

# Statement of Reasons: Ausgrid's Hunter-Central Coast Project Revenue Adjustment Proposal

## Decision

The AER approves a revenue adjustment to Ausgrid's 2026–31 Hunter-Central Coast REZ network infrastructure project (HCC Project) revenue determination. Our decision on Ausgrid's revenue adjustment proposal is to allow for \$200.7 million (\$ nominal) in revenue to be recovered over the 2026–31 period which is an increase of \$11.1 million (5.8%) from our previously approved revenue of \$189.6 million. This decision results in \$197.8 million (\$ nominal) to be paid to Ausgrid via a quarterly schedule of payments over the 2026–31 period which is an increase of \$12.6 million (6.8%) from our previously approved quarterly schedule of payments of \$185.2 million.<sup>1</sup>

Our decision is accompanied by an attachment setting out the updated quarterly schedule of payments and an updated post-tax revenue model (PTRM) to reflect the impact of the revenue adjustment.

## Background

The AER makes non-contestable revenue determinations under the *Electricity Infrastructure Investment Act 2020* (NSW) (EII Act) and the *Electricity Infrastructure Investment Regulation 2021* (NSW) (EII Regulation). Under this framework, a revenue determination may include provision for the adjustment of any amount included in the revenue determination (**adjustment mechanism**).<sup>2</sup> A provision in a revenue determination for an adjustment may specify the particular circumstances or time that an adjustment must be carried out.<sup>3</sup>

Adjustment mechanisms are intended to account for risks that are outside a Network Operator's control and cannot be efficiently mitigated through other means. The adjustment mechanisms set out what must occur for the adjustment to be triggered, our expectations on what information should be provided to support the proposal, and how any adjustment is calculated and applied.

On 27 March 2026, Ausgrid submitted an annual revenue adjustment proposal for the HCC Project. It proposed an increase of \$14.5 million (7.6%) (\$ nominal) in revenue from our initial revenue determination. Ausgrid's proposal included several routine adjustments to replace placeholder financial inputs with actual financial inputs. It also included non-routine adjustments for 'EnergyCo contractual compliance' events and multiple 'Unavoidable Change in Contractor Cost' events. Its proposal provided evidence demonstrating that the conditions had been met to trigger each of the adjustment mechanisms, as well as its proposed amendments to the maximum allowed revenue and quarterly schedule of payments.

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<sup>1</sup> The quarterly schedule of payments is less than the approved maximum allowed revenue because the quarterly schedule of payments is progressively recovered by the Network Operator throughout the year, as opposed to the maximum allowed revenue which is a single annual amount. To ensure equivalence we determine a quarterly schedule of payments equal to the approved revenues in net present value terms using actual inflation and a real WACC escalation.

<sup>2</sup> EII Act, s. 38 and EII Regulation, cl. 51(1).

<sup>3</sup> EII Act, s. 38 and EII Regulation, cl. 51(2)(a).

In making our adjustment decision, we assessed Ausgrid’s proposal against the requirements in the revenue determination, EII Act, EII Regulation and our *Revenue determination guideline for non-contestable network infrastructure projects* (non-contestable Guideline). For each proposed adjustment, we assessed whether the trigger was met and, for the non-routine adjustments, whether the proposed expenditure was prudent, efficient, and reasonable. Based on our assessment, we have determined an adjustment to the maximum allowed revenue and updated the quarterly schedule of payments to reflect the impact of the adjustment.

Table 1 outlines our assessment of whether we consider Ausgrid has met the trigger conditions as per the relevant adjustment mechanism and our reasons for accepting, amending or not accepting the proposed adjustments.

**Table 1 Proposed adjustments and final decision (\$ nominal)**

Proposed adjustment event	Proposal and final decision
<b>Routine financial adjustments</b>	
Risk free rate update (return on equity)	<p>Ausgrid proposed a return on equity of 8.55%, an increase from the placeholder of 8.04% in the final decision PTRM.</p> <p>We accept this adjustment because it is calculated in accordance with our 2022 Rate of return instrument using Ausgrid’s nominated risk free rate averaging period. This approach is consistent with the adjustment mechanism in the revenue determination. Holding all other things constant, this increases the maximum allowed revenue by \$5.7 million.</p>
Annual update for actual inflation	<p>Ausgrid proposed an actual inflation rate of 3.63%, an increase from the forecast inflation of 2.55% in the final decision PTRM.</p> <p>We accept this adjustment because it was calculated using the Australian Bureau of Statistics’ (ABS) quarterly CPI. This approach is consistent with the adjustment mechanism in the revenue determination. Actual inflation is used to ensure that the Network Operator’s quarterly payments properly compensate it for outturn inflation. In other words, updating actual inflation does not affect the maximum allowed revenues, only the quarterly schedule of payments.</p>
Return on debt update	<p>Ausgrid proposed a return on debt of 5.75%, an increase from the placeholder of 5.53% in the final decision PTRM. It proposed to apply this return on debt figure of 5.75% to all five years of the regulatory period.</p> <p>Our decision is to accept Ausgrid’s proposed return on debt of 5.75% for the 2026–27 regulatory year as it was calculated in accordance with our 2022 Rate of return instrument using Ausgrid’s nominated return on debt averaging period. However, our decision reinstates the final decision placeholder return on debt values for the remaining 4 regulatory years.</p>

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	<p>Our standard approach for return on debt updates is to only update the relevant year the return on debt is being calculated for. This is consistent with the wording of the adjustment mechanism, which states that, ‘The updated allowed rate of return is the applicable rate of return calculated for year t, updated for the return on debt calculated for year t.’ This ensures Ausgrid’s maximum allowed revenue (and quarterly schedule of payments) reflect the relevant year this return on debt update is being made for, without pre-empting the impact of future debt costs. The return on debt values for years 2 to 5 will be updated when the relevant year’s averaging period occurs.</p> <p>All other things held constant, this decreases the maximum allowed revenue by \$3.4 million relative to Ausgrid’s proposal. However, it is an increase to our final decision maximum allowed revenue by \$0.4 million.</p>
<b>Non-routine expenditure adjustments</b>	
<p>EnergyCo contractual compliance events:</p> <ol style="list-style-type: none"> <li>1. Determined service payments (DSP) Infrastructure Planner (IP) Fee</li> <li>2. Reduction in Infrastructure Planner (IP) Fee due to reduced Technical Services Payments</li> </ol>	<p>The ‘DSP IP Fee’ adjustment event occurs if there is a change to the amount of IP Fees that Ausgrid is required to pay the Infrastructure Planner under the Project Deed.</p> <p>Ausgrid initially forecast that its component of the IP Fee would be \$69.8 million, which we approved in our determination as part of pre-period expenditure. This amount reflected expected costs for project development, planning and early works activities. Ausgrid and EnergyCo agreed to close out invoicing for these activities on 31 October 2025. On that date, actual costs incurred were \$31.6 million, which prompted Ausgrid to propose a reduction to its component of the IP Fee to that amount.</p> <p>The ‘Reduction in IP Fee due to reduced Technical Services Payments’ adjustment event occurs if:</p> <ol style="list-style-type: none"> <li>1) The amount of the IP Fees that Ausgrid is required to pay is reduced due to reduced Technical Service Payments; and</li> <li>2) There is a corresponding increase in capex costs due to rephasing of expenditure from Technical Services Payments to capex.</li> </ol> <p>Ausgrid proposed that there is an equal increase in the amount of capex it expects to incur for project development, planning and early works before the regulatory period, which is also considered pre-period capex. These works will be rephased beyond 31 October 2025 but still be undertaken in 2025–26.</p> <p>This adjustment has the effect of shifting capex from one category (IP Fees) to another (pre-period capex), without any change in timing. This is because we model expenditure on an annual basis</p>

Proposed adjustment event	Proposal and final decision
	<p>and as such, there are no time value of money adjustments associated with this change.</p> <p>The trigger events for these adjustment mechanisms, detailed in the final decision document have been met. Ausgrid provided its Technical Services Payment Statement as evidence of the adjustment to the IP Fee. We are satisfied that the reprofiled capex forecast is prudent, efficient and reasonable. Holding all other things constant, these adjustments result in no net change to maximum allowed revenue.</p>
<p>Unavoidable Change in Contractor Costs</p>	<p>Ausgrid proposed a \$19.9 million increase in capex for 3 adjustments due to unavoidable changes in contractor costs. These adjustments are:</p> <ol style="list-style-type: none"> <li>1) adjustment to material costs for steel poles and conductor,</li> <li>2) adjustment to subcontract price as a result of an uplift in EBA rates, and</li> <li>3) adjustment to subcontract final price.</li> </ol> <p><b>1) Adjustment to material costs for steel poles and conductor</b></p> <p>This adjustment has been triggered because there was an increase in material costs for steel poles and conductors. This reflected movements in the specified commodity and economic indicators between the date of the base contract and the date of the order, resulting in higher prices.</p> <p>Ausgrid provided us with sufficient information, including detailed information on the increase in material costs of steel poles and conductor.</p> <p>We consider the price variations are valid and required to enable the project to progress. The proposed adjustment is based on the pricing adjustment formula specified in the supply contracts and as such, we consider the resulting costs are reasonable. On this basis, we are satisfied that the updated capex forecast is prudent, efficient and reasonable.</p> <p><b>2) Adjustment to subcontract price as a result of an uplift in EBA rates</b></p> <p>This adjustment has been triggered because of the increase in the forecast subcontract price, due to an uplift in the Enterprise Bargaining Agreement (EBA) rates.</p> <p>Ausgrid provided us with the necessary information on the increase in the forecast subcontract price, including a more detailed breakdown of the unit rates and quantities.</p> <p>We consider the unit rate variations are valid and are required to enable the project to progress. The percentage of the total adjustment to the subcontract is reasonable as it is lower than the</p>

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	<p>percentage increase in average labour rates and reflects the appropriate mix of labour, materials and other costs. On this basis, we are satisfied that the updated capex forecast is prudent, efficient and reasonable.</p> <p><b>3) Adjustment to subcontract final price</b></p> <p>This adjustment has been triggered because of the increase in the subcontract price from the initial forecasted cost in our final decision. Subcontractor pricing (agreed in December 2024) was based on a concept-level design, as Ausgrid was restricted from undertaking site-specific investigations.</p> <p>Ausgrid provided us with necessary justification on the increase in subcontract price, including supporting information on the scope changes required. The increase in scope is primarily driven changes to the earthwork requirements and foundations for the substations.</p> <p>We consider the subcontract variation to be valid and is necessary to enable the project to progress. Ausgrid has taken reasonable actions throughout the process to ensure the changes and adjustments made are efficient and reasonable, including engaging specialist project delivery consultants to perform an independent review and challenge of the change in contract costs. On this basis, we are satisfied that the updated capex forecast is prudent, efficient and reasonable.</p> <p>Holding all other things constant, these 3 adjustments increase the maximum allowed revenue by \$4.9 million.</p>