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Thursday, 30 October 2025

Dr. Kris Funston
Executive General Manager, Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Kris

Re: Transgrid Request for Amendment to Framework and Approach for the 2028–33 Regulatory Control Period (RP4)

Transgrid welcomes the opportunity to engage with the Australian Energy Regulator (AER) on the development of the Framework and Approach (F&A) that will apply to our 2028–33 revenue determination (RP4). In accordance with clause 6A.10.1A(a) of the National Electricity Rules (NER), the AER must make and publish a Framework and Approach paper that sets out its proposed approach to the application of incentive schemes, the use of the Expenditure Forecast Assessment Guidelines, and the depreciation approach for establishing the regulatory asset base (RAB) at the commencement of the subsequent regulatory control period.

Under clause 6A.10.1A(c)(1), Transgrid may request the AER to amend or replace the current F&A no later than 32 months before the end of the current regulatory control period. Accordingly, Transgrid submits this request by 31 October 2025.

Application of the Incentive Schemes

Capital Expenditure Sharing Scheme (CESS)

Our position on the application of the CESS, including for large transmission projects, was outlined in our submission to the AER's recent review of the Capital Expenditure Incentive Guideline.¹ We will engage with the Transgrid Advisory Council (TAC) on this topic during the RP4 consultation process to ensure their perspectives are considered in our revenue proposal. The TAC is our principal stakeholder engagement forum, whose purpose is to inform and challenge Transgrid's investment in enablement of the energy transition.

Service Target Performance Incentive Scheme (STPIS)

Transgrid supports the application of STPIS Version 6 (released April 2025).

¹ https://www.transgrid.com.au/media/0bsncyjq/transgrid-sub-to-aer-draft-ceig_final.pdf

Version 6 includes the suspension of the Market Impact Component (MIC) in response to stakeholder feedback. This reflects the limited effectiveness of MIC in a transitioning energy system with high renewable penetration and network congestion.

We also note that the AER is developing a replacement mechanism for the MIC through an industry working group, and we will engage proactively in that process.

Efficiency Benefit Sharing Scheme (EBSS)

The EBSS is designed to provide a continuous incentive for network service providers (NSPs) to pursue efficiency improvements throughout the regulatory period, by fairly sharing efficiency gains and losses between NSPs and network users.

Transgrid supports the continued application of the EBSS, recognising its important role in promoting sustained operational efficiency and providing confidence in the use of revealed costs for future opex forecasting.

However, we also acknowledge that for certain cost categories outside of our control, such as AEMO fees, we have limited ability to influence outcomes (and insufficient information to prepare a credible forecast). Transgrid will engage with the TAC and consult with the AER to explore whether a modification to the EBSS would be appropriate where such categories are included in the base opex or treated as a step change, rather than as separate category-specific forecasts.

Demand Management Innovation Allowance Mechanism (DMIAM)

Transgrid supports the application of the DMIAM for RP4.

The allowance provides funding for innovation in demand management and supports long-term network cost reductions.

Our RP3 experience demonstrates value from this mechanism, including the partnership with Monash University and GridGuru Solutions to deliver a demand-side innovation project.

Small-Scale Incentive Scheme (SSIS)

No SSIS currently applies to TNSPs.

Transgrid will engage further with the AER on whether it intends to develop an SSIS applicable to TNSPs during RP4.

Transgrid will discuss this matter with the TAC and assess the case for developing such a scheme.

Expenditure Forecast Assessment Guidelines

Transgrid does not propose changes to the application of the EFA Guidelines.

We recognise that the AER will retain flexibility to apply a range of assessment techniques — including benchmarking, predictive modelling, and project reviews — when evaluating our expenditure forecasts.

Depreciation Approach

Transgrid proposes to continue applying forecast depreciation for establishing the RAB at the commencement of RP5 (2033–38), consistent with past regulatory periods.

However, where the AER decides the CESS does not apply, a different depreciation approach may be appropriate, such as applying actual depreciation. This approach would help ensure that the RAB roll-forward remains aligned with incentive arrangements.

Next steps

We will continue to engage with our customers, the AER and other stakeholders on these matters prior to the preparation and lodgement of our 2028-33 Revenue Proposal with the AER by 31 January 2027.

If you have any questions in relation to this letter, please contact Olga Iaroshevskaya, at

[REDACTED]

Yours sincerely,

[REDACTED]

Alex McPherson
General Manager Regulation & Policy