

# Preliminary Position Paper

Hunter-Central Coast REZ network infrastructure  
project (non-contestable)

(1 July 2026 to 30 June 2031)

August 2025

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# Getting involved

## Invitations for submissions

Ausgrid and all interested stakeholders are invited to make a submission on our Preliminary position paper by **4 September 2025**.

We encourage stakeholders to make submissions relating to any component of Ausgrid's revenue proposal including where our preliminary position aligns with Ausgrid's revenue proposal. We will consider and respond to submissions received in our final decision.

Submissions should be sent to [REZ@aer.gov.au](mailto:REZ@aer.gov.au) with the subject line: '*Submission on the HCC Project*'. We prefer that all submissions be sent in an electronic format in Microsoft Word or other text-readable document form and are publicly available, to facilitate an informed, transparent, and robust consultation process. We will treat submissions as public documents unless otherwise requested. For further information regarding our use and disclosure of information, see the [ACCC/AER Information Policy](#).

We request parties wishing to submit confidential information:

- provide a non-confidential version of the submission in a form suitable for publication.
- clearly identify the information that is the subject of the confidentiality claim.

All non-confidential submissions will be placed on our website.

## Public forum

We will host an online public forum to allow stakeholders the opportunity to ask questions on Ausgrid's revenue proposal and the issues we raised in our Preliminary position paper before submissions close. The public forum will be held from 3.30 pm to 4.30 pm (AEST) on Monday, 25 August 2025. To register your interest in the public forum, please [register](#) to attend the public forum on Eventbrite by close of business on 24 August 2025.

### Milestones for the revenue determination process

Key dates	Milestone
23 May 2025	Revenue Proposal published on the AER website
16 June 2025	Consultation closed on revenue proposal
7 August 2025	Publication of this Preliminary position paper, submissions open
August 2025	Publication of supplementary appendix to the Preliminary position paper
25 August 2025	Public forum to discuss the revenue proposal and the Preliminary position paper with interested stakeholders
4 September 2025	Submissions on Preliminary position paper close
November 2025	AER publishes final decision

# 1 Introduction

The Hunter-Central Coast (HCC) Renewable Energy Zone (REZ) was declared by the NSW Minister for Energy under section 19(1) of the *Electricity Infrastructure Investment Act 2020* (NSW) (EII Act) in December 2022.<sup>1</sup> The HCC REZ network infrastructure project (HCC Project) is required to provide an additional one gigawatt of new network transfer capacity by 2028 to support renewable energy generation and storage within the HCC REZ region. In December 2024, the Infrastructure Planner, EnergyCo, selected Ausgrid to be the preferred Network Operator for the HCC Project. In April 2025, the Consumer Trustee, AEMO Services, authorised Ausgrid to carry out the HCC project.<sup>2</sup>

The AER is a regulator under the EII Act. One of our functions is to determine the revenue a Network Operator may collect for undertaking a network infrastructure project.<sup>3</sup> A revenue determination made for a non-contestable process involves an assessment of the Network Operators' forecast costs and revenue to ensure only the prudent, efficient, and reasonable costs of delivering the project are recovered from NSW consumers.

Consistent with the expectation set in our *Revenue determination guideline for non-contestable network infrastructure projects* (non-contestable Guideline)<sup>4</sup>, Ausgrid commenced pre-lodgement engagement for this project with us in October 2024. Our discussions covered many potential aspects of its revenue proposal including the development of the regulatory information notice, application of the EII framework and our non-contestable Guideline, pre-period costs, depreciation and adjustment mechanisms. In early April 2025, Ausgrid submitted to us a draft of its revenue proposal which included relevant models. Our role throughout the pre-lodgement engagement was to clarify with Ausgrid questions of process and scope to ensure that the revenue proposal was compliant with the requirements of the EII framework.

Ausgrid also conducted pre-lodgement engagement with its consumer stakeholders through its customer panel from December 2024. Ausgrid's customer panel was provided with information on the HCC Project and had the opportunity to provide input on several parts of the proposal. This included engagement on the proposed technical solution, revenue adjustment mechanisms, and building block components such as incentive schemes and capital expenditure. AER staff and the AER's Consumer Challenge Panel (CCP35) attended these customer panel meetings as observers.

We observed that Ausgrid was highly proactive in gathering feedback for its revenue proposal following its authorisation. Ausgrid is to be commended for its constructive and open engagement with its customer panel, who were well-informed of the development of the proposal and provided meaningful feedback to Ausgrid. In addition, we found it helpful that

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<sup>1</sup> EnergyCo, [Renewable Energy Zone declared in Hunter-Central Coast](#), 9 December 2022.

<sup>2</sup> EII Act s. 31(1)(b); AEMO Services, *Notice of Authorisation: Hunter-Central Coast (HCC) Renewable Energy Zone (REZ) Network Infrastructure Project*, 17 April 2025.

<sup>3</sup> EII Act, s.38.

<sup>4</sup> AER, *Transmission Efficiency Test and revenue determination guideline for non-contestable network infrastructure projects*, July 2024.

Ausgrid provided its panel members and us a month to review and comment on its draft proposal (before submission) which allowed us to provide feedback on its approach.

On 16 May 2025, Ausgrid submitted a revenue proposal for the HCC Project with total capital expenditure (capex) of \$590.8 million (\$2025–26) and proposed total revenue of \$200.3 million (\$ nominal) over the 2026–31 period.<sup>5</sup> Ausgrid then submitted an updated revenue proposal with a forecast total capex of \$604.2 million (\$2025–26) and proposed revenue of \$203.6 million (\$ nominal).<sup>6</sup> The updated proposal had an updated capex forecast which included overheads which were allocated in accordance with Ausgrid’s cost allocation methodology (CAM) but erroneously omitted from its revenue proposal submitted on 16 May 2025. The table below illustrates the changes in building block revenue between the initial and updated proposals.

**Table 1 Ausgrid’s HCC Project revenue proposals – building block revenue for the 2026–31 regulatory period (\$ million, nominal)**

Building block	Revenue proposal (16 May 2025)	Updated revenue proposal (4 July 2025)
Return on capital	\$182.5	\$184.2
Regulatory depreciation	-\$1.9	-\$0.1
Operating expenditure	\$18.6	\$18.6
Revenue adjustments	-	-
Cost of corporate income tax	\$1.0	\$1.0
Maximum allowed revenue	\$200.3	\$203.6

Source: AER analysis

While normally we would not consider revenue proposal updates, we were satisfied that in this circumstance:

- the issue was identified by Ausgrid sufficiently early in the process, meaning that stakeholders will have an opportunity to comment on the updated revenue proposal
- this was a genuine error made by Ausgrid, noting it made the correct CAM allocation for its opex proposal.

Therefore, we allowed Ausgrid to resubmit its revenue proposal as a one-off situation. Our non-contestable Guideline does not expressly make provision for resubmission in these circumstances as part of the revenue determination process and that it is the responsibility of Network Operators to ensure the accuracy of any submitted revenue proposals.

We published Ausgrid’s revenue proposal on our website along with the stakeholder submissions we received on its revenue proposal. Subsequently, we published Ausgrid’s updated revenue proposal.

<sup>5</sup> Ausgrid, *Hunter Central Coast RNIP 2026-31- Attachment 6.1: PTRM*, 16 May 2025.

<sup>6</sup> Ausgrid, *Hunter Central Coast RNIP 2026-31- Updated Revenue proposal – Letter*, 4 July 2025; Ausgrid, *Hunter Central Coast RNIP 2026-31- Updated PTRM*, 4 July 2025.

In this Preliminary position paper, we provide an early indication of our assessment of Ausgrid's revenue proposal for the HCC Project and request feedback from stakeholders on our current position on Ausgrid's revenue proposal. We also provide a summary of our preliminary view on all components of Ausgrid's revenue proposal to inform stakeholders on all areas under assessment, including the areas of the revenue proposal where:

- we are likely to accept Ausgrid's approach, subject to any mechanical updates (changes resulting from updates to numbers or models, or decisions on other components of Ausgrid's revenue proposal that act as inputs to that area)
- we do not agree with Ausgrid's approach and are likely to adopt a position different to what Ausgrid proposed (noting that the most contentious area of disagreement is presented as a focus issue in this paper).

This Preliminary position paper focuses on Ausgrid's proposed adjustment mechanisms related to 'procurement induced cost uncertainty events' as we consider this component represents a significant point of difference between Ausgrid's revenue proposal and our preliminary position. However, we are currently restricted in our ability to discuss some of these events in this paper given Ausgrid has claimed that the names and details of some of these adjustment events are confidential or commercially sensitive.<sup>7</sup> The adjustment mechanisms form a key aspect of the revenue proposal and pass on potentially significant cost risk to NSW consumers, but are not transparent for stakeholders in Ausgrid's revenue proposal given the confidentiality claims made by Ausgrid. We intend to release a short **supplementary appendix** to this Preliminary position paper relating to Ausgrid's proposed procurement induced cost uncertainty events once we have completed our assessment of the merits of Ausgrid's claims that this information is confidential and/or commercially sensitive.

We have undertaken our assessment of Ausgrid's revenue proposal in accordance with the requirements set out in the EII Act, the *Electricity Infrastructure Investment Regulation 2021* (NSW) (EII Regulation) and the process set out in our non-contestable Guideline. Unlike revenue determinations made under the National Electricity Rules (NER), we only have 126 business days to make a non-contestable revenue determination under the EII Regulations.<sup>8</sup>

Our preliminary position provides an indication of what we are likely to consider to be the prudent, efficient, and reasonable costs for carrying out the project, ensuring consumers pay no more than necessary for safe and reliable electricity. All preliminary positions presented in this paper are subject to change based on stakeholder submissions and/or receiving additional information from Ausgrid in response to the Preliminary position paper.

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<sup>7</sup> Ausgrid, *Hunter Central Coast RNIP 2026-31- Attachment 9.5: Confidentiality claims*, May 2025, pp.10–11; Ausgrid, *Hunter Central Coast RNIP 2026-31- Attachment 8.1: Adjustment mechanisms*, May 2025, pp. 20–27.

<sup>8</sup> EII Regulation, cl. 50(1)(b).

## 2 Overview of our preliminary position on Ausgrid's revenue proposal

A summary of Ausgrid's updated revenue proposal, and an outline of our preliminary position is set out in the table below. We have also highlighted the most contentious issue from Ausgrid's revenue proposal which we believe would benefit from a focused discussion, with feedback and additional material provided either by Ausgrid or stakeholders. Our choice of issues for focused discussion ('focus issues') for each Preliminary position paper is identified on a case-by-case basis and is dependent on the issues arising from that revenue proposal.

In the table below, all dollar amounts are provided on a nominal basis and are based on the updated revenue proposal (except where noted).

**Table 2 Overview of Ausgrid's revenue proposal and AER's preliminary position**

Revenue proposal component	Overview of Ausgrid's revenue proposal and AER's preliminary position
<b>Total revenue and schedule of payments</b>	
Ausgrid revenue proposal	Ausgrid proposed a total revenue cap of \$203.6 million for the 2026–31 period in its updated revenue proposal. Ausgrid nominated quarterly payment dates by the Scheme Financial Vehicle on the final day of each regulatory quarter.
AER preliminary position	<p>We are likely to accept Ausgrid's approach to calculating its revenues and quarterly schedule of payments. Ausgrid used our EII post-tax revenue model (PTRM) (NER PTRM modified for EII non-contestable determinations)<sup>9</sup> to calculate revenues, consistent with the requirements of EII Chapter 6A. The payment dates are reasonable and align with the payment calculations in the PTRM.</p> <p>Any areas of difference in our final decision will likely arise from updates to financial inputs and our assessment of other components of Ausgrid's revenue proposal.</p>
<b>Regulatory Asset Base (RAB)</b>	
Ausgrid revenue proposal	<p>Ausgrid proposed an opening RAB of \$291.3 million as at 1 July 2026. This reflects the roll forward of pre-period expenditure as it is incurred (for calculating the return on capital building block) escalated by a half-year pre-period nominal weighted average cost of capital (WACC). Infrastructure Planner Fees also formed part of the opening RAB as these costs are paid by Ausgrid to EnergyCo in January 2026 which is prior to the start of the regulatory period on 1 July 2026.</p> <p>Ausgrid proposed a forecast closing RAB of \$632.1 million as at 30 June 2031. This has been calculated through rolling forward the opening RAB as at 1 July 2026 and accounting for forecast capex, expected inflation and depreciation (based on forecast capex) over the 2026–31 period.</p>

<sup>9</sup> AER, *Guidance note - Amendments to NER PTRM for determinations under the Electricity Infrastructure Investment Act and Regulations*, November 2024; AER, *Non-contestable - EII Sample PTRM template*, November 2024.



Revenue proposal component	Overview of Ausgrid's revenue proposal and AER's preliminary position
AER preliminary position	<p>Subject to an assessment of the prudence, efficiency and reasonableness of the pre-period expenditure, we are likely to accept Ausgrid's approach to establishing an opening RAB as at 1 July 2026 and rolling the RAB forward to estimate a closing RAB as at 30 June 2031.</p> <p>We also consider Ausgrid's proposal to capitalise Infrastructure Planner Fees of \$162.7 million (\$2025–26) to form an opening RAB to be reasonable given the size of Infrastructure Planner Fees and because it is revenue neutral on a net present value basis compared to immediately expensing these costs by treating them as opex.<sup>10</sup> The way these costs have been capitalised and rolled forward is also consistent with the principles set out in our Roll Forward Model. Note that we do not assess the prudence, efficiency and reasonableness of Infrastructure Planner Costs, to the extent that these are costs covered by cl. 46(1)(b)(ii) of the EII Regulations. However, to satisfy stakeholders and ourselves that these pre-period costs are all related to Infrastructure Planner Fees we have requested further voluntary information from EnergyCo through a letter. Our preliminary review of the information provided by EnergyCo is set out in further detail in section 4.2 below.</p> <p>Further, Ausgrid adopted our standard approach to estimate a closing RAB at the end of its regulatory period as per the PTRM. Areas of difference in the final decision will likely arise from changes to capex, the rate of return and regulatory depreciation.</p>
<b>Rate of return</b>	
Ausgrid revenue proposal	<p>Ausgrid proposed to escalate its pre-period expenditure incurred in 2025–26 using a nominal rate of return of 5.98% set in Ausgrid's 2024–29 NER final decision.<sup>11</sup> For expenditure within the 2026–31 period, Ausgrid proposed to apply the binding 2022 Rate of Return Instrument (RoRI) to develop the nominal WACCs used to calculate the return on capital building block. Ausgrid also applied our standard approach in forecasting inflation for the 2026–31 period.</p>
AER preliminary position	<p>We are likely to accept Ausgrid's proposed approach to estimating the rate of return and inflation for pre-period and within-period expenditure as it is consistent with the RoRI.</p> <p>Our final decision will include forecast WACCs that are calculated in accordance with the 2022 RoRI and using the most up to date financial inputs, where relevant. Similarly, we will also update the forecast inflation for the latest RBA Statement of Monetary Policy forecast amount at the time of our final decision.</p>
<b>Regulatory depreciation</b>	
Ausgrid revenue proposal	<p>Ausgrid proposed a regulatory depreciation amount of –\$0.1 million for the 2026–31 period. It proposed 9 asset classes with 8 of these asset classes to be depreciated on an as commissioned basis, with the timing at which capacity becomes made available for the HCC Project used as a proxy for commissioning years. The remaining asset</p>

<sup>10</sup> For the Waratah Super Battery non-contestable project, we accepted Transgrid's proposal to treat \$3.3 million (\$2023-24) in Network Operator Appointment Fee payable to EnergyCo (similar to Infrastructure Planner Fees) as opex given the relatively smaller size of these costs. AER, *Final decision - Transgrid 2024-29 - WSB non-contestable*, December 2023, p. 25.

<sup>11</sup> AER, *Ausgrid 2024-29 - PTRM - Transmission - 2025-26 RoD update*, March 2025.

Revenue proposal component	Overview of Ausgrid's revenue proposal and AER's preliminary position
	<p>class was pre-period Infrastructure Planner Fees capex which Ausgrid proposed to depreciate immediately on an as incurred basis. Ausgrid's proposal does not include a financeability request to accelerate or modify its depreciation schedule.</p>
AER preliminary position	<p>Our preliminary assessment of Ausgrid's proposed asset lives for depreciation purposes is that they appear reasonable and (for those asset classes equivalent to its NER RAB), consistent with those approved as part of Ausgrid's 2024–29 NER final decision.<sup>12</sup> The proposed standard life of 25 years for the Infrastructure Planner Fee asset class reflects the term of the Project Deed, which we consider reasonable for a subset of these costs. Ausgrid's customer panel considered that Ausgrid's staged approach to depreciation appeared to be reasonable.<sup>13</sup></p> <p>However, we consider that the depreciation of Infrastructure Planner Fee-related capex should differentiate between EnergyCo incurred costs and Ausgrid incurred costs. Ausgrid's portion of Infrastructure Planner Fees relate to early work activities undertaken by Ausgrid, as required by EnergyCo, to progress the project per the schedule set in its Commitment Deed with EnergyCo. The expenditure to perform these works can be directly linked to assets with a clear economic life. As such, our current position is to reallocate Ausgrid's portion of these costs to the other asset classes accordingly, better reflecting the nature of the underlying assets or group of assets. On the other hand, EnergyCo's costs are primarily related to early planning works to enable the HCC Project and general administration of the project. As these types of expenditure do not relate directly to a distinct asset for the HCC Project, we consider Ausgrid's proposal to depreciate these costs over the term of the project deed appears to be a reasonable approach. In response to an information request, Ausgrid agreed with our preliminary position. We estimate that this change is likely to result in a reduction to revenues of about \$8.2 million.</p> <p>Our final decision will implement this change to depreciation and will also reflect any updated inputs as a result of our decision on capex and our continued assessment of Ausgrid's depreciation proposal.</p>
<b>Capital expenditure</b>	
Ausgrid revenue proposal	<p>Ausgrid proposed a total of \$604.2 million (\$2025–26) in capex (\$283.0 million pre-period and \$321.3 million<sup>14</sup> forecast). The capex includes early works undertaken by Ausgrid, recovery of Infrastructure Planner Fees to reimburse EnergyCo for developing the project, infrastructure such as transmission lines and substations, contingencies, and a total of \$24.1 million allocated to community and social licence activities. This latter amount includes \$5.3 million for a social licence proposal. The proposal also includes a forecast of \$1.3 million for 'enabling activities' to connect the HCC Project to the broader NSW transmission network.</p> <p>The updated revenue proposal reflects the addition of capex overheads (e.g. fleet, ICT and property) to the HCC Project consistent with Ausgrid's cost allocation methodology (CAM). It initially proposed a total of \$590.8 million (\$2025–26) in capex.</p>

<sup>12</sup> AER, *Final decision - Ausgrid distribution determination 2024-29 - PTRM – Transmission*, April 2024

<sup>13</sup> Ausgrid Customer Panel, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, May 2025, p. 47.

<sup>14</sup> This excludes forecast equity raising costs.

Revenue proposal component	Overview of Ausgrid's revenue proposal and AER's preliminary position
AER preliminary position	<p>We are likely to accept Ausgrid's proposed capex categories and approach to forecasting capex through a bottom-up cost build up. Our task is to assess whether the proposed capex is prudent, efficient and reasonable. While our assessment is ongoing, we have not identified any material issues in the core capex components. The Infrastructure Planner largely determines the capex scope as part of its authorisation, and Ausgrid's capex program is prudent where it aligns with this authorisation. Ausgrid carried out a competitive tender process for transmission lines and substations, the largest capex categories, and supplied us with the relevant tender documents. Based on this we consider Ausgrid's proposed cost for transmission lines and substations to be efficient. We also consider Ausgrid's 'owner's cost', which refers to project management expenses, uses labour rates that are in line with the AER's benchmark rates. We will update the 'enabling activities' capex component to reflect the latest forecast in our final determination.<sup>15</sup> We consider Ausgrid's land acquisition cost is substantiated by Ausgrid's independent valuer report and so appears efficient.</p> <p>Ausgrid proposed risk cost aligns to a value which is at or less than the P50 value from the outputs of risk modelling and Monte Carlo analysis. The proposed risk cost is considered appropriate for a class 2–3 estimate. Ausgrid's approach to uncertainty, including its handling of capex risk costs, appears reasonable in the circumstances described in its proposal. In particular, Ausgrid is operating under tight timelines that limited its ability to conduct stakeholder consultation and progress elements of its capex proposal.</p> <p>With regard to social licence expenditure, our assessment is currently ongoing. We are considering whether the proposed \$5.3 million to fund community initiatives (including establishment of a 'HCC Local Engagement Committee' to select the initiatives) is necessary to build community acceptance of the project. We will approve this social license expenditure if it is a prudent and efficient way to reduce risks to the successful delivery of the project.</p> <p>In response to submissions, we provide more information on how we assess capex in the context of 'reasonable' costs in section 4.</p>
<b>Operating expenditure</b>	
Ausgrid revenue proposal	<p>Ausgrid proposed a total of \$15.6 million (\$2025–26) in opex incurred over the forecast period.<sup>16</sup> The opex principally covers overheads (apportioned based on its cost allocation methodology), as well as maintenance costs, vegetation management, operation and control room costs. Ausgrid has not sought to recover any pre-period opex costs in its revenue proposal.</p>
AER preliminary position	<p>We are likely to accept Ausgrid's proposed opex categories and approach to forecasting opex through a bottom-up cost build up. Ausgrid's bottom-up approach is different to our usual base-step-trend approach, however we consider this approach to be appropriate and reasonable as it is the first regulatory period of the HCC Project.</p>

<sup>15</sup> In response to an information request Ausgrid indicated that it expects the cost of enabling activities will increase from \$1.3 million to \$4.9 million.

<sup>16</sup> This excludes forecast debt raising costs.

Revenue proposal component	Overview of Ausgrid's revenue proposal and AER's preliminary position
	<p>Our preliminary position is that Ausgrid's forecast opex is likely prudent, efficient and reasonable. We consider Ausgrid's approach in allocating its shared overhead costs, according to its recently approved cost allocation methodology is appropriate. We also consider Ausgrid's proposed opex unit costs and forecast quantities, used to estimate its direct opex costs, to be in line with its existing contracts and costings for similar assets.</p>
<b>Corporate income tax</b>	
Ausgrid revenue proposal	<p>Ausgrid forecast a corporate income tax amount of \$0.99 million over the period. The opening tax asset base (TAB) of \$281.1 million is based on its as commissioned expenditure, consistent with the commissioning approach set out in the depreciation section above. The tax depreciation was calculated on a diminishing value approach. Ausgrid did not propose to immediately expense any capex.</p>
AER preliminary position	<p>We are likely to accept Ausgrid's approach to calculating its corporate income tax. Ausgrid used our EII PTRM and proposed tax asset lives that are consistent with previous AER determinations made under the NER, where applicable. Its proposed tax life for Infrastructure Planner Fees mirrors the standard asset life – we consider this approach to be reasonable in the absence of a tax ruling for these types of costs.</p> <p>Subject to an assessment of the prudence, efficiency and reasonableness of the proposed capex, we are likely to accept the approach to establishing the opening TAB and the forecast cost of corporate income tax.</p> <p>Areas of difference in the final decision will likely arise from the reallocation of Ausgrid's portion of Infrastructure Planner Fees to each of the respective asset classes (see regulatory depreciation above), updates to financial inputs, and our assessment of other components of Ausgrid's proposal.</p>
<b>Efficiency benefit sharing scheme (EBSS)</b>	
Ausgrid revenue proposal	<p>Ausgrid proposed to apply the EBSS for the regulatory period with the exclusion of debt raising costs. This approach is consistent with previous AER determinations.</p> <p>Ausgrid also requested an EBSS exclusion be applied to its current regulatory determination under the NER for the opex overhead costs it has reallocated to the HCC Project under its new cost allocation methodology.</p>
AER preliminary position	<p>Our preliminary position is that our decision on applying the EBSS will be made at the end of the 2026–31 period as there is no historical opex upon which to base forecasts. This approach was supported by CCP35 in its submission on Ausgrid's revenue proposal.<sup>17</sup> Similarly, we will defer our decision on Ausgrid's proposed debt raising costs exclusion as it should be made at the same time as our decision on whether to apply the EBSS. We are likely to agree to the principle behind Ausgrid's proposed NER EBSS exclusion for reallocated opex overheads, as we consider it would ensure Ausgrid does not receive an EBSS reward under the NER for shifting costs from the NER to the EII frameworks. However, a decision on this can only be made in the relevant NER determination.</p>

<sup>17</sup> CCP35, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, June 2025, p. 25.

Revenue proposal component	Overview of Ausgrid’s revenue proposal and AER’s preliminary position
	Generally, we support the application of the EBSS as it provides incentives for Ausgrid to incur opex efficiently, but only when it can be applied appropriately.
<b>Capital expenditure sharing scheme</b>	
Ausgrid revenue proposal	Ausgrid proposed to apply the CESS for the regulatory period as per our CESS guideline, but with two modifications. The first is to include pre-period expenditure under the CESS, to remove the incentive for Ausgrid to change expenditure timings for a CESS reward. The second is to exclude \$5.3 million in social licence expenditure (a cost allowance for local communities) from the CESS, as it is determined by ‘community needs’, so any unspent amount should not be classified as an efficiency gain.
AER preliminary position	<p>Our preliminary position is to apply the standard CESS with one of Ausgrid’s two proposed modifications.</p> <p>We are likely to accept Ausgrid’s proposal to modify the CESS to include pre-period expenditure. While there is no direct precedent to include pre-period expenditure, including the pre-period expenditure in the CESS would prevent a coverage gap, which is a principle underlying our consistent application of CESS across our determinations. We consider this approach removes Ausgrid’s incentive to inefficiently incur expenditure pre-period. This approach was supported by CCP35.<sup>18</sup></p> <p>However, we are not likely to accept Ausgrid’s proposal to exclude social license expenditure from the CESS. We acknowledge this issue is complex. One important principle is that social license spending should be targeted to the amount sufficient to advance social acceptance of the project, and should ultimately assist the network in timely and efficient delivery of the project by reducing these risks. Expenditure on social license is not an end point in and of itself. In this context, it is appropriate to provide a financial incentive to the Network Operator to efficiently manage this expenditure type. We want to ensure careful management of social license funds, and drive innovation that might obtain the same outcomes—addressing community concerns—at least cost. Seeking efficiency in social license expenditure also goes to equity, as the consumers receiving the direct benefit from community funding will not be the same as the broader pool of consumers funding that expenditure.</p> <p>We understand that both Ausgrid’s customer panel and CCP35 hold the position that Ausgrid should spend the full amount (\$5.3 million) on community funding, and that an underspend in this category is not an ‘efficiency’.<sup>19</sup> However, they stop short of expressing a view on the proposal to exclude these costs from CESS. In proposing the CESS exclusion, Ausgrid acknowledged this perspective and the concern about it receiving a financial reward through reducing (relative to the forecast) its funding for community activities. On this point, the current capital expenditure incentive guideline allows network providers to choose not to recover a portion of its CESS reward, under a ‘use it or lose it’ basis.<sup>20</sup> This provides Ausgrid with discretion to choose not to</p>

<sup>18</sup> CCP35, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, June 2025, pp. 25–26.

<sup>19</sup> Ausgrid Customer Panel, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, May 2025, p. 46; CCP35, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, June 2025, p. 26

<sup>20</sup> AER, *Capital Expenditure Incentive Guideline Review Explanatory Statement - Draft Guidelines*, May 2025, p. 46.

Revenue proposal component	Overview of Ausgrid's revenue proposal and AER's preliminary position
	<p>recover CESS rewards related to underspend of social licence expenditure without the need for any exclusions from the CESS.</p> <p>There is a clear requirement for Ausgrid to build social license and community acceptance for the HCC project. This provides the core motivation for Ausgrid to undertake social license expenditure, as set out in its revenue proposal. On balance, we consider it would not serve the interest of consumers (in aggregate) to exclude this category from the CESS and thereby reduce the incentive to undertake the social licence projects efficiently.</p>
<b>Revenue adjustment mechanisms</b>	
Ausgrid revenue proposal	<p>Ausgrid proposed 25 adjustment mechanisms, that allow it to apply to adjust certain aspects of our revenue determination.</p> <p>Ausgrid's proposal groups these adjustments into 5 broad categories which include: 4 predetermined events; 3 automatic adjustment events; 4 standard events; 7 EnergyCo contractual compliance events, and 7 procurement induced cost uncertainty events.</p>
AER preliminary position	<p><b>We consider a part of Ausgrid's proposal on this component to be a focus issue (discussed in section 3 of this document, with additional material to follow in a supplementary appendix).</b></p> <p>Our preliminary position is that we are likely to accept Ausgrid's proposed adjustment mechanisms for all categories except the procurement induced cost uncertainty events. This is because:</p> <ul style="list-style-type: none"> <li>the 4 predetermined events are prescribed in EII chapter 6A of the revenue determination guideline for non-contestable projects,</li> <li>the 3 automatic adjustment events are for routine financial input events (a once off update to the cost of equity and annual updates for cost of debt and inflation),</li> <li>the 4 standard events reflect commonly approved nominated cost pass through events seen in recent revenue determinations under the NER,</li> <li>the 7 EnergyCo contractual compliance events principally relate to adjustments to Infrastructure Planner Fees in accordance with contractual obligations. As we do not have a role in assessing the prudence, efficiency and reasonableness of costs of this nature, if the adjustments meet the principles in clause 46(1)(b)(ii) of the EII Regulation, we will include them in our revenue determination. However, where the EnergyCo contractual compliance events are not related to adjustment of Infrastructure Planner Fees, we will apply our prudence, efficiency and reasonableness test before including any cost impacts in our revenue determination.</li> </ul> <p>For the 7 remaining procurement induced cost uncertainty events, we are concerned about the open-ended nature of these events and the potential cumulative impact on consumers. We consider that it is still somewhat within Ausgrid's control to constrain or otherwise mitigate these risks rather than fully allocating them to consumers. We are also aware of significant stakeholder interest on this matter, with both submissions on Ausgrid's revenue proposal raising significant concerns with this aspect.</p> <p>Our final decision on Ausgrid's procurement induced cost uncertainty adjustment events may be materially different to that proposed by Ausgrid. We are currently</p>



Revenue proposal component	Overview of Ausgrid's revenue proposal and AER's preliminary position
	<p>considering several options to constrain or mitigate some of these adjustment mechanisms. Further detail regarding this matter is discussed in section 3.</p> <p>Ausgrid has claimed confidentiality over 6 of its proposed adjustment mechanisms (4 procurement induced cost uncertainty events and 2 EnergyCo contractual compliance events). This reduces the ability for us to transparently engage with stakeholders and explain our assessment for this aspect of Ausgrid's proposal. Once we have completed our assessment of Ausgrid's confidentiality claims, we intend to release a short <b>supplementary appendix</b> to this Preliminary position paper, regarding our position on these proposed adjustment mechanisms.</p>

Components of Ausgrid's revenue proposal that we did not consider to be a focus issue are not discussed further in this paper, except where a stakeholder has provided a submission (section 4). We consider narrowing the discussion in this paper to the most contentious issues provides stakeholders with the greatest opportunity to influence the outcome of our decision. However, we encourage stakeholders to make submissions relating to any component of Ausgrid's revenue proposal even if we have not designated it as a focus issue in this paper.

## 3 Focus issue – adjustment mechanisms

### 3.1 Confidentiality claims over proposed adjustment mechanisms

Ausgrid has claimed confidentiality with respect to six of its proposed adjustment mechanisms.<sup>21</sup> This includes:

- Two adjustment mechanisms under the ‘EnergyCo contractual compliance events’ category<sup>22</sup> where one adjustment mechanism has specific details of the mechanism redacted<sup>23</sup> and the second has both the name and the details of the adjustment mechanism redacted in the revenue proposal
- Four adjustment mechanisms under the ‘Procurement induced uncertainty events’ category where both the names and the details of all four adjustment mechanisms are redacted in the revenue proposal.

EnergyCo confirmed that it agreed with Ausgrid’s confidentiality claims in a response to our request for further information.<sup>24</sup> However, stakeholders submitted that the lack of transparency in the EII framework severely compromises the ability for consumers to have input into important aspects of Ausgrid’s proposal.<sup>25</sup>

Ausgrid has provided information to support its confidentiality claims in a response to our request for further information.<sup>26</sup> Based on this information, if we are satisfied the information regarding the adjustment mechanisms is confidential and/or commercially sensitive, we must not publish that information in this Preliminary position paper.<sup>27</sup>

We are continuing to engage with Ausgrid on its confidentiality claims for these adjustment mechanisms. We intend to release a short **supplementary appendix** to this Preliminary position paper relating to Ausgrid’s proposed procurement induced cost uncertainty events once we have completed our assessment of Ausgrid’s confidentiality claims.

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<sup>21</sup> Adopting the language used in Ausgrid’s proposal, we use the label ‘confidentiality claims’ to refer to claims for non-disclosure of specific proposal elements that are confidential and/or commercially sensitive.

<sup>22</sup> As discussed in Table 2, we do not have a role in assessing the prudence, efficiency and reasonableness of expenditure related to Infrastructure Planner Fees. If the proposed adjustment mechanisms meet the principles in clause 46(1)(b)(ii) of the EII Regulation, we will include them in our revenue determination.

<sup>23</sup> This is the proposed ‘Force majeure under contractual arrangement with the Infrastructure Planner’ adjustment mechanism for which Ausgrid’s revenue proposal has redacted the details regarding the criteria that defines a ‘Force majeure event’.

<sup>24</sup> EnergyCo, Ausgrid – HCC RNIP 2026-31 – information request #003 – Additional information on adjustment mechanism confidentiality claims – CONFIDENTIAL, June 2025.

<sup>25</sup> Ausgrid Customer Panel, Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal, May 2025, p. 1.

<sup>26</sup> EnergyCo, Ausgrid – HCC RNIP 2026-31 – information request #003 – Additional information on adjustment mechanism confidentiality claims – CONFIDENTIAL, June 2025.

<sup>27</sup> EII Regulation, cl. 53(8).



## 3.2 Procurement induced uncertainty events

### 3.2.1 Overview of Ausgrid's proposal

Ausgrid has proposed 7 adjustment mechanisms categorised as procurement induced cost certainty events. These include:

- a Contractor Force Majeure event,
- a Land Acquisition and Planning Costs event,
- an Unforeseen Artefacts, Native Title Claims or Contamination event, and
- 4 other events which are subject to confidentiality claims in Ausgrid's revenue proposal

Ausgrid proposed that its adjustment mechanisms for the 7 procurement induced cost uncertainty events reflects the unique procurement process for the HCC Project which has resulted in a higher than usual degree of uncertainty around certain cost items at the revenue proposal stage.<sup>28</sup> Ausgrid clarified that much of this uncertainty was brought about by the confidentiality restrictions imposed upon it by EnergyCo during the project procurement phase, which prevented it from commencing consultation with affected stakeholders (for example, land owners). Although this consultation is now underway, Ausgrid states that this delay prevented it from completing more detailed cost estimates prior to submitting its expenditure forecasts in its revenue proposal.<sup>29</sup>

Ausgrid also proposed that we agree to undertake an annual review of the approved adjustment event costs.<sup>30</sup> Under this process, Ausgrid would provide evidence of any adjustment events that have occurred over the previous calendar year, along with Ausgrid's proposed updates to the EII PTRM reflecting its adjustments to revenue.<sup>31</sup> This would capture any positive or negative adjustments to the approved mechanisms incurred in the previous year.

### 3.2.2 Our assessment

Our summary table in section 2 explains why we are likely to accept the 18 proposed adjustment mechanisms that are unrelated to procurement induced cost uncertainty events in our final decision. However, our assessment of Ausgrid's proposed procurement induced cost uncertainty events is still ongoing, and we have not yet formed a view as to whether we are likely to accept or reject some of these adjustment mechanisms or amend them in some way.

After completing our assessment, if we find that these adjustment mechanisms are justified, we will include them in our revenue determination, but we may modify them to limit the scope of the risks they transfer to consumers. For example, our potential modifications could aim to limit the adjustment mechanisms in one of two ways. Firstly, to cap the dollar amount of the costs that can be recovered via these adjustment events. Secondly, to apply expiry dates or

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<sup>28</sup> Ausgrid, *2026-31 HCC RNI Project - Revenue proposal - May 2025 – Public*, May 2025, p. 87.

<sup>29</sup> Ausgrid, *2026-31 HCC RNI Project - Revenue proposal - May 2025 – Public*, May 2025, p. 87.

<sup>30</sup> Ausgrid, *2026-31 Revenue Proposal for HCC RNI Project Attachment 8.1 – Adjustment mechanisms - Public*, p. 2.

<sup>31</sup> Ausgrid, *2026-31 Revenue Proposal for HCC RNI Project Attachment 8.1 – Adjustment mechanisms - Public*, p. 2.

expiry circumstances for certain adjustment events. We are exploring several possible approaches to achieving these aims and discuss these in more detail below.

However, we consider that caps and other limits may not be necessary on the Contractor Force Majeure event, and the Unforeseen Artefacts, Native Title Claims or Contamination event. At this stage of our assessment, we believe the risks associated with these events may be outside of Ausgrid's control and Ausgrid may not be able to meaningfully respond to any imposed constraints.

We acknowledge that Ausgrid's engagement with third parties and its ability to conduct its usual due diligence, was limited due to the confidentiality restrictions the project procurement process imposed upon it. We consider that these circumstances impacted Ausgrid's ability to forecast some of its costs in time for submission of its proposal.

At this stage in our assessment, we have not found duplication of risks or costs between Ausgrid's base capex, capex contingency, and proposed adjustment events. Additionally, we consider that Ausgrid's proposed procurement induced cost uncertainty adjustment events reflect costs that were either:

- not able to be reasonably estimated due to the level of uncertainty, or
- events which had a low probability of occurring but high costs if they did occur.

Ausgrid's proposed procurement induced cost uncertainty events have a large degree of uncertainty associated with them, so including these risk costs in the capex forecast at this point in time would increase the likelihood of consumers overpaying for capex. Based on the information Ausgrid has provided, we consider there is some merit to the risk allocation it proposed, given the circumstances it faced during the preparation of its revenue proposal.

We expect that under a standard procurement process the risks which are even partially within Ausgrid's control, would be accounted for within forecast expenditure. However, we understand that Ausgrid is not currently able to reasonably forecast the cost of these adjustment events due to the current level of uncertainty. We have requested Ausgrid provide a timeline for when it would be able to reasonably estimate the costs associated with these adjustment events.

We are concerned with the open-ended nature of some of the adjustment events. As such, electricity consumers will not be informed of the potential likelihood and impact of these events for which they are being asked to accept the risk. Additionally, due to the confidential nature of these adjustment events, consumers will have no ability to provide feedback on them. This means that any costs from these adjustment events will likely come as an unexpected shock for consumers. We have asked Ausgrid to provide an estimate for the range of potential outcomes and the probabilities associated with each outcome, to better understand the risk borne by consumers in these events.

In their submissions to the AER on the HCC Project revenue proposal, both Ausgrid's consumer panel and CCP35 called for adjustment mechanisms to be capped, and regular reviews of adjustment events to ensure savings are returned to customers where

necessary.<sup>32</sup> Both submissions also expressed concerns regarding the lack of transparency of the proposal<sup>33</sup> and consumers bearing the risks that Ausgrid or its contractors are not willing to bear.<sup>34</sup>

We agree with these submissions that transparency is critical, especially around areas of the proposal, like adjustment mechanisms, where consumers are being asked to bear the risk. As noted in section 3.1, we are engaging with Ausgrid regarding those adjustment mechanisms over which it has claimed confidentiality, and will publish information in a supplementary appendix to this Preliminary position paper once this assessment is completed.

We also agree with stakeholder submissions that some of the proposed unbounded adjustment events may unduly assign consumers with risks that Ausgrid is best placed to manage. As mentioned above, we are currently exploring several potential approaches to limit the scope of adjustment events, including applying a maximum recovery cap and/or a delayed capex forecast adjustment.

We applied a maximum recovery cap to an adjustment event in our 2024–29 Waratah Super Battery (WSB) non-contestable REZ determination.<sup>35</sup> In determining the amount for this cap, we relied on a high-level estimate from Transgrid on the difference in cost between fixed and variable contracts. This set a plausible limit on the cost variation that might be passed through to consumers.

However, the HCC Project is at an earlier stage of development than the WSB non-contestable project was, and it has a greater level of uncertainty across a wider range of costs. Additionally, several of the proposed procurement induced cost uncertainty events interact with each other, compounding the uncertainty. As such, the ability to accurately estimate the variation in cost caused by an adjustment event is significantly lower. If we were to apply the same approach as we did for the WSB project and price in this extra uncertainty, it would likely result in a very high cap, far larger than that in the WSB determination. Such a cap would serve more as a theoretical limit rather than one which would incentivise Ausgrid to reduce its costs. However, if Ausgrid were able to accurately estimate a maximum recovery cap for its adjustment events which incentivised it to reduce its costs, we would likely expect Ausgrid to include these costs in its capex forecast, not an adjustment event.

Another approach we are considering is a delayed capex forecast adjustment. We would require Ausgrid to provide a forecast of the costs of its adjustment event over the current regulatory period, at the point in time where it can reasonably estimate these costs (post our revenue determination and potentially mid-period). Then, after completing an assessment for prudence, efficiency and reasonableness, we may incorporate these forecast adjustment event costs within the approved HCC capex forecast. Under this approach, we expect the

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<sup>32</sup> Ausgrid Customer Panel, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, May 2025, pp. 45-46; CCP35, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, June 2025, pp. 22-23.

<sup>33</sup> Ausgrid Customer Panel, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, May 2025, p. 1 & 6; CCP35, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, June 2025, p. 21.

<sup>34</sup> Ausgrid Customer Panel, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, May 2025, p. 41; CCP35, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, June 2025, p. 22.

<sup>35</sup> AER, *Transgrid 2024-29 - Draft Decision - Waratah Super Battery project (Non-contestable)*, September 2023, p. 66.

adjustment event would be a one-off revenue adjustment, and the adjustment mechanism would expire upon our approval of the forecast adjustment event costs. As these costs will be added to the capex forecast, they would be subject to the CESS. This would incentivise Ausgrid to efficiently manage these risks and minimise its capex.

### **3.2.2.1 Annual review of adjustment events**

We are likely to accept the annual adjustment event review process proposed by Ausgrid as it aligns with the annual adjustment process described in our Guideline. This review process would allow us to ensure that cost increases and decreases are accurately passed through to customers. We will assess all applications for revenue adjustments for prudence, efficiency and reasonableness in accordance with the EII Act and the EII Regulation.<sup>36</sup>

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<sup>36</sup> EII Act, s. 37(1) and EII Regulation, cl. 46(1)(b); Excluding costs covered by EII Regulation 46(1)(b)(ii).

## 4 Stakeholder views on Ausgrid's revenue proposal

We consider stakeholder views, gathered from consumer engagement and submissions to us, to be an important guide in our assessment of revenue proposals. It provides us with evidence of alignment with consumer interests and expectations in determining which components of the proposal to focus on in our Preliminary position paper.

### 4.1 Ausgrid's stakeholder engagement

We consider that network infrastructure projects under the EII Act may represent a challenge for Network Operators in terms of stakeholder engagement due to confidentiality constraints and the limited discretion that they have in project timing and scope. Consequently, we expect Network Operators to use their best endeavours to obtain stakeholder input for a revenue proposal but recognise there may be limitations on what can be achieved in practice.

Following the signing of the Commitment Deed with EnergyCo in December 2024, Ausgrid established its HCC REZ Reg Panel (referred to as 'Ausgrid's customer panel' in this document) to consult on the development of its revenue proposal. Ausgrid's customer panel comprised three members selected from its ongoing regulatory panels who represented residential, business and commercial customers. This panel met six times between January and April 2025 in the lead up to the submission of the revenue proposal. Ausgrid's customer panel and CCP35 also had the opportunity to observe community and landholder engagement and conduct site visit to key locations, including Muswellbrook, Singleton and Kurri Kurri.<sup>37</sup>

Ausgrid's customer panel was set up to review and provide feedback on elements of its revenue proposal, such as risk allocation and the building block revenue components. Its remit also encompassed Ausgrid's commitment to include consumer perspectives in its revenue proposal, in line with our Better Resets Handbook.<sup>38</sup> In addition, Panel members observed a sample of Ausgrid's engagement with affected community members and landholders. CCP35's role was to provide us feedback on how effective Ausgrid's engagement activities were and how the proposal was influenced by its engagement.

We are of the view that Ausgrid's stakeholder engagement was effective, especially given the limited time it had available between the signing of its Commitment Deed with EnergyCo (December 2024) and the submission of its revenue proposal (May 2025). This view is informed by our observations as well as CCP35's advice to the AER, which found that Ausgrid demonstrated sincere intent with commitment to effective engagement.<sup>39</sup> Ausgrid provided timely and detailed information to its panel members and responded to strong challenges from the customer panel by scheduling additional meetings with deep dives on issues of interest. This included Ausgrid facilitating meetings between the panel and

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<sup>37</sup> Ausgrid, *Hunter Central Coast RNIP 2026-31 - Revenue proposal*, May 2025, p. 17.

<sup>38</sup> AER, *Better Resets Handbook*, July 2024.

<sup>39</sup> CCP35, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, June 2025, p. 5.

EnergyCo/Consumer Trustee to answer queries from the panel on topics such as the project scope, benefits and authorisation. The panel itself considered Ausgrid's engagement to be industry leading and that Ausgrid's approach should set a precedent for future EII projects.<sup>40</sup> However, we agree with the CCP35's observations that Ausgrid's revenue proposal could have better set out how the proposal was directly linked to consumer preferences and engagement.<sup>41</sup>

## 4.2 AER response to stakeholder submissions

We received two submissions in response to Ausgrid's 2026–31 revenue proposal for the HCC project.

**Table 3 Submissions on Ausgrid's revenue proposal**

Stakeholder	Received date
HCC REZ Reg Panel (Ausgrid's customer panel)	30 May 2025
AER's Consumer Challenge Panel, sub-panel 35 (CCP35)	2 June 2025

Note: Stakeholders had 15 business days to provide submissions on the revenue proposal between 23 May 2025 and 16 June 2025.

Submissions raised issues with the following elements of the revenue proposal:

- the (lack of) transparency, nature and number of the adjustment mechanisms proposed.
- the justification for the proposed community and social licence expenditure
- the proposed exclusion of social licence allowance from the CESS.

Outside of Ausgrid's revenue proposal, submissions also sought additional comments from us on the recent legislative changes to the Maximum Capital Cost, the transparency of the Infrastructure Planner Fees, and the AER's approach to assessing reasonableness of capex. We provide our comments on these matters below.

### Maximum Capital Cost

Ausgrid's customer panel submitted that the AER should highlight the recent legislative changes to the Maximum Capital Cost (MCC) and how these changes increase the risk NSW consumers bear on EII projects. The panel considered that prior to the legislative changes, the MCC was applied for the life of the asset, meaning that revenues (and hence recovery from NSW consumers) could never exceed the MCC. The panel was concerned that the MCC is no longer a cost cap, given revenue adjustments can go above the MCC amount under the new legislation.<sup>42</sup> The panel submitted that the NSW Government shifted risks related to project completion and ongoing operation onto consumers.<sup>43</sup>

<sup>40</sup> Ausgrid Customer Panel, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, May 2025, p. 2.

<sup>41</sup> CCP35, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, June 2025, pp. 5–6.

<sup>42</sup> EII Act, s. 38(6A)

<sup>43</sup> Ausgrid Customer Panel, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, May 2025, p. 14–16.

### *AER response*

Where the Consumer Trustee authorises a Network Operator to carry out a REZ network infrastructure project, the Consumer Trustee must also set a maximum amount for the prudent, efficient and reasonable capital costs (the MCC) to develop and construct the network infrastructure project, and to notify us of that amount.<sup>44</sup>

Under section 38(6) of the EII Act, the prudent, efficient and reasonable capital costs for the development and construction of the network infrastructure project as determined by the AER must not exceed the MCC. In November 2024, section 38 of the EII Act was amended to include a new subsection (6A) which provides that the MCC does not apply to future adjustments nor any redetermination of capital costs subsequent to our initial determination.<sup>45</sup>

Our non-contestable Guideline, which was published prior to these legislative changes, states that we would apply the MCC to subsequent revenue proposals.<sup>46</sup> In a future review process, we will update our non-contestable Guideline to reflect the latest legislative amendments regarding the MCC. Regardless, the amended wording in the legislation applies to revenue determinations made by us.

The policy intent around the MCC (and the EII framework more generally) remains the domain of the NSW government. However, we would observe that:

- The amended MCC acts to protect consumers between the authorisation and the initial revenue determination. That is, it prevents the commencement of a project where the forecast costs to be paid by consumers outweigh the expected benefits that will flow to them.
- There are governance processes underpinning our assessment of revenue adjustment mechanisms, which require Ausgrid to justify that its adjustments are in line with our determination and are prudent, efficient and reasonable.
- Similarly, subsequent revenue determinations by the AER will apply the assessment framework set out in the EII Regulation to ensure that costs are prudent, efficient and reasonable.

### **Infrastructure Planner Fees**

Ausgrid's customer panel remarked on the lack of transparency over the Infrastructure Planner Fees included in Ausgrid's revenue proposal which makes up approximately 28% of its total forecast capex. The panel recommended that the AER should request further information from EnergyCo on the prudence and transparency of these costs.<sup>47</sup>

### *AER response*

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<sup>44</sup> EII Act, s. 31(2).

<sup>45</sup> See EII Act, s. 38(6A) and Explanatory Note, Energy Amendment (Long Duration Storage and Investment) Bill 2024.

<sup>46</sup> AER, *Transmission Efficiency Test and revenue determination guideline for NSW non-contestable network infrastructure projects*, July 2024, p. 24.

<sup>47</sup> Ausgrid Customer Panel, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, May 2025, p. 17.

In accordance with clause 46(1)(b)(ii) of the EII Regulation, the AER is required to take into account the principle that Ausgrid is entitled to recover payments it is required to pay EnergyCo, where the requirement is contained in the contractual arrangements entered under the Consumer Trustee's authorisation. Such contractual costs in the context of the HCC Project are known as Infrastructure Planner Fees.

While we do not have a role in assessing the prudence, efficiency or reasonableness of Infrastructure Planner Fees, we sent a letter to EnergyCo on 6 June 2025 seeking further information with the intention of enhancing the transparency regarding these costs for the HCC Project. In particular, we requested EnergyCo to provide us with information on the nature of the underlying costs incurred and reassurance of the governance arrangements for the approval and oversight of these contractual costs.<sup>48</sup>

In its response to our letter, dated 14 July 2025, EnergyCo has detailed the governance arrangements in place for Infrastructure Planner Fees and confirmed the measures it has put in place to reassure itself of the prudence, efficiency and reasonableness of these costs. EnergyCo has also clarified that Infrastructure Planner Fees fall under two broad categories for early development works—costs that were directly incurred by EnergyCo and costs incurred externally (primarily Ausgrid).

Our preliminary position is that we are satisfied that EnergyCo's characterisation of Infrastructure Planner Fees are contractual costs that Ausgrid is required to pay EnergyCo, consistent with clause 46(1)(b)(ii) of the EII Regulation. We also note that Infrastructure Planner Fees related to EnergyCo costs are funded by the Transmission Acceleration Facility<sup>49</sup> and are thus subject to the approval of an independent investment committee. It has established protocols to ensure accurate monitoring, verification, review and approval of Infrastructure Planner Fees relating to the HCC Project.

Separately, EnergyCo notes that Infrastructure Planner Fees incurred directly by Ausgrid (and funded in the pre-period years by EnergyCo) have been subject to a competitive procurement process and therefore reflect market-tested costings. EnergyCo also monitors Ausgrid's early development expenditure through reporting obligations and invoice substantiation to ensure that these costs are consistent with the Commitment Deed.<sup>50</sup>

To provide reassurance that Infrastructure Planner Fees are solely related to the HCC Project, EnergyCo's response further lists out the breakdown of the activities being funded through this expenditure. We will review the information provided to us and where possible, seek to provide further transparency regarding the nature of these costs in our final decision.

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<sup>48</sup> This information is not required to be provided by a network operator to the AER to perform its functions in making a non-contestable revenue determination under clause 48(1) of the EII Regulation and is not within the scope of the information notice under section 38(7) of the EII Act. We therefore relied on EnergyCo providing this information to us on a voluntary basis.

<sup>49</sup> The Transmission Acceleration Facility is a NSW Government-funded revolving capital facility to fund development activities to accelerate the delivery of critical transmission infrastructure, community and employment benefits and other enabling projects to meet the EII Act and Roadmap objectives.

<sup>50</sup> The Commitment Deed sets out the contracted terms, rights and obligations of EnergyCo and Ausgrid (as the two relevant parties to the HCC REZ Project) in the period until the Project Deed has been signed and executed.



## Reasonableness of expenditure

Ausgrid's customer panel and CCP35 asked us to explain how the word 'reasonable' in addition to 'prudent and efficient' in the EII framework impacts our assessment of expenditure proposals compared to the NER. The Panel further asked that the AER should clearly explain how the 'reasonable' test has influenced/changed its decision making for the HCC Project.<sup>51</sup>

### *AER response*

Under the EII Act, a Network Operator is entitled to recover the prudent, efficient and reasonable costs it incurs to carry out the Project.<sup>52</sup> Compared to the NER, the term 'reasonable' has been added to our assessment of expenditure proposals.

Our non-contestable Guideline states that in assessing whether the capital costs are reasonable, we will assess whether the costs, and the calculation of those costs, are based on reason or reasonably open based on the facts before us.<sup>53</sup>

The overarching 'propose and respond' model used in the EII framework (and the NER) means that we assess proposals based on the information provided by the Network Operator, including the case put forward on why a proposal is considered reasonable. We would consider information provided to us by the Network Operator regarding what limitations or constraints were present in the development of the cost estimate and how that adversely impacted the proposal, such as accuracy of estimate, project delivery timeframes or efficiency and prudence of cost. We would consider the level of control Network Operators had over the situation including mitigation measures that were put in place to reduce the risk of the adverse impact.

We consider that our interpretation of 'reasonable' depends on a tailored assessment of the specific context of the project and how the Network Operator justifies the reasonableness of its proposal. This general approach enables us to consider constraints or limitations specific to that project and its impacts on the project, without being prescriptive.

Our 'reasonable' assessment of Ausgrid's HCC proposal will consider the impacts of the limitations stated by Ausgrid on its proposal and the measures it adopted to reduce these adverse impacts.<sup>54</sup> For example, Ausgrid's proposal describes the top-down policy requirements on timing and scope; and how it was restricted from consulting with stakeholders (including affected landholders) and restricted from joint planning with Transgrid. Ausgrid's proposal also sets out how it addressed these limitations and developed its cost estimates. When we assess Ausgrid's proposal we have regard to these circumstances, and to whether it acted reasonably in response, including the chain of reasoning. For example, the limited time available to Ausgrid to develop its proposal (including limited time for consultation with stakeholders) means it has not been able refine

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<sup>51</sup> Ausgrid Customer Panel, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, May 2025, pp. 9–11; CCP35, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, June 2025, pp. 23–25.

<sup>52</sup> EII Act, s. 37(1)(a).

<sup>53</sup> AER, *Transmission Efficiency Test and revenue determination guideline for non-contestable network infrastructure projects*, July 2024., p. 25.

<sup>54</sup> Ausgrid, *Hunter Central Coast RNIP 2026-31 - Revenue proposal*, May 2025, p. 40.

elements of its capex forecasts as it might have otherwise done. In this way the ‘reasonable’ test interacts with our assessment of whether expenditure is efficient and prudent.

### Other matters raised

We summarise our responses to the remaining matters raised by stakeholders in the table below.

**Table 4 AER response to matters raised in stakeholder submissions**

Topic	Stakeholder submission	AER response
Recovery of costs associated with the early decommissioning of NER assets	The HCC Project involves the early replacement of some NER assets (remaining value of ~\$11m) that have not been fully depreciated under the NER RAB. Ausgrid’s customer panel commented that despite the negligible cost impact on Ausgrid’s NER customers, any costs related to decommissioned NER assets, caused by EII projects, should be recovered from all NSW customers as a matter of principle. The Panel requested AER provide its views on this matter in our determination and encourage this change for future negotiations between EnergyCo and Network Operators. <sup>55</sup>	As these assets formed part of Ausgrid’s NER RAB, we consider that there is no mechanism in the EII framework for the AER to compel Ausgrid to shift the recovery of these costs to other NSW customers. However, the impacts on Ausgrid’s NER customers appear negligible.  We expect Network Operators to consider the interrelationships between their NER and EII assets in developing its revenue proposal to avoid cross-subsidisation between NER and EII customers. At the next NER reset, Ausgrid should consider whether proceeds from sale (if any) of NER assets decommissioned due to the HCC Project should be returned to customers.
Formal requirement for customer engagement under EII framework	Ausgrid’s customer panel also submitted that the current EII regulatory framework contains no formal requirement for customer engagement (including elements of the proposal that are directly negotiated between EnergyCo and Ausgrid). <sup>56</sup>	Our non-contestable Guideline outlines our expectation for the Network Operator to conduct pre-lodgement engagement with its stakeholders and incorporate feedback (where appropriate) in its revenue proposal. We consider stakeholder engagement and submissions to be an important input to our non-contestable revenue determination. However, any consumer engagement prior to this in relation to project declaration, scope and authorisation sits with other relevant NSW Roadmap entities such as the NSW Government, the Infrastructure Planner, and the Consumer Trustee.

<sup>55</sup> Ausgrid Customer Panel, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, May 2025, pp. 47–48.

<sup>56</sup> Ausgrid Customer Panel, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, May 2025, pp. 8–9.

Topic	Stakeholder submission	AER response
Social license costs	Ausgrid's customer panel and CCP35 requested the AER to closely examine Ausgrid's proposed capex in community and social license costs. <sup>57</sup> CCP35 asked that the AER clearly justify its reasons for its decision on Ausgrid's proposed CESS exclusion for social license costs. <sup>58</sup>	We agree that further investigation of Ausgrid's overall capex and incentive scheme proposals is warranted. We will be undertaking a bottom-up assessment of Ausgrid's capex for our final decision. In making our final decision, we will pay particular attention to the proposed community and social licence expenditure, its cost build-up and benefits, and its links to the proposed CESS. See the capex and CESS sections of <a href="#">Table 2</a> for further discussion.
Adjustment mechanisms	Ausgrid's customer panel and CCP35 stated that the AER should carefully review Adjustment Events to ensure consumers are bearing an appropriate level of risk for the HCC Project. Ausgrid's customer panel suggested the AER review these events to ensure there is no double counting of risks, allowing the adjustments to be capped or subject to regular AER review. <sup>59</sup>	Our current assessment of Ausgrid's proposed adjustment events is ongoing and is a focus for this Preliminary position paper. We respond to these points made by the stakeholders in section 3 of this document.

<sup>57</sup> Ausgrid Customer Panel, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, May 2025, pp. 2; CCP35, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, June 2025, p. 28.

<sup>58</sup> CCP35, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, June 2025, p. 26.

<sup>59</sup> Ausgrid Customer Panel, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, May 2025, pp. 2, 41–46; CCP35, *Submission - Hunter Central Coast RNIP - 2026-31 Revenue Proposal*, June 2025, p. 23.

# Glossary

Term	Definition
AER	Australian Energy Regulator
Ausgrid's customer panel	HCC REZ Reg Panel
CAM	cost allocation methodology
capex	capital expenditure
CESS	capital expenditure sharing scheme
CCP35	consumer challenge panel, sub-panel 35
EBSS	efficiency benefit sharing scheme
EII Act	Electricity Infrastructure Investment Act 2020 (NSW)
EII Chapter 6A	Appendix A of the Guideline, a modified version of Chapter 6A of the NER that applies to EII projects
EII PTRM	refers to a PTRM that is used for the purposes of making non-contestable revenue determinations under the EII framework (EII Act and EII Regulation)
EII Regulation	Electricity Infrastructure Investment Regulation 2021 (NSW)
non-contestable Guideline	Revenue determination guideline for non-contestable network infrastructure projects
HCC	Hunter-Central Coast
HCC Project	HCC REZ network infrastructure project
ICT	information and communication technology
MCC	maximum capital cost
NER	National Electricity Rules
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
REZ	renewable energy zone
RoRI	Rate of Return Instrument
TAB	tax asset base
WACC	weighted average cost of capital
WSB	Waratah Super Battery