1(20) of the NER, the AER's draft decision on how Evoenergy is to report to the AER on its recovery of jurisdictional scheme amounts and account for the under and over recovery of jurisdictional scheme amounts is the unders and overs mechanism. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our draft decision are set out in Attachment 14.</p>
<p>In accordance with clause 6.12.1(21) of the NER, the AER's draft decision is to not approve the connection policy proposed by Evoenergy. Our draft decision is to amend Evoenergy's proposed connection policy as set out, and for the reasons given, in Attachment 18.</p>
<p>In accordance with clause 6.12.1(17A) of the NER, the AER's draft decision is to not approve Evoenergy's proposed pricing methodology for transmission standard control services. The changes required or matters to be addressed before the AER will approve the proposed methodology and reasons for our draft decision are set out in Attachment 20 of this draft decision.</p>

7 List of submissions

We received 9 submissions in response to Evoenergy’s revenue proposal. These are listed below⁷⁸.

Submission from
ACT Government – Shane Rattenbury MLA
ACTCOSS
ActewAGL
Conservation Council ACT Region
Consumer Challenge Panel 26
Energy Networks Australia
Energy Australia
Origin Energy
Suburb Zero

⁷⁸ Submissions are available on the AER website at <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/evoenergy-actewagl-determination-2024%E2%80%9329/proposal#step-86574>

Shortened forms

Terms	Definition
ACS	alternative control services
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CCP26	Consumer Challenge Panel, sub-panel 26
CER	Consumer Energy Resources
CESS	capital expenditure sharing scheme
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
ESIS	Export services incentive scheme
EV	electric vehicle
F&A	framework and approach
LMRP	legacy metering retirement plan
NEL	National Electricity Laws
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
opex	operating expenditure
PTRM	Post tax revenue model
RAB	regulated asset base

RFM	Roll forward model
repex	replacement expenditure
SCS	standard control service
STPIS	service target performance incentive scheme
TSS	Tariff structure statement