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Australian Energy Regulator

Lodged via email: capex@aer.gov.au.

Review of the AER's standardised capital expenditure model consultation paper

Transgrid welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**) consultation paper on the review of the standardised capital expenditure (**capex**) model and the proposed introduction of a standardised transmission capex model.

As the jurisdictional planner, system strength service provider, and operator and manager of the transmission network in NSW and the ACT, Transgrid is responsible for planning, building, maintaining and operating the backbone of the NSW transmission system. We are committed to delivering the infrastructure required to support the energy transition in a way that is safe, efficient, transparent and in the long-term interests of consumers.

Transgrid broadly supports the AER's objective of streamlining and simplifying regulatory obligations through a standardised capex model. A well-designed model has the potential to improve transparency, reduce unnecessary regulatory burden, support consistency across transmission revenue proposals and reduce the risk of modelling errors. These outcomes are important given the scale and complexity of transmission investment required to support the transition to a cleaner, more reliable and more affordable energy system.

We also support the AER's intention to develop a transmission-specific model rather than applying the distribution model without modification. Transmission businesses face different expenditure profiles, project structures, commissioning arrangements and delivery risks compared with distribution businesses. It is therefore important that the transmission model is fit for purpose and flexible enough to accommodate large, multi-year and complex projects, including actionable Integrated System Plan (**ISP**) projects, Renewable Energy Zone (**REZ**) projects, contingent projects and other major transmission investments.

Transgrid welcomes a standardised model that provides both flexibility and consistency for TNSPs to make adjustments that reflect individual business drivers. This would recognise that a growing share of transmission investment is being driven by system strength obligations, operability requirements, REZ integration and security of supply considerations. The model should capture the underlying driver for each investment. For example, a project required to address a system strength shortfall is not directly comparable with an augmentation project of similar value driven by load growth. This would provide important context for expenditure assessment, improve comparability across businesses and reduce the time and process required to communicate these differences to the AER.

We support the AER's proposed approach and objective, and make the following key comments:

- The transmission capex model should be fit for purpose and reflect the different characteristics of transmission investment compared with distribution investment, including system strength, operability and energy transition-related expenditure.

- The model should retain flexibility, including the ability for TNSPs to:
    - input business-specific overhead forecasts, additional sheets and supporting information where appropriate,
    - include an investment-driver field so expenditure assessment and benchmarking can distinguish between projects driven by different regulatory, operational or transition-related needs,
    - exclude forecast movements in provisions from the standardised transmission capex model, recognising their volatility and the current cash accounting treatment, i.e. the ability to retain current arrangements for provision movements, and
    - include a dedicated expenditure category, or otherwise clear classification, for system strength, operability and energy transition-related investments. Without this, expenditure driven by materially different obligations may be grouped with broader augmentation categories, reducing transparency and limiting meaningful comparison across transmission businesses with different transition-related responsibilities.
- The 'as incurred' and 'as commissioned' functionality should accommodate staged and multi-year transmission projects without imposing disproportionate project-level data or reconciliation requirements.

Given our key comments above, we prefer Option 1 for the treatment of provisions. We understand Option 1 would maintain the current approach by excluding forecast movements in provisions from the standardised transmission capex model and continuing to recognise provisions on a cash basis when expenditure is incurred. This is appropriate for Transgrid because we do not forecast provision movements as part of our capex forecasts. Including forecast provision movements would introduce additional complexity and volatility into the model without improving the transparency or robustness of the capex forecast.

Transgrid supports the AER's continued engagement with transmission businesses as the model is refined. The AER has stated that, following finalisation of both models, it expects all electricity networks to use the applicable model from 2028 onwards. Given that this is the first proposed standardised transmission capex model, it will be important that the AER provides sufficient opportunity for testing, feedback and iterative improvement before the model is required for use in a revenue determination. This will help ensure the final model is workable, robust and capable of supporting efficient assessment of transmission capex forecasts.

We appreciate the opportunity to provide a submission to this review and look forward to continuing to work with the AER as it develops the standardised transmission capex model. If you would like to discuss this submission, please contact Zainab Dirani, Policy and Advocacy Manager, at zainab.dirani@transgrid.com.au

Yours sincerely

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