



2026-31 HCC RNI Project

Attachment 1.2

Key capex and opex assumptions

16 May 2025

Contents

1.1	Regulatory requirements.....	1
1.2	Interpretation of 'key assumption'	1
1.3	Reasonableness of key assumptions	2
1.4	Overview of this document.....	2
	Key assumption 1 – Regulatory obligations	3
	Key assumption 2 – Adjustment events	4
	Key assumption 3 – Access schemes.....	5
	Key assumption 4 – project scope and timing.....	5
	Key assumption 5 – contractual arrangements	6
	Certification under clauses S6.1.1(5) and S6.1.2(6) of EII Chapter 6A.....	7

1 Background

This document sets out the key assumptions that underlie Ausgrid's forecasts of capital and operating expenditure for the Hunter-Central Coast Renewable Energy Zone (**REZ**) Network Infrastructure (RNI) project. This document should be read in conjunction with Chapters 5 and 6 of our revenue proposal document, and the suite of supporting attachments to our revenue proposal document. It also includes the process that Ausgrid adopted to identify the key assumptions and provides the basis for the reasonableness of these assumptions.

Section 4 includes a director's certification of the reasonableness of the key assumptions. Together, this addresses the information compliance requirements in clauses SA6.1.1 and SA6.1.2 of the Electricity Infrastructure Investment 2020 (NSW) (**EII Act**) version of Chapter 6A of the National Electricity Rules (**NER**), known as 'EII Chapter 6A'.

1.1 Regulatory requirements

The EII Chapter 6A requires the AER to make a constituent decision on whether to accept, or reject and substitute, the forecast capital expenditure (**capex**) and forecast operating expenditure (**opex**) that Ausgrid sets out in our revenue proposal.¹

To enable the AER to make its decision, our proposal must include the total forecast capex and opex for the relevant regulatory control period which Ausgrid considers is required in order to achieve the capital expenditure objectives and operating expenditure objectives.²

The EII Chapter 6A requires a Network Operator to contain information and matters relating to capex and opex. This includes:

NER clause S6A.1.1(4)-(5): The key assumptions that underlie the capital expenditure forecast and a certification of the reasonableness of the key assumptions by the directors of the DNSP; and

NER clause S6A.1.2(5)-(6): The key assumptions that underlie the operating expenditure forecast and a certification of the reasonableness of the key assumptions by the directors of the DNSP.

This document meets these requirements by identifying the key assumptions that underlie the capex and opex forecasts for our revenue proposal and providing a basis for the certification of the reasonableness of those key assumptions by the directors of Ausgrid.

1.2 Interpretation of 'key assumption'

The term 'key assumption' is not a defined term in EII Chapter 6A, the NER or the National Electricity Law. The relevant secondary materials (including determinations published by the AER) do not provide any clear guidance on its interpretation. The term also does not have any well-established legal meaning.

In light of this, Ausgrid has given the terms their ordinary meanings and interpreted them in their context – that is, the term 'key assumption' has two components:

1. **An assumption that underpins the forecast capex and opex** – According to its ordinary meaning and in the context of forecasting expenditure for HCC RNI revenue proposal, an assumption is something accepted to be true for the purposes of forecasting expenditure. An assumption can be a fact or circumstance that forms the basis of the forecast; and
2. **That assumption must be 'key' to the forecast capex and opex.**

¹ EII Chapter 6A, clauses 6.14.1(2) and 6.14.1(3).

² EII Chapter 6A, clauses 6A.6.6(a) and 6A.6.7(a).

Our interpretation is that, for an assumption to be a 'key' assumption, it must be an assumed fact or circumstance that is of crucial importance to the forecasting of expenditure requirement for Hunter Central Coast RNI project during the 2026-31 regulatory period. Not all assumptions underpinning the expenditure forecast must be outlined for the purposes of Schedule 6.1 of the EII Chapter 6A – only the 'key' (i.e. critical) assumptions without which the forecast expenditure cannot be made.

1.3 Reasonableness of key assumptions

EII Chapter 6A also require the Directors to certify the reasonableness of the key assumptions identified. While the concept of 'reasonableness' does not have a definition in the EII Chapter 6A NER or the NEL, it is well understood as a legal concept, as being supported by logical reasons and/or evidentiary basis.

In accordance with the above interpretation, Ausgrid has undertaken a process where we identified assumptions underpinning our forecast opex and capex (or categories of capex) and assessed the criticality of each assumption to ensure that only key assumptions are captured. Reasons for each key assumption adopted are outlined to demonstrate their reasonableness.

1.4 Overview of this document

This document should be read in conjunction with Chapters 5 and 6 of our revenue proposal document, and the suite of supporting attachments to our revenue proposal document. In some cases, we have referred to a specific attachment in this document where further information or evidence has been provided.

This document:

- Provides background to the relevant EII Chapter 6A requirements and provides an explanation of how we have interpreted these requirements (section 1);
- Identifies each key assumption, including how it relates to our forecast expenditure, and the basis on which we have adopted these key assumptions (section 2-3); and
- Provides a signed director's certification of the key assumptions identified as part of this document (section 4).

2 Key assumptions

The table below lists the key assumptions which we consider are of crucial importance to the forecasting of our proposed capex and opex for the 2024-29 regulatory period. These assumptions can be categorised as assumptions that are relevant to both forecast capex and opex and those that are specific to forecast capex or opex estimates.

In section 3 below, we set out the reasons underlying the assumptions made.

Figure 2.1 Summary of key assumptions

Category	Key assumption	Applicability
1. Legislative and regulatory obligations	Current legislative and regulatory obligations, our licence requirements, the Consumer Trustee's authorisation, and contractual arrangements relating to the Hunter-Central Coast RNI remain in place over the 2026-31 regulatory period	Capex and opex
2. Adjustment events	The AER approves our proposed adjustment events for the 2026-31 regulatory period	Capex and opex
3. Access scheme	The Minister will not declare an access scheme for the Hunter-Central Coast RNI.	Capex and opex
4. Project scope and timing	Project scope and timing will be as per the draft Project Deed and the Consumer Trustee's authorisation for the Hunter-Central Coast RNI project.	Capex and opex
5. Contractual arrangements	Project Deed and major subcontracts will be executed no later than 31 December 2025.	Capex and opex

3 Basis of key assumptions

In the following sections, we set out the reasons for adopting each of the above key assumptions and why each key assumption is reasonable.

Key assumption 1 – Regulatory obligations

It is assumed that there will be no new substantive regulatory obligations and/or major change in scope of current regulatory obligations over the HCC RNI regulatory period.

As a network service provider in the National Electricity Market (**NEM**), Ausgrid is required to comply with a range of legislative and regulatory obligations. These regulatory obligations are one of the key drivers of Ausgrid's capital and operating expenditure.

The principal regulatory obligations Ausgrid is subject to as a network operator are derived from:

- The EII Act sets out the regulatory framework for AER to determine the prudent, efficient and reasonable costs that Ausgrid can earn through declared service payments for the construction and operation of the Hunter-Central Coast RNI. The EII Act also sets out the arrangements under which the Consumer Trustee authorised Ausgrid as the Network Operator for Hunter Central Coast RNI project based on the NSW Energy Corporation's (**EnergyCo**) recommendation.

- The AER is required to develop and publish Transmission Efficiency Test Guidelines (TET) for 'non-contestable projects' under the EII Act as well as an accompanying explanatory statement and a set of rules known as 'EII Chapter 6A'. The EII Chapter 6A is based on, but differs from, the standard Chapter 6A provisions in the National Electricity Rules (**NER**). We have developed and submitted our revenue proposal for the 2026-31 regulatory period in accordance with the TET Guidelines and EII Chapter 6A published in July 2024.
- The *Electricity Supply Act 1995* (NSW) (**Electricity Supply Act**) and Regulations, in particular the *Electricity Supply (Safety and Network Management) Regulation 2014* (NSW) (**Safety and Network Management Regulation**). The Electricity Supply Act requires Ausgrid to hold a distributor's licence which in turn imposes a range of conditions on Ausgrid. The Safety and Network Management Regulation imposes a key obligation to prepare and operate the network in accordance with a safety management system which meets the requirements of the regulation
- The NEL and NER regulate the way in which Ausgrid operates its network and participates in the National Electricity Market; and
- The National Energy Retail Law and Rules regulate the provision of customer connection services to retail customers.

Ausgrid's obligations include meeting a range of safety, reliability, security, planning, access and customer service requirements. In addition, Ausgrid is subject to the full range of general work health and safety, environmental, property and privacy requirements in operating and maintaining the network and has obligations under various other legislative instruments and follows various industry standards (including accounting standards).

Ausgrid is not anticipating any new substantive regulatory obligations and/or major change in scope of the regulatory obligations we are currently obliged to comply with. If there is, and this results in a material change in costs, we would seek a cost pass through (adjustment to the revenue requirement).

Subject to the below exceptions, the forecasts for capital and operating expenditure in our Revenue Proposal for 2026-32 reflect an assumption that Ausgrid's regulatory obligations will not materially change. This is a reasonable assumption given that at the time these forecasts were prepared we were not anticipating any major government policy decisions reforming the EII Act or other regulatory arrangements. In addition there were no major proposed rule changes being considered by the AEMC or NSW Department of Climate Change, Energy, the Environment and Water would materially impact on Ausgrid's operations in relation to Hunter-Central Coast RNI.

Key assumption 2 – Adjustment events

A revenue determination under the EII Act, similarly to a revenue determination under the NER, may include provisions for the adjustment of any amount included in the revenue determination, whether or not the amount relates to a capital cost.

Like chapter 6A of the NER, EII Chapter 6A contemplates adjustment events which will apply so that Ausgrid can recover (or pass through) costs of predefined events that are not included in the building block model underpinning the revenue allowance.

Revenue adjustment events are an important part of the incentive framework as they allow for price adjustments to be made in response to large, unexpected and uncontrollable events that result in cost changes. In the absence of adjustment mechanisms, Ausgrid would likely hold higher levels of contingency to manage the impact of such events on the project, which may not be efficient or in the interests of customers. Adjustment events can also allow Ausgrid to return cost savings to customers, where certain costs turn out to be lower than forecast due to factors outside our control.

If a positive change event occurs, Ausgrid may seek the approval of the AER to pass through a positive adjustment amount. If a negative change event occurs, the AER may require Ausgrid to pass through a

negative adjustment amount as determined by the AER. In both cases, Ausgrid must present evidence to the AER of the change event and the AER will make a determination as to the adjustment amount and how it should be addressed in revenue.

Ausgrid expects that in assessing the additional costs or cost savings due to an adjustment event, the AER will have regard to, amongst other things, whether the additional costs or cost savings are prudent, efficient and reasonable.

In all cases, cost pass through following a change event can only be claimed or approved to the extent the relevant costs are not already provided for under the Revenue Determination (including the Risk cost provision). Where a change event could fall under more than one adjustment event category, it will only be claimed under one category (ie there should be no double counting).

Ausgrid has sought to ensure that its proposed adjustments are reasonable and capable of acceptance by the AER. They include both standard pass through events and events that are necessary to address the specific circumstances of the RNI project. At this stage Ausgrid has no reason to believe that any of these adjustment events will not be approved by the AER.

We have developed our forecast capex and opex on the assumption that our proposed suite of adjustment events would be approved. What Ausgrid considers to be the prudent, efficient and reasonable forecast capex and opex over the 2026-31 regulatory period would need to be revisited if an adjustment event is not accepted.

Key assumption 3 – Access schemes

Access schemes to coordinate and encourage renewable energy and storage investment within declared REZs can be declared under the EII Act.

When an access scheme is declared, generation and storage projects that wish to connect to network infrastructure will need to apply for an access right – either through an application process or a competitive tender. Access right holders will contribute access fees that include funds for community benefit and employment purposes in the region.

Ausgrid has developed our revenue proposal for the 2026-31 regulatory period on the assumption that no access scheme will apply to the Hunter-Central Coast RNI. This assumption is consistent with discussions that Ausgrid had with EnergyCo prior to entering into the Commitment Deed and EnergyCo's recommendation to the Consumer Trustee.

Key assumption 4 – project scope and timing

We have developed our forecast capex and opex based on the project scope and timing that has been agreed with EnergyCo. This reflects EnergyCo's requirements for the project, which include the delivery of an additional 1GW of network transfer capacity through the construction of new 132 kV lines, upgrades to some existing lines and associated substation works. These requirements are reflected in the Consumer Trustee's authorisation for the RNI project, and are set out in more detail in EnergyCo's recommendation to the Consumer Trustee.

Specific timing and delivery requirements will be set out in the Project Deed between Ausgrid and EnergyCo. A draft of the Project Deed is set out in Schedule 13 to the Commitment Deed. The draft Project Deed includes a delivery program and milestones reflecting EnergyCo's requirements for the RNI project. The parties intend to finalise the Project Deed following the revenue determination process.

Under the Project Deed, EnergyCo may require changes to the project delivery program. Any changes to the delivery program are likely to require adjustments to the revenue allowance, reflecting changes to forecast prudent and efficient expenditure.

Our forecast capex and opex do not factor in potential changes to project scope or timing, as such changes are not reasonably foreseeable at this stage. We have assumed that project scope and timing will be as per our proposal and discussions with EnergyCo, EnergyCo's recommendation to the Consumer Trustee and the Consumer Trustee's authorisation for the RNI project.

Key assumption 5 – Contractual arrangements

The RNI project will be delivered under a contract with EnergyCo, referred to as the Project Deed. As noted above, a draft of the Project Deed is set out in Schedule 13 to the Commitment Deed, which Ausgrid and EnergyCo entered into in December 2024.

The Commitment Deed and the draft Project Deed contemplate that Ausgrid's delivery of the RNI project will be supported by subcontracts between Ausgrid and its delivery partners.

Due to EnergyCo's timing requirements and the nature of the procurement process, contractual arrangements have not yet been finalised. Both the Project Deed and major subcontracts will need to be finalised during the course of this year. It is currently assumed that the relevant contracts will be signed shortly after the AER makes its revenue determination.

Our forecasts of capex and opex are based on assumed timeframes for project delivery, particularly commencement of substantive works in January 2026. Ausgrid's expenditure forecasts are therefore dependent on the Project Deed and major subcontracts being executed no later than 31 December 2025. If the execution of project documents is delayed past this date, project costs such as labour and material costs are likely to change.

4 Director's certification of key assumptions

Certification under clauses S6.1.1(5) and S6.1.2(6) of EII Chapter 6A

The undersigned Chairman of Ausgrid certifies that:

- In accordance with clause S6.1.1(5) of the *Economic regulation of NSW non-contestable revenue determinations under Part 5 of the EII Act 2020 (EII Chapter 6A)*, the key assumptions that underlie the capital expenditure forecast as set out in this document are reasonable.
- In accordance with clause S6.1.2(6) of the *Economic regulation of NSW non-contestable revenue determinations under Part 5 of the EII Act 2020 (EII Chapter 6A)*, the key assumptions that underlie the operating expenditure forecast as set out in this document are reasonable.

The key assumptions that underly the capital expenditure and operating expenditure forecasts referred to above are attached to this certification.

Signed in accordance with a resolution of directors.

Chairman

9 May, 2025 4:54:38 PM GMT+10

Dated