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10 September 2025

Scott Haig
Australian Energy Regulator
Level 27, 135 King Street
Sydney NSW 2000
Australia

Sent by email: REZ@aer.gov.au

Dear Sir/Madam

Submission on the HCC Project

Ausgrid welcomes the opportunity to comment on the Australian Energy Regulator's (**AER**) Preliminary Position Paper and Supplementary Appendix: Adjustment mechanisms (**Supplementary Appendix**) in relation to Ausgrid's revenue proposal for the Hunter-Hunter-Central Coast (**HCC**) Renewable Energy Zone (**REZ**) network infrastructure project (**HCC Project**). Our submission in Appendix 1 largely focusses on the issues raised by the AER with respect to the proposed adjustment events, noting the concerns raised by consumer representatives with the potential of uncapped increases borne by customers.

The AER's Preliminary Position Paper highlighted the potential use of a delayed capex forecast adjustment mechanism. We agree that forecasting particular adjustment events at an appropriate stage of the project could strike a good balance between managing a significant risk for Ausgrid and protecting customers from large capex changes, while also maintaining incentives to outperform capex allowance. To this end, Ausgrid has put forward a proposal of how the deferred capex forecast adjustment mechanism could operate.

We appreciate the constructive engagement to date with the AER, the Customer Challenge Panel (**CCP**) and the HCC REZ customer panel on this project, and look forward to the final determination.

If you have any questions about our submission, please contact me.

Regards,

[redacted]

Fiona McAnally
Head of Regulation, Ausgrid

Appendix 1

Part 1: Ausgrid's views on the AER's position in the Preliminary Position Paper and Supplementary Appendix

Below are our views in relation to the AER's position set out in the Preliminrary Position Paper and Supplementary Appendix. Note that acceptance of any particular issue is contingent on reaching an acceptable position on all issues.

Revenue proposal component	Reference	Summary of Ausgrid revenue proposal	Summary of the AER's preliminary position	Ausgrid submission
Total revenue and schedule of payments	Preliminary Position Paper, Table 2	Total revenue cap of $203.6 million. Quarterly payment dates by the Scheme Financial Vehicle.	Likely to accept Ausgrid's approach.	Accept the AER's preliminary position Revised total revenue cap of $197 million following adjustments proposed by Ausgrid for Transgrid enabling activities and reallocation of Ausgrid's portion of the Infrastructure Planner Fee to the underlying asset classes as proposed by the AER in the Preliminary Positions Paper
Regulatory Asset Base (**RAB**)	Preliminary Position Paper, Table 2	Opening RAB of $291.3m and forecast closing RAB of $632.1m.	Likely to accept Ausgrid's approach, subject to an assessment of prudency, efficiency and reasonableness.	Accept the AER's preliminary position Revised Opening RAB of $292.2m and forecast closing RAB of $644.6m following adjustments for Transgrid enabling activities and reallocation of Ausgrid's portion of the Infrastructure Planner Fee to the underlying asset classes
Rate of return	Preliminary Position Paper, Table 2	Nominal rate of return of 5.98% for pre-period expenditure. 2022 Rate of Return Instrument (**RoRI**) used to calculate return on	Likely to accept Ausgrid's approach.	Accept the AER's preliminary position

Revenue proposal component	Reference	Summary of Ausgrid revenue proposal	Summary of the AER's preliminary position	Ausgrid submission
		capital. Use of standard approach to forecasting inflation.		
Regulatory depreciation	Preliminary Position Paper, Table 2	Regulatory depreciation of -$0.1m. All asset classes bar one depreciated on an as commissioned basis. Remaining class (pre-period Infrastructure Planner (**IP**) Fees capex) immediately depreciated.	Proposed asset lives for depreciation purposes appear reasonable. The EnergyCo portion of the IP Fee should be depreciated for the life of the project, while Ausgrid's portion should be depreciated in line with assets related to early works which have a clear economic life.	Accept the AER's preliminary position This change leads to a revised regulatory depreciation of -$8.8m
Capital expenditure (**capex**)	Preliminary Position Paper, Table 2	$604.2m in capex, including $283m pre-period and $321.3m forecast.	Likely to accept Ausgrid's approach. Ausgrid's approach to uncertainty appears reasonable. Still considering whether Ausgrid's $5.3m social licence proposal is necessary to build community acceptance for the project.	Ausgrid maintains its view that the $5.3m for investment in social licence is appropriate (see Part 2 of Appendix 1). Revised capex of $607.7m, including $283.8m pre-period and $323.9m forecast following adjustment for Transgrid enabling activities
Operating expenditure (**opex**)	Preliminary Position Paper, Table 2	$15.6m opex over the forecast period.	Likely to accept Ausgrid's approach.	Accept the AER's preliminary position
Corporate income tax	Preliminary Position Paper, Table 2	$0.99m in corporate income tax. $281.1m opening tax asset base (**TAB**).	Likely to accept Ausgrid's approach to calculating its corporate income tax. Likely to accept Ausgrid's approach to establishing the opening TAB and the forecast cost of corporate income tax subject to an assessment of prudency,	Accept the AER's preliminary position Revised corporate income tax of $0.88m following updates to the total revenue cap. Revised opening TAB of $260.4m following adjustments for Transgrid enabling activities and reallocation of Ausgrid's portion of the Infrastructure

Revenue proposal component	Reference	Summary of Ausgrid revenue proposal	Summary of the AER's preliminary position	Ausgrid submission
			efficiency and reasonableness of the proposed capex.	Planner Fee to the underlying asset classes
Efficiency benefit sharing scheme (**EBSS**)	Preliminary Position Paper, Table 2	Apply EBSS excluding debt raising costs. EBSS exclusion to current regulatory determination for opex overheads reallocated to the project under its new cost allocation methodology (**CAM**).	Decision on applying EBSS and debt raising cost exclusion will be made at the end of the 2026-31 regulatory period. Likely to agree to the principle behind Ausgrid's proposed exclusion for reallocated opex overheads.	Accept the AER's preliminary position
Capital expenditure sharing scheme (**CESS**)	Preliminary Position Paper, Table 2	CESS applied, including pre-period expenditure and exclude social licence expenditure.	Likely to accept Ausgrid's proposal to modify the CESS to include pre-period expenditure. Not likely to accept exclusion of social licence expenditure.	Accept the AER's preliminary position
Revenue adjustment mechanisms	Preliminary Position Paper, Table 2, section 3.2.2, Supplementary Appendix section A.2	Proposed 25 adjustment mechanisms. .	Likely to accept Ausgrid's proposed adjustment mechanisms except for 7 mechanisms related to procurement induced cost uncertainty events (not yet formed a view about whether these will be accepted, rejected or amended). Likely appropriate for associated costs to be recovered through a revenue adjustment mechanism rather than inclusion in the capex forecast. The AER's consideration of several options to constrain or mitigate some of Ausgrid's proposed adjustment	Accept the AER's preliminary position in respect of adjustment mechanisms accepted (see rows below regarding specific adjustment mechanisms)

Revenue proposal component	Reference	Summary of Ausgrid revenue proposal	Summary of the AER's preliminary position	Ausgrid submission
			mechanisms are discussed in rows below.	
Annual review of adjustment events	Preliminary Position Paper, sections 3.2.1, 3.2.2.1	Annual review of approved adjustment event costs	Likely to accept annual adjustment event review process	Accept the AER's preliminary position
Proposed adjustment mechanisms				
Procurement induced cost uncertainty events (generally)	Supplementary Appendix section A.2	Seven adjustment mechanisms proposed that relate to procurement induced costs, including: • Contractor Force Majeure • Land acquisition and planning costs • Unforeseen artefacts, native title claims or contamination • Unavoidable change in contractor costs • Enabling activities • Unavoidable design change	Confidentiality restrictions significantly impacted Ausgrid's ability to estimate some of its costs in time for submission of its proposal. Under a standard procurement process, these risks would be within Ausgrid's forecast expenditure and the CESS would apply. Ausgrid's proposed recovery of costs associated with the procurement induced cost uncertainty events through revenue adjustment mechanisms is likely appropriate. Considering the extent to which the AER might specify in an adjustment mechanism the material to be submitted in support of an adjustment. Considering a materiality threshold to address concerns about the resourcing impact on the Network Operator and the AER.	Ausgrid has concerns about application of a materiality threshold

Revenue proposal component	Reference	Summary of Ausgrid revenue proposal	Summary of the AER's preliminary position	Ausgrid submission
		• Delay in execution of contractual arrangements		
Contractor Force Majeure	Preliminary Position Paper, s 3.2.2	Revenue adjustment for a Contractor force majeure event	Limits may not be necessary for this adjustment mechanism. Risks may be outside of Ausgrid's control and Ausgrid may not be able to meaningfully respond to any imposed constraints.	Accept the AER's preliminary position
Land Acquisition and Planning Costs	Supplementary Appendix section A.2	Revenue adjustment for actual land acquisition or planning costs differing from forecast, additional costs from a Legal Challenge to planning approvals or Ausgrid's Review of Environmental Factors or additional costs from an Environmental Notice	Risks are at least partially within Ausgrid's control and Ausgrid is best placed to manage these risks. Concern with high probability and potential impact of mechanism. Mechanism ensures that cost recovery is almost certain and reduces incentive to minimise components of its forecast capex. Considering approaches to limit the scope/cost of this mechanism, including applying a maximum recovery cap, a delayed capex forecast adjustment, and/or further assessment of the adjustment at the time it is triggered and applied for. Considering application of full review and remake of the revenue determination to implement an adjustment.	Ausgrid does not support a cap being applied to this adjustment mechanism. As noted in our response to IR#008, Ausgrid is prepared to remove paragraph (i) from the 'Land Acquisition and Planning Costs" adjustment event and instead include the updated estimate within our capex forecast which forms the basis of the revenue determination. We understand that paragraphs (ii) and (iii) of this mechanism would remain unchanged and not subject to a cap or deferred capex forecast adjustment.

Revenue proposal component	Reference	Summary of Ausgrid revenue proposal	Summary of the AER's preliminary position	Ausgrid submission
Unforeseen Artefacts, Native Title Claims or Contamination	Preliminary Position Paper, s 3.2.2	Revenue adjustment for changes in design and construction costs from events related to artefacts, native title claims or contamination	Limits may not be necessary for this adjustment mechanism. Risks may be outside of Ausgrid's control and Ausgrid may not be able to meaningfully respond to any imposed constraints.	Accept the AER's preliminary position
Unavoidable Change in Contractor Costs	Supplementary Appendix, A.2, table 1	Revenue adjustment for unavoidable change in contract price or related item	Proposed recovery of these costs through an adjustment mechanism may be appropriate. Risks are at least partially within Ausgrid's control and Ausgrid is best placed to manage these risks. Concern with high probability and potential impact of mechanism. Mechanism ensures that cost recovery is almost certain and reduces incentive to minimise components of its forecast capex. Considering whether a cap or delayed capex forecast should be applied. If magnitude of change is significant, may be necessary to review and remake determination. Will assess any revenue adjustment application for prudency, efficiency and reasonableness.	Ausgrid does not support a cap being applied to this adjustment mechanism. Ausgrid is prepared to consider a delayed capex forecast for this adjustment mechanism (see Part 3 of Appendix 1).

Revenue proposal component	Reference	Summary of Ausgrid revenue proposal	Summary of the AER's preliminary position	Ausgrid submission
Enabling Activities	Preliminary Position Paper, s 3.2.2, Supplementary Appendix, A.2, table 1	Revenue adjustment for a difference in the actual cost of Enabling Activities to that which was forecast or incurring of additional costs	No concerns with the substance of this adjustment mechanism. Risks may be outside of Ausgrid's control, therefore, Ausgrid may not be able to meaningfully respond to any imposed constraints. Will assess any revenue adjustment application for prudency, efficiency and reasonableness. Do not expect that the magnitude of this adjustment would require a review and remake of the determination.	Accept the AER's preliminary position
Unavoidable Design Change	Supplementary Appendix, A.2, table 1	Revenue adjustment if there are additional costs or savings from a deviation from the use of existing overhead line corridors	Proposed recovery of these costs through an adjustment mechanism may be appropriate. Risks are at least partially within Ausgrid's control and Ausgrid is best placed to manage these risks. Concerned with open-ended nature of event, leading to substantial uncertainty for consumers about the potential likelihood and impact of event for which they are being asked to bear the risk. Considering whether a cap or delayed capex forecast should be applied.	Ausgrid does not support a cap being applied to this adjustment mechanism. Ausgrid is prepared to consider a delayed capex forecast for this adjustment mechanism (see Part 3 of Appendix 1).

Revenue proposal component	Reference	Summary of Ausgrid revenue proposal	Summary of the AER's preliminary position	Ausgrid submission
			If magnitude of change is significant, may be necessary to review and remake determination. Will assess any revenue adjustment application for prudency, efficiency and reasonableness.	
Delay in execution of contractual arrangements	Preliminary Position Paper, s 3.2.2, Supplementary Appendix, A.2, table 1	Revenue adjustment to account for changes in costs from a delay in the execution of the Project Deed	No concerns with the substance of this adjustment mechanism. Risks may be outside of Ausgrid's control, therefore, Ausgrid may not be able to meaningfully respond to any imposed constraints. Will assess any revenue adjustment application for prudency, efficiency and reasonableness. If magnitude of change is significant, may be necessary to review and remake determination.	Accept the AER's preliminary position
DSP Change Adjustment	Supplementary Appendix, table 2	Revenue adjustment to account for a Change Order issued by the Infrastructure Planner which results in: 1. additional costs or savings	No concerns with the substance of this adjustment mechanism. For the first part, will assess any revenue adjustment application for prudency, efficiency and reasonableness. Do not expect that the magnitude of this adjustment would require a review and remake of the determination.	Accept the AER's preliminary position

Revenue proposal component	Reference	Summary of Ausgrid revenue proposal	Summary of the AER's preliminary position	Ausgrid submission
		2. additional amounts payable to the Infrastructure Planner	For the second part, satisfied that the mechanism adequately reflects the terms of the contractual arrangements between Ausgrid and EnergyCo.	
Force Majeure Event under contractual arrangements with the Infrastructure Planner	Supplementary Appendix, table 2	Revenue adjustment to account for changes in costs due to a Force Majeure Event as defined in the Project Deed	No concerns with the substance of this adjustment mechanism. Satisfied that the mechanism adequately reflects the terms of the contractual arrangements between Ausgrid and EnergyCo. Will assess any revenue adjustment application for prudency, efficiency and reasonableness. If magnitude of change is significant, may be necessary to review and remake determination.	Accept the AER's preliminary position

Part 2: Social licence

We acknowledge the submissions made by the CCP and the HCC REZ customer panel regarding the social licence costs. However, Ausgrid maintains its view that $5.3m dedicated to investment in social licence is appropriate.

The $5.3m proposed to deliver Ausgrid's social licence proposal is comprised of:

- a $5.0m community benefits fund; and
- $0.3m to administer the community benefits fund, including the costs of the HCC Local Engagement Committee (**LEC**).

EnergyCo, in its Request for Proposal in [redacted], requested proponents prepare a draft Social Licence Plan as a tender returnable. In our proposal submitted to EnergyCo in [redacted], we included a draft Social Licence Plan, which included early details on a proposed engagement committee, and a capex amount of $5.0m for a community benefits fund. Ausgrid notes that the sum of $5.0m represents approximately 1% of project costs and notes that similar projects have dedicated between 1-5% of project costs to social licence programs.

The proposal to form the HCC LEC was developed to ensure the benefits derived from Ausgrid's network infrastructure investments, including the community benefits fund, specifically reach and resonate with the local community, rather than more broadly across the wider regional population. The HCC LEC is designed to fulfill two primary functions: first, to enable a deeper and ongoing understanding of the local community's perspectives and the impacts of the project; and second, to facilitate the delivery of local benefits through the community benefits fund. The HCC LEC will review and select social licence initiatives for funding through a structured governance framework aligned with Ausgrid's proven social licence approach.

Further justification for our social licence proposal is contained in our response to the AER's information request (IR#007).

Part 3: Delayed capex forecast adjustment mechanism

1. Overview

The AER's Preliminary Position Paper highlighted the potential use of a delayed capex forecast adjustment mechanism. This mechanism, if implemented, is intended to operate within the Electricity Infrastructure Investment (**EII**) framework by enabling Ausgrid to recover prudent, efficient and reasonable costs, while limiting consumer exposure to unbounded risks. Where material uncertainty prevents reliable forecasting of certain costs at the time of the initial revenue determination, the mechanism would allow costs to be included in the capex allowance at a later stage, once they can be substantiated and presented as risk-adjusted forecasts.

This approach supports three key objectives:

- **Regulatory certainty:** adjustment occurs at defined milestone;
- **Customer affordability:** costs are introduced at the point they can be reliably estimated, avoiding unnecessary upfront contingencies; and
- **Efficiency incentives:** once incorporated, revised capex allowance is integrated into revenue modelling, and subject to the Capital Expenditure Sharing Scheme (**CESS**).

We acknowledge the importance of preserving the AER's incentive framework wherever possible. By subjecting revised forecasts to the CESS, any underspend relative to the adjusted allowance is shared with consumers. This alignment of incentives promotes efficient outcomes over the life of the project and advances the long-term interests of customers.

2. Mechanism Design

Step 1 – Identification at Initial Determination (November 2025)

The initial AER determination will explicitly identify the adjustment mechanisms that are subject to delayed capex forecast adjustment. These are cost categories where forecasting was constrained and remains uncertain. They must be clearly identified in the AER's determination as 'delayed capex forecast adjustment events'. Ausgrid understands these categories would be the:[1]

1. Unavoidable Design Change adjustment event; and
2. Unavoidable Change in Contractor Costs adjustment event.

Step 2 – Trigger Milestone

The initial AER determination will explicitly identify the timing of the delayed capex forecast adjustment and it should be linked to a milestone that represents the point at which a forecast can be reliably estimated on a risk-adjusted basis. Tying the delayed capex forecast adjustment to an appropriate milestone ensures that the forecast is updated only when new, material information becomes available that meaningfully improves

[1] For the avoidance of doubt, Ausgrid proposes that clause (i) of the Land Acquisition and Planning Costs adjustment event will be removed as additional capex for land acquisition will be included, and all other adjustment events will remain in place and not subject to limitations (such as caps or expiry dates)

accuracy. This approach is more robust than using a fixed calendar date, as the trigger is anchored in a tangible project outcome that directly shapes expenditure requirements.

The table below sets out key project milestones and their relationship to the key expenditure inputs captured in Ausgrid's procurement-related adjustment mechanisms. We understand that the AER intends that the delayed capex forecast adjustment is undertaken once only, so an appropriate milestone will need to be selected as the trigger milestone.

Ausgrid proposes that the trigger milestone for the delayed capex forecast adjustment should be the "Response to final designs from Contractor/s" which is expected to occur in [redacted]. At this time, Ausgrid will have clarity on:

- the key expenditure inputs which would lead to adjustment under the Unavoidable Design Change event;
- pricing under the Transmission Lines subcontract to reflect final designs;
- pricing under the Substations subcontract and other subcontracts, including any adjustments to pricing to account for latent conditions; and
- pole and conductor orders,

and, in each case, sufficient information to support a forecast of future price adjustments with a reasonable degree of accuracy.

Key project milestones

Project milestone	Expenditure inputs	Target date
Execution of major subcontracts	[redacted]	[redacted]
Completion of bulk earth works at greenfield substations	[redacted]	[redacted]
Settling route and issuing final designs to Contractor/s	[redacted]	[redacted]
Issuing final pole order	[redacted]	[redacted]
Response to final designs by Contractor/s	[redacted]	[redacted]

Project milestone	Expenditure inputs	Target date
Issuing final conductor order	[redacted]	[redacted]

Step 3 – Revised Forecast Submission

Once the trigger milestone has occurred, Ausgrid will submit the delayed capex forecast adjustment proposal (**DCFA Submission**). From the date of the submission (the **DCFA Effective Date**), the Unavoidable Design Change and Unavoidable Change in Contractor Costs adjustment events will expire.

Timing

The AER's guideline titled 'Transmission Efficiency Test and revenue determination guideline for non-contestable network infrastructure projects' (**TET Guidelines**) require network operators to lodge an adjustment proposal at least 63 business days before the start of the regulatory year. Ausgrid will submit the DCFA Submission within 3 months after the trigger milestone has occurred. Ausgrid will use reasonable endeavours to make the DCFA Submission by 28 March 2027. However, if the trigger milestone is substantially delayed, the DCFA Submission will also be delayed.

Updated risk adjusted forecast

The DCFA Submission will present updated, risk-adjusted forecasts of expenditure from the DCFA Effective Date onwards under the Unavoidable Design Change and Unavoidable Change in Contractor Costs events. The submission will reflect the information available at the new stage of the project cycle i.e. following the finalisation of design.

The forecast should be supported by:

- Updated risk-adjusted estimates that apply the most current information available from procurement outcomes, contractual milestones, design approvals, or planning processes. These estimates should reflect both expected costs and the probability-weighted risks associated with delivery.
- Comprehensive supporting information on the inputs used to develop the updated forecast, including relevant indices, contractual data, or expert reports relied upon to validate the new estimates.

AER Assessment:

Once Ausgrid submits its DCFA Submission, the AER will undertake a compliance check and review the supporting material. Within 42 business days, the AER will advise whether it accepts the proposed adjustment to the capex allowance, requires further information, or requires Ausgrid to amend and resubmit the proposal.

Step 4 – Integration into Incentive Framework

Once a revised forecast has been approved, it is fully integrated into Ausgrid's broader capex program. At this stage, the forecast is treated in the same way as all other ex ante capex. Specifically, the updated costs are rolled into the Regulatory Asset Base (**RAB**), where they are subject to depreciation and a return on

capital, consistent with standard regulatory treatment. The quarterly payment schedule will be updated accordingly. Importantly, from that point onwards, the expenditure also falls under the operation of the CESS, meaning Ausgrid is incentivised to deliver the project efficiently and to manage costs over its life.

This structure maintains strong incentives for efficiency while providing clarity and certainty to both the AER and customers that once a forecast is set, it will be managed within the established incentive framework.

3. Application of Adjustment Mechanisms prior to delayed capex forecast adjustment

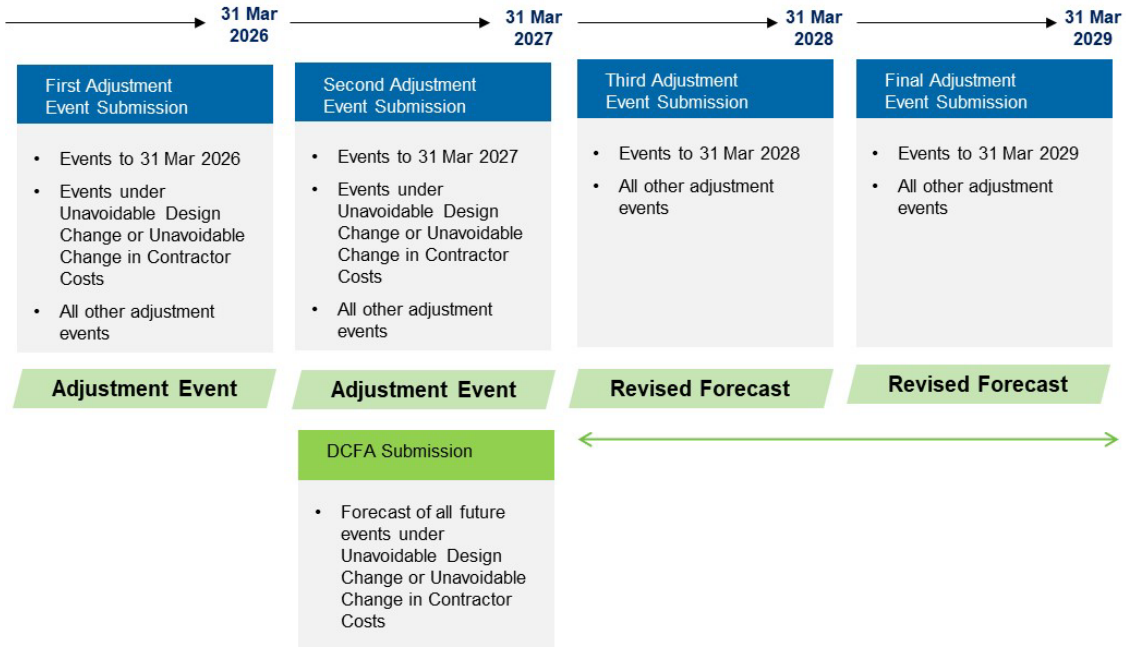
Ausgrid understands that, prior to implementation of the delayed capex forecast adjustment mechanism, the Unavoidable Design Change and Unavoidable Change in Contractor Costs adjustment mechanisms will apply. Once the revised forecast is incorporated, those adjustment mechanisms will expire with effect from the DCFA Effective Date.

In Attachment 8.1 to the revenue proposal, titled 'Adjustment Mechanisms', Ausgrid proposed that the adjustment process under adjustment events would be undertaken annually, commencing with a submission to the AER by 31 March each year (each an **Adjustment Event Submission**).

Ausgrid expects that its first Adjustment Event Submission on 31 March 2026 would include adjustment under the Unavoidable Design Change or Unavoidable Change in Contractor Costs events for any events which have occurred prior to that date. At a minimum, this is expected to include:

- [redacted]; and
- pricing adjustments arising from pole and conductor orders made prior to 31 March 2026.

Similarly, Ausgrid expects that its second Adjustment Event Submission on 31 March 2027 would include adjustment under the Unavoidable Design Change or Unavoidable Change in Contractor Costs events for any events which have occurred from 1 April 2026 to the DCFA Effective Date (assumed to be 31 March 2027 in the below diagram).



4. Modified CESS

Ausgrid also proposes that a modified version of the CESS could apply to any additional capex allowance approved via the delayed capex forecast adjustment mechanism. The purpose of this modification would be to recalibrate incentives so that they promote accurate forecasting when the delayed capex forecast adjustment is made.

Specifically, Ausgrid proposes the following sharing ratios:

- Underspend 0-15%: 50:50 (equal share between Ausgrid and customers)
- Underspend >15%: 0:100 (all benefits to customers)
- Overspend (all levels): Standard 30:70

This structure provides strong incentives for Ausgrid to deliver underspends through genuine efficiency gains, while ensuring that benefits from forecasting inaccuracies flow to customers. In practice, genuine efficiencies in the case of a project like this are most likely to fall within the 0-15% range, whereas underspends greater than 15% are more likely attributable to conservatism in forecasting risks. In these circumstances, all savings would be returned to customers.

The balanced 50:50 sharing ratio for underspends up to 15% offsets the forgone reward for allowing customers to receive all the benefits associated with underspends great than 15%. It also recognises the additional risk imposed by applying a delayed capex forecast adjustment mechanism. Importantly, Ausgrid's proposal to participate in the Hunter Central Coast Renewable Energy Zone project was predicated on an adjustment mechanism process that did not include this feature. A rebalancing of incentives reflects the increased risk profile introduced by this untested mechanism, while continuing to ensure that customers benefit from genuine efficiency savings.

If the AER allows a modified CESS, the practical application of two CESS regimes co-existing will require further consideration.