Submission to the AER

Transgrid 2026-31 Revenue proposal System Strength Project (hybrid PNIP) AER Preliminary Position paper

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Introduction

This submission is in response to the AER's June 2026 Preliminary Position Paper (PPP) on Transgrid's System Strength Project (hybrid priority network infrastructure project (PNIP)) revenue proposal 2026-31 (Revenue Proposal). This submission builds on the feedback we gave in our comments to the AER's Public Forum held on 16 July 2026 and in the most recent Customer Advisory Committee (CAG) meeting on 22 July 2026 attended by AER staff and the Consumer Challenge Panel (CCP). These are our personal views and we do not speak for other CAG members[1]. This submission also refers to feedback we gave to Transgrid and the AER in our 2 submissions on the Enabling CWO REZ revenue project[2].

In summary, with one exception, we support the focus areas identified by the AER in its PPP. We note the approach taken by the AER on Transgrid's engagement and we welcome Transgrid's comments at the Public Forum and its continuing public commitment to deliver good consumer engagement for Roadmap projects and its other investments. In the most recent CAG meeting on 22 July 2026, Transgrid shared at a high level how it intends to respond to the focus issues identified by the AER in the PPP. We have not seen a draft of Transgrid's submission in response to the PPP, however we hope that it will reflect the constructive approach Transgrid took at the Public Forum and in the subsequent CAG meeting.

In this submission we first offer some observations on context; Transgrid's engagement on the revenue proposal; the major focus issues identified by the AER in the PPP and our understanding of Transgrid's proposed response; our strong concerns about transport works being allocated to Transgrid and customers under the PNIP Direction; and our suggestions for how Transgrid can engage with CAG in future Roadmap projects and observations on how AER staff could assist CAG in future engagement.

1. Context

At the outset we would like to build on some important contextual observations we made in our submissions in the Enabling CWO REZ revenue proposal:

- we are going through a transformational energy transition which is seeing transmission builds everywhere; foundation changes in the distribution networks; and changes in the way Governments provide supports for communities, households and businesses;
- within this context the NSW Roadmap processes are very new and quite bespoke;
- NSW Governments decided the NER framework would not deliver Roadmap projects quickly enough. This Revenue Proposal is the first project expressly moved from the NER contingent project application (CPA) process via Ministerial direction to the Roadmap Framework to ensure an accelerated delivery; and

[1] We shared a draft of this submission with CAG members before lodging it with the AER

[2] See our [August 2025 reflection on Transgrid's Enabling CWO REZ revenue proposal] and our [November 2025 submission in response to the AER's PPP]

- the costs in the next 5-10 years up and down the supply chain need to be triaged so consumers do not pay twice and collectively transmission planners need to maximise asset utilisation. This is absolutely critical to ensure that the forecast benefits of additional generation are delivered. Failure to do so will undermine the potential consumer benefit and as such the overall energy transition.

We are all working in an environment of continuous improvement:

- the AER continues to uplift its guidelines under the Roadmap Framework – in December 2025 the AER revised its *Guideline Transmission Efficiency Test and revenue determination guideline for non-contestable network infrastructure projects* to extend it to hybrid revenue determinations; and on 2 July 2026 the AER published its *Non-disclosure Guideline – Electricity Infrastructure Investment Act (2020 (NSW))* (EII Act) designed to maximise transparency and limit confidentiality claims in Roadmap revenue proposals[3];
- the NSW Government has now issued 2 PNIP Directions to Transgrid pursuant to the EII Act; and
- despite the Government's support in principle for the NSW Transmission Planning Review's recommendations for EnergyCo to improve its customer engagement, transparency and governance, neither EnergyCo nor the NSW Department of Climate Change, Energy, the Environment and Water (DCCEEW) has established consumer engagement panels. Regrettably, there has been no engagement to date between DCCEEW, as the Infrastructure Planner for this system strength project, and CAG members in relation to the PNIP Direction or the Revenue Proposal.

The primary issue and concern for consumers in Roadmap projects remains the allocation of risk and how much risk should be picked up by DCCEEW or EnergyCo as the Infrastructure Planner; by third parties such as Transport for NSW and Councils; by Transgrid (assuming it has sufficient time to quantify and mitigate those risks under the Roadmap's accelerated timetable); and what risks are allocated, in this case by DCCEEW, and networks to customers during commercial negotiations, without customers having any input into these decisions. An alarming new risk that has emerged in this PNIP project is infrastructure scope creep being imposed on Transgrid and the AER. This project requires Transgrid to potentially widen and decommission roads and build bridges. We worry if this is accepted as a precedent by the AER, what other non-core infrastructure might be shifted by Governments to an energy regulatory process that is not designed for this and cannot protect consumers.

We acknowledge some risks will be borne by customers as a result of governments acting on our behalf resulting for example from the policy focus on decarbonisation; the speed being imposed by the Roadmap; or the high impact and low probability of some events. We welcome the AER's ongoing review of the risk costs, provisional sums (PSums) and Adjustment Events in the PPP. However, we believe there needs to be greater certainty and transparency about which risks reside with which party, including those being allocated to consumers and by whom.

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[3] We welcome the publication of the Non-disclosure Guideline and the fact that it applies to all 3 forms of Roadmap revenue determinations: non-contestable, contestable and hybrid

In our initial submission to the AER in the Enabling CWO REZ revenue proposal we asked the AER to be bold on customers' behalf. We repeat that call. In this case DCCEEW chose to allocate the risk of major transport costs to Transgrid and expressly amended the scope of the PNIP Direction to shift that responsibility to Transgrid. Transgrid, in turn is seeking to allocate that risk to consumers via the transport works Adjustment Events, noting that this is not core business for Transgrid. We do not believe that the AER has adequately considered the impacts of this issue in the PPP and we encourage the AER to do more to protect consumers from the impact of the transport work costs in the final determination. We discuss these concerns in section 3 below.

2. Observations on Transgrid's engagement with TAC and CAG

In both our Enabling CWO REZ submissions we highlighted our concern that EnergyCo does not participate in engagement on the development by network operators of Roadmap revenue proposals. We believe that all parties need to contribute – EnergyCo, DCCEEW where it is the Infrastructure Planner, the AER, Transgrid and customer advocates. The AER continues to do a lot of heavy lifting on customers' behalf after the event as the role for customer advocates in Roadmap processes remains unclear and is evolving.

We agree with the AER and the CCP that Transgrid's interactions with the former Transgrid Advisory Committee (TAC) and the newly formed CAG on this Revenue Proposal was an improvement from the Enabling CWO REZ project[4]. For a start Transgrid reconstituted the TAC into a consumer committee in response to feedback from us[5], the CCP and the AER. Recently CAG members agreed revised terms of reference with Transgrid. These terms of reference set out the expectations of CAG members and our remit to provide "informed consumer insights on a range of key and evolving issues across the energy sector, to help shape the development of Transgrid's regulatory proposals and policy matters."

However, there is a limit to what CAG can meaningfully achieve in consumer engagement with Transgrid following key risk allocation decisions made by the NSW Government behind closed doors. We believe the increasing size and cost of Roadmap projects requires greater transparency from the NSW Government about its decisions to go faster and how this is impacting customers. This is becoming more urgent for ongoing social acceptance for the Roadmap and is consistent with the NSW Government's acceptance in principle of the engagement, transparency and governance recommendations in the final Transmission Planning report.

Building on our experience in the Enabling CWO REZ revenue proposal, CAG members agreed with Transgrid to proceed on a lessons learned basis for the engagement on this Revenue Proposal. In our 20 November 2025 meeting,

[4] The first CAG meeting was held on 23 March 2026

[5] In our August CWO Enabling submission we stated at p. 6: "We encourage Transgrid to develop a more agile approach to its interactions with the TAC and individual TAC members to elevate and maximise customer input in the differing contexts for regulatory and investment decisions– BAU resets and Contingent Project Applications (CPA), ISP and Roadmap projects; policy advocacy and regulatory change"

Transgrid expressly agreed with some CAG members that Transgrid would seek to follow evolving regulatory precedent being set by the AER in WSB, HCC REZ and Enabling CWO REZ and where Transgrid sought to depart from the AER's evolving approach in those decisions it would highlight that to CAG and provide an explanation for any proposed departure. A summary of our understanding of the lessons learned from these decisions is included in the Annexure.

AER staff were present in this November meeting and observed this discussion. Following an observation from TAC members that they were concerned about the limited scope for meaningful influence following the PNIP Direction and hybrid structure of the project, one of the authors asked the AER staff to identify where TAC members could provide the most value in this Revenue Proposal. AER staff advised TAC to focus on the non-contestable aspects of the hybrid proposal. AER staff also attended the 24 February 2026 meeting where the meeting slides clearly referred to Transgrid management proceeding "on a lessons learned" basis[6].

Section 3 of the AER's PPP, which discusses Transgrid's engagement with TAC and CAG, relies heavily on the CCP35 report. As that report notes, in a departure from normal AER practice, the CCP was appointed after Transgrid's substantive engagement with TAC and CAG had concluded. CCP's report involved a desk top review of slides and minutes of meetings that AER staff attended but the CCP member did not, as well as one interview with 3 CAG members. Neither the CCP report nor the AER's PPP refers to the agreement reached between Transgrid and TAC members to structure our engagement on a lessons learned basis.

Personally we found some of the feedback in the engagement section of the AER's PPP quite surprising. Firstly the feedback is inconsistent with TAC and Transgrid's decision to structure engagement on a lessons learned basis; second the PPP raised a concern that CAG had not engaged on the PSums with Transgrid after AER staff had advised Transgrid that these now needed to be considered on a non-contestable basis; and finally the AER assumed that even if Transgrid had sought to engage with CAG on the PSums at the last minute prior to lodging its Revenue Proposal, that CAG had the technical capacity and availability to engage on those technical issues.

On the first issue the AER stated at page 20:

> "We consider that meaningful consumer engagement should provide consumers with the opportunity to directly influence the decisions being made for proposal elements within the scope of consumer influence. Transgrid should seek to provide consumers with the opportunity to influence proposal elements, in the form of different treatment options, cost trade-offs, or alternative approaches. We consider that an example of this type of meaningful engagement was undertaken in Transgrid's risk deep dives as part of its 2026–31 Enabling CWO Project consumer engagement. In that previous process, Transgrid sought consumer preferences on how it treated certain risks, as either adjustment mechanisms (with or without a cap) or risk costs (as part of the capex forecast)."

[6] See for example slide 10 which discusses Transgrid's approach to risk with the following statement at the top of the slide: "What do the TAC think of the proposed approach to risk? *It has been informed by lessons learned*."

We agree with the AER that consumers are best served by the limiting of open ended adjustment events. However the TAC had already agreed with Transgrid in November 2025 that Transgrid should seek to use caps for adjustment events; ensure they were subject to review by the AER for prudency, efficiency and reasonableness; and consider the use of delayed forecasting mechanisms where forecasting uncertainty was the key concern; and ideally adjustment events would include a threshold in their triggers, similar to cost pass through events under the National Electricity Rules (NER)[7].

On the second issue once the AER had resolved that the PSums should be considered under the non-contestable part of the AER Guideline it is unclear how CAG could meaningfully consider the risks being managed by the $200m for the contestable contracts. Whilst Transgrid could have informed CAG about the types of risks it sought to include in these PSums it is unclear how we could have meaningfully added anything to the AER's technical and rigorous review of these costs to ensure that they were genuine risks; it was reasonable for those risks to be added to the contestable contract fees; and importantly that these risks were not already covered by the contestable contracts CAG had no visibility of.

In relation to the third issue we are concerned about the AER's assumption in the PPP that amongst CAG members at any one moment, there is either the technical ability or the capacity to provide this feedback on consumer preferences to either Transgrid or the AER, where changes occur at the last minute. We note that Transgrid has not published the CAG terms of reference on its website[8]. However the AER did not ask either CAG or Transgrid for a copy of the terms of reference so that it could review what is in and out of CAG's scope.

Finally we note that TAC/CAG members raised three key concerns during our engagement with Transgrid on the Revenue Proposal. The first was the risk of duplication of costs with the shift of the project from the NER CPA Framework to the EII Act framework[9]; the second was around the steps that Transgrid had taken to engage with the 5 impacted communities and what noise abatement measures might be needed[10]; and the third was our strong objection to the major transport works, possibly including road widening, decommissioning and bridge building, being allocated by the extended PNIP Direction to Transgrid and consumers. Transgrid highlighted the last issue in chapter 5 of its Revenue Proposal at p.39 (emphasis added):

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[7] See p.40 of Transgrid's Revenue proposal: "The TACs' preference is that adjustments should be subject to a minimum threshold, similar to the pass-through arrangements in the NER. While we understand the need to minimise costs to consumers, section 37 of the EII Act establishes the principle that the Network Operator (i.e., Transgrid) is entitled to recover the prudent, efficient and reasonable costs incurred in carrying out the project. The application of a threshold to an adjustment mechanism would be inconsistent with that principle, as it would preclude Transgrid from recovering the prudent, efficient and reasonable costs incurred up to the threshold."

[8] Transgrid has advised us that it is reviewing publication of the CAG terms of reference

[9] The PPP indicates that the AER is carefully pursuing this issue via its review of the pre period capex

[10] In our meeting on 22 July we again raised the issue of noise impacts and local engagement as an unresolved CAG concern and we welcome Transgrid's commitment to provide advice about this to CAG and the AER prior to the AER's final determination

"In this session, TAC members also discussed transport costs related to oversize and over-mass movements for syncons deployment. Members noted that the scope and cost of transport improvements remain subject to assessments by the OEM and Transport for NSW. The TAC noted that minor road modifications could be handled by contractors, while major works would require a specialist contractor. Members questioned why the State would not fund necessary road works and raised concerns about the ownership and maintenance of upgraded assets."

The AER does not reference TAC/CAG's concerns about the noise issue or the transport works risk allocation in its PPP. Where consumers express strongly held concerns during engagement, we believe that the AER should at least acknowledge the issues raised in its PPP and Transgrid and the AER should take steps to meaningfully respond to those issues, where they have been reasonably raised.

Following the publication of the PPP and our concern at some of the AER's comments about its expectations for engagement with CAG, we asked AER staff and Transgrid to arrange a three way discussion to explore how CAG can most effectively provide feedback to Transgrid and the AER on customer preferences and what customers value, given the constraints under the Roadmap Framework. We are grateful to the AER staff for their responsiveness to our request and for their constructive engagement with CAG in the 22 July meeting. We also welcome the CCP's attendance and contribution in that meeting.

As is immediately apparent from the following slide presented by Transgrid at the 22 July meeting, CAG has a huge workload responding to the numerous concurrent investment proposals that Transgrid is developing across its BAU regulatory reset for 2029-33 (RP4), the various actionable ISP projects under the NER and the growing list of Roadmap projects. There are multiple policy initiatives as well.

The first hybrid project and the first project with DCCEEW as Planner

With the framework evolving significantly with every decision, constructive engagement remains vital

	Project	Infrastructure Planner	Regulatory model
Complete	Waratah Super Battery	EnergyCo	2 x contestable 1 x non-contestable
	CWO REZ Enabling	EnergyCo	Non-contestable
	CWO REZ Main *(ACEREZ)*	EnergyCo	Contestable
	Hunter Central Cost *(Ausgrid)*	EnergyCo	Non-contestable
In-progress	System Strength (Accelerated Syncons)	DCCEEW	Hybrid
	Hunter Transmission Project	EnergyCo	Hybrid
	Broken Hill Stage A	DCCEEW	Hybrid
	Broken Hill Stage B	DCCEEW	Non-contestable
Pending	SW REZ Project	EnergyCo	Hybrid

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CAG members are committed to providing input into each of these processes and projects to ensure that consumer value is reflected as much as possible in

Transgrid's investment proposals. However, we are mindful of using our time wisely across the many investment projects and policy initiatives and not doubling up with the AER on its role to review the technical and economic aspects of revenue proposals given its economic and regulatory expertise. Similarly, once the AER has expressed a clear view on a topic in its revenue determinations, we believe that it would be inefficient for CAG to engage with Transgrid on the same issues in future Roadmap and ISP proposals. Recognising our reduced scope of influence in Roadmap processes and our limited capacity CAG chose to engage on a lessons learned basis in order to maximise our influence. Following the Public Forum and the 22 July meeting we recognise that future engagement can be further elevated by early agreement, including with AER staff, on the specific areas where CAG feedback can have maximum impact in each project. We discuss this further in section 5 below.

3. Observations on the major focus areas in the PPP

The AER has referred to 8 main focus areas in its PPP. The table below is a brief overview of those focus areas, Transgrid's proposed response as shared with CAG on 22 July 2026 and our personal views. We support the AER's preliminary position on all of the focus areas, other than the adjustment mechanism for transport works. For the reasons discussed above, we believe that CAG's focus in engagement with Transgrid on Roadmap projects will generally be at a high level. On this occasion we have taken the opportunity to include some more specific observations on the AER focus areas in this submission.

AER Focus area	AER preliminary position	Transgrid's proposed response	Our view
Pre-period expenditure	AER to allow partial recovery. Most of these costs are likely to be prudent, efficient, and reasonable. However AER has concerns regarding the linkage of the total RIT-T costs with the PNIP Direction and whether part of the RIT-T related costs have already been recovered under Transgrid's existing opex allowance. The AER's preferred approach is to allocate RIT-T costs proportionally across the portfolio solutions	To seek full recovery of pre-period costs, with the final amount to be reallocated at the time of subsequent revenue proposals	We welcome the AER's scrutiny of these costs. CAG members are concerned that there should be no duplication of cost recovery following the shift from the NER CPA Framework to the Roadmap Framework. We believe that the evidentiary bar to recovery by Transgrid of internal costs over and above those reimbursed via the Infrastructure Planner Fees should be high

	identified in the PACR, based on the forecast cost of each project		
Risk costs	Transgrid's probabilistic risk assessment and estimating approach is appropriate and consistent with AER guidance. AER assessment ongoing		We support the AER's review of risk costs to ensure no duplication between base allowance (including labour costs) and Adjustment Events. CAG remains opposed to risk allowance for third party interfaces
Provisional sums (PSums)	PSums are not a contestable component as they are not an outcome of the genuine and appropriate competitive assessment processes and are subject to AER review for prudency, efficiency and reasonableness. The same risk should not be covered by a risk cost allowance and an adjustment mechanism	Transgrid is unlikely to continue to pursue Psums, which were estimates of contract-related project costs	We welcome the AER's decision to increase scrutiny over this significant sum ($200m). We would expect rigorous probabilistic risk assessment and modelling of these risks costs similar to the calculation of the non-contestable risk allowance and no duplication with base contract fees and Adjustment Events
Labour and indirect costs: Project delivery and project management costs	Yet to be satisfied these costs are prudent, efficient and reasonable. Unsure how they interact with risk allowance and adjustment mechanisms	We will work with the AER to demonstrate that our project delivery management costs are prudent, efficient, and reasonable, including no double counting has occurred. We will also explain the linkages between project delivery management costs and the risk allowance and adjustment mechanisms	We support AER scrutiny to ensure the costs are prudent, efficient and reasonable and that they avoid duplication with risk costs allowance and Adjustment Events
CESS Middle east	Yet to confirm CESS exemption for the Middle East Conflict Adjustment mechanism	To provide further explanation of our support for CESS exemption for these costs	We support the application of the CESS to all non-contestable revenue within Transgrid's control. We welcome the AER's consideration of this Adjustment Event to confirm that it is outside Transgrid's control

CESS transport works	Yet to confirm CESS exemption for the transport adjustment mechanism(s).	To provide further explanation of our support for CESS exemption for these costs	We support the application of CESS to all non-contestable revenue within Transgrid's control. However we are opposed to the inclusion of major transport costs in the Revenue Proposal. Further we doubt Transgrid's ability to deliver these prudently and efficiently irrespective of the CESS incentive
Adjustment mechanisms: Contract related adjustment mechanisms	AER to accept all contract variation clauses as an outcome of the competitive assessment process other than the clause for the Middle East Conflict which will be assessed on a non-contestable basis. AER may accept some capex allowance as a non-contestable risk allowance instead of as an Adjustment Event		We support the minimisation of adjustment events and the inclusion of risk allowances that are subject to CESS. Adjustment events should include triggers which support claims being reviewed by the AER for prudency, efficiency and reasonableness
Adjustment mechanisms: Non-contestable transport works	Revenue to be reviewed and remade, rather than staged, granular transport adjustments	To develop an alternative solution to address cost scrutiny and recovery, that provides for the recovery of actual costs and minimises the risk of delay.	We agree that risk needs to be allocated to the party that is best placed to manage that risk. In our view the risks involved in the delivery of non-contestable transport works should not be allocated to Transgrid, who has no expertise in this area. We do not support the AER's preliminary position which accepts the risk allocation and seeks to mitigate the impact of that risk. We discuss this further in section 4 below

4. Our concerns with the transport works Adjustment Event(s)

At the Public Forum Transgrid noted the potential for these works to include road widening, decommissioning and even the building of bridges, to support the transport of the large syncons from the ports to the 5 locations. Transgrid's Chief Financial Officer described this as 'non-core business for Transgrid that it would need to provide on a service flow through basis'. We understand this to mean that Transgrid would rely on a third party specialist provider to deliver these works, with Transgrid providing oversight, passing the costs through to consumers and CESS would not apply.

We do not believe that Transgrid has the necessary experience to recognise and manage the risks that would be involved in this type of infrastructure construction and major civil works. However, more importantly, even if Transgrid were to propose to the AER an amount needed following the competitive procurement of these services, we do not believe that the AER has the specialist skills needed to identify and consider the risks to customers inherent in these type of contracts or to review and assess the prudency, efficiency and reasonableness of these costs. This is not intended as a criticism of the obvious technical capability of the AER and its staff to review regulated energy proposals, rather it is a recognition that this is not core business for networks or the AER and involves unrelated specialist skills.

We acknowledge that the AER's preliminary approach in the PPP is to reduce some of the forecasting uncertainty by the future limited remaking of the Revenue Proposal, presumably once these costs are more certain following a competitive procurement process. This is consistent with the approach the AER took in the HCC REZ revenue determination. We recognise the AER's objective is to make Transgrid responsible for the successful delivery of any such third party contracts by including the expenditure in the base allowance which would then be subject to CESS. Whilst delivery might be said to be fully within Transgrid's control at that point, we do not believe that it is reasonable to ask Transgrid to take on the risk of efficiently delivering these works, which are totally outside of its expertise. We note that there have been significant cost overruns on competitively procured contracts even in transmission projects that are Transgrid's core business.

We note that Transgrid's proposed response seeks to develop 'an alternative solution to address cost scrutiny and recovery, that provides for the recovery of actual costs and minimises the risk of delay'. We are not clear what this involves nor how Transgrid's approach protects customers from cost overruns being passed through to consumers under the Adjustment Event(s).

Notwithstanding the extended PNIP Direction which seeks initially to allocate this risk to Transgrid, we strongly believe that this risk and these functions need to be reallocated by DCCEEW. In our view road and bridge upgrades should be delivered by Government as part of an integrated program of works, rather than in the ad hoc way contemplated by the PNIP Direction. This could then maximise efficiencies across REZ projects and the works could be delivered in a way which minimises the impacts on local communities and Councils.

One possible transport specialist who could fulfil this role would be Transport for NSW. Transport for NSW recently released its Golden Highway upgrades report[11] relating to safety and efficiency improvements for the delivery of CWO REZ infrastructure. This follows other reviews Transport for NSW has completed looking at safety, traffic efficiency, network reliability and freight access improvements in a holistic way for other communities impacted by the Roadmap. The coordination of these transport works in a holistic way is clearly in the medium term interests of the impacted communities and in the long term interests of NSW electricity customers. The objectives of the NSW Government's Golden Highway priority upgrade program are to:

- minimise delay and disruption to transport users between Newcastle and Dubbo
- improve freight productivity along the Golden Highway
- improve safety for all road users, including managing heavy vehicle safety
- improve route resilience and availability of the road network between Newcastle and Dubbo
- improve connectivity, safety and amenity in regional towns and communities located along the Golden Highway and
- support the renewable energy sector with safe and efficient transport from the Port of Newcastle to the Central West Orana Renewable Energy Zone

In our August submission to the Enabling CWO REZ project we recommended at p.18:

> "The AER, where appropriate, exercise its power to reject or actively approve some of the contractual adjustment events imposed by EnergyCo and risk costs being sought by networks and advise parties that these need to be mitigated by greater upfront due diligence. This could lead to greater cost certainty and reduce the risks being shifted to consumers, even if that means a slight delay to Roadmap project delivery."

We encourage the AER to inform DCCEEW that it is outside the AER's technical energy regulatory expertise to consider the prudency, efficiency and reasonableness of the expenditure needed to deliver these transport works costs and beyond a TNSP's core business, so that an alternative approach can be explored to reallocate this considerable risk to a party (ideally Government) who is able to effectively manage it. The AER's current approach would set a precedent and we are worried about the potential for infrastructure scope creep in future Roadmap projects.

5. <u>Looking ahead to engagement between Transgrid and CAG on future Roadmap projects</u>

At the recent CAG meeting we noted that the 126 day compressed timetable under the Roadmap for this Revenue Proposal put a lot of pressure on Transgrid, CAG and the AER to ensure that expectations for customer engagement were clear. There is no time following the publication of the PPP in a hybrid or non-contestable project for surprises or for second attempts at engagement. We believe there are at least 3

[11] See https://www.transport.nsw.gov.au/projects/current-projects/golden-highway-upgrades

conditions to enable CAG to do the best it can on behalf of customers to give meaningful feedback on customer priorities in Roadmap projects:

- the AER's engagement expectations should be clear at the outset;
- the engagement issues where CAG can have the most influence and where the views it expresses on behalf of customers are the most valuable to the AER should be identified as early as possible by Transgrid, AER staff and CAG; and
- Transgrid and AER staff to confirm with CAG that the AER's expectations are consistent with CAG's terms of reference; that enough CAG members have the capacity, availability and resources needed to meet the AER's expectations and that the AER's expectations can in fact be met for each Roadmap project.

We identified the ongoing constraint on customer advocates and called for greater guidance from the AER in our August 2025 Enabling CWO REZ submission[12].

We propose the following initial draft principles for consideration by CAG, Transgrid and AER staff to manage <u>future</u> engagement with CAG on future roadmap non-contestable and hybrid revenue determinations to achieve maximum input from CAG, thereby underpinning Transgrid's objective for good engagement and where possible meeting the AER's engagement expectations:

1. Transgrid, CAG and the AER staff will work collaboratively on the scope for CAG consultation as early as possible in the project

2. CAG focus will be on the potential influence CAG can have over specific items and what options or trade-offs Transgrid and CAG believe might be possible in the EII Act timeframes for that project

3. CAG and Transgrid see benefit in engagement on a lessons learned basis (see Annexure)

4. Transgrid and AER staff will work with CAG on issues that have a material impact on or deliver a material benefit to consumers and where CAG has the opportunity to influence the outcome for the long term interests of consumers. Examples may include:
   - substantive new or novel issues that have not previously been considered in an EII Act revenue determination

[12] See p.7 "We recommend the AER clearly set out more details of its expectations of transmission networks on engagement with customers and customer advocates and resourcing of those processes… …Without this clear guidance, customer advocates, (large loads and other stakeholders) will remain stretched and under resourced and it is important that our time is spent on actually influencing proposals where the AER has scope to affect network proposals. The materiality of revenue and customer bill impacts for Transgrid are from the ISP and Roadmap projects, rather than the 5 yearly revenue resets. We are concerned that customer advocates and customers are having the least impact on these major projects, where AER and government expectations for consumer engagement are less clear and where there is less transparency and accountability around costs and risk allocation."

- where Transgrid intends to depart from previous practice or previous AER guidance
- where AER staff inform Transgrid that the AER proposes to move revenue from the contestable part of a project to the non-contestable part, Transgrid will inform CAG of this and Transgrid will explore with AER staff what additional engagement the AER expects between Transgrid and CAG. This should be discussed with CAG members and agreed if it is within capacity and capability
- non-automatic adjustment events
- non-contestable revenue exclusions from CESS
- financeability claims
- increases in Transgrid's relative project management and delivery costs compared with previous Roadmap projects and
- any options or trade-offs open to influence by CAG

5. Where CAG reasonably raises matters of concern during engagement, Transgrid and AER staff will acknowledge those concerns

6. CAG would welcome the opportunity at the beginning of a Roadmap project to seek feedback from AER staff on areas where CAG's input would be important to complement the AER's technical review of the revenue proposal so CAG can consider if it has the capability and capacity to provide that feedback

7. Transgrid will endeavour to share its proposed non-disclosure claims with the AER as early as possible before lodgement of its revenue proposal and

8. Following each non-contestable or hybrid revenue determination, Transgrid will work with CAG to ensure continuous improvement of its engagement.

Our overriding purpose in the feedback we gave in the Public Forum, in the 22 July meeting and in this submission has been to encourage greater dialogue and change amongst all parties in a spirit of continuous improvement. We welcome:

- Transgrid building on its publicly reconfirmed aspiration to create meaningful opportunities to seek out the preferences of small customers and for these preferences and needs to be reflected in its investment decisions whether under RP4, ISP or Roadmap projects;
- the AER providing clear project specific guidance to Transgrid and CAG early in Roadmap projects on the issues it believes Transgrid needs to explore with CAG;
- the NSW Government, and EnergyCo in particular, improving its transparency about the infrastructure, planning and administrative costs of the energy transition and the timing of those costs; and
- all parties being open and frank about the costs of and nature of the risks being transferred to customers in ISP and Roadmap projects; how those risks will be monitored; what accountability is expected from project proponents; and how CAG can support the AER in the critical role it has to ensure that transmission investment costs are minimised and that customers are not allocated risks that we are incapable of managing.

Annexure

Roadmap projects lessons learned

Transparency

1. Transparency supports open consultation and Transgrid should minimise confidentiality claims
2. Early lodgement by networks of non-disclosure claims assists the AER to review those claims as quickly as possible

No duplication

3. There should be no duplication for risks between base allowance, risk costs, provisional sums and adjustment events

Risk allocation

4. CAG is opposed to non-core TNSP activities being allocated by the NSW Infrastructure Planner to Transgrid

Risk costs

5. CAG is opposed to third party interface risk being included in risk allowance
6. Risk costs should be determined on a probabilistic basis with a P50 value and subject to monte carlo analysis

CESS

7. Matters within Transgrid’s control should be covered by base allowance or risk costs and subject to unmodified CESS

Adjustment events

8. Non automatic adjustment events should be reserved for low probability high impact events
9. Triggers for non-contestable adjustment events should include a review by the AER for prudency, efficiency and reasonableness
10. Where possible adjustment events should be subject to disclosed caps or sunset mechanisms
11. Forecasting uncertainty should be reduced through the use of deferred expenditure mechanisms or the limited remaking of the revenue determination rather than being managed by adjustment events

Pre Period capex

12. There should be a high evidentiary bar to the recovery of any pre period capex over and above that included in the Infrastructure Planner fees
13. Recovery should be consistent with past AER determinations

Financeability

14. Financeability claims should be made consistently with the CEFC do no harm clause i.e. claims should not be made where the deterioration in Transgrid’s credit bands only occurs when the concessional funding is added to Transgrid’s base case
15. Engagement on financeability claims needs to include multiple realistic PEC capex recovery/CESS penalty scenarios

Timing of Infrastructure Planner Fee payments

16. IP Fees should be recovered in the year Transgrid is contractually obliged to make these payments