

Statement of Reasons: Transgrid's Enabling Central-West Orana Project Revenue Adjustment Proposal

Decision

The AER approves a revenue adjustment to Transgrid's 2026–31 Enabling Central-West Orana REZ on Transgrid's revenue network infrastructure project (Enabling CWO Project) revenue determination. Our decision on Transgrid's revenue adjustment proposal is to allow for \$132.6 million (\$ nominal) in revenue to be recovered over the 2026–31 period which is an increase of \$3.7 million (2.8%) from our previously approved revenue of \$128.9 million. This decision results in \$130.7 million (\$ nominal) to be paid to Transgrid via a quarterly schedule of payments¹ over the 2026–31 period which is an increase of \$4.7 million (3.7%) from our previously approved quarterly schedule of payments of \$125.9 million.

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**).² A provision in a revenue determination for an adjustment may specify the particular circumstances or time that an adjustment must be carried out.³

Adjustment mechanisms are intended to account for risks that are outside a Network Operator's control and cannot be efficiently mitigated through other means. 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 31 March 2026, Transgrid submitted an annual revenue adjustment proposal for the Enabling CWO Project. It proposed an increase of \$3.7 million (2.8%) (\$ nominal) in revenue from our initial revenue determination. Transgrid's proposal included several routine adjustments to replace placeholder financial inputs with actual financial inputs. It also included a non-routine adjustment for a latent condition event. 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 resulting from the adjustment mechanisms.

In making our adjustment decision, we assessed Transgrid's proposal against the requirements in the revenue determination, EII Act, EII Regulation and our *Revenue*

¹ 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.

² EII Act, s. 38 and EII Regulation, cl. 51(1).

³ EII Act, s. 38 and EII Regulation, cl. 51(2)(a).

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 latent condition event, 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 adjustments.

Table 1 outlines our assessment of whether we consider Transgrid 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	Final decision
Routine financial adjustments	
Risk free rate update (return on equity)	<p>Transgrid proposed a return on equity of 8.54%, an increase from the placeholder of 7.99% 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 Transgrid’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 \$3.6 million.</p>
Annual update for actual inflation	<p>Transgrid proposed an actual inflation of 3.76% calculated using the Australian Bureau of Statistics’ (ABS) monthly Consumer Price Index (CPI), an increase from the placeholder of 2.60% in the final decision PTRM.</p> <p>Our decision is to not accept Transgrid’s proposed actual inflation of 3.76% and instead substitute 3.63%, calculated using the quarterly CPI series published by the ABS. This is because we consider Transgrid’s proposed approach to use the monthly CPI is not consistent with the adjustment mechanism in the revenue determination.</p> <p>In November 2025, the ABS moved from publishing a quarterly to a monthly series for CPI. At this time, the ABS noted it would continue to produce a quarterly CPI series calculated as the average of three-monthly CPIs to support those needing quarterly CPI figures for indexation, contracts or other purposes.⁴ The ABS explicitly noted that this was a continuation of the existing quarterly series.⁵</p> <p>Transgrid submitted that comparing quarterly CPI values for December 2025 and December 2024 would measure the average change across the three months between 2024 and 2025. Accordingly, Transgrid proposed that the monthly CPI series be</p>

⁴ ABS, [ABS announces the Monthly CPI to start in November 2025](#), July 2025.

⁵ ABS, [Complete monthly measure of the CPI \(frequently asked questions\)](#), accessed 15 April 2026.

Proposed adjustment event	Final decision
	<p>used, as it is a point-to-point change between December 2024 and December 2025 which it considered best reflected the adjustment mechanism.</p> <p>We consider Transgrid’s proposal to be a change in methodology compared to prior decisions under the EII and NER frameworks. We have historically applied the quarterly CPI to calculate the annual updates for inflation and as such we consider that regulatory consistency supports the continued use of this quarterly CPI series in this adjustment decision. As set out by the ABS, the quarterly CPI series, is a continuation of the established measure referenced in the revenue determination and is therefore consistent with the approved adjustment mechanism.</p> <p>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 conversion of revenues into quarterly payments. Relative to Transgrid’s proposal, our decision results in a reduction of \$0.2 million (\$ nominal) in the quarterly schedule of payments.</p>
Return on debt update	<p>Transgrid proposed a return on debt of 6.06%, an increase from the placeholder of 5.52% 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 Transgrid’s nominated return on debt averaging period. This approach is consistent with the adjustment mechanism in the revenue determination. Keeping all other factors constant, this increases the maximum allowed revenue by \$0.1 million.</p>
Non-routine expenditure adjustments	
Latent condition	<p>Transgrid proposed additional capital expenditure of \$116,710 (\$2025–26) due to a latent condition event. The latent condition related to the identification of high strength rock and water seepage.</p> <p>We accept this adjustment because Transgrid provided us sufficient information that this adjustment mechanism had been triggered. This information included evidence that the design and construct contractor notified Transgrid of the latent condition and submitted a claim for associated costs. We consider the additional expenditure to be prudent, efficient, and reasonable because the actual costs associated condition are known and the additional claim for expenditure is consistent with the requirements in Transgrid’s design and construct contract. The revenue impact of this adjustment mechanism is immaterial due to the magnitude of the change in expenditure.</p>