

AER: DRAFT NSW ELECTRICITY INFRASTRUCTURE FUND CONTRIBUTION DETERMINATION GUIDELINES

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INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our members are the engine room of the Australian economy, producing many of the products that households and business use every day including bricks, glass, steel, aluminium, paper, food and beverages. Combined, our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

EUAA members are focussed on making products that meet their own customers' requirements where energy is just one input to the process albeit a critical one. Their expectation is that the energy industry continues to provide energy services that are fit for purpose and consistent with the National Electricity Objectives (NEO) so that our members can continue to provide a fit for purpose product for their customers.

Thank you for the opportunity to make a submission under the *Draft NSW Electricity Infrastructure Fund Contribution Determination Guidelines* consultation.

The EUAA supports rules and guidelines where evidence points to an issue and the proposed rule change clearly leads to improved efficiency of costs and where the costs and risks are appropriately allocated to those best able to manage them.

The AER's 2026 draft amendments come at a critical moment in the life of the *NSW Electricity Infrastructure Roadmap* (Roadmap). The Roadmap is now moving from concept to construction, committed generation, storage and transmission projects are now creating real, recurring liabilities for the Scheme Financial Vehicle (SFV). As these liabilities grow, the contribution determination becomes the primary mechanism through which Roadmap costs are recovered from NSW electricity consumers — including large C&I users who help fund the Roadmap through distribution network tariffs regardless of their wholesale contracting strategy or behind-the-meter investments.

The EUAA's position is clear: while the AER's proposed framework improves transparency and reduces volatility, it also accelerates cost recovery, expands liquidity buffers, and increases the proportion of Roadmap costs and risks borne by large load consumers. The result is a structural uplift in electricity bills for NSW C&I users over the next decade, with consumers increasingly carrying the financial risks associated with Roadmap projects.

These impacts underscore the need for a disciplined, transparent and beneficiary-aligned cost recovery framework.

The recommendations set out later in this submission focus on recalibrating liquidity buffers, improving cost allocation, strengthening transparency, addressing inequities in exemption design, preventing double recovery of transmission assets, and ensuring Roadmap costs and benefits remain aligned over time.

The AER's 2026 draft amendments strengthen the contribution determination framework and improve transparency. However, they also increase the cost burden on NSW C&I electricity consumers at a time when many industries face tightening competitive pressures and rising operating costs.

THE ROADMAP'S MATURING COST PROFILE

The AER is clear that contribution determinations will increase as the Roadmap matures. The early years of the scheme were characterised by uncertainty and relatively modest cash requirements. That period is now over. REZ transmission projects are entering construction, LTESA-supported generation and storage projects are approaching operation, and firming infrastructure obligations are crystallising. The SFV's liabilities are rising accordingly.

The AER's draft Guideline reflects this shift. It notes that the contribution determination must now balance two competing imperatives: ensuring the SFV can meet its liabilities as they fall due, and limiting year-to-year variability in the amounts recovered from consumers. The AER's proposed methodologies, particularly the minimum prudent cash balance (MPCB), the LTESA volatility buffers, and the network infrastructure buffer are designed to manage this tension. But they also increase the total amount collected from consumers in the short-term.

For C&I users, this means higher distribution charges, higher jurisdictional scheme amounts, and higher retail bills reflecting the financial risk that the Roadmap transfers to consumers.

MINIMUM PRUDENT CASH BALANCE: A LARGER, MORE COMPLEX BUFFER

The MPCB is emerging as one of the most significant drivers of contribution determination amounts. The AER proposes to formalise a multi-component buffer that includes:

- a counterparty default buffer
- a timing mismatch buffer
- an LTESA variability buffer
- a network infrastructure buffer

While each component is justified in isolation, together they materially increase the amount of cash the SFV must hold at all times. Because the MPCB is funded through contribution determinations, this approach front-loads cost recovery, requiring consumers to pay earlier and more consistently for liabilities that may not materialise for several years, or at all.

In assessing the MPCB, it is important to recognise that the AER has several levers available that directly influence the risk borne by consumers. These include the calibration of buffer sizes, the assumptions used in modelling volatility, the treatment of correlated risks, and the extent to which conservative inputs are layered on top of one another. Each of these choices materially shifts the balance of risk between the SFV and consumers. The EUAA considers that these levers should be exercised with discipline, ensuring that consumers are not positioned as the residual risk-bearer for every conceivable downside scenario.

A key example is the timing mismatch buffer. The current structure embeds a structural timing gap between Fund inflows and outflows: DNSP payments, set in February, are not remitted to the SFV until November of the following year. Over this ~16-month period, DNSPs collect Roadmap charges from customers monthly or quarterly and retain

these funds—earning interest—until the remittance date. This design inflates the timing mismatch buffer because the SFV must hold liquidity to bridge a gap that is, in practice, created by the payment schedule rather than underlying risk. Requiring DNSPs to remit funds quarterly or semi-annually would materially reduce this mismatch and therefore reduce the size of the buffer. This is a practical lever available to policymakers that would lower consumer costs without compromising the SFV’s liquidity position.

More broadly, the EUAA considers that additional levers may exist to reduce liquidity risk and buffer size. The current approach assumes that consumers must fund all liquidity risks introduced by the Roadmap’s policy design. An alternative view is that some components—particularly those relating to systemic timing gaps or broad credit exposure—could be supported by NSW Treasury, rather than being recovered from electricity users. Efficient risk allocation is a core principle of good regulatory design, and it is not clear why consumers should bear liquidity risks that arise from government-determined payment structures rather than market behaviour.

The Explanatory Statement notes that:

“...the approach will be tailored using an appropriate cumulative probability of default over the relevant risk window period to reflect the breadth of credit exposure across the Fund’s inflow projections.”

The scale of the counterparty default buffer will therefore depend heavily on the AER’s view of what constitutes an “appropriate” cumulative probability. It is essential that this probability is set pragmatically—reflecting realistic credit exposure, rather than conservatively. When multiple credit-risk elements are added together, they materially increase the amount of cash the SFV must hold. A conservative approach risks overstating the likelihood of correlated defaults and inflating consumer costs.

We note that the exemptions framework for emissions-intensive trade-exposed (EITE) entities applies only to generation-related costs, and that user charges are allocated volumetrically for generation costs and on a demand basis for non-generation categories. We therefore consider it essential that MPCB buffer components are allocated appropriately between these two cost categories. While LTESA variability clearly relates to “generation” and network infrastructure to “other categories”, shared risks such as counterparty default and timing mismatch apply to both. Allocating all shared buffer costs to the “other” category changes the proportion of costs charged to EITE versus non-EITE consumers. A principled, cost-causation-aligned allocation is necessary to ensure fairness across consumer classes.

The EUAA recognises the need for prudent liquidity management. However, the scale of the proposed buffers risks over-collection, particularly in years where Roadmap costs escalate rapidly. The MPCB should not become a mechanism for smoothing the SFV’s balance sheet at the expense of consumers.

These issues are addressed further in our recommendations, which emphasise the need for disciplined calibration of liquidity buffers to avoid unnecessary cost uplift.

LTESA COST VOLATILITY: MANAGING UNCERTAINTY BY INCREASING CONSUMER EXPOSURE

LTESA liabilities are inherently uncertain. They depend on wholesale market outcomes, project-specific generation profiles, and exercise decisions by project owners. The AER's proposed two-tier buffer covering reasonably likely variability and high-impact events reflects this uncertainty.

But the consequence is clear: consumers pay more.

The AER's modelling approach is conservative by design. It must be, given the SFV's obligation to make payments when LTESAs are exercised. Yet the effect is that C&I users fund not only expected LTESA costs, but also a substantial buffer against unexpected outcomes. This is a rational approach from a liquidity perspective, but it increases the total cost burden on consumers.

The EUAA is also concerned about how the LTESA variability buffer is constructed and allocated. The current framework separates "LTESA generation costs" for which EITE customers receive a 90% discount from "other LTESA costs." However, the basis for this split is not clearly explained. If the volatility buffer is intended to manage uncertainty in LTESA payments, then the rationale for dividing costs into these two categories must be transparent, evidence-based, and consistent with cost-causation principles.

Without clear justification, there is a risk that the split between EITE and non-EITE allocations may shift a disproportionate share of volatility-related costs that do not reflect the underlying risk. The EUAA considers that the allocation of the LTESA split must be transparent, fair, and subject to regular review to ensure it remains appropriate as project profiles and market conditions evolve.

The need for clearer allocation principles and improved forward visibility of LTESA-related liabilities is reflected in our recommendations, particularly those relating to transparency and exemption design.

NETWORK INFRASTRUCTURE COSTS: THE NEXT WAVE OF PRICE PRESSURE

The EUAA understands that the introduction of a network infrastructure buffer acknowledges the growing scale and complexity of REZ transmission projects. These projects are large, multi-year investments with significant cost uncertainty. The AER's previous reliance on historical indices (CPI, WPI, commodities, FX) is being replaced with project-specific intelligence from the Infrastructure Planner.

This is a welcome improvement in accuracy. However, it will also increase contribution determination amounts.

As REZ transmission projects move through construction, cost variability could rise, as we have seen elsewhere with large infrastructure projects of this nature. The buffer ensures the SFV can manage this variability, but it also means consumers will bear the risks and fund a larger share of network-related contingencies. For C&I users, this represents a new and significant source of upward pressure on bills.

As outlined in the recommendations, greater transparency around multi-year network cost trajectories will be essential as these projects progress.

APPORTIONMENT: A NSW GOVERNMENT FRAMEWORK WITH SIGNIFICANT C&I IMPACTS

The apportionment framework based on volumetric energy delivered and peak demand is set by the NSW Government through clause 35 of the *EII Regulation*. The AER does not design this framework; it administers it.

Under this Government-set framework, large users, particularly those with high peak loads, bear a disproportionate share of contribution determination amounts. This is a structural feature of the scheme, not a discretionary decision by the AER.

For many C&I users, electricity is a critical input to production. They cannot easily reduce peak demand without compromising output. As Roadmap costs escalate, these users will face higher bills regardless of their wholesale contracting strategy, investment in efficiency, or participation in demand response programs.

The EUAA has consistently argued that cost allocation should reflect the beneficiaries of the Roadmap. Under the current Government-set framework, cost allocation reflects load characteristics, not benefits. This is a fundamental misalignment.

This misalignment is compounded by the way Roadmap costs are split between “generation” and “other” categories. Because EITE exemptions apply only to generation-related costs, and because user charges are allocated volumetrically for generation costs and on a demand basis for non-generation costs, the distribution of Roadmap costs between these categories has material implications for different user classes. LTESA variability clearly sits within the generation bucket and network infrastructure within the non-generation bucket, but shared risks such as counterparty default and timing mismatch apply to both. Allocating all shared buffer costs to the “other” category changes the proportion of costs charged to EITE versus non-EITE consumers. A cost-causation-aligned allocation of shared risks is therefore essential to maintain fairness across consumer classes.

We acknowledge that the EITE mechanism is intended to shield trade-exposed industries from policy-driven costs that could undermine international competitiveness, however, non-generation Roadmap costs are apportioned solely on peak demand. Many EITE facilities have high, inflexible peak loads due to the nature of industrial processes. As a result, even with a 90% exemption on generation-related costs, they may still face significant exposure to non-generation Roadmap costs, potentially eroding the intended protection of the exemption framework. This raises a legitimate question as to whether the current allocation structure preserves the policy intent of the EITE mechanism or inadvertently weakens it.

The EUAA therefore advocates for a principled, cost-causation-aligned allocation of shared buffer components between generation and non-generation categories to ensure fairness across consumer classes and to maintain the integrity of the EITE framework.

This structural misalignment is reflected in our recommendations, which call for a review of the apportionment framework to ensure cost recovery better aligns with beneficiaries.

EXEMPTIONS: A NSW GOVERNMENT POLICY WITH NARROW BREADTH AND ELIGIBILITY

Clause 36 of the *EI Regulation* provides exemptions for EITE industries and green hydrogen producers. The AER's draft Guideline clarifies the methodology for applying exempt percentages and ensures consistent application across DNSPs. The EUAA supports the continuation of arrangements that recognise the competitiveness challenges faced by EITE industries and the intent of shielding them from policy-driven electricity costs that could undermine international competitiveness.

However, the exemption mechanism is inherently narrow. It applies only to the generation-related LTESA component of Roadmap costs and does not extend to other Roadmap cost categories. Under the proposed approach, EITE customers will continue to bear the full cost of network infrastructure, administration, minimum prudent cash balance components, and other non-generation costs. As the Roadmap matures, these non-generation costs, particularly network infrastructure, are expected to dominate total Roadmap liabilities, while generation-related costs may remain modest if LTESAs operate as intended.

The apportionment framework further amplifies this limitation. Non-generation costs are allocated solely on peak demand, and many EITE facilities have high, inflexible peak loads due to the nature of industrial processes. As a result, even with a 90% exemption on generation-related costs, EITE facilities may still face substantial exposure to non-generation Roadmap costs. This raises a legitimate question as to whether the current exemption structure continues to preserve the policy intent of protecting trade-exposed industries from competitiveness-eroding electricity costs.

A further inequity arises between transmission-connected and distribution-connected EITE facilities. Because Roadmap costs are recovered exclusively through distribution charges, transmission-connected EITE facilities do not contribute to Roadmap cost recovery, while distribution-connected EITE facilities do, despite both being trade-exposed and facing similar international competitive pressures. This inconsistency undermines the principle of equitable treatment across EITE entities and highlights the need for a more coherent and beneficiary-aligned exemption design.

Given these structural issues, the EUAA considers that the exemption framework requires review to ensure it remains fit for purpose as the composition of EIF costs evolves. Transparency around exemption allocation methodologies and the redistribution of costs to non-exempt consumers is essential. Without clear disclosure, there is a risk that the burden on non-EITE users becomes opaque and structurally unfair. This is why our recommendations include a review of exemption pathways, with a focus on transparency, equitable treatment across EITE entities, and ensuring the framework continues to support the competitiveness of NSW industry.

WHAT THIS MEANS FOR C&I CONSUMERS

The combined effect of the AER's proposed methodologies is a structural uplift in electricity bills for NSW C&I users over the next decade. The EUAA expects higher distribution charges, higher jurisdictional scheme amounts, higher retail bills, greater exposure for high-peak users, and limited mitigation pathways. Demand management and load shifting may provide some relief, but they are not viable options for many industrial processes. Behind-the-meter generation does not avoid Roadmap costs. PPAs do not avoid all Roadmap costs. Retail contracting does not avoid Roadmap costs. The Roadmap is funded through DNSP tariffs. All distribution connected C&I users pay.

These impacts also raise a broader policy concern: the alignment of Roadmap costs and benefits over time. The Explanatory Statement highlights cost–benefit alignment as a core policy principle, yet Roadmap cost recovery is front-loaded while potential benefits, such as lower wholesale prices, may not materialise until well beyond the three-year averaging window used in contribution determinations. This creates a structural timing gap in which C&I users fund early Roadmap costs long before any theoretical wholesale price benefits emerge. For industries facing rising operating costs and tightening competitive pressures, there is a real risk that some facilities may not be operating when benefits eventually materialise, meaning they would fund the Roadmap but never receive its intended advantages.

This raises a legitimate question as to whether the current model is fit for purpose for large industrial loads with long investment cycles and limited flexibility. If the Roadmap’s cost profile continues to escalate while benefits remain uncertain or long-dated, alternative approaches may need to be considered, particularly models that better align contributions with realised benefits or that avoid front-loading costs onto consumers who may not ultimately benefit.

These impacts underscore the importance of the recommendations set out later in this submission, which aim to rebalance cost allocation, improve visibility of future liabilities, and ensure the Roadmap’s cost recovery framework remains equitable and economically sustainable for NSW industry.

ROADMAP COST RECOVERY MECHANISMS AND THE RISK OF DOUBLE-DIPPING

A core concern for large energy users is the way Roadmap-funded network infrastructure interacts with the existing *National Electricity Rules* (NER) framework for revenue determinations. The Roadmap creates a parallel cost recovery mechanism via the SFV and contribution determinations that sits alongside the long-standing NER process through which NSPs recover capital expenditure by adding assets to their regulated asset base (RAB). In doing so, the Roadmap adds an additional layer of complexity to a system that already exists, effectively duplicating NEM-wide processes through the use of jurisdictional rules that operate in parallel to national frameworks. This duplication increases administrative burden and heightens the risk of inconsistent treatment of assets across jurisdictions.

This dual structure creates a clear risk: that a transmission asset funded entirely through the Roadmap could later be rolled into a TNSP’s RAB, resulting in consumers paying for the same asset twice. The EUAA acknowledges that the *EII Act* and *EII Regulation* establish the Roadmap cost recovery framework, and that the NSW Government determines how REZ and Priority Network Infrastructure Project (PNIP) costs flow through the SFV. But once an asset is built, the AER is the body responsible for assessing whether it can be included in a TNSP’s RAB under the NER.

This is where the risk arises. Without explicit safeguards, a Roadmap-funded asset could be treated as contestable or non-contestable transmission infrastructure under the NER and therefore eligible for RAB inclusion. If that occurred, consumers would face:

- Roadmap cost recovery through DNSP tariffs
- TNSP cost recovery through transmission tariffs

for the same physical asset

The EUAA considers this an unacceptable outcome. The Roadmap already represents a significant new cost burden for NSW consumers. Allowing Roadmap-funded assets to enter the RAB would compound that burden and undermine confidence in the integrity of the cost recovery framework.

The EUAA therefore urges the AER to apply strict scrutiny to any future revenue determination involving assets delivered under the Roadmap. The AER should make clear, both in its Guideline and in its regulatory practice that:

- Roadmap-funded assets must not be added to a TNSP's RAB
- any asset funded through the SFV is fully paid for by consumers once
- the AER will actively prevent double-recovery through transmission pricing

This is entirely within the AER's remit. The NSW Government sets the Roadmap cost allocation rules, but the AER controls the application of the NER and the treatment of assets in revenue determinations. Ensuring that Roadmap-funded assets are excluded from the RAB is a critical consumer protection measure and a necessary safeguard against double-dipping.

Our recommendations reinforce the need for explicit safeguards to prevent any form of double recovery and ensure Roadmap-funded assets are treated consistently across frameworks.

RECOMMENDATIONS

The EUAA recommends:

1. Improve transparency and forward visibility of Roadmap costs

The AER should publish clear, multi-year forecasts of:

- expected LTESA liabilities (generation and non-generation components),
- REZ and PNIP transmission cost trajectories,
- MPCB components and underlying assumptions,
- contribution determination amounts over the medium term.

This transparency is essential for C&I users making long-term investment and operational decisions.

2. Recalibrate the Minimum Prudent Cash Balance (MPCB) to avoid over-collection

The AER should:

- stress-test the MPCB methodology to ensure buffers are proportionate to actual liquidity risks,
- avoid stacking conservative assumptions across multiple buffer components,
- adopt pragmatic (not conservative) cumulative probability-of-default settings,
- ensure correlated risks are not double-counted.

The MPCB must be calibrated to the minimum prudent level necessary to meet statutory obligations — no higher.

3. Reduce the timing mismatch buffer by reforming DNSP remittance schedules

The NSW Government should consider:

- requiring DNSPs to remit Roadmap funds quarterly or semi-annually rather than annually,
- eliminating the ~16-month structural timing gap between consumer payments and SFV receipts,
- preventing DNSPs from retaining and earning interest on Roadmap funds for extended periods.

This reform would materially reduce the timing mismatch buffer and lower consumer costs.

4. Explore alternative liquidity-risk arrangements, including NSW Treasury support

Given that several liquidity risks arise from government-determined payment structures rather than market behaviour, the NSW Government should assess:

- whether NSW Treasury could carry some or all liquidity-risk exposure,
- whether alternative models could reduce the need for consumer-funded buffers,
- whether current arrangements align with efficient risk-allocation principles.

Consumers should not be the residual risk-bearer for liquidity risks introduced by policy design.

5. Ensure cost-causation-aligned allocation of buffer components between generation and non-generation categories

The AER should:

- allocate shared buffer components (counterparty default, timing mismatch) proportionately across generation and non-generation categories,
- avoid allocating all shared risks to the “other” category,
- ensure EITE exemptions are not unintentionally eroded by misallocation.

This is essential for fairness across consumer classes and for preserving the intent of the EITE mechanism.

6. Review the apportionment framework to better align costs with beneficiaries

The NSW Government should review clause 35 of the EII Regulation to:

- rebalance volumetric and peak-demand allocation methods,
- ensure cost recovery reflects beneficiaries rather than load characteristics,
- reduce disproportionate impacts on high-peak industrial loads.

The current framework does not reflect the Roadmap’s beneficiary profile.

7. Review and expand the EITE exemption framework

The NSW Government should:

- assess whether exempting only generation-related LTESA costs remains fit for purpose,
- consider whether non-generation Roadmap costs should also be subject to exemption pathways,
- address inequities between transmission-connected and distribution-connected EITE facilities,
- improve transparency around exemption allocation and cost redistribution.

The exemption framework must evolve as the Roadmap’s cost composition shifts toward non-generation categories.

8. Improve alignment between Roadmap cost recovery and Roadmap benefits

The NSW Government and AER should:

- recognise the structural timing gap between early cost recovery and long-dated wholesale price benefits,
- consider alternative models that better align contributions with realised benefits,
- ensure C&I users are not required to fund Roadmap costs they may never benefit from if operating costs become unsustainable.

Cost–benefit alignment is a core policy principle and must be preserved.

9. Strengthen safeguards to prevent double recovery of Roadmap-funded transmission assets

The AER should:

- explicitly state that Roadmap-funded assets must not be added to a TNSP's regulated asset base (RAB),
- ensure any asset funded through the SFV is paid for once only,
- apply strict scrutiny in future revenue determinations to prevent double dipping.

This is a critical consumer protection measure and entirely within the AER's remit.

10. Enhance transparency of buffer methodologies, assumptions, and allocations

The AER should:

- publish clear explanations of buffer sizing methodologies,
- disclose assumptions underpinning volatility modelling and credit-risk settings,
- provide transparent allocation methodologies for generation vs non-generation cost splits,
- ensure stakeholders can meaningfully assess the drivers of contribution determination amounts.

Transparency is essential for confidence in the Roadmap's cost recovery framework.

CONCLUDING REMARKS

The AER cannot change the apportionment or exemption frameworks, these are set by the NSW Government through the EII Regulation. But the AER does control how Roadmap liabilities are forecast, how buffers are calibrated, how risks are modelled, and how contribution determinations are constructed. These levers materially influence the scale and timing of Roadmap costs borne by consumers.

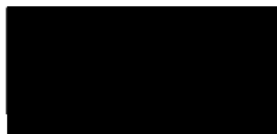
Given the Roadmap's maturing cost profile, it is essential that the AER exercises these levers with discipline. The MPCB now comprises multiple components such as counterparty default risk, timing mismatch risk, LTESA volatility, and network infrastructure uncertainty, each reflecting real risks but collectively creating significant upward pressure on consumer bills. The EUAA urges the AER to ensure these buffers are proportionate, transparent, and aligned with efficient risk allocation principles.

At the same time, the NSW Government must review the broader cost allocation and exemption frameworks to ensure they remain fit for purpose. The current apportionment model does not reflect beneficiaries, the exemption framework is narrow and increasingly misaligned with the Roadmap's cost composition, and inequities between transmission-connected and distribution-connected EITE facilities undermine policy intent. The structural timing gap between early cost recovery and long-dated benefits also raises questions about whether the current model is sustainable for large industrial loads.

The recommendations in this submission provide a practical pathway to rebalance cost allocation, improve transparency, strengthen consumer protections, and ensure the Roadmap's cost recovery framework remains equitable and economically sustainable for NSW industry. The EUAA encourages both the AER and NSW Government to adopt these measures to maintain confidence in the Roadmap and protect the competitiveness of NSW's industrial sector.

The EUAA welcomes further discussions around the issues raised in this submission.

Do not hesitate to be in contact with EUAA Policy Manager Dr Leigh Clemow, should you have any questions.



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