

AER Public Forum Enabling Central-West Orana REZ Network Infrastructure Project

10 November 2025

Acknowledgement of Country

Kate Symons

AER Board Member

Purpose of this forum



A public opportunity to raise queries on Transgrid's revenue proposal and the AER's preliminary position paper.



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



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



Agenda

Total time: 1 hour 15 minutes

- 1** **Introductory comments** AER – Kate Symons
5 mins
- 2** **AER presentation** AER – Ben Stonehouse
15 mins
- 3** **Transgrid presentation** Transgrid – Nadine Lennie
15 mins
- 4** **Consumer Challenge Panel 35** – Helen Bartley
8 mins
- 5** **Customer representatives from the Transgrid Advisory Council** – Louise Benjamin, Leigh Clemow, Gavin Dufty
15 mins
- 6** **Q&A session** Facilitated by AER – Scott Haig
15 mins
- 7** **Closing remarks** AER – Kate Symons
2 mins

Overview of the EII framework

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

Key aspects of the EII framework

Scope:

- A narrower assessment compared to one undertaken under the National Electricity Rules (NER).
- We do not consider the size, scale or timing of the infrastructure projects. The Infrastructure Planner (EnergyCo) decides these aspects.
- For non-contestable projects like this one, our assessment is limited to the prudence, efficiency, and reasonableness of the costs that Transgrid proposes to deliver this project in compliance with the authorisation provided by the Consumer Trustee (AusEnergy Services).

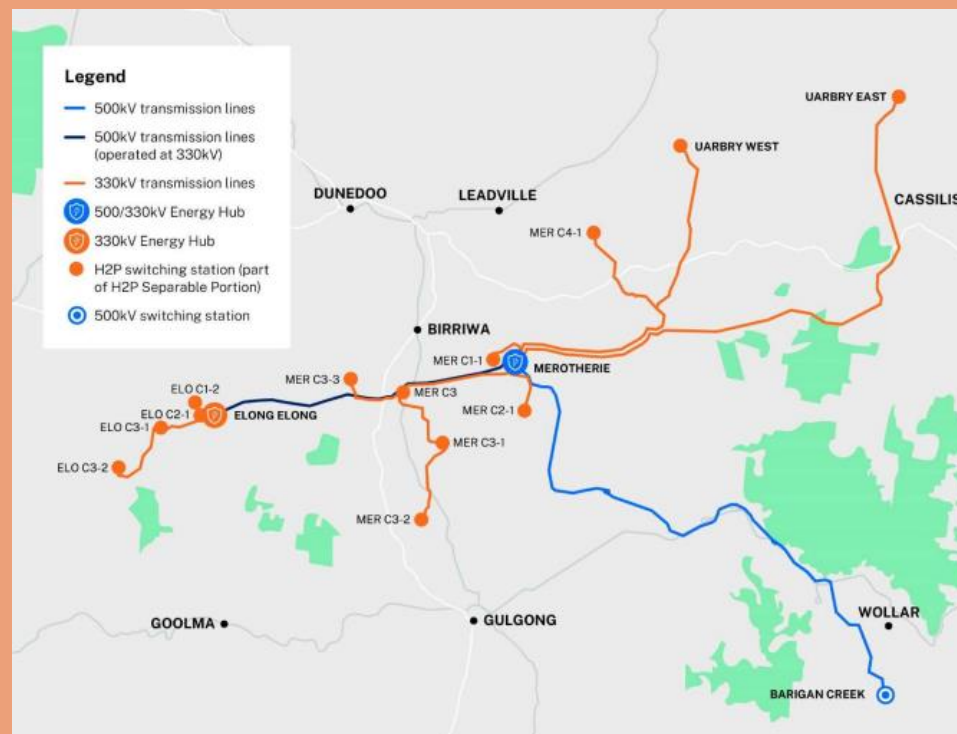
Cost recovery:

- Separately, we are tasked with determining the annual costs of implementing the NSW Electricity Infrastructure Roadmap, including REZ network infrastructure projects such as the CWO Enabling Project.
- Annual costs are passed through to NSW consumers in their electricity bills by the 3 NSW distributors through a jurisdictional scheme under the NER.

Timing:

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

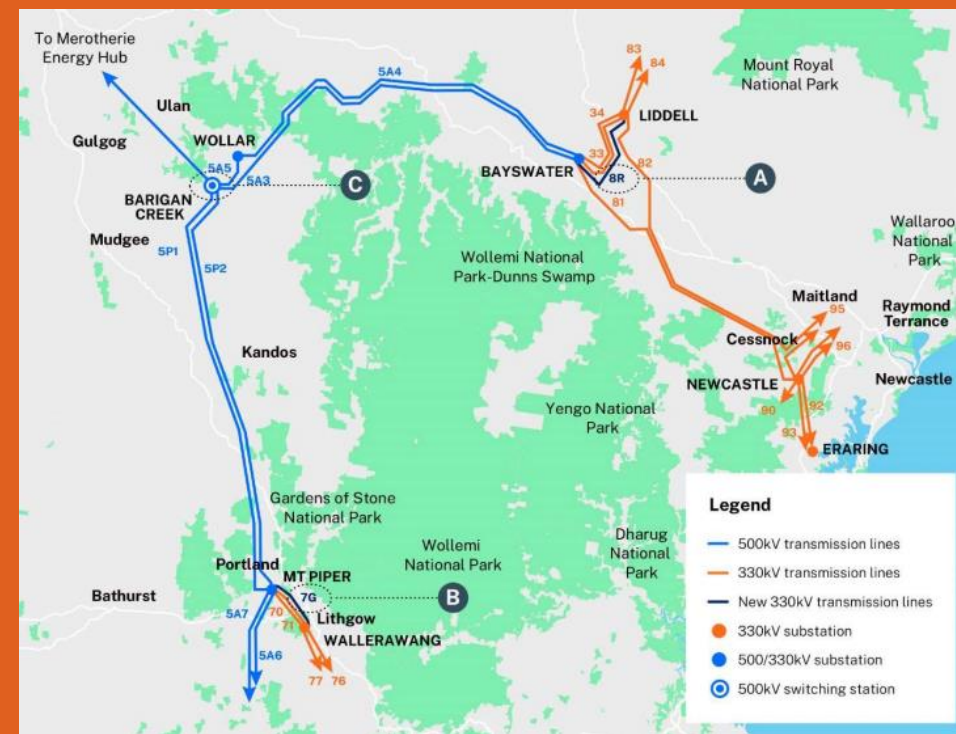
CWO Main Project



New transmission infrastructure and the Elong Elong and Merotherie Energy Hubs. 4.5 GW of network capacity for solar, wind and energy storage with capacity for 6 GW by 2038.

ACERENZ chosen through a tender process undertaken by EnergyCo with oversight and revenues determined by us.

CWO Enabling Project (this project)



Connects CWO Main Project to existing network and upgrades the existing network to transfer energy from CWO REZ to major centres in NSW. Also includes arrangements to acquire BCSS from ACERENZ (subject to authorisation). Transgrid chosen by EnergyCo with works authorised by ASL under the non-contestable framework.

Overview of Transgrid's revenue proposal

Building block components (\$m nominal)	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Return on capital	11.4	21.9	30.4	30.9	30.8	125.4
Regulatory depreciation (including financeability)	–0.3	2.9	4.6	1.5	–2.3	6.4
Operating expenditure	0.8	3.5	8.2	10.3	9.1	31.9
Corporate income tax	0.6	0.6	0.2	-	-	1.5
Maximum allowed revenue	12.5	28.9	43.4	42.7	37.6	165.1

- Proposed total capital expenditure of **\$437.9 million** (\$2025–26) (inclusive of infrastructure planner fees).

Infrastructure Planner Fees (IPFs)

- IPFs are payments which are required to be made by the Network Operator (Transgrid) to the Infrastructure Planner (EnergyCo) under the contractual arrangements. We must include these costs in Transgrid's revenue determination and do not have a role in assessing these costs.
- Transgrid proposed IPFs of **\$199.8 million** (\$158.3 million pre-period and \$41.5 million in year 1) (\$2026–27).

Overview of our preliminary position of non-focus issues

Areas of the proposal that we are likely to accept because they are consistent with previous approaches and AER guidelines and models:

- Total revenue
 - Schedule of payments
 - Calculation of the closing regulatory asset base
 - Rate of return (return on capital)
 - Regulatory depreciation (except financeability)
 - Corporate income tax
 - Tendered works capital expenditure
 - 25 of 29 proposed adjustment mechanisms
- Differences in our final decision will likely arise from our decision on other components of Transgrid's revenue proposal and updates to financial inputs. We are also likely to decide on applying EBSS at the end of the 2026-31 regulatory period.

Areas of the proposal that we are continuing to assess:

- Some remaining confidentiality claims
- Operational expenditure
- Remaining elements of capital expenditure (aside from tendered works capital expenditure)

Pre-lodgement stakeholder engagement

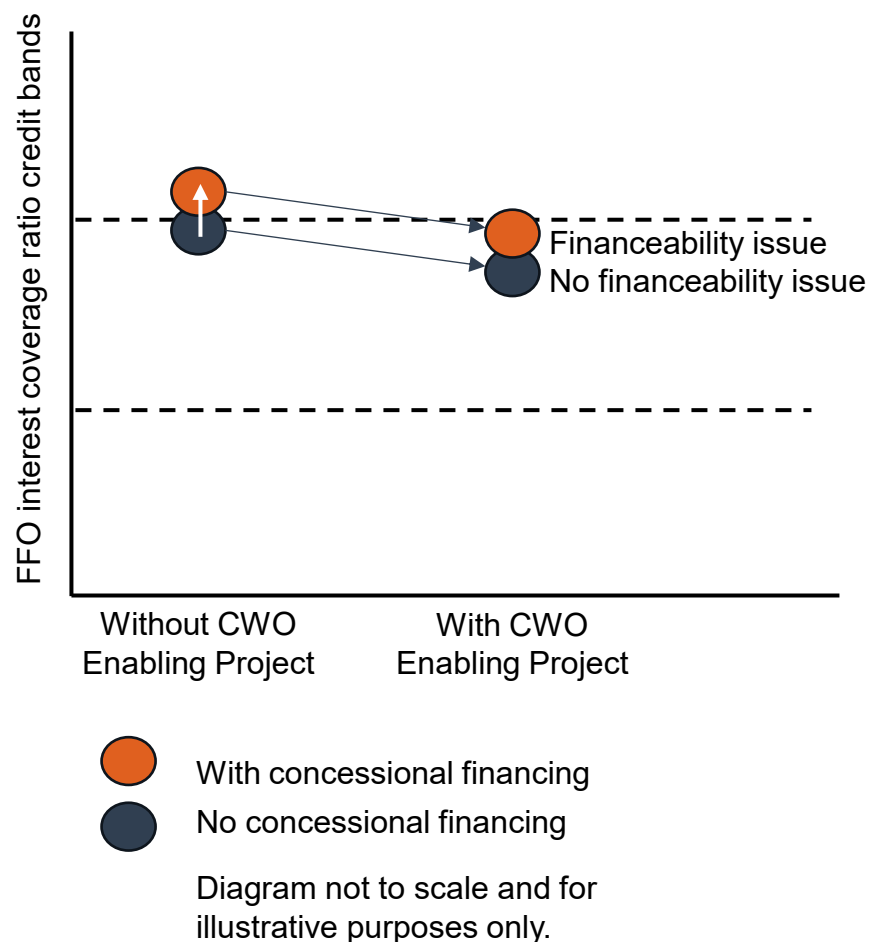
We observed that:

- The Transgrid Advisory Council (TAC) contains a mix of consumer and industry voices (which diluted consumers' perspectives).
- TAC members were not always provided requested information which meant that sometimes there was little visibility on aspects of Transgrid's proposal.
- TAC members had limited scope to influence areas of the proposal, such as financeability and the modified CESS.
- There was a compressed timeframe at the end of pre-lodgement which meant stakeholders had limited time to review and respond to Transgrid's draft proposal.
- The EUAA, CCP and Dufty/Benjamin submissions did not completely reflect Transgrid's view of stakeholder engagement in the proposal.

Key take aways on pre-lodgement stakeholder engagement:

- Transgrid has demonstrated efforts to improve its stakeholder engagement following previous REZ projects. However, our observations above point to further opportunities for improvement.
- Further improvement in pre-lodgement engagement is likely to result in better quality and well justified proposals being submitted to the AER. We suggest some improvements in the preliminary position paper.
- 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.

Focus issue – Financeability



Preliminary position

- We are likely to not accept Transgrid's financeability request to accelerate the depreciation of \$23.7 million of assets (nominal), resulting in a \$17.7 million (nominal) increase in total revenues over 2026-31.
- Our assessment of Transgrid's financeability request is it appears to be invalid, as it is inconsistent with the Clean Energy Finance Corporation's 'do no harm' requirement of its concessional financing agreement with Transgrid.
 - When concessional financing inputs are removed from Transgrid's proposal, there is no financeability issue.
- We also consider that Transgrid also did not consider the following areas in its financeability proposal:
 - Modelling and hypothetical treatment of overspend (primarily PEC)
 - Approach to managing cashflows through revenue smoothing
 - Addressing concerns raised by stakeholders

Focus issue – Capital expenditure (pre-period costs) and opening RAB

Transgrid's proposal	\$167.8 million Opening RAB as at 1 July 2026	
	\$9.5 million Early development activities prior to the commencement of the Project Development Deed	\$158.3 million Infrastructure Planner Fees (IPFs) pre-period capex
AER's preliminary position	\$0 Opening RAB as at 1 July 2026	
	\$0 Likely to not accept early development activities capex because Transgrid has not adequately justified their relation to the CWO Enabling Project.	\$0 Likely to move IPFs pre-period capex recovery to Year 1 to reflect payment timing. Also, likely to not accept \$5.4 million in pre-period opex above \$188.1 million IPF to compensate for timing as it enables Transgrid to recover more than it is contractually obligated to pay.

Focus issue – Capital expenditure sharing scheme (CESS)

Transgrid's proposal	AER's preliminary position
Transgrid proposed to apply a modified CESS with sharing ratios equal to the average financing costs for overspends or average financing benefit for underspends if actual capex is beyond 10% of the approved capex forecast. Otherwise, when within 10% of the approved capex forecast, the sharing ratio is unchanged at 30%.	- We are likely to apply the standard CESS with sharing ratios equal to 30% for overspends or 20% for underspends if actual capex is beyond 10% of the approved capex forecast. Otherwise, when within 10% of the approved capex forecast, the sharing ratio is 30%. - Transgrid has not provided compelling information to justify a departure from the standard CESS. In particular: - It has not demonstrated that a capex overspend would substantially impact its rate of return for equity. - The size of the project does not create major financing concerns for the overall entity in the event of a penalty. - The proposed adjustment mechanisms reduce forecasting risk compared to standard NER projects. - Some stakeholders did not consider that Transgrid's engagement on the CESS was genuine. - We do not intend for there to be any CESS penalties incurred nor benefits accrued because of IPF timing changes. If there are discrepancies, we will seek to rectify this in our final decision.

Focus issue – Adjustment mechanisms

Transgrid's proposal	AER's preliminary position
Barigan Creek Switching Station replacement expenditure and operating expenditure annual true ups event	- We are likely to not accept because: - Transgrid is best placed to manage forecasting risk. - The materiality of the risks has not been adequately justified. - Transgrid has access to several safeguards which mitigates forecast risk.
3 uncontrollable events (biodiversity offset cost variances, compulsory acquisition easement costs, and legal challenges arising from the compulsory acquisition process).	- We are likely to not accept because: - Transgrid would not be sufficiently incentivised to acquit its biodiversity liabilities efficiently with these mechanisms. We are also considering a delayed capex forecast. - Transgrid will be adequately funded via its capex forecast for compulsory acquisition and any differences are likely to be immaterial and would not have a significant cost impact.
Unavoidable design and construct contract variations uncontrollable event (with a cumulative cap of \$25 million (\$2025-26))	We are likely to accept but we are also considering a delayed capex forecast instead of a cumulative cap.

Caps vs delayed capex forecasts for adjustment mechanisms

Caps	Delayed capex forecasts
- Protects consumers with a ceiling on revenue. - Difficult to set reasonably while allowing Transgrid to recover prudent, efficient and reasonable costs.	- One-time inclusion to capex forecast and adds more cost but they are subject to the CESS incentive scheme. - Difficulty in selecting the appropriate timing to forecast capex.

Q & A Session

Scott Haig

A/General Manager, Network Regulation, AER

Timeline

Dates	Milestone
31 July 2025	Transgrid submitted a compliant revenue proposal
5 August 2025	AER published revenue proposal, and submissions opened
26 August 2025	Submissions on revenue proposal closed
20 October 2025	AER published preliminary position paper, and submissions open
10 November 2025	AER public forum on the CWO Enabling Project
17 November 2025	Submissions on preliminary position paper close
February 2026	AER makes final determination*

MILESTONES



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

How can you get involved



- We invite interested stakeholders to email submissions by:
 - **COB 17 November 2025** for the Preliminary position paper



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

Closing remarks

Kate Symons

AER Board Member