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AUSTRALIAN ENERGY REGULATOR

Framework and Approach paper

Transgrid transmission determination 2028–33
(1 July 2028 – 30 June 2033)

July 2026

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1 Framework and Approach paper

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

A regulated network business must periodically apply to us for a determination of the revenue it can recover from consumers using its network. Transgrid Services Pty Ltd as Trustee for Transgrid Services Trust (ABN 94 121 353 950) (hereby Transgrid) is due to submit its next revenue proposal by 29 January 2027, for the period 1 July 2028 to 30 June 2033 (2028–33 period).

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

- which incentive schemes will apply.[1] The purpose of incentive schemes is to provide network service providers with incentives to only incur efficient costs and to meet or exceed service quality targets.
- our approach to setting efficient expenditure allowances[2] and depreciation for the establishment of the opening regulatory asset base for the upcoming regulatory control period.[3]

Our proposed approach set out in this F&A is not binding on the AER or Transgrid, meaning that the approach to these elements can be reconsidered, where appropriate.[4]

On 30 October 2025, Transgrid wrote to us, asking us to consider amending or replacing their 2023–28 F&A in preparation for the 2028–33 period.[5] In November 2025, we published Transgrid's request on our website and sought submissions from stakeholders on whether amendments to the F&A were necessary or desirable.[6]

Having received no submissions, we considered the information provided by Transgrid and decided to review and amend the F&A to reflect recent changes to relevant incentive schemes and guidelines. Our reasons for commencing this review were set out in our decision published in December 2025.[7]

1 NER, cll. 6A.10.1A(b)(1), (2), (3), (4) and (7).
2 NER, cl. 6A.10.1A(b)(5).
3 NER, cl. 6A.10.1A(b)(6).
4 NER, cl. 6A.10.1A(f).
5 Transgrid, *Letter to AER on Framework and Approach*, 30 October 2025.
6 AER, *Transgrid - Transmission Determination 2028-33 - Consultation on F&A paper*, 14 November 2025.
7 AER, *Transgrid 2028-33 framework and approach - Decision to amend*, 19 December 2025.

In April 2026, we released our preliminary position paper on the F&A for Transgrid for the 2028–33 period and invited stakeholders to provide written submissions on our proposed amendments to the F&A.[8]

We received three submissions in response to our preliminary positions for the 2028–33 transmission resets. The Centre for Smart Power and Energy Research submitted a response addressing the F&A for Transgrid, ElectraNet, and Murraylink, while submissions from Transgrid and the Justice and Equity Centre focused on the Transgrid F&A. These submissions are available on our website[9].

1.1 Next steps

Table 1 outlines the indicative timeline for the other stages of our transmission determination process for Transgrid for the 2028–33 regulatory period. These dates are subject to change.

Table 1 Indicative timeline for the 2028–33 Transgrid electricity transmission determination

Milestone	Indicative date
Transgrid submits revenue proposal	29 January 2027
AER publishes issues paper and holds public forum	March/April 2027
Submissions on revenue proposal close	May 2027
AER to publish draft transmission determination	September 2027
AER to hold predetermination conference	October 2027
Transgrid to submit revised revenue proposal to AER	December 2027
Submissions on revised revenue proposal and draft decision close	January 2028
AER to publish final transmission determination	April 2028

8 AER, *Preliminary position paper - Transgrid Framework and Approach paper for 2028-33*, 10 April 2026.

9 *Submissions, AER's preliminary position paper - Framework and Approach paper for 2028–33 Transgrid, ElectraNet, and Murraylink*, May 2026.

2 Incentive Schemes

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

Since we published the F&A for the current 2023–28 period, we have finalised reviews into the CESS, EBSS and STPIS, which resulted in a new version of CESS (version 4) and STPIS (version 6). This allows us to apply the latest versions of the incentive schemes as part of our 2028–33 determination. We propose to apply the following incentive schemes in our transmission determination for Transgrid in the 2028–33 period:

- Efficiency benefit sharing scheme (EBSS),[10] which is intended to provide a continuous incentive for transmission businesses to pursue efficiency improvements in operating expenditure (opex) and provide for a fair sharing of the financial savings between businesses and consumers.
- Capital expenditure sharing scheme (CESS),[11] which provides financial rewards to transmission network service providers (TNSPs) whose capital expenditure (capex) becomes more efficient and financial penalties for TNSPs whose capex becomes less efficient.
- Service target performance incentive scheme (STPIS),[12] which provides incentives to TNSPs to provide greater transmission network reliability, and improve and maintain the reliability of the elements of the transmission network most important to determining spot prices.[13]
- Demand management innovation allowance mechanism (DMIAM)[14] for transmission, which provides TNSPs with funding for research and development in demand management projects that have the potential to reduce long-term network costs.

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

The energy transition and the incentive-based framework

We are focused on making regulatory decisions that protect consumers and support an orderly transition to renewable energy. An effective incentive framework is central to this objective because it encourages network service providers to continue to manage costs efficiently and maintain service quality at a time of significant investment, change and uncertainty.

In this context, incentive schemes such as the CESS, EBSS and STPIS continue to play an important role in rewarding efficient cost management and system reliability.

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10 NER, cl. 6A.10.1A(b)(2).

11 NER, cl. 6A.10.1A(b)(3).

12 NER, cl. 6A.10.1A(b)(1).

13 NER, cl. 6A.7.4(b)(1).

14 AER, *Demand management innovation allowance mechanism - Transmission*, May 2021; NER, cl. 6A.10.1A(b)(7).

Proposals by network businesses to reduce or narrow the scope of incentive mechanisms will be assessed carefully in the context of our revenue determinations. In particular, we will consider whether a proposed change would weaken incentives for network service providers to act efficiently and prudently, or reduce the benefits to consumers of ongoing cost discipline, innovation and service improvements.

Uncertainty associated with the energy transition does not, of itself, justify reducing the scope of incentive mechanisms. The regulatory framework includes mechanisms to address material uncertainty related to unexpected events, including contingent projects, cost pass through applications and, in limited circumstances, reopening provisions.

These mechanisms provide targeted flexibility while preserving incentives for businesses to control costs and deliver efficient outcomes for consumers.

The Australian Energy Market Commission (AEMC) is undertaking a review of electricity network regulation. Package 2 will examine how the framework can best support efficient service delivery and appropriate risk allocation between network businesses and consumers. This includes the consideration of incentive mechanisms. Stakeholders are able to participate and make submissions to this review.[15]

2.1 Efficiency Benefit Sharing Scheme

Our proposed approach is to apply the EBSS (version 2) to Transgrid for the 2028–33 control period. We will set out in our draft and final decisions for the 2028–33 period how the EBSS will apply. This will include which cost categories will be excluded from the EBSS.

The purpose of the EBSS is to provide networks with a continuous incentive to reduce operating expenditure (opex), while ensuring efficiency gains and losses are shared fairly between networks and consumers. Consumers benefit from efficiency gains through lower approved opex forecasts in future regulatory control periods.

We will only apply the EBSS to Transgrid if we are satisfied the scheme will provide a fair sharing of efficiency gains and losses. In practice, this depends on whether we expect to use Transgrid's revealed costs from the 2028–33 period to forecast opex for the 2033–38 period. When we use a revealed cost forecasting approach, the EBSS helps ensure that efficiency improvements are shared. Transgrid will retain efficiency gains for six years, while consumers benefit later through a lower approved opex forecast.

We would not apply the EBSS if we expect we will not use revealed costs to forecast opex for the period commencing in 2033. In that case, Transgrid could receive an EBSS reward for reducing expenditure, while consumers may not receive the corresponding benefit through lower future opex forecasts. That would be inconsistent with the National Electricity Rules requirement that the EBSS must provide for fair sharing of efficiency gains and losses. It is for this reason that we exclude cost categories not forecast on a revealed costs basis from the EBSS.

15 AEMC, *Electricity Network Regulation Review (Package 2)*, 25 June 2026.

2.1.1 Stakeholder feedback

Treatment of costs considered to be uncontrollable

In its 30 October 2025 letter to the AER, Transgrid supported the continued application of the EBSS. However, Transgrid stated that the Australian Energy Market Operator (AEMO) fees, should not be included in the EBSS because it considered these costs outside of its control.[16]

In its response to our preliminary position paper, Transgrid reiterated its earlier position and recommended that the AER exclude AEMO participant fees from the EBSS for the 2028–33 period and treat them as a specific category forecast.

We will set out in our draft and final decisions which cost categories we will exclude from the EBSS in the 2028–33 period. However, for the reasons set out in the EBSS (version 2) explanatory statement, we do not consider a cost category being 'uncontrollable' to be a reason to exclude that category.[17]

Including these costs means any increases or decreases are shared between networks and consumers in the same way as other opex variances. We considered this more preferable than excluding the costs, which would make the sharing outcome dependent on when the cost increase (or decrease) occurs.[18]

We accept that including uncontrollable costs would expose Transgrid to forecasting risk, but these risks are symmetric and material events can be managed through pass-through arrangements and contingent projects.[19]

This position is consistent with the AEMC's final determination on the treatment of AEMO fees,[20] which gave Transgrid a transitional period from 2023–24 to 2027–28 to directly charge consumers, before moving to incorporate AEMO fees into the existing incentive-based revenue determination framework. This is now expected to occur in the 2028–33 regulatory period. We have explained our rationale in more detail in section 3.1.1 of our preliminary position paper.[21]

The Justice and Equity Centre (JEC) supported our preliminary position to reject Transgrid's proposal to exclude AEMO fees from the EBSS and agreed with our reasoning.

Incentives to bring forward or delay opex

The JEC also raised a concern that the EBSS could expose consumers to inefficient costs—particularly if opex is transferred between years without actual efficiency gains or demonstrable service improvements.[22]

When we designed the EBSS we considered the incentives to bring forward or delay opex. We showed that the EBSS shares the time value of money benefits (costs) from delaying

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16 Transgrid, *Letter to AER on Framework and Approach*, 30 October 2025, p. 2.

17 AER, *Explanatory statement – efficiency benefit sharing scheme*, November 2013, pp. 19–21.

18 AER, *Explanatory statement – efficiency benefit sharing scheme*, November 2013, p. 19.

19 AER, *Explanatory statement – efficiency benefit sharing scheme*, November 2013, p. 19.

20 AEMC, *Recovering the cost of AEMO's participant fees*, 20 October 2022, p 20 [3.3.1].

21 AER, *Preliminary position paper - Transgrid Framework and Approach paper 2028-33*, 10 April 2026, p. 6.

22 Justice and Equity Centre, *Submission - AER's preliminary position paper - Transgrid Framework and Approach paper for 2028–33*, May 2026, p. 2.

(bringing forward) opex between networks and network users the same as other efficiency gains and losses.[23] This includes delaying opex into a subsequent control period.

We welcome further engagement from stakeholders, including the JEC, on any concerns that consumers could pay EBSS rewards where opex is transferred between years without corresponding efficiency gains. Further feedback, including practical examples of how this issue could arise, would assist us to better understand the concern and consider it as part of the revenue determination process.

2.2 Capital Expenditure Sharing Scheme

Our proposed approach is that Transgrid will be subject to the updated Capital Expenditure Incentive Guidelines (version 4) for the 2028–33 period. This includes:

- updates following our 2023 review to:
  - apply a lower sharing factor of 20% to any underspend amount greater than 10% of the approved forecast capital expenditure allowance
  - introduce new transparency measures which require TNSPs to explain variations between capital expenditure forecasts and outcomes
  - provide further guidance and flexibility on the application of the CESS to large transmission projects.
- updates following our 2025 review to:
  - incorporate AEMC's amending rule on managing Integrated System Plan (ISP) project uncertainty, which requires the AER to carry out a separate targeted ex-post review for ISP projects
  - allow for exclusions to the CESS in certain circumstances
  - allow for adjustments to the CESS to accommodate abandoned ISP projects.

These updates to the application of the CESS are designed to improve the incentive for TNSPs to pursue efficient improvements to the network for the benefit of network users. We consider the recent updates to the CESS would provide the flexibility required in applying the CESS to Transgrid's circumstances for the 2028–33 regulatory period.

2.2.1 Stakeholder feedback

Adoption of CESS version 4

The Justice and Equity Centre (JEC) did not support our proposed adoption of the CESS as set out in the 2025 capex incentive guidelines (version 4). JEC expressed concern that the changes made to the CESS could result in material cost impacts for NSW consumers.

The JEC highlighted two specific risks, including the possibility of infrastructure being deferred for reasons unrelated to efficiency (with potential for Transgrid to seek revenue for

[23] AER, *Final decision, Electricity distribution network service providers, Efficiency benefit sharing scheme*, June 2008 pp. 28–29.

the same item in a later revenue period) and reduced cost accountability for inefficient overspending by Transgrid.[24]

As noted by JEC, the updated CESS is the result of a targeted review in 2025. We would welcome JEC to provide a submission to the AER at the issues paper stage or the draft decision stage of this regulatory determination if JEC has specific issues with regard to the proposed application of the CESS for the 2028–33 period.

The Centre for Smart Power and Energy Research (CSPER) supported applying the CESS as set out in our 2025 capex incentive guidelines (version 4), but noted that capex efficiency assessments can be sensitive to planning outputs that may embed simplified inverter-performance assumptions. The CSPER recommended condition-aware sensitivity testing for major ISP and REZ-related projects.[25] The CSPER may also wish to raise these matters through the AEMC's electricity network regulation review, which provides a broader opportunity to consider how the regulatory framework can respond to emerging network operability and performance issues.

In its response to our preliminary position paper, Transgrid supported the continued application of the CESS.

CESS penalties and its interaction with the ex-post review

Transgrid, in its submission, recommended that the final F&A should provide greater certainty that the scheme will be applied flexibly and proportionately following an ex post review, particularly where actual expenditure represents an efficient increase in the volume of work undertaken, for example – as a result of unforeseen demand growth that could not reasonably have been forecast.[26]

We consider the 2025 capex incentive guidelines (version 4) provides sufficient guidance on how we may make CESS adjustments.[27] If an ex-post review is triggered, the updated Guidelines would allow Transgrid to demonstrate how additional capex is consistent with the factors set out in our Guidelines. This allows us to take into account information provided by Transgrid on a case-by-case basis, and would give stakeholders an opportunity to comment on relevant specific matters.

We acknowledge JEC's concern that ex post adjustments to the CESS may reduce NSP accountability for efficient capex. However, as set out in the explanatory statement accompanying our Guidelines, this flexibility does not remove Transgrid's responsibility to prudently manage its expenditure.

Where exceptional circumstances result in material additional capex that could not reasonably have been foreseen or managed, Transgrid must demonstrate why that capex should be excluded from the CESS payment. This approach ensures there is flexibility for us to promote efficient investment while protecting long-term interest of consumers.

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24 Justice and Equity Centre, *Submission - AER's preliminary position paper - Transgrid Framework and Approach paper for 2028–33*, May 2026, p. 2.

25 Centre for Smart Power and Energy Research, *Submission - AER's preliminary position papers - Transgrid, ElectraNet and Murraylink Framework and Approach papers for 2028–33*, May 2026, p. 2.

26 Transgrid, *Submission - AER's preliminary position paper - Transgrid Framework and Approach paper for 2028–33*, May 2026, pp. 1, 5.

27 AER, *Capital Expenditure Guideline Review 2025*, August 2025.

In relation to deferrals, the Guidelines include a mechanism to adjust CESS payments where there is an underspend, ensuring consumers benefit where material capex is deferred between regulatory control periods. We can assess such deferrals when reviewing future capex forecasts. There may be instances where projects are deferred for reasons unrelated to efficiency and a network has materially overspent. In these instances, we can undertake an ex post review to remove inefficient capex.

Overall, the CESS and ex post review framework preserves incentives for NSPs to manage costs efficiently while maintaining network safety and reliability.

2.3 Service Target Performance Incentive Scheme

Our proposed approach is that we will apply version 6 of the STPIS to Transgrid for the 2028–33 period. Version 6 of the STPIS was published on 17 April 2025.

Under version 6 of the STPIS:

- we have amended the Service Component (SC) to remove rounding in setting targets for the loss of supply frequency parameter
- we have amended the Network Capability Component (NCC) to
    - remove the Network Capability Incentive Parameter Action Plan (NCIPAP) and link the NCC to a TNSP's Transmission Annual Planning Report
    - better align incentive payments with revenue reductions.
- the Market Impact Component (MIC) (which applies in version 5 of the STPIS) has been suspended. We are undertaking a process to explore alternatives to the MIC through a working group comprising industry stakeholders and market bodies.

2.3.1 Stakeholder feedback

The Justice and Equity Centre (JEC) raised concerns that suspending the MIC of the STPIS without other measures in place could put unacceptable pressure on wholesale prices without clear accountability for those outcomes. The JEC recommended that the AER require Transgrid to actively report on market impacts, monitor these impacts, and act promptly if material market risks are identified—especially given the upcoming wave of new connection points (e.g. REZs, batteries, interconnectors) expected during the 2028–33 period.[28]

The AER is considering reporting requirements on TNSPs as part of the working group process currently on foot to find a replacement for the MIC.[29] The working group will report its findings to the AER for our consideration by late 2026.

The Centre for Smart Power and Energy Research (CSPER) supported applying STPIS (version 6), but considered that reliability incentives should increasingly recognise inverter-based operability constraints (not only outage-based measures). The CSPER suggested that

[28] Justice and Equity Centre, *Submission - AER's preliminary position paper - Transgrid Framework and Approach paper for 2028–33*, May 2026, pp. 2-3.

[29] AER, *Transmission STPIS – Final Amendments: Explanatory Statement*, April 2025.

future STPIS reviews consider metrics and visibility for system strength, voltage support and constrained-operation performance.[30]

We welcome CSPER's recommendations and the constructive contribution to the discussion about how incentive frameworks can support effective network performance through the energy transition. We note that we have recently completed a comprehensive review of the STPIS and are not considering another STPIS review in the short term. However, CSPER may wish to raise these matters through the AEMC's electricity network regulation review, which provides a broader opportunity to consider how the regulatory framework can respond to emerging network operability and performance issues.

2.3.2 Applying a revised STPIS

On 14 May 2026, the AEMC made a rule change to enable the early application of a revised STPIS.[31] The rule commenced on 21 May 2026. The Early application of a revised STPIS final rule, introduces the ability for the AER to apply a revised STPIS before a TNSP's next regulatory control period commences. After making a new scheme, the AER may consult on its proposed early application arrangements to allow the application of a revised STPIS before the end of a TNSP's regulatory control period.

In light of this final rule, should a replacement for the MIC be found and the AER publishes version 7 of the STPIS, that version may apply to Transgrid before the end of the 2028–33 regulatory control period. The AER would consult on the early application of any revised STPIS in accordance with the Transmission Consultation Procedures.[32]

2.4 Demand Management Innovation Allowance Mechanism

Our proposed approach is to apply the Demand Management Innovation Allowance Mechanism (DMIAM) to Transgrid for the 2028–33 regulatory period.[33]

In its 30 October 2025 letter[34] to the AER, Transgrid supported the application of the DMIAM for the 2028–33 period.

The Centre for Smart Power and Energy Research (CSPER) supported continuing the DMIAM; emphasising demand management and flexibility projects should reflect realistic DER participation and technical constraints. The CSPER encouraged projects that improve visibility of inverter-based and demand-side behaviour.[35]

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30 Centre for Smart Power and Energy Research, *Submission - AER's preliminary position papers - Transgrid, ElectraNet and Murraylink Framework and Approach papers for 2028–33*, May 2026, p. 2.

31 AEMC, *Early application of a revised STPIS, Final Rule*, May 2026.

32 NER, rule 6A.20.

33 In accordance with the NER (clause 6A.7.6.) and following stakeholder consultation on a draft DMIAM, we published a final DMIAM for electricity transmission networks on 27 May 2021 (for details, see AER, *Demand management innovation allowance mechanism - Transmission*, May 2021).

34 Transgrid, *Letter to AER on Framework and Approach*, 30 October 2025, p. 2.

35 Centre for Smart Power and Energy Research, *Submission - AER's preliminary position papers - Transgrid, ElectraNet and Murraylink Framework and Approach papers for 2028–33*, May 2026, p. 2.

2.5 Small-scale Incentive Scheme

The NER provides that we may develop a Small-scale Incentive Scheme (SSIS) for TNSPs to test innovative incentive approaches that drive further improvements in network service delivery for the long-term benefit of electricity consumers.[36]

There is currently no SSIS applicable to TNSPs. In its 30 October 2025 letter to the AER, Transgrid noted that it will engage with the AER and its consumer advisory council to assess the case for developing such a scheme.[37]

In its response to our preliminary position paper, Transgrid saw merit in considering whether the SSIS framework could be used to trial a more streamlined and effective approach to promoting non-network and innovative solutions than the DMIAM. Transgrid claimed that the DMIAM provides insufficient and narrow funding for innovative projects with significant costs in administering the scheme.[38]

Transgrid instead proposed setting a standard innovation allowance (as a percentage of Maximum Allowed Revenue) with no ex-ante proposal and assessment requirement. This reflects our commitment to consult on changes to network expenditure allowances in our letter to the Treasurer, the Hon Jim Chalmers MP dated 1 August 2025.[39]

The AER is in the process of investigating the use of innovation funds and we would welcome Transgrid's views about how it could be implemented. In considering the implementation of an innovation allowance, we would require consultation with industry participants and stakeholders in accordance with the transmission consultation procedures.[40] As such, this process will be considered external to this regulatory determination.

36 NER, cl. 6A.7.5.

37 Transgrid, *Letter to AER on Framework and Approach*, 30 October 2025, p. 2.

38 Transgrid, *Submission - AER's preliminary position paper - Transgrid Framework and Approach paper for 2028–33*, May 2026, pp. 1, 5-6.

39 AER, *Letter to the Treasurer - Regulatory reform opportunities*, August 2025.

40 NER rule 6A.20.

3 Expenditure forecast assessment guideline

Our proposed approach is that we will apply the updated Expenditure Forecast Assessment Guideline in our assessment of Transgrid's proposal for the 2028–33 period.

The Expenditure Forecast Assessment Guideline sets out our expenditure forecast assessment approach.[41] It outlines the assessment techniques we will use to assess Transgrid's proposed expenditure forecasts and the information we require from Transgrid.

The Expenditure Forecast Assessment Guideline provides Transgrid with clarity regarding the information it should include in its revenue proposal. This contributes to an open and transparent process and makes our assessment of expenditure forecasts more predictable.

The Expenditure Forecast Assessment Guideline contains a suite of assessment/analytical tools and techniques that the AER can use to test the prudency and efficiency of a network business' proposed expenditure. These include:

- models for assessing proposed replacement and augmentation capex
- benchmarking (including broad economic techniques and more specific analysis of expenditure categories)
- methodology, governance and policy reviews
- predictive modelling and trend analysis
- cost benefit analysis and detailed project reviews.[42]

We exercise judgement to determine the extent to which we use a particular technique to assess a regulatory proposal. We use the techniques we consider appropriate depending on the specific circumstances of the determination.

On 16 October 2024, we released an update to our Expenditure Forecast Assessment Guidelines (distribution and transmission) to give effect to the new emissions reduction component of the national energy objectives.

Transgrid did not propose changes to the application of the Expenditure Forecast Assessment Guideline. Transgrid recognised that the AER will retain flexibility to apply a range of assessment techniques when evaluating its expenditure forecasts.[43]

3.1 Stakeholder feedback

The CSPER, in its submission, supported the application of the updated Expenditure Assessment Guideline. The CSPER noted that the AER could better use the modelling, benchmarking, cost-benefit and project review tools to test key inverter-related assumptions.

41 AER, *Expenditure forecast assessment guideline*, 29 November 2013 (updated 16 October 2024).

42 AER, *Explanatory statement - expenditure forecast assessment guideline*, 29 November 2013.

43 Transgrid, *Letter to AER on Framework and Approach*, 30 October 2025, pp. 2-3.

The CSPER suggested that simplified assumptions in the assessment of expenditure proposals could lead to systematically biased forecasts of energy, utilisation and congestion and a risk of over or under estimating network needs.

4 Depreciation to establish the opening RAB

Our F&A for Transgrid must set out whether depreciation for establishing the opening regulatory asset base (RAB) for the 2033–38 regulatory control period, commencing 1 July 2033, is to be based on actual or forecast capital expenditure.[44]

Our proposed approach, consistent with the Capital Expenditure Incentive Guideline,[45] is to continue using depreciation based on forecast capital expenditure for establishing the opening regulatory asset base at the commencement of the 2033–38 regulatory control period. This is also consistent with the approach adopted for Transgrid's 2023–28 determination.[46] Transgrid indicated that it will not seek to depart from this approach.[47]

As part of the roll forward methodology, when the RAB is updated from forecast capex to actual capex at the end of a regulatory control period, it is also adjusted for depreciation. The depreciation we use to roll forward the RAB can be based on either:

- actual capex commissioned during the regulatory control period (actual depreciation). We roll forward the RAB based on actual capex less the depreciation on the actual capex; or
- the capex allowance forecast at the start of the regulatory control period (forecast depreciation). We roll forward the RAB based on actual capex less the depreciation on the forecast capex approved for the regulatory control period.

Transgrid's 2023–28 determination is subject to the CESS. As set out in section 2.2 above, we propose to continue to apply the CESS in the 2028–33 regulatory control period. We consider that the incentive provided by the application of the CESS, in combination with the use of forecast depreciation and our other ex-post capex measures, will be sufficient to achieve the capex incentive objective.

In its response to our preliminary position paper, the CSPER expressed no objections to our approach regarding forecast depreciation and the opening RAB.

44 NER, cl. 6A.10.1A(b)(6).

45 AER, *Capital expenditure incentive guideline*, August 2025, pp. 15–16.

46 AER, *Transgrid 2023-28 - Framework & Approach*, July 2021, pp. 26–28.

47 Transgrid, *Letter to AER on Framework and Approach*, 30 October 2025, p. 3.

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
CSPER	Centre for Smart Power and Energy Research
DER	distributed energy resources
DMIAM	demand management innovation allowance mechanism
EBSS	efficiency benefit sharing scheme
F&A	framework and approach paper
ISP	Integrated System Plan
JEC	Justice and Equity Centre
MIC	market impact component
NCC	network capability component
NCIPAP	Network Capability Incentive Parameter Action Plan
NEL	National Electricity Law
NEO	National Electricity Objective
NER	National Electricity Rules
NSP	network service provider
opex	operating expenditure
RAB	regulatory asset base
REZ	Renewable Energy Zone
SC	service component
SSIS	Small-scale incentive scheme
STPIS	service target performance incentive scheme
TNSP	transmission network service provider