Consumer
Challenge
Panel

CCP35 Advice to AER – AER Preliminary Position
Transgrid System Strength Project

Consumer Challenge Panel (CCP) Sub-Panel CCP35

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Acknowledgement of Country

I acknowledge the Traditional Custodians of the various lands on which Transgrid owns and operates its networks and facilities. I honour the customs and traditions and special relationship of those Traditional Custodians with the land as well as those where this report is being prepared. I respect the elders of these nations, past and present.

Confidentiality

To the best of my knowledge this report does not present any confidential information.

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1 Summary

Project context

NSW coal generator retirements will reduce system strength over the next decade. Transgrid is accelerating the delivery of synchronous condensers (syncons) to maintain network stability as coal generators are retired. This includes the installation of ten synchronous condensers across five existing substation sites, which the NSW Energy Minister declared to be a Priority Network Infrastructure Project (PNIP) in September 2025; later extending the project scope, installation, commissioning, and energisation February 2029.

Transgrid lodged its System Strength Project (SSP) revenue proposal on 22 April 2026; the AER published it on 24 April 2026. Under the EII framework, the AER has 126 business days to make its revenue determination. It published its Preliminary Position Paper (PPP) on 24 June 2026.

The AER received three submissions on Transgrid's SSP revenue proposal: Deakin University Centre for Smart Power and Energy Research (CSPER), the Justice and Equity Centre (JEC), and my CCP advice.

CCP role and limitations

The AER engaged the CCP in March 2026 to advise on:

- Transgrid's consumer engagement on non-contestable components
- Alignment with consumer preferences
- Consumer issues raised by the AER's PPP

My late appointment limited my direct observation of pre-lodgement engagement. This limited the extent I could provide observation-informed advice on the effectiveness of Transgrid's engagement with the CAG and its predecessor. Consequently, my May 2026 advice drew on Transgrid materials, the 23 March SS subcommittee meeting, and discussions with a small number of CAG members.

Since lodgement, I observed CAG meetings on 1 May and 3 July and 22 July 2026, including discussion of Transgrid's proposal and issues arising from the PPP. I also listened to a CAG member's presentation at the AER's public forum on 16 July 2026.

This advice responds to the AER's PPP and post lodgement issues raised by members of Transgrid's CAG. It also includes suggestions for the AER to consider in relation to the development and assessment of future revenue proposals under the EII framework.

Conclusions

Conclusions specific to this PPP

- The AER's preliminary position is appropriate overall, but costs and risks associated with Transgrid managing roadworks for the syncons remain a concern, particularly in relation to the AER's ability to assess their prudence, efficiency and reasonableness.

- Meaningful engagement was constrained by tight EII Act timeframes, the newness of the process, the first use of a hybrid proposal, PNIP limits on consumer influence, and confidentiality claims over material aspects of Transgrid's proposal.

- The AER has constructively acknowledged the strengths and limitations of Transgrid's engagement, identified areas for improvement, and clarified where consumers can have genuine and material influence.

Broader conclusions beyond this PPP

- Projects such as the SSP will impose significant costs on NSW consumers through energy bills, making trust in regulatory processes and meaningful engagement essential for consumer support for the energy transition.
- Transgrid's Roadmap and NER responsibilities place a heavy engagement burden on a single consumer representative group, particularly where the scope for consumer influence is limited.
- The EII framework constrains the extent the AER's *Better Resets Handbook* expectations can be directly applied to assess the effectiveness of consumer engagement.
- Within the scope of their terms of reference, consumer groups need information, including from the AER, to understand issues and prioritise areas where engagement can influence outcomes.
- While Transgrid has improved its engagement, the AER's PPP and the CAG have identified opportunities to move beyond information provision toward meaningful consumer influence, for example through a more detailed review of risk allocation, and the consideration of impacts of the project on the affected community.
- Earlier appointment of the CCP (ideally when a network commences its pre-lodgement engagement) would improve the ability of a CCP to provide more meaningful and timely advice that is based on direct observations, rather than rely on secondary sources such as meeting notes.

Recommendations

Recommendations specific to this PPP

I consider the AER's determination will better reflect consumer interests by:

- A detailed assessment of Transgrid's proposal, with particular reference to the focus areas identified in the PPP to ensure:
    - All proposed costs are prudent, efficient and reasonable before they are recovered from consumers.
    - Consumers do not pay twice for the same risk through overlapping allowances, provisional sums or adjustment mechanisms.
    - Particular scrutiny to road and bridge works, including whether Transgrid is the appropriate party to manage these costs and risks.
- Encouraging Transgrid to provide clearer responses on issues raised in the PPP, and by the CAG, such as transport costs, confidentiality/non-disclosure claims and the structure and implications of contestable versus non-contestable work.
- Some issues of concern to the CAG were not covered in the PPP, in particular noise abatement. While noise abatement per se is not a regulatory consideration, it is a concern to the CAG and

may have risk allowance implications and therefore some acknowledgement of the issue is appropriate.

- The AER considering the above items in making its determination and explaining the final decision in plain language, including those topics that were not covered in the PPP.

Recommendations beyond this PPP

For future proposals under the EII framework, the AER should:

- Provide early project-specific information (topics) to network operators, consumer advisory groups and the CCP on the aspects of the proposal where it would expect consumer engagement to genuinely influence outcomes.; for example, where matters are new, novel, non-routine, involve risk allocation, or affect consumer outcomes.
    - This needs to consider the consumer representative group's terms of reference, as well as the areas of expertise of the group, members' interests, time availability and capacity to influence outcomes
- In principle, the AER's *Better Resets Handbook* expectations for network operators to submit high-quality, consumer-centric revenue proposals driven by genuine customer engagement and justified spending are reasonable for EII revenue proposals. However, the specific expectations need to consider the impacts of the shortened statutory timeframes, pre-determined project scope, confidentiality and contestable procurement under the EII framework. Under the EII framework, the topics I observed that have the greatest impact on consumers, and where consumers could have the greatest influence are risk allocation, incentive schemes and social licence. If *Better Resets Handbook* expectations are to apply to EII revenue proposals, then:
    - The AER needs to develop modified specific engagement expectations around the breadth and depth of expected engagement that acknowledges the shortened timeframes and scope limitations
    - Details expectations on specific topics not covered elsewhere in the Handbook, including risk allocation, incentive schemes and social licence
- Ensure earlier CCP involvement in future determinations to yield stronger evidence of the strengths and issues with a network operator's engagement processes and scope, and importantly, address any concerns in real time.

For future proposals, I encourage Transgrid to continue its commitment to improve the quality of its consumer engagement, through:

- Early and open engagement with the CAG and AER to identify and agree on areas where CAG input can genuinely influence outcomes, rather than trying to consult on everything.
    - Priority should be given to new, novel, non-routine or high-risk issues.
- Work with the CAG and the AER to develop and agree on a set of practical non-binding adaptable set of engagement principles, that describe how Transgrid, the CAG and AER will work together.

  - This should be based on lessons learned from this and previous revenue proposals prepared under the EII framework and include clarity of roles, expectations, areas of influence, and how issues will be escalated or discussed.

- Where possible, present the CAG with *genuine* options, trade-offs and implications – beyond simply informing the group. Where options do not exist, explain the consumer implications, including cost, risk allocation, timing and deliverability and listen and respond to consumer feedback to those implications.
- To improve transparency, complex project material should be explained in plain English.
- Given CAG members have signed non-disclosure agreements with Transgrid, I encourage maximum transparency around costs, assumptions, provisional sums, contestable/non-contestable boundaries, and risk allocation with the CAG to improve the effectiveness of engagement. This will also increase trust in Transgrid's processes.
- In the longer term, given the number and complexity of projects, Transgrid should incorporate a regular review process into CAG's operations to test whether the right people, expertise and meeting structures are in place to support effective CAG engagement; and address any shortcomings.

2 Context for this advice

2.1 Project context

NSW coal generators are expected to be retired within the next decade. The system strength capabilities of these generators are to be replaced by syncons and other non-network solutions. Because there is an estimated 18-month gap between generator retirements and the normal approval and delivery timeframe for this infrastructure, the project has been accelerated to help maintain system reliability.

Transgrid is accelerating the installation of ten synchronous condensers across five existing substation sites. The NSW Energy Minister declared this project a PNIP in September 2025 to provide delivery certainty, streamline cost recovery and expedite approval, with the direction later amended to include transport works. The project delivery date was consequently extended to February 2029.

Transgrid submitted a compliant revenue proposal for the SSP on 22 April 2026 which the AER published on 24 April 2026.

As a result of the PNIP declaration, the AER's assessment of Transgrid's proposal occurred under the NSW Electricity Infrastructure Investment (EII) Act 2020. Under the EII framework the AER has 126 business days to make a revenue determination after receiving a compliant proposal. The AER published its PPP on 24 June 2026.

The AER received three submissions on Transgrid's proposal, including a submission from the Deakin University CSPER, one from JEC and my CCP advice. Copies of those submissions can be found on the AER's website.[1]

2.2 CCP role and limitations

The AER engaged the CCP in March 2026 to advise on:

- The effectiveness of Transgrid's consumer engagement to inform the non-contestable components of its proposal
- The extent Transgrid's proposal reflects consumer preferences
- Consumer-focused issues associated with the AER's PPP

My late CCP appointment limited my ability to observe Transgrid's early engagement with the CAG. As I noted in my May 2026 advice to the AER on Transgrid's revenue proposal, most pre-lodgement engagement had already occurred by the time I was appointed. I observed only one pre-lodgement CAG SS subcommittee meeting, on 23 March 2026. My earlier advice therefore mainly relied on Transgrid's presentation slides and meeting notes from SS subcommittee meetings, as well as an online meeting with some CAG members about their views on Transgrid's engagement.

Since Transgrid lodged its proposal, I observed its CAG meeting on 1 May 2026, where it presented an overview of the proposal to the group. Following publication of the AER's PPP, I also observed

1 AER, *System Strength Project Proposal (Hybrid)*, 22 April 2026, https://www.aer.gov.au/industry/registers/determinations/system-strength-project-hybrid/proposal, viewed on 25 June 2026.

Transgrid's CAG meetings on 3 July and 22 July 2026, and the CAG's presentation at the AER's public forum on 16 July 2026.

While this advice responds to the AER's PPP, I also raise some broader issues about consumer trust, the limits of consumer influence under the EII framework, engagement expectations for PNIP and hybrid proposals, and a need for clearer direction on how consumer interests can be considered when project scope, timing and information access are constrained.

3 Regulatory decision-making challenges

3.1 Key regulatory challenges

All parties continue to face a number of challenges in their respective roles related to the development of Transgrid's revenue proposals under the NSW EII framework and I expect the AER's assessment must also be challenging. From a consumer perspective, I consider the key challenges to be:

New regulatory context

- Regulatory determinations under the NSW EII framework are relatively new.
- The AER's guideline for non-contestable projects continues to be tested, particularly in relation to the role and benefit of consumer engagement under *Better Resets Handbook* expectations.
- The AER's role under the EII Act is to assess whether the network operator's non-contestable costs to deliver a predetermined project are prudent, efficient and reasonable. While the meanings of prudent and efficient have been established under the NER, what is "reasonable" is unique to the EII Act is not understood to the same extent as "prudent" and "efficient".
- While the AER scrutinises a network operator's project costs for prudency, efficiency and reasonableness, it is not the AER's role to determine the size and scale of the project itself.

Limited opportunities for genuine consumer engagement and consumer influence

- The timeframe for Transgrid to engage with customers before lodgement is limited under the EII Act compared with a regulatory proposal developed under the National Electricity Rules. This limits the scope and depth of engagement on matters that are in scope and therefore the opportunity for consumer influence. As the AER acknowledges "consultation time frames should have regard to the complexity of the issues in the regulatory proposal"[2] and this is a requirement for accessible, clear and transparent engagement.
- These constraints are heightened when a network operator is required to prepare multiple revenue proposals over a short period.
- Much of the information needed for consumers to genuinely engage is confidential, particularly when a proposal has contestable components, for example commercial in confidence information from tenderers.
- The short timeframe for preparing a revenue determination, combined with confidentiality issues, raises questions about whether it is reasonable for the AER to assess a network operator's engagement against the full expectations of the *Better Resets Handbook*.
- The AER has limited time to assess a proposal under the EII Act, which reinforces the need for clear expectations about what engagement can reasonably achieve in this context.

[2] AER, *Better Resets Handbook*, July 2024, p. 13

- Overall, given the scale of these proposals, meaningful consumer influence in which the network operator and the regulator at a minimum listen to consumers and explain why or why not they are able to act on consumer views in a way consumers understand remains important.

New form of proposal: hybrid proposal and PNIP designation

- A hybrid revenue proposal has added challenges because it combines competitively tendered elements, with little or no visibility to consumers, and non-contestable monopoly-delivered services - this is the first hybrid revenue determination, with no precedent. Lack of visibility significantly risks diminishing consumer trust in regulatory process and consumer trust is important for a project's success.
- The above constraints are further compounded when a project is given a PNIP designation, when a project's timeframes and scope are set by government. These constrains further limit the scope for consumer influence.

3.2 Importance of consumer support for energy transition projects

Consumers are more likely to support the energy transition when they trust the processes and decisions that enable those projects to proceed. I discussed the factors that influence trust in my November 2025 advice on the AER's preliminary position on Transgrid's Central West Orana RNIP.[3] Drawing on the 2023 OECD Trust Survey of more than 2,000 Australians, I noted three drivers of public trust: openness, integrity and fairness.[4] Openness includes provision of accessible information, clear explanations of reasoning, opportunities for citizens to express their views, and willingness of an organisation to listen and respond to those views.

I reiterate that the significant network expenditure required to support the energy transition affects consumers directly, because they are expected to pay for these projects through their energy bills. Transgrid's ability to engage openly with consumers has been constrained by the predefined project scope and timeframes, as well as confidential inputs outside its control, including procurement costs, and the project's PNIP status.

As I observed in relation to Transgrid's CWO revenue proposal, its engagement appears to have remained largely limited to informing panel members although some CAG members have noticed improvements in Transgrid's desire for genuine engagement. However, I am pleased that Transgrid now engages with a dedicated consumer panel, the CAG, rather than the former TAC, which included other stakeholders and did not necessarily focus on consumer interests.

Transgrid's limited engagement (predominantly informing CAG members) and the broader constraints, such as the contestable components of the proposal and the PNIP designation also mean the AER has limited evidence of consumer preferences to inform its regulatory decision-making. I also understand that Transgrid's CAG was not resourced to prepare a written submission on Transgrid's proposal and as previously mentioned, my submission was largely based on secondary information.

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[3] CCP35, *CCP35 Advice to AER – AER Preliminary Position Transgrid Central West Orana RNIP, (Non-contestable) 2026-31- Revenue proposal*, November 2025

[4] Ibid.

For these reasons, trust in the regulatory process and decision-making is particularly important. Decision makers cannot assume that consumers or their representatives will automatically trust them, particularly when consumer support is essential to an efficient energy transition and households face rising energy bills.

3.3 Consumer perspectives on Transgrid's proposal and the AER's PPP

3.3.1 Transgrid's proposal

As mentioned earlier the AER received submissions on Transgrid's proposal from CSPER and JEC, not including my CCP advice. Those two submissions raised various concerns with Transgrid's proposed solution and implications for consumers. The key and common concerns with the proposed solution presented in the submissions included:

- It is not evident that Transgrid's proposed solution is the cheapest and most appropriate way to meet system-strength needs
- Questions on the wisdom of investing in long-lived synchronous condensers when cheaper technologies may become available
- Limited clear information for the AER to adequately test the costs, risks and benefits of Transgrid's proposal
- Supply chain, labour and delivery pressures which may increase project costs and concern they could be conflated with avoidable project cost risks
- The way costs are recovered (hybrid proposal) impacts visibility of the total project and therefore the ability to control the total cost

Consequently, the submissions highlighted a number of implications for consumers including:

- The risk of exposing consumers to unnecessary or inefficient network costs, especially if cost pressures are not clearly explained and controlled, including a risk that consumers could pay twice as a result of duplicated cost recovery mechanisms (e.g. through risk allowance, adjustment mechanisms and contract variations)
- The risk that consumers may not get real value from the projects they are funding, especially if those assets become less useful as better technologies develop
- Lack of clear reporting to enable consumers to see the full cost over the life of the project against the benefits they may derive

Consequently, JEC emphasised a need for the AER to ensure Transgrid acts prudently and efficiently in delivering the project and managing and minimising project costs for consumers. CSPER made similar recommendations emphasising the importance of transparency and accountability.

I acknowledge the project design issues raised by JEC and CSPER are largely out of scope for this revenue proposal, but they nevertheless highlight consumer frustrations with the EII framework and the limited opportunity for consumer influence. The AER should acknowledge these concerns and emphasise they are out of scope for this determination.

3.3.2 AER's PPP and public forum feedback

A number of issues were raised by a CAG representative at the Public Forum in response to the PPP. In particular:

- A need for agreement between the AER, Transgrid and the CAG on what good, realistic engagement should look like, particularly in relation to revenue proposals assessed under the EII framework
- A need to clarify the CAG's opportunity to influence a revenue proposal if aspects of the proposal shift to/from contestable and non-contestable categories
- Concern that the AER is not best placed to assess the prudency and efficiency of roadworks contracts, with Transgrid acknowledging roadworks are not its core business, and this should be a NSW Government responsibility
- The potential impact of noise on the five communities where the syncons will be located

I also note from the public forum that Transgrid remains committed to strengthening its engagement. I am pleased that the AER responded positively to an invitation to attend the Transgrid CAG meeting on 22 July 2026 to reflect on its PPP with particular reference to its commentary on consumer engagement and respond to ideas from the CAG to improve the effectiveness of engagement for future proposals under the EII framework. I refer to the outcomes of that meeting in Chapter 5.

4 CCP support for the AER's preliminary position

4.1 AER's observations of Transgrid's engagement

Overall, and acknowledging my limited opportunity to observe Transgrid's engagement I agree with the AER's broad view that Transgrid's engagement with the former TAC and current CAG had limited value, although some improvements were observed. These views are broadly consistent with my May 2026 advice on Transgrid's SS revenue proposal.

Additionally, I note the AER commended Transgrid for constructively engaging with it on non-disclosure claims, particularly by withdrawing the non-disclosure claim over the total proposed value of provisional sums, which the AER indicated would help stakeholders better understand Transgrid's proposal and the AER's preliminary positions.

The SSP PNIP designation significantly limits the opportunity for consumer influence. Accordingly, the AER considers Transgrid should genuinely engage on those aspects of the proposals that consumers can influence. This would give consumers greater confidence in Transgrid's overall revenue proposal and greater support for the prudence, efficiency and reasonableness of the project overall.

The AER also notes that Transgrid did not discuss issues holistically. Transgrid discussed risk and adjustment mechanisms with the CAG, but Transgrid failed to incorporate discussions on provisional sums to cover variations in contractor costs which could overlap with other cost recovery mechanisms and result in consumers paying twice.

Overall, I agree with the AER's observations about the limitations of Transgrid's engagement. While Transgrid took some positive steps and its engagement improved over time, the process did not provide consumers with a meaningful opportunity to influence key aspects of the revenue proposal, particularly in relation to risk allocation and potential cost impacts.

In relation to this revenue proposal, this reinforces the importance of the AER applying strong scrutiny to those elements of the proposal and clearly explaining how its final decision protects the long-term interests of consumers. For future revenue proposals, I encourage the AER, Transgrid and the CAG to engage early to identify and agree on those aspects of Transgrid's revenue proposals where consumers can have the most material influence and if project parameters change the impacts for consumer engagement are considered and addressed in a timely way. If engagement is more meaningful, this should also strengthen CAG member attendance and participation.

4.2 Transparency

In relation to transparency and reasoning in the PPP:

- I commend the AER for acknowledging the issues raised in submissions, such as concerns about Transgrid's engagement approach, lack of transparency as well as more substantive aspects of Transgrid's proposal, although as previously acknowledged an assessment of the project scope is outside the AER's control.
- I appreciate the AER has mostly explained its response to the issues raised in the submissions (as mentioned in the previous bullet point) in the PPP, however the PPP did not respond to CAG

concerns about the impacts of noise and transport risk costs that it had previously raised and reiterated in the public forum.

The AER's public forums provide interested parties with an opportunity to learn more about regulatory proposals, share feedback and ask questions. These are important for improving transparency in regulatory decision making and I noted at the time around 30 individuals attended, although I expect a significant proportion were from the AER or Transgrid. However, I was pleased that at least one CAG member attended, presented and provided important feedback to the AER. I also note that at least one NSW Climate Change, Energy, the Environment and Water (DCCEEW) representative attended. In future public forums, I would like to see network operators encourage greater attendance and participation from their consumer representative groups.

I am aware the AER has been responsive to issues raised by some consumer representatives related to Transgrid's proposal and the AER's PPP and commend the AER for committing in the Public Forum to more regularly attending CAG meetings and respond to CAG questions.[5]

4.3 Comments on PPP focus issues

The AER has identified two broad focus areas where it is not yet satisfied with aspects of Transgrid's revenue proposal:

- Risk allocation
- Capex, in particular Transgrid's proposed pre-period expenditure, labour costs and indirect costs

I agree with the AER on its focus issue selection because:

- These aspects have major cost implications for consumers
- There is a chance consumers could pay twice through upfront allowances and adjustment events (e.g. up-front project management costs may also be a risk cost), and consumers need confidence there is no duplication in Transgrid's cost allocations
- It is important for consumers to be confident that the AER has appropriately scrutinised Transgrid's costs to ensure they are prudent, efficient and reasonable

4.3.1 Risk allocation and adjustment events

A key concern raised by the CAG was Transgrid's proposed adjustment events for road and bridge works to transport the syncons to their destinations from the port (given they will be built offshore and shipped to Australia). Fundamentally the CAG is concerned as to why Transgrid, (rather than the NSW government) is expected to manage the road widening and bridge building, when these works are not Transgrid's core business and the cost risk to *all* Transgrid customers, regardless of whether they will directly benefit from the roadworks is significant. CAG members are also concerned as to who bears the risk if the works cost more or are delivered inefficiently.

Additionally, it is unclear whether the roads are the responsibility of state or local governments. While the roads may be upgraded to facilitate the syncon delivery there is no certainty as to who is

[5] Noting the AER had committed to attending the CAG meeting on 22 July 2026 – and this arrangement was ahead of the public forum.

responsible for the ongoing maintenance and whether Transgrid would be liable. At the same time the road improvements and bridge construction may result in a benefit for the community.

The CAG is equally concerned that the AER does not have expertise to decide on prudent and efficient road widening and bridge building costs.

As previously mentioned, representatives from DCCEEW were present at the public forum. Presumably, they would have heard the CAG's concerns that the required roadworks form part of the PNIP, to the extent that they consider Transgrid is being asked to do their job. Further, the road widening and bridge building components of this project are clearly not in long term interests of *all* Transgrid customers as the only directly beneficiaries will likely be the users of those roads.

In the meeting on 22 July, the CAG encouraged the AER to question whether there are better ways to manage or allocate these road-related costs, rather than treating them as a given.

Ultimately, the CAG considers the current position suboptimal and expects further scrutiny and better options before the issue is closed. I agree with the CAG and in the absence of any alternatives, I appreciate the specifics of the road widening and bridgeworks are not yet finalised, but I nevertheless encourage the AER to ensure the prudence, efficiency and reasonableness of Transgrid's roadwork and bridge construction costs are assessed by those who are best qualified to make that assessment.

I understand that before Transgrid lodged its revenue proposal with the AER, the CAG raised concerns about potential noise impacts in the five communities where the synchronous condensers will be located. Transgrid included a risk cost for environmental and community engagement works because additional sound mitigation may be needed. However, Transgrid's proposal lacked detail about the likely impacts, the sites most affected, the proposed mitigation measures, or how the costs were estimated. In the 22 July meeting, the CAG raised concerns that the AER did not respond to this issue in the PPP and a CAG member noted the noise concerns would remain an issue until Transgrid provides further information.

Transgrid agreed to provide the CAG with an update on noise abatement. I also expect affected communities to receive clear information about likely impacts and mitigation options to address any noise impacts. Transgrid should demonstrate that it listens to and responds appropriately to any community concerns and work with the community minimise adverse impacts. Effective two-way engagement with the likely affected communities should also reduce noise mitigation costs in the long term. I encourage Transgrid to keep CAG members informed of the engagement and even provide opportunities for members to observe and provide constructive feedback as observers.

Regardless, if Transgrid later seeks further noise mitigation costs through an adjustment event, I expect the AER to be satisfied that the costs are prudent, efficient and reasonable, and that they have not already been allowed through risk allowances, provisional sums or other project costs.

4.3.2 Capex – labour costs

Transgrid's non-contestable capex includes $217.2 million for labour and escalation costs, accounting for 83% of Transgrid's proposed non-contestable capex.[6] The two largest direct labour

[6] AER, *Preliminary Position paper, System Strength Project (hybrid priority network infrastructure project) (1 October 2026 – 30 September 2031*, June 2026 p.45

and indirect labour costs are associated with project development ($12.3m) and project delivery management ($18.2m).

In relation to labour costs for project development, Transgrid has also sought $35.7m in pre-period project development capex, which it indicated to the AER it has not previously recovered. Given labour costs represent a significant proportion of Transgrid's proposed non-contestable capex, consumers need confidence that costs have been appropriately allocated and are not duplicated.

For project delivery management costs, the AER is concerned that these costs may be duplicated in risk allowances or recovered again through the proposed adjustment mechanisms, because those mechanisms either include, or result in additional labour costs. Further, some of Transgrid's proposed roles are aimed at reducing or mitigating other risks to the project. I would therefore expect a corresponding reduction in those other risks.

Further, Transgrid has included a provisional sums allowance to account for uncertain costs, including labour as a contestable cost. This would automatically be passed to consumers. The AER argues provisional sums may not be a genuine result of competitive processes and may overlap with labour costs, as well as other risk allowances and adjustment events.

It is clearly in consumers' interests, that the AER is satisfied that Transgrid's labour costs are prudent, efficient and reasonable. Consumers also need assurance that these costs do not overlap with, or risk being recovered twice through, other cost-recovery mechanisms and further scrutiny of Transgrid's provisional sums

4.3.3 Overall

I expect the AER to ensure:

- Consumers only pay for costs that are clearly justified
- Consumers do not pay twice for the same risk
- Uncertain costs are managed transparently and tested before being passed through as adjustments
- Decisions are explained in a way consumers can understand

4.4 Capital expenditure sharing scheme

The CESS applies only to the non-contestable component of Transgrid's revenue proposal, except where costs are outside Transgrid's control.

I support the AER's preliminary position to continue assessing whether costs associated with the Middle East conflict should be excluded, particularly because the conflict began before Transgrid lodged its revenue proposal.

For the proposed road and bridgeworks, I am not confident that Transgrid can control these costs or that the CESS should apply. Although I appreciate that the AER proposes to review its position once the scope of works is better defined, I agree with the CAG that neither Transgrid nor the AER appears to have the relevant expertise to assess the prudence, efficiency or reasonableness of these works, or the extent to which Transgrid can control their costs.

5 Future engagement

Future engagement will be most useful when it is early, targeted and transparent, and when all parties are clear about the limits of consumer influence as well as the matters where that influence can be meaningful. This would strengthen consumer confidence in Transgrid's proposals, assist the AER's assessment, and support greater trust in the regulatory processes that underpin the energy transition.

5.1 Reflections from the 22 July CAG discussion

I commend Transgrid for facilitating and supporting an open discussion at the CAG meeting on 22 July 2026 to consider ways in which future engagement under the EII framework could be improved. The meeting was well-attended by CAG members, and I commend them for their candid contributions to the discussions. I also commend the AER for contributing to the meeting, including providing an open reflection on its engagement commentary in the PPP and sharing its views on its role and thoughts to improve engagement on future revenue proposals.

The discussion was constructive and focused on the future. It reinforced that future engagement under the EII framework should be more transparent and clearly focused on matters where consumer input can genuinely influence outcomes. This is particularly important for PNIP and hybrid proposals where statutory timeframes, predetermined project scope, contestable procurement and confidentiality constraints materially limit the scope for consumer influence.

5.2 Clear roles, boundaries and regulatory expectations

I appreciate direct AER involvement in Transgrid's (or any other network's) engagement, beyond observing meetings, needs to be carefully managed. To avoid the risk of any real or perceived conflicts of interest, the AER's role should remain distinct. Transgrid's responsibility is to design and lead its engagement, whereas the AER has an independent responsibility to assess the proposal. Therefore, clear boundaries are needed so that the AER's participation supports better engagement without creating a perception that the AER has endorsed Transgrid's approach, influenced consumer views, or compromised its later decision-making role.

5.3 Targeted engagement on matters consumers can influence

For consumer representatives, early identification of the following would help avoid surprises late in the process and allow CAG members to focus their limited time on issues where their input is most valuable:

- Clarifying regulatory expectations
- Identifying the most material issues impacting a revenue proposal
- Helping the CAG understand where consumer input can realistically influence outcomes

To improve consumer trust and confidence and demonstrate the value of the CAG, Transgrid must extend any future engagement beyond information provision to at least involving or collaborating with the CAG. Where Transgrid has discretion, it should present genuine options, trade-offs and consumer implications in plain English, including the cost, risk, timing and deliverability implications of different approaches. Where options are constrained by the EII framework, PNIP designation or procurement requirements, Transgrid should clearly explain those constraints and identify any remaining areas where consumer feedback can influence the proposal. CAG members need to be provided with genuine opportunities to articulate consumer preferences and influence the outcomes. I expect Transgrid to listen, consider consumer input and explain how what it hears has influenced its proposals.

While I acknowledge Transgrid's responsibility to design and lead its engagement program, I agree with the CAG that the AER also has an important role in supporting effective engagement. Early project-specific information from the AER on the issues most likely to matter to its assessment would help Transgrid and the CAG prioritise engagement topics. Equally, the CAG needs to be informed if substantive changes occur to the project scope and issues that consumers can influence.

AER availability to respond to questions and clarify regulatory expectations would also be valuable, particularly while regulatory processes under the EII framework are relatively new and operate under much shorter timeframes compared to processes under the NER.

5.4 Practical engagement principles for future EII proposals

I support the practical way forward for Transgrid and the CAG to develop non-binding, flexible engagement principles for future EII revenue proposals supported by the AER. These principles should clarify roles, expectations, areas of influence, information needs, escalation points and how confidential material will be handled. They should be treated as living principles that can evolve as experience with proposals under the EII framework develop, including impacts of PNIP and hybrid proposals.

These principles could also guide adaptations to the Better Resets Handbook to accommodate revenue proposals under the EII framework.

6 Conclusion

I appreciate the importance of maintaining system strength as NSW coal generation retires, but measures to maintain system strength also impose substantial costs on consumers through energy bills. In that context, the AER's final determination must give consumers confidence that Transgrid's proposed costs have been rigorously tested and that only prudent, efficient and reasonable expenditure is approved.

Overall, I consider the AER's preliminary position is appropriate. I support the AER's focus on risk allocation, adjustment events, labour costs, pre-period expenditure and provisional sums, because these matters have material cost implications for consumers and create a risk of duplicated recovery if they are not carefully assessed.

However, I am concerned about the road works associated with transporting the syncons to their respective sites, including whether Transgrid is the appropriate party to manage these works and whether the AER has sufficient information and expertise to assess their prudence, efficiency and reasonableness. If these costs remain within the proposal, they should be subject to close scrutiny and consumers should not bear costs that are unclear, duplicated or outside Transgrid's reasonable control.

At the same time, Transgrid's proposal and the AER's assessment highlight broader challenges for consumer engagement under the EII framework, particularly for PNIP and hybrid proposals. Tight statutory timeframes, confidentiality constraints, contestable procurement and a largely predetermined project scope limit the opportunity for genuine consumer influence. These constraints should be recognised when assessing engagement, while still requiring network operators to engage meaningfully on matters where consumers can influence outcomes.

I therefore encourage the AER to explain in its final determination how it assessed confidential and uncertain cost inputs; how it ensured consumers will not pay twice for the same risks; and how it considered consumer issues raised in submissions and the public forum.

The final determination should also acknowledge the outcomes from 22 July CAG discussion by encouraging earlier, more targeted and more transparent engagement on future EII revenue proposals, supported by clearer project-specific information on where consumer input can genuinely influence outcomes. Clear reasoning in language consumers can understand will be important to building consumer trust in this project and in future revenue determinations.