21 March 2025

Mr Arek Gulbenkoglu
General Manager, Network Expenditure
Australian Energy Regulator
via aerinquiry@aer.gov.au

Dear Mr Gulbenkoglu,

Re: Capital Expenditure Incentive guideline review

Evoenergy welcomes the opportunity to engage in the AER's Capital Expenditure Incentive Guideline Review (the Review). Evoenergy owns and operates the electricity distribution network in the ACT and the gas network in the ACT and surrounding Queanbeyan-Palerang region.

Evoenergy supports the AER's approach of broadening the Review to include relevant considerations of the Capital Expenditure Sharing Scheme (CESS) for electricity distribution network service providers. It is timely to reconsider the effectiveness of the CESS guideline in light of the significant period of change occurring through the energy transition.

Evoenergy strongly supports measures to incentivise efficient investment. This includes ensuring networks are not unduly penalised under the CESS for necessary, efficient capital expenditure. This is particularly the case through the energy transition, where investment needs are more challenging to forecast than ever before given the degree of uncertainty over the pace of a customer-led electrification journey, and market forces beyond a network service provider's control.

Evoenergy supports a lower CESS penalty applying where overspends are efficient and prudent to meet customers' energy needs.

The ACT is at the forefront of Australia's customer-led electrification journey. Customers in the ACT are rapidly adopting electric vehicles and transitioning household appliances from gas to electric. As a result, we have experienced significant change in the way customers use the electricity network. Over the past three years we have experienced repeated new winter peaks on the electricity network and have now switched from a summer to winter peaking network. In the first year of our 2024–29 electricity network regulatory period, our peak customer demand has already exceeded the forecast expected in the fourth year, and some of our customers' peak loads are now occurring in off-peak tariff periods. To keep pace with the speed of customer choice and continue to provide a safe and reliable electricity supply, Evoenergy may need to invest more than the regulatory allowance set for the 2024–29 period.

Amending the CESS guideline to apply a lower CESS penalty for prudent and efficient overspends is therefore critical for providing confidence to network providers to make investments that reflect customers best interests over the long term.

The risk of incurring CESS penalties, even when spend is prudent, may deter optimal investment solutions, impacting reliability outcomes and likely to result in increased costs to customers over the longer term. Evoenergy believes that discouraging efficient investment is contrary to the objectives of the CESS, and is not in customers' long-term interests.

Evoenergy considers however the AER should ensure that any changes to the penalty rate applying to overspends are transparent, predictable, set on an ex-ante basis, preserve the incentive-based intent of the scheme, and keep administrative costs low. The example included in the Review is unlikely to meet these criteria as the degree of flexibility indicated will create uncertainty for networks and undermine confidence in making prudent investments above allowances, even where these are in customers' best interests.

Evoenergy supports allowing expenditure categories to be excluded from the CESS

Amending the CESS guideline to allow distribution networks to propose the exclusion of specific expenditure categories would provide opportunity for the AER to assess whether or not excluding the expenditure category, in the relevant circumstances, would better align with the CESS principles and promote customers long term interests. Evoenergy considers that the ability to propose ex-ante category-specific CESS exclusions would help maintain the simplicity and transparency of the CESS scheme while providing greater investment certainty.

The intent of the CESS is to promote and reward efficient investment and conversely discourage and penalise inefficient investment. However, there are some expenditure categories where this incentive may not always act as intended, particularly during a significant period of change. For example, in recent years the volume and timing of connections requests from customers has been growing rapidly and become increasingly difficult to forecast, particularly for large connection projects. While these projects typically benefit all customers in the long-term due to increased network utilisation, the relative size and scale of connections projects can quickly result in material increases in additional and unforeseen network capital expenditure within a regulatory period. Facilitating an increased volume and magnitude of customer connections could lead to networks materially overspending allowances, and/or having to defer other efficient network investment to remain within a fixed overall capital allowance to avoid the risk of an ex-post review and CESS penalty.

Given the importance of timely connection of customers, alongside the need to proceed with other efficient investment programs, as well as the broader customer benefits, Evoenergy supports AER consideration of the exclusion of connections capital expenditure category from the CESS and ex-post reviews.

More generally, Evoenergy considers there is benefit in maintaining flexibility for distribution networks to propose the exclusion of specific categories of capital expenditure (e.g. customer-driven or highly uncertain expenditure) based on the circumstances facing the network at the time of the relevant regulatory determination.

Consideration of whether changes to the CESS be applied to current determinations

The energy transition is occurring here and now, particularly in the ACT context, and there is a need to ensure efficient investment in the transition over the next few years. We therefore encourage the AER to explore whether the changes to the CESS under consideration could be applied to regulatory determinations currently in place, including Evoenergy's 2024–29 electricity network regulatory determination.

Should you wish to further discuss matters raised in this request, please contact Lev Yulin, Group Manager Regulatory Pricing and Analysis, Economic Regulation at [redacted]

Yours sincerely

[redacted]

Megan Willcox
General Manager Economic Regulation

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