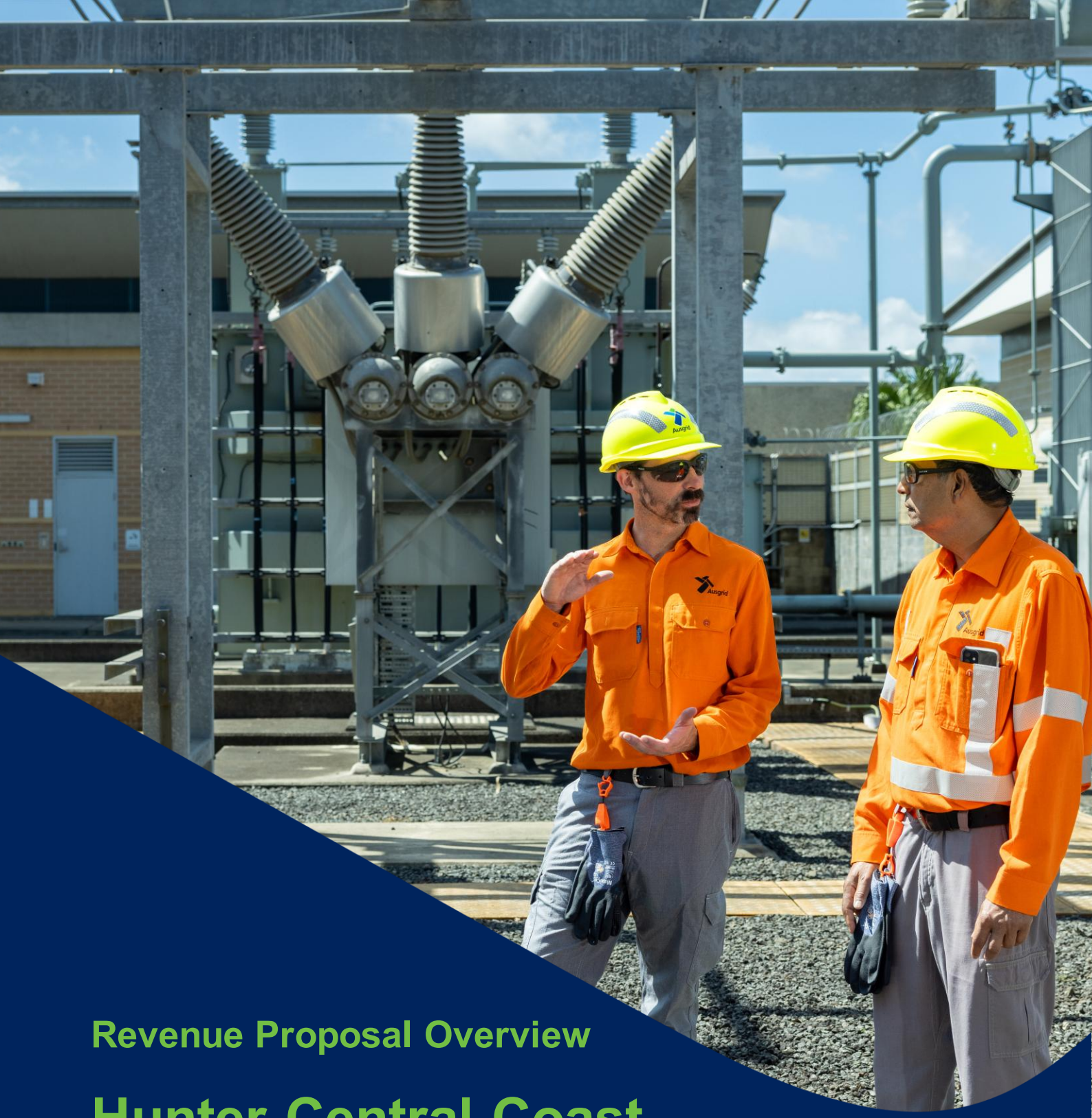

Revenue Proposal Overview

Hunter-Central Coast Renewable Energy Zone Network Infrastructure Project

16 May 2025

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Ausgrid

Term	Description / Definition
AER	Australian Energy Regulator
CESS	Capital Expenditure Sharing Scheme
CAM	Cost Allocation Methodology
Capex	Capital Expenditure
EBSS	Efficiency Benefit Sharing Scheme
STSS	Subtransmission switching station
HCC REZ Reg Panel	Hunter-Central Coast Renewable Energy Zone Regulatory Panel
HCC RNI	Hunter-Central Coast Renewable Energy Zone Network Infrastructure
MAR	Maximum allowed revenue
NER	National Electricity Rules
NPV	Net Present Value
Opex	Operational expenditure
REZ	Renewable Energy Zone
TET	Transmission Efficiency Test

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About us and the Revenue Proposal

Ausgrid owns and operates the network that delivers electricity to over 4 million Australians from southern Sydney to the Upper Hunter Valley, including the Sydney CBD. This network includes substations, underground cables, powerlines and poles, which we call a 'distribution network'.

We build, operate and maintain this distribution network with a focus on providing a safe, reliable and efficient supply of energy. Our vision is for the communities that we support to have access to affordable, resilient and sustainable power now and in the future.

Ausgrid has been authorised to deliver the 'Hunter-Central Coast Renewable Energy Zone Network Infrastructure Project' (**HCC RNI Project**). This project will upgrade and expand our distribution network to enable more renewable energy generators and storage systems to connect to the network within the Hunter Central Coast (**HCC**) area.

The Australian Energy Regulator (**AER**) approves the revenue that we can recover to build and operate the HCC RNI Project. On 16 May 2025, Ausgrid submitted its revenue proposal for the regulatory period commencing 1 July 2026 and ending 30 June 2031 (**2026-31**) (**Revenue Proposal**). This is Ausgrid's first 'non-contestable' revenue proposal (i.e. only Ausgrid can undertake the proposed project) under the *NSW Electricity Infrastructure Investment Act 2020* (NSW) (**EII Act**).

This document has been prepared for customers and stakeholders to provide an overview of our Revenue Proposal, including our stakeholder engagement activities and forecast capital expenditure (**capex**), operating expenditure (**opex**) and revenue for the 2026-31 period.

The Hunter-Central Coast Renewable Network Infrastructure Project

The HCC Renewable Energy Zone (**REZ**) is the first 'subtransmission' or 'distribution' REZ authorised under the NSW Government's Electricity Infrastructure Roadmap (**NSW Energy Roadmap**). This is a major milestone in NSW's transition away from non-renewable energy sources and will be a demonstration of how REZs operated by Distribution Network Service Providers (**DNSPs**), like Ausgrid, can provide cheaper, faster and less disruptive renewable energy connections to distribution networks.

REZs require medium to high voltage distribution network infrastructure to connect to the existing network. They are similar to modern-day power stations, however, use renewables (e.g. solar, wind) instead of traditional non-renewable energy sources (e.g. coal). To connect renewable energy generators and storage systems to the network, the existing network needs to be altered and extended. The purpose of the HCC RNI Project is to do this.

Regulatory timeline

The HCC RNI Project is part of the NSW Electricity Infrastructure Roadmap, which establishes a regulatory and commercial framework for delivering multiple REZs across NSW. These REZs are critical to moving towards a more sustainable, net-zero future and maintaining a reliable electricity supply as coal fired power stations are closed.

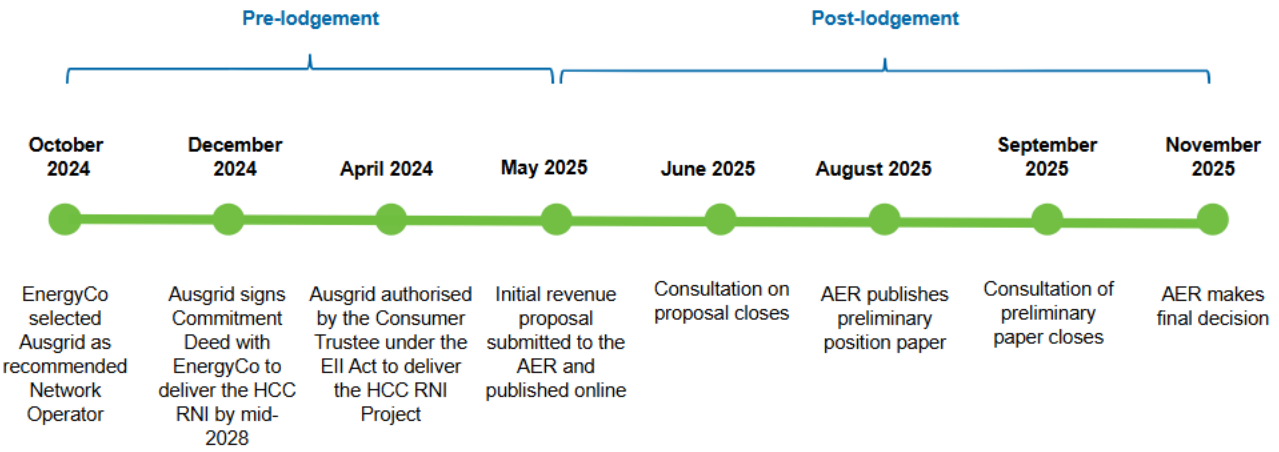
There are various government bodies and agencies that have a role in REZ infrastructure projects under the NSW Energy Infrastructure Roadmap, including the HCC RNI Project. These include:

- the Energy Corporation of NSW (**EnergyCo**), who recommends a preferred network operator to the Consumer Trustee

- Consumer Trustee, who independently checks the EnergyCo's recommendation and, if satisfied, authorises the preferred network operator to do the project and the maximum costs that the AER can allow the operator to recover from completing the project
- the AER, who assesses whether the operator's proposed costs for the project are prudent, efficient and reasonable

The timeframes for this regulatory process are shown in Figure 1 below. The AER must make its final decision by 12 November 2025.

Figure 1: HCC RNI Project regulatory timeline



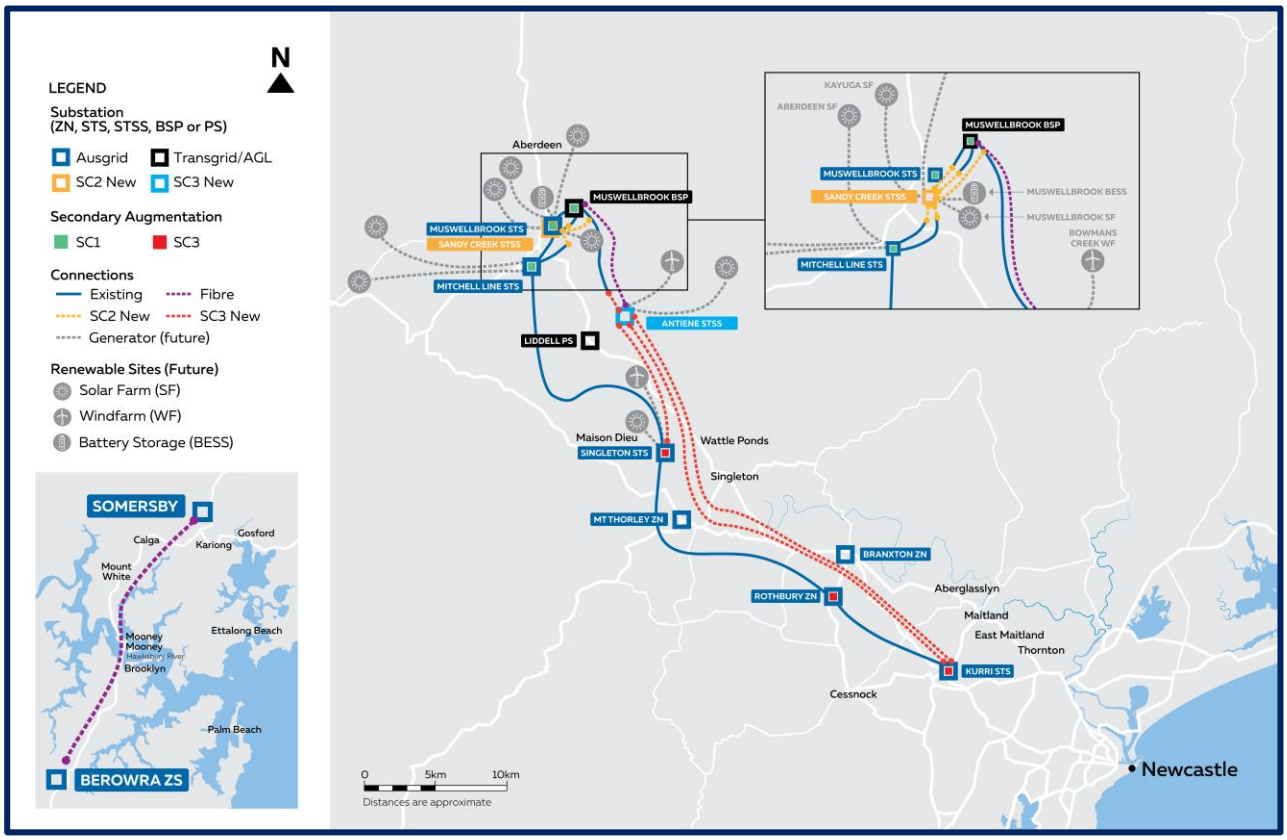
Project overview

Ausgrid is delivering the HCC RNI Project under an authorisation from AEMO Services, who have been appointed as the Consumer Trustee for the NSW Energy Roadmap. This authorisation allows Ausgrid to:

- Upgrade protection systems, install new lines and reroute existing lines
- Build two subtransmission switching stations and upgrade two existing substations
- Create a new communications link
- Obtain anything else that Ausgrid needs to control and operate the project's infrastructure
- Make changes to the infrastructure if needed to comply with our obligations or to comply with our project deed with EnergyCo.

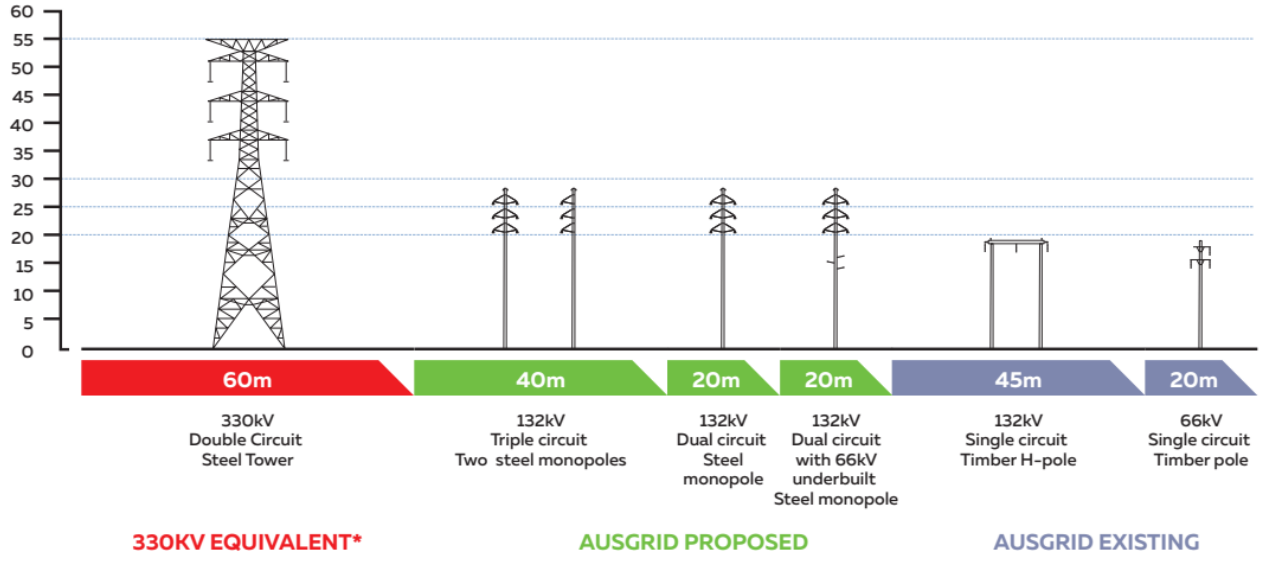
Our solution mostly uses land that Ausgrid already owns and property that Ausgrid already has interests in within the REZ, including freehold properties and easements that already contain electricity infrastructure. Ausgrid will be able to use or alter (e.g. widen or extend) these existing easements for the HCC RNI Project, which will limit the impact on surrounding landowners.

Figure 2: HCC RNI Project overview



Ausgrid's proposed solution (shown in Figure 3 below in green) involves replacing 132kV assets in corridors managed by Ausgrid. This solution is more visually appealing, involves smaller easements and requires little land acquisition. This will result in lower costs, greater certainty of delivery and better social and environmental outcomes. Figure 4 illustrates a comparison between the current network infrastructure along an easement within the HCC RNI project corridor and a sample of the proposed new network assets.

Figure 3: Comparing the HCC REZ 132kV solution to other structures



*Source: Transgrid (6 December 2021) *Environmental Impact Statement - Energy Connect (NSW - Eastern Section) - Technical paper 13 - Electric and magnetic field study*. Available at: https://www.transgrid.com.au/media/0yijlr0d/technical-paper-13-electric-and-magnetic-field.pdf

Figure 4: Photomontage of existing and proposed transmission lines

Delivery of this project will enable a faster and more cost-effective integration of renewables into Ausgrid's network, minimising impacts on communities while significantly boosting the capacity of Ausgrid's network to transfer electricity.

Staging of works

Construction of the HCC RNI Project consists of three portions that will collectively provide 1 GW of capacity to transfer electricity. The HCC RNI Project will do this in a way that minimises disruption to local communities, avoids significant environmental impact and is mostly limited to landowners who already have electricity infrastructure on their land. The portions of the HCC RNI Project are outlined in Table 1.

Table 1: Summary of Consumer Trustee authorisation and key project elements

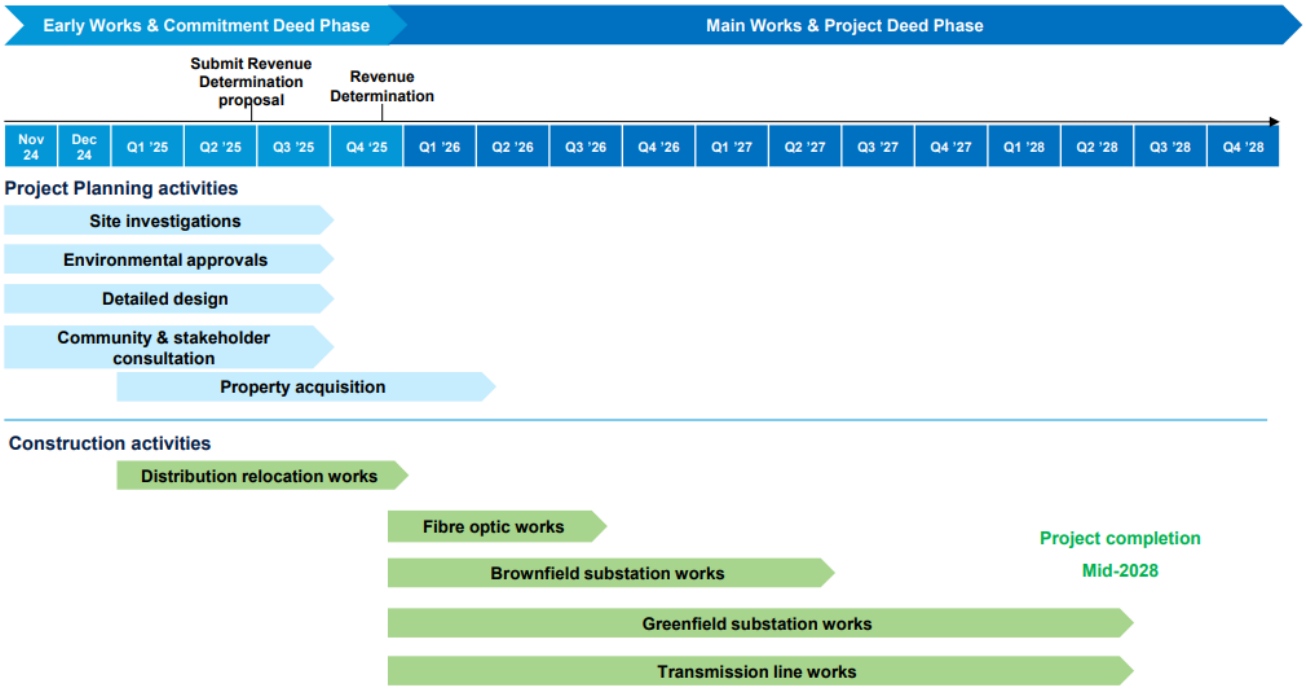
Project portions	Additional network capacity provided (cumulative)	Included works
Portion 1	350 MW	• Modernisation of our Upper Hunter secondary systems
Portion 2	630 MW	• Construction of a new 132 kV subtransmission switching station (STSS) at Muswellbrook (Sandy Creek STSS) • Rearrangement of our existing Muswellbrook network • Construction of new 132kV connections between Sandy Creek STSS and our existing Muswellbrook substation • Construction of new 132kV connections between our existing Singleton and Kurri substations • Augmentation of our existing Kurri substation • Installation of a communications link across the Hawkesbury River to provide enhanced security of communications infrastructure

Project portions	Additional network capacity provided (cumulative)	Included works
Portion 3	1 GW	• Construction of a new 132 kV STSS at Lake Liddell (Antiene STSS) • Construction of 132kV connections between Antiene STSS and our existing Singleton and Kurri substations • Augmentation of our existing Rothbury substation

Project timeline

We have committed to EnergyCo to deliver the HCC RNI Project by mid-2028, with construction scheduled to commence early-2026. Our Revenue Proposal and project timeline are consistent with this commitment. Figure 5 contains an overview of the project timeline including project planning, construction and delivery stages.

Figure 5: Overview of project timeline



Customer benefits

The HCC REZ is expected to deliver $270.5 million (real $2024)[1] of net benefits to NSW electricity customers over the long term, compared with a scenario where the HCC RNI Project is not built. The HCC RNI Project will contribute to regional growth, generate employment opportunities (including for Aboriginal and Torres Strait Islander peoples) and provide opportunities for local contractors and manufacturing. These benefits will be achieved through Ausgrid's commitments to:

- using only local civil works contractors for building substations

[1] EnergyCo, Hunter-Central Coast Renewable Energy Zone: Summary of EnergyCo's network recommendation, April 2025, page 18

- using all local steel for construction of substations and a large proportion of local steel for lines and conductors
- identifying jobs and skill gaps required to be fulfilled in delivering the HCC RNI Project, which will provide employment opportunities for workers in adjacent industries (e.g. mining) for the life of the project
- achieving an Aboriginal and Torres Strait Islander participation rate of at least 1.5 per cent throughout the life of the HCC RNI Project, encouraging employment of First Nations people and creating opportunities for First Nations businesses

The HCC RNI Project will allow the HCC REZ to meaningfully contribute to the achievement of both the NSW and Commonwealth governments' generation and emissions reductions targets:

- NSW has a target of at least 12 GW of generation capacity to be provided by the New England REZ, Central-West Orana REZ and other REZ projects. NSW's emission targets require a reduction in greenhouse gas emissions of at least 50 per cent by 2030 (and at least 70 per cent by 2035) compared to 2005 levels, and net zero emissions by 2050.
- The Commonwealth Government has committed to a reduction in greenhouse gas emissions of 43 per cent by 2030 compared to 2005 levels, and net zero emissions by 2050. To support the achievement of its 2030 target, the Commonwealth Government has set a target for electricity generation to be 82 per cent renewable by 2030.
- The HCC RNI Project will make a meaningful contribution to the achievement of these targets by facilitating the connection of new renewable energy generation and could realise an emissions savings benefit of approximately $180 million (real $2024) due to a reduction of carbon dioxide equivalent over the life of the project (approximately 2 million tonnes). Most of these emissions savings occur early in the life of the HCC REZ, as generation and storage projects located in the HCC REZ displace other, more emissions intensive, generators within NSW.

Customer and stakeholder engagement

Our engagement approach

Our aim has been to incorporate a customer perspective in the development of our Revenue Proposal. To accomplish this, we have primarily engaged with our Customer Consultative Committee and the Hunter-Central Coast Renewable Energy Zone Regulatory Panel (**HCC REZ Reg Panel**).

The HCC REZ Reg Panel represents residential, business and commercial customers and has three members. The members were chosen from existing Ausgrid customer panels, with each member selected to provide a range of economic, engineering, legal, policy and engagement expertise.

Ausgrid's commitment to extensive and meaningful engagement for the HCC REZ comes from our recognition that social licence is a critical factor for the success of electricity network projects. By actively engaging with stakeholders and the community, Ausgrid aims to build trust and support, which is essential for mitigating risks and ensuring the project is delivered on time and within budget. This proactive approach not only addresses potential concerns but also demonstrates Ausgrid's dedication to transparency and collaboration.

Our engagement activity and feedback

Hunter-Central Coast Renewable Energy Zone Regulatory Panel

The HCC REZ Reg Panel focused on specific aspects of Ausgrid's proposal, including:

- engagement with the AER and advising on key areas of interest for consumers (in accordance with the AER's Better Resets Handbook, to the extent possible given time constraints)
- reviewing and providing feedback on some parts of our Revenue Proposal
- considering the allocation of risk between Ausgrid and customers
- demonstrating that the perspectives of consumers have been considered in Ausgrid's approach to the HCC RNI Project.

The HCC REZ Reg Panel met six times between January and April 2025, allowing us to keep up to date with the interests of customers. These meetings helped Ausgrid to understand customer's views on our approach to the HCC RNI Project and the customer advocates' positions on important elements of the proposal. During this process, the panel challenged Ausgrid on:

- the project risk register and the efficient allocation of risk between Ausgrid, external contractors and customers
- revenue adjustment mechanisms proposed by Ausgrid to comply with contractual obligations with EnergyCo and to accommodate the unique procurement arrangements for the project
- the meaning of 'reasonable' costs in section 38 of the EII Act (i.e. 'transmission efficiency test') and what this means for Ausgrid's capex forecast for the project
- the calculation of the maximum capital cost under section 31 of the EII Act and how it interacts with other aspects of the proposal
- the delivery of the HCC RNI Project.

Feedback provided during the meetings with the HCC REZ Reg Panel impacted the development and content of the Revenue Proposal.

Pre-lodgement engagement with customers and the community

As part of the Ausgrid Community Engagement Policy, we are committed to engaging with the community as part of planning, constructing, operating and maintaining the HCC RNI Project.

We carried out an engagement program with customers and the community. This program was used to raise awareness about the project, identify potentially affected residents and stakeholders (including building a comprehensive database of community members with interest in, or concern about, the project, which involved individuals from a range of cultural, social and economic backgrounds) and understanding the primary concerns of stakeholders.

Since October 2024, we have hosted more than 11 in-person and online community information events and held more than 50 one-on-one meetings with easement-affected landowners across the regions impacted by the HCC RNI Project. This has allowed for general stakeholder participation and more targeted consultation with landowners, government agencies and First Nations group representatives.

We have briefed key stakeholders, including:

- Members of Parliament (Federal and State)
- government departments and agencies (Federal and State)

- local government
- traditional custodian groups
- industry and interest groups
- landholders
- surrounding communities.

We provided stakeholders with tools to create awareness of the HCC RNI Project, encourage participation in the project, access information about the project and provide feedback on the project (including feedback provided in a two-way feedback process that began early in the development of the proposal and continued often throughout its development). These tools include:

- online survey
- updates to social media
- in-person community information sessions in areas impacted by the HCC RNI Project, and print advertisements for these
- landowner information sessions and meetings
- Council and industry stakeholder briefings
- pop-up sessions
- webinars
- emails to stakeholders
- emails and phone calls received from stakeholders
- digital engagement tools on the Ausgrid 'YourSay' page
- local radio station campaign.

Pre-lodgement engagement with the AER

In preparing the Revenue Proposal, we have maintained regular contact with the AER. We sought feedback from the AER on various regulatory matters. We have discussed the nature and scope of our engagement activity with the HCC REZ Reg Panel with the AER. The AER has also attended and, where necessary, participated, in our HCC REZ Reg Panel meetings. This has allowed the AER to answer questions and clarify key regulatory processes, leading to more productive meetings.

Pre-lodgement engagement with EnergyCo

Prior to lodging the Revenue Proposal, we provided a draft to EnergyCo. EnergyCo had the opportunity to provide comments on the Revenue Proposal, and all material comments have been addressed.

Feedback from electricity consumers

Our engagement activities with electricity consumers have directly impacted the development of our Revenue Proposal. As this is the first time that we have participated in a revenue-setting process under the EII Act, we have valued and considered the constructive feedback from all stakeholders, particularly from the HCC REZ Reg Panel, to help shape the proposal. Throughout this process, we have balanced community feedback with other project considerations, including our obligations to EnergyCo under the Commitment Deed and draft Project Deed.

Stakeholders provided feedback on a wide range of topics, from high-level comments on the consultation process to detailed inquiries about long-term aspects of the HCC RNI Project, such as operations and maintenance.

Our engagement with the HCC REZ Reg Panel, the AER and EnergyCo has influenced multiple aspects of the Revenue Proposal. A high-level summary of how we have taken feedback into account from these stakeholders is set out in Table 2 below.

Table 2: Summary of how our engagement influenced this proposal

Topic	How our proposal has been influenced	Part of proposal
Efficient allocation of risk	Our conceptual framework for the efficient allocation of risk was robustly challenged, resulting in more detailed articulation of how and why each category of contingency and adjustment mechanisms provide the best outcome for customers	Section 5.2
Reasonable costs	How we interpret 'reasonable' costs in the EII Act ('transmission efficiency test') and what this means for our capex forecast	Section 5.2
Escalation	Feedback from the HCC REZ Reg Panel prompted Ausgrid to clearly separate out escalation in our presentation of capex	Section 5.2
Customer lens	Each capex driver includes a 'customer lens' summary that was reviewed by the HCC REZ Reg Panel for feedback	Section 5.4
Modified CESS	We took on feedback from the HCC REZ Reg Panel which ultimately led to a decision to not propose a modification of the CESS sharing thresholds	Section 7.2
Social licence	We have provided more information about the governance measures that will support the prudence of the $5.3m in social licence expenditure that will be guided by the community	Attachment 5.7
Adjustment mechanisms	We have undertaken a thorough review to ensure there is no double counting between our proposed expenditure and adjustment mechanisms	Attachment 8.1

Our approach to the Revenue Proposal

Given the close alignment between Chapter 6A of the EII Act and the NER, we have, where possible, aligned our positions and approaches in the Revenue Proposal with those approved by the AER's 2024-29 Regulatory Determination (made under the NER) for our standard control services.

For example, we have adopted the decisions in the AER's 2024-29 Regulatory Determination for:

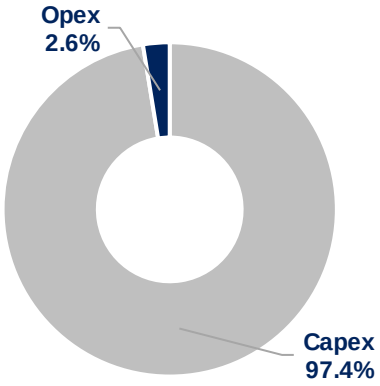
- nominated pass-through events
- standard asset lives, with the addition of a new asset class for the infrastructure planner fee required to be paid as part of delivering the HCC RNI Project.

As required by the EII Act, we have also adopted the most recent version of the AER's Rate of Return Instrument (**RoRI**) to calculate our return on capital allowance in the Revenue Proposal.

Operating expenditure

Our total forecast opex for the 2026-31 regulatory period is $15.6 million (real $2025-26), excluding debt raising costs. We have used a 'bottom-up-build' approach to determine our forecast opex, with the following categories:

- **Vegetation management:** proactive vegetation cutting to maintain safety clearances and provide unobstructed access to our assets
- **Maintenance:** inspections, condition monitoring and preventative maintenance (to preserve asset functionality and condition integrity) and corrective and breakdown maintenance
- **Operations:** operating and providing grid planning support to the HCC RNI Project
- **Regulatory costs:** incremental regulatory expenditure associated with the HCC RNI Project that is not recovered through overheads
- **Overheads:** allocation of the proportion of Ausgrid's shared business costs that apply to aspects of the HCC RNI Project (using a Cost Allocation Methodology (**CAM**) approved by the AER).



The proposed average opex for the HCC RNI Project for the regulatory period is $3.1 million per annum (real $2025-26). This represents 2.6 per cent of the project's total forecast expenditure (real $2025-26).

Capital expenditure

Capex refers to the investments we need to make in the construction and commissioning of the HCC RNI Project. Our proposed capex includes a 5-year forecast and pre-period expenditure that Ausgrid has incurred prior to the start of the 2026-31 regulatory period. The pre-period expenditure includes 'early works' that we have undertaken and an 'Infrastructure Planner Fee' that Ausgrid is required to pay to EnergyCo to build and operate the HCC RNI Project.

Our total proposed capex to deliver the HCC RNI Project is $590.8 million. This includes $283.0 million in pre-period expenditure and $307.9 million in capex that is forecast to be spent during the 2026-31 regulatory period (real $2025-26).

The proportion of capex spent, or anticipated to be spent, in different categories (called 'asset categories') is outlined in Table 3. We expect that approximately 70 per cent of the capex for the project will be based on market prices obtained through competitive tender processes. We engaged an independent consultant, GHD, who has verified that the scope of the project is prudent, efficient and reasonable for carrying out the project.

Table 3: Proposed capex split by pre-period and 2026-31 expenditure ($m, real 2025-26)

	Pre-period	2026-31 period	Total	Percentage of total capex
Transmission	80.8	122.2	203.1	34%
Substations	28.7	77.5	106.2	18%
Land and easements	2.2	21.4	23.7	4%
Secondary systems	0.9	3.1	4.0	1%
Communications	5.3	2.5	7.7	1%
Owner's Costs	21.9	32.7	54.6	9%
Design, social licence and other	37.0	14.7	51.8	9%
Infrastructure Planner Fee (EnergyCo component)	92.9	0.0	92.9	16%
Risk costs	13.2	33.7	46.9	8%
Total	283.0	307.9	590.8	100%

Incentive schemes

Incentive schemes are an important part of the regulatory framework. Incentive schemes are effective as they provide incentives for network businesses like Ausgrid to outperform their expenditure allowances approved by the AER (i.e. spend less than what they are authorised to do), so that customers do not pay any more than is necessary for the services they receive. Table 4 summarises the incentive schemes which we propose will be applicable to Ausgrid for the HCC RNI Project, and are further explained below.

Table 4: Incentive schemes for the HCC RNI Project

Incentive scheme	Description
Efficiency Benefit Sharing Scheme (**EBSS**)	The EBSS incentivises us to pursue continuous opex efficiencies
Capital Expenditure Sharing Scheme (**CESS**)	The CESS incentivises us to undertake efficient capex

Efficiency Benefits Sharing Scheme

The EBSS provides incentives to continuously reduce our operating costs and give customers a share of any savings that we achieve because of the scheme. The current approach used for the EBSS is set out in the AER's Efficiency Benefit Sharing Guideline.[2] In applying the scheme, the AER must consider:

- the need to provide DNSPs, including Ausgrid, with a continuous incentive to reduce opex
- the desirability of rewarding gains in efficiency and penalising losses of efficiency

[2] AER, Better Regulation, Efficiency Benefit Sharing Scheme for Electricity Network Service Providers, November 2013.

- any incentives that DNSPs may have to capitalise expenditure
- the benefits to electricity consumers likely to result from the scheme.

Ausgrid proposes that the EBSS be applied to HCC REZ for the 2026-31 regulatory period. In line with our 2024-29 Regulatory Determination, we also propose to exclude debt raising costs from the EBSS for the HCC RNI Project.

Capital Expenditure Sharing Scheme

The AER can choose to apply a modified CESS for EII projects. We propose that the standard sharing ratios apply but that:

- pre-period expenditure is included in the capex allowance that is subject to CESS
- our proposed Social Licence Plan expenditure is excluded from the capex allowance that is subject to CESS.

Forecast revenue and payment schedule

Our total forecast revenue in 2026-31 is $200.3 million (nominal). Table 5 below shows the total forecast revenue per year.

Table 5: Maximum allowed revenue ($m, nominal)

Building block	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Return on capital	19.8	36.6	41.7	42.3	42.2	182.5
Regulatory depreciation	2.0	(4.2)	(2.6)	1.2	1.7	(1.9)
Opex	0.3	2.6	4.3	5.5	5.9	18.6
Revenue adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Corporate income tax	0.3	0.6	0.1	0.0	0.0	1.0
Total revenue	22.4	35.5	43.5	49.0	49.8	200.3

Our proposed quarterly payments for delivering the HCC RNI Project is in Table 6 below, based on our forecast of the MAR that we can recover for the 2026-31 regulatory period. The total of the payments in Table 6 differs from the MAR in Table 5 above due to the timing difference between the quarterly payments and annual revenues. The MAR and the quarterly payments are the same when expressed in net present value terms.

Table 6: Proposed quarterly payments for HCC RNI Project ($m, nominal)

Year	Quarter 1 (September)	Quarter 2 (December)	Quarter 3 (March)	Quarter 4 (June)	Total
2026-27	5.3	5.4	5.5	5.6	21.9
2027-28	8.5	8.6	8.7	8.9	34.7
2028-29	10.4	10.5	10.7	10.9	42.5
2029-30	11.7	11.9	12.1	12.3	47.8
2030-31	11.8	12.0	12.2	12.4	48.6

Year	Quarter 1 (September)	Quarter 2 (December)	Quarter 3 (March)	Quarter 4 (June)	Total
Total					195.4

Ausgrid supports the use of a 'balanced adjustment mechanism framework'. This means that if a positive change event occurs (i.e. when higher than expected costs are incurred because of an event), Ausgrid should be able to ask for the AER's approval to recover more revenue (a 'positive adjustment amount').[3] Similarly, if a negative change event occurs (i.e. lower than expected costs are incurred because of an event), Ausgrid should return the savings following the instructions from the AER.[4] In both cases, Ausgrid must present evidence to the AER of the change event. The AER will then determine the amount of any adjustment and how the amount should be addressed in the revenue that we can recover from the HCC RNI Project.

Next steps

After submission of the revenue proposal on 16 May 2025, the AER is expected to publish it on their website from 23 May 2025 to 16 June 2025 to obtain feedback from the public. We will continue to engage with our HCC REZ Reg Panel, the AER, customers and other stakeholders during the post-lodgement period and beyond.

The AER is expected to make a final determination about our revenue proposal by 12 November 2025. The new regulatory period will commence on 1 July 2026.

[3] EII Chapter 6A, cl 6A.7.3(a); NER chapter 10.
[4] EII Chapter 6A, cl 6A.7.3(b).