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Draft Decision

Powerlink's Gladstone Transmission Project – application of incentive schemes

November 2026

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1 Background

This section provides background on Queensland's priority transmission investment framework, the Gladstone Transmission Project (**the Gladstone Project**) and the interaction between the framework and the National Electricity Rules.

1.1 Queensland's priority transmission investment framework

The *Energy (Infrastructure Facilitation) Act 2024* (Qld) (**EIF Act**) establishes the priority transmission investment (**PTI**) framework under Part 5. The framework facilitates the identification, assessment and construction of PTIs and provides for associated financial matters. The *Energy (Infrastructure Facilitation) Regulation 2024* (Qld) (**EIF Regulation**) supports the operation of the framework.

The PTI framework makes the responsible ministers the decision-makers regarding the revenue Powerlink will receive in relation to a PTI, which replaces the AER's usual decision-making role under the National Electricity Rules. The PTI framework also establishes a function for a 'suitably qualified person', where along the investment process, the responsible ministers are required to obtain advice on the PTI from a 'suitably qualified person'. In the case of the Gladstone Project, the AER carried out the 'suitably qualified person' function.

In simplified terms, the PTI framework, as it applied to the Gladstone Project, comprises four stages:

1. **Identification Stage**
    - In July 2024, the Gladstone Project was prescribed as an eligible PTI project under former section 9(e) of the Regulation and remains prescribed under section 9(1) of the current EIF Regulation.[1]
    - The responsible ministers declared the Gladstone Project to be a candidate PTI on 13 August 2024.
2. **Assessment Stage**
    - The responsible ministers were required to direct Powerlink to provide a submission on how Powerlink should assess the Gladstone Project using the Regulatory Investment Test for Transmission, with appropriate modifications that were as minimal as practicable.[2] The responsible ministers issued this direction on 13 August 2024.

[1] A regulation may prescribe a project as an eligible PTI (EIF Act, s 20).

[2] This step was required under a previous version of section 22 of the EIF Act, which was applicable to the Gladstone Project at the time it progressed through this step.

- The responsible ministers were required to obtain advice from a 'suitably qualified person' about Powerlink's assessment method.[3] The AER provided this advice on 19 September 2024.[4]
- The responsible ministers then directed Powerlink to assess the Gladstone Project. Powerlink released a final assessment report in June 2025.
- The responsible ministers were then required to obtain advice from a 'suitably qualified person' about whether Powerlink had assessed the Gladstone Project as directed. The AER provided this advice on 16 September 2025.[5]
- The responsible ministers were also required to obtain advice from a 'suitably qualified person' about whether Powerlink's proposed expenditure on the Gladstone Project was that which would be required by an efficient and prudent operator in Powerlink's circumstances. The AER provided this advice on 18 March 2026.[6]

3. **Construction Stage – this is the current stage**
   - The responsible ministers declared the Gladstone Project to be a PTI on 1 August 2026 and the declaration was published in the Queensland Government Gazette on 21 August 2026. The responsible ministers subsequently directed Powerlink to construct the Gladstone Project.[7]
4. **Review Stage**
   - If, in the future, there is a material change in circumstances in relation to the Gladstone Project, any additional expenditure incurred on the project may be reviewed for efficiency by the suitably qualified person.[8]

1.2 Gladstone Project

The Gladstone Project has been progressed under the EIF Act to augment the transmission network in the area around Gladstone. This is the first project to be undertaken under the PTI framework set out in the EIF Act.

The Gladstone Project is intended to help ensure Central Queensland continues to have a safe, reliable and secure electricity supply as the region's energy system evolves. The Gladstone Project has been identified under AEMO's Integrated System Plan as actionable since 2024.[9]

[3] This was required under section 23 of the EIF Act at the time, which has since been amended.

[4] The advice was provided confidentially and its release is at the discretion of the responsible ministers.

[5] EIF Act, section 25(2)(a). The advice was provided confidentially and its release is at the discretion of the responsible ministers.

[6] EIF Act, section 25(2)(b). The advice was provided confidentially and its release is at the discretion of the responsible ministers.

[7] If satisfied that the candidate PTI has been assessed appropriately and that construction of the investment would address the identified need, the responsible ministers may declare the candidate PTI to be a priority transmission investment and direct Powerlink to construct the investment using a specified option and within the anticipated construction timeframes (EIF Act, section 26).

[8] EIF Regulation, section 38.

[9] AEMO, *2024 Integrated System Plan for the National Electricity Market*, June 2024; AEMO, 2026 Integrated System Plan for the National Electricity Market, June 2026.

The network in the Gladstone area supports a diverse range of electricity users, including local communities, businesses and major industrial customers.[10] Electricity demand is expected to increase across the region in the coming years as communities and industries grow and industrial customers electrify their operations. At the same time, the Gladstone Power Station is expected to retire, with AEMO's Expected Closure Year[11] document currently indicating a closure date of March 2029. As a result, more electricity will need to be supplied into the region from existing and new sources of generation.

The identified need for the Gladstone Project is to ensure the ongoing reliability and security of supply in the Gladstone area to:

- meet the forecast electrical load in anticipation of the closure of the Gladstone Power Station;
- support the decarbonisation of major industries; and
- compensate for loss of essential system services, such as inertia, system strength and voltage control capability, following the closure of Gladstone Power Station.

The final scope of the project was established by the construction direction the responsible ministers issued to Powerlink following the gazettal of the project on 21 August 2026. As stated in Powerlink's application at **Attachment A**, the final scope of the Gladstone Project is the preferred option identified in Powerlink's final assessment report (**the Preferred Option**), varied to exclude:

a) construction of a new 275kV high-capacity, double circuit transmission line from the existing Larcom Creek Substation to the new Gladstone West Substation, which includes:
    - approximately 14.2km of the 95km Bouldercombe to Gladstone West to Larcom Creek double circuit transmission line construction;
    - the Larcom Creek Substation construction; and
    - Larcom Creek line feeder bay construction at Gladstone West Substation;

b) the establishment of power flow control for feeder 871 to manage thermal limits;

c) the installation of 200MVAr shunt capacitor bank at the Calliope River Substation; and

d) any components forming part of the Preferred Option that would have been required only for the major components outlined in items a), b) or c), other than land or easements for land that have been or may be acquired for purposes associated with the Preferred Option.

Powerlink has published materials about the Gladstone Project on its website.[12]

[10] Major industrial customers include two alumina refineries, an aluminum smelter, chemical manufacturing, Queensland's largest multi-commodity port and a range of other industries.

[11] Generating Unit Expected Closure Year - July 2026

[12] Priority Transmission Investment: Gladstone Project | Powerlink's Community Hub

1.3 AER's role with respect to incentive schemes

The AER retains its decision-making role under the National Electricity Rules for matters that are not modified by the EIF framework, including the application of incentive schemes.

Incentive schemes are an aspect of incentive-based regulation and complement our approach to assessing efficient costs. They provide important balancing incentives under network determinations by encouraging businesses to pursue expenditure efficiencies while maintaining the reliability and overall performance of their network.

The AER needs to decide on the application of three incentive schemes to the Gladstone Project, as follows:

- The capital expenditure sharing scheme (**CESS**) – The scheme provides a continuous incentive on Network Service Providers to achieve efficient capital expenditure during a regulatory control period and provides a framework for sharing capital expenditure underspends/overspends between Network Service Providers and electricity consumers.
- The efficiency benefit sharing scheme (**EBSS**) – The scheme provides a continuous incentive for Network Service Providers to pursue efficiency improvements in operating expenditure and provides for a fair sharing of these between Network Service Providers and electricity consumers.
- The service target performance incentive scheme (**STPIS**) – The scheme provides incentives (in the form of financial rewards or penalties) for Network Service Providers to maintain or improve high levels of service for electricity consumers and participants in the National Electricity Market.

We have considered the application of the above incentive schemes to the Gladstone Project, having regard to both the National Electricity Rules and the EIF framework. The AER's proposed approach to applying each incentive scheme is set out below.

1.4 AER's previous decisions on incentive schemes in relation to Powerlink

The points below summarise the AER's decisions on incentive schemes as part of our April 2022 revenue determination for Powerlink for the 2022–27 period and, most recently, our draft revenue determination for Powerlink for the 2027–32 period, which was published on 30 September 2026.

- *Capital Expenditure Sharing Scheme*

  In our April 2022 revenue determination for the 2022–27 period, we decided to apply the standard CESS as set out in version 1 of the Capital Expenditure Incentives Guideline to Powerlink for the 2022–27 period.[13]

  In our September 2026 draft revenue determination for 2027–32, we included a CESS decrement of $138.3 million across the 2027–32 period.[14]

[13] AER, *Capital Expenditure Incentive Guideline*, November 2013.

[14] AER, Powerlink electricity transmission determination 2027 to 2032, Attachment 6 – Capital expenditure sharing scheme, September 2026, pg. 2.

In addition, the AER's draft revenue determination for 2027–32 decided to apply the standard CESS as set out in the most recent version of the Capital Expenditure Incentives Guideline (version 4) to Powerlink for the 2027–32 period.[15]

- *Efficiency Benefit Sharing Scheme*

  In our April 2022 revenue determination for the 2022–27 period, we decided to apply version 2 of the EBSS to Powerlink in the 2022–27 period.[16] Version 2 remains the latest version of the EBSS.

  In our September 2026 draft revenue determination for the 2027–32 period, we decided to include EBSS carryover amounts totalling $27.5 million from the application of the EBSS in the 2022–27 period.

  In addition, the AER's draft revenue determination for 2027–32 decided to continue to apply version 2 of the EBSS to Powerlink in the 2027–32 period.

- *Service Target Performance Incentive Scheme*

  In our April 2022 revenue determination for the 2022–27 period, we decided to apply version 5 of the STPIS to Powerlink for the 2022–27 period.[17]

  An updated version 6 of the STPIS was published in April 2025.

  In the AER's draft revenue determination for 2027–32, we decided apply version 6 of the STPIS to Powerlink for the 2027–32 period.

1.5 Powerlink's proposal

We attach Powerlink's proposal regarding its proposed application of the CESS to the Gladstone Project at **Attachment B**. Powerlink's proposal requests that the AER's decision to apply the CESS to the Gladstone Project be based upon the following set of principles:

a) "The CESS for the Gladstone Project is calculated separately from the CESS in relation to Powerlink's other, non-Gladstone Project capital expenditure.

b) Delay calculation of the CESS until after the 18-month period following completion of construction of the project. This is to ensure responsible ministers under relevant Queensland legislation have not made a Material Change PTI Direction.

c) Ensure that Powerlink's annual CESS targets would include additional efficient expenditure set out in the Material Change PTI Direction.

d) That the AER does not apply CESS penalties where there is no pathway to recover costs.

e) Powerlink is not penalised for factors outside its control, and the AER should have regard to the circumstances in such an eventuality."

Our response to Powerlink's proposal is set out in detail in section 2.4 below.

[15] AER, Powerlink electricity transmission determination 2027 to 2032, Attachment 6 – Capital expenditure sharing scheme, September 2026, pg. 2.

[16] AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

[17] AER, *Final – Service Target Performance Incentive Scheme*, October 2015.

2 Capital Expenditure Sharing Scheme

2.1 Background on the CESS

The overarching objective of the CESS is to provide Network Service Providers, like Powerlink, with an incentive to undertake efficient capital expenditure during a regulatory control period. It achieves this by rewarding Network Service Providers that outperform their capital expenditure allowance and penalising Network Service Providers that spend more than their capital expenditure allowance. The CESS also provides a framework to share efficiency gains and losses between Network Service Providers and network users.

Without a CESS, a Network Service Provider would face incentives that decline over a regulatory control period. If a Network Service Provider made an efficiency gain in the first year of a five-year regulatory control period, any benefit would last for four more years before we update the regulated asset base for actual capital expenditure. In the final year, however, the benefit would be approximately zero. This may lead to inefficient capital expenditure and inefficient substitution of operating expenditure for capital expenditure towards the end of a regulatory control period.

The CESS complements the rewards a Network Service Provider would already receive for an efficiency gain so the total benefit of an efficiency gain to a Network Service Provider will be the same in each year. The CESS also provides symmetric incentives, in that the reward for an efficiency gain is equal to the penalty for an efficiency loss of the same quantum.

The CESS works as follows:

- we calculate the cumulative efficiency gains or losses for the current regulatory control period in net present value terms;
- we apply the sharing ratio of 30% to all efficiency losses, and a tiered rate for efficiency gains, to work out what the service provider's share of the underspend or overspend should be; and[18]
- we calculate the CESS payments taking into account the financing benefit or cost to the service provider of the underspend or overspend.[19] We can also make further adjustments to account for deferral of capital expenditure and ex post exclusions of capital expenditure from the regulated asset base.[20]

[18] The tiered rate calculation for efficiency gains will apply a 30% sharing ratio for any underspend amount up to and including 10% of the approved forecast capital expenditure allowance, while any greater underspend will incur a 20% sharing ratio.

[19] We calculate benefits as the benefits to the Network Service Provider of financing the underspend since the amount of the under-spend can be put to some other income generating use during the period. Losses are similarly calculated as the financing cost to the Network Service Provider of the overspend.

[20] The capital expenditure incentive guidelines outline how we may exclude capital expenditure from the regulated asset base and adjust the CESS payment for deferrals. AER, *Capital Expenditure Incentive Guidelines for Electricity Network Service Providers*, August 2025, pp 9–17.

The AER has developed a CESS in accordance with clause 6.5.8A of the National Electricity Rules, as set out in the *Capital Expenditure Incentive Guidelines*.[21] The Guidelines establish the AER's default position, which is to apply the CESS and make exclusions only in limited circumstances.

2.2 Interaction between the National Electricity Rules and the EIF Regulation

The National Electricity Rules require the AER to develop a CESS.[22] The AER released an updated version (version 4) of its CESS Incentive Guideline in August 2025.[23]

Clause 6A.6.5A(e) of the National Electricity Rules says that, when deciding on the CESS, the AER must:

> (3) make that decision in a manner that contributes to the achievement of the capital expenditure incentive objective; and
>
> (4) take into account:
>
> (i) both the capital expenditure sharing scheme principles, and the matters referred to in paragraph (d), as they apply to the Transmission Network Service Provider; and
>
> (ii) the circumstances of the Transmission Network Service Provider.

Section 14 of the EIF Regulation provides:

> **AER may modify application of capital expenditure sharing scheme**
>
> (1) This section applies if a capital expenditure sharing scheme developed by the AER under the National Electricity Rules does not take into account the interaction of the scheme with the operation of this part.
>
> (2) The AER may, in applying the capital expenditure sharing scheme to Powerlink, take into account an incentive that Powerlink may have as a result of the operation of this part.

The AER's August 2025 CESS Incentive Guideline does not take into account the interaction of the scheme with the operation of Part 4 of the EIF Regulation, which triggers the application of section 14(2) of the EIF Regulation.

2.3 Incentives Powerlink may have under Part 4 of the EIF Regulation

There are two mechanisms under the EIF Regulation that could make Powerlink's incentives different to those that would usually apply under the standard CESS arrangements under the National Electricity Rules.

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[21] AER, *Capital Expenditure Incentive Guidelines for Electricity Network Service Providers*, August 2025, p. 9.

[22] National Electricity Rules, cl 6A.6.5A.

[23] AER, *Capital Expenditure Incentive Guidelines for Electricity Network Service Providers*, August 2025.

2.3.1 Potential for a 'first period adjustment'

The EIF Regulation requires Powerlink to include a 'first period adjustment' in its revenue proposal for a 'second period' where there is a divergence between the directed and actual capital expenditure.[24] In the case of the Gladstone Project, this would require Powerlink to include any difference between the forecast capital expenditure directed by the responsible ministers and actual expenditure during the 2022–27 regulatory control period.

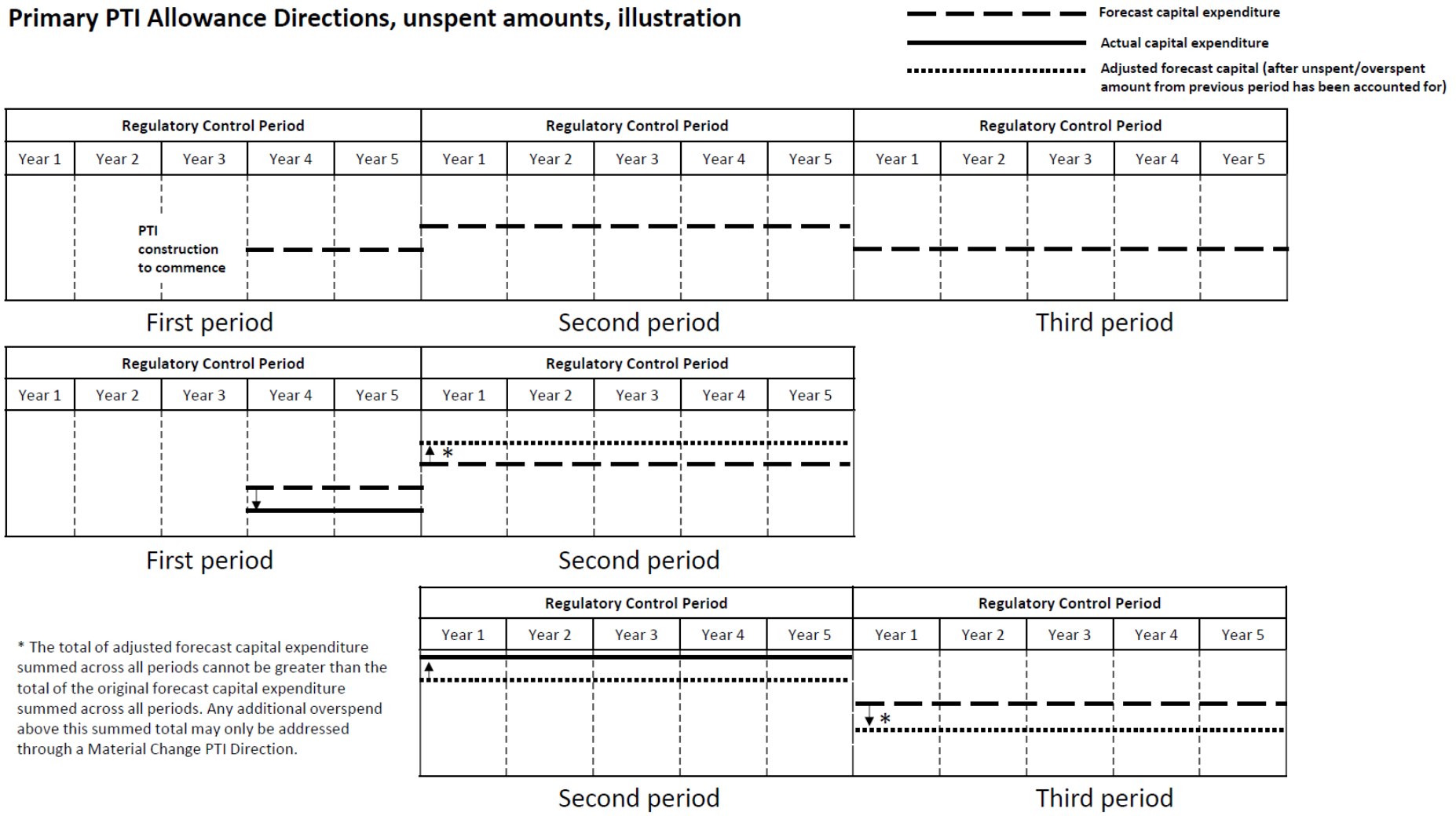
Where the difference involves an overspend, Powerlink's capital expenditure cap for the 2027–32 period would be commensurately reduced and, where an underspend, commensurately increased. Figure 1 below illustrates how these adjustments are intended to operate.[25]

We understand this inter-period adjustment mechanism is intended to apply to a scenario where, for example, the scheduling of a project changes (e.g., construction of a project is delayed). The inter-period adjustment mechanism would ensure that Powerlink can access the forecast capital expenditure directed by the responsible minsters where construction of a project is delayed. As a result, Powerlink would underspend during the first regulatory control period and the amount of the underspend would be moved to the subsequent regulatory control period. In this scenario, the total forecast expenditure remains the same but the timing of the expenditure shifts. This is illustrated in Figure 1 below.

[24] EIF Regulation, section 22.

[25] Explanatory notes for Subordinate Legislation 2024 No. 105, pg. 14.

Figure 1: Inter-period adjustments under the EIF Regulation



Powerlink may include a first period adjustment in its revised revenue proposal, which it is expected to submit on 2 December 2026. If that were to occur, the AER would be required under the EIF Regulation to accept the first period adjustment as part of Powerlink's revenue determination for 2027–32.[26]

The first period adjustment mechanism has the potential to render the calculation of CESS rewards/penalties inaccurate, if applied at the end of 2022–27, as would be standard practice under the National Electricity Rules. This is because, under the EIF Regulation, the overall forecast expenditure cap applies to a project over the entire construction period (i.e., in this case, construction is expected to occur between July 2026 and August 2030). Under the National Electricity Rules, the CESS rewards/penalties are calculated at the end of each regulatory control period. In addition, although unlikely based on current expected construction timing, this issue could also arise if construction is delayed and extends into the 2032–37 period, as the same inter-period adjustment mechanism would apply between the 2027–32 and 2032–37 periods.

2.3.2 Potential for a 'material change direction'

Section 38 of the EIF Regulation provides the potential for the responsible ministers to issue a material change direction within 18 months of the completion of construction of the Gladstone Project.[27] This is intended to provide the responsible ministers with the ability, where a material change in circumstances has occurred, to change the timing and/or value of adjustments to Powerlink's regulated asset base after the construction of the project has been completed.[28]

One circumstance where the responsible ministers may issue a material change direction is where the actual expenditure for an investment is higher than the directed expenditure and all or part of the additional expenditure was incurred efficiently. In deciding whether the additional expenditure was incurred efficiently, the responsible minister must seek the advice of a 'suitably qualified person',[29] which is a function that could potentially be assigned to the AER.

A potential scenario here could, for example, be that Powerlink's capital expenditure for the project exceeds the capital expenditure caps set by the responsible ministers. In the usual course where the CESS applies, this would result in Powerlink being subject to a CESS penalty. However, the material change direction provides the potential for the responsible ministers to deem, ex-post, that any overspend has been incurred efficiently. This would have the same effect as resetting the applicable capital expenditure caps for the purposes of the CESS.

Powerlink may have less of an incentive to achieve capital efficiencies if there is the potential for an overspend to be deemed efficient through a material change direction.

[26] Energy (Infrastructure Facilitation) Regulation 2024, section 23.

[27] Energy (Infrastructure Facilitation) Regulation 2024, section 38.

[28] Explanatory notes for Subordinate Legislation 2024 No. 105, pg. 28.

[29] Energy (Infrastructure Facilitation) Regulation 2024, section 38(2).

2.4 Draft decision on application of the CESS to the Gladstone Project

2.4.1 Application of 2025 CESS guideline to the Gladstone Project

Our draft decision is to apply the CESS as set out in the 2025 CESS Incentive Guidelines, with the modifications set out in the AER's responses in rows (a) to (c) in Table 2 below, to the Gladstone Project.

Our draft decision is to apply this modified CESS to the Gladstone Project, as described in the previous paragraph, for all regulatory control periods during which Powerlink undertakes capital expenditure in relation to the Gladstone Project. Based on the current construction schedule, this will occur during the 2022–27 and 2027–32 periods. With respect to both the 2022–27 and 2027–32 periods, our draft decision is to amend the CESS applicable to Powerlink insofar as it relates to the Gladstone Project, to apply the CESS with modifications as described in the previous paragraph.

Although our draft decision is to apply the CESS, we remain open to the option of not applying the CESS to the Gladstone Project in our final decision. In this regard, we note that the possibility of a material change direction potentially alters the balance between the CESS rewards and penalties associated with an underspend or overspend. This could create an additional asymmetry in the operation of the CESS, where Powerlink is more likely to receive a CESS reward than a penalty. We would therefore welcome stakeholder views on the value of applying the CESS to the Gladstone Project in such circumstances.

2.4.2 Capital expenditure values to be attributed to the Gladstone Project for the purposes of the CESS

Section 19(2)(d) of the EIF Regulation requires the AER to amend Powerlink's revenue determination for 2022–27 to adjust the values to be attributed to the CESS.

The applicable capital expenditure values, as set out in the Primary Priority Transmission Investment Allowance Direction issued by the responsible ministers under section 15(2) of the EIF Regulation, are set out in Table 1 below. In addition to providing the values for 2022–27 as required by section 19(2)(d) of the EIF Regulation, we also provide the applicable values for 2027–32.

Table 1: Forecast capital expenditure values attributable to the Gladstone Project for the purposes of the CESS

Year	Forecast capital expenditure ($million, real 2025/26, mid-year)
2022–23	0.000
2023–24	0.000
2024–25	33.534
2025–26	127.666

2026–27	439.731
2027–28	551.513
2028–29	390.895
2029–30	161.632
2030–31	39.792
2031–32	0.000
Total	**1,744.763**

2.4.3 Response to Powerlink's proposal

Table 2 below explains how our draft decision responds to Powerlink's proposed principles, which are set out in its proposal to us, at **Attachment A**. We note that these principles would only apply if we decide to apply the CESS to the Gladstone Project. If we decide not to apply the CESS to the Gladstone Project, the principles in Table 2 below would no longer be relevant and would not be applicable to Powerlink.

Table 2: The AER's draft decision in response to Powerlink's proposed principles

Powerlink's proposed principle	AER's response
(a) The CESS for the Gladstone Project is calculated separately from the CESS in relation to Powerlink's other, non-Gladstone Project capital expenditure.	The AER's draft decision is to modify the application of the CESS to the Gladstone Project's capital expenditures such that the CESS rewards/penalties will be calculated separately from those in relation to the remainder of Powerlink's non-Gladstone capital expenditures. Typically, we expect Powerlink to manage its portfolio of capital expenditure subject to the CESS. This provides an incentive for Powerlink to efficiently manage its network while balancing its capital expenditure between multiple projects. Calculating a separate CESS for the Gladstone limits Powerlink's ability to manage such trade-offs. However, on balance, we consider it appropriate to apply the CESS separately. This is because, as discussed above, the EIF Regulation includes two mechanisms, namely inter-period adjustment and a material change direction mechanism, which differ from the standard arrangements under the National Electricity Rules and could affect our CESS calculations.

	We remain open to the option of not applying the CESS to the Gladstone Project in our final decision. We note the potential for a material change direction to alter the balance between the CESS rewards and penalties, potentially making it more likely that Powerlink would receive a reward than a penalty. We would therefore welcome submissions on the value of applying the CESS to the Gladstone Project in such circumstances.
(b) Delay calculation of the CESS until after the 18-month period following completion of construction of the project. This is to ensure responsible ministers under relevant Queensland legislation have not made a Material Change PTI Direction.	The AER's draft decision is to delay the CESS calculations until after the 18-month period following completion of construction of the Gladstone Project. At that time, we will apply the CESS calculations to determine any reward or penalty. As explained above, this is to allow the EIF Regulation's inter-period adjustment and material change direction mechanisms to run their course before the CESS calculations are undertaken in relation to the Gladstone Project. Otherwise, if the AER were to apply the CESS calculations before the expiry of the 18-month period following the completion of construction, this could pre-empt a subsequent decision by the responsible ministers to alter the efficient amounts and the timing of those amounts that Powerlink receives for the Gladstone Project. While subsequent true-up calculations by the AER would capture the impact of these differences, this approach may lead to increased administration costs, increased complexity and price instability between years for consumers.
(c) Ensure that Powerlink's annual CESS targets would include additional efficient expenditure set out in the Material Change PTI Direction.	The AER's draft decision is that, if the responsible ministers issue a material change direction under section 38(1)(b)(iii) of the EIF Regulation that an amount of additional capital expenditure was incurred efficiently, the AER would apply the CESS calculations to include the additional efficient expenditure. That is, Powerlink would not be subject to CESS penalties for additional expenditure where the responsible ministers have directed that the additional expenditure was incurred efficiently.
(d) That the AER does not apply CESS penalties where there	The AER's draft decision is to not adopt principle (d) because it is not applicable to the Gladstone Project.

is no pathway to recover costs.	For PTIs, section 34 of the EIF Regulation provides the responsible ministers the option of setting Powerlink's regulated asset base at a level that reflects 1 or more stated parts of the directed forecast capital expenditure in relation to a PTI. This could allow PTIs to be wholly or partly funded through mechanisms other than transmission pricing under the National Electricity Rules. We acknowledge that, if the responsible ministers were to apply this mechanism, there could be ambiguity regarding the pathway for Powerlink to recover all costs. However, in the case of the Gladstone Project, the Primary Priority Transmission Investment Allowance Direction under section 15 of the EIF Regulation and the Regulatory Asset Base Allocation Direction under section 34 of the EIF Regulation are aligned, in that they both capture identical cost data. That is, in this case, there is no ambiguity regarding the pathway for the recovery of costs. All the costs of the Gladstone Project will be recovered through transmission pricing under the National Electricity Rules.
(e) Powerlink is not penalised for factors outside its control, and the AER should have regard to the circumstances in such an eventuality.	The AER's draft decision is to not adopt principle (e) and, instead, to consider issues as they arise at the time it decides on any CESS rewards/penalties. That is, delay consideration of any such factors outside of Powerlink's control until the point in time the AER makes the CESS calculations after the 18-month period following completion of construction of the project has expired. If the AER were to adopt principle (e), it would essentially pre-judge the outcome of a future decision, which could fetter the AER's future discretion when deciding on CESS rewards/penalties. At this point in time, it is difficult to assess what the factors outside of Powerlink's control might be. The AER will be in a better position to assess any such factors on their merits at the point in time that the AER applies the CESS calculations, once the 18-month period following completion of construction has expired.

3 Efficiency Benefit Sharing Scheme

3.1 Background on the EBSS

Under the National Electricity Rules, the AER must develop an EBSS. The AER published the current version of the EBSS in 2013.[30] The EBSS provides Powerlink with a continuous incentive to pursue efficiency improvements in operating expenditure and shares these between Powerlink and network users. Network users benefit from improved efficiencies through lower operating expenditure forecasts in regulated revenues for future periods.

For the 2022–27 regulatory control period, the AER applied the EBSS to Powerlink. In addition, the AER's draft revenue determination for 2027–32 decided to continue to apply the EBSS to Powerlink.

3.2 Draft decision on application of the EBSS to the Gladstone Project

The EBSS is closely linked to our revealed cost forecasting approach. The operating expenditure incentive framework relies on identifying an efficient operating expenditure amount in a base year (the 'revealed costs' of the transmission business), which we use to develop a total operating expenditure forecast. When a business makes an incremental efficiency gain, it receives a reward through the EBSS, and network users benefit through a lower revealed cost forecast for the subsequent period. This is how efficiency improvements are shared between consumers and the business.

Consequently, a primary consideration when we decide whether to apply the EBSS is whether we expect we will use a revealed cost forecasting approach to forecast operating expenditure for the following period. As such, we have considered whether it is likely that we will use Powerlink's revealed costs to forecast operating expenditure for the Gladstone Project in the 2032–37 period.

We expect the Gladstone Project will be completed during the 2027–32 period, and from the start of the 2032–37 period will be part of the Powerlink transmission network. We therefore expect that to forecast total operating expenditure for the Powerlink network, including the Gladstone Project, for the 2032–37 period we will likely rely on Powerlink's revealed costs. Given this, our draft decision is to apply the EBSS to the Gladstone Project for the 2027–32 period.

[30] National Electricity Rules, cl. 6.12.1(9); AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

4 Service Target Performance Incentive Scheme

4.1 Background on the STPIS

The STPIS balances Powerlink's incentive to reduce expenditure with the need to maintain or improve service quality. It achieves this by providing financial incentives to maintain and improve service performance where consumers are willing to pay for these improvements. Powerlink can only retain its rewards for sustained and continuous improvements to the reliability of supply and the service level to the National Electricity Market. Once improvements are made, consumers benefit as the benchmark performance targets will be tightened in future years.

For the 2022–27 regulatory control period, we applied version 5 of the STPIS. In our September 2026 draft revenue determination for the 2027–32 period, we have decided to apply the most recent version of the STPIS (version 6) to Powerlink.

4.2 Draft decision on application of the STPIS to the Gladstone Project

The STPIS applies generally to service delivered by a Network Service Provider's network.

Our draft decision is therefore to apply version 6 of the STPIS to Powerlink's total portfolio (which includes the Gladstone Project) in the 2027–32 period.

Attachment A

Ref. A6460575

1 October 2026

Clare Savage
Chair
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Dear Clare,

Application following regulatory direction to account for the Gladstone Project

Powerlink Queensland (Powerlink) applies to the Australian Energy Regulator (AER) to amend the *Final Decision: Powerlink Queensland Transmission Determination 2022 to 2027* (Powerlink's 2022-27 Revenue Determination) to account for the Gladstone Priority Transmission Investment (Gladstone Project).

In addition, Powerlink provides information in relation to the 2027-32 regulatory period that relates to the Gladstone Project.

Regulatory Basis for Application

Powerlink makes this application pursuant to Queensland Ministerial Directions under sections 15, 18 and 34 of the *Energy (Infrastructure Facilitation) Regulation 2024* (Regulation).

In July 2024 the Gladstone Project was prescribed as an Eligible Priority Transmission Investment under section 9(1) of the Regulation, for the purposes of section 20(1) of the *Energy (Infrastructure Facilitation) Act 2024* (the Act).

On 13 August 2024, the Gladstone Project was declared to be a Candidate Priority Transmission Investment (see section 24(1) of the Act).

On 1 August 2026, the Gladstone Project was declared a Priority Transmission Investment pursuant to section 26(2) of the Act. Notification of the Declaration was made by the Queensland Government in the Queensland Government Gazette on 21 August 2026**.**

Construction Direction

Following the Gladstone Project being declared a Priority Transmission Investment, Powerlink received the Gladstone Project Construction Direction for the Gladstone Project pursuant to section 26(4) of the Act. The Construction Direction sets out the final directed scope of the Gladstone Project and anticipated construction dates.

The anticipated project construction commencement is by 31 July 2026, and anticipated completion on 31 August 2030.

The Gladstone Project comprises the Preferred Option, meaning Option 1(c) as contained in Powerlink's "Gladstone Project: Candidate Priority Transmission Investment Assessment Final Assessment Report" dated 6 June 2025, varied to exclude:

a) Construction of a new 275kV high-capacity, double circuit transmission line from the existing Larcom Creek Substation to the new Gladstone West Substation, which includes:
    - approximately 14.2km of the 95km Bouldercombe to Gladstone West to Larcom Creek double circuit transmission line construction;
    - the Larcom Creek Substation construction; and
    - Larcom Creek line feeder bay construction at Gladstone West Substation;
b) the establishment of power flow control for feeder 871 to manage thermal limits;
c) the installation of a 200MVAr shunt capacitor bank at the Calliope River Substation; and
d) any components forming part of the Preferred Option that would have been required only for the major components outlined in items a), b) or c), other than land or easements for land that have been or may be acquired for purposes associated with the Preferred Option.

Financial Directions

Following the Gladstone Project being declared a Priority Transmission Investment, Powerlink received the following financial directions for the Gladstone Project in accordance with the Regulation and section 28 of the Act:

a) Primary PTI Allowance Direction (PPTIAD), pursuant to section 15(2) and 18 of the Regulation; and
b) Regulatory Asset Base Allocation Direction (RABAD), pursuant to section 34 of the Regulation, following the issue of the PPTIAD.

Table 1 of the PPTIAD is provided in Appendix 1. Tables 1(a), 1(b) and 2 of the RABAD are provided in Appendix 2.

Forecast of the Total Capital Expenditure

As stated in the PPTIAD the directed forecast of the total capital expenditure for the Gladstone Project is $1,744.763 million ($2025/26, real, mid-year).

2022-27 Regulatory Period

Powerlink applies to the AER to amend Powerlink's 2022-27 Revenue Determination to account for the Gladstone Project.

Consistent with the PPTIAD and RABAD, the forecast as incurred capital expenditure for the Gladstone Project during the 2022-27 regulatory period is to be recognised through an adjustment to Powerlink's opening Regulatory Asset Base (RAB) as at 1 July 2027. This will form part of Powerlink's Revised Revenue Proposal for the 2027-32 regulatory period, with the associated revenue to be recovered in the 2027-32 regulatory period.

- *Capital Expenditure* - Table 1 of the PPTIAD (refer Appendix 1) sets out the Gladstone Project forecast capital expenditure for the 2022-27 regulatory period. Powerlink does not seek any change to its 2022-27 Post-Tax Revenue Model (PTRM). The RAB treatment of this expenditure via the Revised Revenue Proposal for the 2027-32 regulatory period, is described below.

- *Operating Expenditure* - Table 1 of the PPTIAD (refer Appendix 1) states nil forecast incremental operating expenditure for the Gladstone Project for the 2022-27 regulatory period. Therefore, Powerlink does not seek to adjust its approved operating expenditure for the 2022-27 regulatory period.

- *Regulatory Asset Base as at 1 July 2027* - Table 1(a) of the RABAD (refer Appendix 2) sets out the Gladstone Project forecast capital expenditure to be included in the value of Powerlink's RAB as at 1 July 2027. Consistent with the method stated in the RABAD, Powerlink requests the AER to include these amounts in its opening RAB for the 2027-32 regulatory period, adjusted for the time cost of money, at the allowed rate of return under the National Electricity Rules. This is to reflect the period between when the expenditure is forecast to be incurred, as set out in Table 1(b) (refer Appendix 2), and its inclusion in the RAB on 1 July 2027. These adjusted amounts will be given effect through the 2026/27 final year asset adjustment in the 2027–32 Roll Forward Model (RFM), which will be submitted to the AER as part of Powerlink's Revised Revenue Proposal for the 2027-32 regulatory period.

2027-32 Regulatory Period

The PPTIAD and the RABAD require Powerlink to include amounts relating to the Gladstone Project for the 2027-32 regulatory period in this application.

Powerlink's Revised Revenue Proposal for the 2027-32 regulatory period will include amounts for the Gladstone Project. Powerlink will lodge its Revised Revenue Proposal for the 2027-32 regulatory period to the AER by 2 December 2026, including a full set of updated models to reflect the amounts directed in the PPTIAD and the RABAD. Specifically, the amounts relating to the Gladstone Project for the 2027-32 regulatory period are set out below.

- *Capital Expenditure* - Table 1 of the PPTIAD (refer Appendix 1) sets out the Gladstone Project forecast capital expenditure for the 2027-32 regulatory period.

- *Operating Expenditure* - Table 1 of the PPTIAD (refer Appendix 1) sets out forecast incremental operating expenditure.

- *Regulatory Asset Base* - Table 2 of the RABAD (refer Appendix 2) sets out the forecast capital expenditure to be included in the forecast value of Powerlink's RAB for the 2027-32 regulatory period in accordance with the National Electricity Rules, on both an as-incurred and as-commissioned basis. Consistent with the RABAD, Powerlink requests the AER to include these amounts in the value of its RAB from the start of the regulatory years immediately following the regulatory years specified in relation to the relevant amounts.

As a result, Powerlink's Revised Revenue Proposal will be updated to include:

- in the 2027-32 RFM, the opening RAB adjustment as at 1 July 2027, calculated in accordance with Table 1(a) and 1(b) of the RABAD (refer Appendix 2) and adjusted for the time cost of money as described above; and
- in the 2027-32 Post-Tax Revenue Model (PTRM), the forecast capital expenditure and incremental operating expenditure set out in Table 1 of the PPTIAD (refer Appendix 1) and Table 2 of the RABAD (refer Appendix 2), and to reflect the resulting annual building block revenue requirement, X-factors and Maximum Allowed Revenue.

We note that section 28(1)(d) of the Act and sections 19 and 35 of the Regulation provide guidance to the AER on actions required following receipt of this application.

Please contact Jennifer Harris if you require any further information or clarification.

Yours sincerely,

Dr Seán Mc Goldrick
CHIEF EXECUTIVE

Jacqueline Bridge
EXECUTIVE GENERAL MANAGER NETWORK INVESTMENT

Enquiries: Jennifer Harris, General Manager Network Regulation
Email: jenny.harris@powerlink.com.au
Mob.: 0407 125 515

Copy: James Bullock

Attachments:

1. Powerlink - GPTI - Capex and Opex Model - August 2026

Appendix 1 – Primary Priority Transmission Investment Allowance Direction, Table 1

Table 1 – Forecast capital expenditure and incremental operating expenditure

Year	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	Total
Forecast capital expenditure ($million, real 2025/26, mid-year)	0.000	0.000	33.534	127.666	439.731	551.513	390.895	161.632	39.792	0.000	1,744.763
Incremental operating expenditure ($million, real 2026/27, end-of-year)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	5.938	6.107	6.654	N/A

Appendix 2 – Regulatory Asset Base Allocation Direction, Table 1(a), Table 1(b), Table 2

Table 1(a) – Forecast capital expenditure to be included in the forecast value of Powerlink's regulatory asset base ($million, expressed as real 2025/26, mid-year which is to be adjusted according to the method stated below).

Date	**01/07/27**
Amount to be included in regulatory asset base (as incurred)	
- Transmission Lines – Overhead	335.189
- Substations – Primary Plant	134.760
- Substations – Secondary Systems	32.555
- Communications Other Assets	4.406
- Easements	73.779
- Land	20.242
Total	**600.931**

Method for adjustment of forecast capital expenditure in Table 1(a): To be adjusted to provide Powerlink with the time cost of money based on the allowed rate of return under the National Electricity Rules for the relevant regulatory year arising from the delay in the inclusion in the value of Powerlink's regulatory asset base from the forecast amounts and years specified in Table 1(b).

Table 1(b) — Historical and forecast capital expenditure amounts ($million, real 2025/26, mid-year)

Year	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Forecast capital expenditure (as incurred)						
- Transmission Lines – Overhead	0.000	0.000	15.422	46.972	272.794	335.189
- Substations – Primary Plant	0.000	0.000	4.651	33.139	96.970	134.760
- Substations – Secondary Systems	0.000	0.000	0.970	9.591	21.993	32.555
- Communications Other Assets	0.000	0.000	0.074	2.056	2.276	4.406
- Easements	0.000	0.000	12.373	29.071	32.336	73.779
- Land	0.000	0.000	0.044	6.836	13.362	20.242
Total	**0.000**	**0.000**	**33.534**	**127.666**	**439.731**	**600.931**
Forecast capital expenditure (as commissioned)						
- Transmission Lines – Overhead	0.000	0.000	0.000	0.000	0.000	0.000
- Substations – Primary Plant	0.000	0.000	0.000	0.000	0.000	0.000
- Substations – Secondary Systems	0.000	0.000	0.000	0.000	0.000	0.000
- Communications Other Assets	0.000	0.000	0.000	0.000	0.000	0.000
- Easements	0.000	0.000	0.000	0.000	0.000	0.000
- Land	0.000	0.000	0.000	0.000	0.000	0.000
Total	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**

Table 2 — Forecast capital expenditure to be included in the forecast value of Powerlink's regulatory asset base as per the National Electricity Rules ($million, expressed as real 2025/26, mid-year)

Year	2027/28	2028/29	2029/30	2030/31	2031/32	Total
Forecast capital expenditure (as incurred)						
- Transmission Lines – Overhead	400.968	240.635	119.708	35.523	0.000	796.834
- Substations – Primary Plant	112.933	113.725	28.262	3.153	0.000	258.074
- Substations – Secondary Systems	22.535	33.028	12.960	1.044	0.000	69.566
- Communications Other Assets	1.782	1.232	0.383	0.072	0.000	3.468
- Easements	3.577	0.109	0.000	0.000	0.000	3.687
- Land	9.718	2.167	0.319	0.000	0.000	12.204
Total	**551.513**	**390.895**	**161.632**	**39.792**	**0.000**	**1,143.832**
Forecast capital expenditure (as commissioned)						
- Transmission Lines – Overhead	0.000	585.399	0.000	546.623	0.000	1,132.022
- Substations – Primary Plant	0.000	155.615	164.399	72.821	0.000	392.834
- Substations – Secondary Systems	0.000	60.520	17.493	24.108	0.000	102.121
- Communications Other Assets	0.000	4.144	2.066	1.665	0.000	7.875
- Easements	0.000	25.960	2.468	57.555	0.000	85.983
- Land	0.000	11.945	0.000	11.984	0.000	23.929
Total	**0.000**	**843.582**	**186.426**	**714.755**	**0.000**	**1,744.763**

Attachment B

Powerlink Proposal

Gladstone Priority Transmission Investment Capital Expenditure Sharing Scheme

30 September 2026

1. Purpose

The purpose of this document is to provide Powerlink's proposal to the Australian Energy Regulator (AER) on the application of the Capital Expenditure Sharing Scheme (CESS) to the Gladstone Project Priority Transmission Investment (GPTI).

It is intended to inform the AER's considerations and consultation in relation to the GPTI, including its Final Decision on Powerlink's 2027-32 Revenue Proposal. This is important given the Final Decision is where we expect the future recovery of GPTI costs and revenues as well as its positions on incentives, particularly on the CESS, to be integrated with Powerlink's revenue determination process.

Powerlink's proposal has had regard to discussions between the AER, Queensland Treasury and Powerlink staff over many months.

2. Overview of Gladstone PTI Arrangements

The purpose of the Priority Transmission Investment components of the Queensland *Energy (Infrastructure Facilitation) Act* 2024 and associated *Energy (Infrastructure Facilitation Regulation)* 2024 is to facilitate the identification and construction of priority transmission investments and make provision for financial matters associated with the investments.

The Act and Regulations enable responsible Ministers to seek advice from a suitably qualified person such as the AER, in relation to a candidate priority transmission investment, priority transmission investment and material change. For example, a material change could be where actual capex is higher than directed and all or part of that capex was incurred efficiently[1]. Among other things, this includes whether the investment made or proposed by Powerlink is or would be required by an efficient and prudent operator in Powerlink's circumstances.

The Regulation also allows the AER to modify application of the CESS[2] where the scheme developed under the National Electricity Rules (NER) does not account for the interaction with operation of financial PTI matters of the Regulation, or an incentive that Powerlink may have as a result of the operation of these matters.

3. Overview of the CESS

The objective of the CESS developed by the AER under the NER is to provide a continuous incentive for a Transmission Network Service Provider (TNSP) to efficiently undertake capital investments over a regulatory period. This is achieved by rewarding the business for

[1] Regulations, Division 4 Material Change PTI Directions.
[2] Division 1 Preliminary, Section 14.

underspending its capex allowance and penalising it for overspending its allowance. The scheme also shares efficiency gains (underspends) and losses (overspends) between the business and customers, noting the AER's scheme applies a tiered rate to efficiency gains.

For any given regulatory period, the CESS reward (or penalty) calculated by the AER is given effect as an additional building-block adjustment (positive or negative) to a TNSP's revenue over the upcoming regulatory period.

4. Principles

Powerlink proposes that the AER adopt the following principles or guidance to establish the CESS arrangements for the GPTI:

(a) The CESS for the GPTI is calculated separately from the CESS in relation to Powerlink's other, non-GPTI capital expenditure.

The GPTI project is large, complex and is expected to be delivered in stages over more than one regulatory period. It has also been declared as a Priority Transmission Investment under Queensland legislation and has been directed specific expenditure allowances as a result. Given the unique nature of the project and regulatory arrangements to which it is subjected, there would be benefit to all stakeholders in clearly and separately identifying the GPTI CESS targets. This would enable the AER to calculate the CESS in isolation as well as consider and assess the specific circumstances of the project over its planning, development and delivery.

(b) Delay calculation of the CESS until after the 18-month period following completion of construction of the project. This is to ensure responsible Ministers under relevant Queensland legislation have not made a Material Change PTI Direction[3].

Under the national regulatory framework, typically the CESS is calculated at the end of the relevant regulatory period and captures spend for a portfolio of capital projects undertaken over the period.

As identified above, the GPTI project was assessed (ex-ante) for prudency and efficiency and is being implemented under Queensland legislation. It is considered a single project that will be implemented in stages. As such, it is considered reasonable and practical to calculate the CESS following expiry of the 18-month period following construction of the project under which responsible Ministers may make a Material Change PTI Direction. Such a direction could be issued where certain criteria are satisfied, including a significant change in circumstances relevant to the investment or where actual capex is higher than directed and all or part of the additional capex incurred was efficient.

In the event a Material Change PTI Direction is made, the AER must undertake its obligations under the Regulations[4]. Among other things, the AER would calculate any

[3] See Energy (Infrastructure Facilitation) Regulation 2024, clause 38.
[4] Ibid, clause 39.

relevant adjustments at the end of the regulatory period following the issue of the Material Change PTI Direction.

(c) *Ensure that Powerlink's annual CESS targets would include additional efficient expenditure set out in the Material Change PTI Direction.*

This principle is intended to ensure that any capital expenditure incurred in the delivery of the project above the CESS targets set up-front for the relevant regulatory period are adjusted to reflect what has been assessed and determined efficient by relevant Ministers, having regard to advice from a suitably qualified person.

We consider that such an approach provides a check and balance on Powerlink's expenditure and a safeguard against the inappropriate application of penalties under the scheme for genuinely efficient expenditure.

Powerlink understands that the AER has discretion to give effect to a Material Change PTI Direction in applying the CESS. We note the Queensland legislation requires the AER to give effect to the Material Change PTI Direction.

(d) *That the AER does not apply CESS penalties where there is no pathway to recover costs.*

This principle seeks to ensure that Powerlink, under the application of the CESS to the GPTI, is not penalised greater than 100% of the capital expenditure incurred that is subsequently deemed inefficient as part of a Material Change assessment.

The principle is similar to the application of the CESS to capital expenditure incurred by a TNSP above its capital expenditure allowance within a regulatory period, where the AER has determined as part of an ex-post review that a portion of the overspend is inefficient and is excluded from the Regulatory Asset Base.

(e) *Powerlink is not penalised for factors outside its control, and the AER should have regard to the circumstances in such an eventuality.*

Powerlink has advocated previously in the context of the AER's CESS Guideline Review that a TNSP should not be penalised for factors outside it control. Further, where a TNSP overspends its allowance, we consider that the AER should have regard to the circumstances of the overspend.

We note that the AER has identified a number of exclusions for TNSPs in its CESS Guideline (August 2025), including, for example, an efficient increase in scope of works where expenditure is not accounted for in a contingent project application, cost pass through application or reopener as well as the degree to which an overspend was due to factors beyond a TNSP's control, among others.