AER Determination

ElectraNet Mid North South Australia REZ Expansion Stage 1a Early Works Contingent Project Application

June 2025

AUSTRALIAN ENERGY REGULATOR

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Executive summary

This document sets out our decision on ElectraNet's contingent project application (CPA) for the Mid North South Australia Renewable Energy Zone (REZ) Expansion Stage 1a early works. The Australian Energy Market Operator (AEMO) identified the Mid North South Australia REZ Expansion as an actionable integrated system plan (ISP) project in 2024.[1]

On 28 March 2025, ElectraNet submitted its CPA for Stage 1a early works for the Mid North South Australia REZ Expansion, proposing capital expenditure (capex) of $45.7 million ($2022–23).[2,3]

ElectraNet's CPA for the Mid North South Australia REZ Expansion Stage 1a initial early works

The Mid North South Australia REZ Expansion is a proposed transmission project that will involve constructing new 275 kV and 132 kV transmission lines to connect renewable energy sources to Adelaide and support growing industrial demand. AEMO's 2024 ISP confirms the earliest feasible in service timing for the Mid North South Australia REZ Expansion project is July 2029.

ElectraNet intends to submit its Stage 1 early works CPAs in three stages. This application covers the initial phase (Stage 1a) with an estimated cost of $45.7 million. ElectraNet submitted that this will enable it to:[4]

- identify and explore key risks and external factors that will impact the Project's overall costs. These works will assist to reduce cost uncertainty and identify reasonable risk cost amounts for Stage 2 (construction) of the Project, when the bulk of the costs of delivering the Mid North South Australia REZ Expansion project will be incurred.
- progress activities on the critical path to deliver the Mid North South Australia REZ Expansion by the July 2029 target delivery date.

This application includes a range of cost categories, including land acquisition, engineering design, cultural heritage engagement, and network planning. It also covers project management, legal and governance work, stakeholder engagement, procurement strategy, environmental impact assessments, delivery systems, geographic information systems (GIS), and early site assessments.

ElectraNet forecasts an incremental smoothed revenue requirement of $3.8 million ($2022-23) for the 2023–28 period.[5] Based on the forecast, ElectraNet expects Stage 1a to result in

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1 AEMO, *2024 Integrated System Plan For the National Electricity Market – A roadmap for the energy transition*, June 2024, p. 57.

2 Unless otherwise stated, all dollar figures referred to in this document are in $2022–23.

3 ElectraNet's initial application included $45.1 million of capex, which was revised to $45.7 million in response to our information request.

4 ElectraNet, *Mid North SA REZ Expansion Initial Contingent Project Application*, 27 March 2025, p. 7.

5 We updated ElectraNet's proposed incremental revenue calculation to reflect the latest update to the return on debt for 2025-26 and ElectraNet's responses to our information request. The combined changes result in an increase in incremental revenue of $0.06 million.

an annual revenue increase of $1.9 million in each of the final two years of the 2023–28 period.[6]

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 the Mid North South Australia REZ Expansion, 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 ElectraNet's 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.[7]

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.[8]

Our decision on the Mid North South Australia REZ Expansion stage 1a early works

We are satisfied that ElectraNet's CPA for Stage 1a early works for the Mid North South Australia REZ Expansion satisfies the trigger event and that the proposed project capex exceeds the materiality threshold. As such, we must make a determination on ElectraNet's CPA for:

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

ElectraNet has commenced activities for the Stage 1a early works and has forecast costs for Stage 1a activities through to 30 June 2026. By this date, ElectraNet expects to have submitted the Project Assessment Draft Report (PADR)[9] and progressed other early works activities to enable construction to commence by July 2027. This will ensure ElectraNet meets the target in-service date of July 2029, assuming a two year construction period.

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6 ElectraNet, *Mid North SA REZ Expansion Initial Contingent Project Application*, 27 March 2025, p.32.

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

8 NER, cl. 6A.8.A1(b).

9 The PADR is the initial stage of the Regulatory Investment Test for Transmission (RIT-T) process. The 2024 ISP identifies a PADR submission target date of 1 December 2025.

On this basis, we are satisfied that the proposed commencement and completion dates for the Stage 1a early works of the Mid North South Australia REZ Expansion are reasonable.

Table 1 sets out the forecast prudent and efficient capex required to deliver the project, the estimated impact on the transmission component of a typical residential customer's electricity bill in South Australia, and the incremental revenues that will be added to ElectraNet's revenue determination in the 2023–28 period.

Table 1 Mid North South Australia REZ Expansion Stage 1a early works – Assessment of forecast capex, revenues and bill impact

	ElectraNet's application[10]	AER's Decision[11]
Total capex ($2022–23) to be commissioned for Stage 1a early works of Mid North South Australia REZ Expansion in 2024–25 and 2025–26	$45.1 million	$45.7 million
Total incremental revenue to be recovered from customers over 2026–27 to 2027–28 ($ nominal, smoothed)	$4.2 million	$4.3 million[a]
Stage 1a early works Mid North South Australia REZ Expansion indicative average annual increase in residential electricity bills over 2026–27 to 2027–28	$0.56	$0.56

Source: ElectraNet application and AER analysis.

(a) Incremental revenues are calculated based on the 2025–26 return on debt update post-tax revenue model. Our approved incremental revenue is $0.2 million higher than ElectraNet's proposed amount due to input updates to ElectraNet's proposed post-tax revenue model. This is discussed in section 5.1.

Next steps

Following this decision and by the operation of the NER, ElectraNet's revenue determination is now amended such that the incremental revenues we have approved in this determination will be added to ElectraNet's total maximum allowed revenues for the 2023–28 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 final two years of the 2023–28 period (2026–27 to 2027–28).

The next step for ElectraNet in progressing the Mid North South Australia REZ Expansion project is to submit the Stage 1b early works CPA. We note that, in line with AEMO's 2024 ISP, ElectraNet is required to publish its Project Assessment Draft Report (PADR) by 1 December 2025.[12]

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10 ElectraNet's application forecast capex, incremental revenues, and bill impact are presented based on the initial application values. However, we substituted our preferred smoothed revenue profile to allow a like-for-like comparison of bill impacts. We discuss our update to the smoothed revenue profile and X factors below in section 5.1.

11 AER's decision forecast capex, incremental revenues, and bill impact presented incorporate the information request responses used to update ElectraNet's original application.

12 AEMO, *Appendix 5 Network Investments - Appendix to the 2024 Integrated System Plan for the National Electricity Market*, June 2024, p 41.

Contents

1 Mid North South Australia REZ Expansion Stage 1a Contingent Project

Nearly 10 GW of new renewable generation is forecast for South Australia's Mid North region by 2050. AEMO has identified that expansion of the Mid North South Australia REZ is required in the late 2020s to access Mid North wind and northern solar.[13]

In June 2024, AEMO released its Final 2024 ISP, confirming the Mid North South Australia REZ Expansion as an actionable project on the ISP optimal development path, with an in-service date targeted for July 2029.[14]

Projects designated as actionable in the ISP optimal development path are eligible for early works contingent projects.[15]

1.1 Stage 1a early works

ElectraNet's application relates to Stage 1a early works activities covering project initiation, governance, project management, cost estimation, stakeholder and cultural heritage engagement, land acquisition and planning, as well as option analysis and selection. This covers activities and commitments up to the PADR submission, after which ElectraNet intends to submit its Stage 1b early works proposal.

ElectraNet proposed Stage 1a early works with a total cost of $45.7 million. This includes approximately $1.1 million in actual costs incurred up to December 2024[16], and $44.6 million in forecast costs from January 2025 to 30 June 2026. ElectraNet forecast an incremental increase in its smoothed revenue requirement of $3.8 million for Stage 1a over the final three years of the 2023–28 regulatory control period.

Based on the forecast revenue adjustment, ElectraNet submitted that the Stage 1a early works will result in an average real increase of $0.14 to the forecast average cost per unit of energy delivered over the final two years of the 2023–28 regulatory control period.[17]

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13 AEMO, *2024 Integrated System Plan For the National Electricity Market – A roadmap for the energy transition*, June 2024, p. 54.

14 AEMO, *2024 Integrated System Plan For the National Electricity Market – A roadmap for the energy transition*, June 2024, p. 14.

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

16 Early works capex commenced before 2024–25, covering activities such as project planning, engagement strategy and community engagement plans, development route selection plans, commencement of data gathering for development approvals, cultural heritage and environmental approvals, and commencement of engineering planning.

17 ElectraNet, *Mid North SA REZ Expansion Initial Contingent Project Application*, 27 March 2025, p. 33.

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.[18] 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).

ElectraNet submitted its application on 28 March 2025. As soon as practicable following receipt of the application, we must publish the application and invite written submissions on the application.[19] 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).[20]

We published the application on 2 April 2025 and sought submissions until 2 May 2025. We received 4 written submissions from stakeholders. During this period, we engaged with ElectraNet and issued one information request under clause 6A.8.2(h1), and ElectraNet provided its response on 5 May 2025.

2.1 Eligibility to submit a CPA

To be eligible to submit a CPA for the Mid North South Australia REZ Expansion, ElectraNet must meet a trigger event in clause 5.16A.5 of the NER.[21] 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.[22]

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

In assessing whether to approve the costs of early works for an actionable ISP project where the project has not been the subject of a completed RIT-T, we must have regard to whether the early works relate to at least one of the ISP candidate options or any other option identified in a RIT-T for the actionable ISP project.[23] We are satisfied that the proposed early works activities relate to the ISP candidate option identified by AEMO. The analysis that ElectraNet will undertake for the PADR will identify credible options that are capable of meeting the identified need outlined in the ISP.

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18 NER, cl. 6A.8.2(a).

19 NER, cl. 6A.8.2(c).

20 NER, cl. 6A.8.2(d).

21 NER, cl. 6A.8.2(a)(2).

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

23 NER, cl. 6A.8.2(d1)(1).

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:[24]

- 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).[25]
- Determine the estimate of incremental revenue likely to be required in each remaining regulatory year as a result of the project.[26]
- Amend the relevant revenue determination in accordance with clause 6A.8.2(h).[27] Our decision may only adjust the forecast capex and opex and reflect these adjustments on the maximum allowed revenue and X factor for each regulatory year in the remainder of the regulatory control period.

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).[28]
- 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.[29]
- The estimates of incremental revenue and the dates are reasonable.[30]

As part of this decision, we have only assessed the prudency and efficiency of ElectraNet's proposed incremental capex because ElectraNet's application did not include an amount for incremental opex (excluding debt raising costs).

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).[31] 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.[32] If we are not satisfied, then we must determine the amounts and dates.

Our assessment of ElectraNet's 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.

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24 NER cll. 6A.8.2(e)(1C–1E) are not applicable in these circumstances.

25 NER, cl. 6A.8.2(e)(1).

26 NER, cl. 6A.8.2(e)(1) and (2).

27 NER, cl. 6A.8.2(e)(3).

28 NER, cl. 6A.8.2(f)(1).

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

30 NER, cl. 6A.8.2(f)(3) and (4).

31 NER, cl. 6A.8.2(g).

32 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

ElectraNet 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.[33]

Early works is defined as:[34]

> *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. Our assessment confirms that ElectraNet's application to amend its revenue determination relates to early works expenditure and therefore qualifies as an early works CPA.

Our assessment of the trigger event is as follows:

- ElectraNet's early works activities are associated with an actionable project identified in AEMO's 2024 ISP.
- We are satisfied that these early works are being undertaken in advance of the project's Stage 2 (Construction) CPA and are structured as a staged early works CPA:
    - Stage 1a covers foundational activities including project initiation, governance, cost estimation, stakeholder and cultural heritage engagement, land acquisition, planning, and option analysis, leading up to the PADR submission.
    - Stage 1b builds on Stage 1a, with continued planning and engagement, early contractor involvement (ECI), detailed design, delivery planning, procurement of

[33] NER, Chapter 10.

[34] NER, Chapter 10.

long lead-time materials, and further land and easement acquisition, covering the period up to the Stage 2 CPA submission.

- Stage 1c is expected to commence early physical works such as undergrounding distribution network undercrossings and securing easements, contingent on outcomes from Stage 1b, particularly the ECI process.

Following early works activities, the Stage 2 (Construction) CPA will cover all remaining works to the conclusion of the project, expected in July 2029.

- ElectraNet's initial early works focus on legal and governance support relates to Native Title, land access, and construction, as well as facilitating cultural heritage surveys and agreements. The activities also include network planning, regulatory approvals like RIT-T preparation, procurement consulting, and support innovation development related to drones, structure and footing types, test site setup, and evaluation of aerial stringing methods. By addressing these areas early, prior to construction, we consider that they will improve the accuracy of the cost estimates and facilitate a timely project delivery.

3.2 Assessment of expenditure threshold

We are satisfied that ElectraNet's early works cost estimate exceeds the applicable materiality threshold. ElectraNet's early works forecast capex of $45.7 million exceeds the threshold for early works of $30 million and is also more than 5% of ElectraNet's 2024–25 MAR of $396.20 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.[35] We note that ElectraNet did not propose any incremental opex as part of its CPA. In forming our view, we have considered the capex criteria[36], and the specific matters under clause 6A.8.2(g) of the NER.

This section outlines our assessment of ElectraNet's proposed capex for Mid North South Australia REZ Expansion Stage 1a 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 ElectraNet may recover over the 2023–28 regulatory control period. The forecast capex will also be added to the target capex for ElectraNet's capital expenditure sharing scheme. Any incentive rewards and penalties ElectraNet receives because of under or overspending on the project will be applied as additional revenue adjustments in the next regulatory control period.

4.1 Forecast capital expenditure

ElectraNet's application included $45.1 million of capex (equivalent to $47.6 million in $2024–25). On 24 April 2025, we issued an information request seeking further clarification and supporting documentation for the proposed capex. In its response, ElectraNet identified that certain costs had been omitted from its original forecast in error, and subsequently submitted a revised forecast of $45.7 million in incremental capex (equivalent to $48.2 million in $2024–25).[37]

Table 2 summarises the Stage 1a actual and forecast early works capex for the period up to 30 June 2026 by capex category.

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

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

37 ElectraNet provided updated cost build-ups and PTRM, along with additional supporting documents, in response to our information request on 5 May 2025.

Table 2 Mid North South Australia REZ Expansion actual capex (to Dec 2024) and forecast capex (to June 2026) for early works ($m 2024–25)

Capex work activity	Description of the early works	Actual and forecast capex	% of the total cost
Land and Environment	Preparation and management of option agreements, land access coordination, property research, and landowner engagement.	8.6	17.9%
Engagement and Consultation	Stakeholder and government relations, communications, and graphic design. Development of engagement strategies, coordination of working groups, and facilitation of multi-criteria analysis and route planning workshops.	8.2	16.9%
Cultural Heritage	Coordination of Traditional Owner Group activities, including surveys and agreement processes with the First Peoples of various sites. Provision of field heritage coordination resources, and support for sustainability and cultural heritage initiatives.	6.8	14.2%
Engineering	Engineering resources for substations, transmission lines, cables, secondary systems, telecommunications, and drafting. Substation and transmission line design management support. Technical studies to inform project scoping.	6.0	12.4%
Network Planning and Regulatory Approval	Network Planning, Scope and Architecture development, Economic Analysis and scenario modelling, Regulatory Test analysis and development, Network Technical studies development to confirm scope and network impact assessment.	5.1	10.7%
Delivery and Strategy	LiDAR surveys and preliminary geotechnical investigations. GIS analysis and support, including data management, mobile GIS devices, IT infrastructure, asset management and strategy.	3.7	7.7%
Legal Risk and Governance Support	Legal, Risk, Insurance and Finance time directly spent on Foreign Investment Review Board applications, Construction contracting assessments, long lead-time materials procurement. Development of ECI/D&C Contracts, Early Works Contracts, Native Title Agreements, Cultural Heritage Agreements, Land Access Licenses, Easement Option Agreements.	3.6	7.5%
Project Support	Project Director, Project Manager, Project Administration, Schedule and Cost Control resources, project expenses, vehicle costs, travel and accommodation.	3.1	6.3%
Contracts Procurement and Estimating	Procurement and contracts support for external engagements, development of contracting strategies, option analysis, detailed cost estimating, and independent estimate verification.	1.9	3.9%
Actual costs to December 2024	Commencement of activities including project planning, engagement strategy and community engagement plans, development route selection plans, commencement of data gathering for development approvals, cultural heritage and environmental approvals, and commencement of engineering planning.	1.2	2.4%
Total capex		**48.2**	**100%**

Source: ElectraNet, *Mid North SA REZ Expansion Initial Contingent Project Application*, 27 March 2025, and AER analysis.

In assessing prudency and efficiency of ElectraNet's early work costs, we considered various information to assess the scope and nature of ElectraNet's early works activities. In addition to ElectraNet's CPA, we also requested further information from ElectraNet about its early works costs, supporting material on tenders, and quotations for consultants.[38] We also considered stakeholder submissions, which are discussed below.[39]

Overall, we concluded that ElectraNet's proposed incremental capex for the Mid North South Australia REZ Expansion Stage 1a early works is prudent and efficient. We determine that ElectraNet's proposed capex of $45.7 million is reasonably required for the purposes of undertaking early works of the contingent project.[40] We have determined the amount of $45.7 million of forecast capex for the Mid North South Australia Stage 1a early works to be included in the 2024–25 and 2025–26 years within the 2023–28 regulatory control period.[41]

In coming to our decision, we have had regard to the factors set out in clause 6A.8.2(g) in coming to our decision, including:

- the information included in or accompanying the application
- submissions received in the course of consulting on the application (discussed in section 4.1.3)
- such analysis as is undertaken by or for the AER
- the expenditure that would be incurred in respect of a contingent project by an efficient and prudent operator in the circumstances of ElectraNet (discussed further in this section)
- the actual and expected capex of ElectraNet for contingent projects during any preceding regulatory control periods (not applicable for this application)
- the extent to which the forecast capex for the contingent project is referable to arrangements with a person other than ElectraNet that, in the opinion of the AER, do not reflect arm's length terms (not applicable for this application)
- 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 forecast for the contingent project is consistent with any incentive schemes that apply to ElectraNet.

We are satisfied that the forecast capex is supported by actual unit rates, existing contracts, or previous comparable contracts or quotations. We note the main findings below and some issues to review in more detail when ElectraNet's Stage 1b CPA is submitted.

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

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

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

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

4.1.1 Procurement on-cost

In its bottom-up cost forecast, ElectraNet included a procurement on-cost, which is 1% applied to all procured services such as contract labour and consultancy. We requested clarification on the justification for this cost and the rationale behind the 1% rate.

ElectraNet responded that:[42]

> *Procurement on-costs are an allocation of costs related to the shared services costs of providing procurement and warehousing services at ElectraNet which are recovered through a percentage against Purchase Orders. These costs scale with increased procurement activities.*
>
> *The 1% is an estimate using the current on cost rates applied to purchase orders.*

Contingent project costs should represent additional expenditure beyond what has been approved in the revenue determination. The application of a blanket 1% rate to all procured services does not clearly demonstrate that the proposed costs reflect project-specific overheads.

We have accepted the proposed procurement on-cost as we consider it likely that ElectraNet will incur additional costs for shared services as its procurement activities increase. However, in future applications for this project, ElectraNet should more clearly demonstrate that these costs are incremental and project specific.

4.1.2 Other costs

We have assessed ElectraNet's proposed capex across all categories. We note that approximately 40% of the forecast costs are attributable to internal labour associated with project management, stakeholder engagement, legal services, and engineering activities. ElectraNet advised that the labour rates it applied are the fully burdened rates, calculated in accordance with its Cost Allocation Methodology. These rates are based on the resource's salary and associated on-costs, as well as the overhead allocation.

We have reviewed ElectraNet's actual and forecast labour costs to assess whether the project management costs for this contingent project are incremental and have determined that ElectraNet has provided sufficient information to demonstrate that these costs are additional to those allocated to its 2023–28 revenue determination.

The remaining 60% of ElectraNet's proposed forecast costs relate to outsourced labour and consultancy services covering stakeholder engagement, cultural heritage and sustainability, environmental and regulatory approvals, engineering, as well as costs associated with land and easement acquisitions, compensation payments to landowners, travel, and office leases. We reviewed these costs and sought further clarification through an information request to verify the basis of the forecast. In response, ElectraNet provided additional information demonstrating that the forecast costs are underpinned by existing contracts, quotations, or prior contracts for similar types of work. On this basis, we consider the proposed forecast costs to be reasonable.

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[42] ElectraNet, *Response to AER information request*, 5 May 2025.

We are satisfied that ElectraNet's early and extensive stakeholder engagement would assist in facilitating the construction and delivery of the Mid North South Australia REZ Expansion.

4.1.3 Stakeholder Submissions

We received public written submissions from three stakeholders, and one confidential submission[43]

These stakeholders expressed strong opposition to the Mid North South Australia REZ Expansion project, and large-scale renewable energy projects in general. Key concerns relate to environmental impact, safety risks, economic justification, and national sovereignty. One submission rejects the project as unnecessary and harmful, while others raise issues around financial viability, regulatory compliance, and public safety. Specific risks highlighted include increased bushfire hazards from high-voltage transmission infrastructure, and consider that current energy policy is ideologically driven, poorly costed, and inadequately protective of environmental and community interests.

We acknowledge these concerns; however, we note that most of the issues raised fall outside the scope of our assessment of the Stage 1a early works. Where relevant to our assessment, we will take stakeholder comments on environmental, safety, community interests and economic matters into account when reviewing the subsequent CPAs for this project.

Environmental concerns, including potential ecological and biodiversity impacts, and carbon lifecycle assessments, will be addressed during the Environmental Impact Statement approval process, which includes assessment and mitigation planning. We will ensure that, where required, ElectraNet is provided an efficient allowance to meet any environmental offset obligations due to its construction activities. Safety related matters, such as the risks associated with high-voltage transmission lines and potential bushfire hazards, will be addressed through the relevant engineering and planning approvals. Additionally, we will assess the cost-benefit analysis of the project to ensure the investment is economically viable and delivers value. These assessments will help determine whether the project is both efficient and financially viable, considering broader implications for energy security, energy affordability, reliability and community interests.

We note one stakeholder's concerns regarding power system security, particularly with respect to system inertia, minimum system load, and resilience to climate-related disasters, referencing AEMO's 2017 report and concerns that ElectraNet may be at risk of breaching the NER (clauses 4.2.2, 4.3.4, and S5.1a.4). While the concerns raised in AEMO's 2017 report were valid at the time, AEMO's position has evolved significantly since then. In recent ISPs, AEMO strongly supports the development of REZs while ensuring power system security. ElectraNet, like all TNSPs, is required to comply with NER obligations throughout all

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[43] Dr Anne S. Smith, Rainforest Reserves Australia, *Submission to the Australian Energy Regulator (AER): Objection to ElectraNet Mid North South Australia REZ Expansion Stage 1A Early Works Contingent*, 2 May 2025.

Lynette LaBlack - 'Save Our Surroundings Riverina', *ElectraNet Mid North South Australia REZ Expansion Stage 1a - Early Works Contingent Project Submission Objection*, 2 May 2025.

Carol-Ann Fletcher, *Mid North South Australia Renewable Energy Zone (REZ) Expansion Stage seeking to increase to its revenue to fund early works objection submission*, 2 May 2025.

project stages. These issues will be subject to further scrutiny in the future when ElectraNet submits its subsequent CPAs.

4.2 Commencement and completion dates

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 completion dates for the contingent project are reasonable.[44]

We are satisfied that the proposed dates of commencement and completion of the Mid North South Australia REZ Expansion Stage 1a early works are reasonable, as:

- ElectraNet commenced early works activities for the Mid North South Australia REZ Expansion in 2023–24. This is reasonable because the project was first identified in ElectraNet's 2023 Transmission Annual Planning Report and AEMO's 2024 ISP (published in June 2024) identified it as an actionable project.
- ElectraNet has included forecast costs for the Stage 1a early works through to 30 June 2026. Its completion date of Stage 1a early works activities is likely to be by June 2026, as ElectraNet will have progressed the project beyond the proposed Stage 1a activities, including the submission of the PADR. This completion date will ensure the timely delivery of future early works and construction activities and enable completion by the July 2029 target delivery date.

[44] NER, cl. 6A.8.2(f)(4).

5 Calculation of incremental allowed revenues

This section sets out our calculation of the incremental revenue that ElectraNet would recover from customers over the 2023–28 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. ElectraNet's application is based on this approach. The incremental revenues are calculated based on the capex that we determined and otherwise in accordance with ElectraNet's application.[45]

Table 3 shows ElectraNet is to recover $4.3 million ($ nominal, smoothed) in additional revenues for the Mid North South Australia REZ expansion Stage 1a Early Works from customers over the remaining two years of the 2023–28 period.

As a result of recovering these revenues, we estimate that the transmission component of a typical residential customer's electricity bill in South Australia would increase on average by $0.56 per annum over the remaining two years of the 2023–28 period (2026–27 to 2027–28).[46]

[45] NER, cl. 6A.8.2(e)(2).

[46] The estimated bill impact is based on a residential customer bill of $2,230 in 2024–25 and reflects an annual electricity usage of 4,000 kWh on the default single rate tariff without controlled load. This includes the 45% proportion of Murraylink's annual expected MAR being recovered from South Australian customers to provide a basis of comparison to our final decision on ElectraNet's maximum allowed revenue (refer to *AER, Final decision - ElectraNet Transmission Determination, Attachment 1 – Maximum Allowed Revenue, April 2023, p. 16*); AER, *2024-25 Default market offer prices – Revised final determination*, 3 June 2024, p. 6.

Table 3 Incremental revenue calculation ($ million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28	Total
Return on capital	-	-	0.8	3.0	3.1	6.8
Return of capital[a]	-	-	-0.4	-1.0	-1.0	-2.4
Straight-line depreciation[b]	-	-	-	0.5	0.5	0.9
Less: inflation indexation on opening RAB	-	-	0.4	1.5	1.5	3.4
Operating expenditure	-	-	0.0	0.0	0.0	0.1
Revenue adjustments	-	-	-	-	-	-
Net tax amount[c]	-	-	-	-0.1	-0.1	-0.1
Annual building block revenue requirement (unsmoothed)	-	-	0.4	1.9	2.0	4.3
Annual expected MAR (smoothed)	-	-	-	2.1	2.2	4.3
Increase to annual expected MAR (smoothed) (%)	-	-	-	0.5%	0.5%	0.2%

Source: AER analysis.
(a) 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.
(b) Based on as-commissioned capex.
(c) 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 the Stage 1a Early Works.

Table 4 provides the effect of the resultant incremental increase in revenues on ElectraNet's total annual building block revenue requirement (unsmoothed), expected maximum allowed revenues, and the X-factors over the 2023–28 period.

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

	2023–24	2024–25	2025–26	2026–27	2027–28	Total
Annual building block revenue requirement (unsmoothed)	396.7	438.2	443.3	472.5	463.6	2,214.3
Annual expected MAR (smoothed)	396.2	434.9	446.8	461.9	475.4	2,215.2
X-factors (%)[a]	n/a	-6.66%	0.19%	-0.46%	0.00%	n/a

Source: AER analysis.
(a) The X factors will be revised to reflect the annual return on debt update. Under the CPI–X framework, the X factor measures the real rate of change in annual expected MAR from one year to the next. A negative X factor represents a real increase in revenue. Conversely, a positive X factor represents a real decrease in revenue.

5.1 Updates to proposed revenue model inputs

In the course of our assessment, ElectraNet provided an updated capex forecast and post-tax revenue model (PTRM) to support its CPA. The updates were in response to our information request which sought clarification on several issues, including:

- the allocation of project costs across the 2024–25 and 2025–26 regulatory years
- correction of an error in the calculation of the discount rate used to convert the proposed capex to real 2022–23 dollar terms required for the PTRM input, and
- an update to the smoothed revenue profile to reflect that the incremental revenue is to be recovered from the 2026–27 regulatory year.

Our review of ElectraNet's capex inputs identified that the PTRM capex inputs did not reflect its capex model projected costs across the 2024–25 and 2025–26 regulatory years. ElectraNet's allocation approach brought forward a small proportion of capex which resulted in a higher amount of revenue. ElectraNet's response to our information request corrected this inconsistency.[47]

We amended the X factor and smoothed revenue profile compared to ElectraNet's application to shift the recovery of the incremental revenue to commence from 2026–27. ElectraNet's application adjusted the X factor in 2025–26 for the incremental revenue to be recovered from that year. However, ElectraNet submitted its application within 90 business days of the end of the current regulatory year of 2024–25. This meant our decision to amend the revenue determination would not be finalised in time for ElectraNet to set its transmission prices for 2025–26. ElectraNet proposed to recover the incremental revenue through adjustments to its maximum allowed revenues used to set transmission prices from 2025–26 onwards. We proposed an alternative for the amended revenues to be recovered from 2026–27, which is the second regulatory year commencing after the application was submitted.[48] ElectraNet agreed with this approach in its response to our information request.

In addition, we updated the PTRM used to calculate ElectraNet's incremental revenue to reflect the return on debt update for 2025–26. ElectraNet's application was based on a placeholder for the 2025–26 return on debt. At the time of making this decision, the 2025–26 return on debt update was available.

Our amendment to ElectraNet's revenue determination therefore includes the updated return on debt for 2025–26 and the revised X factor profile relative to its application.

47 ElectraNet, *Response to AER information request*, 5 May 2025.

48 NER, cl. 6A.8.2.

Glossary

Shortened form	Description
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CPA	contingent project application
GIS	geographic information system
ISP	Integrated System Plan
kV	kilovolt
MAR	maximum allowed revenue
NER	National Electricity Rules
opex	operating expenditure
PADR	Project Assessment Draft Report
PTRM	post-tax revenue model
RAB	regulatory asset base
REZ	Renewable Energy Zone
RIT-T	Regulatory Investment Test for Transmission
TNSP	Transmission Network Service Provider