

Amendment to framework and approach paper

Transgrid

1 July 2028 – 30 June 2033

December 2025

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1 Introduction

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia. The regulatory framework governing electricity transmission and distribution networks is the National Electricity Law and Rules (NEL and NER). Our work is guided by the National Electricity Objective (NEO).

A regulated network business must periodically apply to us for a determination of the revenue it can recover from consumers using its network. Transgrid Services Pty Ltd as Trustee for Transgrid Services Trust (ABN 94 121 353 950) (hereby Transgrid) is due to submit its next revenue proposal by 31 January 2027, for the period 1 July 2028 to 30 June 2033 (2028–33 period).

The first step in our process to determine efficient prices for an electricity transmission service is to publish a Framework and Approach paper (F&A). The F&A sets our approach to key elements of the upcoming determination and facilitates early public consultation before businesses prepare and submit their revenue proposals. These elements include:

- Which incentive schemes will apply, for example, to service quality, improvements in network reliability or capital and operating expenditure.¹ The purpose of incentive schemes is to provide network service providers with incentives to only incur efficient costs and to meet or exceed service quality targets.
- Our approach to setting efficient expenditure allowances² and depreciation for the establishment of the opening regulatory asset base for the upcoming regulatory control period.³

The F&A that has applied to Transgrid in the current (2023–28) regulatory control period was published in July 2021.⁴ Since then, we have seen significant changes in the energy market and the rules, schemes and guidelines under which we regulate electricity networks.

On 30 October 2025, Transgrid wrote to us, asking us to consider amending or replacing their current F&A in preparation for the 2028–33 period. We published this letter on our website and sought submissions from stakeholders on whether amendments to, or replacement of, the F&A is necessary or desirable.⁵

We have decided that we will amend the F&A for Transgrid in order to update it for recent changes to incentive schemes and guidelines. We will also give consideration to stakeholder submissions, Transgrid's letter and other matters appropriate for us to address in the F&A.

We will engage further with stakeholders as we consider preliminary positions on the amendments required in April 2026, before making a final decision in July 2026.

¹ NER, cll. 6A.10.1A(b)(1), (2), (3), (4) and (7)

² NER, cll. 6A.10.1A(b)(5)

³ NER, cll. 6A.10.1A(b)(6)

⁴ AER, [TransGrid 2023-28 - Framework & Approach](#), July 2021.

⁵ AER, [Transgrid - Transmission Determination 2028-33 - Consultation on F&A paper](#), 14 November 2025.

2 Matters identified for review

2.1 Application of incentive schemes

Our F&A for Transgrid will set out our proposed approach to the application of the following incentive schemes in the 2028–33 period:

- service target performance incentive scheme (STPIS)⁶
- efficiency benefit sharing scheme (EBSS)⁷
- capital expenditure sharing scheme (CESS)⁸
- small-scale incentive scheme (SSIS)⁹
- demand management innovation allowance mechanism (DMIAM)¹⁰

These schemes work together within a revenue determination to provide incentives for network service providers to invest efficiently and operate in the long-term interests of consumers.

2.1.1 Recent developments

Since we published the F&A for the current (2023–28) period, we have finalised reviews into the CESS, EBSS and STPIS, which resulted in a new version of CESS (version 4) and STPIS (version 6).

On 30 April 2023, we published a final decision on our review of incentive schemes.¹¹ Our final decision included:

- Retaining the EBSS as is;
- amending the CESS to implement a tiered sharing ratio for capital expenditure underspends and to be more flexible in applying CESS to contingent projects; and
- a commitment to undertake a review of the market impact component of the transmission STPIS, and the related Network Capability Incentive Parameter Action Plan (NCIPAP) scheme.

We completed the review of the STPIS in April 2025, which included:

- amendments to the service component and network capability components of the STPIS; and
- the suspension of the market impact component, while a working group is established with AEMO and key stakeholders to explore developing an effective alternative. The working group is expected to conclude in mid-2026.

⁶ NER, cl. 6A.10.1A(b)(1)

⁷ NER, cl. 6A.10.1A(b)(2)

⁸ NER, cl. 6A.10.1A(b)(3)

⁹ NER, cl. 6A.10.1A(b)(4)

¹⁰ NER, cl. 6A.10.1A(b)(7)

¹¹ AER, *Final decision - [Review of incentive schemes for networks](#)*, 28 April 2023.

The AER recently submitted a Rule change proposal to the AEMC to allow TNSPs and the AER to apply to have the revised STPIS apply at an earlier stage than the next revenue determination.¹² This could see version 6 of the STPIS apply to Transgrid prior to the commencement of its upcoming regulatory control period.

In August 2024, the Australian Energy Market Commission (AEMC) published an amending rule for managing ISP project uncertainty through targeted ex post reviews.¹³ We commenced a review of our Capital Expenditure Incentive Guidelines in light of the rule change and published updated Guidelines in August 2025.¹⁴ The update to elements in the Guidelines relevant to transmission relate to the interaction of CESS with ISP projects.

We will amend the F&A to reflect the latest versions of the incentive schemes for the 2028–33 period.

2.1.2 Submissions

We did not receive submissions from stakeholders on the application of incentive schemes. However, we note the following from Transgrid’s letter to the AER on 30 October:

STPIS: The STPIS provides incentives to transmission network service providers (TNSPs) to improve or maintain a network performance. For the 2028–33 period, Transgrid supports the application of the updated STPIS Version 6¹⁵ (released in April 2025) that includes the suspension of the Market Impact Component (MIC).¹⁶ Transgrid notes that the AER is developing a replacement mechanism for the MIC through an industry working group, and that it is engaged in that process.

EBSS: The EBSS provides an incentive to TNSP’s to reduce operating expenditure to its efficient level over the long term. Transgrid contends that for certain operating expenditure cost categories that it considers to be outside of its control, such as AEMO fees, should not be included in the EBSS. Transgrid notes that it will engage with its advisory council to explore whether a modification to the EBSS would be appropriate.¹⁷

CESS: The CESS provides an incentive for TNSPs to spend efficiently and prudently on capital expenditure. Transgrid noted that it’s position on the application of the CESS is outlined in the submission it made to the Capital Expenditure Incentives Guideline Review.¹⁸ Transgrid noted that it will discuss the application of the CESS in the next regulatory period with its advisory council.

¹² AER, [Rule change request - Early application of a revised transmission Service Target Performance Incentive Scheme](#), August 2025.

¹³ AEMC, [Managing ISP project uncertainty through targeted ex post reviews: Final determination](#), 1 August 2024.

¹⁴ AER, [Capital Expenditure Guideline Review 2025](#), 26 August 2025

¹⁵ AER, [Electricity transmission network service provider Service target performance incentive scheme Version 6](#), April 2025.

¹⁶ Transgrid, [Letter to AER on Framework and Approach](#), 30 October 2025, pp. 1-2.

¹⁷ Transgrid, [Letter to AER on Framework and Approach](#), 30 October 2025, p. 2.

¹⁸ AER, [Capital Expenditure Guideline Review 2025](#), 26 August 2025

DMIAM: The DMIAM provides TNSPs with funding for research and development in demand management projects that have the potential to reduce long term network costs. Transgrid supports the application of the DMIAM.¹⁹

2.2 Expenditure forecast assessment guidelines

Our F&A for Transgrid will set out our proposed approach to the application of our Expenditure Forecast Assessment Guidelines (Guidelines).²⁰ These Guidelines describe the process, techniques and associated data requirements for setting efficient expenditure allowances for network businesses.

The Guidelines were applied to Transgrid in our assessment of the proposal for the current (2023–28) period. Since then, the Guidelines have been updated to incorporate the new national energy objective to consider greenhouse gas emission targets.

While Transgrid does not propose changes to the application of the Guidelines, they recognise that the AER will retain flexibility to apply a range of assessment techniques – including benchmarking, predictive modelling, and project reviews – when evaluating Transgrid’s expenditure forecasts.²¹

2.3 Establishing the opening regulatory asset base for the regulatory period

Our F&A for Transgrid will set out whether depreciation for establishing the opening regulatory asset base at the commencement of the 2033–38 regulatory control period is to be based on actual or forecast capital expenditure.²²

We will use depreciation based on forecast capital expenditure for establishing the opening regulatory asset base at the commencement of the 2033–38 regulatory control period, consistent with the approach adopted for Transgrid for the current (2023–28) period.²³ Transgrid has indicated that it will not seek to depart from this approach.²⁴

¹⁹ Transgrid, [Letter to AER on Framework and Approach](#), 30 October 2025, p. 2.

²⁰ NER, cl. 6A.10.1A(b)(5)

²¹ Transgrid, [Letter to AER on Framework and Approach](#), 30 October 2025, pp. 2-3.

²² NER, cl. 6A.10.1A(b)(6)

²³ AER, [TransGrid 2023-28 - Framework & Approach](#), July 2021, pp. 26-28.

²⁴ Transgrid, [Letter to AER on Framework and Approach](#), 30 October 2025, p. 3.

Glossary

Term	Definition
AER	Australian Energy Regulator
AEMO	Australian Energy Market Operator
CESS	Capital Expenditure Sharing Scheme
DMIAM	Demand Management Innovation Allowance Mechanism
EBSS	Efficiency Benefit Sharing Scheme
F&A	Framework and Approach paper
Guidelines	Expenditure Forecast Assessment Guidelines
ISP	Integrated System Plan
MIC	Market Impact Component
NEL	National Electricity Law
NEO	National Electricity Objective
NER	National Electricity Rules
SSIS	Small-Scale Incentive Scheme
STPIS	Service Target Performance Incentive Scheme
TNSP	Transmission Network Service Provider