

Statement of Reasons: Transgrid's Waratah Super Battery Project Revenue Adjustment Proposal

Decision

The AER approves a revenue adjustment to Transgrid's 2024–29 Waratah Super Battery network augmentation and SIPS control system (WSB Non-contestable Project) revenue determination. Our decision on Transgrid's revenue adjustment proposal is to allow for \$106.0 million (\$ nominal) in revenue to be recovered by Transgrid over the 2024–29 period which is a decrease of \$0.1 million (0.1%) from our previously approved revenue of \$106.1 million. This decision results in \$104.6 million (\$ nominal) to be paid to Transgrid via a quarterly schedule of payments¹ over the 2024–29 period which is an increase of \$0.4 million (0.4%) from our previously approved quarterly schedule of payments of \$104.2 million.²

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**).³ A provision in a revenue determination for an adjustment may specify the particular circumstances or time an adjustment must be carried out.⁴

Adjustments mechanisms are intended to account for risks 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 adjustment, and how any adjustment is calculated and applied.

On 31 March 2026, Transgrid submitted its initial annual revenue adjustment proposal for the WSB Non-contestable Project. It proposed an increase of \$11.7 million (11.1%) (\$ nominal) from our previously approved revenue for the 2025–26 annual update. Transgrid's proposal

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 Whilst there is a decrease in maximum allowed revenue approved by the AER, it is accompanied by an increase in quarterly payments. This is due to the application of actual inflation per the adjustment mechanism, which we use to ensure the Network Operator is compensated for outturn inflation when we convert the annual revenues into quarterly payments. In other words, while we approved a decrease in revenue, compensating the Network Operator for actual inflation results in an increase in the corresponding quarterly payments.

³ EII Act, s. 38 and EII Regulation, cl. 51(1).

⁴ EII Act, s. 38 and EII Regulation, cl. 51(2)(a).

included several routine adjustments to replace placeholder financial inputs with actual financial inputs. It also included non-routine adjustments for unavoidable contract variations and Paired Generation costs.

On 1 May 2026, Transgrid submitted a revised annual revenue adjustment proposal excluding the revenue adjustment related to Paired Generation costs. We expect this revenue adjustment to be included in Transgrid’s annual adjustment proposal in 2027. The revised adjustment proposal proposed a decrease of \$0.1 million (0.1%) from our previously approved revenue. Transgrid’s revised adjustment proposal provided evidence demonstrating the conditions had been met to trigger each of the remaining 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 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	
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 2.90% 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</p>

Proposed adjustment event	Final decision
	<p>for indexation, contracts or other purposes.⁵ The ABS explicitly noted this was a continuation of the existing quarterly series.⁶</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 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 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 to quarterly payments. Relative to Transgrid’s proposal, our decision results in a reduction of \$0.1 million (\$ nominal) in the quarterly schedule of payments.</p>
Return on debt update	<p>Transgrid proposed a return on debt of 6.07%, a decrease from the placeholder of 6.37% 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 decreases the maximum allowed revenue by \$0.5 million (\$ nominal).</p>
Non-routine expenditure adjustments	
Unavoidable contract variation	<p>Transgrid proposed a \$0.5 million (\$2023–24) net reduction to the pre-period and forecast capex we accepted in our final decision. This comprised:</p> <ul style="list-style-type: none"> • a reduction of \$2.6 million in final design and construction costs for transmission lines and substations. This was due to a decrease in the anticipated scope of substation works

⁵ ABS, [ABS announces the Monthly CPI to start in November 2025](#), July 2025.

⁶ ABS, [Complete monthly measure of the CPI \(frequently asked questions\)](#), accessed 15 April 2026.

Proposed adjustment event	Final decision
	<p>offsetting a corresponding increase in the scope for transmission line works.</p> <ul style="list-style-type: none"> • an increase of \$0.9 million in civil work costs related to underground fibre optic works due to the need to excavate additional rock volumes not identified along the route and various other latent ground conditions. • an increase of \$1.2 million for pre-period civil works related contract adjustments. <p>We accept this adjustment because Transgrid provided us sufficient information to demonstrate the adjustment mechanism has been triggered, including evidence of the relevant contract variations. We note the maximum cumulative cap for this adjustment mechanism has not been exceeded.</p> <p>We consider the contract variations are valid and relate to events that were unforeseen when the contracts were originally agreed. These variations have also enabled the project to progress. The unit costs applied to the contract variations are comparable to similar activities for other projects. On this basis, we are satisfied the updated capex forecast is prudent, efficient and reasonable.</p> <p>Despite capex being reduced, the result of accepting this adjustment mechanism is an increase to the maximum allowed revenue by \$0.4 million (all other things held constant). This reflects greater straight-line depreciation, driven by a higher proportion of capex allocated to short-lived asset classes and lower indexation applied to the RAB.⁷</p>

⁷ Regulatory depreciation is calculated as the difference between straight-line depreciation and indexation. A lower indexation therefore causes regulatory depreciation to increase.