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## **CCP35 Advice to AER – Transgrid - Central West Orana RNIP 2026-31- Revenue Proposal**

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**CCP35 Advice to the AER – Transgrid Central West Orana Renewable  
Energy Zone Network Infrastructure Project (non-contestable)**

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**14 August 2025**

### **Acknowledgement of Country**

I acknowledge the Traditional Custodians of the various lands on which Transgrid owns and operates its networks and facilities. I honour the customs and traditions and special relationship of those Traditional Custodians with the land as well as those where this report is being prepared. I respect the elders of these nations, past and present.

### **Confidentiality**

To the best of my knowledge this report does not present any confidential information.

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## 1 Summary

### Overview

In November 2024, the Australian Energy Regulator (AER) established CCP35 for the Central West Orana (Transgrid) and Hunter Central Coast (Ausgrid) Renewable Energy Zone (REZ) non-contestable 2026-2031 revenue determinations, to provide advice on the following:

1. The effectiveness of the network operator's engagement activities with consumers and how this is reflected in the development of the respective network's revenue proposals.
2. Whether the network operator's proposal, or elements, are in the long-term interests of consumers.

Ausgrid lodged its revenue proposal in relation to the NSW Hunter Central Coast (HCC) non-contestable project on 16 May 2025, around two months ahead of Transgrid lodging its proposal. The AER published Ausgrid's proposal and my advice in June 2025.<sup>1</sup>

Transgrid lodged its Revenue Proposal 2026-31 (the proposal) with the AER in relation to the NSW Central West Orana (CWO) non-contestable project in late July 2025, which the AER subsequently published on 31 July 2025. The AER will assess the proposal under the NSW Electricity Infrastructure Investment (EII) Act 2020.

This advice pertains to key aspects of Transgrid's proposal over which consumers can have influence, and the effectiveness of its engagement with the Transgrid Advisory Council (TAC). The TAC is Transgrid's primary stakeholder engagement group, comprising energy consumer and industry representatives. Transgrid appointed members to provide feedback and input on its major projects.

In preparing this advice, I have the benefit of being able to compare Transgrid's customer and stakeholder engagement approach and what it heard to inform its proposal with that of Ausgrid. Readers who are interested in the detail of my advice related to Ausgrid's revenue proposal are referred to my report, which is published on the AER's website.<sup>2</sup>

### Nature of engagement

Transgrid's stakeholder and community engagement to inform its CWO REZ revenue proposal is detailed in its proposal (Section 3.3). While, Transgrid has indicated it engaged with affected community groups such as landholders, local councils and Traditional Owners on route options, I did not observe any of that engagement. Nor am I aware that TAC members observed any of that engagement.

Unlike Ausgrid, which established a dedicated subpanel to engage deeply on aspects of its revenue proposal, Transgrid's key engagement to inform its revenue proposal was with its TAC. The TAC comprises 16 members and includes industry as well as consumer representatives.<sup>3</sup> Transgrid normally meets with its TAC four times a year. Between those regular meetings, Transgrid scheduled what it describes as "deep dives" aimed at seeking feedback on key aspects of its CWO REZ revenue proposal. TAC members had the option of attending those meetings in person or online.

<sup>1</sup> <https://www.aer.gov.au/industry/registers/determinations/hunter-central-coast-renewable-energy-zone-network-infrastructure-project-non-contestable/proposal>

<sup>2</sup> CP35 Advice to AER – Ausgrid - Hunter Central Coast RNIP 2026-31- Revenue proposal Consumer Challenge Panel (CCP) Sub-Panel CCP35, June 2025, available from <https://www.aer.gov.au/documents/ccp35-submission-hunter-central-coast-rnip-2026-31-revenue-proposal-june-2025>

<sup>3</sup> Transgrid, *Transgrid Advisory Council*, viewed on 17 July 2025, <https://www.transgrid.com.au/community/stakeholder-engagement/>

Specifically, Transgrid broadly described its engagement objectives for the TAC as follows [emphasis added]:<sup>4</sup>

- [For Transgrid to] provide clear, concise information about the CWO REZ Revenue Proposal to enable TAC members to provide informed feedback
- [For Transgrid to] understand and address **customer and consumer issues**, priorities and preferences on CWO REZ
- [For Transgrid to] respond to feedback from TAC and be transparent about the decisions Transgrid makes and why

I have reviewed the materials Transgrid provided to the TAC, observed most engagement sessions with the TAC. I have also reviewed Transgrid's draft plan, read TAC feedback on the draft plan and Transgrid's response and reviewed relevant aspects of its revenue proposal. I separately met with the business and the AER on various occasions as Transgrid prepared its proposal.<sup>5</sup> I have also considered Ausgrid's approach as a basis of comparison with Transgrid. These activities have informed my advice to the AER contained in this report.

### Engagement effectiveness

I acknowledge the limited time constraints, and the lack of precedents for network operators that are required to prepare a revenue proposal under the EII Act, and I acknowledge Transgrid's pragmatic choice to engage with its TAC to inform its CWO REZ revenue proposal. Transgrid is to be commended for introducing the need for a revenue proposal for its CWO REZ project early (in June 2024) and outlining its proposed engagement approach to the TAC.

I also commend Transgrid for the effort and detail it has provided in its presentations to TAC members to inform the five deep dive sessions. While Transgrid published details of broader project information its website,<sup>6</sup> I appreciate Transgrid has not published any engagement materials, such as presentations or Transgrid's draft proposal due to confidentiality.<sup>7</sup> I also appreciate Transgrid shared a draft plan with the TAC and indicated to the TAC how its feedback had been considered in its revenue proposal (albeit after Transgrid had lodged its proposal with the AER).

However, I am not convinced that Transgrid's engagement process was as effective as its proposal suggests, nor was its focused on addressing customer and consumer issues, for the following reasons:

- The TAC membership includes a mix of stakeholder interests, and I am not confident that a group that represents both industry and consumer interests, would be strongly focused on customer and consumer preferences to drive the development of a revenue proposal.
- Regardless of the above, as evidenced by meeting minutes, attendance at TAC meetings has not been consistent from one meeting to the next. For example, the number of TAC attendees varies and among institutional members the individual who is representing the organisation varies. I consider this has created difficulties for the TAC as a whole to have a sufficiently

<sup>4</sup> Transgrid, *Transgrid Advisory Council Central West Orana Renewable Energy Zone (CWO REZ) Non-Contestable Works Deep Dive #2, Pre-read materials*, p. 13

<sup>5</sup> See Appendix for list of engagement activities observed

<sup>6</sup> See <https://www.ausgrid.com.au/In-your-community/Major-Projects/Hunter-and-Central-Coast-Region-Construction-Projects/Hunter-Central-Coast-Renewable-Energy-Zone>

<sup>7</sup> As some of the material presented to the TAC, and the issues discussed were confidential or internal to the business, I understand why Ausgrid did not publish any engagement materials. However, some high-level summaries of topics and broad outcomes would improve transparency

detailed background and capacity to question and challenge Transgrid and consider the long-term interests of consumers.<sup>8</sup>

- Although Transgrid has aimed to inform and consult TAC members on its proposal, only a few TAC members appear to have engaged sufficiently deeply with the materials provided by Transgrid to provide a depth of feedback and challenge.<sup>9</sup>
- While the Transgrid team attempted to answer TAC members' questions and respond to information requests, I am not confident TAC members who questioned Transgrid received the detailed information they sought and when they needed it, or they always received an explanation that satisfied them.<sup>10</sup>
- Transgrid did not initially insist on or even consider the value of the TAC producing an independent report detailing TAC perspectives on Transgrid's engagement effectiveness, and proposal. Regardless of what such a report might say, it would have been greater demonstration of Transgrid's commitment to genuine engagement and challenge from the TAC, if the terms of reference required the TAC to produce an independent report or reports (given the disparate interests among members). An independent TAC report would also serve as hard evidence of TAC perspectives and would also have provided Transgrid with a greater return on its investment in the TAC.<sup>11</sup>
- While Transgrid presented the TAC with an overview of the proposal in June 2025, the TAC was only provided with a copy of Transgrid's draft proposal within two weeks of Transgrid lodging it, in the middle of NSW school holidays, and they were given only five days to comment. The timing and this short time frame clearly limited the opportunity for TAC members to review the draft plan, discuss their views and provide detailed feedback to Transgrid.
- I understand only one TAC member provided any detailed feedback on the draft plan. Regardless of the limited number of TAC members who provided feedback, I commend Transgrid for responding in writing to the TAC on the feedback and reflecting the feedback in its revenue proposal as appropriate or explaining why it was not prepared to change its proposal.

For comparison, as noted in my advice to the AER on Ausgrid's HCC REZ revenue proposal, I observed sincere intent by Ausgrid, and saw evidence of Ausgrid's commitment to effective engagement through the establishment of a small fit-for-purpose panel of skilled consumer representatives. Members could meaningfully engage on complex aspects of the proposal and respond in a short time frame. Ausgrid provided timely responses to the panel's information requests and shared its draft plan with sufficient time for the panel to provide detailed feedback. Ausgrid strongly supported the panel to produce an independent report, both financially and not constraining the detail of the panel's report.<sup>12</sup>

I would have more confidence that Transgrid's revenue proposal was in the long-term interests of consumers had it adopted a more consumer focused approach, to its engagement, and sufficiently

<sup>8</sup> I suspect there are various reasons for the variable attendance and engagement by TAC members. However, ultimately Transgrid has a responsibility to ensure its advisory committee is fit for purpose, members receive adequate support to engage effectively and to monitor and evaluate its performance and address any issues in a timely way.

<sup>9</sup> As per note 8.

<sup>10</sup> Noting that various aspects of the CWO REZ project are commercial-in-confidence, for example due to confidentiality agreements with the Consumer Trustee and other parties some documents the TAC would have liked to review were not available.

<sup>11</sup> Although the timing is not ideal, I commend Transgrid for belatedly agreeing to consider TAC members' proposals to fund them to write submissions to the AER with respect to Transgrid's revenue proposal. Disappointingly, I understand Transgrid only received an application from two customer-representative members. Regardless, I hope other customer representatives will also make submissions to provide stronger evidence of consumer perspectives on Transgrid's proposal.

<sup>12</sup> The AER has published the Panel's report on its website, <https://www.aer.gov.au/system/files/2025-06/Ausgrid%20Customer%20Panel%20-%20Submission%20-%20Hunter%20Central%20Coast%20RNIP%20-%202026-31%20Revenue%20Proposal%20-%20May%202025.pdf>

funded a consumer group to provide a detailed independent report in line with Better Resets expectations.

### **Does Transgrid's proposal reflect consumer preferences?**

Chapter 3 of Transgrid's proposal outlines its engagement approach and objectives with the TAC and the wider community. Chapter 3 includes a summary table (Table 3-3) describing the key engagement topics and how what Transgrid heard from the TAC and other stakeholders shaped the proposal.<sup>13</sup> However, the information in that table is high level, and does not differentiate consumer support from industry support. I am not confident that the feedback and Transgrid's responses genuinely reflect the views of either the TAC as a whole, or more importantly consumer preferences due to the limitations of Transgrid's engagement approach and the lack of an independent TAC report that contains evidence of consumer preferences.

I accept there are some instances in Transgrid's proposal where it had support at least from some TAC members and incorporated that advice in its proposal. For example, in the deep dive on adjustment mechanisms some TAC members suggested biodiversity offset costs, which are largely uncontrollable and similarly if AEMO were to cancel a planned outage, should be considered as pass-through events if they occur.

However ultimately, I am not confident that Transgrid's proposal reflects or does not reflect consumer preferences. This is predominantly due to limitations with Transgrid's engagement approach to elicit representative customer feedback, the limited scope of engagement, and the lack of an independent report in support of Transgrid's proposal.<sup>14</sup>

### **Overarching conclusion**

**Ausgrid has established that it is possible to engage effectively with a consumer representative group and to develop a proposal that aligns with Better Resets expectations.**

**When assessing Transgrid's revenue proposal, I advise the AER to consider the comparative limitations of Transgrid's engagement, which falls short of Better Resets expectations. I trust these limitations will inform the AER's preliminary position and encourage Transgrid to strengthen its consumer engagement in future projects.**

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<sup>13</sup> Transgrid, 2026-31 Revenue Proposal Enabling Central-West Orana Renewable Energy Zone Network Infrastructure Project (non-contestable) July 2025, pp. 44-45

<sup>14</sup> Noting that some members may respond to the AER's call for submissions on Transgrid revenue proposal.

## 2 Context for this advice

### 2.1 NSW Renewable Energy Zones

In 2021, the NSW Government under the NSW EII Act<sup>15</sup> appointed the AER as the economic regulator of infrastructure projects within its REZ along with the Energy Corporation of NSW (EnergyCo) as the infrastructure planner and AEMO Services as the Consumer Trustee to develop designated REZ in line with the NSW Electricity Infrastructure Roadmap<sup>16</sup>. EnergyCo, under the EII Act 2020, as the NSW infrastructure planner, recommends REZ projects for NSW. AEMO Services as the independent Consumer Trustee, is responsible for authorising projects and setting the maximum prudent, efficient and reasonable project costs.

To date the NSW Government has declared five REZ shown on the attached map:<sup>17</sup>

**Figure 2-1: NSW Renewable Energy Zones (May 2025)**



On the recommendation of EnergyCo, the Consumer Trustee appointed Transgrid to deliver the CWO REZ project, which largely involves upgrades to Transgrid’s existing distribution network, thereby reducing the impact on land, communities, the environment and cost.

### 2.2 Regulatory process

In November 2021, the AER was appointed as a regulator under the EII Act to assess whether the network operator’s costs to deliver a REZ project are “prudent, efficient and reasonable”.<sup>18</sup> Consequently, AER scrutinises these project costs to assess their prudence, efficiency and reasonableness. Importantly, it is not the AER’s role to determine the size and scale of REZ projects per se.

In April 2023, the AER published its *Transmission Efficiency Test and revenue determination guideline for non-contestable network infrastructure projects* (the Guideline). This Guideline details how the AER will make revenue determinations for network operators authorised or directed to carry out non-contestable network projects under the NSW Electricity Infrastructure Roadmap. The AER reviewed the Guideline in 2024 and published an *Explanatory Statement*. Importantly, the AER expects network operators to develop their proposals in line with the *Better Resets Handbook*, and

<sup>15</sup> <https://legislation.nsw.gov.au/view/html/inforce/current/act-2020-044>, viewed on 27 May 2025

<sup>16</sup> <https://www.energy.nsw.gov.au/nsw-plans-and-progress/major-state-projects/electricity-infrastructure-roadmap>, viewed on 27 May 2025

<sup>17</sup> <https://www.energyco.nsw.gov.au/renewable-energy-zones/renewable-energy-zone-locations>, viewed on 27 May 2025

<sup>18</sup> Electricity Infrastructure Investment Amendment (Network Infrastructure) Regulation 2024, 19 January 2024, cl. 47E(4)



for a network operator to conduct “comprehensive pre-engagement”<sup>19</sup> with the AER and stakeholders on the content of the proposal before the network operator lodges its proposal.

Importantly, the *Better Resets Handbook* encourages networks to “develop high quality proposals through genuine engagement with consumers”,<sup>20</sup> which should lead to regulatory outcomes that better reflect the long-term interests of consumers. To this end the AER also encourages network operators to establish and engage with consumers as soon as possible after it has been made aware it will be undertaking a non-contestable project under the EII Act.

Under the relevant AER guideline,<sup>21</sup> the AER will publish a preliminary position paper approximately 55 days after receiving a network operator’s revenue proposal, with the AER then having less than seven weeks to publish its final decision.

Given the AER’s *Better Resets Handbook* expectations and these tight timelines, it is crucial for a network to engage early and effectively with stakeholders *before* lodging a proposal. Acknowledging the limited time and resource constraints, the Guideline expects Network Operators to engage on issues of most importance to consumers and where they can have maximum impact.

To this end Transgrid chose to engage with its existing TAC, commencing late in 2024 to understand and consider consumer preferences, it prepared draft proposal and shared it with the TAC on 10 July 2025 and lodged its proposal with the AER in late July 2025.

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<sup>19</sup> AER, June 2024, *Explanatory Statement, Final amendments to Transmission Efficiency Test and revenue determination guideline for non-contestable network infrastructure projects*

<sup>20</sup> Ibid, p. 3

<sup>21</sup> Ibid

### 3 Key elements of Transgrid’s consumer engagement

#### 3.1 Overview of approach and the TAC

Transgrid has primarily engaged with its Transgrid Advisory Council (TAC) to obtain a customer and stakeholder perspective in the development of its proposal.

The TAC comprises 16 members representing a range of consumer, industry and other interests. Transgrid’s engagement model is unique. In 2021, Transgrid expanded its TAC to include representatives from AEMO, the Clean Energy Council, a university academic, and the Commonwealth Bank.

Transgrid normally holds meetings with the TAC around four times a year. To inform its revenue proposal, Transgrid met with the TAC on five occasions from June 2024 to June 2025. These meetings were held outside Transgrid’s normal meeting schedule, so Transgrid could specifically engage on selected aspects of its proposal. Some participants attended TAC meetings in person while others attended online.

#### 3.2 Engagement with the TAC

Transgrid’s engagement with the TAC was limited to informing the group and to a lesser extent consulting on key elements of its proposal over which consumers could have some influence.

I was appointed to CCP35 after June 2024, so I did not have the opportunity to observe Deep Dive 1. I have relied on Transgrid’s published materials for insight into its early engagement. However, I observed meetings 2 and 3 in person and meetings 4 and 5 online (via Teams).

Summaries of Transgrid’s TAC engagement topics are listed in the Appendix.

##### 3.2.1 Deep Dive 1

Fourteen TAC members attended Deep Dive 1 in June 2024, two were apologies. Sixteen Transgrid representatives also attended, including several members of the executive management team and three board members. Transgrid’s Executive General Manager Stakeholder, Regulatory and Corporate Affairs chaired the meeting. Five people including three AER representatives observed the meeting.

In Deep Dive 1, Transgrid’s main aim was to inform the TAC, which included providing an overview of the project, the scope and purpose of the revenue proposal. However, Transgrid did seek TAC feedback on its proposed engagement objectives and approach with the TAC to inform the proposal.

Transgrid described its engagement objectives as follows:<sup>22</sup>

For Transgrid to [emphasis added]:

- provide clear, concise information about the CWO REZ revenue proposal to ensure TAC members can provide informed feedback (inform)
- understand and address **consumer and customer issues**, priorities and preferences in relation to the CWO REZ revenue proposal (inform)
- respond to feedback on the CWO REZ revenue proposal and be transparent about the decisions Transgrid makes, and why (inform)

<sup>22</sup> Transgrid, *Regulatory Projects TAC Focus Area meeting: Central West Orana Renewable Energy Zone (CWOREZ) Background and Revenue Proposal*, presentation slide 16.

Transgrid, sought feedback from the TAC (consulted) on its proposed engagement objectives and approach.

I also note from the meeting minutes that the AER presented the TAC with some guidance around the aspects of the proposal that the TAC could influence and also encouraged TAC members to eventually make submissions on Transgrid’s proposal. A TAC member suggested the AER provide a more detailed session on the regulatory framework for TAC members to assist them in their role.

### 3.2.2 Deep Dive 2

Deep Dive 2 took place on the afternoon of 30 January 2025, just over six months after Deep Dive 1. Eleven TAC members attended the meeting.<sup>23</sup> Sixteen Transgrid representatives also attended, including several members of the executive management team. Transgrid’s Executive General Manager Stakeholder, Regulatory and Corporate Affairs chaired the meeting. Eight people, predominantly from the AER, observed the meeting.

Transgrid provided the TAC with an overview of its broader landholder and stakeholder engagement, which informed its selected route for the project and its engagement with EnergyCo.

Transgrid also confirmed aspects of the project that were in and out of scope for the TAC, noting that it wished to consult with the TAC on “elements of the proposal where Transgrid has some level of optionality”.<sup>24</sup> Transgrid identified the following topics:

- Whether, and the extent, incentive schemes should apply
- Adjustment mechanisms
- Risk allocation and how it would be reflected in Transgrid’s proposal
- Financeability

Transgrid presented its initial high-level proposals on each of these topics (half an hour per topic). Deep Dive 2 concluded with a session entitled “Project Consumer Value Proposition” (initially flagged for consultation but changed to an informing item by Transgrid). Notably Transgrid described the objective of this item as follows [emphasis added]:<sup>25</sup>

*“To reach a **common understanding** of value proposition based on the Consumer Trustee Authorisation for CWO REZ.”*

I am curious as to how a common understanding can be reached without at least consulting with the TAC. I have considered Transgrid’s proposals in relation to the above topics and customer and stakeholder feedback in detail further on in my advice.

### 3.2.3 Deep Dive 3

Deep Dive 3 took place on the afternoon of 4 March 2025 (four hours). Notably, only eight TAC members attended Deep Dive 3, eight were apologies. Twenty-two Transgrid representatives also attended, including three board members and several members of the executive management team. Transgrid’s Acting Executive General Manager Stakeholder, Regulatory and Corporate Affairs chaired the meeting. Six people, including three from the AER, and Transgrid’s research and engagement consultant observed the meeting.

<sup>23</sup> Presumably one member had left the TAC since the 2024 meeting.

<sup>24</sup> Transgrid Advisory Council, *Central West Orana Renewable Energy Zone (CWO REZ) Non-Contestable Works Deep Dive #2, Pre-read materials*, January 2026, p. 6

<sup>25</sup> Ibid, p. 38

As a result of feedback received from the TAC, Transgrid dedicated most of the four hours allocated for Deep Dive 3 to expand on its risk framework, including discussing those aspects of risk allocation TAC members could influence, Transgrid’s risk management approach, and key risks to the project.

Notably, Transgrid engaged strategic communications firm, SEC Newgate, to facilitate aspects of this deep dive workshop. While questions such as, “Do you have any questions about the risk framework for regulated projects?” and “Do TAC members have any questions on Transgrid’s risk management process?” were asked of the TAC, most of the session focused on *informing* the TAC. Consistent with the previous sessions, most questions came from a selected number of well-prepared TAC members.

#### 3.2.4 Deep Dive 4

Deep Dive 4 took place on the morning of 15 April 2025 (two hours). Ten TAC members attended, and one was an apology.<sup>26</sup> Fourteen Transgrid representatives also attended, but I believe the most senior representatives were general managers. Transgrid’s General Manager of Projects chaired the meeting. Seven people, mostly from the AER observed the meeting.

This meeting focused on Transgrid providing the TAC with a breakdown of project costs<sup>27</sup> and clarification of its definitions of risk likelihood (informing). Transgrid also sought TAC feedback on (consulted) on proposed adjustment mechanisms and its proposed risk-cost allowance. Significantly, for transparency, Transgrid shared confidential costs with the TAC.

#### 3.2.5 Deep Dive 5

Deep Dive 5 took place on the afternoon of 15 June 2025 (two hours). Only seven TAC members attended, and one apology was noted.<sup>28</sup> Twelve Transgrid representatives also attended, but again I believe the most senior representatives were general managers. Transgrid’s General Manager of Regulation, Policy and Governance chaired the meeting. Six people, mostly from the AER observed the meeting.

The main purpose of this meeting was for Transgrid to provide the TAC with a summary of its revenue proposal (inform), including capex and opex forecasts, adjustment mechanisms, incentive schemes, financeability, RAB, depreciation and rate of return, and maximum allowable revenue and schedule of payments.<sup>29</sup> Significantly this session was the first opportunity TAC members had to consider Transgrid’s proposal as a whole, although the presentation was limited to “key elements”. Transgrid did not actively seek TAC feedback, although it received several queries and a subsequent request by a TAC member to see the draft plan (not just the elements in the presentation).

#### 3.2.6 Pre-lodgement post Deep Dive 5

On 10 July 2025, Transgrid emailed the TAC a copy of its draft plan. This was the first opportunity that TAC members had to review the draft plan in its entirety. Unfortunately, it was provided to the TAC just two weeks ahead of Transgrid’s planned lodgement date (and in the middle of NSW school holidays). Transgrid gave TAC members less than a week to provide feedback on the draft proposal.

<sup>26</sup> Five members did not attend and are not recorded as apologies.

<sup>27</sup> Noting, the TAC was not privy to all costs as some were not available due to confidentiality.

<sup>28</sup> Eight members did not attend and are not recorded as apologies.

<sup>29</sup> Noting Transgrid did not provide content related to the financeability, RAB, depreciation and rate of return, and maximum allowable revenue and schedule of payments topics to the TAC ahead of the meeting.

### 3.3 Overall impression

#### Transgrid's engagement was well-organised, and the content was accessible

- Transgrid commenced its engagement early and structured it around five revenue proposal “deep dives”.
- Transgrid's materials appeared to be sufficiently detailed, easy to follow and distributed in advance of meetings allowing TAC members to absorb the information, form views and prepare and provide the business with written questions in advance of meetings.

#### Transgrid's engagement was initially well supported by its executive staff and board

- The number of Transgrid attendees at TAC meetings has been impressive (e.g. 22 attendees at Deep Dive 2) and has included members of the executive management team and board directors.
- However, Transgrid's attendance waned after Deep Dive 2, with no members of the board or executive management team listed on the meeting notes in Deep Dives 4 and 5.

#### Whether Transgrid's engagement approach aligns with *Better Resets Handbook* expectations is questionable

As previously mentioned, the AER expects network operators to develop their proposals in line with the *Better Resets Handbook*, which encourages high quality proposals informed by genuine engagement with consumers. However, there are no rules as to how a network operator should engage with consumers and stakeholders.

As far as I am aware, Transgrid is the only network operator to establish and persist with a model of engagement, that arguably dilutes the views of consumers by combining them with the views of other stakeholder groups. In May 2022, in relation to Transgrid's Electricity Transmission Network Proposal for 2023 to 2028, CCP25 made a similar observation when it advised the AER that:<sup>30</sup>

*“Transgrid's decision to expand the TAC, its primary channel for engagement in the Regulatory Reset, to include non-consumer stakeholders has significantly diluted the genuine views and concerns of electricity consumers in Transgrid's engagement process.”*

While Transgrid may see value in bringing a disparate customer representative and industry group together, it is difficult to understand how this approach translates to *genuine* consumer engagement, particularly when the interests of different stakeholder groups are likely to be conflicting. Consequently, the extent to which a single and meaningful independent TAC report could be produced to represent the views of the group, let alone consumer interests is also questionable.<sup>31</sup>

The *Better Resets Handbook* encourages [emphasis added]:<sup>32</sup>

*“submissions on a draft regulatory proposal or an independent report setting out **consumer** perspectives on a proposal as lodged to the AER.”*

<sup>30</sup> CCP25, *Transgrid, Advice to the AER on the 2023 – 28, Electricity Transmission Regulatory Revenue Proposal*, AER Consumer Challenge Panel – Sub-Panel CCP25, May 2022, p. 3

<sup>31</sup> Transgrid recognises the breadth of views represented on the TAC, which makes it challenging to produce a collective submission (let alone one that represents consumer interests). I appreciate its openness to proposals from individual TAC members who wish to write a submission and to remunerate members on the basis that their submissions would value to the regulatory and engagement process.

<sup>32</sup> AER, *Better Resets Handbook*, July 2024, p. 16

Although Transgrid shared its draft proposal with the TAC, I am not aware that the draft proposal was published. The TAC had little time to consider the draft, and members were not specifically funded to prepare a submission on the draft. I am aware that Transgrid has since provided two TAC consumer representatives with a capped and modest funding amount to write a submission on its revenue proposal, which I support. However, given the short time frame under the EII Act for this revenue proposal, Transgrid should have also encouraged and supported the TAC to formally respond to its draft proposal.

### **The TAC was well equipped to influence Transgrid's proposal**

As evidenced by Transgrid's meeting minutes, attendance at the deep dives has not been consistent from one meeting to the next. I consider this has created difficulties for the TAC to develop a sufficiently detailed background and capacity to question and challenge Transgrid.

This was apparent in the four meetings I attended. Some members were well informed, they had clearly read the content, thought about the issues and presented Transgrid with challenging questions. However, these participants were a minority. Some TAC members appeared to be attending as proxies and appeared to have little understanding of the subject matter, on the basis that they did not ask questions or make any notable comments in the meetings.

For example, in Deep Dive 2, I recorded that Transgrid only heard from five of the eleven TAC members who were present at the meeting. I raised these concerns with the AER, and we subsequently met with Transgrid to provide suggestions to help foster stronger engagement and challenge from the TAC, such as checking in with all participants that they had read the materials and whether they had any questions. I commend Transgrid for the meeting opportunity and believe they were genuinely keen to derive more value from the TAC. However, in subsequent meetings, despite attempts by Transgrid, the same participants predominantly questioned Transgrid and provided feedback.

As noted above, whilst the number of Transgrid attendees in TAC meetings was impressive, this also risked introducing a further bias to the engagement environment, by adding to the imbalance of the number of other participants to consumers. Such an imbalance can also deter individuals who are less confident from asking questions or commenting and overall provides less speaking opportunity for any individual who was not identified as a formal presenter.

I suspect there are various reasons for the variable attendance and engagement by TAC members, and I appreciate it is not always possible for any individual to attend all meetings. However, ultimately Transgrid has a responsibility to ensure its advisory committee is fit for purpose. Meetings need to be scheduled to accommodate members, members must receive adequate support to engage effectively and Transgrid has a responsibility to monitor and evaluate the TAC's performance and address any issues in a timely way to maximise the return on investment.

### **The extent the TAC had some consumer-focused influence over Transgrid's proposal is limited**

Chapter 3 of Transgrid's proposal references its engagement with the TAC, and how it responded to what it heard. Transgrid has also referenced TAC input elsewhere throughout its proposal. If the TAC were a customer representative group, and I was confident that what Transgrid heard was consistent with customer and consumer views I would commend Transgrid for its demonstration of TAC influence throughout the proposal. However, the TAC is not a customer representative group, and it is not appropriate to assume that TAC views are the same as customer and consumer preferences.

I also note, some TAC (consumer representative) members challenged Transgrid on the asymmetry of risks, and the management of recovery of any overspends through an ex-post review versus a reopener. Transgrid was also challenged over its financeability proposal but has largely dismissed TAC concerns in its proposal and sought a financeability adjustment, which are not necessarily in the interests of consumers.

Additionally, I am not aware that any independent consumer representatives have been given an opportunity to independently form a view of Transgrid's landholder engagement. In contrast, Ausgrid invited its REZ panel, the AER and CCP to observe several of its landholder sessions, which were invaluable from a contextual perspective and helped the REZ panel form a view on the project's social licence and potential risks.

While Transgrid describes its broader engagement in its proposal, what it heard and how it responded, I have not seen any independent written evidence that what Transgrid believes it heard is based on consumer preferences, or whether those preferences have been diluted by other stakeholders' (industry representatives) preferences.

Better practice in line with the AER's *Better Resets* expectations and adopted by other networks, including Ausgrid with respect to its HCC REZ project proposal, would be for a network operator to support and fund a consumer panel to prepare a written submission in response to a published draft plan. The network operator should publish all submissions and demonstrate in its final proposal how it responded to issues raised by the panel and any other submissions it received. This process would make for a more transparent regulatory process and provides greater reassurance that a network operator has reasonably considered the long-term interests of consumers in its proposal.

I note that belatedly Transgrid funded some TAC members to prepare a brief report or submission AER, *after* Transgrid lodged its proposal. However, unlike Ausgrid and other networks which funded panel members Transgrid's funding has largely been reactive to requests from some TAC members.

### **The AER's presence at meetings as an observer was invaluable**

A regulatory determination under the EII Act is new and the AER's guideline for non-contestable projects, including the benefit of consumer engagement, is still being tested. Given Transgrid's questionable model of engagement to understand consumer preferences, the AER's presence as an observer at Transgrid's engagement sessions with the TAC provided considerable value for all parties.

- The AER could directly observe Transgrid's engagement approach, selection of topics and directly heard the questions selected TAC members asked Transgrid.
- The AER was better placed to respond to regulatory questions and clarify issues, by being present at Transgrid's meetings with the TAC and could provide timely clarification on regulatory matters as required.
- As the sole member of the CCP, involved in a new regulatory process, I had the benefit of being able share and discuss my observations with the AER, and provide timely feedback to Transgrid to help improve the engagement process and outcomes.
- I also had the benefit of being able to clarify any areas where I lacked understanding in real time.

While this regulatory process under the EII Act is being tested, as a CCP member, I encourage the AER to continue to provide resources to observe network engagement for the reasons described above.



### 3.4 Assessment against *Better Resets*

My assessment focuses on my observations of Transgrid's engagement with the TAC and associated documentation. I am aware Transgrid has separately engaged with landholders, and numerous other stakeholders including EnergyCo, the AER and local councils but I have not been involved in that engagement or seen any reports on the landholder engagement, so I make no further comment in that regard.

#### 3.4.1 Nature of engagement

Measure	Attributes	Strengths	Issues/comments
Sincerity of engagement	<ul style="list-style-type: none"> <li>Genuine commitment from network businesses boards and executives</li> <li>Openness to new ideas and a willingness to change</li> </ul>	<p>Some evidence of genuine commitment, particularly early in the process</p> <ul style="list-style-type: none"> <li>Transgrid board members attended two of the five TAC deep dives, and members of Transgrid's executive management team attended three sessions</li> </ul> <p>Openness to new ideas and a willingness to change, for example</p> <ul style="list-style-type: none"> <li>The business is to be commended for responding to our request for a meeting with the AER and I after Deep Dive 2 to provide some early feedback on concerns with Transgrid's engagement approach and their engagement team appeared to be responsive</li> <li>Detailed presentation materials provided to participants in advance of meetings</li> <li>Participants could join meetings online or face to face to suit their preferences</li> <li>Transgrid informed the TAC of the project and regulatory process early on and</li> </ul>	<p>Commitment varied</p> <ul style="list-style-type: none"> <li>While the number of Transgrid representatives who attended the deep dives was impressive, the sheer number accentuated the imbalance in the number of consumer representatives and may have further diluted consumer perspectives beyond the fact that the TAC is not specifically a consumer-representative panel</li> <li></li> </ul> <p>Limited evidence of openness to new ideas and a willingness to change</p> <ul style="list-style-type: none"> <li>Despite advice, Transgrid has persisted with its TAC which is clearly not the most effective forum for obtaining a genuine consumer perspective</li> <li>Transgrid appears to have maintained a mindset that its role in relation to consumer engagement and consumers influence on a REZ project revenue proposal is predominantly about informing the TAC, with limited consultation. Yet, as Ausgrid's REZ</li> </ul>



Measure	Attributes	Strengths	Issues/comments
		<p>sought TAC feedback on engagement objectives and structure</p> <ul style="list-style-type: none"> <li>Transgrid listened to the TAC in the first session and amended subsequent meeting agendas to reflect TAC interests and concerns, such as the TAC seeking to have a sound understanding of risks and Transgrid's proposals around risk allocation</li> </ul>	<p>panel and the review panel's report has demonstrated, consumers who are well resourced and committed can make a far more significant contribution to ensuring a REZ project is in the long-term interests of consumers</p> <ul style="list-style-type: none"> <li>Transgrid only supported TAC individuals to prepare a submission or a report after it was pressed to do so</li> </ul>
	<ul style="list-style-type: none"> <li>Ongoing engagement with consumers about outcomes that matter to them - consumers to "set the agenda"</li> <li>Ensuring consumer confidence in the engagement process</li> </ul>	<ul style="list-style-type: none"> <li>Transgrid developed an engagement approach for this proposal, which was presented to the TAC in June 2024, and sought TAC support for the approach</li> <li>Transgrid scheduled regular meetings with its TAC at mutually suitable times</li> <li>Selected members of the TAC actively contributed to discussions and provided challenge to Transgrid including requesting modifications to the agenda to ensure they were well equipped to engage on key elements of Transgrid's proposal</li> </ul>	<ul style="list-style-type: none"> <li>Transgrid was largely responsible for "setting the agenda"</li> <li>There were some obvious constraints to Transgrid's engagement that led to questions about consumer confidence in the process, for example: <ul style="list-style-type: none"> <li>The scope of engagement was limited by time and confidentiality considerations</li> <li>Although the TAC includes consumers it is not a consumer representative group per se</li> <li>Transgrid did not publish materials from its engagement with the TAC (noting the terms of reference for the TAC indicate outcomes and presentations would be published subject to confidentiality)</li> <li>Lack of continuity of attendance meant that some TAC members were not sufficiently equipped to fully participate</li> </ul> </li> </ul>

Measure	Attributes	Strengths	Issues/comments
			as result only a small number of TAC members were fully engaged
Consumers as partners	<ul style="list-style-type: none"> <li>Network businesses should collaborate with and, where appropriate, empower consumers in developing regulatory proposals</li> <li>Consumer engagement should be a continuous business-as-usual process</li> </ul>	<ul style="list-style-type: none"> <li>Transgrid sought to <i>consult</i> the TAC in the development of a limited number of aspects of its proposal</li> <li>While Transgrid largely shaped the meeting agendas, it did build in additional time to present some aspects of its proposal, such as risk allocation in greater depth than it appeared to have initially planned</li> <li>I understand from Transgrid's proposal that Transgrid has kept affected landholders and the community informed through landholder sessions, public meetings, webinars and other meetings</li> </ul>	<ul style="list-style-type: none"> <li>I acknowledge that various external factors limited the extent that consumers in general and the TAC could be empowered in the development of this proposal. For example, the project scope and scale are EnergyCo's responsibility and confidentiality restrictions limited the scope of engagement</li> <li>As mentioned above, Transgrid predominantly focused on informing the TAC of its proposal; even those aspects over which consumers could have some influence</li> <li>Some TAC members reported feeling frustrated with Transgrid because Transgrid at times appeared to avoid answering questions or took some time to respond</li> <li>I am not clear as to Transgrid's plan to continue engaging with the TAC, for example as Transgrid responds to the AER's preliminary position paper</li> </ul>
Equipping Customers	<ul style="list-style-type: none"> <li>Networks must provide them with accurate and unbiased information necessary to meaningfully participate</li> <li>Consumers need to have the ability to source independent expert advice</li> </ul>	<ul style="list-style-type: none"> <li>Transgrid provided the TAC with detailed papers to enable them to meaningfully engage with the business</li> <li>The AER presented an overview of the regulatory process to the TAC in June 2024, to assist them in their engagement with Transgrid</li> </ul>	<ul style="list-style-type: none"> <li>I understand that TAC members are appropriately remunerated for their time. However, their variable attendance leads to questions around the value some TAC members derive from their membership as well as questions as to their ability to</li> </ul>

Measure	Attributes	Strengths	Issues/comments
	<ul style="list-style-type: none"> <li>Consumers are appropriately remunerated for their contribution to the development of proposals</li> <li>Independence and integrity of consumer engagement processes</li> </ul>		<p>challenge Transgrid in the deep dives to produce better outcomes for consumers</p> <ul style="list-style-type: none"> <li>TAC members could have benefited from meetings with EnergyCo and the AER (as per Ausgrid)</li> <li>As far as I am aware Transgrid did not provide the TAC with any specific opportunities to observe landholder engagement to form their own views on social licence, risks and other aspects of the project</li> </ul>
Accountability	<ul style="list-style-type: none"> <li>Transparent reporting and consultation</li> </ul>	<ul style="list-style-type: none"> <li>Transgrid prepared detailed meeting minutes and shared these with the TAC</li> <li>Transgrid prepared a draft proposal and presented key elements of the draft to the TAC</li> </ul>	<ul style="list-style-type: none"> <li>I am not aware of any engagement platform where Transgrid has published any aspects of its regulatory engagement process</li> <li>I accept that due to confidentiality Transgrid has not published presentations or meeting minutes from its engagement with the TAC</li> </ul>

### 3.4.2 Breadth and depth of engagement

Measure	Attributes	Strengths	Issues/comments
Accessible, clear and transparent engagement	<ul style="list-style-type: none"> <li>Outlining objectives, engagement issues/topics and the level of participation and influence consumers can expect</li> <li>Consultation time frames should have regard to the complexity of the issues in the regulatory</li> </ul>	<ul style="list-style-type: none"> <li>Meeting agenda defined the meeting topics and specifically articulated the expected level of engagement (IAP2 spectrum) with TAC members (limited to Transgrid predominantly informing and to a smaller extent consulting TAC members)</li> </ul>	<ul style="list-style-type: none"> <li>The short time frame meant Transgrid needed to ensure the engagement focused on the key issues (those over which customers can have the greatest influence); thus, the scope of engagement was (reasonably) narrower than the scope that</li> </ul>

Measure	Attributes	Strengths	Issues/comments
	<p>proposal and provide consumers with adequate time</p> <ul style="list-style-type: none"> <li>Engagement on different aspects of the same issue may require different engagement methods</li> </ul>		<p>would be expected for a proposal under the NER</p> <ul style="list-style-type: none"> <li>Given the project's parameters are set by EnergyCo, the scope for engagement was limited compared to a regulatory proposal under the NER. Consistent with this, the ability for consumers to influence the proposal was constrained which also (reasonably) constrained the expected level of engagement in line with the IAP2 Spectrum of Public Participation to involving customers in the proposal development</li> </ul>
Consultation on desired outcomes and then inputs	<ul style="list-style-type: none"> <li>Consumers should guide, and be seen to guide, the development of proposals</li> <li>Networks will consult with their consumers on their desired outcomes (including opex and capex) and then craft the inputs of regulatory proposals</li> <li>Networks to engage with consumers on changes</li> <li>Engagement may explore a consumer's lived experience within the energy system – including customer services and interactions with the network</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>The extent consumers can influence the desired outcomes for a REZ proposal are limited given the project's parameters are set by EnergyCo, and essentially the project cost is capped by the consumer trustee</li> <li>Regardless, as demonstrated by Ausgrid, TAC members could have been given more opportunity to influence Transgrid's proposal; including adequate time to comment on Transgrid's draft proposal</li> <li>Transgrid only briefly informed the TAC of its opex and capex proposals; these were not topics for consultation</li> </ul>

Measure	Attributes	Strengths	Issues/comments
Multiple channels of engagement	<ul style="list-style-type: none"> <li>Multiple complementary engagement channels are necessary</li> <li>Engage with (end) consumers as well as engaging with consumer representatives</li> <li>A network business should aim to understand, represent and balance the interests of all its consumer cohorts</li> </ul>	<ul style="list-style-type: none"> <li>The blend of online and face to face meetings allowed stakeholders to engage on their terms and should have made it easier for some members to attend</li> <li>I understand Transgrid will continue to hold meetings on location with affected landholders, and landholder engagement will continue as the project is delivered</li> </ul>	<ul style="list-style-type: none"> <li>Multiple complementary engagement channels are necessary only to the extent that different consumer groups are likely to prefer different methods of engagement, depending also on the purpose and the issue</li> </ul>
Consumer influence on the proposal	<ul style="list-style-type: none"> <li>Engagement should consider the IAP2 spectrum</li> <li>Network businesses and consumers should consult with each other on the range of issues consumers can have influence over</li> <li>Issues over which consumers will have more influence should be at the upper (empower) end of the IAP2 spectrum</li> <li>Network businesses should encourage consumers to test assumptions and processes that underpin the proposal</li> </ul>	<ul style="list-style-type: none"> <li>Meeting agenda clearly articulated Transgrid's desired level of engagement with the TAC (inform or consult)</li> <li>The <i>desired</i> levels were reasonable in the context of a time and scope-constrained REZ proposal</li> <li>Regardless of Transgrid's desired engagement, selected TAC members willingly tested Transgrid's assumptions and processes that informed its proposal, and provided suggestions to improve the proposal, and the business did not generally discourage the challenge</li> </ul>	<ul style="list-style-type: none"> <li>Documented evidence of consumer influence on the proposal is largely limited to Section 3 of Transgrid's proposal</li> <li>Transgrid's proposal would be strengthened if it incorporated evidence of consumer influence into the relevant aspects of the proposal (beyond Section 3), for example to more explicitly explain how Transgrid considered and responded to the TAC's views on the allocation of different risks</li> <li>TAC members did not have an adequate opportunity to genuinely review and comment on Transgrid's draft plan – and Transgrid only presented this as an inform item in Deep Dive 5</li> </ul>

## 3.4.3 Clearly evidenced impact

Measure	Attributes	Strengths	Issues/comments
Clearly evidenced impact	<ul style="list-style-type: none"> <li>Proposals linked to consumer preferences</li> <li>Networks need to provide evidence of consumer preferences - for example through independent surveys, research or focus groups</li> <li>A comprehensive draft regulatory proposal for stakeholder comment to be developed</li> <li>Regulatory proposal submitted to set out how the NSP has responded to the submissions received on the draft regulatory proposal</li> <li>Networks to engage with consumers beyond those they consulted with in preparing their draft proposal</li> </ul>	<ul style="list-style-type: none"> <li>Transgrid prepared a draft proposal which it shared with the TAC, the AER and the CCP</li> <li>The proposal acknowledges the role of the TAC and details Transgrid's view of the TAC's influence on different aspects of the proposal (Section 3 of Transgrid's proposal)</li> </ul>	<ul style="list-style-type: none"> <li>Transgrid has engaged more broadly with landholders in relation the delivery of the CWO REZ project. Although this engagement does not directly affect the proposal, it has provided insight into the potential risks and magnitude of those risks (especially related to social licence). It is disappointing that Transgrid's proposal does not include any reports on the outcomes of that engagement (beyond brief summaries in Section3) and how it helped inform its social licence proposal</li> <li>Transgrid could have more thoroughly documented the issues raised by the TAC and identified whether these were issues of consumer, industry or other stakeholder interest</li> <li>Transgrid did not specifically test its draft proposal with the TAC (its objective was only to inform TAC members)</li> </ul>

3.4.4 Independent consumer support for Transgrid’s proposal

Measure	Attributes	Strengths	Issues/comments
Independent consumer support for the proposal	<ul style="list-style-type: none"> <li>Independent report from consumers setting out consumer perspectives on a proposal as lodged to the AER</li> <li>The independent consumer report can also provide views on technical issues in the proposal</li> <li>Independent report to address the process for drafting the report and selection of an appropriately qualified and experienced author of the report</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>No independent report has been published, although belatedly Transgrid funded some TAC members to prepare a brief report or submission after Transgrid lodged its proposal with the AER. I have not seen any formal submissions to assist me in my preparation of this advice</li> </ul>

## CCP35 Advice to AER – Transgrid CWO REZ Revenue proposal

## 4 Key issues

This section of my advice focuses on my view of the substantive issues which were the focus of Transgrid’s engagement with the TAC. These include:

- Incentive schemes
- Risk allocation and adjustment mechanisms
- Financeability

### 4.1 Incentive schemes

Transgrid is proposing to apply the Efficiency Benefit Sharing Scheme (EBSS) (operating expenditure efficiency) and Capital Expenditure Sharing Scheme (CESS) to the CWO REZ project. I understand the AER’s Service Target Performance Incentive Scheme (STPIS), is not applicable in the first regulatory period, so it is not discussed further in this advice.

#### 4.1.1 EBSS

Transgrid is proposing to defer the decision whether to apply the EBSS to the project at the end of the regulatory period consistent with the AER’s decision on the Transgrid Waratah Super Battery (WSB) project on the basis that there was no historical opex upon which to base forecasts.<sup>33</sup>

Transgrid informed the TAC of this proposal in Deep Dive 2.

It seems reasonable to apply the same logic to this project, as there is also no historical opex upon which to base opex forecasts that are specific to this project (or a like project). Therefore, CCP considers **the AER should defer its decision on the EBSS until the end of the regulatory period for this project.**

#### 4.1.2 CESS

Transgrid consulted with the TAC on the application of the CESS to the CWO REZ project. It presented three options to the TAC: CESS does not apply, CESS is applied with modification(s), or an unmodified CESS applies. Possible modifications could include exclusion of uncontrollable or uncertain cost categories, a cap on the percentage of capex to which the CESS applies or modify the sharing ratio. At the deep dive, Transgrid indicated it had no view on the CESS application options.

The TAC members who contributed to the discussion initially did not have strong views either as they agreed the project was relatively “vanilla”, although they suggested biodiversity offset costs could be excluded as they are an uncertain cost category and the tight time frame could also pose a risk.

Subsequently in its proposal, Transgrid argued that inflation and other uncertainties could lead to an asymmetric risk that could deter shareholders from investing. While Transgrid considers CESS should not apply to the project at all, it acknowledged the AER’s view applied to the WSB project, that capex efficiencies could still be possible.<sup>34</sup> However, at the same time, and as noted by a TAC

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<sup>33</sup> Ibid

<sup>34</sup> Transgrid, 2026-31 Revenue Proposal Enabling Central-West Orana Renewable Energy Zone Network Infrastructure Project (non-contestable), July 2025, p. 16



## CCP35 Advice to AER – Transgrid CWO REZ Revenue proposal

member, Transgrid has expressed high confidence in the project's deliverability (Section 4.6 of Transgrid's proposal).

Ultimately Transgrid has proposed a modified CESS that includes a sharing ratio of 30% of capex overspends and 10% of underspends, and for capex overspends or underspends that exceed the 10% cap, the sharing ratio should be set to the average of the financing cost or benefit, respectively. Transgrid considers this balances the share of risk and benefits between consumers and Transgrid.

While the TAC in Deep Dive 2 did not have strong views on the principled options presented, it was only made aware of Transgrid's specific CESS proposal, when Transgrid informed the TAC of its proposal in Deep Dive 5. In Deep Dive 5, a TAC member challenged Transgrid to explain the similarities between the AER's application of the CESS on the Transgrid Humelink contingent project to balance consumer cost reduction incentives while maintaining investor confidence. While Transgrid has referenced the AER's decision on Humelink as a comparator in its proposal; it has not provided any explanation of the similarities between the two projects.

The Humelink project is for a different purpose (to boost transmission capacity in southern NSW in line with AEMO's ISP). The AER's Humelink determination is in response to a contingent project application, and the AER is required to make a determination under the NER. In contrast, the CWO REZ project is aimed at facilitating renewable energy generation in response to NSW energy policy; it is not a contingent project proposal, and the AER makes its determination under the NSW EII Act. Given these substantive differences, the TAC request Transgrid to explain the similarities that justify its similar CESS proposal.

Transgrid has also proposed that if the AER's determination does not substantially align with Transgrid's proposal, Transgrid considers it appropriate to review its CESS proposal. It is greatly concerning if a network operator believes it should be able to review elements of its proposal because it is not satisfied with the AER's decision.

Ultimately, consumers need to have trust that the AER's decision is in their long-term financial interests and not be swayed by a network operator that has not adequately tested its proposal with consumers. Transgrid could have genuinely engaged on its CESS proposal before lodgings its proposal but chose not to do so. Consumers should not be penalised for the inadequacy of Transgrid's engagement.

**I do not support Transgrid's CESS proposal without evidence that it has genuinely engaged with consumers, and that what is proposed is in the long-term financial interests of consumers. I advise the AER to reflect these concerns in its preliminary position paper and subsequent decision.**

## CCP35 Advice to AER – Transgrid CWO REZ Revenue proposal

## 4.2 Risk allocation and adjustment mechanisms

### 4.2.1 Overview

In Deep Dive 1 in June 2024, Transgrid had identified “risk” as an aspect of its proposal where stakeholders could have high influence and high impact on the proposal, and it maintained this position throughout its engagement with the TAC.<sup>35</sup> However, predominantly Transgrid’s engagement on risk, with respect to the IAP2 spectrum, was limited to informing and consulting TAC members.

In Deep Dives 2, 3 and 4, Transgrid identified aspects of risk where it was seeking TAC feedback. In particular, Transgrid sought to consult on:

- The inclusion of adjustment mechanisms in its proposal
- Allocation of risks and how they would be reflected in the proposal

Transgrid sought TAC views on consumer preferences to appropriately allocate risks either as P50 weighted risk cost events that would form part of the proposal or as adjustments that would be triggered if events occurred that could not be significantly mitigated by Transgrid. Transgrid presented some aspects of its rationale based on what the AER approved for the WSB project.

Transgrid initially presented these topics independently. However, some TAC members suggested Transgrid should consider risk management and risk allocation as a package, rather than in isolation, and requested further engagement that considers the two elements as a package, and TAC feedback reflects this view. Key feedback from the TAC included:

- Whether Transgrid had any learnings from either the WSB project or could identify any cost overrun themes from other large infrastructure projects (such as those over which Infrastructure Australia has oversight), that might help mitigate some risks such as unavoidable contract variations
- A need to cap adjustment mechanisms does not incentivise Transgrid to reduce costs as much as possible
- In relation to events largely outside Transgrid’s control, suggestions included:
  - An adjustment event for planned outages cancelled by AEMO
  - Treatment of unknown biodiversity offset costs as a pass-through event once they are known
  - Treat unpredictable extreme weather event costs as a pass-through event if required

Much of the detailed material that sits behind Transgrid’s proposal is confidential, and an assessment of specific information such as assumptions underpinning tenders for outsourced work were out of scope for the TAC and the CCP. I also note the Consumer Trustee’s calculation of maximum capital costs is shared only with the AER and the Minister (i.e. Transgrid is not privy to these costs).

Notably, several TAC members expressed limited trust in Transgrid’s risk processes, resulting from previous experiences, and in particular Transgrid’s significant cost overruns on Project EnergyConnect (PEC) relative to the amount originally approved by the AER. TAC members have also

<sup>35</sup> Transgrid, *Regulatory Projects TAC Focus Area meeting: Central West Orana Renewable Energy Zone (CWOREZ) Background and Revenue Proposal*, June 2024, page 20.

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raised broader concerns about the lack of transparency of various aspects of the NSW REZ projects, that are beyond a network operator's control. Given these concerns, the TAC sought Transgrid's reassurance on several aspects of Transgrid's proposal.

### 4.2.2 Transgrid's proposal

Transgrid proposed:

- An adjustment mechanism would only be applied to those events contractually required by EnergyCo; uncontrollable events; events that cannot be adequately insured; events not accounted for in base capex; events that have a significant cost impact and events that satisfy criteria to be classified as pass-through events.
  - Transgrid included adjustment mechanisms for biodiversity offset costs and AEMO-cancelled planned outages, noting TAC support for these proposals.
  - Transgrid did not include an adjustment mechanism for extended weather events, arguing it can better manage these through appropriate planning, and therefore included an allowance in its base expenditure.
- A cap on unavoidable contract variations with its design and construction contractor, in response to TAC feedback, although the capped amount is confidential.

A key assurance that the TAC sought around the allocation of risks was that there was no overlap between Transgrid's base capex and its proposed adjustment events. While Transgrid confirmed there was "no double counting" in its proposal,<sup>36</sup> Transgrid did not include any additional evidence of its own actions in the proposal to support the statement.

### 4.2.3 CCP view

Ultimately, consumers need to have trust that the AER's assessment is in their long-term financial interests. **To the extent the AER is able, given the short time frame and the confidentiality constraints, I expect the AER will confirm it has tested and validated Transgrid's proposal in its position paper and subsequent decision particularly focusing on aspects of Transgrid's claims that are made without supporting publicly available evidence.**

In relation to the issue that there is no maximum amount on adjustments that the AER can approve, like the TAC, I have significant concerns.

Although the two projects are not directly comparable, I note the AER's Waratah Super Battery draft decision capped the unavoidable contract variation adjustment at \$30 million, which the EUAA, PIAC and the CCP subsequently supported in their submissions.<sup>37</sup>

Transgrid is to be commended for agreeing to a CAP on its D&C contract variation. However, as the detail of the variation (the dollar or percentage amount) is confidential, I anticipate the AER will scrutinise this closely.

However, **the AER should consider imposing a cap on other adjustments resulting from unavoidable contract variations that it can approve.**

<sup>36</sup> Ausgrid, Revenue Proposal, May 2025, *Hunter Central Coast Renewable Energy Zone Network Infrastructure Project*, p. 79

<sup>37</sup> AER, December 2023, *Final Decision Transgrid Waratah Super Battery (non-contestable) (1 July 2024 to 30 June 2029)*, p. 34

## CCP35 Advice to AER – Transgrid CWO REZ Revenue proposal

As noted in the AER’s draft decision on the Waratah Super Battery, no maximum limit “undermines the incentives created by an efficient revenue allowance. It also weakens the incentive provided by the CESS – as it effectively removes the expenditure cap with no penalty.”<sup>38</sup>

### 4.3 Financeability

In Deep Dive 2, Transgrid initially broached the subject of financeability adjustments to “adequately compensate Transgrid for relevant risks”.<sup>39</sup> In particular, Transgrid raised a concern about the implications of including the Barrigan Creek Switching Station (BCSS) in its financeability assessment and the possibility that it could result in a financeability issue once the asset is transferred. Transgrid presented the TAC with an option to either bring forward a proportion of the expenditure related to the year it is expected to be incurred or reduce the assumed asset life by reallocating expenditure to a new asset class with an accelerated financeability life.<sup>40</sup>

The TAC expressed concern that Transgrid needed to be conscious of the cost imposition on consumers as this potential financeability adjustment was one of a range of potential costs. Additionally, the TAC did not support accelerated depreciation becoming a norm for financing REZ projects.

The issue of financeability was raised again in Deep Dive 3. Transgrid advised the TAC it was working through different scenarios with and without the BCSS, although as one TAC member noted, the BCSS appears to be integral to the CWO REZ project. Overarchingly, TAC members emphasised that Transgrid needed to take a balanced approach when undertaking a financeability assessment and explain its approach (be transparent). One TAC member also questioned the risk of a credit downgrade if Transgrid were to seek to request a financeability application.

Ultimately, Transgrid’s proposal included a request to accelerate depreciation of \$23.7 million (nominal) of capital expenditure and Transgrid excluded the BCSS from its financeability assessment.<sup>41</sup> Transgrid also notes that clarity is required as to how financeability guidelines will be applied.

Whilst I am not an expert in financeability or financeability assessments, I share the TAC’s concerns. **Any financeability decision needs to fairly consider the affordability implications for consumers against Transgrid’s concerns about any potential financeability risks and the decision must be transparent.**

<sup>38</sup> AER, Draft Decision, *Decision Transgrid Waratah Super Battery (non-contestable)* (1 July 2024 to 30 June 2029), September 2023

<sup>39</sup> Transgrid, 30 January 2025, *Transgrid Advisory Council Central West Orana Renewable Energy Zone (CWO REZ) Non-Contestable Works Deep Dive #2, Pre-read materials*, p. 27

<sup>40</sup> Ibid, p. 37

<sup>41</sup> Transgrid, 2026-31 Revenue Proposal Enabling Central-West Orana Renewable Energy Zone Network Infrastructure Project (non-contestable), July 2025, p. 93

## 5 Other matters

### 5.1 What are “reasonable” costs?

As previously mentioned, under the EII Act, the AER must assess whether the network operator’s costs are prudent, efficient and *reasonable* (referred to in the Act as the transmission efficiency test). The concept of “reasonable” is specific to determinations under the EII Act, and unlike “prudent” and “efficient” has not been widely tested in other regulatory determinations; no clear definition is identified in the Act, nor has a definition been established by precedent.<sup>42</sup>

An early issue for the Ausgrid panel was the AER’s intended approach to assessing whether Ausgrid’s proposed costs were reasonable (alongside its assessment of the prudence and efficiency of the costs). Without clarity around “reasonable” and the AER’s intended approach the panel was especially concerned about the potential impacts on capex capitalisation, risk allocation and Ausgrid’s contingency allowance.

Notably, the TAC did not raise this issue with Transgrid to the same extent that the Ausgrid panel challenged both Ausgrid and the AER to explain. Regardless, the concept of “reasonable costs” is an equally important issue for the CWO REZ revenue proposal. Transgrid’s proposal, while referencing “reasonable costs” does not explain what is meant by the term.

I accept the time frame for Transgrid to prepare its proposal is accelerated. However, from a consumer perspective, a condensed time frame for a network operator to prepare a proposal (which is based on a Transgrid developed estimate), that contains less detailed costings should not be a supportive argument that the costs are reasonable.

I recognise the AER will assess the prudence, efficiency and reasonableness of Transgrid’s proposal. While the AER’s guidance tries to define “reasonable” as indicated below, I am not clear as to the meaning of “based on reason” or the threshold for “reasonably open” indicate [emphasis added].<sup>43</sup>

“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.

Accordingly, in calculating prudent, efficient and reasonable capital costs, we will calculate costs that are prudent and efficient as per our current Expenditure Assessment Guideline, whilst ensuring that the calculations are **reasonably open based** on the facts before us.”

Particularly, given the limitations of Transgrid’s consumer engagement, for accountability to consumers and transparency, **I encourage the AER in its preliminary position paper and subsequent decision to elaborate on its assessment to explain the costs that it has assessed as reasonable and costs that it has assessed as not reasonable, and the principles behind that assessment.** This should be an important consumer consideration in any response to the preliminary position paper and future AER decisions under the EII Act.

<sup>42</sup> Noting the AER’s determination on the Waratah Super Battery in 2024 was made under the EII Act, with reference to “reasonable”, but without any clarity as to the meaning of “reasonable”, separate to “prudent and efficient”.

<sup>43</sup> AER, July 2024, *Guideline Transmission Efficiency Test and revenue determination guideline for non-contestable network infrastructure projects*, p. 26

## 5.2 Social licence - pre lodgement engagement

I note from Transgrid's Deep Dive 2 presentation to the TAC and its proposal that Transgrid has engaged extensively with landholders, through a range of community events, stakeholder meetings, surveys and through various social media platforms on the proposed route for the CWO REZ project.

Transgrid's engagement to inform landholders and affected communities about the project and understand their issues and concerns is important and expected. Effective early engagement also helps identify and assess any social licence risks to the project. For transparency and accountability, the outcomes of such engagement and a network provider's responses need to be documented as a report. In Deep Dive 2, Transgrid advised the TAC that themes from stakeholders and referred the TAC to its published report detailing the consultation outcomes for the project's preferred route.<sup>44</sup> I commend Transgrid for publishing that report.

Importantly, the report notes [emphasis added]:<sup>45</sup>

**"The relatively low amount of feedback could indicate that overall, stakeholders and community felt relatively 'neutral' about the project** and did not feel a need to respond. Similar sentiment was also reflected in the comments Transgrid recorded during the engagement ...

We have listened to stakeholders and community feedback on the different route options, and this feedback has been used to determine the preferred route. Therefore, **the low number of respondents could be a sign of satisfaction that the preferred route is the most suitable.**"

This suggests Transgrid has not received any significant backlash from landholders. I appreciate the uncertainty of land acquisition costs as described by Transgrid in its proposal and formal negotiations will not commence until Property Acquisition Notices are served in late 2026 or early 2027. However, the neutral to satisfied landholder feedback to date should provide some assurance that I would expect Transgrid to comment on in its proposal.

The Ausgrid panel also queried Ausgrid about the possible visual impact of the new poles along the proposed route. However, the detailed outcomes of Transgrid's early engagement, such as whether any landholders were concerned about the height and appearance of new infrastructure and how Transgrid plans to respond to concerns if they emerge are not clear.

Transgrid's proposal would benefit from more detailed evidence of the influence of the outcomes of its pre-lodgement engagement and identification of any resulting increases or decreases in social licence risks that could influence its proposal.

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<sup>44</sup> Transgrid, *Consultation Outcomes for the Preferred Route, Mount Piper to Wallerawang Transmission Line Upgrade Project*, March 2024

<sup>45</sup> Ibid, p. 12

## 6 Conclusion: Is Transgrid’s proposal in the long-term interest of consumers?

The second question for CCP35 to consider is:

*Is the proposal, or elements of the proposal, in the long-term interests of consumers?*

Chapter 3 of Transgrid’s proposal outlines its engagement approach and objectives with the TAC and the wider community. Chapter 3 includes a summary table (Table 3-3) describing the key engagement topics and how what Transgrid believes it heard from the TAC and other stakeholders shaped the proposal.<sup>46</sup> However, as emphasised throughout this advice:

1. The TAC is a mixed stakeholder group, that represents industry interests as well as those of consumers.
2. Transgrid’s engagement predominantly focused on *informing* the TAC about the project and its proposal, and to a lesser extent Transgrid sought to consult with the TAC.
3. Transgrid’s engagement approach did not adequately differentiate between consumer and other stakeholders’ perspectives, and it is wrong to conclude that these perspectives were aligned as suggested in Transgrid’s proposal.
4. Feedback on Transgrid’s proposal was limited to the small number of well-prepared consumer representatives who contributed to meetings.
5. While Transgrid was eventually willing to fund members to prepare a submission on its proposal, this is not the same as an independent report that reflects on the engagement approach, provides feedback on the draft plan and broadly aims to represent the views of consumers.

Overall, comparing Ausgrid and Transgrid’s engagement approach to inform their respective revenue proposals, I do not consider that Transgrid has developed a proposal that is in line with the AER’s *Better Resets*’ expectations. I am further disappointed as, Transgrid had a key opportunity to learn from CCP and other feedback it received on previous determinations, as well as considering the strengths of other network operators’ engagement approaches, including Ausgrid’s approach to developing its HCC REZ revenue proposal.

These are important considerations for the AER and from a consumer interest perspective, I would hope and expect the AER’s preliminary position on Transgrid’s proposal to reflect these concerns.

**Ultimately, I am not convinced that Transgrid’s proposal adequately reflects consumer preferences, given the structure of the TAC, the limitations of Transgrid’s engagement approach and the lack of any formal independent engagement report, and I hope to see these concerns reflected in the AER’s preliminary position.**

<sup>46</sup> Transgrid, *Regulatory Projects TAC Focus Area meeting: Central West Orana Renewable Energy Zone (CWOREZ) Background and Revenue Proposal*, June 2024

## CCP35 Advice to AER – Transgrid CWO REZ Revenue proposal

## 7 Other matters

The AER is to be commended for its attendance at Transgrid TAC meetings, predominantly as an observer, but to also provide timely responses to questions raised in the meetings from Transgrid, the TAC and others. The AER's attendance as an observer has been particularly important as revenue proposal development on non-contestable REZ projects and associated engagement under the NSW EII Act new.

Further, as a single CCP member appointed to provide advice on a new regulatory process, I have appreciated the opportunity to seek clarification on aspects of the project and share my thoughts with the AER in real time. I consider this is particularly important, given the short engagement period and had I been concerned about any aspects of the engagement, collectively we had the opportunity to provide the network with timely feedback.



## CCP35 Advice to AER – Transgrid CWO REZ Revenue proposal

### Appendix: CWO REZ TAC meetings and observations

Meeting and date	Topics	CCP observed
TAC CWO REZ Deep Dive #1 (face to face and online) 20 June 2024	<p>Inform</p> <ul style="list-style-type: none"> <li>Project background</li> <li>Transgrid scope of works</li> <li>Revenue proposal</li> <li>Proposed TAC engagement approach</li> </ul> <p>Consult</p> <ul style="list-style-type: none"> <li>What are your views on these [proposed engagement with the TAC] objectives?</li> <li>What are your thoughts on this approach [i.e. proposed 2-3 deep dives and presentation of draft proposal before lodgement]?</li> </ul>	No
AER presentation to TAC July 2024	<i>AER presented its view on the TAC's role for the revenue reset</i>	No
TAC CWO REZ Deep Dive #2 (face to face and online) 30 January 2025	<p>Inform</p> <ul style="list-style-type: none"> <li>Transgrid's revised engagement approach following AER feedback</li> <li>Project update, including EnergyCo and Consumer Trustee authorisation</li> <li>Risk, incentives schemes and adjustment mechanisms</li> </ul> <p>Questions for TAC (consult)</p> <ul style="list-style-type: none"> <li>Incentive schemes <ul style="list-style-type: none"> <li>What are your views on the proposed approach for EBSS and STPIS? (options presented for discussion) <ul style="list-style-type: none"> <li>What are TAC member views on the CESS application options?</li> <li>How should CESS evolve to accommodate changes in regulatory framework, contractual arrangements and other uncertainties?</li> </ul> </li> </ul> </li> <li>Risk allocation <ul style="list-style-type: none"> <li>In what ways can Transgrid enhance visibility into contract management processes to build stakeholder confidence in risk allocation decisions?</li> <li>Are there any industry best practices or case studies that Transgrid should consider incorporating into its risk allocation?</li> <li>How do you view the balance between including risk costs in base expenditure (prepaid by</li> </ul> </li> </ul>	Yes (face to face)

## CCP35 Advice to AER – Transgrid CWO REZ Revenue proposal

Meeting and date	Topics	CCP observed
	<p>consumers) versus relying on adjustment mechanisms where costs are passed through only if the event occurs?</p> <ul style="list-style-type: none"> <li>○ In the TAC's view, how do the risk allocation preferences discussed today impact incentive scheme application?</li> <li>• Adjustment mechanisms <ul style="list-style-type: none"> <li>○ What are your views on these adjustments? Particularly, do you consider the adjustments proposed under the 'unable to be reasonably prevented, substantially mitigated or insured against' category are reasonable and prudent? If not, how would you propose to mitigate/address these risks?</li> <li>○ Are there other adjustments we should consider? Are there other uncertain cost categories where it would be better for customers to allow for a 'true-up' of actual costs rather than relying on forecasts?</li> </ul> </li> <li>• Financeability <ul style="list-style-type: none"> <li>○ What are TAC views on the proposed approach to financeability?</li> <li>○ Are there any additional issues or considerations related to project financeability that we should address or brief the TAC on?</li> </ul> </li> <li>• Consumer value proposition [CVP] <ul style="list-style-type: none"> <li>○ Given that the process is largely driven by EnergyCo and the Consumer Trustee, we are proposing to reclassify this item [CVP] from "Consult" to "Inform".</li> <li>○ How do you think stakeholders like TAC can best contribute to the broader conversation on consumer value?</li> <li>○ Are there any specific areas where you think Transgrid could offer valuable insights to ensure the CWO REZ aligns with consumer interests?</li> </ul> </li> </ul>	

## CCP35 Advice to AER – Transgrid CWO REZ Revenue proposal

Meeting and date	Topics	CCP observed
TAC CWO REZ Deep Dive #3 (face to face and online) 4 March 2025	<p>Consult:</p> <ul style="list-style-type: none"> <li>Revised problem statement and risk principles</li> <li>Risk framework for regulated projects</li> <li>Transgrid's approach to risk</li> <li>Key risks</li> <li>Contracting strategy for CWO REZ</li> <li>Risks managed by Transgrid</li> <li>Residual risk allocation</li> </ul> <p>Questions for TAC (consult)</p> <ul style="list-style-type: none"> <li>Are there particular [adjustment] mechanisms proposed [in relation to risk categories] where the TAC considers these criteria are not met?</li> <li>Do you have any feedback on the proposed allocation and justification?</li> </ul>	Yes (face to face)
TAC CWO REZ Deep Dive #4 (face to face and online) 15 April 2025	<p>Inform</p> <ul style="list-style-type: none"> <li>Transgrid's role and scope</li> <li>Unique challenges for Transgrid</li> <li>Approach to costs and risk cost allowance</li> </ul> <p>Consult</p> <ul style="list-style-type: none"> <li>Risks and proposed treatment</li> <li>Residual risk allocation</li> </ul> <p>Questions for TAC (consult)</p> <ul style="list-style-type: none"> <li>Are there particular [adjustment] mechanisms proposed [in relation to risk categories] where the TAC considers these criteria are not met?</li> <li>Do you have any feedback on the proposed allocation and justification?</li> </ul>	Yes (online)
TAC CWO REZ Deep Dive #5 (face to face and online) 20 June 2025	<p>Inform</p> <ul style="list-style-type: none"> <li>TAC engagement on the CWO revenue proposal</li> <li>Revenue proposal overview <ul style="list-style-type: none"> <li>Capex forecasts</li> <li>Adjustment mechanisms</li> <li>Incentive schemes</li> <li>Financeability</li> <li>RAB, depreciation and rate of return</li> <li>Maximum allowable revenue and schedule of payments</li> </ul> </li> </ul>	Yes (online)