AER Determination

TasNetworks' North West Transmission Development Stage 1 (Construction) – Contingent Project Application

February 2026

AUSTRALIAN ENERGY REGULATOR

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Executive summary

This document sets out our decision on TasNetworks' contingent project application for the North West Transmission Developments (NWTD) Stage 1 Construction. The NWTD is part of Project Marinus which is a staged actionable integrated system plan (ISP) project.

On 31 October 2025, TasNetworks submitted its contingent project application for the NWTD Stage 1 Construction. It is proposing capital expenditure (capex) of $970.9 million (real, $2023–24).

TasNetworks' contingent project application for the NWTD Stage 1 construction

The NWTD is a proposed transmission project involving significant upgrades to the existing high voltage alternating current 220 kV transmission network in north-west Tasmania. These upgrades are to facilitate connection and operation of the Marinus Link high voltage direct current interconnector between Tasmania and Victoria.

Stage 1 of the NWTD is in support of Cable 1 of the two 750 megawatt high voltage direct current cables associated with the Marinus Link interconnector between Tasmania and Victoria. The Australian Energy Market Operator's (AEMO) 2026 draft ISP confirms that the timing of Stage 1 is by June 2030.

The combined Marinus Link and NWTD projects forms Project Marinus, a single actionable ISP project without decision rules. Project Marinus is identified in AEMO's 2026 Draft ISP as anticipated under the optimal development path.[1]

TasNetworks application includes several cost categories. These costs are for acquiring the land and undertaking the construction of NWTD stage 1. It also includes expenditure to cover the cost of administrating the delivery of the project, including project risk, project management and ongoing engagement with the affected communities.

TasNetworks also proposes that a modified capital expenditure sharing scheme (CESS) be applied to the NWTD project costs.

Our role in assessing this application

Contingent projects are significant network augmentation projects that may arise during a regulatory control period but the need and or timing is uncertain. While the expenditures for such projects do not form part of the total forecast expenditure in a revenue determination, the project costs may ultimately be recovered from customers if the requirements of the National Electricity Rules (NER) are met.

For actionable ISP projects such as Project Marinus which NWTD is part of, our role is to first assess whether the trigger event for an actionable ISP project has occurred, that the project capital expenditure exceeds the materiality threshold and AEMO has provided the feedback loop confirmation. If we are satisfied of these matters, we must then determine the

[1] AEMO, *Draft 2026 Integrated System Plan*, December 2025, p. 76. The project was also included in the 2024 Integrated System Plan, June 2024, p. 57.

incremental revenues that will be added to TasNetworks' revenue allowance, reflecting the forecast prudent and efficient capital expenditure required to deliver the contingent project.[2]

Under the NER, the materiality threshold is either $30 million, or 5% of the maximum allowed revenue (MAR) for the first year of the regulatory control period, whichever is the larger amount.

Our decision on NWTD stage 1 construction

We are satisfied that the trigger event for TasNetworks' contingent project application for NWTD Stage 1 construction has occurred, that the project capex exceeds the materiality threshold and AEMO has provided the feedback loop confirmation. As such, we must make a determination on TasNetworks' contingent project application for:

- the amount of capital and incremental operating expenditure for each remaining regulatory year reasonably required for the purpose of undertaking the contingent project
- the total capital expenditure reasonably required for the purpose of undertaking the contingent project
- the likely commencement and completion dates for the project
- the incremental revenue.

Table 1 sets out our decision on the forecast prudent and efficient total capex reasonably required to deliver the project, the estimated impact on the transmission component of residential customer electricity bills in Tasmania, and the incremental revenues that will be added to TasNetworks' revenue in the 2024–29 period.

Table 1 NWTD Stage 1 construction – Assessment of forecast capex, revenues and bill impact

	TasNetworks' application	AER's determination
Total capex to be commissioned for NWTD Stage 1 construction in 2028–29 and 2029–30 ($2023–24)	$971.7 million[a]	$922.2 million[a]
NWTD Stage 1 construction indicative average annual increase in residential electricity bills in Tasmania over 2026–27 to 2028–29 ($ nominal)[b]	$16.0 p.a.	$15.5 p.a.
Total incremental revenue to be recovered from customers over 2026–27 to 2028–29 ($ nominal, smoothed)	$54.0 million	$51.5 million

2 NER, cl 6A.8.2(e)(1).

Source: TasNetworks application and AER analysis.
a. Reflects total as-commissioned capex. These amounts also include $0.8 million as-commissioned capex for NWTD Stage 1 Early works, which was omitted in error by TasNetworks and is included in this decision to correct this error.
b. Reflects the difference between a typical customer's annual bill with the NWTD stage 1 construction capex and the customer's bill without the project, and the latest energy forecast released by AEMO in its 2025 ESOO.

Our capex determination reflects alternative estimates to the construction costs and project risk components in the application. We identified duplication of costs and considered some risks were within TasNetworks' control, or that the likelihoods were over estimated.

Impact on customer bills

NWTD Stage 1 is expected to be commissioned across the end of the 2024–29 period (2028–29) and the first year of the 2029–34 period (2029–30). As such, the incremental revenue (and the resulting bill impacts) presented in Table 1 above reflects only a partial impact of the project over the remaining 3 years of the current 2024–29 period. While the project will continue to affect revenue and bills beyond this period, those impacts will be more apparent from TasNetworks' next regulatory period (2029–34) when NWTD Stage 1 is expected to be fully commissioned.[3] We estimate that once NWTD Stage 1 is commissioned, the project will result in an increase of $49 (or 2.2%) per annum for a typical residential customer's annual bill, all else being equal.[4]

Concessional finance

In March 2024, the Australian Energy Market Commission (AEMC) finalised a rule change regarding the passing of the benefits of concessional finance onto consumers through lower transmission revenues to be recovered and lower network tariffs.[5] The rule change provides a mechanism for the sharing of concessional finance benefits to consumers through a specified annual reduction to the MAR, a reduction of the value of the specified assets in the regulatory asset base (RAB) or a combination of both.[6]

TasNetworks expects to receive concessional finance on NWTD Stage 1 through the Clean Energy Finance Corporation (CEFC), and is required to provide the AER with a copy of the agreement within 40 business days of entering into that agreement.[7] Once finalised, we must make a concessional finance adjustment pursuant to the conditions under clause 6A.3.3 of

3 This is because the incremental revenue for the 2024–29 period does not include any depreciation on the capex associated with NWTD Stage 1 Construction. As the NWTD Stage 1 is expected to be commissioned at the end of the 2024–29 period and in the first year of the 2029–34 period, the depreciation on the capex will not commence until the 2029–34 period.

4 The estimated bill impact is calculated based on a starting point of a typical residential customer bill of $2,170 in 2023–24, projected forward using the approved smoothed revenue for the 2024–29 period and forecast revenue for the 2029–34 period using baseline capex approved in our 2024–29 final decision. The bill impact uses the energy consumption forecast released by AMEO in its 2025 Electricity Statement of Opportunities as a proxy for the forecast movements in typical customer energy consumption.

5 AEMC, *National Electricity Amendment (Sharing concessional finance benefits with consumers) Rule 2024 No. 7*.

6 AEMC, *National Electricity Amendment (Sharing concessional finance benefits with consumers) Rule 2024 No. 7*, p. i.

7 NER, cl. 6A.3.3(a).

the NER, which will reduce the costs TasNetworks will need to recover from consumers. The revenue impacts and bill estimates presented in Table 1 above do not account for the impact of any concessional financing agreement, as the details (including implementation) of this arrangement is yet to be finalised at the time of this decision. While the concessional finance negotiation with the CEFC is still ongoing, TasNetworks estimated that the concessional finance arrangement is expected to reduce the impact of the project on customer bills by approximately 60% to 90%.[8] We note that this is an indicative estimate only and does not affect this decision.

Grant funding

The Commonwealth Government has committed to a $346 million grant for offsetting the impact on Tasmanian's transmission network charges due to Stage 1 of Project Marinus.[9] In relation to the grant, Tasmanian Minerals, Manufacturing & Energy Council (TMEC) submitted that while reference is made that the $346 million is intended to reduce costs to consumers, TasNetworks' application did not offer a very transparent, disaggregated breakdown of the exact dollar per customer savings from the grant alone. It submitted that both consumers and the funders would want to be assured of this before the application can be approved.[10]

We note that TasNetworks did not include the impact of the grant on transmission charges in its application as the details of how the benefit from this grant would be passed through to Tasmanian customers were still being determined at the time of preparing its contingent project application. TasNetworks advised that the grant is not intended to be applied directly to the capex for NWTD. Instead, as per the Federation Funding Agreement between the Tasmanian and Commonwealth Government, this grant is intended to be applied through a $346 million reduction to TasNetworks' existing transmission RAB, depreciated over 40 years.[11] Based on this information, we estimate that the grant is expected to reduce a typical residential customer's annual bill by approximately 1% per annum, all else being equal.[12] We note that this is an indicative estimate only as the details of how this grant is to be passed to customers has not been finalised and is still subject to change.

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8 TasNetworks, *North West Transmission Developments Stage 1 (Construction) Contingent Project Application*, October 2025, p. 32; TasNetworks has modelled a range of indicative price outcomes, reflecting high and low levels of concessional finance benefit passing through to customer pricing.

9 TasNetworks, *North West Transmission Developments Stage 1 (Construction) Contingent Project Application*, October 2025, p. 5.

10 Tasmanian Minerals, Manufacturing & Energy Council, *Submission to Australian Energy Regulator – TasNetworks North West Transmission Developments Stage 1 – Construction Contingent Project Application*, November 2025, p. 2.

11 Commonwealth of Australia, *State of Tasmania, Support for Project Marinus and the delivery of Tarraleah Hydro Power Scheme Redevelopment*, August 2025, p. 3.

12 The indicative bill impact is calculated by varying the transmission component of a typical residential customer bill which is assumed to be 7% of the total bill. The typical residential customer bill size is calculated based on an annual consumption of around 7,400 KWh. It reflects a $346 million reduction to TasNetworks' opening RAB as at 1 July 2029, depreciated over 40 years. The revenue modelling is limited to the 2029–34 period only.

CESS

We will apply a tiered CESS with a cap that provides a stronger upfront incentive. This modification to the CESS reflects the circumstances of the NWTD project, ensures TasNetworks is incentivised to invest efficiently, and provides a reasonable sharing of the benefits and risks between TasNetworks and its customers. Under the modified CESS:

- a 30% sharing ratio will apply to capex overspends and underspends up to 10% of the net present value forecast capex
- above a 10% overspend or below a 10% underspend, the incremental sharing ratio is set to 10%
- the modified CESS will apply to capex undertaken in relevant stages of this contingent project application.

This is different from the modified CESS proposed by TasNetworks. We consider this tiered approach:

- protects TasNetworks from large penalties for large overspends while still imposing material incremental penalties for all levels of overspend
- balances financeability concerns with the desire for sufficient incentives for overspends above 10%.

Next steps

Following this decision and by the operation of the NER, TasNetworks' revenue determination is now amended such that the incremental revenues we have approved in this determination will be added to TasNetworks' total maximum allowed revenues for the 2024–29 period. This follows the process set out in clause 6A.8.2 of the NER.

The increase in allowed revenues will be reflected in customer bills over the remaining 3 years of the 2024–29 period (2026–27 to 2028–29).

TasNetworks is progressing a concessional finance agreement with the CEFC. The concessional finance arrangement is expected to include funding for the costs associated with the Stage 1 construction and include a sharing arrangement with consumers. As noted earlier, when a concessional finance arrangement is entered into, TasNetworks must provide the AER with a copy of that agreement within 40 business days. Once finalised, we must make a concessional finance adjustment pursuant to the conditions under clause 6A.3.3 of the NER.[13] As the agreement is not yet finalised, the revenue and price impacts provided in this contingent project application have not been adjusted for any reduction to reflect the sharing arrangement.

We also note the concurrent release of the AER's Marinus Link final decision at the same time as this decision.[14]

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13 NER, cl 6A.3.3.

14 https://www.aer.gov.au/industry/registers/determinations/marinus-link-intending-transmission-network-application .

Contents

1 North West Transmission Developments Stage 1 (Construction) Contingent Project

The NWTD is one of two components of Project Marinus. Marinus Link Pty Ltd (MLPL) is responsible for Marinus Link and TasNetworks is responsible for the NWTD component.

In June 2021, the RIT-T Project Assessment Conclusions Report was published, identifying Project Marinus as the preferred option.[15] Project Marinus comprises:

- Marinus Link, which consists of two new 750 megawatt high voltage direct current cables (undersea and underground) connecting Victoria and Tasmania with converter stations at each end (otherwise known as Cable 1 and Cable 2)
- NWTD, which involves significant upgrades to the existing Tasmanian high voltage alternating current 220 kV transmission network to facilitate connection and operation of the Marinus Link high voltage direct current cables. The NWTD will be undertaken in two separate stages to support each of Cable 1 and Cable 2.

In April 2024, MLPL published updated market modelling to incorporate the updated costs and market developments. It considered that updated modelling supports its position that there has been no material change in circumstances, such that the preferred option in the Project Assessment Conclusions Report remains as the preferred option. The preferred option in the report is to proceed with Cable 1 as soon as practicable and to keep the timing of Cable 2 under review.[16]

AEMO confirmed in its Final June 2024 ISP that Project Marinus is an actionable project in the ISP optimal development path with the following timing:[17]

- Stage 1 - Cable 1 and the associated NWTD work by June 2030. Stage 1 relates to upgrades to the Palmerston–Sheffield and Sheffield–Burnie 220 kV transmission lines, and construction of the Heybridge Spur East 220 kV transmission line[18]
- Stage 2 - Cable 2 and the associated NWTD work by June 2032, subject to ongoing negotiations and confirmation in subsequent ISPs. Stage 2 relates to construction of Hampshire Hills and Staverton switching stations, and the Staverton–Hampshire Hills, Burnie–Hampshire Hills, and Heybridge Spur West 220 kV transmission lines.[19]

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15 Marinus Link, *RIT-T Project Assessment Conclusions Report*, July 2021.

16 Marinus Link, *Re: Project Marinus RIT-T update*, 16 April 2024.

17 AEMO, *2024 Integrated System Plan For the National Electricity Market – A roadmap for the energy transition*, June 2024, p. 62.

18 TasNetworks, *North West Transmission Developments Stage 1 CPA 1 Early Works, Contingent Project Application for Stage 1 Early Works*, 10 October 2024, p. 6.

19 TasNetworks, *North West Transmission Developments Stage 1 CPA 1 Early Works, Contingent Project Application for Stage 1 Early Works*, 10 October 2024, p. 6.

Since the application was submitted, AEMO have released the draft 2026 ISP. AEMO has updated its status for Project Marinus (including NWTD) from actionable to anticipated and will be in service by 2030.[20]

Project Marinus has received Government funding. In April 2022, the Commonwealth announced grant funding of $75 million to support the design and approval phase for Project Marinus. In addition, an agreement was reached between the Australian, Tasmanian and Victoria Governments to progress Marinus Link, which included access for TasNetworks to low-cost debt for the NWTD through the CEFC.[21]

In August 2025, it was announced that an additional $346 million Commonwealth grant was provided to TasNetworks to reduce the impact of NWTD on Tasmanian consumers.[22]

1.1 Contingent project application for NWTD Stage 1 (Construction)

TasNetworks' application relates to the NWTD Stage 1 construction to support Cable 1 which MLPL will deliver. TasNetworks has proposed $970.9 million for the construction and delivery of NWTD Stage 1 (Construction) over the period 1 July 2025 to 30 June 2030.[23]

TasNetworks is currently progressing a concessional finance agreement with the CEFC. The concessional finance arrangement is expected to include funding for the costs associated with the Stage 1 construction and include a sharing arrangement with consumers. When a concessional finance arrangement is entered into, TasNetworks must provide the AER with a copy of the agreement within 40 business days. Once finalised, we must make a transmission concessional finance adjustment pursuant to the conditions under clause 6A.3.3 of the NER.[24] As the agreement is not yet finalised, the revenue and price impacts provided in this contingent project application have not been adjusted for any reduction to reflect the sharing arrangement.

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20 AEMO, *Draft 2026 Integrated System Plan*, December 2025, p. 76.

21 TasNetworks, *North West Transmission Developments Stage 1 (Construction) Contingent Project Application*, 31 October 2025, p. 29.

22 Commonwealth of Australia, *State of Tasmania, Support for Project Marinus and the delivery of Tarraleah Hydro Power Scheme Redevelopment*, August 2025, p. 3.

23 TasNetworks, *North West Transmission Developments Stage 1 (Construction) Contingent Project Application*, 31 October 2025, p. 43.

24 NER, cl 6A.3.3.

2 Summary of NER requirements

For an actionable ISP project, a transmission network service provider (TNSP) may submit a contingent project application to the AER if a trigger event under clause 5.16A.5 of the NER has occurred.[25] The information that a TNSP is required to include in its application to amend a revenue determination is set out under clause 6A.8.2(b).

TasNetworks submitted its application on 31 October 2025. As soon as practicable following receipt of the application, we must publish the application and invite submissions on the application.[26] We must consider any written submissions on the application in making our determination and we must make our decision within 40 business days from the later of the date we receive the application and the date we receive any information required by us under clause 6A.8.2(h1).[27]

We published the application on 7 November 2025 and sought submissions until 28 November 2025; we received 1 written submission from Tasmanian Minerals, Manufacturing & Energy Council (TMEC). We issued 1 notice under clause 6A.8.2(h1) and TasNetworks' final response was received on 12 December 2025.

2.1 Eligibility to submit a contingent project

When we receive a contingent project application, our role is to assess whether we are satisfied that:[28]

- the trigger event set out under clause 5.16A.5 has occurred
- the forecast of the total capital expenditure for the contingent project meets the threshold referred to in clause 6A.8.1(b)(2)(iii), which is either $30 million, or 5% of the Maximum Allowed Revenue (MAR) for the first year of the regulatory control period, whichever is the larger amount
- AEMO has provided the written confirmation requested under clause 5.16A.5(b).

2.1.1 NER requirements

If we are satisfied of the matters referred above, we must then:

- determine the capital expenditure (capex), incremental operating expenditure (opex) and incremental revenue reasonably required for the purposes of undertaking the project, and the likely commencement and completion dates for the project (as applicable)[29]
- determine the estimate of incremental revenue likely to be required in each remaining regulatory year as a result of the project[30]

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25 NER, cl 6A.8.2(a).

26 NER, cl 6A.8.2(c).

27 NER, cl 6A.8.2(d).

28 NER, cl 6A.8.2(e).

29 NER, cl 6A.8.2(e)(1).

30 NER, cl 6A.8.2(e)(1) and (2).

- amend the relevant revenue determination in accordance with clause 6A.8.2(h).[31]

In making the determinations required under clause 6A.8.2(e)(1), we must accept the relevant amounts and dates in the application if we are satisfied that:

- the forecast of the total capex for the project meets the threshold in clause 6A.8.1(b)(2)(iii)[32]
- the capex and opex in the application reasonably reflects the capex and opex criteria required to achieve the capex and opex objectives, taking into account the capex and opex factors[33]
- the estimates of incremental revenue and the dates are reasonable.[34]

As part of this decision, we have assessed the prudency and efficiency of TasNetworks' proposed incremental capex and opex.

In making the determinations under 6A.8.2(e)(1) and determining whether to accept the amounts and dates in the application, we must have regard to the matters under clause 6A.8.2(g).[35] Having regard to the matters under clause 6A.8.2(g), if we are then satisfied of the matters in clause 6A.8.2(f), we must accept the amounts and dates proposed in the application.[36] If we are not satisfied, then we must determine the amounts and dates.

Our assessment of the project trigger event and expenditure threshold is set out in section 3, the proposed capex and opex in section 4, the application of the incentive schemes in section 5, and the corresponding incremental revenue in section 6.

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31 NER, cl 6A.8.2(e)(3).

32 NER, cl 6A.8.2(f)(1).

33 NER, cl 6A.8.2(f)(2).

34 NER, cl 6A.8.2(f)(3) and (4).

35 NER, cl 6A.8.2(g).

36 NER, cl 6A.8.2(f).

3 Project trigger, expenditure threshold and timing

Under clause 6A.8.2(e) of the NER, we are required to determine the expenditure reasonably required and the incremental revenues necessary to deliver the contingent project if we are satisfied that the trigger event under clause 5.16A.5 has occurred, the forecast of the project exceeds the cost threshold and AEMO has provided the feedback loop confirmation.[37]

3.1 Assessment of trigger event

TasNetworks must meet the trigger event outlined in clause 5.16A.5 of the NER. The table below sets out the required elements of the actionable ISP project trigger event (as per clause 5.16A.5) and our assessment against each element of the trigger event. We are satisfied that each element of the trigger event has occurred.

Table 2 AER's assessment of TasNetworks' trigger events under clause 5.16A.5 of the NER

Clause	Requirement	Assessment
5.16A.5(a)	The Regulatory Investment Test for Transmission (RIT-T) proponent must issue a Project Assessment Conclusions Report (PACR) that meets the requirements of clause 5.16A.4 and which identifies a project as the preferred option (which may be a stage of an actionable ISP project)	TasNetworks published the PACR in 2021 that meets the requirements of clause 5.16A.4, and which identified the project as the preferred option. In July 2025, TasNetworks published a RIT-T update, confirming that the preferred option remains unchanged from the PACR. This requirement is satisfied.
5.16A.5(b)	The RIT-T proponent must request written confirmation from AEMO that: • the preferred option addresses the relevant identified need specified, and aligns with the optimal development path referred to, in the most recent draft or final ISP • the cost of the preferred option does not change the status of the actionable ISP project as part of the optimal development path in the most recent draft or final ISP.	In July 2025, TasNetworks sought written confirmation from AEMO that: • the preferred option addresses the relevant identified need and aligns with the optimal development path referred to in the 2024 ISP, which was the most recent ISP at that time • the cost of the preferred option does not change its status as an actionable project when compared to the 2024 ISP. This requirement is satisfied.
5.16A.5(c)	No dispute notice has been given to the AER under clause 5.16B(c) or, if a dispute notice has been given, then in accordance	No disputes have been raised on this project.

[37] NER, cl 6A.8.2(e).

	with clause 5.16B(d), the dispute has been rejected or the PACR has been amended and identifies that project as the preferred option.	This requirement has been satisfied.
5.16A.5(d)	The cost of the preferred option set out in the contingent project application must be no greater than the cost considered in AEMO's assessment in subparagraph (b).	TasNetworks states the cost of stage 1 is $1,138 million (including early works). This does not exceed the $1,144 million cost considered in AEMO's assessment. [38] This requirement has been satisfied.

Since the application was submitted, AEMO has released the draft 2026 ISP. AEMO has updated its status for Project Marinus from actionable to anticipated and will be in service by 2030.[39]

3.2 Assessment of expenditure threshold

The forecast of the total capital expenditure for the contingent project must exceed either $30 million or 5% of the value of the maximum allowed revenue for the relevant TNSP for the first year of the relevant regulatory control period, whichever is the larger amount.[40]

We are satisfied that the forecast capex amount exceeds the materiality threshold of $30 million, and 5% of the maximum allowed revenue in year one of TasNetworks' current regulatory control period (which is $8 million).

3.3 Assessment of feedback loop confirmation

We are satisfied that in August 2025 AEMO provided the feedback loop confirmation requested under clause 5.16A.5(b).[41] The confirmation provided by AEMO is based against the 2024 ISP, the most recent published ISP at the time of submission of the application.

3.4 Project timing

TasNetworks proposed the following applicable dates for the commencement and completion for Stage 1 construction and delivery activities:[42]

- date for commencement – 1 July 2025 (commencement of costs included in this application).
- anticipated date for construction completion – June 2029.
- anticipated date for project finalisation – June 2030.

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38 AEMO, *Project Marinus Feedback Loop Analysis,* August 2025, pp. 9–10.

39 AEMO, *Draft 2026 Integrated System Plan*, December 2025, p. 76.

40 NER, cl 6A.8.2(e).

41 NER, cl 6A.8.2(e).

42 TasNetworks, *North West Transmission Developments Stage 1 (Construction) Contingent Project Application*, 31 October 2025, p. 22.

We are satisfied this timing is reasonable as it aligns with the Project Marinus timing in the 2026 draft ISP.[43]

[43] NER, cl 6A.8.2 (e)(1)(iii) and cl 6A.8.2 (f)(4).

4 Prudent and efficient project expenditure

In making our decision in response to the contingent project application, we are required to determine:

- the capex and opex for each remaining year of the current regulatory control period that we consider is reasonably required for the purpose of undertaking the project, and
- the total capex which we consider is reasonably required for the purpose of undertaking the contingent project.[44]

In forming our view, we have considered the capex criteria,[45] and the specific matters under clause 6A.8.2(g) of the NER.

This section outlines our assessment of TasNetworks' proposed expenditure for the NWTD Stage 1 construction and our determination on the prudent and efficient expenditure reasonably necessary to undertake this project.

The forecast capex is a key component to determining the incremental revenue TasNetworks may recover over the 2024–29 regulatory control period. This is considered further in section 4.1 below.

The forecast capex will also be added to the target capex for TasNetworks' expenditure incentive schemes.[46] Any incentive rewards and penalties TasNetworks receives because of under or overspending on the project will be applied as additional revenue adjustments in the next regulatory control period. This is considered further in section 5 below.

TasNetworks has also proposed an incremental increase of $0.73 million (real, $2023–24) in opex to cover the change in debt raising costs calculated based on its proposed amount of NWTD related capex. We accept TasNetworks' proposal to use the method set out in our PTRM to calculate the incremental increase to debt raising costs. However, our final decision re-calculated the debt raising cost based on our approved capex for the NWTD project. This resulted in $0.03 million (real, $2023–24) reduction to the proposed incremental increase to the debt raising cost to $0.7 million (real, $2023–24). We have determined the incremental opex for each remaining year of the period in table 5 in section 6 below.[47]

4.1 Forecast capital expenditure

We have not accepted TasNetworks' proposed incremental capex costs of $970.9 million for the NWTD Stage 1 construction because we are not satisfied that it reasonably reflects the prudent and efficient costs of delivering this project. Our alternative forecast is $921.3 million,

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44 NER, cl 6A.8.2(e)(1)(i) and (ii).

45 NER, cl 6A.8.2(f)(2).

46 The capital expenditure sharing scheme (CESS) and the efficiency benefit sharing scheme (EBSS) regarding any forecast opex.

47 NER, cl 6A.8.2(e)(1)(i).

which is 5.1% less than TasNetworks' proposal as being prudent and efficient.[48] We have determined the capex for each remaining year of the period in table 5 in section 6 below.[49] We determine that TasNetworks' proposed capex for direct construction costs and project risk are not reasonably required for the purposes of undertaking the contingent project.[50]

TasNetworks submits that Stage 1 construction will require $970.9 million ($2024–25) in incremental capex.[51] Table 3 sets out our determination on the total capex reasonably required for Stage 1 for the period by category compared to TasNetworks' proposal.

Table 3 forecast capital expenditure for NWTD Stage 1 construction ($ million, real 2023–24)

Capex Category	TasNetworks proposed capex	AER Decision	Difference ($/%)	
Direct construction	632.4	617.7	14.7	2.3%
Project Risks	131.5	96.6	34.9	26.5%
Land and property	85.1	85.1	-	-
Commercial and procurement	12.0	12.0	-	-
Project execution	45.8	45.8	-	-
Project management	48.2	48.2	-	-
Planning and statutory assessment	0.7	0.7	-	-
Community and stakeholder engagement	15.2	15.2	-	-
Total	**970.9**	**921.3**	**49.6**	**5.1%**

Note: Numbers may not add up due to rounding.

We have had regard to supporting material provided by TasNetworks in assessing the prudency and efficiency of the proposed construction costs. In addition to TasNetworks' contingent project application and supporting material including consultant reports, we also requested further information from TasNetworks about its construction costs.[52] This included information on the proposed labour, community engagement, direct construction costs (non-contracted) and project risks.[53] We also considered stakeholder submissions which are discussed further below.[54]

Table 3 summarises our views on whether each of the capex categories are prudent and efficient and reflect the capex criteria, and the reasons for this. Further detail and reasons on

48 NER, cl 6A.8.2(e)(1)(ii).

49 NER, cl 6A.8.2(e)(1)(i).

50 NER, cl 6A.8.2(g)(4).

51 TasNetworks, *North West Transmission Developments Stage 1 CPA 1 Early Works*, 10 October 2024, p. 11.

52 TasNetworks, *Response to NWTD CPA information request #001*, 12 December 2025.

53 NER, cl 6A.8.2(g)(1).

54 NER, cl 6A.8.2(g)(2).

the capex for the direct construction and project risk costs can be found in sections 4.1.1 and 4.1.2 below.

Our findings on each capex category are part of our broader analysis and should not be considered in isolation. We do not approve an amount of forecast expenditure for each individual category. However, we use our findings on the different categories to assess the proposal as a whole and arrive at an alternative estimate for total capex where necessary. Our decision on total capex does not limit a regulated business' actual spending.

Table 4 Summary of findings and reason, by capex category

Capex Category	Findings and reason
Direct construction	TasNetworks proposed $632.4 million for direct construction. Our decision is to include $617.7 million for direct construction capex. This is $14.7 million or 2% less than proposed. This category covers the works undertaken by the principal contractor to construct a new switching station at Heybridge, construct the new Heybridge Spur East transmission line and upgrade the other relevant transmission lines and substations. 90% of these costs are included in an engineering procurement construction contract undertaken by the principal contractor and were determined through a tender process. We have reviewed the documentation on the tender process and are satisfied that the scope was appropriate for the project, and the outcomes are a result of a competitive process. Further, we have benchmarked the largest cost item, the transmission lines, and found that the per kilometre cost of the NWTD route to be above our benchmark but were within expectations given topographical and population density differences. We have not included all of TasNetworks proposed direct construction costs. We have identified duplication within risks and contingencies. We have removed this duplication from TasNetworks' forecast. Our reasons for this are set out in section 4.1.1 below.
Project Risks	TasNetworks proposed $131.5 million for project risks. Our decision is to include $96.6 million for project risk capex. This is $34.9 million or 26.5% less than proposed. This category includes risk and contingencies to allow for items, conditions, or events for which the state, occurrence, or effect is uncertain, but experience shows will likely result in additional costs. We have not included all of TasNetworks proposed project risks costs. We found some risks are within TasNetworks control and that the probability of occurrence and the consequence of occurrence of some risks are too high. Our reasons for this are set out in section 4.1.2 below.
Land and property	We have included TasNetworks' proposed expenditure of $85.1 million. We consider TasNetworks has demonstrated that the expenditure is justified and reflects the cost for providing land and property required for NWTD.

	This category covers costs to complete the acquisition of new easements, securing the use of brake and winch sites and laydown areas, and providing ongoing landholder management support.
Commercial and procurement	We have included TasNetworks' proposed expenditure of $12.0 million. We consider TasNetworks has demonstrated that the expenditure is justified and reflects the cost. This category is to undertake commercial activities including finance and budget management and reporting, managing the engineering procurement construction contract and other existing supplier contracts, and procuring additional specialist service providers as required.
Project execution	We have included TasNetworks' proposed expenditure of $45.8 million. This category covers the costs associated with direct management of the principal contractor and monitoring and supporting the principal contractor in its delivery of the project. We focused on the labour costs associated with project execution and project management (see below). We consider that the costs are reflective of what is required to monitor and support the principal contractor.
Project management	We have included TasNetworks' proposed expenditure of $48.2 million. This category covers overseeing project governance and managing and coordinating the project's activities through project control and management systems, scheduling, risk and cost estimating and forecasting to ensure the timely and efficient delivery of the project. We have reviewed the supporting material and consider the proposed expenditure to be reasonable to undertake project management of a project of this size.
Planning and statutory assessment	We have included TasNetworks' proposed expenditure of $0.7 million. This category is to ensure compliance with planning approvals and other permits, reporting to the Tasmanian Planning Commission and overseeing eagle mortality commitments. We have reviewed the supporting material and consider the proposed expenditure to be reasonable given the scope and nature of this project.
Community and stakeholder engagement	We have included TasNetworks' proposed expenditure of $15.2 million. This category covers the costs associated with ongoing community and stakeholder engagement. This also includes the implementation of the Community Benefit Sharing Program which has been developed in a way that ensures it delivers benefits that are valued by the local community. The focus of our review has been on the governance framework of the Community Benefit Scheme Program to ensure it aligns with our 2023

	directions paper on social licence.[55] We have reviewed the supporting material and consider the proposed expenditure to be reasonable.

We have also had regard to the matters set out in clause 6A.8.2(g) in coming to our decision, including:[56]

- the expenditure that would be incurred in respect of a contingent project by an efficient and prudent operator in the circumstances of TasNetworks
- the actual and expected capex of TasNetworks for contingent projects during any preceding regulatory control periods
- the relative prices of operating and capital inputs in relation to the contingent project
- the substitution possibilities between opex and capex in relation to the contingent project
- whether the capex forecasts for the contingent project is consistent with any incentive schemes that apply to TasNetworks.

We note the main findings below on the capex categories that we have not accepted.

4.1.1 Direct construction

We are not satisfied that TasNetworks' proposed direct construction costs of $632.4 million reflects the capex criteria. Our decision is to include $617.7 million for direct construction costs as our alternative estimate. This is $14.7 million or 2.3% less than proposed.

90% of the direct constructions costs relates to the principal contractor costs under the engineering procurement construction contract, with the remaining costs being allowances to be administered by TasNetworks or were costs that had insufficient scope to be included in the engineering procurement construction contract.

We have reviewed the documentation on the tender process and are satisfied that the scope was appropriate for the project, and the outcomes are a result of a competitive process.

Of the tendered costs we have reviewed the largest cost item, the transmission lines, and have benchmarked this against a 220kV transmission line comparable project (220kV transmission line to provide back-up supply in Broken Hill). We found that the per kilometre cost of the NWTD route to be above the Broken Hill project. Our findings are consistent with an independent report undertaken by GHD on behalf of TasNetworks. It found that the cost of the transmission lines was also above a 220kV transmission line project in Kidston Queensland but were within expected range for a standard 275kV line. Although the cost of the transmission line is above the cost of similar projects, we consider this is appropriate given the topographical and population density differences between the NWTD route and the route of Broken Hill and Kidston.

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55 AER, *Directions paper - Social licence for electricity transmission projects*, October 2023. https://www.aer.gov.au/industry/registers/resources/reviews/social-licence-electricity-transmission-projects

56 NER, cl 6A.8.2(g)(4), (5), (7) – (9).

We focused our review on the non-contracted and contingency costs in the engineering procurement construction contract. The non-contracted costs include:

- Heybridge bulk earthworks
- excavation in rock
- assurance of supply
- property management plan works
- contaminated material
- unassigned scope items.

We assessed these in conjunction with the project risk categories where appropriate. We have identified duplication within the contingencies and risks. We sought clarification regarding the extent of duplication on the contingency costs and TasNetworks confirmed that there was duplication.[57]

We have removed the duplicated expenditure to form our alternative forecast of $617.7 million for direct construction cost.

4.1.2 Project Risk

We are not satisfied that TasNetworks' proposed project risk cost of $131.5 million reflects the capex criteria. Our decision is to include $96.6 million for project risks as out alternative estimate (equivalent to 10.5% of the total project cost). This is $34.9 million or 26.5% less than proposed.

TasNetworks has proposed a risk allowance of $131.5 million or 13.5% of the total project costs. However, we have identified further risks and contingencies that have been accounted for in the forecast capital expenditure:

- project risk – TasNetworks risk allowance ($131.5 million)
- direct construction costs – contractors' risk and contingency ($48.1 million)
- direct construction costs – other construction cost contingencies ($49.5 million).

We have reviewed the project risk in conjunction with the risks and contingencies in the direct costs. We found some duplication between the categories and that the risk and contingencies in the direct construction cost were appropriate. This has been removed in the direct construction category. We focused on the project risk category for the remainder of our review.

TasNetworks has classified its forecasts as either category 2 or category 3 estimates where:

- forecast category 2 actual costs are expected to be between -5% and +20% of the forecast

[57] TasNetworks, *Email to the AER*, 24 December 2025.

- forecast category 3 actual costs are expected to be between -10% and +30% of the forecast.

We consider that a risk allowance should be set at the P50 level of the forecast category as it is at this point that the risk is shared equally between the business and customers. On the basis of the forecast being category 3 (allowing the largest variation), we consider the midpoint (P50) of the range of actual cost variation from the current forecast is +/-10%. We would therefore expect a risk allowance to typically be around 10% of the actual costs. This expectation is supported by our recent decisions such as Humelink (9.6%)[58] and Marinus link (10.2%).[59]

We have conducted a bottom up review of TasNetworks' proposed project risk forecast on the risk register and supporting information.

TasNetworks has developed the project risk forecast using a risk register where for each risk identified, the probability of the risk occurring is multiplied by an optimistic; most likely; and pessimistic cost of the risk materialising. Then the probability weighted risk costs are modelled using Monte Carlo analysis to determine a 'portfolio' risk cost. For the purposes of the proposal, it is the P50 Monte Carlo result for the most likely cost that is included.

The approach adopted by TasNetworks reflects good industry practice. However, we have identified some risks that set the probabilities higher than what we consider reasonable, or are not appropriate to be included as part of the forecast. We have adjusted the following risks included in the risk register:

- *Industrial action force majeure – exceeds contract limits*. We consider that it is not appropriate to include this risk as it diminishes the business's incentive to manage and reduce the risk. We also consider that the probability of this occurring was set above what we would consider appropriate for a force majeure event. We have removed this risk from TasNetworks' forecast
- *Threat of a TasNetwork Staff H&S incident(s) resulting in adverse impacts on the health/well-being of Project Team staff*. We consider the safety and wellbeing of TasNetworks staff is within the control of TasNetworks. Further, the cost of support to staff, including medical and well being costs, are included in labour overheads. We have removed this risk from TasNetworks forecast
- *Assembly and erection costs exceed the estimate, Increase in scope to transmission lines.* TasNetworks has claimed that the likelihood of this risk occurring after controls as 'unlikely'. However, TasNetworks has not set the likelihood as 'unlikely' in the risk register. We have adjusted the residual likelihood of this risk to reflect the probability of an 'unlikely' occurrence
- *Increase in scope to enable substation commissioning*. While we accept this a reasonable risk to account for, we consider that TasNetworks has set the likelihood of

58 https://www.aer.gov.au/industry/networks/contingent-projects/transgrid-humelink-contingent-project-stage-2

59 https://www.aer.gov.au/industry/registers/determinations/marinus-link-intending-transmission-network-application

this occurring too high and is not consistent with what has been stated in its supporting material. We have adjusted the likelihood to reflect an 'unlikely' occurrence

- *Additional scope for site preparations*. We have identified this as duplication with other risks and contingencies. We have removed this risk from TasNetworks' forecast
- *Substations and Heybridge Switching Station scope increase*. We accept that there will be a risk that the scope of the Heybridge Switching Station may change, however, we consider that the likelihood of exceeding costs and the likelihood of a delay after controls is set too high in the register. We have reduced the likelihood of exceeding costs to reflect a 'possible' occurrence and the likelihood of a delay to 'unlikely'
- *Excavation / trenching is impacted by rocky ground conditions beyond allowance*. We consider the likelihood after controls is set too high in the risk register. We have reduced the likelihood after controls to 'unlikely'. This is also reflective of what TasNetworks has stated it should be in the supporting material
- *Threat that NWTD fails to deliver to TasNetworks engineering design standards*. The proposed probability of exceedance in the risk register implies that it is almost certain that the risk will occur and final construction will not meet TasNetworks standards. We consider that it will be TasNetworks' engineers who will oversee and ultimately approve the design. Further, we consider the contract requires that the design complies with TasNetworks standards and requirements. We consider this risk is within control of TasNetworks. We have removed this risk from TasNetworks' forecast
- *Threat that the Environmental Protection Agency delays/blocks consents*. We consider the likelihood after controls is set too high. Also, we consider that a large amount of engagement with the Environmental Protection Agency has occurred, including during the early works phase of NWTD. We have reduced the likelihood after controls to 'possible'
- *Inclement weather exceeds allowance*. This risk relates to impacts caused by inclement weather which exceeds the inclement weather allowance under the contract. We consider the allowance within the contract sufficiently addresses the risk of inclement weather. Further, we consider there is as much chance that there will be less and more inclement weather days, making the risk symmetrical. We have removed this from TasNetworks' forecast.

Our alternative forecast consists of making the adjustments discussed above to the risk register. This results in the project risk forecast reducing by 26.5% or $34.9 million. Our alternative forecast is $96.6 million or 10.5% of total forecast capex.

4.1.3 Submissions

We received a written submission from the Tasmanian Minerals, Manufacturing & Energy Council (TMEC).[60]

[60] Tasmanian Minerals, Manufacturing and Energy Council, *NWTD Stage 1 Construction Contingent Project submission*, 27 November 2025.

TMEC support the strategic intent of project marinus and acknowledged the importance of NWTD to enable Tasmania to export renewable energy, however it is concerned about the cost implications on existing industrial consumers. It stated that its members have been advised of an immediate cost increase of up to 20 percent.

TMEC put forward six recommendations to ensure Tasmania's industrial future is not at risk. The recommendations are predominately about minimising the costs of the project on industrial customers, ensuring the costs are prudent and efficient as well as having transparency of how the project is being financed.

5 Application of Incentive Schemes

Incentive schemes form an important part of our regulatory toolkit. They provide financial rewards and penalties to network service providers and complement our approach to assessing costs. They encourage businesses to pursue expenditure efficiencies while still maintaining the reliability and overall performance of their networks.

As TasNetworks' NWTD contingent project application mainly covers capital expenditure, only the Capital Expenditure Sharing Scheme (CESS) is relevant.

We will apply the efficiency benefit sharing scheme (EBSS) and the service target performance incentive scheme (STPIS) consistent with TasNetworks' 2024–29 regulatory determination.

5.1 Capital Expenditure Sharing Scheme

The CESS provides financial rewards for network service providers whose actual capital expenditure (capex) is less than forecast and financial penalties for those whose actual capital is more than forecast. In doing this, the CESS aims to incentivise network service providers to become more efficient over time. Consumers benefit through lower regulated prices. The CESS shares any gains or losses due to underspending or overspending capex relative to the forecast between service providers and consumers.

Our standard approach is to include a CESS that shares underspends or overspends between a service provider and its customers at a ratio of 30:70. That is service providers keep 30% of the value of any underspending relative to forecast (or bear 30% of the value of any overspending relative to forecast) while customers keep 70% of the gains (or wear 70% of the losses).

In our capital expenditure incentive guidelines (guidelines) updated in August 2025, we noted that we would consider modified CESS arrangements for large transmission projects. [61] Our default position is to apply the standard approach.

Our assessment of TasNetworks proposed CESS for the NWTD project is set out below.

5.2 Our decision

We have had regard to whether TasNetworks' capex and opex forecasts are consistent with the expenditure incentive schemes that apply to TasNetworks.[62]

Our decision modifies the CESS that will apply to all stages of the NWTD project. This modification to the CESS reflects the circumstances of the NWTD project including the forecasting risks it faces, ensures TasNetworks is incentivised to invest efficiently, and provides a reasonable sharing of the benefits and risks between TasNetworks and its customers.

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61 AER, *Capital Expenditure Incentive Guidelines*, August 2025.

62 NER, cl 6A.8.2(g)(9).

Under the modified CESS:

- a 30% sharing ratio will apply to capex overspends and underspends up to 10% of the net present value forecast capex
- above a 10% overspend or below a 10% underspend, the incremental sharing ratio is set to 10%
- the modified CESS will apply to capex undertaken in relevant stages of this contingent project application.

This tiered approach protects TasNetworks from large penalties for large overspends while still imposing material incremental penalties for all levels of overspend. It balances financeability concerns with the desire for sufficient incentives by retaining meaningful cost containment incentives for overspends above 10%.

In making this decision we had regard:

- to whether the capex is consistent with the CESS that apply to TasNetworks
- how forecasts affect the incentive properties of the scheme[63]
- the benefits to consumers from the exemption, the size of the project, degree of capital expenditure forecasting risk and any stakeholder views.[64]

5.3 TasNetworks proposal

TasNetworks have proposed a modified CESS for NWTD, that is a 10% sharing ratio up to a cap of 30% (underspend or overspend) after which the sharing ratio will be equal to the concessional financing costs (a very low sharing ratio and very low powered incentive). It considers that the proposed modified CESS appropriately incentivises TasNetworks to drive efficiencies in areas where it has direct control over and ensure successful delivery of NWTD. Specifically, TasNetworks considered that:[65]

- it has less influence over direct construction costs and costs associated with land easements and acquisition
- the modified CESS sharing ratio of 10% with a CESS cap of 30% sets a level of incentive that TasNetworks can responsibly and efficiently manage the delivery of the project while providing certainty in an event of a cost overrun
- its proposed modified CESS provides sufficient incentive even if project risk materialise in excess of the approved risk and contingency allowance
- in an event of an overspend, TasNetworks has limited sources for receiving additional capex
- there is likelihood of cost increases in delivering transmission network projects.

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63 NER, cl 6A.8.2(g)(9).

64 AER, *Capital Expenditure Incentive Guidelines*, August 2025, p. 9.

65 TasNetworks, *North West Transmission Developments Stage 1 (Construction) – Principal Application,* November 2025, pp. 25–31.

5.4 Our assessment

TasNetworks' proposal argued that the financial viability of the NWTD project could be compromised if we adopted the standard CESS or the Humelink approach. It considered that being a large transmission project, there is an inherent forecasting uncertainty. This forecasting uncertainty creates a greater risk of overspend than underspends. In an event of a large overspend, there may be a substantial CESS penalty driver by matters outside of TasNetworks' control.

We have applied our CESS guideline and have also holistically examined TasNetworks' CESS and its forecast error argument. We consider CESS needs to be viewed in context of the overall risks facing TasNetworks. Forecast error relates to both the symmetry and likelihood of incorrect forecasts. We consider that the overall risks associated with forecast error are low. But if the actual expenditure materially departs from the forecast, it has a significant impact on NWTD project and may inhibit project completion.

5.4.1 Symmetry of forecasting risk

TasNetworks' proposal considered there is a likelihood of cost increases. We understand this to mean that there is a higher possibility of overspends than underspends, and that the potential overspend could be greater than the risk and contingency allowance. Particularly, for direct contractor costs and costs related to land and easements. We do not consider this is the case. We consider TasNetworks has adequately managed its forecasting risk by two measures:

- TasNetworks contracting model and guaranteed maximum price approach for direct costs; and
- risk and contingency allowance.

We consider the contracting model and guaranteed maximum price approach for direct costs shifts most of the risk associated with project construction to its contractor. So, if there is an overspend of capex, it is likely that most of these costs will be absorbed by the contractor. Further, the inclusion of $96.6 million for risk and contingency allowance adequately provides specific and appropriate contingency costs for asymmetric risks, where the likelihood of programs being over-budget is greater than the likelihood of being under-budget. So, we consider that TasNetworks' proposal sufficiently balances symmetry of the overall forecasting risk related to NWTD project.

5.4.2 Likelihood and impact of incorrect forecasts

We acknowledge that the NWTD project of $0.9 billion ($real 2023–24) is relatively large compared to its 2028–29 RAB of $2.7 billion ($real 2023–24). This means that forecast NWTD costs will account for approximately one third of TasNetworks' RAB. Given the scope of the NWTD project relative to its RAB we accept that there is less of an ability for TasNetworks to underspend capex on non-NWTD projects, were it to overspend on NWTD.

We consider that the NWTD project capex may be more susceptible to forecast error than standard capex. If we were to apply the standard CESS to the NWTD project, TasNetworks could receive a very large CESS penalty (reward) for forecast error rather than efficiency loses (gains). As stated in TasNetworks' proposal, we consider this could disincentive

TasNetworks from receiving additional funding.[66] This will likely result in significant project delay or inhibiting project completion. Such a situation may ultimately be a worse outcome to consumers.

Overall, we consider that the CESS should be modified for the NWTD project capex. This is because of the size of the NWTD project relative to TasNetworks' RAB and deliverability risks due to the potential for large CESS impacts.

5.4.3 CESS modifications for the NWTD

We consider that for large contingent projects, such as the NWTD project, there are elements of capex that are not recurrent and harder to forecast. For these projects, we have the flexibility to decide whether, or how, the CESS should be applied in a manner that is consistent with the purpose of the CESS. The purpose of the CESS is to provide a constant incentive throughout a regulatory control period to undertake efficient capex.

An application of any CESS to the NWTD project may penalise TasNetworks for forecast error rather than penalising inefficient capex, a feature inherent in the CESS. But we consider that the inclusion of risk and contingency allowances and TasNetworks contracting model with its principal contractor, reduces the risk of forecast error to a degree. However, there may still be instances of large overspends due to factors beyond TasNetworks' control. While the probability of such large overspend is low, the consequence of this occurring under our standard CESS could result in project delays or abandonment and ultimately result in a worse outcome to consumers. For this reason, we consider a modified CESS should be applied for the NWTD project. However, we consider TasNetworks' proposed CESS does not provide sufficient incentive to undertake efficient capex. This is because the sharing ratio is too low.

We will apply a tiered CESS with a cap that provides a stronger incremental incentive to undertake efficient capex within the cap. This approach provides a better-balanced incentive to undertake efficient capex while limiting the risk of potential negative impacts from large cost overruns and the financial risk from the CESS in this situation.

Based on our analysis on the impact at different level of overspends, we will set the standard 30:70 CESS up to a cap of 10% of overspends and underspends. For under or overspends beyond 10% we will reduce the incremental incentive to 10% of the incremental over or underspend. We consider:

- the initial 30% CESS up to a 10% cap provides a high-powered incentive initially to lower the risk from significant overspends. We consider the lower powered incentive beyond 10% will still provide a sufficient incremental incentive beyond this point to undertake efficient capex while sufficiently protecting TasNetworks in the event of a large cost overrun
- a 30% sharing ratio within the initial cap is desirable because the standard CESS sharing ratio of 30% applies to the rest of TasNetworks' capex. Where there is a difference in sharing ratios between different capex projects, it would create an

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66 TasNetworks, *North West Transmission Developments Stage 1 (Construction) – Principal Application,* November 2025, pp. 25–31.

additional incentive to cost shift capex from projects with a higher CESS reward to projects with a low CESS penalty. This type of cost shifting is more likely to occur where there are shared costs such as labour and indirect costs. A material mismatch in incentives across projects can also increase the risk of introducing other unforeseen changes in incentives

- for capex that exceeds the cap, a set 10% sharing ratio is appropriate. This is both because a defined sharing ratio provides better transparency and certainty, and we consider a CESS based on the concessional financing rate would be too low to provide an adequate efficiency incentive.

We note the CESS applied here is the same as the CESS applied to Marinus Link.[67] In both cases this CESS package balances the need for sufficient ongoing efficiency incentives with protection for the businesses where large overspends occur.

67 https://www.aer.gov.au/industry/registers/determinations/marinus-link-intending-transmission-network-application

6 Calculation of incremental allowed revenues

This section sets out our calculation of the incremental revenue that TasNetworks would recover from customers over the 2024–29 period to account for our determination of efficient project costs. We have applied an annual building block revenue approach in accordance with clause 6A.8.2(h) of the NER. TasNetworks' application is based on this approach. The incremental revenues are calculated based on the capex that we determined and otherwise in accordance with TasNetworks' application. [68]

Table 5 shows TasNetworks is able to recover $51.5 million ($ nominal, smoothed) in additional revenues for NWTD Stage 1 from customers over the 2024–29 period.

As a result of recovering these revenues, we estimate that the transmission component of an indicative residential electricity bill in Tasmania would increase by approximately $15.5 per annum over the remaining 3 years of the 2024–29 period (2026–27 to 2028–29).[69]

Table 5 Incremental revenue calculation ($ million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Return on capital	-	0.4	9.6	31.5	47.5	89.0
Return of capital[a]	-	-	–4.1	–13.8	–20.6	–38.5
Straight-line depreciation[b]	-	0.1	0.1	0.1	0.1	0.6
Less: inflation indexation on opening RAB	-	0.2	4.3	13.9	20.7	39.1
Operating expenditure[c]	-	0.0	0.1	0.3	0.4	0.8
Revenue adjustments	-	0.0	0.0	0.0	0.0	0.0
Net tax amount	-	–0.2	–0.1	0.2	0.4	0.4
Annual building block revenue requirement (unsmoothed)	-	0.2	5.5	18.2	27.8	51.7
Annual expected MAR (smoothed)	-	0.0	7.8	16.8	26.9	51.5
Increase to annual expected MAR (smoothed) (%)	-	0.0%	4.2%	8.7%	13.1%	5.6%

Source: AER analysis.

a Regulatory depreciation (return of capital) is calculated as straight-line depreciation net of inflation indexation on the opening RAB. The negative incremental regulatory depreciation outcome reflects the increase in inflation indexation on the opening RAB exceeding the increase in straight-line depreciation.

68 NER, cl 6A.8.2(e)(2).

69 The estimated bill impact is calculated based on a starting point of a typical residential customer bill of $2,170 in 2023–24, projected forward using the approved smoothed revenue and energy consumption forecast released by AMEO in its 2025 Electricity Statement of Opportunities.

b Based on as-commissioned capex.
c Reflects updated debt raising costs as calculated in the PTRM, reflecting our approved capex. TasNetworks did not propose an additional opex allowance, except for an incremental debt raising costs, which arise given the higher RAB associated with the Stage 1 construction.

Table 6 provides the effect of the resulting incremental increase in revenues on TasNetworks' total annual building block revenue requirement (unsmoothed), expected maximum allowed revenues, and the X-factors over the 2024–29 period.

Table 6 Indicative annual building block revenue requirement, expected MAR and X-factors ($ million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Annual building block revenue requirement (unsmoothed)	172.0	171.1	192.8	208.3	223.7	968.0
Annual expected MAR (smoothed)	163.4	173.0	190.9	210.7	232.1	970.0
X-factors	n/a	–3.12%	–7.50%	–7.50%	–7.34%	n/a

Source: AER analysis.

Glossary

Shortened form	Description
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CEFC	Clean Energy Finance Corporation
CESS	capital expenditure sharing scheme
CPA	contingent project application
IR	information request
ISP	Integrated System Plan
kV	kilovolt
MAR	maximum allowed revenue
MLPL	Marinus Link Pty Ltd
NER	National Electricity Rules
NWTD	North West Transmission Development
opex	operating expenditure
PACR	project assessment conclusions report
RAB	regulatory asset base
RIT-T	Regulatory Investment Test for Transmission
TMEC	Tasmanian Minerals, Manufacturing & Energy Council
TNSP	Transmission Network Service Provider