

Preliminary Position Paper

Enabling Central-West Orana REZ network
infrastructure project (non-contestable)

(1 July 2026 to 30 June 2031)

October 2025

© Commonwealth of Australia 2025

This work is copyright. In addition to any use permitted under the *Copyright Act 1968* all material contained within this work is provided under a Creative Commons Attributions 4.0 Australia licence with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website as is the full legal code for the CC BY 4.0 AU licence.

Important notice

The information in this publication is for general guidance only. It does not constitute legal or other professional advice. You should seek legal advice or other professional advice in relation to your particular circumstances.

The AER has made every reasonable effort to provide current and accurate information, but it does not warrant or make any guarantees about the accuracy, currency or completeness of information in this publication.

Parties who wish to re-publish or otherwise use the information in this publication should check the information for currency and accuracy prior to publication.

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Email: aerinquiry@aer.gov.au
Tel: 1300 585 165

AER reference: AER24009373

Amendment record

Version	Date	Pages
1.0	20 October 2025	48

Contents

Getting involved	1
Invitations for submissions.....	1
Public forum	1
1 Introduction	3
2 Overview of our preliminary position on Transgrid’s revenue proposal	8
3 Stakeholder views on Transgrid’s revenue proposal	16
3.1 Transgrid’s stakeholder engagement	16
3.2 AER response to stakeholder submissions	19
4 Focus issues.....	22
4.1 Financeability	22
4.2 Capital expenditure – Pre-period costs.....	29
4.3 Capital expenditure sharing scheme	33
4.4 Adjustment mechanisms	35
Glossary.....	44

Getting involved

Invitations for submissions

Transgrid and all interested stakeholders are invited to make a submission on our preliminary position paper by **17 November 2025**.

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

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

We request parties wishing to submit confidential information:

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

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

Public forum

We will host an online public forum to allow stakeholders the opportunity to ask questions on Transgrid's revenue proposal and the issues we raised in our preliminary position paper before submissions close. The public forum will be held from 3:30pm to 5:00pm (Australian Eastern Daylight Time) on 10 November 2025. If you're interested in attending the public forum, please [register](#) to attend the public forum on Eventbrite by 5pm on 9 November 2025.

Milestones for the revenue determination process

Key dates	Milestone
5 August 2025	Revenue proposal published on our website
26 August 2025	Consultation closed on revenue proposal
20 October 2025	Publication of this preliminary position paper, submissions open
10 November 2025	Public forum to discuss the revenue proposal and the preliminary position paper with interested stakeholders
17 November 2025	Submissions on preliminary position paper close
February 2026	AER makes its final decision

The making of our revenue determination is distinct from its publication on our website. Clause 53(4) of the *Electricity Infrastructure Investment Regulation 2021* (NSW) (EII Regulation) provides that the AER is required to publish the revenue determination as soon

as reasonably practicable but not before the Infrastructure Planner has notified the regulator that, in the Infrastructure Planner's opinion, the project financial close of the network infrastructure project has been reached under the recommended contractual arrangements for the project.

EnergyCo anticipates the project financial close for the CWO Enabling Project will occur in Q1 2026, shortly following the AER making its revenue determination for the project.

1 Introduction

The Central-West Orana (CWO) Renewable Energy Zone (REZ) was declared by the NSW Minister for Energy under section 19(1) of the *Electricity Infrastructure Investment Act 2020* (NSW) (EII Act) in November 2021.¹ It is initially designed to deliver 4.5 gigawatts of network capacity utilising generation from solar, wind and energy storage projects, with capacity to increase to 6 gigawatts by 2038.

The CWO REZ network infrastructure project contains two components:

- the Main CWO REZ network infrastructure project (CWO Main Project) to be carried out by ACERES Partnership (ACERES)
- the Enabling CWO REZ Network Infrastructure Project (CWO Enabling Project) to be carried out by Transgrid.

The CWO Main Project comprises new network infrastructure within the CWO REZ to connect new generation and storage projects to the existing NSW transmission network. We made our contestable revenue determination for the CWO Main Project in December 2024², and remade the determination in June 2025 following financial close for the project being achieved.³

The CWO Enabling Project, which is the subject of this preliminary position paper, will also enable the CWO Main Project to connect to the transmission network. It also comprises upgrades to the existing transmission network to alleviate network constraints so that renewable electricity generated in the CWO REZ can be transported to customers throughout NSW. In May 2024, the Infrastructure Planner, EnergyCo, recommended Transgrid as the preferred Network Operator for the CWO Enabling Project because the works were considered not readily separable from the existing network operated by Transgrid.⁴ In June 2024, the Consumer Trustee, AEMO Services (now called AusEnergy Services), authorised Transgrid to carry out the CWO Enabling Project under section 31(1)(b) of the EII Act.⁵

The CWO Enabling Project includes arrangements for the acquisition and energisation of the Barigan Creek Switching Station (BCSS) from the CWO Main Project, subject to the Consumer Trustee approving the transfer. After the BCSS is constructed and pre-commissioned, it will be transferred to Transgrid (at a purchase price of \$186.8 million⁶) once

¹ NSW Government, *Gazette No 569*, 5 November 2021. The declaration was amended in December 2023 (*NSW Government Gazette No 580*) and April 2024 (*NSW Government Gazette No 147*).

² AER, *CWO REZ network project revenue determination*, December 2024.

³ AER, *CWO REZ network project - remade revenue determination - summary report*, June 2025.

⁴ EnergyCo, *Central-West Orana Renewable Energy Zone - Rationale and basis for EnergyCo's network recommendations*, May 2024, p. 40.

⁵ AEMO Services, *Notice of Authorisation - Enabling CWO REZ Network Infrastructure Project*, June 2024.

⁶ This price may be adjusted through the 'BCSS Purchase Price Adjustment' mechanism.

approval is given by the Consumer Trustee as the authorisation provider.⁷ Transgrid will then commission the BCSS.⁸

We are appointed as a regulator under the EII Act. Our role is to determine the revenue that Transgrid may recover for carrying out the CWO Enabling Project.⁹ A revenue determination made for a non-contestable process involves an assessment of the Network Operators' forecast costs to ensure only the prudent, efficient, and reasonable costs of delivering the project are recovered from NSW consumers. We do not have a role in the design or planning of the projects. Our *Transmission Efficiency Test and revenue determination guideline for non-contestable network infrastructure projects* (non-contestable Guideline) sets out how we will make revenue determinations for network operators authorised or directed to carry out non-contestable network projects under the EII Act.¹⁰

Transgrid began pre-lodgement engagement with us in September 2024. Our discussions covered many aspects of its revenue proposal including the development of the regulatory information notice (RIN), application of the EII framework and our non-contestable Guideline¹¹, acquisition of the BCSS, Infrastructure Planner Fees (IPFs), financeability, pre-period costs, application of the capital expenditure sharing scheme (CESS) and adjustment mechanisms. Our role throughout the pre-lodgement engagement was to clarify with Transgrid questions of process and scope to ensure that the revenue proposal was compliant with the requirements of the EII framework.

Transgrid also conducted pre-lodgement engagement with its stakeholders through its Transgrid Advisory Council (TAC) from June 2024. We consider that Transgrid's pre-engagement with stakeholders through the TAC has improved since its pre-engagement on the Waratah Super Battery non-contestable project (WSB Project) in 2023. Transgrid improved its pre-engagement by introducing 'deep dives' and engaging more thoroughly with a greater number of sessions specific to the CWO Enabling Project.¹² However, it fell short of our expectations of pre-lodgement engagement that we set out in our non-contestable Guideline¹³ and the Better Resets Handbook.¹⁴ This assessment is informed by our observations at TAC meetings and stakeholder submissions on the revenue proposal. We provide further analysis on Transgrid's stakeholder engagement in section 3 of this paper.

On 8 July 2025, Transgrid provided to us a draft of its revenue proposal and gave us a week to comment on it. This meant our opportunity to provide significant feedback was limited.

Transgrid initially submitted its revenue proposal to us on 24 July 2024. However, we found that it did not comply with the requirements of the RIN.¹⁵ Subsequently, on 31 July 2025,

⁷ EII Regulation, cl. 21.

⁸ Transgrid, *Central West Orana Enabling Project 2026–31 - Revenue Proposal*, July 2025, p. 8.

⁹ EII Act, s.38.

¹⁰ EII Regulation, cl. 47A; AER, *TET & revenue determination guideline for non-contestable network infrastructure projects*, July 2024.

¹¹ AER, *Revenue determination guideline for NSW non-contestable projects*, July 2024.

¹² AER, *Transgrid 2024–29 - Draft Decision - WSB project (Non-contestable)*, September 2023, pp. 12–14.

¹³ AER, *TET & revenue determination guideline for non-contestable network infrastructure projects*, July 2024, pp. 15–16.

¹⁴ AER, *Better Resets Handbook*, July 2024.

¹⁵ EII Act, s. 38(7); EII Regulation, cl. 48; EII Chapter 6A, cl. 6A.10.1(c).

Transgrid submitted a compliant revenue proposal for the CWO Enabling Project with total capital expenditure (capex) of \$437.9 million (\$2025–26) and proposed total revenue of \$161.1 million (\$nominal) over the 2026–31 period.¹⁶ The table below summarises the building block revenue in the revenue proposal. The revenue proposal does not currently include forecast expenditure related to the BCSS as these costs currently are a part of the ACERREZ revenue determination for the CWO Main Project. However, these costs are proposed to be included in Transgrid's revenue determination at a future time, through adjustment mechanisms once the asset is transferred to Transgrid (if approved by the Consumer Trustee under the EII Regulation).¹⁷

Table 1 Transgrid's CWO Enabling Project revenue proposal – building block revenue for the 2026–31 period (\$million, nominal)

Building block	Revenue proposal
Return on capital	125.4
Regulatory depreciation (including proposed accelerated depreciation)	6.4
Operating expenditure	31.9
Revenue adjustments	-
Cost of corporate income tax	1.5
Annual building block revenue requirement	165.1

Source: AER analysis

We published Transgrid's revenue proposal on our website on 5 August 2025. Subsequently, we published stakeholder submissions Transgrid received on its revenue proposal.

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

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

Our overall preliminary position is that Transgrid has not justified several components of its revenue proposal which include its proposals for financeability, pre-period capex, modified

¹⁶ The revenue is less than the revenue cap because the quarterly payments bring forward portions of each annual payment which are discounted at the relevant rate of return. Transgrid, *M.7 – Central-West Orana Enabling Project 2026–31 – Post Tax Revenue Model (PTRM) (adjusted)*, July 2025.

¹⁷ Further details on the adjustment mechanisms are provided in section 4.4.1.

CESS, and adjustment mechanisms. This is evidenced by the relatively high number of focus issues we have raised in this paper (section 4).

We have undertaken our assessment of Transgrid's revenue proposal in accordance with the requirements set out in the EII Act, the EII Regulation and the process set out in our non-contestable Guideline. Unlike revenue determinations made under the National Electricity Rules (NER), we only have 126 business days to make a non-contestable revenue determination under the EII Regulation.¹⁸ More information about our approach to assessing the various components that make up the total revenue is provided in our *Guidance note on the AER's EII Assessment Approach for Non-contestable revenue determinations* (assessment approach guidance note).¹⁹

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

Non-disclosure claims impacting the preliminary position paper

Transgrid's revenue proposal claimed non-disclosure over specific information which we consider requires an open and transparent discussion in this preliminary position paper to allow effective stakeholder consultation.²⁰ We engaged with Transgrid on a subset of its non-disclosure claims on the revenue proposal where our view, based on the information provided, was that we were not satisfied the information was confidential and/or commercially sensitive, and provided Transgrid an opportunity to submit further information as to their claims. Through this engagement, Transgrid has withdrawn the claims that relate to the information discussed in this preliminary position paper. This includes:

- The purchase price of the BCSS (discussed earlier in this section and section 4.4.1).
- Sub-categories of forecast capex which were previously redacted. These are easement acquisition costs and biodiversity offset costs (discussed in section 2).
- Financial year of payment of IPFs to EnergyCo (discussed in section 2 and 4.2).
- Text of the 'do no harm' requirement in the CEFC financeability schedule to the concessional financing agreement (discussed in section 4.1)
- The roles and responsibilities of the 'Independent Certifier' in relation to the BCSS (discussed in section 4.4.1)
- The value of the cumulative cap (\$25.0 million) proposed for the 'Unavoidable Design and Construct contract variations' adjustment mechanism (discussed in section 4.4.2).

We appreciate the constructive engagement from Transgrid on this matter as it allows stakeholders to better understand Transgrid's proposal and our preliminary positions.

¹⁸ EII Regulation, cl. 50(1)(b).

¹⁹ AER, *Guidance note on the AER's EII Assessment Approach for Non-contestable revenue determinations*, September 2025.

²⁰ Transgrid, A.6 – *Central-West Orana Enabling Project 2026–31 - Confidentiality Claims*, July 2025.

At this stage, we have only engaged with Transgrid on its proposed non-disclosure claims where we considered it could impact the text in this preliminary position paper. We intend to undertake further assessment of the remaining non-disclosure claims prior to publishing our final decision.

2 Overview of our preliminary position on Transgrid’s revenue proposal

A summary of Transgrid’s revenue proposal, and an outline of our preliminary position is set out in Table 2. We have also highlighted the most contentious issues from Transgrid’s revenue proposal which we believe would benefit from a focused discussion, with feedback and additional material provided either by Transgrid or stakeholders. Our choice of issues for focused discussion (focus issues) for each Preliminary position paper is identified on a case-by-case basis and is dependent on the issues arising from that revenue proposal.

In Table 2, all dollar amounts are provided on a nominal basis except where otherwise stated.

Table 2 Overview of Transgrid’s revenue proposal and AER’s preliminary position

Revenue proposal component	Overview of Transgrid’s revenue proposal and AER’s preliminary position
Total revenue and schedule of payments	
Transgrid revenue proposal	Transgrid proposed a total revenue cap of \$165.1 million for the 2026–31 period in its revenue proposal. This is equivalent to \$161.1 million in quarterly payments over the 2026–31 period. ²¹ Transgrid nominated quarterly payment dates by the Scheme Financial Vehicle on the final day of each regulatory quarter. ²²
AER preliminary position	We are likely to accept Transgrid’s approach to calculating its revenues and quarterly schedule of payments. Transgrid used our EII post-tax revenue model (PTRM) (NER PTRM modified for EII non-contestable determinations) to calculate revenues consistent with the requirements of EII Chapter 6A (Appendix A of the non-contestable Guideline, a modified version of Chapter 6A of the NER that applies to EII projects).²³ The payment dates are reasonable and align with the payment calculations in the EII PTRM. Any areas of difference in our final decision will likely arise from updates to financial inputs and our assessment of other components of Transgrid’s revenue proposal.
Regulatory asset base (RAB)	
Transgrid revenue proposal	Transgrid proposed an opening RAB of \$167.8 million as at 1 July 2026. It reflects Transgrid’s proposed roll forward of pre-period capex (for calculating the return on capital building block) escalated by a half-year pre-period nominal weighted average cost of capital (WACC). The opening RAB consisted of:

²¹ This amount is less than the revenue cap because the quarterly payments bring forward portions of each annual payment which are discounted at the relevant rate of return.

²² Transgrid, *Central-West Orana Enabling Project 2026–31 - Revenue Proposal*, July 2025, p. 17.

²³ AER, *Guidance note - Amendments to NER PTRM for determinations under the Electricity Infrastructure Investment Act and Regulations*, November 2024; AER, *Non-contestable - EII Sample PTRM template*, November 2024; AER, *Appendix A (EII Chapter 6A) - Transmission Efficiency Test and revenue determination non-contestable guideline*, July 2024.

Revenue proposal component	Overview of Transgrid's revenue proposal and AER's preliminary position
	• \$9.5 million²⁴ (\$2026–27) for early development activities incurred over 2020–21 and 2021–22 prior to the commencement of the Project Development Deed.²⁵ • \$158.3 million²⁶ (\$2026–27) for IPFs comprising of early works activities funded by EnergyCo but carried out by Transgrid over 2021–22 to 2025–26 in accordance with the Project Deed.²⁷ Transgrid's revenue proposal refers to contractual arrangements that categorise the majority of its pre-period capex and a portion of its first-year costs as IPFs. It proposed to escalate its pre-period IPFs by a nominal WACC to compensate for financing costs associated with the expenditure. Transgrid proposed a forecast closing RAB of \$456.4 million as at 30 June 2031. This has been calculated through rolling forward the opening RAB and accounting for forecast capex, expected inflation and depreciation (based on forecast capex) over the 2026–31 period.
AER preliminary position	We are likely to not accept Transgrid's opening RAB of \$167.8 million, instead we consider the CWO Enabling Project should not have an opening RAB as at 1 July 2026. This is based on our preliminary position on Transgrid's pre-period capex, which is that: • We are not satisfied that Transgrid's proposed pre-period capex for early development activities are related to the CWO Enabling Project. • Expenditure related to IPFs should be shifted from pre-period capex to forecast capex for 2026–27, which is the year Transgrid is contractually obligated to make this payment. Further reasoning for our preliminary position on Transgrid's pre-period capex is provided in section 4.2 of this paper. We are likely to accept Transgrid's proposed approach to calculating the closing RAB as it has adopted our standard approach to estimate a closing RAB at the end of its regulatory period as per the EII PTRM. Areas of difference in the final decision will likely arise from changes to capex, the rate of return and regulatory depreciation.
Rate of return	
Transgrid revenue proposal	Transgrid proposed to escalate its pre-period capex from 2020–21 to 2025–26 using the nominal WACCs as set in its 2018–23 and 2023–28 NER final decisions.²⁸ These nominal WACCs are adjusted for actual inflation where the data is available.

²⁴ After removing the half-year WACC escalation, this equates to \$8.2 million (\$2025–26).

²⁵ The Project Development Deed means the document titled 'Project Development Deed – CWO REZ Project' dated 16 January 2024 entered into between Transgrid and EnergyCo, which was terminated by agreement between the parties when the Project Deed was executed on 31 January 2025. The Project Development Deed required Transgrid to undertake certain development activities to prepare for the CWO Enabling Project.

²⁶ After removing the half-year WACC escalation, this equates to \$152.0 million (\$2025–26).

²⁷ Transgrid, A.22 - Central West Orana Enabling Project 2026–31 – Project Deed, July 2025.

²⁸ Transgrid, M.7 - Central West Orana Enabling Project 2026–31 – Post Tax Revenue Model (PTRM) (adjusted), July 2025.

Revenue proposal component	Overview of Transgrid's revenue proposal and AER's preliminary position
	For the 2026–31 period, Transgrid proposed to apply the binding 2022 Rate of Return Instrument (RoRI) to develop the nominal WACCs used to calculate the return on capital building block. Transgrid also applied our standard approach in forecasting inflation for the 2026–31 period.
AER preliminary position	While we are likely to not accept Transgrid's pre-period capex (see section 4.2) which removes the need to set pre-period rate of returns in our final decision, we consider Transgrid's proposed approach to estimating the rate of return and inflation for the 2026–31 to be appropriate as it is consistent with the RoRI. Our final decision will include forecast WACCs that are calculated in accordance with the RoRI and using the most up to date financial inputs, where relevant. Similarly, we will also update the forecast inflation for the latest Reserve Bank of Australia Statement of Monetary Policy forecast amount at the time of our final decision.
Regulatory depreciation and financeability	
Transgrid revenue proposal	Transgrid proposed a regulatory depreciation amount of \$6.4 million for the 2026–31 period. This includes a financeability adjustment of \$17.7 million to total revenues, resulting from the reallocation of \$23.7 million from the secondary systems asset class, which has an asset life of 15 years, to the 'financeability asset class 1', which has an asset life of 3 years, to apply accelerated depreciation. Transgrid proposed 8 asset classes (including equity raising costs) with 6 asset classes depreciated on an as commissioned basis. It also proposed 10 unused asset classes to align with its NER PTRM. Transgrid applied its standard approach for most asset classes in aligning as commissioned capex with the last year of the as incurred spend.²⁹ The two exceptions to this were the transmission line asset class, where Transgrid used the timing at which capacity became available as a proxy for commissioning years and the two biodiversity offset asset classes, which were depreciated on an as incurred basis.
AER preliminary position	Transgrid's financeability request is a focus issue for this preliminary position paper and discussed further in section 4.1 below. Our preliminary position is that we are likely to not accept Transgrid's financeability request because our financeability test does not demonstrate that a financeability issue exists. Aside from Transgrid's proposed 'financeability asset class 1', our preliminary assessment of Transgrid's all other proposed asset lives is that they appear reasonable and consistent with those approved as part of Transgrid's HumeLink Stage 2 contingent project application final decision (for the biodiversity offset asset classes) and Transgrid's 2023–28 NER final decision (for the remaining asset classes).³⁰ In an information request response, Transgrid confirmed that it did not

²⁹ Information on depreciation forecast provided in: Transgrid, *Enabling CWO RNIP 2026–31 – information request #003 – Further modelling and BCSS questions – 20250820 – PUBLIC*.

³⁰ AER, *Transgrid 2023–28 - Final Decision - Attachment 4 Regulatory depreciation*, April 2023, p. 6; AER, *Determination - Transgrid HumeLink Stage 2 Contingent Project*, August 2024, pp. 60–61.

Revenue proposal component	Overview of Transgrid's revenue proposal and AER's preliminary position
	have concerns with us removing the 10 unused asset classes from the final decision EII PTRM.³¹ Our final decision regulatory depreciation amount will be impacted by our decision on financeability, capex, and forecast inflation.
Capital expenditure (capex)	
Transgrid revenue proposal	Transgrid proposed a total of \$437.9 million (\$2025–26) in capex (\$160.2 million pre-period and \$277.7 million forecast period).³² Transgrid's proposed pre-period capex over 2020–21 to 2025–26 consists of: • \$8.2 million (\$2025–26) in early development activities between 2020–21 and 2021–22. • \$152.0 million in IPFs comprising early works activities performed by Transgrid but funded by EnergyCo, incurred between 2021–22 and 2025–26. Transgrid's proposed forecast capex over the 2026–31 period consists of: • \$41.5 million in IPFs incurred in 2026–27 • \$145.0 million in tendered works comprising of augmentation and line transposition works • \$62.1 million in labour and indirect costs³³ • \$15.0 million in biodiversity offset costs • \$11.7 million in other construction costs • \$1.6 million in benchmark equity raising costs • \$0.7 million in easement acquisition costs.
AER preliminary position	Transgrid's proposed pre-period capex is a focus issue for this preliminary position paper and discussed further in section 4.2. Our preliminary position is that we are likely to not accept Transgrid's proposed pre-period capex because: • We do not consider Transgrid has adequately justified that expenditure associated with early development activities in 2020–21 and 2021–22 is related to the CWO Enabling Project as authorised by the Consumer Trustee. • We consider IPFs should not be included in pre-period capex but in the year Transgrid is required to contractually make this payment to EnergyCo, which is in the forecast period (2026–27).³⁴

³¹ Transgrid, *Enabling CWO RNIP - Information Request #003 - Modelling and BCSS*, August 2025.

³² The forecast capex includes equity raising costs.

³³ Total includes labour escalation.

³⁴ We do not assess these costs (for prudence, efficiency and reasonableness) because Transgrid is contractually required to pay these costs to EnergyCo (see cl. 46(1)(b)(ii) of the EII Regulation).

Revenue proposal component	Overview of Transgrid's revenue proposal and AER's preliminary position
	Our assessment is currently ongoing for Transgrid's proposed forecast capex for 2026–31 as we are assessing further information provided by Transgrid. At this point of our assessment, we acknowledge that: • Transgrid's tendered works cost estimate reflects the outcome of a competitive procurement process, and is likely to be prudent, efficient and reasonable. Transgrid initially issued an expression of interest to 8 contractors and received two submissions in response to its request for tender. Transgrid also engaged an infrastructure advisory firm to complete a Value for Money assessment of the tenderers' pricing. • Transgrid's forecast of labour and indirect costs has been partly benchmarked by its consultant, GHD. Its analysis compared the relative proportions of labour and indirect costs to the total forecast costs for the various other Transgrid projects (QNI, VNI West, Project EnergyConnect, HumeLink). We are currently assessing further information provided by Transgrid and have not yet reached a position on these costs. • Transgrid's forecast of biodiversity offset costs is uncertain and is the subject of a proposed adjustment mechanism. We discuss this further in section 4.4.2. • Transgrid's 'other construction costs' estimate is likely to be prudent, efficient and reasonable. Transgrid provided a detailed risk register to support its cost estimate, and demonstrated that forecast costs represent P50 estimates, where there is an equal probability that costs will be greater or less than the estimate. • Transgrid's forecast of easement acquisition costs is likely to be prudent, efficient and reasonable. Transgrid expects to incur the majority of capex for this activity (\$2.6 million) in early development activities, and a further \$0.7 million in the forecast regulatory period. Landholder compensation costs have been estimated by a Certified Practising Valuer.
Operating expenditure (opex)	
Transgrid revenue proposal	Transgrid proposed a total of \$27.9 million (\$2025–26) in opex over the forecast period.³⁵ The opex principally relates to additional operating costs associated with the project, including asset management, network planning, commercial contract management and regulatory activities. Transgrid indicated that its forecast has been determined using a bottom-up-build because no base year is available from the preceding regulatory period. Transgrid has not sought to recover any pre-period opex costs in its revenue proposal.
AER preliminary position	Our assessment is ongoing for Transgrid's proposed forecast opex for 2026–31 as we are assessing further information provided by Transgrid. Transgrid's bottom-up approach is different to our usual base-step-trend approach. This approach is likely to be appropriate and reasonable as it is the first regulatory period of the CWO Enabling Project. However, some of the forecast opex is for Transgrid to undertake activities that we consider are consistent with its business-as-usual activities (such as asset

³⁵ This excludes forecast debt raising costs.

Revenue proposal component	Overview of Transgrid's revenue proposal and AER's preliminary position
	management, network planning, network operations and commercial contract management). These activities could be more conducive to an incremental method of estimation. We are currently assessing further information provided by Transgrid and have not yet reached a position on these costs.
Corporate income tax	
Transgrid revenue proposal	Transgrid forecast a corporate income tax amount of \$1.5 million over the period. The opening tax asset base of \$34.4 million as at 1 July 2026 is based on its as commissioned expenditure, reflecting its commissioning approach to biodiversity offsets and its proposal to accelerate depreciation to address financeability concerns. Transgrid has adopted our EII PTRM in calculating tax depreciation on a diminishing value approach. Transgrid did not propose to immediately expense any capex.
AER preliminary position	We are likely to not accept Transgrid's approach to establishing the opening tax asset base because we are likely to not accept its proposal for pre-period capex (section 4.2). We are likely to accept Transgrid's approach to calculating its corporate income tax within the regulatory period. Transgrid used our EII PTRM, and proposed tax asset lives that are consistent with previous AER determinations made under the NER, where applicable. Areas of difference in the final decision will likely arise from updates to financial inputs and our assessment of other components of Transgrid's revenue proposal.
Efficiency benefit sharing scheme (EBSS)	
Transgrid revenue proposal	Transgrid proposed to defer the decision to apply EBSS to the end of the first regulatory period due to a lack of historical opex to inform this decision.
AER preliminary position	Our preliminary position is that our decision on whether to apply the EBSS is best made at the end of the 2026–31 period (during our next revenue determination for the 2031–36 period). At that time, we will consider whether Transgrid has revealed opex that is efficient and whether that base level of opex is at a steady state such that it could be used to forecast opex for the following regulatory period. This is consistent with our assessment approach guidance note on the application of incentive schemes under the EII Act.³⁶ It is also consistent with our final decision on the non-contestable components for the Waratah Super Battery and our preliminary position for Ausgrid's HCC REZ network infrastructure project (HCC Project).
Capital expenditure sharing scheme (CESS)	
Transgrid revenue proposal	Transgrid proposed to apply a modified CESS. Transgrid considers that the project complexity coupled with the operating environment and regulatory framework under which the project is being delivered warrants applying a modified CESS. The proposed modifications are for applying different sharing ratios, where:

³⁶ AER, *Guidance note on the AER's EII Assessment Approach for Non-contestable revenue determinations*, September 2025, pp. 51–52.

Revenue proposal component	Overview of Transgrid's revenue proposal and AER's preliminary position
	• If the actual capex is within $\pm 10\%$ of the approved capex forecast, the CESS would apply the standard 30%/70% sharing ratio between Transgrid and consumers respectively (in relation to overspends and underspends). • If the actual capex is beyond $\pm 10\%$ of the approved capex forecast, the CESS would apply a modified sharing ratio equal to the average financing costs for overspends or financing benefit for underspends.
AER preliminary position	Transgrid's proposed for a modified CESS is a focus issue for this preliminary position paper and discussed further in section 4.3. Our preliminary position is that we will apply the standard CESS as set out in version 4 of the Capital Expenditure Incentive Guideline to the project.³⁷ We do not consider that Transgrid has provided compelling information to justify modifying the CESS sharing ratios.
Revenue adjustment mechanisms	
Transgrid revenue proposal	Transgrid proposed 29 adjustment mechanisms, that allow it to apply to adjust certain aspects of our revenue determination. Transgrid's revenue proposal groups these adjustments into 6 broad categories which include: 6 prescribed events; 4 nominated pass-through events; 4 EnergyCo contractual arrangement events, 3 routine administrative events; 8 other uncontrollable events; and 4 BCSS events.
AER preliminary position	Transgrid's proposed adjustment mechanisms for the BCSS and other uncontrollable events are focus issues for this preliminary position paper and discussed further in section 4.4. Our preliminary position for the 4 BCSS events is that we are likely to accept 3 of the proposed BCSS event adjustment mechanisms (recovery of BCSS purchase price, BCSS purchase price adjustment and BCSS incremental capex and opex), but not the proposed adjustment mechanism for BCSS replacement expenditure and operating expenditure annual true ups. Our preliminary position for the 8 other uncontrollable events is that we are likely to accept 5 of the 8 proposed events. However, for one of these accepted events, we are considering applying a delayed capex forecast instead of a cumulative cap on the value of the adjustment. For the remaining 17 proposed adjustment mechanisms, our preliminary position is that we are likely to accept them because: • the 6 prescribed events are prescribed in EII Chapter 6A of our non-contestable Guideline.³⁸ • the 4 nominated pass-through events reflect commonly approved nominated cost pass through events seen in recent revenue determinations under the NER.

³⁷ AER, *Capital Expenditure Incentive Guidelines (version 4)*, August 2025.

³⁸ EII Chapter 6A, cl. 6A.7.3.

Revenue proposal component	Overview of Transgrid's revenue proposal and AER's preliminary position
	- the 4 EnergyCo contractual arrangement events principally relate to adjustments to IPFs in accordance with contractual obligations. As we do not have a role in assessing the prudence, efficiency and reasonableness of costs of this nature, if the adjustments meet the principles in clause 46(1)(b)(ii) of the EII Regulation, we will include them in our revenue determination. However, where these events are not related to adjustment of Infrastructure Planner Fees, we will apply our prudence, efficiency and reasonableness test before including any cost impacts in our revenue determination. - the 3 automatic adjustment events are for routine financial input events (a once off update to the cost of equity and annual updates for cost of debt and inflation).

Components of Transgrid's revenue proposal that we did not consider to be a focus issue are not discussed further in this paper, except where a stakeholder has provided a submission on a component of the revenue proposal (section 3). We consider narrowing the discussion in this paper to the most contentious issues provides stakeholders with the greatest opportunity to influence the outcome of our decision. However, we encourage stakeholders to make submissions relating to any component of Transgrid's revenue proposal even if we have not designated it as a focus issue in this paper.

3 Stakeholder views on Transgrid's revenue proposal

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

3.1 Transgrid's stakeholder engagement

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

Transgrid established the TAC to consult with stakeholders about the development of its revenue proposal.³⁹ The TAC comprised of consumer advocates and industry stakeholders. The TAC met 5 times across 2024–25. AER staff and the AER's Consumer Challenge Panel (CCP35) attended all TAC meetings as observers.⁴⁰ CCP35's role was to provide us feedback on how effective Transgrid's engagement activities were and how its revenue proposal was influenced by its engagement.

Transgrid explained that it 'engaged extensively with the TAC' with detailed sessions on the engagement program and the risk allocation approach.⁴¹ In addition, it provided TAC members a week to review its draft revenue proposal prior to its submission to us.

We are of the view that Transgrid's consumer engagement, while limited by confidentiality and scope constraints, requires further improvement. This view is informed by our observations, stakeholder submissions, as well as CCP35's advice to us, which considered that Transgrid's engagement 'falls short of Better Resets [Handbook] expectations.'⁴²

We recognise that Transgrid is taking positive steps towards better consumer engagement for its EII projects. For the pre-lodgement engagement for the CWO Enabling Project, it introduced 'deep dives', defining the scope of the engagement from the beginning, and conducted its engagement more thoroughly compared to the WSB Project, where engagement was undertaken as part of its broader work program.⁴³ Its deep dive sessions were well-organised, detailed, and TAC members were well equipped to influence

³⁹ Transgrid. *Central West Orana Enabling Project 2026–31 - Revenue Proposal*, July 2025, pp. 40–41.

⁴⁰ Transgrid. *Central West Orana Enabling Project 2026–31 - Revenue Proposal*, July 2025, p. 4.

⁴¹ Transgrid. *Central West Orana Enabling Project 2026–31 - Revenue Proposal*, July 2025, p. 42.

⁴² CCP35, *Submission – Transgrid CWO REZ Revenue proposal – 2026–31 Revenue Proposal*, August 2025, p. 7.

⁴³ AER, *Transgrid 2024–29 - Draft Decision - WSB project (Non-contestable)*, September 2023, pp. 12–14.

Transgrid's revenue proposal.⁴⁴ These measures are the baseline steps that we expect all Network Operators to do as part of their business-as-usual pre-lodgement engagement.

However, in attending the TAC meetings, and as evidenced by the submissions, we observe that:

- The mixed composition of the TAC, comprised of consumer advocates and industry representatives, meant that members did not want to endorse a single TAC submission on the revenue proposal as their views did not align. After prompting from stakeholders, Transgrid provided funding to TAC members on their request to make separate submissions to us.⁴⁵
- TAC members were not always provided with the detailed information they requested from Transgrid.⁴⁶ In addition, the TAC had no or little visibility over building blocks, adjustment mechanisms (where they related to contractual obligations), and the breakdown of IPF costs which all form a significant part of expenditure.⁴⁷ We recognise that these aspects have less scope for engagement due to confidentiality and/or because they were pre-negotiated with EnergyCo.
- For other components of the revenue proposal, there was limited scope for the TAC to 'influence' because the matters raised were at the 'inform' level of engagement.⁴⁸ We consider Transgrid could have consulted further on other areas of its revenue proposal it had discretion over such as financeability and the modified CESS. TAC members were informed of Transgrid's final position on financeability and the CESS at the final TAC meeting a month prior to submission.⁴⁹
- The engagement process was compressed at the end because Transgrid did not commit to a clear date to submit its revenue proposal throughout the pre-engagement process. The TAC was only provided a week to review the draft revenue proposal, and Transgrid provided itself a further week to consider comments.⁵⁰ This shortened timeframe meant that while Transgrid did respond in writing on the sole submission it received on the draft proposal, it did not adequately document the significant and detailed concerns some TAC members had on financeability and the CESS in the lodged revenue proposal.⁵¹

⁴⁴ CCP35, *Submission – Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, pp. 13–14.

⁴⁵ CCP35, *Submission – Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, p. 15.

⁴⁶ CCP35, *Submission – Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, p. 6.

⁴⁷ Gavin Dufty and Louise Benjamin, *Submission - Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, pp. 10–11; EUAA, *Submission - Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, pp. 2–3.

⁴⁸ CCP35, *Submission – Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, p. 10.

⁴⁹ CCP35, *Submission – Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, p. 12.

⁵⁰ CCP35, *Submission – Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, p. 6.

⁵¹ CCP35, *Submission – Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, p. 6; Gavin Dufty and Louise Benjamin, *Submission - Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, pp. 6, 11.

- The submissions we received did not completely reflect Transgrid's view of stakeholder engagement in its revenue proposal. We received feedback that 'Transgrid had lost the practice of seeking holistic customer input and constructively responding to customer feedback' and that Transgrid needed to revise its approach for future processes.⁵²

We expect Network Operators to look at ways to improve their pre-lodgement engagement to ensure that their proposals reflect consumer preferences. We consider there are actions Transgrid could take to improve stakeholder engagement for future projects. These include:

- Considering the composition and purpose of the TAC, and whether creating a dedicated sub-group of consumer representatives for engagement on projects may improve outcomes
- Engaging stakeholders in key aspects of the project even if they are already pre-negotiated with the Infrastructure Planner. For example, Ausgrid's customer panel for the HCC project had the opportunity to observe Ausgrid's landholder engagement.⁵³ In addition, the customer panel sought more information (ultimately provided by Ausgrid) on IPFs.⁵⁴ Ausgrid's transparency on these aspects meant that its customer panel placed greater trust in Ausgrid's revenue proposal.
- Holding deep dives on areas of the revenue proposal that have both high stakeholder interest and are under Transgrid's discretion, such as financeability and the modified CSS. While there may not be consensus among consumer representatives and Transgrid on these aspects, further engagement explaining Transgrid's reasons for making these proposals, and how they ultimately are in the long-term interest of consumers may assist in reaching common ground.
- Having clear dates for meetings and deliverables ahead of time to improve accountability and engagement outcomes. Transgrid should have a plan, pre-endorsed by the TAC, on how it will collect and reflect its feedback in the revenue proposal. Transgrid should also consider how individual TAC members could provide direct input to us through stakeholder submissions, at the start of the pre-lodgement engagement process to manage their expectations.

Overall, Transgrid has demonstrated efforts to improve its stakeholder engagement following the WSB Project in 2023. However, there remain opportunities to further improve engagement which could improve stakeholder sentiment regarding these non-contestable projects. As outlined in our Better Resets Handbook, we consider that genuine engagement with consumers is likely to result in better quality and well justified proposals being submitted to the AER. Proposals that reflect consumer preferences, and meet our expectations, are more likely to be largely or wholly accepted, creating a more effective and efficient regulatory process for all stakeholders.⁵⁵

⁵² Gavin Dufty and Louise Benjamin, *Submission - Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, p. 6,

⁵³ Ausgrid Customer Panel, *Submission - Hunter Central Coast RNIP – 2026–31 Revenue Proposal*, May 2025, pp. 28–31.

⁵⁴ Ausgrid Customer Panel, *Submission - Hunter Central Coast RNIP – 2026–31 Revenue Proposal*, May 2025, p. 17.

⁵⁵ AER, *Better Resets Handbook*, July 2024, p. 3.

3.2 AER response to stakeholder submissions

We received 4 submissions in response to Transgrid's 2026–31 revenue proposal for the CWO Enabling Project.

Table 3 Submissions on Transgrid's revenue proposal

Stakeholder	Date received
The AER's Consumer Challenge Panel (CCP35)	15 August 2025
Gavin Dufty and Louise Benjamin	26 August 2025
Energy Users Association of Australia (EUAA)	26 August 2025
Save Our Surroundings Riverina	26 August 2025

Note: Stakeholders had 15 business days to provide submissions on the revenue proposal between 5 August 2025 and 26 August 2025.

In addition to the submissions on Transgrid's pre-lodgement engagement (covered in section 3.1), stakeholders raised issues with Transgrid's proposed adjustment mechanisms, modified CESS, and financeability adjustment. These issues are all covered in detail in section 4 of this paper. We summarise our responses to the remaining matters raised by stakeholders, where relevant to the revenue determination process, in Table 4.

Table 4 AER response to matters raised in stakeholder submissions

Stakeholder submission	AER response
Consumer engagement under the non-contestable Guideline: Gavin Dufty and Louise Benjamin submitted that we should provide greater clarity of our expectations under the EII framework, including resourcing of consumer panels and working with non-disclosure constraints. ⁵⁶ These expectations could be set out in a revised non-contestable Guideline or a revised Better Resets Handbook. ⁵⁷	The Better Resets Handbook provides a strong signal of our expectations for all regulatory proposals. This includes regular determinations and access arrangements, as well as contingent project applications, actionable Integrated System Plan projects and projects under the EII framework. For example, the Better Resets Handbook explains our expectation that consumers be equipped to effectively engage and provide informed feedback (including appropriate remuneration).⁵⁸ Our non-contestable Guideline applies the Better Resets Handbook which outlines our approach to these issues.⁵⁹ However, as noted in the non-contestable Guideline, Network Operators may be under time constraints under the EII framework, so stakeholder engagement needs to be adapted accordingly to be fit-for-purpose. We strengthened expectations in our 2024 review of the Guideline and have

⁵⁶ Gavin Dufty and Louise Benjamin, *Submission - Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, pp. 3, 7, 10–11.

⁵⁷ Gavin Dufty and Louise Benjamin, *Submission - Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, p. 12.

⁵⁸ AER, *Better Resets Handbook*, July 2024, p. 12.

⁵⁹ AER, *Transmission Efficiency Test and revenue determination guideline for non-contestable network infrastructure projects*, July 2024, pp. 15–16.

Stakeholder submission	AER response
	observed improvements in pre-engagement for the HCC Project and the CWO Enabling Project. We also welcome stakeholder submissions when Guideline reviews are undertaken in the future.
Assessment of non-disclosure claims under EII: The EUAA submitted that we should revise its non-contestable Guideline to formalise our approach (in relation to non-disclosure) based on the HCC Project. ⁶⁰	In 2023, we released a draft Confidentiality Guideline which aims to provide guidance to stakeholders on our expectations around making non-disclosure claims over information provided to us in connection with its functions or powers under the EII framework.⁶¹ The draft Confidentiality Guideline also provides guidance to stakeholders on how we will assess confidentiality claims having regard to the legislative framework set out in the EII Framework. Accordingly, we consider the Confidentiality Guideline to be a more suitable place for us to provide clarity on confidentiality matters under the EII framework. We are considering a future review of the Confidentiality Guideline to provide further clarity and guidance on the extent to which Network Operators should claim non-disclosure and how we will assess their claims in accordance with the EII framework.
Transparency of IPFs: The EUAA submitted that we should seek more transparency around the IPFs from EnergyCo even though we do not decide on the prudence, efficiency and reasonableness of IPFs. ⁶²	We intend to send a letter to EnergyCo seeking information regarding the governance and nature of IPFs for the CWO Enabling Project. We sought similar information from EnergyCo for the CWO Main Project and the HCC Project. Our revenue determination for the CWO Main Project ⁶³ and our preliminary position paper for the HCC Project ⁶⁴ provides transparency to stakeholders regarding EnergyCo's governance arrangements for the approval and oversight of these contractual costs. We expect similar governance arrangements to be in place for the CWO Enabling Project and will provide more details regarding IPFs in our final decision.
Assessment of reasonableness of expenditure: CCP35 asked us to elaborate on how we assessed costs to be reasonable or not reasonable, and the principles behind that assessment, given it considered that	Our recently published assessment approach guidance note provides further information to stakeholders on how we assess for reasonableness (in addition to prudence and efficiency) of expenditure in regards to non-contestable revenue determinations. ⁶⁶ It explains that in assessing reasonableness, we have regard to the extent to which sound judgment, explanation and best practice is applied to

⁶⁰ EUAA, *Submission - Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, p. 3.

⁶¹ AER, *Confidentiality Guideline - Electricity Infrastructure Investment Act – Draft*, August 2023.

⁶² EUAA, *Submission - Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, p. 3.

⁶³ AER, *CWO REZ network project revenue determination*, December 2024, pp. 28–29.

⁶⁴ AER, *Preliminary position paper – Ausgrid - Hunter-Central Coast REZ non-contestable project 2026–31*, August 2025, p. 21.

⁶⁶ AER, *Guidance note on the AER's EII Assessment Approach for Non-contestable revenue determinations*, September 2025, pp. 20–21.

Stakeholder submission	AER response
there were limitations to Transgrid's consumer engagement.⁶⁵	the relevant facts, assumptions and evidence to arrive at logical and supported conclusions. We consider principles such as: • The context for the development of the cost estimate (including limitations or constraints) and how it may have impacted the proposal, such as the accuracy of the estimate, project delivery timeframes or prudence and efficiency of the costs. • Whether the forecast expenditure is prudent and efficient given the circumstances of the Network Operator. • The Network Operator's actions taken to identify and minimise adverse impacts that may arise from uncertainty. • Independent verification of the proposal and/or best practice approaches were adopted. Based on the above principles, we will make an assessment of prudence, efficiency, and reasonableness of Transgrid's proposed expenditure in our final decision for the CWO Enabling Project.

⁶⁵ CCP35, *Submission - Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, p. 29.

4 Focus issues

Our preliminary position differs materially from Transgrid's revenue proposal with respect to the focus issues of financeability, the inclusion of early pre-period capex, the application of the CESS and adjustment mechanisms. We discuss the reasons for our preliminary positions further in the sections below.

4.1 Financeability

4.1.1 Overview of Transgrid's proposal

Transgrid has submitted a financeability request, in accordance with clause 6A.6.3A of the EII Chapter 6A and our Financeability Guideline.⁶⁷ As part of its proposal, Transgrid has applied the financeability test, as set out in our Financeability Guideline, to demonstrate a financeability issue and therefore proposed to accelerate the depreciation of \$23.7 million of assets related to the 'Secondary systems' asset class. Transgrid has proposed these assets to depreciate over a period of 3 years, instead of their economic life of 15 years. The accelerated depreciation results in a \$17.7 million (\$nominal) increase in total revenues over the 2026–31 period, compared to if accelerated depreciation was not applied.

In supporting its financeability request, Transgrid has also provided:

- a set of confidential documents from the Clean Energy Finance Corporation (CEFC) detailing all relevant concessional financing agreements Transgrid has entered and how this is to be accounted for in its financeability request
- a financeability model⁶⁸ demonstrating its financeability position prior to⁶⁹ and after accounting for⁷⁰ the CWO Enabling Project expenditure
- underlying models and assumptions relied upon by Transgrid in calculating its cashflows on a whole-of-business basis, including relevant sensitivity and scenario analysis.

Transgrid submitted that its modelling demonstrates a financeability issue which requires rectifying in 2026–27, the first year of the regulatory period. This outcome is based on the following assumptions:

- Financeability modelling undertaken on a whole-of-business basis, inclusive of Transgrid's NER and WSB Project cashflows. In doing so, Transgrid has implemented the full RAB roll forward process set out in our NER RFM and depreciation tracking module and calculated relevant EBSS and CESS impacts.
- Forecast business-as-usual expenditure based on the average of the final 3 years of approved expenditure, after excluding any Integrated System Plan-related capex.

⁶⁷ The AER's Financeability Guideline is published under the NER but applies to EII determinations as per our non-contestable Guideline.

⁶⁸ This model is published on our website alongside our Financeability Guideline.

⁶⁹ Transgrid, *M.6 – Central-West Orana Enabling Project 2026–31 – Post Tax Revenue Model (PTRM) (unadjusted)*, 24 Jul 2025.

⁷⁰ Transgrid, *M.7 – Central-West Orana Enabling Project 2026–31 – Post Tax Revenue Model (PTRM) (adjusted)*, 24 Jul 2025.

- Forecast rate of return based on the final year of the approved PTRM for the relevant determination.
- The overspend of \$1,858.4 million for Project EnergyConnect (PEC) will be fully rolled into the NER RAB, earning a return on and of capital.
- A CESS penalty of 30% (unmodified) will be applied to the full PEC overspend.
- Application of the ‘default’ smoothing approach in the PTRM to Transgrid’s NER cashflows, removing discretion around how cashflow can be smoothed and shaped within the regulatory period.
- Inclusion of all relevant concessional financing amounts provided to Transgrid by the CEFC.

4.1.2 AER assessment and preliminary position

Under clause 47D(3) of the EII Regulation, we must make modifications to any depreciation schedule, if we are satisfied that it is reasonably necessary to ensure the revenue determination is consistent with the principles specified in the EII Act⁷¹ and the Network Operator is capable of efficiently obtaining finance to carry out the network infrastructure project.⁷² This capability to efficiently obtain finance is what is commonly known as ‘financeability’. In practice, a ‘financeability issue’ arises when the Network Operator has difficulties efficiently raising finance, primarily due to pressures on its credit rating as determined by credit rating agencies such as Moody’s.

In our assessment of a financeability request, we are required to apply the financeability test in accordance with the requirements set out in EII Chapter 6A and the Financeability Guideline.⁷³ Transgrid’s financeability request is the first proposal to be submitted to us under our Financeability Guideline, published in November 2024.⁷⁴ Our Financeability Guideline sets out further details of the ‘financeability test’ which we expect a Network Operator to apply in order to demonstrate a financeability issue. This financeability test measures the ‘base case’ financeability position of a Network Operator, prior to including any expenditure for which the Network Operator is requesting a financeability adjustment for, and post-inclusion.⁷⁵ We expect all Network Operators to follow the requirements set out in our Financeability Guideline, to the extent possible, in order to demonstrate a financeability issue.

In assessing a financeability request, we are also required to have regard to the information set out in the request and any concessional financing the Network Operator may have access to when applying the financeability test.⁷⁶ Concessional financing, in the context of NSW EII Projects, is typically provided by the CEFC for the purposes of improving the

⁷¹ EII Act, s.3(1)(a) to (c).

⁷² EII Regulation, s. 47D(3)(b); EII Chapter 6A, cl. 6A.6.3(d).

⁷³ EII Chapter 6A, cl. 6A.6.3A(i).

⁷⁴ Our non-contestable Guideline, amended in July 2024, sets out that the Financeability Guideline, as published under the NER will also apply to EII non-contestable determinations.

⁷⁵ In the context of financeability under the EII Framework, ‘base case’ refers to the Network Operator’s underlying, or starting, position prior to the inclusion of the REZ project expenditure for which a financeability adjustment is being requested. This typically includes its NER determination cashflows and RAB as well as all other determinations made in accordance with the EII Act.

⁷⁶ EII Chapter 6A, s. 6A.6.3A(i).

cashflows of a business thereby reducing any financeability issues. This may take the form of favourable financing rates (reducing debt repayments) or hybrid bonds that are treated partially as equity. By lowering the total amount debt liabilities and reducing the debt RAB portion, a project would become more ‘financeable’ as key financial metrics that measure a business’ ability to obtain efficient financing would be improved.

The financeability test,⁷⁷ undertaken through the financeability model published alongside our Financeability Guideline, examines 4 key financial metrics in assessing financeability.⁷⁸ A score is assigned to each of the metrics, which measures the financeability position relative to a scale based on Moody’s public methodology for assessing the credit rating of regulated electricity networks. We assign scores within a range or band, to reflect that small movements and changes in cashflows year-on-year are unlikely to be a sign of a financeability issue. The weighted average of the 4 scores represent the Network Operator’s overall financeability position. A financeability position is first calculated for the ‘base case’, which is exclusive of any expenditure for which the Network Operator is proposing a financeability adjustment for. A second financeability position is calculated inclusive of the proposed project.

If the financeability position reduces to a lower band from the ‘base case’, we consider the financeability test demonstrates that a financeability issue exists, necessitating a financeability adjustment.⁷⁹ This typically takes the form of modifying the depreciation schedules to bring forward cashflows from future years to earlier years, however, it could also be addressed through other means as set out in our Financeability Guideline.

AER preliminary position

Our preliminary position is that a financeability adjustment is not required for the CWO Enabling Project. This is because we consider that the financeability test applied by us does not demonstrate that a financeability issue exists. If the conditions in Transgrid’s concessional financing agreement are adhered to, Transgrid does not appear to experience a degradation in its financeability position from the inclusion of the CWO Enabling Project capex. We can observe this outcome using the modelling assumptions contained within Transgrid’s proposed scenario as well as after accounting for our preliminary positions on the other elements of the revenue proposal.

In our assessment of a financeability request, we must first determine whether or not there is a financeability issue, in accordance with the requirements set out in EII Chapter 6A and our Financeability Guideline. This process is referred to as a financeability test, which is undertaken through the financeability model published alongside our Financeability Guideline.

Under clause 6A.6.3A(i) of EII Chapter 6A, in applying the financeability test, we must have regard to the information set out in the financeability request and any concessional financing loan agreements Transgrid has entered into that provide it with favourable financing terms to improve the financeability of these and future projects. As noted above, these typically take

⁷⁷ EII Chapter 6A, s. 6A.6.3A(i) to (l).

⁷⁸ These are the funds from operation to interest coverage ratio, the net debt to RAB ratio, the funds from operation to net debt ratio and the retained cash flow to net debt ratio.

⁷⁹ EII Chapter 6A, s. 6A.6.3A(m) to (o).

the form of favourable financing rates or hybrid bonds that are treated partially as equity, thereby reducing interest (debt) repayments.⁸⁰ In relation to a financeability request, a concessional finance agreement must specify how the benefits of any concessional finance are to be taken into account by us in our financeability test⁸¹ and the Network Operator must provide this information to us.⁸²

We have reviewed the financeability schedule to the concessional financing agreement, which sets out relevant details as to how we model the concessional financing benefits. As part of this review, we have become aware the CEFC included a requirement to ‘do no harm’ in the schedule. The relevant clause reads as follows:

CEFC ‘do no harm’ requirement: “Notwithstanding the following sections outlining the way in which the AER will account for the concessional finance provided by the CEFC to TransGrid under the Umbrella Deed (the adjustments), in accordance with this paragraph, when assessing a financeability request the AER will only account for the adjustments when the adjustments reduce the quantum of financeability support the AER would otherwise provide. The adjustments will be considered by the AER in totality i.e. they will either all be wholly accounted for or will all be wholly excluded from the analysis underpinning the AER’s financeability support.”⁸³

Our interpretation of this requirement is that we should only account for concessional financing inputs in the financeability test if it reduces the financeability adjustment amount (accelerated depreciation or any other form of bringing forward cashflows) to be undertaken by us. Conversely, if the financeability test demonstrates that, absent any concessional financing, there is no (or a less pronounced) financeability issue, we must not include these concessional financing inputs in our financeability modelling. We understand that the CEFC included this requirement to address a rare, but unintended, consequence of concessional financing.

Generally, concessional financing will, keeping all other factors constant, improve the key financial metrics that we use to measure a business’ ability to obtain financing due to the lower debt liabilities. However, as set out above, our financeability test relies on credit bands, or credit notches, to measure a business’ financeability position. This allows for some movement within the credit band so that small reductions (or improvements) in these do not change the overall business’ financeability position.

In Transgrid’s proposed financeability modelling, we discover that no financeability issue exists when concessional financing inputs are removed. In particular, the key financial metric

⁸⁰ From a regulatory perspective, debt and interest repayments are seen as the key contributor to whether a Network Operator is experiencing financeability issues. This is because the 4 metrics we examine as part of our financeability assessment compare various measures of cashflows against the total debt RAB or interest repayments.

⁸¹ EII Chapter 6A, s. 6A.6.3A(e).

⁸² EII Chapter 6A, s. 6A.6.3A(f)(v).

⁸³ Transgrid, *CEFC - A.25 - Central West Orana Enabling Project 2026–31 - Financeability Schedule*, July 2025.

triggering a financeability issue, the funds from operations to interest coverage (FFO interest coverage) ratio does not show a material deterioration compared to the ‘base case’.

This is because Transgrid’s ‘base case’ FFO interest coverage score sits at the top⁸⁴ of the 1.800–2.133 credit band, with significant leeway to shift downwards in response to additional capex (from the CWO Enabling Project) without triggering a financeability issue. However, when concessional financing inputs are included in the base case, Transgrid’s financeability position further improves and its score moves to the bottom of the higher credit band of 2.133–2.467.⁸⁵ Following this, if the CWO Enabling expenditure is then added to Transgrid’s base case, it causes Transgrid’s score to fall back to the original 1.800–2.133 credit band. Therefore, a deterioration in Transgrid’s credit bands from the CWO Enabling Project expenditure only occurs when concessional financing is added to the Transgrid’s base case.

This behaviour appears to be consistent with the result that the CEFC is seeking to prevent through the ‘do no harm’ requirement. As such, we consider that Transgrid’s financeability request is inconsistent with the requirements of its concessional financing agreement that it entered with the CEFC, and that the financeability test does not demonstrate that there is a financeability issue in the 2026–31 period for the CWO Enabling Project.

4.1.3 Transgrid’s financeability modelling assumptions

Notwithstanding our preliminary position stated above, we also have concerns with several key assumptions that Transgrid has relied upon in its financeability request. We do not consider Transgrid has engaged with, nor consulted on, these assumptions with an adequate level of rigour to inform its financeability modelling.

In order to be able to assess whether a financeability issue exists under the EII framework, we expect the Network Operator to model cashflows on a whole-of-regulated-business basis, including revenue generated by its NER assets and other EII projects. This is because financeability relates to a business’ ability as a whole to procure efficient financing, rather than at a project level. This approach is consistent with our non-contestable Guideline.⁸⁶ To this end, the Network Operator must ensure the forecast regulatory period for a financeability proposal for a REZ project is aligned with the regulatory periods for its NER determinations or other EII assets.

The CWO Enabling Project has a regulatory period of 2026–31 while the WSB Project and Transgrid’s NER determination are over the 2024–29 and 2023–28 periods respectively. Therefore, for the financeability test to appropriately model cashflows for the CWO Enabling Project, Transgrid must extend the regulatory periods for its NER and WSB determinations, including presenting a reasonable forecast of future capex, to bring them in line with the CWO Enabling Project.

This issue of extending cashflows to a future regulatory period has been contemplated in our Financeability Guideline, which sets out a simple approach of using the latest approved

⁸⁴ A higher score indicates a better financeability rating.

⁸⁵ Transgrid’s concessional financing inputs are applied to its ‘base case’ financeability position. There are no benefits relevant to the CWO Enabling Project expenditure.

⁸⁶ AER, *TET & revenue determination guideline for non-contestable network infrastructure projects*, July 2024, p. 28.

PTRM and extending the regulatory years from 5 (as per the determination) to 10 years.⁸⁷ The key assumption this approach would require is a reasonable estimate of future business-as-usual expenditure. Interactions between forecast and actual capex and incentive payments would not be considered.

However, Transgrid has proposed to address this issue using a different and more complicated approach. It has instead proposed a full roll forward process for each of its determinations. This encompasses rolling forward the RAB using our RFM, forecasting a depreciation schedule using the depreciation tracking module and estimating any CESS and EBSS penalties or benefits to calculate future revenue (cashflows) using the PTRM.⁸⁸

While Transgrid's detailed approach to extending the regulatory period may result in an outcome that more closely aligns with the regulatory process, we consider it introduces additional complexity and makes assumptions about future AER decisions. For the CWO Enabling Project financeability request, there are 2 key assumptions that Transgrid has relied upon which we do not consider it has adequately engaged with: PEC overspend and revenue smoothing.

Project EnergyConnect overspend

Transgrid has assumed a worst-case cash flow scenario for its financeability request—that the entire overspend in relation to the PEC expenditure will be subject to the full 30% CESS penalty. It has modelled this as a \$657 million (\$2027–28) reduction in revenues to reflect a future CESS penalty by us, and therefore cashflows, over 5 years in its 'base case'.

We typically do not expect assumptions around capex overspend (or underspend) to have an outsized influence on financeability, as any periods of overspending would normally be balanced by underspending in other years. However, the circumstances surrounding PEC are unique, as the magnitude of the project and the size of the overspend materially alters Transgrid's 'base case' financeability position.

We also have concerns that Transgrid has proposed this assumption despite the uncertainty surrounding how the PEC overspend may be assessed by us. While we recognise that a Network Operator must submit a revenue proposal that best reflects the circumstances at the time of the proposal, we do not consider Transgrid to have appropriately engaged with the recent AEMC rule change⁸⁹ and our (at that time) draft Capital Expenditure Incentive Guideline (Capex Incentive Guideline) introducing transitional provisions to offset any CESS penalty incurred under the previous CESS framework following an ex-post review.⁹⁰

Transgrid's revenue proposal acknowledges that it performed scenario testing of the PEC overspend in response to both stakeholder feedback and our (at that time) draft Capex

⁸⁷ For this financeability proposal, this would represent extending the latest return on debt-updated PTRM for the 2023–28 NER determination to include the following 5 years (2023–33). With this approach, assumptions on the roll forward of the RAB and incentive schemes would not apply.

⁸⁸ For example, for its NER assets, Transgrid has modelled the roll forward over the 2023–28 period using the RFM and depreciation tracking module to determine an opening RAB as at 1 July 2028. This opening RAB is then input into a theoretical PTRM for the forecast 2028–33 period, with accompanying modelling of the CESS and EBSS. This modelling is likewise performed for the WSB Project determination.

⁸⁹ AEMC, *Managing ISP project uncertainty through targeted ex post reviews*, August 2024.

⁹⁰ AER, *Capital Expenditure Incentive Guidelines Review 2025 – Explanatory Statement for Draft Guidelines*, May 2025, pp. 26–27.

Incentive Guideline.⁹¹ However, it has not explored the implications of these scenarios, despite the results showing inconclusive evidence of a financeability issue. In fact, we note that of the 5 scenarios Transgrid listed in its revenue proposal, only one scenario resulted in a financeability issue within the regulatory period.⁹² This scenario was adopted by Transgrid in its revenue proposal.

Revenue smoothing

Revenue smoothing under the NER framework, through the PTRM's X factors, was anticipated to be a significant lever through which a network business could manage small deviations and minor deteriorations in its financeability metric. This has been set out as an explicit tool in our Financeability Guideline.⁹³ Also, we have historically approved custom smoothing profiles to cover for circumstances where a Network Service Provider was experiencing significant fluctuations in its year-to-year revenues.⁹⁴

While we acknowledge this option is not available in the context of EII determinations for the WSB and CWO Enabling Projects,⁹⁵ we consider that, to the extent a significant driver of any financing or cashflow concerns lie with the 'base case' NER cashflows, the smoothing of revenues in any modelling assumptions and scenario analysis should be explored as a way of managing minor changes in financing metrics.

However, Transgrid's financeability request and scenario modelling does not appear to have engaged with this option. Based on our high-level assessment of Transgrid's supporting information and sensitivity testing, we anticipate any financeability issue arising out of the CWO Enabling Project may require only minor cashflow adjustments to address. This can be observed in Transgrid's financeability modelling, where the FFO interest coverage ratio (the key financial metric underpinning Transgrid's financeability proposal) decreases marginally compared to the 'base case' and just pushes it into a lower credit band.

Stakeholder submissions

We received 2 stakeholder submissions from the AER's Consumer Challenge Panel (CCP35) and a combined submission from TAC members Gavin Duffy and Louise Benjamin citing concerns with Transgrid's financeability request.⁹⁶ CCP35's submission in particular highlights the lack of transparency and inadequate explanation on why a financeability request is required as a particular concern and encouraged us to consider affordability implications for consumers when we assess Transgrid's revenue proposal. The submission

⁹¹ AER, (draft for consultation) *AER Capital Expenditure Incentive Guidelines*, May 2025.

⁹² Transgrid's scenario testing demonstrates that 100% of the PEC overspend being subject to CESS penalties results in a positive financeability issue being identified within the period. However, 50% and 25% overspend results in a financeability issue being identified outside of the regulatory period for the CWO Enabling Project, while 75% and 0% results in no financeability issue.

⁹³ AER, *Financeability Guideline*, November 2024, pp. 18–19.

⁹⁴ See for example our approach to smoothing out the large remittal amounts reducing first year revenues for the NSW Distribution businesses: AER, *Final decision – Ausgrid distribution determination 2019–24 – Attachment 1 – Annual revenue requirement*, April 2019, pp. 13–14 and AER, *Final decision – Endeavour Energy distribution determination 2019–24 – Attachment 1 – Annual revenue requirement*, April 2019, p. 10.

⁹⁵ This is because X factor smoothing is an explicit component that has been removed from EII non-contestable determinations as per clause 47A(5)(e) of the EII Regulation.

⁹⁶ CCP35, *Submission – Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, p. 28, Gavin Duffy and Louise Benjamin, *Submission – Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, p. 11.

from Gavin Dufty and Louise Benjamin states that Transgrid did not reflect the views expressed by some TAC members on financeability in its revenue proposal and criticises the engagement that Transgrid has conducted on this issue. This observation is similarly set out in CCP35's submission.

Our preliminary position to not accept Transgrid's financeability request is based on our assessment that the financeability test does not demonstrate that there is a financeability issue for the CWO Enabling Project, particularly when accounting for the CEFC's 'do no harm' requirement. However, in light of stakeholder concerns around the lack of transparency and meaningful engagement, we have chosen to highlight these modelling assumptions in our preliminary position paper. We anticipate that by doing so, it will inform stakeholder engagement on financeability for future processes and REZ revenue proposals, allowing for more meaningful engagement. The scenario put forward to us by Transgrid in its revenue proposal represents one potential option, out of many others. However, we do not consider Transgrid has explored the other viable scenarios with customers and other stakeholder groups. Nor are we satisfied that Transgrid has adequately justified the reasonableness of the assumptions underpinning its financeability request.

4.2 Capital expenditure – Pre-period costs

4.2.1 Overview of Transgrid's proposal

Transgrid has proposed pre-period expenditure of \$160.2 million (\$2025–26) which forms its opening RAB as at 1 July 2026.⁹⁷ This amount consists of:

- \$152.0 million⁹⁸ in IPFs incurred over the period of 2021–22 to 2025–26, and
- \$8.2 million in pre-period capex (early pre-period costs) incurred in 2020–21 and 2021–22, prior to the signing of the Project Development Deed with EnergyCo.

Transgrid has proposed to recover these costs as part of our non-contestable revenue determination as it considers these costs relate to the authorised CWO Enabling Project.

Transgrid's revenue proposal states that its IPFs covers both pre-period expenditure and a portion of its expenditure to be incurred in the first year of the forecast regulatory period. Transgrid's proposed EII PTRM:

- Accounted for these costs on an accrual basis by including capex inputs in the year the initial expenditure was incurred by Transgrid and funded by EnergyCo, rather than in the year that Transgrid is expected to repay the full IPF amount to EnergyCo.
- Escalated its pre-period IPFs to establish an opening RAB by a nominal WACC, resulting in an additional \$6.3 million (\$nominal) in capitalised returns. In response to an information request, Transgrid claimed that this was due to timing differences between when it incurred costs to carry out activities during the pre-period and when it was compensated by EnergyCo.

⁹⁷ Transgrid has proposed to escalate this amount for return on capital to arrive at an opening RAB of \$167.8 million in the EII PTRM.

⁹⁸ Transgrid has also proposed another \$41.5 million (\$2025–26) in IPFs in 2026–27, the first year of the 2026–31 period.

As part of its supporting information for IPFs, Transgrid has provided an executed Project Deed setting out what costs are covered as IPFs. The contractual document also outlines the expected activities these IPFs are funding and maximum value of IPFs that Transgrid is expected to repay EnergyCo.

Transgrid has justified its inclusion of \$8.2 million in early pre-period costs in its revenue proposal by stating that these costs were related to scoping and early development activities to identify the CWO REZ's initial study corridor and as such, are costs incurred in relation to the CWO Enabling Project.⁹⁹ As it has not received compensation or funding on these activities from EnergyCo (either through IPFs or other sources of funding) or the Australian Renewable Energy Agency (ARENA), Transgrid submits that these early pre-period costs should be recovered in our non-contestable determination for the CWO Enabling Project instead.

In response to an information request for further clarification on these early pre-period costs, Transgrid provided the following¹⁰⁰:

- It confirmed that these costs have not been recovered under its NER determination, nor has it been compensated through other means, including by EnergyCo and ARENA.
- These early pre-works were undertaken to enable the scope of the project as authorised by the Consumer Trustee, including by identifying key risks, options development and cost estimation. As such, Transgrid claims that it would be unreasonable to not allow it to recover these costs through the CWO Enabling determination as these scoping works were required to inform the Consumer Trustee's authorisation decision.
- Further justification was provided for each capex category the early pre-period costs were related to and how the expenditure was required to carry out of the CWO Enabling Project.

4.2.2 AER assessment and preliminary position

Our non-contestable Guideline sets out our approach to assessing pre-period expenditure under the EII Framework.¹⁰¹ We acknowledge that Network Operators may be required to incur costs related to an authorised REZ Network Infrastructure Project prior to the start of the first regulatory period. As such, we may approve of pre-period expenditure in our non-contestable revenue determination, provided a Network Operator can justify that the costs are:

- payments classified as contractual costs payable to the Infrastructure Planner under clause 46(b)(ii) of the EII Regulation
- consistent with the relevant authorisation, related to the carrying out of the infrastructure project and are prudent, efficient and reasonable.¹⁰²

⁹⁹ Transgrid, *A.9 – Central West Orana Enabling Project 2026–31 – Labour and Indirect Capex Forecasting Methodology*, 24 Jul 2025, p. 16–17.

¹⁰⁰ Transgrid, *Enabling CWO RNIP 2026–31 – Information request #002 Response – Early pre-period costs – 20250815 – PUBLIC*.

¹⁰¹ AER, *TET & revenue determination guideline for non-contestable network infrastructure projects*, July 2024, p. 26.

¹⁰² AER, *TET & revenue determination guideline for non-contestable network infrastructure projects*, July 2024, p. 26.

Infrastructure Planner Fees (IPFs)

We do not assess the prudence, efficiency and reasonableness of IPFs, to the extent that these are costs Transgrid is contractually required to pay the Infrastructure Planner as covered by clause 46(1)(b)(ii) of the EII Regulation. Such contractual costs in the context of the EII Framework are commonly known as IPFs. We have reviewed Transgrid's supporting information and our preliminary view is that we are satisfied that these costs are IPFs per the Project Deed. As such, we do not intend to review the prudence, efficiency and reasonableness of this expenditure.

However, our preliminary position is that we do not agree with how Transgrid has modelled its IPFs in the EII PTRM, as its revenue proposal seeks an amount that is higher than what it is contractually required to pay EnergyCo. We consider the starting point for modelling IPFs should be ensuring the Network Operator is able to receive the contractual amount that it is required to repay the Infrastructure Planner. This is consistent with our interpretation of clause 46(1)(b)(ii) of the EII Regulation as well as how we have treated IPF in revenue determinations for other REZ Projects.¹⁰³

For the CWO Enabling Project, the total IPF amount Transgrid is required to repay EnergyCo is \$188.1 million (\$nominal) within the 2026–27 regulatory year. This amount is lower than Transgrid's proposed total IPF (actual and estimated), of \$199.8 million (\$158.3 million pre-period and \$41.5 million in the first regulatory year), after accounting for the WACC escalation. Transgrid's approach leads to it recovering, in nominal dollar terms, more than it is contractually required to pay EnergyCo in the form of IPFs.

Rather than forming part of the opening RAB, we consider IPFs should be input into the EII PTRM in the year Transgrid is expected to repay EnergyCo for these costs. This would represent removing these costs from pre-period capex and including this amount into year 1 capex. This would result in Transgrid recovering \$188.1 million (\$nominal) in 2026–27, in order to pay EnergyCo.

In response to an information request setting out this approach, Transgrid agreed with our approach in shifting costs into year 1 capex. However, it has raised 2 additional points:

- Transgrid has raised concerns with how this approach interacts with the CESS. In particular, Transgrid considers that our proposed approach to backsolve the appropriate year 1 capex input will not result in a CESS-neutral outcome.
- Transgrid proposed an additional \$5.4 million in pre-period opex. This is intended to compensate Transgrid for any timing differences between when it incurred costs to carry out activities during the pre-period and when it was compensated by EnergyCo.¹⁰⁴ It considers the time-value-of-money for these delay periods should also be considered IPFs, in accordance with section 46(1)(b)(ii) of the EII Act.

¹⁰³ In our WSB final decision, we approved an opex allowance of \$3 million in 2022–23, 2 years prior to the start of the regulatory period. For the HCC preliminary position paper, we have indicated that we will approve IPFs of \$162.7 million in 2025–26, the year immediately prior to the start of the regulatory period. These amounts and the timing at which they were input into the EII PTRM were consistent with the date by which the Network Operator was required to repay this liability to EnergyCo. These were then escalated by a nominal WACC to be recovered as part of first year revenues.

¹⁰⁴ Transgrid has submitted that there was an average delay of many months between when costs were incurred by Transgrid and when EnergyCo reimbursed Transgrid for the costs.

Our considerations of Transgrid's concerns are outlined below:

- We do not intend for there to be any CESS penalties incurred nor benefits accrued as a result of IPFs. Hence, if further assessment identifies issues with how the CESS is calculated, we will seek to rectify the discrepancy in our final decision.
- We do not agree with Transgrid's proposed additional \$5.4 million pre-period opex. We consider that this is an amount to compensate Transgrid for any time delays in receiving compensation from EnergyCo's instead of a payment that Transgrid is contractually obligated to pay. We are required to take into account that the Network Operator is entitled to recover costs it is contractually obligated to pay, which is \$188.1 million in 2026–27. How this amount has been determined and negotiated between EnergyCo and Transgrid—including whether there has been compensation given due to any time delays in EnergyCo reimbursing Transgrid—is a matter of commercial negotiation, and not within our remit as we do not assess the prudence, efficiency and reasonableness of IPFs.

Early pre-period costs

In examining the early pre-period costs proposed by Transgrid, we are conducting our standard assessment of the prudent, efficient and reasonable costs that are related to the carrying out of the infrastructure project, consistent with the scope of the project set out in the relevant authorisation, as per our non-contestable Guideline.¹⁰⁵

Our preliminary position is that we do not consider Transgrid has adequately justified the early pre-period costs proposed are expenditures relevant to the scope of the CWO Enabling Project as authorised by the Consumer Trustee.

We do not consider that Transgrid has adequately addressed our concerns around how the CWO REZ Project appears to have shifted scope and design compared to the initial planning stages. In particular, we are aware that the initial scope for the CWO Project was for a significantly different (and smaller scale) project, to be built entirely by Transgrid. However, this has evolved into the current contestable and non-contestable split between ACERESZ (CWO Main Project) and Transgrid (CWO Enabling Project).

Transgrid's justification is reliant on the assumption that Transgrid was acting under the EII Act and not the NER and was required to perform the role of the Infrastructure Planner in early scoping and design works, without being reimbursed by EnergyCo through IPFs when the Commitment Deed was signed. We have reached out to EnergyCo to discuss how it determines what expenditure is to be covered by IPFs. We understand that, as the Infrastructure Planner, it has processes in place to ensure that the costs approved as IPFs are directly related to the delivery of the CWO Enabling Project. EnergyCo has also confirmed that where Transgrid incurred certain costs relevant to setting up the project prior to the Project Development Deed being signed, EnergyCo has compensated Transgrid for these such costs where relevant.

Given this context, we would expect that any proposed cost that has not been compensated for by EnergyCo through contractual arrangements, such as IPFs or other direct payments, would require extensive justification to be included as pre-period costs, especially given these most of these costs were incurred several years before the start of the regulatory

¹⁰⁵ AER, *TET & revenue determination guideline for non-contestable network infrastructure projects*, July 2024, p. 26.

period and before the establishment of the EII framework.¹⁰⁶ Our preliminary position is that we do not consider Transgrid to have adequately explained how these costs are linked to the scope of the CWO Enabling Project. Therefore, we are likely to not include this pre-period capex in our final decision for the CWO Enabling Project.

4.3 Capital expenditure sharing scheme

4.3.1 Overview of Transgrid's proposal

Transgrid proposed to apply a modified CESS. It considers that the project's complexity coupled with the operating environment and regulatory framework under which the project is being delivered warrants applying a modified CESS. Transgrid's proposed modifications would modify the CESS sharing ratios as follows:

- If the actual capex is within $\pm 10\%$ of the approved capex forecast, the CESS would apply the standard 30%/70% sharing ratio.
- If the actual capex is beyond $\pm 10\%$ of the approved capex forecast, the CESS would apply a modified sharing ratio equal to the average financing costs for overspends or financing benefit for underspends.

Transgrid stated that its proposed approach is consistent with the HumeLink stage 2 final decision.¹⁰⁷ Transgrid's revenue proposal sets out the various factors it considers relevant in determining whether and how the CESS should apply. These considerations are:

- EII Chapter 6A, clause 6A.6.5A, which states that in deciding whether to apply the CESS, and the nature and details of the CESS to apply, we must take into account:
 - The capital expenditure sharing scheme principles
 - The circumstances of the Network Operator
 - The interaction of the scheme with other incentives that Network Operators may have in relation to undertaking efficient operating or capital expenditure
 - The principles in section 37 of the EII Act and clause 46(1)(b) of the EII Regulation
 - The capex objectives, and, if relevant, the opex objectives.
- The Capex Incentive Guideline, which states that in determining to exclude, or vary, the application of the CESS to REZ projects, we will consider:¹⁰⁸
 - The benefits to consumers from the exemption
 - The size of the project
 - The degree of capital expenditure forecasting risk
 - Stakeholder views.

Transgrid submitted that, for EII projects, the contractual arrangements between it and EnergyCo appropriately incentivise it to deliver the works within the specified timeframe. Transgrid also stated that, although it agreed with the CESS principles, rewards or penalties should only apply where there are true efficiency savings or losses. It considers that capex

¹⁰⁶ Transgrid has claimed in its revenue proposal that these costs were excluded from its NER RAB on the basis that they were recorded as unapproved Contingent Project Application costs, which it then reclassified following the introduction of the EII Framework; Transgrid, *A.9 – Central- West Orana Enabling Project 2026–31 – Labour and Indirect Capex Forecasting Methodology*, 24 Jul 2025, p. 17.

¹⁰⁷ AER, *Final decision – Transgrid HumeLink stage 2 contingent project application*, August 2024, p. 50.

¹⁰⁸ AER, *Capital Expenditure Incentive Guidelines (version 4)*, August 2025, pp. 8–9.

overspends of over 10% are unlikely to be heavily driven by inefficiencies. Transgrid also submitted that project complexity should be a consideration (in addition to project size), and the CWO Enabling Project is complex in that it involves coordinating various parties under multiple interconnected contractual arrangements and under agreed delivery timeframes.

4.3.2 AER assessment and preliminary position

Our preliminary position is that we will apply the standard CESS as set out in version 4 of the Capex Incentive Guideline to the project.¹⁰⁹ The CESS is a fundamental component of our incentive-based regulation framework and provides ex ante incentives for NSPs to undertake efficient capex. We consider that Transgrid has not provided compelling information to justify its proposal for modified sharing ratios. In our view, Transgrid's proposed CESS modification is not appropriate due to:

- The benefits to consumers from the exemption—Transgrid notes that it is undertaking multiple large projects to support the energy transition, and potential capex overspends for these projects would lead to it generating less than the benchmark return for equity. While we agree that it is important for these projects to be efficiently funded, Transgrid has not demonstrated that a capex overspend for this project would substantially impact its rate of return for equity.
- The size of the project—while Transgrid considers the complexity and specialisation of the project is a relevant additional consideration than size alone, we do not consider that a project of this size (with around \$236 million in forecast capex subject to the CESS) creates major financing concerns for the overall entity in the event of a CESS penalty.¹¹⁰
- The degree of capital expenditure forecasting risk—considering whether and how the CESS should apply depends on the relationship and interaction between available mechanisms; that is, risk and contingency costs included in the forecast, the application and form of the CESS, and the adjustment events. A key difference between the EII framework compared to the NER framework is the existence of adjustment mechanisms. Adjustment mechanisms allow for adjusting expenditure forecasts for additional costs when certain events are triggered. We consider this makes the comparison between NER projects and REZ projects less applicable. Being able to adjust costs under certain events reduces forecast risks and incentives to efficiently manage the project. Transgrid's proposed adjustment mechanisms apply to a wide variety of potential cost increases, ultimately reducing the forecasting risk.
- Stakeholder views—Transgrid consulted with its TAC on the CESS and members of the TAC recommended applying a standard (unmodified) CESS. CCP35 also commented that Transgrid did not explain the similarities between HumeLink and this project, and that Transgrid's engagement on this aspect of the revenue proposal was not genuine.¹¹¹

¹⁰⁹ AER, *Capital Expenditure Incentive Guidelines (version 4)*, August 2025.

¹¹⁰ IPFs are not subject to the CESS as they are trued-up for actual IPFs under adjustment mechanisms.

¹¹¹ CCP35, *Submission - Enabling Central-West Orana RNIP – 2026–31 Revenue Proposal*, August 2025, p. 25.

4.4 Adjustment mechanisms

4.4.1 Barigan Creek Switching Station acquisition

4.4.1.1 Overview of Transgrid's proposal

The Barigan Creek Switching Station (BCSS) is an asset being built and pre-commissioned by ACERESZ (with funding provided by EnergyCo), as part of the authorisation for the CWO Main Project. There are contractual arrangements in place that provide for the transfer of the BCSS asset to Transgrid for final commissioning and ongoing operation.¹¹² Transgrid has proposed the following 4 adjustment mechanisms to amend our revenue determination for the CWO Enabling Project to include costs associated with the transfer, commissioning and ongoing operation of the BCSS:

- *Recovery of BCSS Purchase Price*: recovery of the initial costs (\$186.8 million) associated with the original purchase price and transfer of the BCSS from EnergyCo to Transgrid. These costs include the initial price of the asset, any applicable transfer duty and relevant administrative costs to facilitate the transfer.
- *BCSS Purchase Price Adjustment*: to adjust the initial price of the BCSS asset in accordance with the contractual arrangements, if triggered by EnergyCo through a written notice.
- *BCSS incremental capital and operating expenditure*: an amendment to Transgrid's forecast capex and opex allowance to account for the BCSS asset, once the asset has been transferred and is under the operational control of Transgrid.
- *BCSS replacement expenditure and operating expenditure annual true ups*: an annual true up to adjust Transgrid's forecast capex and opex allowance (determined as part of the previous adjustment mechanism) for the actual costs of commissioning and running the BCSS.

Transgrid submits that these adjustment mechanisms are necessary because its current authorisation for the CWO Enabling Project does not include the BCSS, therefore preventing it from including any forecast expenditure relating to this asset in its revenue proposal. More specifically, Transgrid has provided the following justification for each of the above adjustments:

- For the first 2 adjustments, related to the BCSS purchase price, Transgrid has claimed these are costs related to a transfer of network infrastructure to itself as the Network Operator under clause 21(1)(c)(ii) and 54AA(3)(b)(ii) of the EII Regulation. Further, Transgrid claims that it is contractually obligated to include these adjustment mechanisms in its revenue proposal per the Project Deed it has signed with EnergyCo.
- Transgrid considers a third adjustment mechanism is required to revise the approved final decision forecast capex and opex to include the expected costs of managing, operating and maintaining the BCSS post-transfer and commissioning. This reflects an

¹¹² Note that there is a separate requirement for the authorisations for each of the CWO Main and CWO Enabling Projects to be amended to allow this transfer to occur. We understand that this has already been contemplated by EnergyCo.

optional adjustment mechanism allowing Transgrid to cover incremental capex and opex for the BCSS, contained in the Project Deed.

- Finally, Transgrid claims a fourth adjustment, representing annual true ups to the forecast capex and opex determined in the third adjustment mechanism for the BCSS, is required. Transgrid has posited that this is due to its inability to accurately forecast these costs at the time of acquisition, arising out of uncertainty and limited visibility of the design and construction of the BCSS by a third party (ACERERZ).

Following an information request for further justification of the fourth adjustment mechanism, Transgrid confirmed that while there are certain provisions for defect rectification and an Independent Certifier to sign off that the asset is built to specifications, these do not adequately address Transgrid's concerns. Transgrid is primarily concerned that it does not have visibility over internal components of the BCSS and have provided the following 4 broad categories as key areas where it will be unable to forecast costs for:¹¹³

- BCSS design review and oversight – other than the interface component, other aspects of the BCSS will be designed to (and signed off by the Independent Certifier against) EnergyCo's requirements, rather than Transgrid. Transgrid's unfamiliarity with the specifications will impact on its ability to forecast any condition based/corrective maintenance opex and replacement capex if required.
- Limited involvement during BCSS construction – due to the contractual terms, Transgrid is limited in its ability to assess compliance with the construction standards and gain adequate familiarisation with the site-specific hazards and constraints.
- New equipment, technology and limited historical data – ACERERZ is adopting new technology and Transgrid does not have historical information to forecast costs. Further, ACERERZ using a different supplier for its equipment inhibits Transgrid's ability to produce efficient operational and maintenance forecasts.
- Timing of handover materials and training – while ACERERZ is compelled to handover materials and training to Transgrid's staff, Transgrid is concerned with risks associated with the timing of this, affecting its ability to forecast capex and opex.

4.4.1.2 AER assessment and preliminary position

We have discretion as to whether or not to include a proposed adjustment mechanism in our determination.¹¹⁴ We have assessed Transgrid's reasoning and justification for the proposed adjustment mechanisms for the BCSS and our preliminary position is that we are likely to:

- accept the first 3 adjustment mechanisms of 'recovery of BCSS purchase price', 'BCSS purchase price adjustment' and 'BCSS incremental capital and operating expenditure', and
- not accept the fourth 'BCSS replacement expenditure and operating expenditure annual true ups' adjustment mechanism.

Our current assessment of Transgrid's first 3 adjustments is that they appear to be reasonable and appropriate.¹¹⁵ This is because they relate to costs that, under normal

¹¹³ Transgrid, *Enabling CWO RNIP - Information Request #006 Response - BCSS adj event*, September 2025.

¹¹⁴ EII Regulation, cl. 51(1).

¹¹⁵ Taking into account the principles in s. 37 of the EII Act and cl. 46 of the EII Regulation.

circumstances, Transgrid would likely to incur as part of its role as the Network Operator for the CWO Enabling Project if the BCSS asset was a part of its authorisation.

In particular, we agree with Transgrid's characterisation of the BCSS transfer as a transfer of network infrastructure contemplated under clause 21(1)(c)(ii) of the EII Regulation. We also consider that some components of the 'recovery of BCSS purchase price' and 'BCSS purchase price adjustment' adjustment mechanisms relate to payments that Transgrid must make to EnergyCo under a contractual arrangement it was required to enter into under the authorisation, consistent with clause 46(b)(ii) of the EII Regulation. In such cases, we will not assess the prudence, efficiency and reasonableness of the expenditure proposed under these 2 adjustments.

Further, Transgrid's proposed 'BCSS incremental capital and operating expenditure' adjustment mechanism appears reasonable. We would expect Transgrid to incur incremental expenditure related to taking over operational control of the BCSS asset at the time of transfer. Transgrid has not proposed any forecast expenditure related to this asset in its revenue proposal, as the BCSS is not contained in the current authorisation for the CWO Enabling Project. If our final decision was to accept this adjustment mechanism, we will conduct our standard assessment of the prudence, efficiency and reasonableness of any expenditure in assessing the adjustment proposal in the future.

In contrast, we are not convinced by Transgrid's justification for the fourth BCSS-related adjustment to true up for actual expenditure. We are concerned that this adjustment mechanism appears to undermine our incentive-based regulatory framework by removing any forecasting risk associated with commissioning and maintaining of the BCSS.¹¹⁶ Our position, consistent across both the EII and NER frameworks, is that the network business, rather than consumers, is best placed to manage forecasting risk. However, this adjustment appears to shift the risk onto consumers without adequately setting out the grounds for doing so.

Transgrid's reasoning for proposing this adjustment is that there are uncertainties associated with forecasting this expenditure due to the BCSS being developed, designed and constructed by ACERZ. As a result, Transgrid claimed it has limited visibility into the operational requirements of the asset until the transfer is completed, including any necessary corrective maintenance. We requested further information from Transgrid in the form of an information request and have also held discussions with EnergyCo to provide clarity on the relevant contractual arrangements and risk allocation associated with the BCSS transfer.

Based on the information available to us through Transgrid's response to our information request, and discussions with EnergyCo, we are not convinced on the materiality of the risks necessitating the proposed adjustment. We understand that as part of the commercial negotiations between EnergyCo, ACERZ and Transgrid, there are several strategies and safeguards in place that Transgrid has access to or have been involved in that reduces or mitigates this risk:

- Transgrid has been consulted on specific aspects of the design of the BCSS – particularly in relation to the interface component where the asset connects to

¹¹⁶ We are required to account for incentives given to Network Operators to promote economic efficiency, see s. 37(1)(b) of the EII Act.

Transgrid's existing network infrastructure. This includes opportunities to review and comment on the interface design and participating in a safety workshop. Through these processes, Transgrid was afforded the ability to provide feedback and raise potential safety issues with ACERZ and EnergyCo.¹¹⁷

- We acknowledge that there are other design specifications unrelated to the interface component that will not be available to Transgrid until shortly before the transfer as pointed out in Transgrid's response to our information request. However, it is not clear to us that these risks would materially affect Transgrid's ability to forecast related maintenance and operational expenditure related to the BCSS. In particular, the BCSS would be a new asset at the point of transfer midway through the 2026–31 period and Transgrid will have the opportunity to provide a new expenditure forecast shortly afterwards at the next regulatory period.
- The contractual arrangements governing the transfer of the BCSS includes a requirement for the Independent Certifier to certify whether the BCSS has been constructed in compliance with the specifications and technical requirements set out in the Interface Deed, before it is transferred to Transgrid.¹¹⁸
- There are strict safety and design standards that must be met before the Independent Certifier signs off on completion of the BCSS, which includes pre-commissioning tests and procedures undertaken by ACERZ. Transgrid has the ability to attend and observe pre-commissioning tests and inspections that ACERZ must undertake before the BCSS is certified and transferred to Transgrid's control.¹¹⁹
- We are of the view that Transgrid's concerns with new technology and unknown suppliers can be managed as part of its standard expenditure forecasting approach. We consider that Transgrid has a wealth of knowledge and experience it can draw upon in commissioning other switching stations in its network to forecast a reasonable estimate of the maintenance and operating costs associated with the BCSS, despite any potential differences in operating standards and the contractors delivering the project.
- We are also aware that Transgrid has negotiated in the Interface Deed and the BCSS Sale and Purchase Deed provisions around defects and arrangements for dispute resolution relating to the transfer of the BCSS.¹²⁰
- More broadly, we understand that these outcomes and the risk allocation are a matter of commercial negotiation Transgrid had conducted with EnergyCo and ACERZ. While we acknowledge that some components may have been non-negotiables by EnergyCo or ACERZ, we are not convinced that the risks are of such materiality that would require shifting this risk to consumers through an adjustment mechanism.

In light of the above, our preliminary position is that Transgrid has not adequately justified the need to include the fourth BCSS adjustment related to annual true ups for actual

¹¹⁷ Transgrid, *KWM - Enabling CWO RNIP - Interface Deed (public)*, January 2025, pp. 33–35.

¹¹⁸ Transgrid, *KWM - Enabling CWO RNIP - Interface Deed (public)*, January 2025, p. 34; Transgrid, *Enabling CWO RNIP - Information Request #006 Response - BCSS adj event*, September 2025, pp. 1–2.

¹¹⁹ Transgrid, *KWM - Enabling CWO RNIP - Interface Deed (public)*, January 2025, p. 45.

¹²⁰ Transgrid, *KWM - Enabling CWO RNIP - Interface Deed (public)*, January 2025, pp. 73–77.

expenditure. We are therefore likely to not accept this adjustment mechanism in our final decision for the CWO Enabling Project.

4.4.2 Other uncontrollable events

4.4.2.1 Overview of Transgrid's proposal

Transgrid proposed non-automatic adjustment mechanisms for 8 other uncontrollable events. It noted that it engaged extensively with the TAC on this topic and how risk is allocated. Transgrid submitted that the risks it identified justify the inclusion of an adjustment mechanism because they:

- are uncontrollable, and cannot be reasonably mitigated or prevented
- cannot be effectively insured against
- are not accounted for in the proposed base expenditure for the project, the prescribed pass-through events or the nominated pass-through events
- have the potential to have a significant cost impact
- meet the requirements outlined in the nominated pass-through event considerations.

We summarise the proposed adjustment mechanisms and our preliminary position on each of them in the section below.

4.4.2.2 AER assessment and preliminary position

Contractor force majeure

This mechanism will allow for the recovery of prudent, efficient and reasonable costs in the event of a contractor force majeure. Transgrid submitted that forecasting the cost impact of such an event would be extremely difficult and mitigating via commercial or self-insurance is not reasonable or economical.

AER preliminary position

We are likely to accept this adjustment mechanism. We agree with Transgrid's reasoning that an adjustment mechanism is preferable to forecasting a capex allowance, due to the difficulty in forecasting the cost of such an event.

Unavoidable design and construct contract variations

This mechanism will cover events where there is a change in the final design or construction methodology that results in known changes in costs, or the contract costs are higher or lower than the forecast amount accepted by us in our revenue determination due to changes in the price of materials or labour rates allowed for under the design and construct (D&C) contract.

Transgrid proposed a cumulative cap of \$25 million (\$2025–26) for this adjustment mechanism across the regulatory period.

AER preliminary position

We are likely to accept this adjustment mechanism. However, we are considering applying a delayed capex forecast instead of a cumulative cap for this adjustment mechanism. Under a delayed capex forecast approach, an appropriate milestone would be identified when there is new and material information available that improves the accuracy of the capex forecast. In this example, Transgrid would be expected to provide an updated forecast of D&C contract

costs when more information is available about the final project design, prices of key project materials and forecast labour rates.

We consider that a delayed capex forecast provides stronger incentives for Transgrid to undertake efficient capex than an adjustment mechanism subject to a cumulative cap. This is because a greater portion of the proposed capex would be subject to the CESS. However, we will also consider practical implementation issues, including whether an appropriate trigger can be identified for an updated forecast of D&C contract costs. For example, Transgrid has indicated that it will have greater certainty of its material costs in late 2025, whereas some projects design elements will be finalised later.

Biodiversity offset cost variances

Transgrid submitted that there is considerable uncertainty with the biodiversity offset cost estimate. This adjustment mechanism will be triggered where the cost implications of the project's biodiversity offsets are known, and those costs differ from the forecast amount accepted by us in our revenue determination.

AER preliminary position

We are likely to not accept this adjustment mechanism. We recognise that the TAC supported the pass through of these costs as they are somewhat uncontrollable. We are concerned that, if accepted, Transgrid will not be incentivised to acquit its offset liabilities efficiently. If accepted, and Transgrid submitted that the project's biodiversity offset costs are greater than we accepted in our revenue determination, it would be very difficult for us to determine ex-post whether Transgrid could have acquitted its offset liabilities more efficiently. This is because an "efficient" cost estimate is not only a function of the volume and price of offset credits, but also Transgrid's ability to take advantage of different acquittal methods at different points in time. For example, establishing biodiversity stewardship sites is the lowest cost method of acquittal, but requires landholder consultation (or land purchase) and a lengthy assessment process. Transgrid could also purchase and retire existing credits from the market, which it considers is an intermediate cost option.

Transgrid's cost estimate for the project assumes that most of its liabilities will be offset via biodiversity stewardship agreements (BSAs) but applies a risk premium to the unit price of remaining credits. Transgrid's forecast of other construction costs also includes risk costs related to inherent price uncertainty associated with delivering the BSAs. Transgrid's cost estimate for transposition works was also based on a desktop assessment and may not be required in practice. Transgrid noted that field assessments would commence in mid-2025 and greater certainty regarding costs related to transposition works will be available later in 2025.

Transgrid also submitted the EIS for the Mount Piper to Wallerawang Transmission Line Upgrade Project in August 2025 and this was exhibited in September 2025. Transgrid expects to receive a final assessment in mid-2026, which will include Minister's Conditions and requirements for the project. There is some risk of a delay to the EIS approval, and this risk cost is included in Transgrid's forecast of other construction costs.

Based on the information currently available, we are considering 2 approaches to biodiversity offset costs and the related adjustment mechanism for the project:

- Not accept the proposed adjustment mechanism but accept the proposed capex for biodiversity offset costs. Under this approach we would also accept the forecast risk costs associated with BSA price uncertainty and the potential delay to the EIS approval.
- Apply a delayed capex forecast adjustment mechanism. The delayed capex forecast could be provided after the EIS is approved (expected in mid-2026). Under this approach we would not accept the forecast risk costs associated with BSA price uncertainty and the potential delay to the EIS approval (although these could be included in the delayed capex forecast if the costs are realised).

Planning approval delays

Transgrid submitted that there is a residual risk of delay to approval of the Environmental Impact Statement (EIS) that is caused by third parties and outside its control.

This adjustment mechanism will be triggered where the date of receipt of an EIS determination materially impacts Transgrid's delivery schedule and the actual or forecast cost implications of the delay are known.

The mechanism will allow Transgrid to recover prudent, efficient and reasonable costs associated with facilitating the planning approval delays, including any extension of time claim under the D&C contract. This will exclude costs that Transgrid is able to effectively mitigate.

AER preliminary position

We are likely to accept this adjustment mechanism. We consider that the proposed risk costs in Transgrid's forecast capex relate to other risk events (and do not account for specific delays in Ministerial approval). However, we consider the adjustment mechanism trigger will require some refinement with respect to the definition of a "material impact" on Transgrid's delivery schedule. Our preference is that the adjustment mechanism will specify a date relative to the expected EIS approval in mid-2026.

The adjustment mechanism trigger should also distinguish the costs subject to the mechanism from costs that Transgrid is able to effectively mitigate. For example, D&C contract costs may increase due to planning approval delays, but Transgrid may be able to limit its own cost increases (for example, it could reallocate its own labour and indirect costs towards other projects). Our preference is that the adjustment mechanism will specify the nature of costs that could potentially increase in the event of planning approval delays.

Cancellation of planned outages by the Australian Energy Market Operator (AEMO)

Transgrid submitted that it will be required to facilitate network outages for the contractor to perform works, due to the brownfield nature of certain aspects of the project. AEMO will be notified of planned outages but there may be instances where it withholds permission (effectively cancelling the planned outage) to ensure the power system maintain secure and reliability, for public safety reasons or to avoid significant disruption to market operation.

This adjustment mechanism will be triggered where:

- Transgrid had notified AEMO of a planned outage,
- AEMO directs or instructs Transgrid to cancel the outage under the NER, and

- actual or forecast cost implications associated with the outage are known.

AER preliminary position

We are likely to accept this adjustment mechanism. We consider that Transgrid has partly mitigated this risk by:

- developing an outage management plan and ensuring the contractor is able to re-order works to mitigate the impact of such delays
- ensuring the contractor is only able to make a claim under the contract if an AEMO outage occurs at relatively short notice.

In order to claim costs, the contractor must be able to demonstrate that, amongst other things, it was ready to utilise the scheduled outage and has taken all reasonable actions to minimise the associated cost impact.

Latent conditions

Transgrid submitted that project costs may increase as a result of ground and geotechnical conditions being substantially different from expected conditions. It noted that contractors are unwilling to take on risks associated with unforeseen latent conditions and as a result, the D&C contractor may be entitled to relief under the contract if and when a latent condition arises.

This adjustment mechanism will be triggered where:

- the D&C contractor notifies Transgrid of a latent condition under the contract, and
- submits a claim for extension of time and/or costs associated with carrying out additional work, using additional construction plant or incurring extra costs (including the cost of delay or disruption), complying with the requirements of the contract, and
- the actual costs associated with the latent condition are known.

AER preliminary position

We are likely to accept this adjustment mechanism. We consider that Transgrid has partly mitigated this risk by undertaking initial site investigation works (to inform the D&C contract). We are also satisfied that a latent condition event is not included in Transgrid's forecast of other construction costs.

Compulsory acquisition easement costs

Transgrid submitted that there is a risk that some property may need to be compulsorily acquired for the project. If this occurs the cost of the acquisition will be determined by the Valuer General.

This adjustment mechanism will be triggered where the Valuer General determines an amount for compulsory acquisition easement costs that exceeds the amount included in Transgrid's base expenditure.

AER preliminary position

We are likely to not accept this adjustment mechanism. We consider that Transgrid has some ability to control and forecast these costs because a relatively small number of landholders are impacted by the project, and most acquisition costs will be incurred in the

near-term (by the end of 2026). We also consider that Transgrid will be adequately funded via its capex forecast, as:

- The forecast capex for easement acquisition applies a premium to Transgrid's initial valuation for landholder compensation. This is based on the actual compensation paid for property for the HumeLink project.
- The forecast of other construction costs includes risk costs related to property valuation uncertainty.

Given that easement acquisition costs are not a material aspect of the project, and Transgrid's forecast of compulsory acquisition costs is only a minor subcomponent of this category of capex, we consider that any differences in forecast and actual costs associated with compulsory acquisitions are likely to be immaterial and will not have a significant cost impact.

Legal challenges arising from the compulsory acquisition process

Transgrid noted that once the Valuer General determines the compensation payable to the landholder in a compulsory acquisition arrangement, the landholder, if unsatisfied with the compensation amount, can lodge an appeal with the Land and Environment Court of NSW.

This adjustment mechanism will be triggered where:

- a landholder/s does not accept the compensation offer determined in accordance with the process specified in legislation and lodges an appeal, and
- actual or forecast costs associated with legal proceedings required are known.

AER preliminary position

We are likely to not accept this adjustment mechanism. As noted above, we consider that Transgrid has some ability to control and forecast these costs and will be adequately funded via its capex forecast. We consider that any differences in forecast and actual costs associated with compulsory acquisitions (including legal challenges) are likely to be immaterial and will not have a significant cost impact.

Glossary

Term	Definition
ACERESZ	ACERESZ Partnership
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ARENA	Australian Renewable Energy Agency
assessment approach guidance note	guidance note on the AER's EII Assessment Approach for Non-contestable revenue determinations (September 2025)
BCSS	Barigan Creek Switching Station
BSA	biodiversity stewardship agreement
capex	capital expenditure
Capex Incentive Guideline	Capital Expenditure Incentive Guideline (August 2025)
CEFC	Clean Energy Finance Corporation
CESS	capital expenditure sharing scheme
CCP35	consumer challenge panel, sub-panel 35
Confidentiality Guideline	Draft confidentiality guideline - Electricity Infrastructure Investment Act (August 2023)
CWO Main Project	Main CWO REZ network infrastructure project carried out by ACERESZ
CWO Enabling Project	Enabling CWO REZ network infrastructure project carried out by Transgrid
D&C contract	design and construct contract
EBSS	efficiency benefit sharing scheme
EII Act	Electricity Infrastructure Investment Act 2020 (NSW)
EII Chapter 6A	Appendix A of the non-contestable Guideline, a modified version of Chapter 6A of the NER that applies to EII projects
EII PTRM	refers to a NER PTRM that is modified for the purposes of making non-contestable revenue determinations under the EII framework (EII Act and EII Regulation)
EII Regulation	Electricity Infrastructure Investment Regulation 2021 (NSW)
EIS	environmental impact statement
EUAA	Energy Users Association of Australia
Financeability Guideline	Financeability Guideline (November 2024)
FFO interest coverage ratio	Funds from operations to interest coverage ratio

Term	Definition
non-contestable Guideline	Revenue determination guideline for non-contestable network infrastructure projects
HCC Project	Hunter-Central Coast REZ network infrastructure project
IPF	Infrastructure Planner Fees
NER	National Electricity Rules
opex	operating expenditure
PEC	Project EnergyConnect
PTRM	post-tax revenue model
RAB	regulatory asset base
REZ	renewable energy zone
RIN	regulatory information notice
RoRI	2022 Rate of Return Instrument
TAC	Transgrid Advisory Council
WACC	weighted average cost of capital
WSB Project	Waratah Super Battery non-contestable project carried out by Transgrid