AUSTRALIAN ENERGY REGULATOR

AER Public Forum
System Strength Project

16 July 2026

AUSTRALIAN ENERGY REGULATOR

Thursday, 16 July 2026

Acknowledgement of Country

Kate Symons

AER Board Member

Purpose of this forum

A public opportunity to raise queries on Transgrid's revenue proposal and the AER's preliminary position paper.

Per the non-contestable guideline, we may hold a public forum after releasing our preliminary position paper.

Ensure transparency and that we hear the views of stakeholders before we make our revenue determination

Forum agenda

1	**Introductory comments** AER – Kate Symons	5 mins
2	**AER presentation** AER – Patrick Devlin	15 mins
3	**Transgrid presentation** Transgrid – Nadine Lennie	15 mins
4	**Consumer Challenge Panel 35** CCP35 – Helen Bartley	10 mins
5	**Consumer Advisory Group (CAG)** CAG – Louise Benjamin	10 mins
6	**Q&A session** Facilitated by AER – Kate Symons	30 mins
7	**Closing remarks** AER – Kate Symons	5 mins

System Strength

What is System Strength?

- System strength is the grid's **ability to withstand, absorb and recover from electrical disturbances.**
- Disturbances (faults, generator trips, demand shifts) are a normal part of system operation.
- A strong system returns to stable conditions quickly and reliably.
- Historically, large synchronous generators acted as the grid's natural shock absorbers. As these retire or run less frequently, a major source of system strength is lost. Wind and solar do not naturally provide equivalent system strength, creating a gap.

How did the System Strength Project form?

- Transgrid is the System Strength Service Provider (SSSP) for NSW, responsible for delivering system strength in line with AEMO's requirements*.
- In 2022 Transgrid initiated the 'Meeting system strength requirement in NSW Regulatory Investment Test for Transmission (RIT-T) process.
- The Project Assessment Conclusions Report (PACR) concluded that synchronous condensers are required at 10 sites by FY30, with 5 sites accelerated to FY28.
- In response, the **NSW Government issued a** Priority Network Infrastructure Project (PNIP) **Direction requiring Transgrid to procure and install synchronous condensers at 5 network locations by February 2029.**

*The obligation sits under **NER S5.1.14**, following the AEMC's **2021 System Strength Rule Change**.

Roles and responsibilities

- **NSW Department of Climate Change, Energy, the Environment and Water** (DCCEEW) was appointed as **Infrastructure Planner** for this Project in December 2024.
- The NSW Government formally appointed the **Australian Energy Regulator** (AER) as a **regulator** under the Electricity Infrastructure Investment (EII) Act NSW in November 2021

NSW DCCEEW – Infrastructure Planner

- Setting the detailed scope of the project in line with the Minister's direction
- Coordinating throughout the planning phase of the Project.
- Undertaking the competitive assessment processes. This includes:
    - Preparation of procurement documentation,
    - Request for proposal activities and,
    - Evaluation of submissions and selection of preferred tender.

AER – Regulator

- Prudent, efficient and reasonable assessment:
    - Contestable – assessing whether the competitive procurement process was genuine and appropriate.
    - Non-contestable – assessing against our non-contestable guideline and EII Chapter 6A expenditure tests.
- Determine the amount payable (revenue) that Transgrid may recover for carrying out the System Strength Project.
- We do not have a role in the design, planning or timing of projects under the EII Act, as these responsibilities are undertaken by the Infrastructure Planner.

Project overview

The PNIP Direction established a hybrid regulatory pathway – combining contestable and non-contestable elements to the whole project.

Contestable elements

Contestable elements are procured competitively – where the AER accepts the process as genuine and appropriate, costs are accepted as prudent, efficient and reasonable.

Synchronous condenser package (contestable):
The design, manufacture, delivery, installation and maintenance of synchronous condensers at 5 locations providing a system strength solution of at least 950 MVA at each location.The synchronous condenser package involves 2 contracts:

- The Supply Contract with the original equipment manufacturer (OEM), GE Vernova, to supply 10 synchronous condensers (2 at each location).
- The Long-Term Service Agreement (LTSA) with GE Vernova to maintain and service the synchronous condensers over a 10-year term.

Associated works package (contestable):
Design and construction (D&C) work to integrate the synchronous condensers at each of the 5 locations, such as earthworks foundations, civil work, site infrastructure and substation enabling work. The associated works package involves 2 contracts with 2 individual D&C contractors.

Non-contestable elements

Non-contestable elements are assessed under the AER's standard approach – only prudent, efficient and reasonable costs are recovered from NSW consumers.

Non-contestable elements (non-contestable):
The network connection as well as operation and maintenance of assets, not captured under the synchronous condenser package, and interface management of the parties to be undertaken by Transgrid.

***Note:** If the AER is not satisfied i) a contestable process was genuine and appropriate, or ii) an element proposed is an outcome of the competitive process, it can assess those costs under the non-contestable approach.*

Overview of Transgrid's revenue proposal

$918.1m
proposed total capital expenditure – Contestable
($ September 2026)

$266.9m
proposed total capital expenditure – Non-contestable
($ September 2026)

$1,185.0m
Proposed total capital expenditure
($ September 2026)

$317.1m
Opening Regulatory Asset Base
($ nominal)

Building block components — total ($m nominal)	
Return on capital	339.9
Regulatory depreciation	(5.8)
Operating expenditure	66.3
Revenue adjustments	-
Corporate income tax	0.4
Maximum allowed revenue	**400.8**

Overview of our preliminary position of non-focus issues

Areas of the proposal likely to be accepted

Approach to modelling:

- total revenue and schedule of payments
- regulatory depreciation
- corporate income tax.

Expenditure that is an outcome of the competitive assessment processes, specifically:

- Contract-related capex (excluding provisional sums)
- Contestable-related opex (excluding provisional sums).

Focus issues and ongoing assessment

Approach to managing risks:

- non-contestable risk costs
- provisional sums
- adjustment mechanisms.

Non-contestable capex:

- project delivery management
- project development.

Non-contestable opex.

Pre-lodgement stakeholder engagement

What Transgrid did well

- **Structured engagement:** established a dedicated system strength sub-committee open to all TAC members, with timely materials, meeting minutes, and consistent representation.
- **Meaningful consumer involvement:** clearly outlined scope for consumer influence and conducted targeted deep-dive sessions with TAC members.
- **Accessible communication:** delivered a clear, plain-English project overview in the revenue proposal.
- **Evolving engagement:** transitioned to the more consumer-focused Consumer Advisory Group (CAG) ahead of submission.
- **Both the AER and CCP35 commend Transgrid for these positive steps in pre-lodgement consumer engagement.**

Areas for development

- **Informing, not engaging:** deep-dive sessions focused on explaining Transgrid's preferred approach rather than genuinely seeking consumer input to shape the proposal
- **Limited openness to challenge:** Transgrid responded to questions but was less receptive to alternative views – no options or trade-offs were tested with consumers
- **Fragmented disclosure:** provisional sums were not disclosed alongside non-contestable risks and adjustment mechanisms, limiting consumers' ability to holistically consider Transgrid's approach to risk and cost recovery.
- **Lack of cost transparency:** TAC members raised concerns about limited access to information and behind-closed-doors negotiations.

Overview of focus issues — Risk

Transgrid's proposal

Risk costs	$18.4m

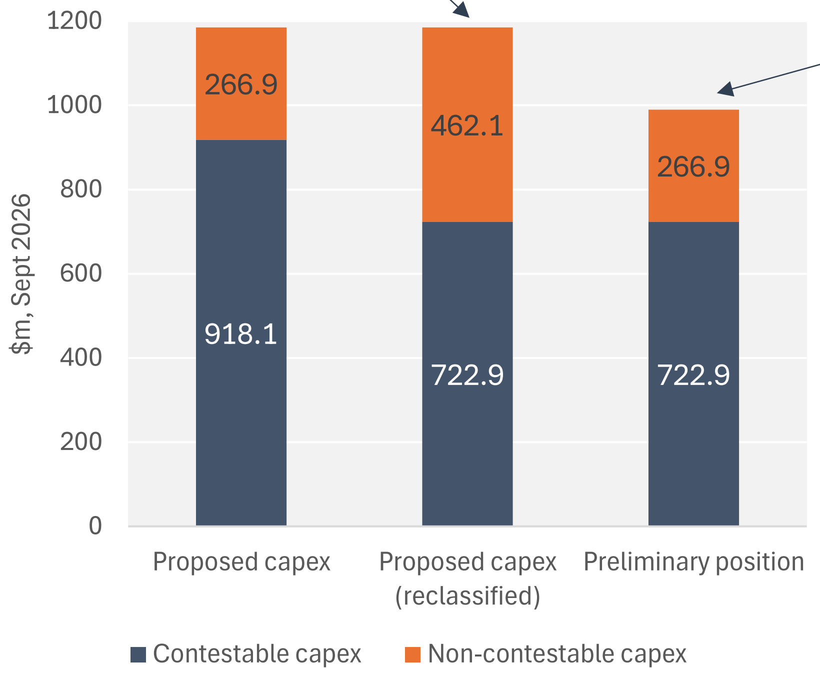
- Transgrid-held risks
- Set and forget – no annual adjustments
- Subject to CESS incentive mechanism
- Estimated using probabilistic approach, consistent with AER guidance

Provisional sums	$195.2m*

- Transgrid-held risks under contestable contracts (e.g. contaminated soil found by contractor, change in law requirements on contractor)
- Upfront allowance to fund potential contract variation claims
- Actual total contract variation amounts to be trued-up through annual adjustments
- Not subject to CESS
- Estimated using deterministic approach, with unit rates derived from competitive processes

AER's preliminary position

- We do not consider the provisional sums to be an outcome of the competitive process as the amounts were not bid on by the proponents



- We do not consider Transgrid should receive an ex-ante capex allowance for potential contract variations that are recoverable through adjustment mechanisms
- However, some risk events that lead to contract variations can be estimated with greater certainty – in these cases we should include a risk cost in the capex forecast rather than an adjustment mechanism

This figure only relates to provisional sum capex. There is a small amount related to provisional sum opex in Transgrid's proposal.

Overview of focus issues — Adjustment mechanisms

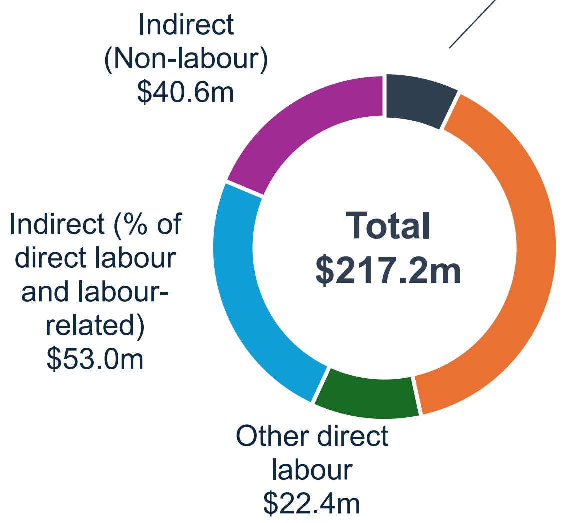
Transgrid's proposal	AER's preliminary position
Contract-related adjustment mechanisms	

• Relate to potential variations to contracts established through the competitive assessment process (cost variations made under the OEM supply contract, LTSA maintenance contract and 2 D&C associated works contracts).
• Proposes a process Transgrid will follow to evaluate contract variation claims to determine adjustment amount (IP approval for claims over $10 million or for an extension of time)
• Includes an adjustment for increased fuel and commodity costs following the Middle East conflict, agreed after the competitive process concluded.
	We consider:
	• We should **reserve the right to assess all future contract-related adjustment amounts for prudency, efficiency and reasonableness** at the time of adjustment proposal.
	    • For the majority of variation clauses under the contracts, there is no limitation on amounts payable – Transgrid has discretion to determine an appropriate variation amount
	    • Ability to assess future amounts protects consumers from potentially overstated variation amounts and will place incentive on Transgrid to appropriately assess all variation claims.
	• We should **assess the adjustment arising from Middle East conflict on a non-contestable basis as it was not agreed under competitive tension**.

Major transport adjustment mechanisms	
• Relate to additional work to upgrade transport routes for oversize and over mass (OSOM) vehicles • Includes Transgrid's own due diligence and enabling costs, contractor costs (forecast and actual) and local council costs.	Noting our decision does not determine the scope of the authorised project and the current level of uncertainty over the potential significant scale of costs involved, **we consider a review and remake is the most reasonable path to adjust our determination for future major transport works**.

Overview of focus issues — Labour & indirect costs

Transgrid's proposal



Project development $15.5m

Includes costs related to RIT-T process and other early development works.

Project delivery management $85.7m

Average of 76.5 FTE positions:

- project management
- project engineering
- construction management
- commissioning
- commercial management
- project controls

AER's preliminary position

- Likely to accept a portion of Transgrid's proposed project development costs, subject to further prudency, efficiency and reasonable assessment of underlying cost categories.
- Some proposed development costs, related to RIT-T expenditure, do not appear to satisfy assessment criteria that costs must be consistent with the scope as set out in the Minister's direction.

Undertaking further analysis, including:

- Benchmarking of labour and indirect costs (in combination with risk costs)
- Considering interaction with proposed risk costs, provisional sums and adjustment mechanisms, including potential for duplication

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Transgrid Presentation

Nadine Lennie
Chief Financial Officer, Transgrid

Thursday, 16 July 2026

Consumer Challenge Panel (CCP35)

Helen Bartley

Transgrid's Consumer Advisory Group (CAG)

Louise Benjamin

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Q & A Session

Kate Symons

AER Board Member

Timeline

22 April 2026
Compliant revenue proposal submitted

24 April 2026
Proposal published; submissions open

18 May 2026
Revenue proposal submissions close

29 June 2026
Preliminary position paper published

16 July 2026
AER public forum on System Strength Project

27 July 2026
Preliminary position submissions close

1 Oct 2026
First day of proposed regulatory period

21 Oct 2026
AER last day to make a final determination*

Completed

**Note:*
This is the last day according to the 126-business day timeframe, as mentioned in the guideline. The AER, however, will endeavour to make our decision before 1 October 2026, the first day of the regulatory period.

Per Clause 50(1) of the EII Regulation, the regulator must make a revenue determination within 126 business days. Clause 53(4) of the EII Regulation states that the revenue determination, notice, reasons or schedule must be published as soon as reasonably practicable, but not before the infrastructure planner (DCCEEW) has notified us that the project financial close of the network infrastructure project has been reached under the recommended contractual arrangements for the project.

How can you get involved

- We invite interested stakeholders to email submissions by **5pm (AEST) 28 July 2026** for the preliminary position paper.

- Submissions should be emailed to REZ@aer.gov.au with the subject line ‘Submission on System Strength Project’.

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Closing remarks

Kate Symons

AER Board Member