

AER Public Forum Hunter-Central Coast REZ Network Infrastructure Project

25 August 2025

Acknowledgement of Country

Kate Symons

AER Board Member

Purpose of this forum



To give attendees a public opportunity to raise queries on Ausgrid's revenue proposal and the AER's Preliminary position paper.



Per the non-contestable guideline, we may hold a public forum after releasing our preliminary position paper.



Ensure transparency and that we hear the views of stakeholders before we make our revenue determination



Agenda

Total time: 1 hour

- 1** **Introductory comments** AER – Kate Symons
5 mins
- 2** **AER presentation** AER – Ben Stonehouse
12 mins
- 3** **Ausgrid presentation** Ausgrid – Kelly Wood, Fiona McAnally
10 mins
- 4** **Consumer Challenge Panel 35** Helen Bartley
5 mins
- 5** **Ausgrid Customer Panel** Louise Benjamin, Mike Swanston and Mark Grenning
8 mins
- 6** **Q&A session** Facilitated by AER – Scott Haig
15 mins
- 7** **Closing remarks** AER – Kate Symons
5 mins

Overview of the EII framework

The AER is required to make revenue determinations for Network Operators authorised or directed to carry out network infrastructure projects under the EII Act and EII Regulation.

Key aspects of the EII framework

Scope:

- Scope of our assessment under the EII Act is narrower than the scope of our assessment under the National Electricity Rules (NER).
- Under this framework, we do not consider the prudence of the authorised network option or its timing. The Infrastructure Planner (EnergyCo) performs this role.
- Our assessment is limited to the prudence, efficiency, and reasonableness of the costs the Network Operator proposes in its revenue proposal to comply with the terms of the Consumer Trustee's authorisation or Minister's direction.

Cost Recovery:

- The AER is tasked with making annual contribution determinations that set out the costs of implementing the NSW Electricity Infrastructure Roadmap, including REZ network infrastructure projects such as the HCC Project.
- These annual costs are passed through to NSW consumers in their electricity bills by the 3 NSW distributors through a jurisdictional scheme under the NER.

Timing:

- Per clause 50(1) of the EII Regulation, we have 126 business days to make a non-contestable revenue determination after the Network Operator submits a compliant revenue proposal.

Overview of the Hunter Central Coast REZ network infrastructure project



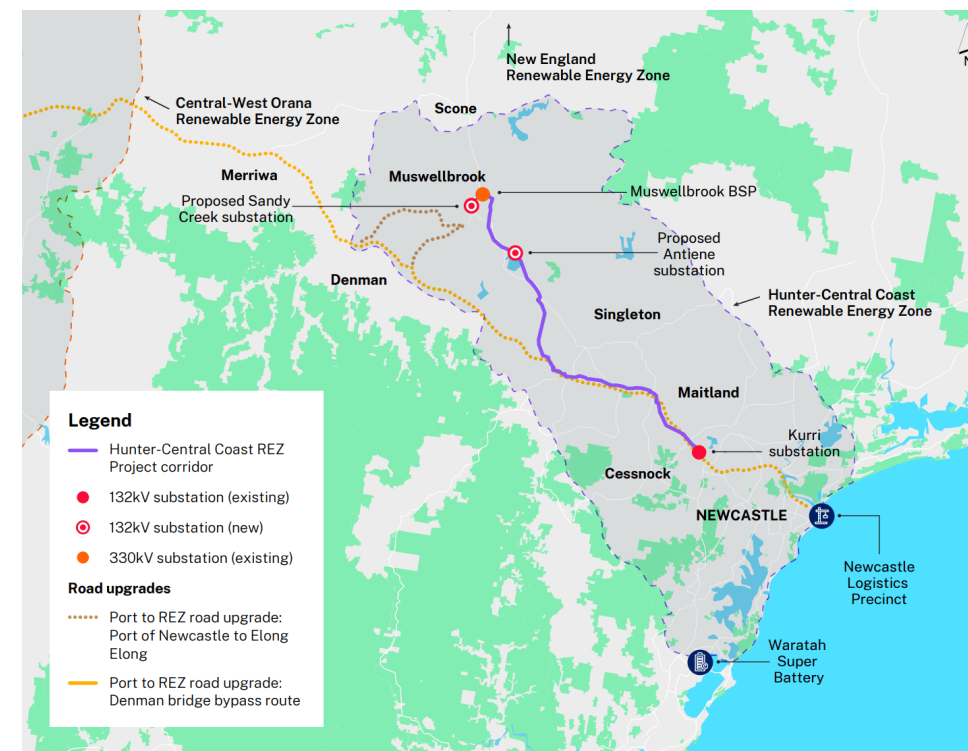
1 GW of new network transfer capacity by 2028 to support renewable generation and storage in the HCC REZ region



- 2 new substations to be built
- 2 existing substations to be upgraded



- 132kV solution enabling smaller structures than any alternate 330 kV solution
- 85km of existing Ausgrid network corridors to be upgraded with higher capacity lines



Source: [EnergyCo website](#)
Hunter-Central Coast Renewable Energy Zone map

Overview of Ausgrid's revenue proposal

| Building block components (\$m Nominal) | 2026–27 | 2027–28 | 2028–29 | 2029–30 | 2030–31 | Total |
|---|-------------|-------------|-------------|-------------|-------------|----------------|
| Return on Capital | 19.8 | 36.7 | 42.0 | 42.8 | 42.9 | \$184.2 |
| Return of Capital | 2.0 | (4.2) | (2.3) | 1.8 | 2.6 | -\$0.1 |
| Operating Expenditure | 0.3 | 2.6 | 4.3 | 5.5 | 5.9 | \$18.6 |
| Net Tax Allowance | 0.3 | 0.6 | 0.1 | - | - | \$1.0 |
| Maximum Allowed Revenue | 22.4 | 35.6 | 44.1 | 50.1 | 51.4 | \$203.6 |

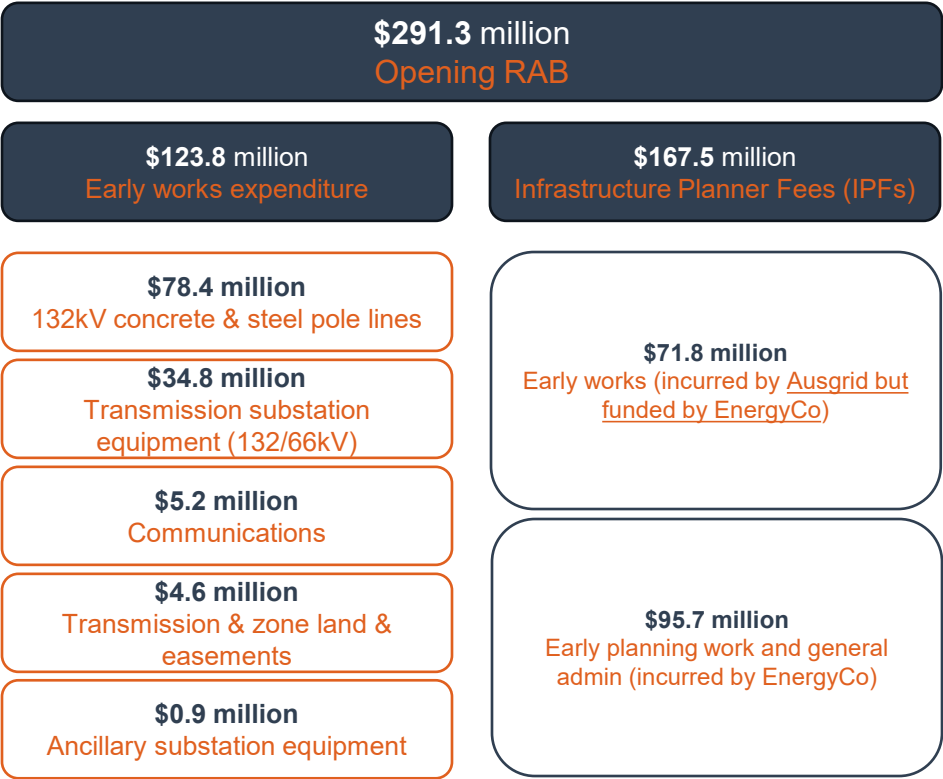
Key take away:

Ausgrid conducted a constructive and effective pre-engagement with the AER and consumer representatives, resulting in a better-quality revenue proposal.

Overview of our assessment:

- Ausgrid's proposed approach to calculating components such as the opening RAB, rate of return, corporate income tax and total revenues are consistent with our non-contestable Guideline and previous NER network determinations.
- 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.
- Based on our bottom-up analysis, Ausgrid's approach to calculating its forecast opex appears prudent, efficient, and reasonable.
- We will make the decision on whether to apply the Efficiency Benefit Sharing Scheme (EBSS) at the end of the 2026–31 period once we determine if the opex for the HCC project has reached a steady-state

Opening Regulatory Asset Base (RAB) and Regulatory depreciation



Infrastructure Planner Fees

- Infrastructure Planner Fees are payments which are required to be made by the Network Operator (Ausgrid) to the Infrastructure Planner (EnergyCo) under their contractual arrangements.
- AER does not have a role in assessing the prudence, efficiency or reasonableness of Infrastructure Planner Fees and must include these costs in its revenue determination.

Regulatory depreciation

- We propose changing the depreciation schedule of the \$71.8 million in Infrastructure Planner Fees related to Ausgrid's early works (which have been funded by EnergyCo) in our final decision to reflect the economic life of the assets rather than the term of the project deed.
 - We consider this better reflects the underlying nature of the assets.
 - We estimate that this change is likely to result in a reduction to revenues of about \$8.2 million.

Capital Expenditure (Capex)

| Ausgrid's revenue proposal | AER's preliminary position |
|---|--|
| <ul style="list-style-type: none">• Ausgrid initially proposed a total of \$590.8 million (\$2025–26) in capex.<ul style="list-style-type: none">◦ This amount has been revised to \$604.2 million (\$2025–26) in an update to its revenue proposal.• The updated capex reflects the addition of capex overheads (e.g. fleet, ICT and property) to the HCC project consistent with Ausgrid's cost allocation methodology. These costs were erroneously omitted from the initial revenue proposal.• The capex includes early works undertaken by Ausgrid, and recovery of:<ul style="list-style-type: none">◦ Infrastructure Planner Fees to reimburse EnergyCo for developing the project.◦ Infrastructure such as transmission lines and substations and contingencies.◦ Community and social license activities.• The proposal also includes a forecast of \$1.3 million for 'enabling activities' to connect the HCC Project to the broader NSW transmission network, owned by Transgrid.<ul style="list-style-type: none">◦ However, Ausgrid has updated us that their latest estimates expect this cost to increase to \$4.9 million. | <ul style="list-style-type: none">• We have not identified any material issues in the core capex components.• Prudent: The Infrastructure Planner determines the capex scope as part of its authorisation, and Ausgrid's capex program is prudent where it aligns with this authorisation.• Efficient: Ausgrid carried out a competitive tender process for 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 is likely to be efficient.• Reasonable: Ausgrid has described 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 at the time of developing its revenue proposal. We consider Ausgrid's capex proposal is likely to be reasonable when considering these constraints imposed on Ausgrid which reduced its ability to refine several elements of its capex forecast. |

Capital expenditure sharing scheme (CESS)

| Ausgrid's revenue proposal | AER's preliminary position |
|--|--|
| <p>Ausgrid proposed to apply the CESS for the regulatory period, but with two modifications:</p> <ul style="list-style-type: none">• Include pre-period expenditure under the CESS, to remove the incentive for Ausgrid to change expenditure timings for a CESS reward. | <p>We are <u>likely</u> to accept Ausgrid's proposal to modify the CESS to include pre-period expenditure.</p> <ul style="list-style-type: none">• 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. |
| <ul style="list-style-type: none">• To exclude \$5.3 million in social license expenditure from the CESS, as it is determined by 'community needs', so any unspent amount should not be classified as an efficiency gain. | <ul style="list-style-type: none">• We are <u>not likely</u> to accept Ausgrid's proposal to exclude social license expenditure from the CESS.<ul style="list-style-type: none">• 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 efficiently manage this expenditure. |

Adjustment mechanisms- Procurement induced cost uncertainty events

- Ausgrid included risk cost contingencies for costs it could reasonably estimate in its capex forecast. However, it did not include contingencies 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 would incur high costs if they did occur.
- Ausgrid proposed these costs be dealt with through ‘adjustment mechanism’ events (similar to cost pass throughs under the National Electricity Rules but without the materiality threshold).
- Ausgrid proposed 7 adjustment mechanisms categorised as ‘procurement induced cost uncertainty events’. A number of these events were subject to confidentiality claims in the revenue proposal. These include the following events:

| Proposed adjustment event | AER’s decision on confidentiality |
|--|---|
| Contractor Force Majeure | n/a – Ausgrid did not make confidentiality claims over these adjustment mechanisms |
| Land Acquisition and Planning Costs | |
| Unforeseen Artefacts, Native Title Claims or Contamination | |
| Unavoidable change in contractor costs | Ausgrid made confidentiality claims over the names, details, and rationale for these adjustment mechanism events. Aside from some specific detail for the Unavoidable change in contractor costs’ and the ‘Delay in execution of contractual arrangements’ events, we have not accepted these confidentiality claims. Ausgrid (and EnergyCo) have now withdrawn their confidentiality claims over the vast majority of this material. We have published this information in our Supplementary Appendix for stakeholder comment. |
| Enabling activities | |
| Unavoidable design change | |
| Delay in execution of contractual arrangements. | |

Why are adjustment mechanisms the correct tool?

- We acknowledge that Ausgrid's stakeholder negotiations and its ability to conduct its usual due diligence, was limited due to the confidentiality restrictions on the HCC Project procurement process. We consider that these circumstances significantly impacted Ausgrid's ability to estimate some of its costs in time to submit its revenue proposal.
- As Ausgrid's proposed procurement induced cost uncertainty events costs have a very large degree of uncertainty associated with them, including these costs in the capex forecast would increase the likelihood of consumers overpaying for capex. As such, we consider that Ausgrid's proposed recovery of these costs through a revenue adjustment mechanism is likely appropriate.
- Ausgrid's proposed adjustment events are 'open-ended' which means the probability and impact of the adjustment mechanism cannot be reasonably estimated at this time and there are no proposed constraints to limit risk for consumers. Further, Ausgrid would have limited incentive to efficiently incur these costs as they will not be subject to the CESS.
- While our assessment is still ongoing on this matter, we are currently considering potential options to dealing with these adjustment events:
 - Maximum recovery cap
 - Delayed capex forecast adjustment
- In addition, there may be further assessment when implemented (triggered and applied for).

Advantages and disadvantages of potential options

Maximum recovery cap:

✓ Advantages

- The 'maximum recovery cap' will act as an upper limit for the potential adjustment amount. We applied this approach for the 2024–29 Waratah Super Battery determination, where we imposed a \$30 million cap on a specific adjustment mechanism.

✗ Disadvantages

- While imposing a cap provides a limit for consumers against extreme outcomes, it would be difficult to set reasonably while still allowing Ausgrid to recover its prudent and efficient costs. In the case of the HCC Project, given the uncertainties surrounding the costs, such a cap would be very large and likely serve more as a theoretical limit rather than one which would incentivise Ausgrid to efficiently incur capex.

Delayed capex forecast adjustment:

✓ Advantages

- Under this approach, we expect the adjustment event would be a one-off revenue adjustment, and the adjustment mechanism/s would expire upon our assessment 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 relative to the 'updated' capex forecast.

✗ Disadvantages

- The primary challenge of applying a delayed capex forecast approach to these adjustment mechanisms would come from determining the appropriate timing of when the costs could be forecast. Ausgrid has submitted that an estimated timeline for some of these adjustment mechanisms could fall outside the construction period.

Q & A Session

Scott Haig

A/General Manager, Network Regulation, AER

Timeline

| Dates | Milestone |
|-------------------|--|
| 16 May 2025 | Ausgrid submitted its revenue proposal |
| 23 May 2025 | AER published revenue proposal, and submissions opened |
| 16 June 2025 | Submissions on revenue proposal closed |
| 7 August 2025 | AER published Preliminary position paper, and submissions open |
| 21 August 2025 | Supplementary appendix to the Preliminary position paper published |
| 25 August 2025 | AER public forum on the HCC Project COMPLETED |
| 10 September 2025 | Submissions on Preliminary position paper and supplementary appendix close |
| 13 November 2025 | AER makes* final determination and supporting analysis |



**Note: Per Clause 50(1) of the EII Regulation, the regulator must make a revenue determination within 126 business days. Clause 53(4) of the EII Regulation states that the revenue determination, notice, reasons or schedule must be published as soon as reasonably practicable, but not before the infrastructure planner (EnergyCo) has notified us that the project financial close of the network infrastructure project has been reached under the recommended contractual arrangements for the project.*

How can you get involved



- We invite interested stakeholders to email submissions by:
 - **COB 10 September 2025** for Preliminary position paper and the Supplementary appendix



- Submissions should be emailed to REZ@aer.gov.au with the subject line 'Submission on HCC Project'.

Closing remarks

Kate Symons

AER Board Member