AER Determination

TasNetworks' North West Transmission Development Stage 1 – Early Works Contingent Project Application

March 2025

AUSTRALIAN ENERGY REGULATOR

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AER reference: 24010032

Amendment record

Version	Date	Pages
1.0	18 March 2025	26

Executive summary

This document sets out our decision on TasNetworks' contingent project application (CPA) for the North West Transmission Developments (NWTD) Stage 1 early works. The NWTD is part of Project Marinus which is a staged actionable integrated system plan (ISP) project.

On 10 October 2024, TasNetworks submitted its CPA for the NWTD Stage 1 early works. It is proposing gross capital expenditure (capex) of $167.3 million (net capex of $151.9 million).

TasNetworks' CPA for the NWTD Stage 1 early works

The NWTD is a proposed transmission project involving significant upgrades to the existing high voltage alternating current 220 kV transmission network in north-west Tasmania. These upgrades are to facilitate connection and operation of the Marinus Link high voltage direct current interconnector between Tasmania and Victoria.

Stage 1 of the NWTD is costed at $950 million and is in support of Cable 1 of the two 750 megawatt high voltage direct current cables associated with the Marinus Link interconnector between Tasmania and Victoria. The Australian Energy Market Operator's (AEMO's) 2024 ISP confirms that the timing of Stage 1 is by June 2030.

The combined Marinus Link and NWTD projects forms Project Marinus, a single actionable ISP project without decision rules. Project Marinus is identified in AEMO's 2024 ISP under the optimal development path.[1]

TasNetworks submits that undertaking early works will enable it to:[2]

- determine the project delivery cost with a high degree of accuracy. In this way, customers know with more certainty the expected cost of investing in the NWTD
- progress activities on the critical path to deliver Stage 1 to meet AEMO's June 2030 delivery date
- undertake work to reduce uncertainty, and identify, manage and reduce construction, cost and delivery risks to keep the NWTD on track and its cost as low as possible.

Its application includes several cost categories. These costs are for procurement and commercial activities, project development (such as early contractor involvement, which includes securing long lead equipment (LLE)), project management, establishing land access and property acquisition, planning and environment costs, community and stakeholder engagement, and regulatory approval costs.

TasNetworks proposes early works of $167.3 million, comprising actual costs of $53.4 million from 1 July 2021 to 30 June 2024, and $113.9 million of forecast costs from 1 July 2024 to

1 Australian Energy Market Operator (AEMO), 2024 Integrated System Plan, June 2024, p. 57.

2 TasNetworks, *North West Transmission Developments Stage 1 CPA 1 Early Works, Contingent Project Application for Stage 1 Early Works*, 10 October 2024, p.7.

28 February 2026.[3] TasNetworks forecasts incremental smoothed revenue for Stage 1 early works of $31.8 million for the 2024–29 period.

The total capex of $167.3 million reduces to a net capex amount of $151.9 million after accounting for the $15.4 million of Australian Government grant funding allocated to the NWTD project. Based on the forecast revenue adjustment, TasNetworks submits that the Stage 1 early works results in an increase for both typical residential and small business network charges of approximately 0.4% per year for the final 4 years of the 2024–29 period.[4]

TasNetworks also proposes that the capital expenditure sharing scheme (CESS) is not applied to NWTD project costs.

Our role in assessing early work applications

Contingent projects are significant network augmentation projects that may arise during a regulatory control period but the need and or timing is uncertain. While the expenditures for such projects do not form part of the total forecast expenditure in a revenue determination, the project costs may ultimately be recovered from customers if the requirements of the National Electricity Rules (NER) are met.

For actionable ISP projects such as Project Marinus which NWTD is part of, our role is to first assess whether the trigger event for an actionable ISP project has been satisfied. If we assess the trigger event for the actionable ISP project has been satisfied, we must then determine the incremental revenues that will be added to TasNetworks' revenue allowance, reflecting the forecast prudent and efficient capital expenditure required to deliver the contingent project.

For "early works" as defined under the NER, the trigger event that must be satisfied under the NER is that the CPA is an early works CPA.

Under the NER, the early works costs must also exceed the materiality threshold, which is either $30 million, or 5% of the maximum allowed revenue (MAR) for the first year of the regulatory control period, whichever is the smaller amount.

Our decision on NWTD stage 1 early works

We are satisfied that TasNetworks' CPA for NWTD Stage 1 early works satisfies the trigger event and the project capex exceeds the threshold. As such, we must make a determination on TasNetworks' CPA for:

- the expenditure reasonably required for the purpose of undertaking the contingent project
- the likely commencement and completion dates for the project

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[3] Early works capex commenced in 2019-20 to meet the 2020 and 2022 ISP's delivery date but TasNetworks' application only includes early works capex from 1 July 2021 (i.e. the 2021–22 regulatory year). This is because capex in the 2019–20 and 2020–21 regulatory years was incurred as part of Project Marinus and forms a component considered in the sale of MLPL, which occurred in March 2024. Capex incurred in 2019–20 and 2020–21 is therefore not included in this CPA or TasNetworks' regulatory asset base (RAB).

[4] TasNetworks, *North West Transmission Developments Stage 1 CPA 1 Early Works*, 10 October 2024, p 12.

- the incremental revenue.

For the purposes of this CPA, the applicable dates for the Stage 1 early works activities are a commencement date of 1 July 2021 (commencement of costs included in this CPA) and anticipated date for completion of February 2026. We are satisfied with the dates of commencement and completion of NWTD Stage 1 early works.

Table 1 sets out the forecast prudent and efficient capex required to deliver the project, the estimated impact on the transmission component of residential customer electricity bills in Tasmania, and the incremental revenues that will be added to TasNetworks' revenue in the 2024–29 period.

We note that our decision also sets out issues the AER will assess in more detail in TasNetworks' CPA for NWTD Stage 1 construction costs (CPA2). More generally, we would also expect that CPA2 will have significant detail and more defined costs. As noted by TasNetworks, the early works funding will enable it to "determine the project delivery cost with a high degree of accuracy" and allow it to "undertake work to reduce uncertainty and identify, manage and reduction construction, cost and delivery risk".[5]

Table 1: NWTD Stage 1 early works – Assessment of forecast capex, revenues and bill impact

	TasNetworks' application	AER's determination
Total capex ($2023–24) to be commissioned for NWTD Stage 1 early works in 2025–26	$152.0 million*	$152.0 million*
NWTD Stage 1 early works indicative average annual increase in residential electricity bills in Tasmania over 2025–26 to 2028–29	$5 p.a.	$5 p.a.
Total incremental revenue to be recovered from customers over 2025–26 to 2028–29 ($ nominal, smoothed)	$31.8 million	$31.9 million†

Source: TasNetworks application and AER analysis.
* Net capex to take account of $15.4 million of grant funding.
† Incremental revenues are calculated based on the 2024–25 return on debt update post-tax revenue model. Our approved incremental revenue is $0.1 million higher than TasNetworks' proposed amount due to a minor modelling error correction. This is discussed in section 5.1.

In response to TasNetworks' proposal to not apply the CESS to NWTD project costs, we will determine the application of the CESS when assessing TasNetworks' CPA2. This is consistent with our treatment in previous decisions including, most recently, HumeLink and VNI West. We do not consider it is appropriate to make a decision on the application of the CESS until the full costs of the project have been assessed, which will occur at CPA2.

5 TasNetworks, *North West Transmission Developments Stage 1 CPA 1 Early Works, Contingent Project Application for Stage 1 Early Works*, 10 October 2024, p 7.

Next steps

Following this decision and by the operation of the NER, TasNetworks' revenue determination is now amended such that the incremental revenues we have approved in this determination will be added to TasNetworks' total maximum allowed revenues for the 2024–29 period. This follows the process set out in clause 6A.8.2 of the NER.

The increase in allowed revenues will be reflected in customer bills over the remaining 4 years of the 2024–29 period (2025–26 to 2028–29).

We note that TasNetworks is currently progressing a concessional finance agreement with the Clean Energy Finance Corporation. The concessional finance arrangement is expected to include funding for the costs associated with the Stage 1 early works and include a sharing arrangement with consumers. As the agreement is not yet finalised, the revenue and price impacts provided in this CPA have not been adjusted for any reduction to reflect the sharing arrangement. When a concessional finance arrangement is agreed, TasNetworks intends to request the AER to amend its revenue in accordance with the concessional finance agreement.

The next stage for TasNetworks to progress NWTD as part of Project Marinus is for TasNetworks to submit its CPA2. We note that an updated RIT-T analysis is critical in our assessment of NWTD Stage 1 construction costs and Marinus Link's Stage 1 construction cost, which should also incorporate AEMO's July 2025 Inputs, Assumptions and Scenarios Report.

We also note the concurrent release of the AER's Marinus Link March Issues Paper at the same time as this decision, which seeks stakeholder feedback on aspects of Marinus Link Stage 1 construction costs.

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1 North West Transmission Developments Stage 1 Contingent Project

The NWTD is one of two components of Project Marinus. Marinus Link Pty Ltd (MLPL) is responsible for Marinus Link and TasNetworks is responsible for the NWTD component.

In June 2021, the RIT-T Project Assessment Conclusions Report was published, identifying Project Marinus as the preferred option.[6] Project Marinus comprises:

- Marinus Link, which consists of two new 750 megawatt high voltage direct current cables (undersea and underground) connecting Victoria and Tasmania with converter stations at each end (otherwise known as Cable 1 and Cable 2); and
- NWTD, which involves significant upgrades to the existing Tasmanian high voltage alternating current 220 kV transmission network to facilitate connection and operation of the Marinus Link high voltage direct current cables. The NWTD will be undertaken in two separate stages to support each of Cable 1 and Cable 2.

In April 2024, MLPL published updated market modelling to incorporate the updated costs and market developments. It considered that updated modelling supports its position that there has been no material change in circumstances, such that the preferred option in the Project Assessment Conclusions Report remains as the preferred option. The preferred option in the report is to proceed with Cable 1 as soon as practicable and to keep the timing of Cable 2 under review.[7]

AEMO confirmed in its Final June 2024 ISP that Project Marinus is an actionable project in the ISP optimal development path with the following timing:[8]

- Stage 1 - Cable 1 and the associated NWTD work by June 2030. Stage 1 relates to upgrades to the Palmerston–Sheffield and Sheffield–Burnie 220 kV transmission lines, and construction of the Heybridge Spur East 220 kV transmission line.[9]
- Stage 2 - Cable 2 and the associated NWTD work by June 2032, subject to ongoing negotiations and confirmation in subsequent ISPs. Stage 2 relates to construction of Hampshire Hills and Staverton switching stations, and the Staverton–Hampshire Hills, Burnie–Hampshire Hills, and Heybridge Spur West 220 kV transmission lines.[10]

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6 Marinus Link, *RIT-T Project Assessment Conclusions Report*, July 2021.

7 Marinus Link, *Re: Project Marinus RIT-T update*, 16 April 2024.

8 AEMO, *2024 Integrated System Plan For the National Electricity Market – A roadmap for the energy transition*, June 2024, p 62.

9 TasNetworks, *North West Transmission Developments Stage 1 CPA 1 Early Works, Contingent Project Application for Stage 1 Early Works*, 10 October 2024, p 6.

10 TasNetworks, *North West Transmission Developments Stage 1 CPA 1 Early Works, Contingent Project Application for Stage 1 Early Works*, 10 October 2024, p 6.

Actionable ISP projects on the ISP optimal development path are eligible for early works contingent projects.[11]

Project Marinus has received Government funding. In April 2022, the Australian Government announced grant funding of $75 million to support the design and approval phase for Project Marinus. In addition, an agreement was reached between the Australian, Tasmanian and Victoria Governments to progress Marinus Link, which included access for TasNetworks to low-cost debt for the NWTD through the Clean Energy Finance Corporation.[12]

1.1 The Early Works CPA for NWTD Stage 1 to support Cable 1

TasNetworks' application relates to early works for NWTD Stage 1 to support Cable 1 which MLPL will deliver. TasNetworks proposes early works of $167.3 million, comprising actuals costs of $53.4 million from 1 July 2021 to 30 June 2024,[13] and $113.9 million of forecast costs from 1 July 2024 to 28 February 2026. TasNetworks forecasts incremental smoothed revenue for Stage 1 early works of $31.8 million for the 2024–29 period.

The total capex of $167.3 million reduces to a net capex amount of $151.9 million after application of $15.4 million of Australian Government grant funding allocated to the NWTD project. Based on the forecast revenue adjustment, TasNetworks submits that the Stage 1 early works results in an increase for both typical residential and small business network charges of approximately 0.4% per year for the final 4 years of the 2024–29 period.[14]

TasNetworks is currently progressing a concessional finance agreement with the Clean Energy Finance Corporation. The concessional finance arrangement is expected to include funding for the costs associated with the Stage 1 early works and include a sharing arrangement with consumers. As the agreement is not yet finalised, the revenue and price impacts provided in this CPA have not been adjusted for any reduction to reflect the sharing arrangement.

When a concessional finance arrangement is agreed, TasNetworks intends to request the AER to amend its revenue in accordance with the concessional finance agreement. Subject to TasNetworks satisfying the relevant requirements set out in clause 6A.3.3, the AER is required to make a Transmission concessional finance adjustment in accordance with the concessional finance agreement.[15] The AER must then amend the transmission determination as required under clause 6A.7.7 to reflect the Transmission concessional finance adjustment it has made.

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11 NER, cl 5.16A.5(e).

12 TasNetworks, *North West Transmission Developments Stage 1 CPA 1 Early Works, Contingent Project Application for Stage 1 Early Works*, 10 October 2024, p 37.

13 Early works capex commenced in 2019–20 to meet the 2020 and 2022 ISP's delivery date however TasNetworks' application only includes early works capex from 1 July 2021 (i.e. the 2021–22 regulatory year). This is because capex in the 2019–20 and 2020–21 regulatory years was incurred as part of Project Marinus and forms a component considered in the sale of MLPL, which occurred in March 2024. Capex incurred in 2019–20 and 2020–21 is therefore not included in this CPA or TasNetworks' RAB.

14 TasNetworks, *North West Transmission Developments Stage 1 CPA 1 Early Works*, 10 October 2024, p 12.

15 NER, cl 6A.3.3

2 Summary of NER requirements

For an actionable ISP project, a transmission network service provider (TNSP) may submit a contingent project application to the AER if a trigger event under clause 5.16A.5 of the NER has occurred.[16] The information that a TNSP is required to include in its application to amend a revenue determination is set out under clause 6A.8.2(b).

TasNetworks submitted its application on 10 October 2024. As soon as practicable following receipt of the application, we must publish the application and invite submissions on the application.[17] We must consider any written submissions on the application in making our determination and we must make our decision within 40 business days from the later of the date we receive the application and the date we receive any information required by us under clause 6A.8.2(h1).[18]

We published the application on 18 October 2024 and sought submissions until 15 November 2024; we received 5 written submissions from stakeholders. We issued 3 notices under clause 6A.8.2(h1) and TasNetworks' final response was received on 11 February 2025.

2.1 Eligibility to submit a CPA

To be eligible to submit a CPA for the NWTD, TasNetworks must meet a trigger event in clause 5.16A.5 of the NER.[19] For early works, the trigger event that must be satisfied under the NER is that the CPA is an early works CPA, with "early works" as defined under the NER.[20]

NER clause 6A.8.A1(b)(2) also requires where the application is for early works the threshold is either $30 million, or 5% of the MAR for the first year of the regulatory control period, whichever is the smaller amount.

2.1.1 NER requirements

If we are satisfied the trigger event has occurred and the forecast total capital expenditure in the application exceeds the materiality threshold, we must then:

- Determine the capital expenditure (capex), incremental operating expenditure (opex) and incremental revenue reasonably required for the purposes of undertaking the project, and the likely commencement and completion dates for the project (as applicable).[21]

16 NER, cl 6A.8.2(a).
17 NER, cl 6A.8.2(c).
18 NER, cl 6A.8.2(d).
19 NER, cl 6A.8.2(a)(2).
20 NER, cl 5.16A.5(e).
21 NER, cl 6A.8.2(e)(1).

- Determine the estimate of incremental revenue likely to be required in each remaining regulatory year as a result of the project.[22]
- Amend the relevant revenue determination in accordance with clause 6A.8.2(h).23

In making the determinations required under clause 6A.8.2(e)(1), we must accept the relevant amounts and dates in the application if we are satisfied that:

- The forecast of the total capex for the project meets the threshold in clause 6A.8.1(b)(2)(iii).[24]
- The capex and opex in the application reasonably reflects the capex and opex criteria required to achieve the capex and opex objectives, taking into account the capex and opex factors.[25]
- The estimates of incremental revenue and the dates are reasonable.[26]

As part of this decision, we have only assessed the prudency and efficiency of TasNetworks' proposed incremental capex because TasNetworks' application did not include an amount for incremental opex.

In making the determinations under 6A.8.2(e)(1) and determining whether to accept the amounts and dates in the application, we must have regard to the matters under clause 6A.8.2(g).[27] Having regard to the matters under clause 6A.8.2(g), if we are then satisfied of the matters in clause 6A.8.2(f), we must accept the amounts and dates proposed in the application.[28] If we are not satisfied, then we must determine the amounts and dates.

Our assessment of TasNetworks' eligibility to submit a CPA is set out in section 3, the proposed capex in section 4, and the corresponding incremental revenue in section 5.

22 NER, cl 6A.8.2(e)(1) and (2).
23 NER, cl 6A.8.2(e)(3).
24 NER, cl 6A.8.2(f)(1).
25 NER, cl 6A.8.2(f)(2).
26 NER, cl 6A.8.2(f)(3) and (4).
27 NER, cl 6A.8.2(g).
28 NER, cl 6A.8.2(f).

3 Project trigger and expenditure threshold

Under clause 6A.8.2(e) of the NER, we are required to determine the expenditure reasonably required and the incremental revenues necessary to deliver the contingent project if we are satisfied that the trigger event for early works has occurred, and the project exceeds a cost threshold.

3.1 Assessment of trigger event

TasNetworks must meet a trigger event outlined in clause 5.16A.5 of the NER. For early works, the trigger event that must be satisfied is that the CPA is an early works CPA. An early works CPA is defined as an application by a TNSP to amend its revenue determination in respect of the costs of early works.[29]

Early works is defined as:[30]

> *Activities undertaken by a Transmission Network Service Provider in respect of an actionable ISP project:*
>
> *(a) prior to the construction of the preferred option; and*
>
> *(b) which:*
>
> *(1) improve the accuracy of cost estimates for that project; or*
>
> *(2) facilitate that project being delivered within the timeframes specified by the most recent Integrated System Plan.*

We are satisfied that the trigger event has occurred. We assess that TasNetworks application to amend its revenue determination is in respect of the costs for early works, and therefore is an early works CPA.

Our assessment of the trigger event is as follows:

- We have assessed that TasNetworks' early works activities is in respect of an actionable ISP project.
- We have assessed that TasNetworks' early works activities are being undertaken prior to construction of Cable 1 where the Final Investment Decision for NWTD Stage 1 is scheduled for mid-2025. A positive Final Investment Decision in mid-2025 will enable TasNetworks to commence construction in 2026 ahead of the AEMO's June 2030 delivery date as set out in the latest ISP.
- TasNetworks' early works activities would facilitate that NWTD as part of Project Marinus is delivered within the timeframes specified by the most recent ISP. For instance, TasNetworks' early works activities relate to early stakeholder engagement, and land and

[29] NER, Chapter 10.

[30] NER, Chapter 10.

easement acquisition. These activities are likely to involve protracted discussions with differing views. Undertaking these activities at the early works stage ahead of construction is likely to reduce delays. Also, TasNetworks' decision to have Genus (the engineering, procurement and construction contractor) involved in the design and surveying phase (referred to as the early contractor involvement) also provides greater certainty around implementation, reducing delays.

3.2 Assessment of expenditure threshold

We are satisfied that TasNetworks' early works cost estimate exceeds the applicable materiality threshold. TasNetworks' early works forecast capex is $151.9 million (net of the grant funding) exceeds the threshold for early works of $30 million and is also more than 5% of TasNetworks' 2024–25 MAR of $163.4 million.

4 Prudent and efficient project expenditure

In making our decision in response to the contingent project application, we are required to determine the capex and opex for each year of the current regulatory control period that we consider is reasonably required.[31] We note that TasNetworks did not propose any incremental opex as part of its CPA. In forming our view, we have considered the capex criteria,[32] and the specific matters under clause 6A.8.2(g) of the NER.

This section outlines our assessment of TasNetworks' proposed capex for NWTD Stage 1 Early Works and our determination on the prudent and efficient expenditure reasonably necessary to undertake this project.

The forecast capex is a key component to determining the incremental revenue TasNetworks may recover over the 2024–29 regulatory control period. The forecast capex will also be added to the target capex for TasNetworks' expenditure incentive schemes.[33] Any incentive rewards and penalties TasNetworks receives because of under or overspending on the project will be applied as additional revenue adjustments in the next regulatory control period.

TasNetworks has proposed the CESS not be applied to the NWTD project costs. Our position on its proposal is also discussed below.

4.1 Forecast capital expenditure

TasNetworks submits that Stage 1 Early Works will require $167.3 million ($2024–25) in incremental capex.[34] Table 2 summarises the Stage 1 actual and forecast early works capex for the period 1 July 2021 to 28 February 2026 by capex category.

Table 2: NWTD actual to 30 June 2024 and forecast to February 2026 for early works

Capex work activity	Description of the early works	Actual from 1 July 2021 to 30 June 2024 ($m)	Forecast to February 2026 ($m)	Total	% of the total cost
Project development	Activities such as studies, surveys and assessments to support engineering design. Includes direct costs for the early contractor involvement	9.7	83	92.7	55.4%

31 NER, cl 6A.8.2(e)(1)(i) and (ii).

32 NER, cl 6A.8.2(f)(2).

33 The capital expenditure sharing scheme (CESS) and the efficiency benefit sharing scheme (EBSS).

34 TasNetworks, *North West Transmission Developments Stage 1 CPA 1 Early Works*, 10 October 2024, p 11.

	(i.e. pre-construction activities and LLE)				
Project management	Establishing governance, management of project plan, cost estimation and forecasting	12.8	10.2	23	13.7%
Land and easement acquisition	Engaging with landholders, establishing land access agreements, negotiating construction access and easement option agreements	7.1	9.5	16.6	9.9%
Planning and environment	Environmental, land use planning and heritage and social impact assessments and approvals	11.7	3.6	15.3	9.1%
Commercial and procurement	Finance and budget management and reporting, overseeing the competitive procurement process to identify the preferred Principal Contractor to deliver the project	7.3	4.7	12	7.2%
Community and stakeholder engagement	Developing and implementing stakeholder and community engagement programs	4.4	2.3	6.7	4%
Regulatory approvals and other support	Seeking necessary regulatory approvals	0.3	0.6	0.9	0.5%
Total capex (gross)		**53.4**	**113.9**	**167.3**	**100%**
Less grant funding		**15.4**			
Total capex (net)				**151.9**	

Notes: TasNetworks, North West Transmission Developments Stage 1 CPA 1 Early Works, 10 October 2024, pp 21–22.

In assessing prudency and efficiency of TasNetworks' early work costs, we regarded various information to assess the scope and nature of TasNetworks' early works activities. In addition to TasNetworks' CPA and supporting material including consultant reports, we also requested further information from TasNetworks about its early work costs. This included governance arrangements and tendering process for contractors including the engineering,

procurement and construction contractor.[35] We also considered stakeholder submissions which are discussed further below.[36]

Overall, we have concluded that TasNetworks' proposed incremental capex costs for NWTD Stage 1 early works is prudent and efficient. We determine that TasNetworks' proposed capex of gross capex of 167.3 million (net capex of $151.9 million) is reasonably required for the purposes of undertaking the contingent project.[37] We have determined the amount of $151.9 million of forecast capex for NWTD Stage 1 early works to be included in the 2025–26 year within the 2024–29 regulatory control period.[38]

In coming to our decision, we also regarded:[39]

- the expenditure that would be incurred in respect of a contingent project by an efficient and prudent operator in the circumstances of TasNetworks
- the actual and expected capex of TasNetworks for contingent projects during any preceding regulatory control periods
- the relative prices of operating and capital inputs in relation to the contingent project
- the substitution possibilities between opex and capex in relation to the contingent project
- whether the capex forecasts for the contingent project is consistent with any incentive schemes that apply to TasNetworks.

We have had regard to the factors set out in clause 6A.8.2(g)(4)–(8) in coming to our decision. We note the main findings below and some issues to review in more detail when TasNetworks' CPA2 is submitted.

4.1.1 Internal labour

We assessed the internal labour costs that apply across all the capex work activities, which total $33.84 million.

TasNetworks submits in its application that its current project development team 'rely on support from the broader BAU operational teams'.[40] As contingent project costs should be incremental to those set in a revenue determination, we sought further information about whether TasNetworks' historical (actual) and forecast costs were additional costs beyond those already set in its 2024–29 revenue determination.

TasNetworks provided information about its team composition for TasNetworks and NWTD. It confirmed that:

> 'The NWTD team was established as part of the Project Marinus structure and was separately resourced to the BAU TasNetworks' structure. No part of the structure was

35 NER, cl 6A.8.2(g)(1)

36 NER, cl 6A.8.2(g)(2).

37 NER, cl 6A.8.2(e)(1)(ii).

38 NER, cl 6A.8.2(e)(1)(i)

39 NER, cl 6A.8.2(g)(4), (5), (7) - (9).

40 TasNetworks, *North West Transmission Developments Stage 1 CPA 1 Early Works*, 10 October 2024, p.65.

included in TasNetworks costs for the 2024–29 Revenue Determination (or as part of the 2019-24 Revenue Determination). The NWTD team was separately resourced to its BaU structure.'[41]

It further clarified that some positions have been seconded or transferred from existing resources. These positions have been backfilled or the position was made redundant as part of its business transformation. TasNetworks also advised that the use of staff normally allocated to BAU will need to be supplemented with other full-time equivalents or contractors.

We will review internal labour costs again when assessing the CPA for NWTD Stage 1 construction costs.

4.1.2 Project development costs

Long Lead Equipment (LLE) costs ($39.1 million)

We consider it prudent for TasNetworks to secure LLE at the early works stage for the equipment it has identified, given that for certain equipment there is a lengthy period between order and delivery. TasNetworks notes that LLE availability is estimated to take 19 months following placement of orders.[42] We requested TasNetworks provide evidence to demonstrate the efficiency of its LLE forecast, given that it was based on one tenderer's response (as all other tenderers pulled out of the tendering process). In response to an information request, TasNetworks submitted that:[43]

- GHD provided an independent verification and assessment of the early works expenditure (including LLE forecast). The GHD report considered all LLE items prudent and efficient, and that these were required to achieve project milestones and to reduce supply chain delivery and cost escalation risks;44
- TasNetworks cross-checked the tenderer's costs against internal cost estimates prepared earlier in the projects' phases; and
- North Projects was engaged to undertake an independent cost estimate of delivery cost, though not specifically LLE costs.

We have reviewed the GHD report and are satisfied that the report and the other sanity checks undertaken by TasNetworks sufficiently tests the efficiency of the LLE forecast. We also note that when we assess TasNetworks' CPA2, we will compare the LLE actual versus forecast costs and to the extent there is a material difference, we will request TasNetworks provide reasons for the difference.

We also requested TasNetworks clarify who purchases the LLE (TasNetworks or the contractor) to better understand the risk allocation of that aspect of early works. In response to our information request, TasNetworks submitted the contractor purchases the LLE where it charges a margin for overheads and profit on the LLE. The alternative would be for TasNetworks to directly sign the LLE purchase contracts, avoiding the contractors' margin on

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41 TasNetworks, *AER IR#01 Additional Questions NWTD CPA 1, TasNetworks Response*, 29 November 2024, pp 4–5.

42 TasNetworks, *North West Transmission Developments Stage 1 CPA 1 Early Works*, 10 October 2024, p 24.

43 TasNetworks, AER IR#2 NWTD CPA1, p 5.

44 GHD Advisory, *North West Transmission Development – Early Works Independent Verification and Assessment*, 30 September 2024.

the LLE purchase cost. TasNetworks also noted that the margin that includes contractor overheads and profit margin are standard in the industry for managing procurement processes. It states that the decision for the contractor to procure the LLE was based on a consideration of TasNetworks' lack of capability and capacity to oversee LLE activities of this scale. It would also allow TasNetworks to focus resources on broader project management and oversight activities rather than detailed engineering and procurement. Further, the risk is being placed with the contractor who is best placed to bear it given the contractor's experience with procuring LLE. Also, the contractor has established supply chain relationships which enables cost-effective sourcing, potentially reducing schedule risks and allow negotiations for better commercial terms.[45] We are satisfied that these considerations are reasonable to justify the contractor purchasing the LLE.

Early Contractor Involvement ($35.4 million in design and indirect costs)

In reviewing the contract and price schedule that TasNetworks has with Genus (the contractor involved in construction), we noted references to NWTD Stage 2 activities. We sought clarification from TasNetworks as to whether Stage 2 works are included in Stage 1 early works, and, if so, if those works are undertaken at its own expense and then recovered in Stage 2. In response, TasNetworks confirmed that Stage 2 design works is not included in this CPA, and that any Stage 2 activities will be part of a separate contract.

Intention to review the contract for NWTD Stage 1 construction costs

The contract between TasNetworks and the contractor sets out that the contractor will be paid actual costs plus margin, with a floor (a Fixed Minimum Construction Price plus Margins) and a ceiling (the Guaranteed Maximum Price). If the actual costs plus margin comes in at less than the Guaranteed Maximum Price, a share of the difference (currently proposed to be 50%) will go to the contractor.

While we appreciate that structuring the contract in this way means that it incentivises the contractor to manage the risk of the project during construction (that is, the lower the actual costs the greater the gain share), it may also incentivise the contractor to include more risks. This can inflate the costs and thus the Guaranteed Maximum Risk Price. The higher the Guaranteed Maximum Price, the more risk is transferred to TasNetworks and its customers and the greater the potential gain share that goes to the contractor. We have engaged with TasNetworks about this concern and noted we will be assessing the contract in line with our Cost Benefit Analysis Guidelines and guidance note on the regulation of actionable ISP projects.[46]

4.1.3 Project management costs

We consider it prudent for TasNetworks to increase its project management capabilities to manage a large-scale project like the NWTD, noting that TasNetworks has not managed a project of this size recently.

We have assessed the project management costs of $23 million to be within the reasonable range. TasNetworks has established a dedicated project management team and

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45 TasNetworks, AER IR#2 NWTD CPA1, pp 15–16.

46 AER, *Guidance note - Regulation of actionable ISP projects*, March 2021; AER, *Cost benefit analysis guidelines*, November 2024.

implemented new governance, systems and software to deliver the NWTD. We note most of the project management costs of $23 million are labour costs. It is proposing more than 11 full-time equivalents, making up approximately 57.5% of these costs. Most of the other costs relate to consultant, professional fees and overheads to support the project management function, with the largest costs relating to overheads.

We requested further information about its labour and overhead costs.[47] We have reviewed TasNetworks' actual and forecast labour costs to assess whether the project management costs for the NWTD are incremental and have determined that TasNetworks has provided sufficient information to demonstrate that these costs are additional to those allocated to its 2024–29 revenue determination. In reviewing its overhead costs, we also found that TasNetworks had made an adjustment to remove non-incremental costs such as TasNetworks Board and facilities.[48]

We also assessed TasNetworks' Gated Investment Framework which it applies to manage and control investment in the NWTD. In response to our information request, TasNetworks provided further detail about the five decision gates and the requirement at each gate before proceeding to the next gate.[49] We consider that its Gated Investment Framework is reflective of the key decision in the project's lifecycle, with Gate 1 being a Needs Analysis, Gate 2 - Options Analysis, Gate 3 - Financial and Business Case Approval, Gate 4 - Contract Execution and ending with Gate 5 - Post-implementation Review. We also consider its gated framework to be comprehensive and appropriate for a project of this size.

TasNetworks submits that as the project transitions from early works to delivery, the organisational structure will shift in the make-up of functional resources and specialist services required.[50] We will review the project management costs again as part of our assessment of TasNetworks' CPA2.

4.1.4 Other costs

We found TasNetworks' land and easement acquisition costs of $16.6 million to be reasonable and note these early work activities are closely linked to TasNetworks' stakeholder engagement activities. In response to an information request, TasNetworks provided further information on the specific breakdown of costs already paid and forecast on land and easement access. We will review this information against any changes in forecast in TasNetworks' CPA2.

We are satisfied that TasNetworks' early and extensive stakeholder engagement would assist in facilitating the construction and delivery of the NWTD. We consider the costs of $6.7 million for community and stakeholder engagement to be reasonable. We note that TasNetworks is proposing a Community Benefits Sharing Program that is forecast to provide $10 million of funding for initiatives over the construction period between 2026 and 2030.[51]

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47 TasNetworks, *Response to AER IR#1 NWTD CPA1 and IR additional #1*.

48 TasNetworks, *Response to AER IR additional #1*, p 6.

49 TasNetworks, *AER IR#2 NWTD CPA1*, p 6.

50 TasNetworks, *North West Transmission Developments Stage 1 CPA 1 Early Works*, 10 October 2024, p 70.

51 TasNetworks, *North West Transmission Developments Stage 1 CPA 1 Early Works*, 10 October 2024, pp 43–44.

This program was co-designed with local stakeholders and provides funding to local communities in the 6 local government areas affected by the NWTD during the construction phase. In response to an information request, TasNetworks confirmed that this early works application does not include any funding related to the Community Benefits Sharing Program.[52] We intend to review whether the Program's costs are reasonable social license costs as part of our review of CPA2.

We also encourage stakeholders to review the AER's position on treatment of social license costs as set out in our Directions Paper on Social Licence for Electricity Transmission Projects.[53] Social licence is also discussed in other AER documents including the Cost Benefit Analysis Guidelines and our guidance note on the regulation of actionable ISP projects.[54]

We sought further information from TasNetworks as to extent of engagement it is has had with stakeholders on tariff changes from NWTD stage 1 early works and stage 1 construction more generally. In response, TasNetworks provided details about specific engagement it undertook on price impact for its customers which occurred in different forums in April, August and October 2024, and included one-on-one meetings to discuss individual price paths. It also provided further information about how it followed up customer feedback at each forum. We note some submissions that request further engagement on specific issues.

4.1.5 Submissions

We received written submissions from the following 5 stakeholders:

- Bell Bay Aluminium.[55]
- TasFarmers.[56]
- Liberty Bell Bay.[57]
- the Tasmanian Minerals, Manufacturing & Energy Council (TMEC).[58]
- Rainforest Reserves Australia.[59]

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52 TasNetworks, *Response to AER IR#03 NWTD CPA1*, 11 February 2025.

53 AER, *Directions Paper – Social Licence for Electricity Transmission Projects*, October 2023.

54 AER, *Guidance note - Regulation of actionable ISP projects*, March 2021; AER, *Cost benefit analysis guidelines*, November 2024.

55 Bell Bay Aluminium, *Submission on TasNetworks' NWTD Stage 1 Early Works contingent project application,* 13 November 2024

56 TasFarmers, *TasFarmers' Submission – TasNetworks North West Transmission Developments Stage 1 Early Works Contingent Project*, 15 November 2024.

57 Liberty Bell Bay, *Submission on the North West Transmission Developments Stage 1 CPA 1 Early Works,* 15 November 2024.

58 Tasmanian Minerals, Manufacturing and Energy Council, *submission on TasNetworks' NWTD Stage 1 early works contingent project application*, 21 November 2024.

59 Dr Anne S Smith for Rainforest Reserves Australia, *Submission: TasNetworks North West Transmission Developments Stage 1 – Early Works Contingent Project*, 4 December 2024.

We note concerns raised by TasFarmers about a lack of engagement but also recognition from TMEC about the engagement TasNetworks has had in preparing its CPA.

TasFarmers also submits that there has been a lack of clarity from TasNetworks about the Strategic Benefit Payment.[60] We note TasNetworks in its CPA submits that the Strategic Benefit Payment amount and scheme has yet to be finalised and is not intended to be paid until the transmission line is energised. TasNetworks notes it has been working with the Tasmanian Farmers and Graziers Association to negotiate a Strategic Benefit Payment amount.[61]

Some stakeholders raised concerns with the staging of Project Marinus. Liberty Bell Bay considers NWTD Stage 1 should only proceed once Marinus Link's Final Investment Decision is achieved, as investing earlier creates considerable risks of a stranded asset if Marinus Link does not proceed. We acknowledge these concerns. As we are approving the capex for TasNetworks' early work activities, we would therefore expect improved cost accuracy and greater certainty around the NWTD and Project Marinus more generally. We are also cognisant of the dependency of the NWTD and Marinus Link. In this regard, an updated RIT-T analysis is critical to our assessment of both NWTD Stage 1 construction costs and Marinus Link's Stage 1 construction costs. This is because it will inform us as to whether the preferred option of proceeding with Cable 1 remains unchanged.

We note some stakeholders raised overall concerns about Project Marinus which are beyond the scope of our assessment of the NWTD Stage 1 early works. We will have regard to the below stakeholder comments in our review of the NWTD Stage 1 construction costs and Marinus Link's Stage 1 construction costs.

- Bell Bay Aluminium and Liberty Bell Bay raised concerns about the benefits of Project Marinus given the significant cost. They submit that Project Marinus provides limited benefits to them as their costs are based on long-term energy contracts, so any reduction in future energy prices will not flow through.
- The TMEC and Rainforest Reserves Australia acknowledge the benefits of Project Marinus but express concerns as to whether these outweigh the costs. TMEC acknowledges the benefits of the NWTD, Marinus Link and new generation projects across the economy. It remains conditionally supportive of the NWTD project, with the primary concern being cost impact on existing customers who may not benefit from the project. Rainforest Reserves Australia also acknowledges that NWTD Stage 1 early works aims to enhance energy infrastructure to support the renewable energy transition. However, it has concerns that the project is likely to have environmental, cultural, and social impacts which outweigh its potential benefits.
- TasFarmers considers that because the benefits of Project Marinus are NEM-wide, costs of Project Marinus including NWTD early works should be spread across all consumers, not just Tasmanian customers.

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60 This scheme is intended to set out the framework and amount that landholders hosting a new high voltage transmission project will be paid in future periods.

61 TasNetworks, *North West Transmission Developments Stage 1 CPA 1 Early Works*, 10 October 2024, p 85.

4.2 Application of the CESS

TasNetworks proposes the CESS is not applied to NWTD project costs. It considers that applying the CESS will not incentivise TasNetworks to undertake efficient capital expenditure during the regulatory control period.[62]

We will determine the application of the CESS when assessing TasNetworks' CPA2. This is consistent with our treatment in previous decisions, including most recently HumeLink and VNI West. We do not consider it is appropriate to make a decision on the application of the CESS until the full costs of the project have been assessed, which will occur at CPA2.

4.3 Likely completion date

In making the determinations required under clause 6A.8.2(e)(1), we must accept the relevant dates in the application if we are satisfied that the likely commencement and competition dates for the contingent project are reasonable.[63]

For the purposes of this CPA, the applicable dates for Stage 1 early works activities are a commencement date of 1 July 2021 (commencement of costs included in this CPA) and anticipated date for completion of February 2026. Some of the Stage 1 early works activities have already started. TasNetworks notes these activities have needed to pre-date this CPA to meet the 2030 target completion date.

We are satisfied that the dates of commencement and completion of NWTD Stage 1 early works are reasonable, as:

- TasNetworks' costs included in this CPA commenced on 1 July 2021. While TasNetworks incurred capex in 2019–20 and 2020–21, these have not been included in this CPA as these were incurred as part of Project Marinus and forms a component considered in the sale of MLPL; and
- Its completion date of its early work activities is anticipated to be February 2026, as TasNetworks' supporting costings are forecast for no later than February 2026.

62 TasNetworks, *North West Transmission Developments Stage 1 CPA 1 Early Works*, 10 October 2024, p 36.

63 NER, cl 6A.8.2(f)(4).

5 Calculation of incremental allowed revenues

This section sets out our calculation of the incremental revenue that TasNetworks would recover from customers over the 2024–29 period to account for our determination of efficient project costs. We have applied an annual building block revenue approach in accordance with clause 6A.8.2(h) of the NER. TasNetworks' application is based on this approach. The incremental revenues are calculated based on the capex that we determined and otherwise in accordance with TasNetworks' application.[64]

Table 3 shows TasNetworks is to recover $31.9 million ($ nominal, smoothed) in additional revenues for NWTD Stage 1 Early Works from customers over the 2024–29 period.

As a result of recovering these revenues, we estimate that the transmission component of an indicative residential electricity bill in Tasmania would increase by approximately $5 per annum over the remaining 4 years of the 2024–29 period (2025–26 to 2028–29).[65]

64 NER, cl 6A.8.2(e)(2).

65 The estimated bill impact is based on a residential customer bill of $868 in 2024–25 and reflects an annual electricity usage of 7,834 kWh on the default time of use consumption network tariff (TAS93); TasNetworks, *NWTD Contingent Project Application for Stage 1 Early Works, October 2024,* p 110.

Table 3 Incremental revenue calculation ($ million, nominal)

	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Return on capital	2.3	6.4	9.7	9.9	10.1	38.4
Return of capital*	-1.0	-2.9	-1.6	-1.5	-1.5	-8.5
Straight-line depreciation†	-	-	2.8	2.8	2.9	8.5
Less: inflation indexation on opening RAB	1.0	2.9	4.3	4.4	4.4	17.0
Operating expenditure	0.0	0.1	0.1	0.1	0.1	0.4
Revenue adjustments	1.1	-	-	-	-	1.1
Net tax amount†	0.0	0.1	-0.3	-0.2	-0.2	-0.5
Annual building block revenue requirement (unsmoothed)	2.4	3.7	8.0	8.3	8.6	30.9
Annual expected MAR (smoothed)	-	2.9	6.1	9.6	13.4	31.9
Increase to annual expected MAR (smoothed) (%)	-	1.7%	3.4%	5.2%	7.0%	3.6%

Source: AER analysis.
* Regulatory depreciation (return of capital) consists of straight-line depreciation net of indexation of the RAB. The negative incremental regulatory depreciation is a result of a higher growth in the RAB and the consequent increase in the indexation of the RAB exceeding the increase in the straight-line depreciation.
† Based on as-commissioned capex.
‡ The negative incremental net tax amount in this decision is due to the growth in tax expenses, primarily the tax depreciation, being higher than the incremental increase in taxable income as a result of NWTD Stage 1 Early Works.

Table 4 provides the effect of the resultant incremental increase in revenues on TasNetworks' total annual building block revenue requirement (unsmoothed), expected maximum allowed revenues, and the X-factors over the 2024–29 period.

Table 4 Indicative annual building block revenue requirement, expected MAR and X-factors ($ million, nominal)

	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Annual building block revenue requirement (unsmoothed)	172.0	170.9	187.3	190.1	196.0	916.3
Annual expected MAR (smoothed)	163.4	173.0	183.1	193.8	205.2	918.4
X-factors	n/a	-3.12%	-3.12%	-3.12%	-3.12%	n/a

Source: AER analysis.

5.1 Minor error correction

In its NWTD Stage 1 Early Works application, TasNetworks included a $1.04 million ($2023–24) revenue adjustment to account for the foregone return associated with the actual capex incurred on the project over the 2021–24 period. We note the proposed amount did not

correctly adjust for the time value of money on the foregone return to reflect its present value. For this reason, we amended the proposed amount to correct for this error. This amendment slightly increased the proposed amount to $1.07 million ($2023–24). This in turn resulted in approximately $0.04 million ($ nominal) increase to the smoothed revenue over the 2024–29 period compared to TasNetworks' application. In its response to our information request, TasNetworks agreed with this correction.[66]

[66] TasNetworks, *Follow up response to information request 2*, 13 February 2025

Glossary

Shortened form	Description
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
BAU/BaU	business as usual
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPA	contingent project application
CPA2	TasNetworks' contingent project application for North West Transmission Development Stage 1 construction costs
IR	information request
ISP	Integrated System Plan
kV	kilovolt
LLE	long lead equipment
MAR	maximum allowed revenue
MLPL	Marinus Link Pty Ltd
NER	National Electricity Rules
NWTD	North West Transmission Development
opex	operating expenditure
RAB	regulatory asset base
RIT-T	Regulatory Investment Test for Transmission
TMEC	Tasmanian Minerals, Manufacturing & Energy Council
TNSP	Transmission Network Service Provider