FINAL DECISION
Evoenergy
Gas Distribution Determination

2026 to 2031

Reference service, tariff variation mechanism and tariff structure

November 2024

AUSTRALIAN ENERGY REGULATOR

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Executive summary

The Australian Energy Regulator (AER) works to make all Australian energy consumers better off, now and in the future. We regulate energy networks in all jurisdictions except Western Australia. We set the amount of revenue that network businesses can recover from customers for using these networks.

The National Gas Law and Rules (NGL and NGR) provide the regulatory framework governing gas transmission and distribution networks. Our work under this framework is guided by the National Gas Objective (NGO):

> The objective of this Law is to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to—
>
> (a) price, quality, safety, reliability and security of supply of natural gas; and
>
> (b) the achievement of targets set by a participating jurisdiction—
>
> (i) for reducing Australia's greenhouse gas emissions; or
>
> (ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.

Evoenergy provides reticulated gas distribution services in the Australian Capital Territory (ACT) and Queanbeyan-Palerang in a neighbouring area of New South Wales.

On 28 June 2024 Evoenergy submitted to the AER a reference service proposal for its gas distribution network. We have assessed the proposal against the requirements set out in the NGR.

Our final decision is to approve Evoenergy's reference service proposal except for the proposed merging of the volume disconnection and reconnection activity – these activities must remain separate. Otherwise, we consider the proposal is consistent with the regulatory requirements and we note support provided by submissions.

We published Evoenergy's proposal on the AER website and called for submissions. Submissions were received from:

- ACT Minister for Climate Change and Sustainability
- Evoenergy's Energy Regulatory Advisory Panel (ERAP)

Both submissions were supportive of Evoenergy's reference service proposal with exception to the new proposed temporary disconnection and reconnection (volume customer) activity.

Under the new non-statutory requirements implemented by the AER in 2023, Evoenergy also submitted, with its reference service proposal, preliminary positions on its tariff variation mechanism and tariff structure for gas transportation (haulage) services for the 2026−31 access arrangement period.

Evoenergy proposed a revenue cap tariff variation mechanism to replace its weighted average price cap. Evoenergy proposed to retain the broad features of its current declining

block tariff structure for haulage but signalled it will explore whether to rebalance tariffs across both charge and customer types.

On its tariff variation mechanism, we consider Evoenergy should develop, in consultation with stakeholders, a hybrid tariff variation mechanism for haulage services for submission to the AER with its access arrangement revisions proposal.

We acknowledge Evoenergy's efforts to consult with stakeholders and adapt to industry changes. We agree with Evoenergy that retaining weighted average price cap regulation is no longer appropriate, considering emissions reduction objectives now incorporated in the NGO. Weighted average price cap regulation incentivises gas networks to grow the volume of gas transported through their networks while revenue caps do not. However, we also place weight on stakeholder views, and we consider there are more options than a binary choice between price cap and revenue cap regulation.

Submissions received in response to Evoenergy's reference service proposal, though limited in number, expressed views that aligned with submissions provided to the AER in the context of our 2023 gas distribution network tariffs review. Stakeholders generally do not support application of revenue cap regulation to haulage services and prefer either to retain existing weighted average price caps, or to introduce hybrid mechanisms incorporating elements of both weighted average price cap and revenue cap regulation.

In our view a hybrid tariff variation mechanism can best balance the positive and negative elements of price cap and revenue cap regulation. While weakening the incentive for gas networks to grow volumes, they can mitigate year-on-year tariff volatility. While assigning some volume risk to customers, they continue to assign some volume risk to networks. An example of a hybrid tariff variation mechanism has been proposed to the AER by JGN for its NSW gas network, following consultation with its stakeholders. JGN's proposal represents one example of a hybrid mechanism that would be capable of acceptance in Evoenergy's context.

On its tariff structure for haulage services, we consider Evoenergy should develop and submit for AER consideration one or more implementation pathways to incrementally flatten its declining block tariff structure, over one or more access arrangement periods. We consider Evoenergy's existing declining block tariff structure does not adequately incentivise customers, particularly larger users to reduce their gas use, contradicting the updated NGO. In developing its potential implementation pathway(s), Evoenergy should consider the pace of change, bill impacts for high consumption customers and the need for adequate transition periods.

While we expect Evoenergy to respond to our tariff related considerations as set out in this paper, our preliminary views expressed here do not constrain our decisions on these issues in the context of Evoenergy's upcoming 2026−31 access arrangement revisions proposal. We may form different views in response to further information or stakeholder views being provided.

1 Background

This section discusses the NGR reference service requirements, and the new non-statutory issues addressed by Evoenergy's reference service proposal: reference tariff variation mechanism and declining block tariffs for haulage services.

1.1 Evoenergy

Evoenergy's gas distribution network services the ACT and Queanbeyan-Palerang. It comprises around 5,000 km of pipeline, serving around 146,000 customers.

1.2 Reference services

In preparing its reference service proposal and in undertaking our assessment, the NGR require Evoenergy and ourselves to have regard to the NGR reference service factors:[1]

- the actual and likely demand for the pipeline's services and the number of prospective users
- the extent to which the pipeline service is substitutable with another service
- the feasibility of allocating costs to the pipeline service
- the usefulness of specifying the pipeline service as a reference service in supporting negotiations and dispute resolution
- likely regulatory costs for all parties in specifying the pipeline service as a reference service.

Services we determine meet the reference service factors will be determined to be reference services. Services we determine do not meet the reference service factors will be treated as non-reference services.

Determining a service to be a reference service, as compared to it being a non-reference service, makes a significant difference to how the service is regulated.

Reference services are subject to AER price regulation. That is, we set maximum prices, or price caps, which gas networks may charge network users for reference services. Gas networks may choose to charge network users less than the price caps we determine but they may not charge more.

Services we determine to be non-reference services are not subject to price regulation. This means gas networks set their own charges for non-reference services.

1.3 Reference service proposal process

Gas network service providers are required to submit a separate reference service proposal to the AER for assessment twelve (12) months in advance of the submission date for their access arrangement revisions proposal.

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1 NGR, cl. 47A(14).

The NGR requires us to complete our assessment of a reference service proposal no later than six (6) months in advance of the due date for submission of the relevant access arrangement revisions proposal.

Evoenergy's access arrangement revisions submission date is 30 June 2025.[2] This means Evoenergy was required to submit its reference service proposal to the AER by no later than 30 June 2024, which it did. We are required to conclude our assessment and release our decision no later than 31 December 2024.

An access arrangement must be consistent with our reference service proposal decision unless there has been a material change in circumstances.[3]

1.4 Tariff (non-statutory) considerations

In early 2023 we initiated a review of how we regulate the haulage service provided by gas distribution network service providers (distributors). This review considered whether to continue to approve these elements of existing gas distribution access arrangements or whether changes were required:[4]

- weighted average price caps (reference tariff variation mechanism) which regulate the revenues distributors receive for providing reference haulage services
- declining block tariffs which set the parameters for how retailers are billed for reference haulage services provided to their customers.

In October 2023, our final decision of the review indicated we would not make sector-wide changes to gas distribution pipeline tariff variation mechanisms or tariff structures.[5] Instead, we chose to consider these issues on a case-by-case basis in the context of individual access arrangement reviews by building consideration of these matters into the existing reference service proposal assessment. This approach allows us to signal our views on the tariff variation mechanism and tariff structure issues in time for incorporation in the distributors' access arrangement revision proposals.

To be clear, only the reference service elements of this reference service proposal decision relate to a statutory decision. The tariff related aspects of this decision are non-statutory. That is, the NGR do not specify that the AER has a role in assessing tariff related issues at the reference service proposal stage. Rather, we proposed to undertake this assessment and the regulated gas distributors agreed.

We consider that a public process of proposal and AER consideration of these tariff related issues, at this early stage of a gas distribution access arrangement review, will benefit stakeholders and networks.

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2 Access arrangement revisions for the 2025/26 to 2030/31 access arrangement period.

3 NGR cll.48(1)(b)(c) and (c1).

4 AER, *Review of gas distribution network reference tariff variation mechanism and declining block tariffs*, 5 May 2023.

5 AER, *Review of gas distribution network reference tariff variation mechanism and declining block tariffs*, October 2023.

2 Evoenergy's reference service proposal

This section outlines Evoenergy's reference service proposal including the stakeholder consultation it undertook in developing its proposal. It then describes our stakeholder consultation undertaken in assessing Evoenergy's proposal, and our decision on Evoenergy's reference service proposal.

2.1 Evoenergy's reference service proposal

Reference services

Evoenergy proposed to separate its current single reference service into a transportation (including metering) service, and ancillary activities reference service.[6] The proposed reference services comprise:

- Transportation (including metering) reference service
  - Transportation and delivery of gas to customers:
    - ≤ 500kPa (consuming less than 10TJ pa)
    - ≥ 1,050 kPa (consuming more than 10TJ pa)
  - Meter reading services including:
    - Meter related services;
    - Provision, installation and maintenance of standard meter; and
    - Meter reading and associated data activity
- Ancillary activities reference service.
  - Hourly charge
  - Special meter read
  - Temporary disconnection and reconnection (volume customer)
  - Reconnection (volume customer)
  - Disconnection and reconnection (demand customer)
  - Permanent disconnection (abolishment) (volume customer)

Evoenergy proposed to include a merged reconnection service with its disconnection service for volume customers (residential and small business customers). The intention was to reflect the intent of the service and incentivise customers to opt for a safer permanent disconnection (abolishment) service.[7]

6 Evoenergy, *Reference service proposal*, June 2024, p.17.

7 Evoenergy, *Reference service proposal*, June 2024, pp.18 & 21.

Evoenergy also proposed to re-name its abolishment service as "permanent disconnection". This was to refine nomenclature to clarify that abolishment is a permanent disconnection from Evoenergy's network which can no longer be reversed.[8]

Non-reference services

Evoenergy proposed to continue its existing non-reference services:[9]

- interconnection service
- negotiated service.

Evoenergy proposed that neither of the two above services would be reference services.

Evoenergy made changes to the definition of Interconnection service to incorporate changes to the NGL and NGR.

2.2 Evoenergy's stakeholder consultation

Evoenergy submitted that it undertook stakeholder consultation in five ways engaging with:[10]

- its Energy Consumer Reference Council (ECRC)
- its Energy Regulatory Advisory Panel (ERAP)
- the community
- retailers
- large customers.

Evoenergy's Energy Consumer Reference Council

Evoenergy submitted that the Energy Consumer Reference Council (ECRC) reflects the voices of its community and examines the key challenges in understanding community impacts, views, and values through the ACT's electrification journey.[11]

Evoenergy explained that the ECRC forum provides a regular platform for members to represent their constituents' views and interests, focused on the long-term strategic issues for the energy transition.[12]

Evoenergy's proposal included feedback provided by ECRC during engagement on elements of Evoenergy's reference service proposal.[13] ECRC noted the expected decreased demand for transportation and metering services and increased demand for ancillary activities including temporary and permanent disconnections (abolishments).

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8 Evoenergy, *Reference service proposal*, June 2024, p.21.

9 Evoenergy, Reference service proposal, June 2024, p.21.

10 Evoenergy, *Reference service proposal*, June 2024, pp.10-12.

11 Evoenergy, *Reference service proposal*, June 2024, p.11.

12 Evoenergy, *Reference service proposal*, June 2024, p.11.

13 Evoenergy, *Reference service proposal*, June 2024, Appendix B, p.41.

Evoenergy's Energy Regulatory Advisory Panel

Evoenergy submitted that the Energy Regulatory Advisory Panel (ERAP) is a recently established advisory panel of experts that adds depth to its engagement on key regulatory elements of its five-year gas plan.[14]

Evoenergy described ERAP as comprising five members with diverse interests and expertise, providing advice on Evoenergy's five-year plan.[15]

Evoenergy's proposal included feedback provided by ERAP during engagement on elements of Evoenergy's reference service proposal.[16] Evoenergy submitted that ERAP considered it unnecessary to engage on separating reference services if customers weren't impacted. Further, that ERAP considered engagement would only be required for the proposed changes to ancillary activities if the impact extended beyond that of the ACT Government's policy to ban new gas connections.

Evoenergy's Community Forum

Evoenergy submitted that it had not discussed the reference services and ancillary activities in its community forum during engagement on elements of Evoenergy's reference service proposal.[17] Evoenergy submitted it would use community forum sessions in the second half of 2024 (July–August 2024) to seek feedback on managing permanent disconnections (abolishments) and temporary disconnections to inform Evoenergy's approach to disconnections in its access arrangement proposal.

Evoenergy's Retailers

Evoenergy's proposal included feedback provided by retailers during engagement on elements of Evoenergy's reference service proposal.[18] It submitted that the retailers are broadly comfortable with the proposed separation of the current single reference service into a transportation (including metering) service, and ancillary activities. Also, that retailers recognised the cost and safety implications of customers not abolishing their gas service.

However, Evoenergy submitted that retailers raised concern about practical implementation of some elements of the reference service proposal. Particularly around the retailer's ability to recover costs of temporary disconnection and permanent disconnection (abolishment) services from customers.

Evoenergy's Large customers

Evoenergy's proposal included feedback provided by large customers during engagement on elements of Evoenergy's reference service proposal which focused on the broader energy transition.[19] Evoenergy submitted that in its annual survey of large customers it heard that

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14 Evoenergy, *Reference service proposal*, June 2024, p.11.

15 Evoenergy, *Reference service proposal*, June 2024, p.11.

16 Evoenergy, *Reference service proposal*, June 2024, Appendix B, p.39.

17 Evoenergy, *Reference service proposal*, June 2024, Appendix B, p.40.

18 Evoenergy, *Reference service proposal*, June 2024, Appendix B, pp.40-41.

19 Evoenergy, *Reference service proposal*, June 2024, Appendix B, p.41.

approximately 90 per cent are considering electrifying their businesses. Of these customers, 74 per cent intend to undertake this transition over the next five years but costs were identified as a barrier to electrification.

Evoenergy submitted that future engagement with large customers will be on the development of the regulatory elements of its draft plan and access arrangement proposal. An Energy Matters forum was to take place in late July or early August 2024.

2.3 AER stakeholder consultation

We published Evoenergy's reference service proposal on the AER's website on 4 July 2024. We called for written submissions by no later than 16 August 2024.

In response, we received written submissions on Evoenergy's reference service proposal from the ACT Minister for Water, Energy and Emissions Reduction (Minister Rattenbury) and ERAP.

Both Minister Rattenbury and ERAP supported Evoenergy's proposal to separate the reference service into haulage and ancillary reference services, and maintain its current non-reference services.

Minister Rattenbury submitted that he supports changes to clarify the intent of a temporary disconnection charge but does not support the coupling of the charge with a reconnection because:[20]

- the charge includes a service that is not received by a person moving into or out of a premises
- there are issues with implementation via a retailer such as apportioning between end customers
- funds would be obtained by Evoenergy for services not provided
- the separate reconnection fee is confusing.

2.4 AER assessment of Evoenergy's reference service proposal

Our final decision is to approve Evoenergy's reference service proposal, excluding its proposal to include reconnection in the volume (small) customer disconnection service. Our views on Evoenergy's proposed merger of those services align with Minister Rattenbury's.

We previously considered a similar proposal, to merge temporary disconnections and reconnections, as part of assessing Victorian gas distribution access arrangement revisions proposals. In that context we considered it would create administrative difficulty and complexity in excess of any potential benefits. We consider the same issues arise in the context of Evoenergy's proposal.

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[20] Minister Rattenbury, *Submission – Evoenergy reference service proposal*, August 2024, p.2.

More generally, to assess all reference service elements of Evoenergy's reference service proposal we considered the extent to which it conforms to each regulatory requirement set out in the NGR cl 47A. Our detailed assessment is set out in Table 1.

Table 1 Summary of NGR cl. 47A reference service requirements

NGR cl. 47A requirement	Compliance assessment
(1) A service provider in respect of a full regulation pipeline must, whenever required to do so under subrule (3), submit to the AER a reference service proposal in respect of a forthcoming full access arrangement proposal that:	
(a) identifies the pipeline and includes a reference to a website at which a description of the pipeline can be inspected;	Compliant. See section 1.1 of Evoenergy's reference service proposal.
(b) sets out a list of all the pipeline services that the service provider can reasonably provide on the pipeline and a description of those pipeline services having regard to the characteristics in subrule (2);	Compliant. See section 2.1.5 and Appendix C.
(c) from the list referred to in subrule (1)(b), identifies at least one of those pipeline services that the service provider proposes to specify as reference services having regard to the reference service factors including any supporting information required by the AER; and	Compliant. See section 2.1.5.
(d) if the service provider has engaged with pipeline users and end users in developing its reference service proposal, describes any feedback received from those users about which pipeline services should be specified as reference services.	Compliant. See section 2.1.4, 2.2.4, 2.3.4 and Appendix B.
(2) A pipeline service is to be treated as distinct from another pipeline service having regard to the characteristics of different pipeline services, including:	Evoenergy's reference service proposal appropriately defines pipeline services in regard to their characteristics, priority and receipt points.
(a) the service type (for example, forward haul, backhaul, connection, park and loan);	
(b) the priority of the service relative to other pipeline services of the same type; and	
(c) the receipt and delivery points.	
(14) In deciding whether or not a pipeline service should be specified as a reference service, the AER must have regard to the reference service factors.	We have had regard to the reference service factors in assessing Evoenergy's reference service proposal.

(15) The reference service factors are:	
(a) actual and forecast demand for the pipeline service and the number of prospective users of the service;	Evoenergy's reference service proposal is premised on there being ongoing high demand for the haulage reference service. In respect of Evoenergy's proposed non-reference services, the interconnection service and negotiated services, Evoenergy submitted that it expects low to no demand for these services. We accept Evoenergy's proposition that demand for interconnection and negotiated services is both difficult to forecast and likely to be low or nil.
(b) the extent to which the pipeline service is substitutable with another pipeline service to be specified as a reference service;	The haulage reference service is not substitutable with other services.
(c) the feasibility of allocating costs to the pipeline service;	Costs may be allocated to the haulage service.
(d) the usefulness of specifying the pipeline service as a reference service in supporting access negotiations and dispute resolution for other pipeline services, such that:	
(i) reference services serve as a point of reference from which pipeline services that are not reference services can be assessed by a user or prospective user for the purpose of negotiating access to those other pipeline services;	To the extent there is demand for the interconnection service or negotiated services, the reference service should be a point of reference for negotiations with Evoenergy.
(ii) a reference tariff serves as a benchmark for the price of pipeline services that are not reference services; and	As above.
(iii) reference service terms and conditions serve as a benchmark for the terms and conditions of pipeline services that are not reference services;	As above.
(e) the likely regulatory cost for all parties (including the AER, users, prospective users and the service provider) in specifying the pipeline service as a reference service.	By specifying the haulage service as a reference service the current arrangements will be continued. As a result, regulatory costs for all parties will be minimised.

3 Evoenergy’s tariff variation mechanism

This section outlines Evoenergy's tariff variation mechanism proposal including the stakeholder consultation it undertook in developing its proposal. It then describes our stakeholder consultation undertaken in assessing Evoenergy’s proposal, and our decision on Evoenergy’s proposal.

3.1 Evoenergy’s tariff variation mechanism proposal

Evoenergy's preliminary proposal is to implement a revenue cap for the transportation service (haulage, including metering), to replace its existing weighted average price cap. Evoenergy submitted this would better align with the NGO and NGR in the ACT context.[21]

3.2 Evoenergy’s stakeholder consultation

Evoenergy’s proposal referenced feedback provided by stakeholders during its engagement on the tariff variation mechanism element of its reference service proposal.[22] Evoenergy submitted that the ECRC highlighted the need for fairness and transparency for all customers (commercial, industrial, and residential). Further, that the ECRC emphasised the importance of addressing cost impacts over a declining customer base and the need for accurate demand forecasts.

Evoenergy submitted that ERAP also highlighted the importance of understanding customer impacts over the long-term, including equity and risk allocation and price stability. Further, that ERAP observed that a hybrid tariff variation mechanism could share risks between Evoenergy and its customers, and recommended Evoenergy make clear the tariff variation mechanism proposed is preliminary. Evoenergy submitted that ERAP expressed concern with the proposal to shift all demand risk onto consumers under Evoenergy’s proposed revenue cap, and noted consumers are unaware of those risks and how to manage them.

Evoenergy submitted that ERAP suggested revenue control options be considered in the context of the costs to customers and the network over the long-term, including capital base recovery and decommissioning costs. Further, ERAP also considered it is too early in the access arrangement reset process to engage with customers on this complex topic.

Evoenergy submitted that mixed views were expressed in its Community Forum, such as:

- retaining the existing weighted average price cap could provide price predictability for the five-year period and allow some price increases to be deferred for future regulatory periods
- the revenue cap appeared to be a fair and equitable way to share risk between Evoenergy and consumers over the longer-term.

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21 Evoenergy, *Reference service proposal*, June 2024, p.3.

22 Evoenergy, *Reference service proposal*, June 2024, Appendix B, pp.39-41.

Evoenergy submitted that in the discussions, equity and affordability emerged as key themes, and it was observed that under a weighted average price cap:

- future price rises (in the next period) will impact those customers who are less able to leave the gas network
- significant revenue under-recovery jeopardises the viability of Evoenergy's gas network, which will also be most acutely felt by customers who cannot electrify quickly.

Evoenergy submitted that Community Forum discussions also elicited that:

- some participants did not have a strong preference because the networks charge is 30 per cent of the final retail bill with other contributing factors impacting bill increases
- a hybrid may have merit as a half-way position between the weighted average price cap and revenue cap options.

Evoenergy submitted that given demand uncertainty, retailers indicated they would expect customers to prefer price certainty over the period. Evoenergy also submitted that retailers recognised a weighted average price cap places demand risk with Evoenergy and does not capture the potential for significant price increases in subsequent regulatory periods.[23]

3.3 AER stakeholder consultation

ERAP submitted to the AER its concern that a revenue cap would shift volume risk onto consumers who would then leave the network.[24] Further, that price volatility, price increases and stranded asset risk will be left with the more vulnerable and harder to shift customers. ERAP did not support the view that a revenue cap has minimal reliance on demand forecasts and called for improved demand forecasting accuracy, so consumers are informed enough to manage the risks.

ERAP disagreed with Evoenergy that any asymmetric risk sharing between Evoenergy and customers, associated with either a weighted average price cap or hybrid, should be reason to move to a revenue cap.

ERAP submitted that Evoenergy should explore a hybrid approach through ongoing engagement with consumers. ERAP further submitted that, on raising the potential for hybrid approaches in one community forum, participants expressed interest because of the opportunity to share and balance risk.

Minister Rattenbury also submitted concern about Evoenergy's proposal to change to a revenue cap. Minister Rattenbury submitted that Evoenergy's proposal appears to seek to transfer risk for declining transportation services to consumers.

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23 Because weighted average price caps do not adjust tariffs throughout an access arrangement period for unexpected changes in volumes. This means tariff adjustments between access arrangement periods may be more significant under weighted average price caps than under revenue caps or, we note, hybrid mechanisms.

24 ERAP, *Submission on Evoenergy access arrangement 2026−31 Reference service proposal*, August 2024, p.3.

3.4 AER assessment of Evoenergy's tariff variation mechanism proposal

We consider Evoenergy should develop, in consultation with stakeholders, a hybrid tariff variation mechanism for haulage services for submission to the AER with its access arrangement revisions proposal.

A hybrid mechanism incorporating elements of price cap and revenue cap regulation will weaken the existing incentive for Evoenergy to increase the volume of gas transported through its network – a flaw of weighted average price caps. It will also mitigate year-on-year tariff volatility – a flaw of revenue caps. The emphasis on accurate volume forecasting to underpin tariff setting will also be reduced under a hybrid mechanism – volume forecasting error has been a feature of weighted average price cap regulation in recent years. The allocation of volume risk across both Evoenergy and its customers is another appealing feature of potential hybrid mechanisms. We consider retaining some volume risk for Evoenergy is appropriate.

We note that existing ACT Government policies are reducing Evoenergy's gas customer numbers and contributing to lower volumes of gas consumption. It is arguable that removing the existing regulatory incentive for Evoenergy to grow gas volumes, under weighted average price cap regulation, is unnecessary. While we acknowledge that point, we consider sharing volume risk across Evoenergy and its customers is preferable to assigning it wholly to customers. This has led us to prefer a hybrid mechanism.

In forming this view, we have placed weight on stakeholder views submitted to us in the context of Evoenergy's proposal and in the context of our 2023 review of gas distribution tariffs.

4 Evoenergy's gas transportation tariff structure

This section outlines Evoenergy's tariff variation mechanism proposal including the stakeholder consultation it undertook in developing its proposal. It then describes our stakeholder consultation undertaken in assessing Evoenergy's proposal, and our decision on Evoenergy's tariff variation mechanism proposal.

4.1 Evoenergy's gas transportation tariff structure proposal

Evoenergy's preliminary proposal for its haulage tariff structure was to retain its current declining block structure for its volume individual tariff (customers with an individual connection using less than 10TJs per year) but further consider how to best balance cost recovery across the four consumption blocks and fixed charge.[25] Evoenergy did not propose changes to its demand customer (customers consuming 10TJs per year or more) tariff structures, which it intends to retain as a declining block tariff.[26]

Evoenergy's tariff classes currently consist of volume and demand with two tariff types within each tariff class. Table 2 describes Evoenergy's existing network tariff classes.

Table 2 Evoenergy's gas transportation tariff classes

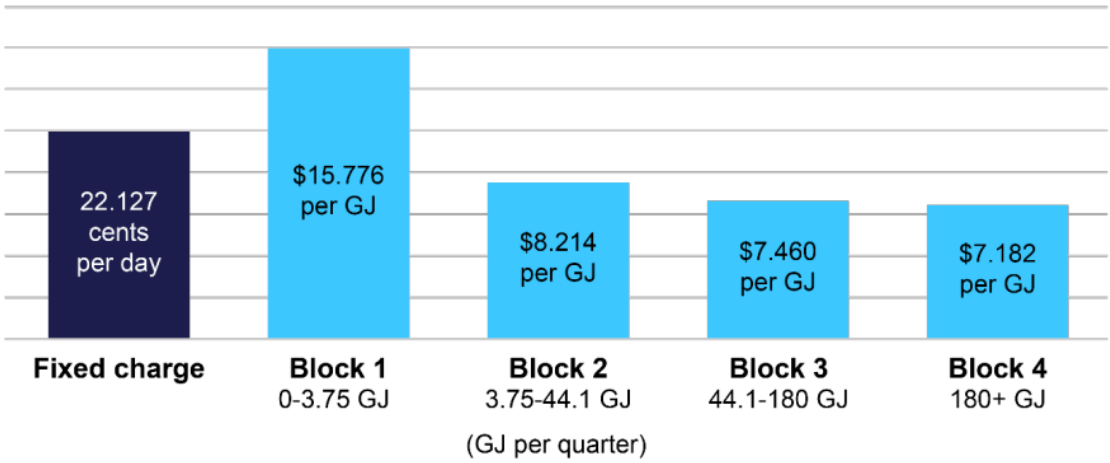
Tariff class	Tariff	Type of customers
Volume market (customers using less than 10 TJs per year) • ~150,000 customers • 85 per cent of gas volume • 95 per cent of Evoenergy's revenue	Volume Individual (VI)	Residential and business customers who have individual gas meters.
	Volume Boundary (VB)	Customers in high-rise dwellings or commercial complexes such as shopping centres that are supplied gas by an energy intermediary between the boundary meter and the end customer.
Demand market *(customers using 10 TJs per year or more)* • 40 customers • 15 per cent of gas volume • 5 per cent of Evoenergy's revenue	Demand Capacity (DC)	Major customers who are billed based on the maximum volume of gas used over an hour or a day.
	Demand Throughput (DT)	Major customers who are billed based on the volume of gas used.

[25] Evoenergy, *Reference service proposal*, June 2024, p.28.

[26] Evoenergy, *Reference service proposal*, June 2024, p.21.

Evoenergy proposed to reconsider its current declining block structure for volume individual tariff customers, which consists of a fixed charge and four declining blocks. This is set out in Figure 1.

Figure 1 Evoenergy's haulage tariff structure for volume customers



4.2 Evoenergy's stakeholder consultation

Evoenergy's proposal included feedback provided from its stakeholders during engagement on the tariff structure element of its reference service proposal.[27] Evoenergy submitted that the ECRC considered there will be a need to re-engage on tariffs when network costs are known. Evoenergy submitted that ERAP considered:

- tariff structures should be designed to endure, provide price stability, and consider the intergenerational and long-term implications on customers and Evoenergy
- there is a need to re-engage on tariffs once network costs, and therefore customer bill impacts can be estimated
- it is too early in the access arrangement process to engage with consumers on this complex topic.

Evoenergy submitted that there were mixed views from its community forum, such as:

- concerns about the balance of equity implications of changing declining block tariffs, against the goal of reducing emissions in the ACT
- whether high fixed charges could encourage customers to disconnect earlier which could jeopardise the sustainability of Evoenergy's gas network
- hard-to-shift customers could be most impacted by any risks to the medium and longer-term viability of the gas network service
- the current declining block structure does not adequately incentivise emissions reductions for larger users.

[27] Evoenergy, *Reference service proposal*, June 2024, Appendix B, pp.39-41.

Evoenergy's proposal included feedback provided from retailers during engagement on elements of Evoenergy's reference service proposal.[28] Evoenergy's retailer stakeholders view the current tariff structure as simple and easy to pass through to customers. Their observations of rebalancing tariff components were that care should be taken not to encourage customers to withdraw from the network earlier than they otherwise would.

4.3 AER stakeholder consultation

ERAP did not provide us with specific comments on Evoenergy's preliminary proposal for tariff structures but noted the intention to continue engagement with stakeholders and on rebalancing within various customer tariff classes.[29]

Minister Rattenbury submitted that the current declining block structure does not disincentivise large gas consumers from using gas which conflicts with the achievement of emissions reduction targets. Minister Rattenbury asked that we consider the appropriateness of the declining block structure, particularly for large gas users, in the context of the ACT Government's policies.

4.4 AER assessment of Evoenergy's tariff structure proposal

We consider Evoenergy should develop and submit for AER consideration one or more implementation pathways to incrementally flatten its declining block tariff structure, over one or more access arrangement periods. Declining block tariffs do not align with the NGO which now includes an emissions reduction element. In developing its potential implementation pathway(s), Evoenergy should consider the pace of change, bill impacts on high consumption customers and the need for adequate transition periods.

We note that our views at least partially align with Evoenergy's submitted intention to reconsider the existing balance of cost recovery across the charges in its existing tariff structure. However, our views relate to all Evoenergy tariff classes, not only its volume individual customers. We consider Evoenergy's existing declining block tariff structure does not adequately incentivise larger users to reduce their gas use.

We also note Evoenergy's submitted intention to model indicative customer bill impacts of different approaches. This is an important element of our considerations, to support Evoenergy's intention to undertake bill impact modelling of tariff rebalancing options, but to broaden that activity to encompass all tariff classes.

Following on from early consumer feedback, Evoenergy proposed to consider maintaining a relatively low fixed charge and transition to a flatter structure for the consumption block charges. We support Evoenergy continuing to develop this line of thinking. Evoenergy should model various scenarios and demonstrate the impact that a flattened structure would have on customers in different volume and demand categories.

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28 Evoenergy, *Reference service proposal*, June 2024, Appendix B, pp.40-41.

29 Evoenergy, *Reference service proposal*, June 2024, pp. 2-3.

Glossary

Term	Definition
ACT	Australian Capital Territory
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
Cl.	clause
ECRC	Energy Consumer Reference Council
ERAP	Energy Regulatory Advisory Panel
NGO	National Gas Objective
NGR	National Gas Rules