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Mr Arek Gulbenkoglul
General Manager, Network Expenditure
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Via email: AERenquiry@aer.gov.au

Dear Arek

Capital Expenditure Incentive Scheme Guideline Review 2025 – Draft Guidelines

Powerlink appreciates the opportunity to provide feedback on the Australian Energy Regulator's (AER's) proposed amendments to its Capital Expenditure Incentive Guidelines.

Overall, Powerlink supports measures to incentivise prudent and efficient capital expenditure, which is ultimately in the long-term interests of consumers.

While Powerlink has provided input to Energy Networks Australia's submission on several of the proposed amendments, our submission has focussed on one matter we consider of particular importance.

Circumstances of the TNSP

In our submission to the AER's Consultation Paper on this matter, we raised a fundamental concern that the National Electricity Rules require the AER to have regard to the circumstances of a Transmission Network Service Provider (TNSP) in developing its Capital Expenditure Sharing Scheme (CESS).¹ As a result, we encouraged the AER to exercise its discretion in the application of its Guidelines in the event of a material overspend in capital expenditure in a regulatory period, including in relation to the current regulatory period.

We remain concerned that the AER has not addressed this issue in its latest Explanatory Statement.

Exclusions

In its explanatory statement to the draft guidelines² the AER notes that TNSPs may be penalised for undertaking more projects than proposed in its relevant regulatory proposal, even where the AER may ultimately find these projects to be prudent and efficient in an ex-post review. To address this issue, the AER propose an exclusion that would apply where there is an efficient increase in a TNSP's scope of

¹ National Electricity Rules, [clause 6A.6.5A](#)

² [AER CEIG Review – Explanatory Statement to Draft Guidelines](#)



works, and the incurred capex is not accounted for in a contingent project application, cost pass through application or a reopener. Powerlink agrees with the AER's proposed exclusion.

External Factors

In preparing our 2027-32 Revenue Proposal, it is evident that the entire industry has been subjected to external global factors and trends that are outside the control of any TNSP and could not have been reasonably anticipated at the time of lodging their respective Revenue Proposals. These external factors have had a material impact on the costs of delivering the portfolio of capital works. Powerlink considers it reasonable that such external factors be recognised in the Guidelines.

Indeed, we note that the Australian Energy Market Commission (AEMC) identified supply chain issues as one of the key drivers of increased cost risks associated with large scale transmission projects in their Transmission Planning and Investment – Stage 3 Draft Report, which initiated the rule change and need for this review, stating:

*"Due to the worldwide growth in renewable generation and emission reduction targets, competition is increasing for labour and materials. Combined with broader global supply chain pressures caused by COVID-19, this can result in material cost increases as the project is developed. The potential for supply chain cost risk is arguably heightened where there is a lengthy period of time between the initial estimate of project costs and commencing project delivery."*³

Powerlink maintains that these supply chain issues apply equally to projects included within the ex-ante capex allowance. In some circumstances, the period of time between the initial estimate of project costs and commencing project delivery for such projects can be more than 5 years, thereby amplifying the potential impacts.

Consequently, Powerlink encourages the AER to update the Guidelines to explain how it would consider the circumstances of the TNSP in the event of any significant overspend against the ex-ante capital expenditure allowance.

If you have any questions or require further clarification on this submission, please contact me at [REDACTED].

Yours sincerely,

[REDACTED]

Jennifer Harris
General Manager Network Regulation

³ [Transmission Planning and Investment - Stage 3, Draft Report](#), Australian Energy Market Commission, 21 September 2022, page 94