
Submission to the Australian Energy Regulator's Draft Decision and Evoenergy's Revised Regulatory Proposal

*Evoenergy Electricity Distribution Determination 1 July 2024
to 30 June 2029*

Consumer Challenge Panel (CCP) Sub-Panel CCP26

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Recognition of Country

CCP26 recognises the indigenous cultures from across Australia, including the nations upon whose land the Evoenergy electricity network is built. The stewardship of country over many millennia is recognised with gratitude. We pay respects to elders past, present and emerging.

Note re confidentiality

To the best of our knowledge, this submission does not contain any confidential information.

Executive Summary

The ACT Government has instigated policies that are at the forefront of Australian efforts to reduce global warming, including targets for the reduction of carbon emissions. Evoenergy is recognised as a business that has considerable responsibilities in supporting these policy directions. The revenue sought in Evoenergy's Revised Proposal is higher than their initial regulatory proposal and 5% higher than the AER's Draft Decision.

Following the release of the Draft Decision, Evoenergy embarked on an engagement process, as they had foreshadowed in their earlier engagement plan. This post lodgement engagement centred on a 3 session "Deep Dive Panel" (Panel) with main intentions being to "*check in with the community to see if their views remain the same*" and to "*consult with the community on changes since the initial proposal to inform the revised proposal.*" These sessions were well run and participants were actively involved.

Having observed the Panel workshops, CCP26 makes the following observations:

- **Capex augmentation:** From our observations it is evident that ACT customers are very supportive of action responding to climate change and so we can infer some support for extra capex funding, however without consideration of the associated bill impacts we do not consider that the engagement resulted in an outcome of justification for the full extent of capex augmentation proposed by Evoenergy.
- **Demand forecasts from Electric Vehicles (EVs):** CCP26 observed strong interest in EV's by Panel members and support for the direction that Evoenergy is taking, which is supported by recent EV sales data. There was implicit support for some increased augmentation expenditure. Engagement with the Panel did not include consideration of capex expenditure options or bill impacts of the growing EV demand so we do not consider that the engagement demonstrated support for the specific level of capex augmentation expenditure proposed.
- **Opex:** The AER's challenging of opex base year efficiency is reasonable and is a technical matter that is best considered by them. As requested by the AER the Revised Proposal provides additional information about a security of critical infrastructure (SOI) step change and proposes a new step change to respond to the roll out of smart meters. Evoenergy had opportunities to meaningfully engage on opex step changes and this opportunity was not taken.
- **Tariffs:** CCP26 does not consider that the proposed changes to the Revised Tariff Structures Statement targeting tariff simplification and removal of export charging can be justified solely on the basis of engagement with consumers.
- **Affordability:** Unlike our observations of other DNSP's, CCP26 has not observed Evoenergy addressing recent cost of living concerns of customers that were raised in the Panel workshops and in submissions responding to the initial Revenue Proposal.

1. Background

The role of the Consumer Challenge Panel (**CCP**) is to advise the AER on the effectiveness of network businesses' engagement activities with their customers and how this is reflected in the development of the proposals, and whether regulatory proposals are in the long-term interests of consumers.

The CCP sub-panel 26 (**CCP26**) was appointed in November 2021.

CCP26 provided a submission in response to the initial Evoenergy Regulatory Proposal in May 2023.

The CCP26 observed all of the Evoenergy Deep Dive Panel engagement activities conducted post-lodgement, being a three session process described as a "Deep Dive Panel". In our May 2023 submission we provided our views on the effectiveness of Evoenergy's engagement activities which informed the initial Regulatory Proposal. This advice reflects primarily on the engagement activities that have informed the Revised regulatory Proposal.

The CCP26's advice is guided by the expectations set out in the AER's *Better Resets Handbook – Towards Consumer Centric Network Proposals* (**Better Resets Handbook**).

2. Context

In our response to the Regulatory Proposal and AER Issues Paper, we summarised a number of contextual matters that have been pertinent in the development of the regulatory proposal. These factors remain relevant and are not repeated here. Each of the NSW and ACT distribution network business have also referred to these contextual matters.

There are two more factors that warrant mention as additional contextual matters particularly relevant to the development of the Revised Revenue Proposal.

1. Affordability concerns have become more pronounced and can be summarised with reference to the AER's Default Market Offer¹ (DMO) decision that was released on 25th May 2023 for the twelve months July 2023 to June 2024. The AER summarised the decision as

"From 1 July 2023 residential customers on standard retail plans will see price increases of 20.8% to 23.9% without controlled load, depending on their region, and between 19.6% to 24.9% with controlled load, depending on their region."

While not all energy bills will rise by the full amount allowed by the DMO, many will. Energy affordability and cost of living concerns were raised in all post-lodgement engagement processes.

2. On 30th August the AEMC released their Final Report of the Review of The Regulatory Framework for Metering Services.² The first recommendation of the review states:
"The Commission recommends a target of universal uptake of smart meters by 2030 in NEM jurisdictions. Distribution network service providers (DNSPs) would develop an annual schedule to retire legacy accumulation and manually read meters. Retailers would then be responsible for installing smart meters at these sites over the five-year acceleration period."

The accelerated installation of smart meters with a 2030 target date impacts all electricity distribution businesses and their customers.

¹ [AER releases final determination for 2023–24 Default Market Offer | Australian Energy Regulator \(AER\)](#)

² https://www.aemc.gov.au/sites/default/files/2023-08/emo0040_-_metering_review_-_final_report.pdf

Evoenergy specific context

In addition to the major contextual matters confronting all energy network businesses, Evoenergy is also dealing with, arguably the most proactive jurisdictional government climate policy, including the now legislated target of the ACT being net zero by 2045. As Evoenergy has experienced as the gas distribution business in the ACT, this policy means a phasing out of gas and a significant commitment to electrification of transport. Public transport is being electrified and Electric Vehicle (EV) sales are growing rapidly.

The ACT is consequently at the forefront of some of the significant transition to electrification issues.

CCP subpanels, including CCP26 have observed strong support for this active focus on transitioning to net zero from ACT consumers.

3. Issues Paper and Draft Decision

Issues Paper Responses³

There were 8 submissions in response to the AER's Issues paper as well as the CCP26 submission.

Some of the comments made included:

ACTCOSS said:

"In this context of uncertainty it is important for Evoenergy to balance expenditure and capacity constraints with climate action, reliability and affordability."

"The key issue for ACTCOSS is who will pay for this augmentation. While low income Canberrans will still be paying for the network upgrades, they are unlikely to be able to participate in or benefit from electrification without help. Again, modelling and information is required about who will benefit and who will be worse off during EN24. As it stands, Evoenergy's proposed expenditure will potentially see the gap widen between wealthy and low income Canberrans."

The Conservation Council of the ACT responses included:

The Council is pleased to note that Evoenergy's proposal has considered:

- *"How to achieve the lowest price outcome for its customers while establishing the foundation for the bi-directional energy network of the future.*
- *changes to assumptions underpinning peak demand forecast and capex program to reflect the ACT Government's policy announcements in 2022,*
- *the costs of projects noting uncertainty about the pace and scale of the transition (\$150m for contingent projects), and*
- *triggers and mechanisms to increase capex if required, with consumers paying for the projects only if they are approved by the relevant regulator." (Page 2)*

The ACTCOSS submission also included 2 tables that are attached as appendix 1 summarising question that they asked Evoenergy and the responses received regarding capex and tariffs.

³ All are provided at <https://www.aer.gov.au/industry/registers/determinations/Evoenergyenergy-actewagl-determination-2024-29/proposal>

In response to “ “Do you consider Evoenergy’s capex proposal addresses the concerns of electricity consumers ... ?”” ACTCOSS said:

(Evoenergy) “state that the network component of bills will increase by about 1.3% or \$7 a year for residential customers, but the annual change in indicative network charges are shown to be different for each year.17 It is important for consumers to understand that they may face different prices each year, with the largest increase set to be in the first year. While some increases in network costs may be required to facilitate the energy transition, what is considered a marginal increase to some might be unaffordable to others, especially in the context of our current cost of living crisis.” (page 11)

ACT parliamentarian, Shane Rattenbury MLA made comments including:

“The ACT Government is pleased to note Evoenergy’s draft regulatory submission reflects current policy initiatives and highlights the need for increased network investment to support electrification as the community begins to transition away from fossil fuels.”

On tariffs Mr Rattenbury said:

“The ACT Government recognises the role that an export reward tariff could play to incentivise customer to take up technology that can store and export energy to the benefit of all customers. Government notes the need for community education alongside any changes to the tariff structure to protect energy consumers from unexpected cost increases and bill shock.”

Submissions were also received from retailers and Energy Networks Australia as well as community organisation Suburb Zero urging incentives that support households in electrification of hot water heating, indoor heating, rooftop solar, stove tops, battery storage and cars.

We have not sought to provide a comprehensive representation of the detail provided in all submissions but highlight aspects of community based submissions that we consider warrant attention.

4. Draft Decision

The Draft Decision from the AER was to allow Evoenergy to recover \$1,043.7m over the 5 years, 1st July 2024 to 30th June 2029. This allowance is a 3.2% reduction on the revenue sought by Evoenergy in their January 2023 proposal. This reduction occurs despite higher return on capital that is captured in the Draft Decision and reduced tax depreciation.

Significant in their decision is that the AER rejected the capital expenditure (capex) proposal by Evoenergy, providing a Draft Decision 20% lower than proposed by Evoenergy. AER’s main concerns/interests are:

Capex

- Augmentation expenditure (augex) proposal that is 274% greater than augex for the current period (2019 – 2024), Evoenergy says that this increase is necessary to deal with EV uptake and electrification of gas heating.
- Replacement expenditure (repex) that was proposed to be 24% higher than for the current regulatory period.

- Central to proposed capex increases by Evoenergy are demand forecasts which are based on meeting the ACT Government net zero policy and demand from rising numbers of electric vehicle purchases.

Opex

The Draft Decision also is for a lower operating costs (opex) allowance than was proposed, due largely to the AER opinion that Evoenergy's base year opex is inefficient. The AER has applied an opex efficiency adjustment to Evoenergy's opex proposal, with a *"linear transition path over the 2024-29 regulatory control period."*

Tariffs

While recognising that Evoenergy has been a leader in network tariff reform, the AER does not accept Evoenergy's Tariff Structure Statement, saying:

"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." (page vii Draft Decision)

Other key aspects of their tariffs commentary include:

- Expectation that Evoenergy will explore more innovative tariff options, with particular regard to EV's
- Requiring Evoenergy to investigate a controlled load tariff for flexible load, including EV's
- Noting two-way tariffs have been considered along with similar proposals from NSW distribution businesses and accepted.

The Draft Decision also noted the recent AEMC metering review and the AER set *"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 ..."*

It is understood that implementation of this AEMC review outcome is a current topic of discussion between the AER and Evoenergy.

The main topics that CCP26 expected to be the basis of further post Draft Decision consultation were:

- The substantial increase in capex, particularly for network augmentation
- Demand forecasts associated with increased load, in particular Electric Vehicle take up and load implications
- Tariff Structures Statement
- Potentially aspects of opex including step changes.
- Affordability concerns of customers as this was being raised by consumers for other businesses.

5. Evoenergy engagement update

Prior to lodging their Regulatory Proposal, Evoenergy undertook two phases of engagement that they described as: *"Phase 1, Framing and Values and Phase 2, Draft Plan Engagement."* We have

provided an overview of this process and observations about effectiveness and application in our submission in response to the AER's Issues paper and so do not repeat that detail here.

After lodgement, Evoenergy has completed a third phase of engagement that they have described as "continuing engagement," intended to consider key themes and issues for both the Revised Regulatory Proposal and Revised TSS in response to the publication of the Draft Decision and public submissions. The intended approach was for "*deep dive and further engagement on identified focus areas, and any material changes from our initial proposal.*" CCP26 understood this to include consultation on topics arising from the AER's Draft Decision.

The focus of this process was a three session "Deep Dive Panel" (Panel) who met for 4 hours on Saturdays 18th September and 14th and 21st October 2023. While we understand 30 people were recruited to the Panel, CCP26 estimates that around 22 participants attended Workshops 2 and 3. The Panel comprised a good representation of the Canberra population⁴. Some participants were new to energy engagement and some had previously been participants in Evoenergy engagement activities. CCP26 was able to observe all three sessions.

Workshop 1

The first session was largely introductory, setting group norms and informing participants about the electricity distribution system and regulatory process, including an overview of the Evoenergy Regulatory Proposal. Evoenergy presented this as a trade-off between the competing challenges of;

- Invest in infrastructure.
- Set network tariffs that are fit for the future use of the network.
- Invest in technology.

The Panel was told that the goal of the coming workshops was to get the mix of these 3 challenges right so that consumers "*only pay for what they need, when they need it.*"

This workshop was mainly at the 'inform' level of the IAP2 spectrum with the small group discussions being exploratory rather than consultative. CCP26 notes that much of the 'inform' level engagement in this session was appropriate to lay foundations for further engagement.

Workshop 2

This workshop commenced with 4 session objectives being presented:

1. *"Deliver on commitment to keep our community informed about how our plan for 2024-29 is going.*
2. *Share what has changed in the energy transition landscape since we developed our plan with the community and what this means for our plan.*
3. *Check in with the community to see if their views remain the same.*
4. *Consult with the community on changes since our initial proposal to inform our revised proposal."*

There was a considerable amount of information presented about the Evoenergy Regulatory Proposal and cuts made in the Draft Decision by the AER. These included:

- A significant reduction in the capex forecast based on different demand forecasts.
- Not accepting Evoenergy's proposed contingent project as a mechanism for managing uncertainty in demand forecasts.

⁴ The Panel participant diversity is described in Appendix c to the Revised Proposal, page 7

- A reduction in the opex allowance on the basis of efficiency concerns.

Evoenergy expressed their concern that the AER had not allowed enough capex to manage future risk and stated that the reduction in the opex allowance would reduce reliability.

The second main discussion in Workshop 2 focussed on tariffs with the following diagram presented. Evoenergy reiterated the tariff challenge of 'balancing simplicity and cost-reflectivity':

Balancing simplicity and cost-reflectivity

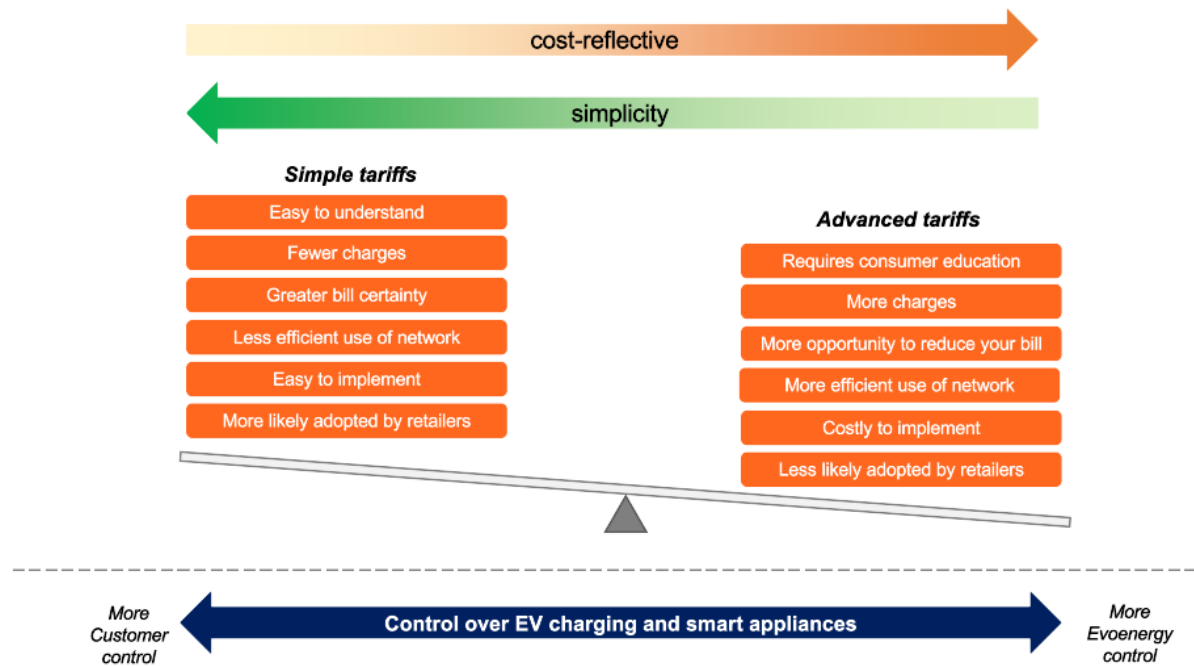


Figure 1, Source Evoenergy Revised Proposal

Evoenergy stated that since submitting their Regulatory Proposal they had received feedback from consumers and retailers that:

- *“The proposed tariffs were too complex, and too many changes were being introduced*
- *Some questioned the fairness of export tariffs, and retailers reported that it would be difficult and costly to implement them.”*

Details on the source of this feedback were not presented.

Evoenergy also stated that off peak price signals are not yet required in their network.

Evoenergy informed participants that it would respond to this feedback by:

- *“Simplifying the Time-of-use tariff by removing the proposed inclining block*
- *Removing the proposed export tariff*
- *Keeping the demand tariff.”*

The announcement that the export tariffs would be removed was audibly welcomed by a couple of workshop participants who had expressed opposition to export charges in earlier workshops. The other participants did not speak in favour or against the announcement, and simply accepted Evoenergy’s decision.

Participants highlighted that strong education programs were needed for customers about tariff options and there was uncertainty about how retailers, Evoenergy and customers interact with each other on implementing tariff options. This was also identified in Shane Rattenbury MLA's submission on Evoenergy's Regulatory Proposal.

The third discussion for the workshop centred on EV charging. Panel participants were asked to indicate their EV ownership intentions. A 'slido' poll showed that from 11% already owning an EV, 83% intended to own one within 5 years. In the same poll, participants were asked "What is the most important to you when charging your EV?" 50% said charger availability and 33% said cost.

Participants were consulted on preferences for EV charging tariffs, and were asked to consider the options of:

- Continuing with current tariffs
- Moving to flexible load tariffs, or
- Adopting controlled load tariffs.

We observed that participants were most interested and engaged in the EV component of the workshop.

The final session of the second workshop was preparation for the development of "a Deep Dive Report" which Evoenergy aligned with the independent report described in the Better Resets Handbook.

Participants were asked to identify 2 key messages they would like the report to include, and these were discussed in small groups and then shared in plenary.

This workshop was dominated by substantial 'inform' sessions with some discussion in smaller groups.

Workshop 3

The main aspects of the agenda for workshop 3 were:

- Reflection on workshop 2
- Developing a panel report
- Finalising the report
- Reflection and feedback

The outcome of this workshop is presented as "Evoenergy Deep Dive Panel – Panel report" and is presented as Appendix B in the Communication Link Authored Phase 3 consumer engagement report which is appendix C of the Revised Proposal.

The report was authored by the Panel with small groups commenting into a "google document" that included content from the workshop 2 discussions that responded to the question of "Key messages that you would like the report to include" and ordering the key themes into a table of contents.

Page 6 of the Communication Link report includes the following key feedback themes from the three workshops as recorded by Communication Link. The themes are not presented in any particular order:

Table 1 Key feedback themes

Key topics	Feedback themes
Cost concerns and vulnerable consumers	Engagement highlighted concerns about costs and the potential impact on vulnerable consumer groups of the energy transition.
Environmental benefits and leadership	Identifying opportunities for environmental benefits and the potential for leadership in driving the energy transition forward.
Awareness, consumer education, and behaviour change	Emphasising the importance of raising awareness, providing education, and fostering behavioural changes related to energy transition. Consumer education was also highlighted as important with respect to tariffs and vulnerable consumers.
Transparent and simple tariffs	Promoting transparent, easy-to-understand tariffs that empower consumers to control costs.
Infrastructure and technology investment	Consumers and stakeholders highlighted the importance of investing in infrastructure and technology to support network growth, accommodate two-way energy flows, and support increased electrification.
Inclusive investment strategies	Consumers advocated for investment strategies that don't disadvantage any households, ensuring inclusivity in the energy transition.
Length of regulatory cycles	The timing of the current 5-year regulatory cycle was discussed in relation to the rapid pace of energy changes, suggesting shorter timeframes or mid-point reviews.
Strengths Identified	The following strengths were identified with respect to Evoenergy's approach – facilitating community batteries and energy source diversification, ensuring flexibility, data-driven decision-making, adoption of smart meters, and management of capex.
Potential challenges	The following potential challenges were identified - addressing risks such as the affordability for lower-income households, demand uncertainty, tariff complexities, and challenges in educating consumers about new tariff structures.

On the question of capital expenditure, presented as “*Infrastructure and Technology Investment Approaches*” the Panel agreed that the following is important and is copied as presented in the Deep Dive Panel report:

- *Investment is required to expand the network to support growth in the ACT.*
- *Investment must ensure the network is future-proofed to include two-way energy flows and increased electrification.*
- *The use of real data to inform decision making was seen as a strength of the investment plan. – Infrastructure investment is required to support all new technologies such as Evs, community batteries, smart meters and electrification.*
- *A long-term approach to infrastructure and technology investment is vital to ensure the security and stability of the network.*
- *It is important that investment strategies do not disadvantage any households regardless of income.*

The Deep Dive Panel report also included the following:

- *“Consumers want tariffs that are transparent and easy to understand.*

- *Consumers should feel that they have control over tariffs and costs.*
- *Consumers have the ability to see and understand the network pricing signals.*
- *Tariffs need to provide an opportunity to incentivise and inform the move to distributed energy resources such as solar, batteries and Evs in a balanced way.*
- *The Panel welcomed the removal of the proposed solar export tariff as it sent mixed signals to the community.*
- *The Panel members were asked to consider levels of control over EV charging and smart appliances and had a preference for consumers maintaining flexibility.*
- *Evoenergy has a role to play in educating retailers and consumers about tariffs.”*

The process for writing the Panel report included the option for objection to any comment by participants, which is difficult for some people in a group setting. The editing by group was largely language rather than content changes, meaning the strong voices were included.

Evoenergy also sought consumer input to the Revised Proposal from its ongoing reference group, the Energy Consumers Reference Council (ECRC) and through an Energy Matters Forum that was conducted in November 2023. CCP26 did not have visibility of these events and so cannot comment on any consumer advice emanating from them.

6. Revised Proposal

Overview

Evoenergy summarises their Revised Proposal as follows:

	Initial proposal	AER Draft decision	Revised proposal
Average annual bill increase for residential customers <small>Including the impacts of inflation</small>	\$20	\$14	\$16
Revenue (smoothed) <small>Real June 2024 dollars</small>	\$990m	\$960m	\$1,008m
Operating expenditure <small>Real June 2024 dollars</small>	\$390m	\$337m	\$365m
Capital expenditure <small>Real June 2024 dollars</small>	\$521m	\$416m	\$519m

Figure 2, Source: Evoenergy RRP

Significant aspects of the Revised Proposal are:

1. The revenue sought is higher than the initial proposal and 5% higher than the Draft Decision
2. Capital expenditure sought is only marginally lower than the initial proposal and 24.7% higher than the Draft Decision.

In support of these, Evoenergy says:

- *“ACT Government has set an ambitious goal for ACT to be net zero by 2045, this is driving an accelerated transition.*
- *Electric Vehicle demand is exceeding previous ‘optimistic’ forecasts.*
- *Transition from gas to electricity is pushing up peak demand forecasts, particularly for winter.*
- *Cost pressures are increasing for all infrastructure businesses*
- *The revised capex proposal is supported by additional information*

- *Opex base year has been updated to use 2022/23 results, decreasing the total opex forecast. Evoenergy asserts that this base year opex is efficient*
- *Step changes have been updated and includes an additional step change as response to the AEMC metering review. AER draft decision on insurance is accepted and updated information is provided to support the proposal cyber security (SOCl) spending proposal*
- *For the TSS, Evoenergy is proposing removal of the residential export tariff*
- *The TSS also has been adjusted in response to consumer requests for greater simplicity and is developed with reference to supporting EV recharging.”*

Tariff Structure Statement (TSS)

In its Revised Proposal, Evoenergy has proposed a number of changes to its TSS (page 46), the most significant changes being:

- *“Targeted tariff simplification for residential customers: We have simplified our proposed new residential time-of-use tariff by removing the inclining block off-peak charge and replacing it with a more familiar, flat off-peak charge structure.*
- *Removal of the proposed residential export tariff ... we will utilise the proposed ‘solar soak’ charges to reward customers with a lower price for energy used at times when solar exports are typically high. Solar soak charges provide customers with a simpler and more gradual introduction to export-based price signals, while still managing the costs of two-way flows on the ACT network.*
- *Investigations into tariff options to support residential EV recharging ... Evoenergy will continue to offer its existing controlled load tariffs to EV owners on an opt-in basis to encourage charging outside of peak times. We will also investigate ‘flexible load’ tariff options that could be used in the future.”*

Other changes are:

- *Updates to peak charging windows*
- *New individually calculated tariffs for customers connecting at HV*
- *Other changes to address the requirements of the AER’s draft decision:*

7. CCP26 Observations.

The observations in this section consider the aspects of the Revised Proposal where Evoenergy has proposed alternatives to the Draft Decision with regard to capex, opex and tariffs and the extent to which engagement through the 3 workshop program informed the Revised Proposal.

In the Draft Decision the AER says:

“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.” (page vi)

CCP26 observed that the workshops did not directly consider ‘prudent and efficient expenditure’ as a criterion for considering the appropriateness of the cost proposals in the Revised Proposal.

For example, the three-way trade off presented in the workshops was balancing infrastructure, tariffs and technology. “Affordability” was not included as a criterion, despite it being identified as a key

theme from the workshops, as identified by community representatives in response to the initial response and the Issues Paper (section 3 of this submission)

Capex

The capex allowance for Evoenergy for the current period, 2019-24 was \$314.3 million (in \$2018–19 dollars) so the \$519m (\$2024) from the Revised Proposal is a substantial increase on the current spending levels.

In the workshops, consumers were asked about trade-offs between infrastructure spending, tariffs and spending on technology. We suggest that the implicit assumption put to workshop participants was that the full increased capex spending was required to meet net zero objectives. There was little focus on affordability implications of a significant increase in capex, despite affordability and cost impacts, particularly on vulnerable customers being a recurring topic from participants.

We understand that ACTCOSS are concerned about the impacts on affordability, particularly for vulnerable people that would result from a substantial capex increase and resultant widening wealth gap between higher and lower income residents. The ACT Branch of the Australian Conservation Council is also clear that lowest cost outcomes were a crucial component of achieving climate outcomes. (Refer quotes in section 3 of this submission)

The engagement undertaken on capex matters was dominated by Evoenergy informing the Panel of their decisions. We were also disappointed that the AER's reasoning for capex reductions in their Draft Decision was not clearly explained to the Panel, leading to a view from participants that the regulator "doesn't understand the ACT." We found no evidence to support this notion.

From our observations it is evident that ACT customers are very supportive of action responding to climate change and so we can infer some support for extra capex funding, however without consideration of the associated bill impacts we do not consider that the engagement resulted in an outcome of justification for the full extent of capex augmentation proposed by Evoenergy.

Demand / EV's

Evoenergy summarised the AER's response to their initial capex proposal as:

"On the basis of its placeholder forecast, the AER accepted almost all of our non-EV demand driven expenditure (aside from the second transformer at Molonglo and a proposed community battery). It rejected all but one of the sixteen EV-demand driven projects proposed."⁵

The significant increase proposed for capex spending based on increasing demand for electric vehicles (EV's), was a major issue for Evoenergy in preparing their Revised Proposal and one warranting further engagement.

The Evoenergy Revised Proposal Foreword includes:

"Over the past year, electric vehicle (EV) registrations have surpassed previous forecasts, and we have seen new peak demands on our electricity network. Government policy settings have never been clearer, with legislation to prevent new gas connections and achieve the phasing out of natural gas by 2045."

⁵ attachment 1, Augmentation expenditure from the Revised Proposal.

https://www.aer.gov.au/system/files/2023-12/Evoenergy-Attachment%201%20Augmentation%20expenditure-November%202023_1.pdf

Panel participants were asked about their own EV purchase intentions, see section 5, pages 11 and 12. Electric vehicles sales data that has been released after the Revised Proposal was presented by Evoenergy. This data supports Panel intentions and Evoenergy’s claims about rapidly growing rates of ACT EV take up.

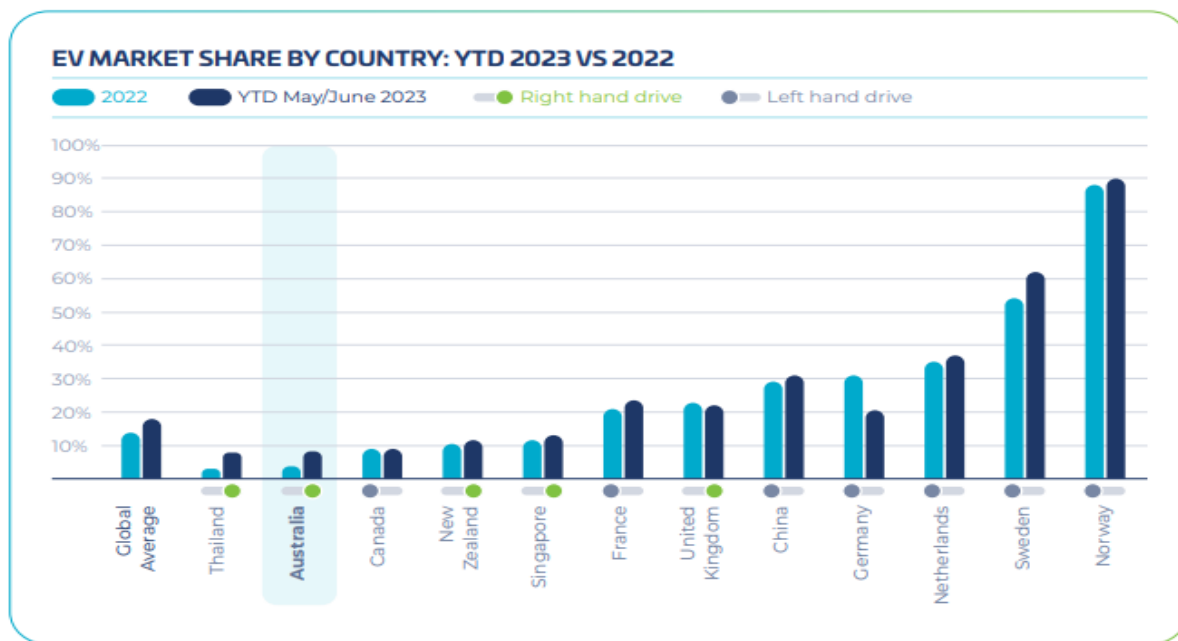
December 2023: New car sales by fuel type

Fuel Type	2023 Total	2022 Total
Petrol	588,622	551,526
Diesel	379,512	361,366
Hybrid	98,439	81,816
Electric	87,217	33,410
Plug-in Hybrid (PHEV_	11,212	5,937

Figure 3. Source: New-car sales results from the Federal Chamber of Automobile Industries.

This data shows that nationally, EV sales more than doubled in 2023 compared to 2022. The Electric Vehicle Council also reported that for the financial year ending June 2023, the ACT lead Australia with 21.8% of all new cars being EVs.⁶ This compares with a national wide rate of 7.5% of new vehicles being EV’s, which is just one third of the ACT rate.

In considering whether this trend of electric vehicle sales is likely to continue, the Electric Vehicle Council has also released this chart showing that Australia’s rates of EV sales are low compared to many other nations, indicating capacity for the trend of increased EV sales to continue over coming years.



Only June 2023 data available for Australia, New Zealand, Norway. All other countries are YTD May 2023. Global average is based on IEA forecast for 2023.
Sources: International Energy Agency, New Zealand Ministry of Transport, China Association of Automobile Manufacturers, Thai Department of Land Transport, InsideEVs, Cleantechica, EVVolumes, Electric Autonomy Canada, EV Database NZ, VFACTS.

Figure 4. Source Electric Vehicle Council of Australia

⁶ [State-of-EVs July-2023 .pdf \(electricvehiclecouncil.com.au\)](#), page 7

CCP26 observed strong interest in EV’s by Panel members and support for the direction that Evoenergy is taking, which is supported by recent EV sales data. There was implicit support for some increased augmentation expenditure. Engagement with the Panel did not include consideration of capex expenditure options or bill impacts of the growing EV demand so we do not consider that the engagement demonstrated support for the specific level of capex augmentation expenditure proposed.

Opex

The AER’s questioning of Evoenergy’s base year opex efficiency is significant because AER has previously taken a deliberately conservative approach to determining what constitutes efficient opex. A significant graph from the AER’s network Benchmarking report for 2023⁷ is copied below.

This graph shows average opex benchmarking for all NEM electricity distribution services for the past decade, measuring opex efficiency scores and opex MPFP (Multilateral Partial Factor Productivity) using the different efficiency models used in the benchmarking report, the single horizontal line is the average for all measures, for each business.

Figure 17 Opex efficiency scores and opex MPFP under the approach used in previous reports (2012–2022)

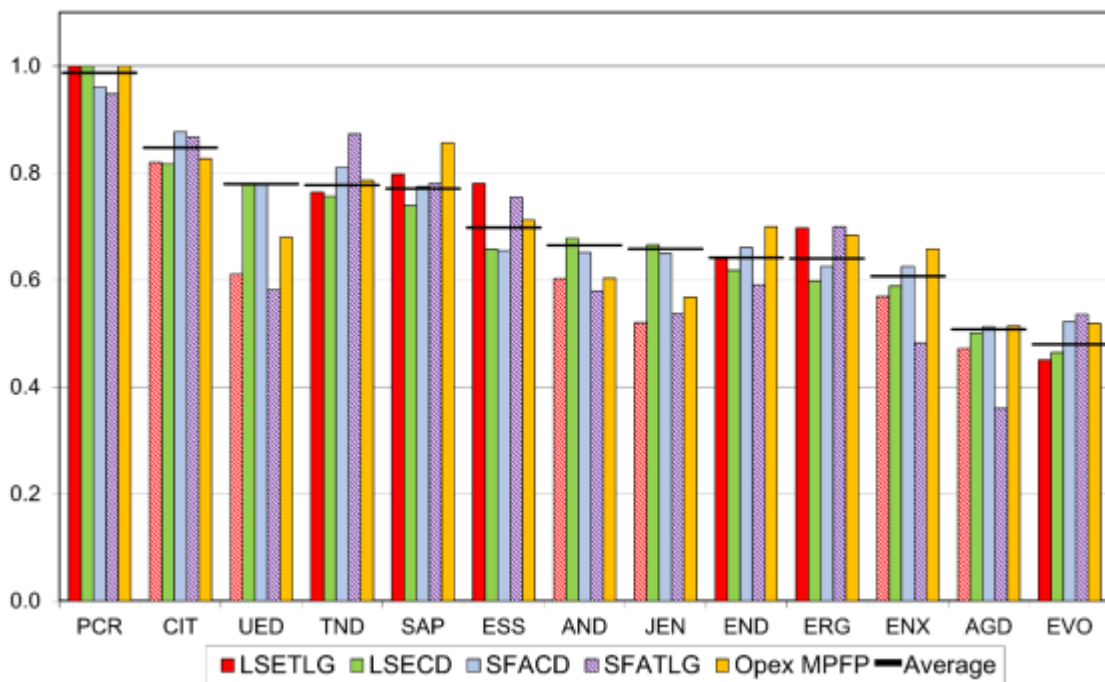


Figure 5. Source; AER Annual Benchmarking Report DNSP’s 2023

This data shows that Evoenergy has the poorest opex efficiency score, noting that it has the second poorest score for the longer period 2006 to 2022.

Regarding opex step changes, the Revised Proposal provides additional information regarding the security of critical infrastructure (SOI) step change, as requested by the AER and proposes a new step change to respond to the roll out of smart meters that is detailed in the recent AEMC metering review.

⁷ [Report template \(aer.gov.au\)](https://www.aer.gov.au), figure 17, page 51

The AER's challenging of opex base year efficiency is reasonable and is a technical matter that is best considered by them.

Evoenergy had opportunities to meaningfully engage on opex step changes and this opportunity was not taken.

Tariffs

It was clear to us, from the Panel report that consumers wanted tariffs that are transparent and easy to understand, they want the ability to see and understand the network pricing signals.

We observed very different approaches to engagement on tariff issues:

- On removal of the export tariff and simplification of the Time-of-use tariff, Evoenergy informed workshop participants about the changes it was intending to make;
- On preferred tariff arrangements for EV charging, Evoenergy consulted with participants on three options, and participants expressed a preference for the tariff structure that offered flexibility combined with lower charges than current arrangements.

We note that the matter of two-way tariffs was not raised by the AER in their Draft Decision as a topic for engagement, this aspect of the TSS was approved by the AER. The topic was introduced to the Panel engagement process by Evoenergy.

CCP26 has not seen the evidence in support of Evoenergy's revised position on two-way tariffs nor are we able to identify any widespread consumer calls for this change.

The exploration of EV charging options was open and constructive. We also note that this topic is the subject of further engagement.

CCP26 does not consider that the proposed changes to the Revised Tariff Structures Statement targeting tariff simplification and removal of export charging can be justified solely on the basis of engagement with consumers since this engagement at the Deep Dive Panel was at the 'inform' level. The engagement on Electric Vehicle charging was much more consultative and we understand that further engagement on flexible charging options is intended.

Affordability

CCP26 observes that the Revised Proposal fails to adequately respond to the cost of living pressure / affordability issues that were raised regularly by participants during the Panel workshops. The ACT Council of Social Service said in its response to the Issues paper:

*"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."*⁸

Evo does acknowledge cost impacts in a section titled "Consumer benefits outweigh additional costs" where Evoenergy calculates that the value of avoided fuel from EV's for 2024-2034 and estimates carbon emissions savings, but does not take the next by considering distributional impacts

⁸ <https://www.aer.gov.au/system/files/ACTCOSS%20-%20Submission%20-%202024-29%20Electricity%20Determination%20-%20Evoenergyenergy%20-%20May%202023.pdf>. Page 6

Unlike our observations of other DNSP's, CCP26 has not observed Evoenergy addressing recent cost of living concerns of customers.

Concluding Comments

In their Draft Decision, the AER recognised that Evoenergy has continued to improve its engagement with consumers over time and we agree that when Evoenergy puts its collective mind to engaging with consumers, it does so effectively.

The ECRC is, we believe, one of the longer running consumer reference groups of any network business in Australia and is comprised of people with considerable knowledge and community connection. We suspect that the expertise of the ECRC was underutilised in developing the regulatory proposal and revised regulatory proposal for 2024-29.

The AER said that:

“We observe that there is still scope for Evoenergy to embed deeper consumer understanding and engagement, and to more strongly embed influence from consumers in their business-as-usual engagement.”

We agree, observing that operating cost step changes along with some of the larger capital expenditure project proposals would have benefited from greater consumer exploration.

We hope that Evoenergy is able to capitalise on the considerable goodwill that it has from its community members in ongoing engagement processes so that shared exploration and challenge of some of the more difficult questions and emerging uncertainties are explored to achieve outcomes that work for consumers and for Evoenergy.

8. NSW/ACT Systemic observations

The importance of ongoing engagement

The Better Resets Handbook notes the importance of ongoing engagement, stating:

...consumer engagement should be a continuous business-as-usual process, not a one-off process only undertaken in preparing for regulatory proposals. Consumers should not have to wait for a once-in-5-year regulatory proposal to be heard.

The NSW/ACT resets have highlighted the particular importance of ongoing engagement in a period of rapid economic, political and environmental change. Endeavour Energy explains:

As part of good practice engagement we also see value in continuously engagement with our customer to understand their preferences and values. Doing so over time provides additional insight in surfacing preferences that are subject to change compared to those that remain constant in a changing environment.⁹

Ongoing engagement is likely to deliver considerable benefits to the AER's regulatory processes. As well as the benefits of longitudinal customer insights, ongoing engagement is also likely to reduce the volume of bespoke reset-related engagement activities that are needed to adequately inform regulatory proposals. To further embed ongoing engagement in the whole regulatory cycle, the CCP26 recommends the AER adds an additional criterion to access the Early Signals Pathway process

⁹ Endeavour Energy, Revised Proposal, p24

requiring evidence of a robust, transparent and co-designed ongoing engagement program that will inform the regulatory proposal.

Application of the Better Resets Handbook

The NSW and ACT electricity distribution regulatory proposals were the first developed in full, using the Better Resets Handbook as a basis. There were also two of the four businesses that were accepted onto the Early Signals Pathway process, Endeavour Energy and Essential Energy, the first businesses to apply this process. Our observation is that the Handbook has provided a useful guide, and that the ESP process has been beneficial for the participating businesses and their customers.

Review of both the application of the Handbook and early Signal Pathways will be important and should occur in the near future so that initial learnings are captured and applied for future regulatory processes.

One clear benefit of the Early Signal Pathway has been for open discussion between the AER, Businesses and their consumer reference groups and the CCP subpanel, well before the lodgement of regulatory proposals. This has occurred through "progress reports" and associated "check-ins." With engagement programs commencing two or more years before lodgement, CCP26 recommends that "check-ins" similar to those occurring effectively through the Early Signal Pathway process should now be part of all resets, to keep all parties informed about progress, future plans and to foster a 'no surprises' approach to regulatory practice.

Network Resilience Guidance Note

The AER's *Network Resilience Guidance Note* has provided useful guidance for the CCP to assess the NSW/ACT DNSPs' resilience engagement. The priority given to the following areas in the Guidance Note has proven particularly valuable: the central focus on decision-making under uncertain extreme weather events (particularly high cost/low probability events); the need to collaborate with other responsible entities involved in disaster management; and the need to work collaboratively with affected communities as well as the wider customer base. The Guidance Note also clearly links engagement expectations to the Better Resets Handbook.

However, we continue to observe confusion about the term "Network Resilience". This was exacerbated in the NSW/ACT Draft Decisions which, in a number of cases, saw the AER approve certain resilience expenditure because it met reliability criteria.

We suggest that the AER consider adopting more specific language such as "Climate Adaptation" to better capture the AER's regulatory intent.

Regulatory Flexibility

Uncertainty has been a dominant theme in the regulatory proposals and revised proposals for the NSW and ACT electricity distribution network businesses for this reset. The dual impacts of the unfolding once-in-a-generation energy transition, and growing evidence of impacts of accelerated climate change on electricity network infrastructure exacerbate the business-as-usual challenge of preparing detailed business plans 6 or 7 years into the future. Network businesses are facing risks associated with issues such as:

- the inability to forecast with confidence the rate of take up of consumer energy resources including electric vehicles to 2030 and beyond and the implications for electricity demand and network services,

- the nature and impact of government interventions in energy markets and environmental legislative approaches,
- climate change resulting in more frequent and different threats to network resilience and reliability.

Examples of network business’s proposed regulatory responses to these changing and unpredictable circumstances include:

- Evoenergy contemplating a contingent project (\$100–150 million) ‘that would be triggered where evidence emerges that the speed of the energy transition, in particular the uptake of EVs and electrification, is greater than assumed in the capex forecasts put forward in this regulatory proposal, where this consequently requires us to undertake a material program of works during the regulatory period’.¹⁰
- Essential Energy proposing an untested new cost pass-through event to accommodate as-yet unquantified outcomes arising from a Coronial inquiry into bushfires in NSW¹¹.

Essential Energy has further expanded on the uncertainty challenges facing network businesses in its Revised Proposal¹², and concludes that *‘Essential Energy believes that the current regulatory framework is not agile or flexible enough to effectively meet these challenges. The current framework of five-yearly resets, and over-reliance on prescribed pass through events, is overly cumbersome and not nimble enough to keep up with climate and technological changes and shifting customer and stakeholder expectations’*.

It is not only the network businesses that are expressing such views. Customer and stakeholder groups have made similar observations, noting the risk that uncertainty poses for customers as well as network businesses:

- The Ausgrid Reset Customer Panel (RCP) makes similar observations in its discussion on ‘Re-openers’. The RCP states *‘we believe that there is a limited but important case for ‘re-openers’ in key areas within the current 5 year regulatory cycles over and above the operation of the cost pass through regime.’*¹³
- In its Panel Report supporting Evoenergy’s Revised Proposal, the Evoenergy Deep Dive Panel commented *‘The current regulatory cycle (5 years) seems too long given the fast pace of change in energy. Suggest shorter regulatory timeframes or midpoint reviews to adjust spending and investment and to respond to emerging technologies and risks such as changing consumer behaviour’*¹⁴

CCP26 has sympathy for these views. Given the consistency of advice from a breadth of sources, we consider that the AER should commit to examining opportunities for greater regulatory flexibility in this time of uncertainty as a matter of priority.

¹⁰ Evoenergyenergy, Evoenergyenergy Regulatory Proposal, January 2023, p56

¹¹ Essential Energy, *6.04 Nominated Pass-Through Event*, November 2023, p. 3

¹² Essential Energy, *2024-29 Revised Regulatory Proposal*, November 2023, p32

¹³ Ausgrid Reset Customer Panel, *RCP Report on Ausgrid Revised Proposal*, November 2023 p52

¹⁴ Communications Link, *Evoenergyenergy Deep Dive Panel Report*, November 2023, p3

Appendix 1 ACTCOSS Questions and Evoenergy responses re Capex and Tariffs

ACTCOSS questions about proposed capex

Evoenergy have partially responded to some of our requests for information about their proposed capex (Table 2).

Table 2: Evoenergy's responses to ACTCOSS' questions about proposed capex.

#	ACTCOSS Questions	Evoenergy response
1	Outline what specific investments have been deferred based on asset condition, consumer trends and policy.	Evoenergy have not specifically addressed this. However, ACTCOSS acknowledges that deferred augmentation generates risks to network capacity. The proposed contingent project functions as a deferral mechanism for augmentation work that may or may not be required as the energy transition unfolds.
2	Has Evoenergy factored in the impact of more cost reflective tariffs under the proposed TSS on capacity constraint, in the proposed capex?	Evoenergy have not detailed how consumer behaviour under cost reflective tariffs may offset some capex requirement. Depending on how enthusiastically consumers respond to cost reflective tariffs, less capex than forecast may be necessary.
3	Has Evoenergy sought to optimise the existing hosting capacity within its proposed capex plan? If so, how has this occurred?	Evoenergy have explained how intrinsic hosting capacity has been factored into their proposed export tariffs, ²⁰ but have not specifically addressed how they will optimise existing hosting capacity in their proposed capex.
4	What has driven the 8% increase in capitalised overheads?	The regulatory proposal shows a slight decrease in forecast capitalised overheads than the draft plan (6% compared to 8%). This is driven by corporate overheads and an increased capex program. Evoenergy could elaborate on what kind of corporate overheads are driving the increase and why.
5	Outline how Evoenergy intends to phase out its fleet of fuel vehicles. What is the criteria for when a traditional combustion vehicle would be retired and replaced?	Evoenergy have acknowledged the Community Panel's recommendation and committed to retire its ICE vehicles and replace their corporate fleet with EVs but have not outlined their strategy to achieve this.
6	Provide any modelling which substantiates Evoenergy's assumption that higher upfront costs of EVs may be offset by cheaper running costs.	This was not addressed.
7	Does Evoenergy's proposed DER spending have a net market benefit?	This was not addressed.
8	At present, how frequently does the Territory reach its network limits?	This was not addressed.

ACTCOSS questions about proposed tariffs

Evoenergy have answered some of our questions about their proposed tariffs (Table 3), but our concerns about the distributional impacts of tariffs remain. Further information must be provided so consumers of all demographics can make informed choices about the tangible impact that network costs have on their bill.

Table 3: Evoenergy's response to ACTCOSS' questions about proposed tariffs.

#	ACTCOSS questions	Evoenergy response
9	Has Evoenergy undertaken any work with retailers, to date, on educating consumers on network tariffs, or coordinating network price signalling on consumer bills?	Evoenergy state they have produced their TSS in collaboration with retailers and will work with retailers on plain language communications but have not elaborated on how they have worked with or will work with retailers to educate consumers about the impact of network tariffs.
10	What are some consumer types that Evoenergy has already identified as being at-risk of greater costs, and benefiting from the proposed TSS?	Evoenergy has not identified consumer types who will pay higher costs or receive savings from the proposed tariffs.
11	What is Evoenergy's long term plan with novel charges (e.g. solar sponge charge and inclining overnight block charge). Does Evoenergy anticipate having to make further changes to tariffs in future? If so, what would these potential further changes be?	No update on long term plan provided. Further changes to tariffs anticipated based on the same triggers as the contingent project. ACTCOSS suggests Evoenergy should evaluate the distributional impacts and/or provide the data to enable distributional evaluation of novel tariffs to inform a long term plan.
12	What does Evoenergy mean when it says on p. 27 that 'some charges (outside the middle of the day) may increase to compensate for low solar sponge rate'?	This was not specifically addressed but ACTCOSS welcomes the proposal by Evoenergy to remove the shoulder period.
13	How has Evoenergy designed its TSS with consideration of the current levels of smart meter penetration in the ACT? ²⁸ What tariffs will be available to those without smart meters?	This was not specifically addressed. However, the AEMC target of 100% smart meter uptake by 2030, heightens the urgency with which governments, DNSPs, retailers, energy advocates and community organisations must educate consumers.
14	Who did Evoenergy consult with to represent 'vulnerable consumers' during TSS engagements (the consumer demographic)? What is Evoenergy's definition of consumer vulnerability? And, how does Evoenergy identify these representative consumers?	Evoenergy have provided a description of who they perceive constitutes vulnerable communities ²⁹ and engaged ACTCOSS to conduct a workshop with community organisations representing these groups. Evoenergy did well to involve a wide range of people in their Community Panel during COVID-19. One notable concern is there were no people under the age of 35 in the Community Pricing Panel which is a considerable gap in representation and potentially has excluded the views of young Canberrans in the TSS development. ³⁰

²⁸ The AEMC notes in its consultation paper on the *Review of the Regulatory Framework for Metering Services*, that in 2020 ACT smart meter penetration sits at approximately 16%.

²⁹ Evoenergy and Communication Link, *Regulatory proposal Appendix E: EN24 and TSS consumer engagement strategy*, p.12.

³⁰ Evoenergy and Communication Link, *Regulatory proposal Appendix G: EN24 community panel process and outcomes report*, p.7.

Appendix 2 – CCP26 observations of Evoenergy’s engagement since Lodgement

Activity	Date	Format	Hours	Observer(s)
Deep dive workshop 1	19/9/2023	online	4	Mark Henley
Deep dive workshop 2	14/10/2023	Online / in person	4	Robyn Robinson - in person. Mark Henley - online
Deep dive workshop 3	21/10/2023	Online / in person	4	Robyn Robinson - in person. Mark Henley - online