

Final Decision

TasNetworks

Electricity Transmission

Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 5
Capital Expenditure

April 2024

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List of attachments

This Overview forms part of the AER's final decision on the distribution determination that will apply to TasNetworks for the 2024–29 period. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision. In these circumstances, our draft decision reasons form part of this final decision.

The final decision includes the following documents:

Overview

Attachment 1 - Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 7 – Corporate income tax

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5 Capital expenditure

Capital expenditure (capex) refers to the money required to build, maintain or improve the physical assets needed to provide prescribed transmission services. Generally these assets have long lives and a network service provider will recover capex from customers over several regulatory control periods.¹ TasNetworks' capex forecast contributes to the return of and return on capital building blocks that form part of its total revenue requirement.

We must decide whether or not we are satisfied that this forecast reasonably reflects prudent and efficient costs and a realistic expectation of future demand and cost inputs (the capex criteria).² We must make our decision in a manner that will, or is likely to contribute to the achievement of the National Electricity Objective (NEO).³

Our draft decision was to accept TasNetworks' capex forecast of \$290 million (\$2023–24) for the 2024-29 regulatory period. TasNetworks accepted this in its revised proposal. For the reasons outlined in the draft decision, we remain of the view that TasNetworks' capex forecast meets the capex criteria of the National Electricity Rules (NER) and have approved this expenditure.⁴

In May 2023, the National Energy Objective (NEO) was updated to allow consideration of emissions reductions. Where relevant we must assess capex associated with emissions reduction proposals taking into account our *Guidance on amended National Electricity Objective*.⁵

In its revised proposal, TasNetworks acknowledges the amendment to the NEO, but it states:⁶

“TasNetworks has not proposed any expenditure directly related to this change [to the NEO] in our Revised Proposal. We will, however, continue our efforts to lower our greenhouse gas emissions by reducing emissions from our vehicle fleet and minimising leakage of SF6 gas used as an insulating material in many switchgear and circuit breakers. We will also continue to support new renewable generation in Tasmania, whether it be micro-embedded generation connected to the distribution network or large-scale renewable generation connecting to the transmission network, and we anticipate that the value of emissions reductions will be a significant influence on elements of TasNetworks' regulatory proposals in the future.”

¹ Capex impacts revenue in two ways. It is recovered incrementally over time by a regulatory depreciation building block that equally distributes the value of the asset over its expected economic life (e.g. for an asset with a 50 year life, 1/50th of the value will be incurred in revenue for each year the asset is expected to remain in service). Service providers also earn a rate of return on the asset to cover the cost of raising capital (see attachment X).

² NER, cl. 6.5.7(c).

³ NEL, s. 16(1)(a). The National Electricity Objective is set out in s.7 of the NEL.

⁴ AER, *AER - Draft Decision Attachment 05 - Capital expenditure - TasNetworks - 2024-29 Transmission revenue proposal - September 2023*, September 2023.

⁵ AER, [Guidance on amended National Electricity Objectives](#), September 2023.

⁶ TasNetworks, *TasNetworks Revised Proposal November 2023*, November 2023, p. 12.

We received several submissions regarding TasNetworks' capex proposal. These are addressed in Appendix A of this attachment. Having considered those submissions, our reasons for accepting TasNetworks' capex proposal are consistent with those in our draft decision and are not discussed in detail in this attachment.

TasNetworks has proposed six contingent projects in its revised proposal. We set out our final decision on these contingent projects in this determination.

Contingent projects are significant network augmentation or replacement projects that are reasonably required to be undertaken to achieve the capex objectives. However, unlike other proposed capex projects, the need for the project within the regulatory control period and the associated costs are not sufficiently certain. Consequently, expenditure for such projects does not form a part of the total forecast capex that we approve in this determination.

Contingent projects are linked to unique investment drivers and are triggered by defined 'trigger events'. The occurrence of the trigger event must be probable during the relevant regulatory control period. We assess the trigger events to determine that they are sufficiently likely to occur and are capable of being objectively observed. For example, if a trigger event is too general in nature, we may be unable to assess whether the expenditure need has arisen, in which case we would not accept the trigger as part of the determination.

Assessment Approach

We provide guidance on our assessment approach in several documents, including the following which are of relevance to this decision:

- AER's *Final process guideline for contingent project applications*⁷

A contingent project should be a project that TasNetworks reasonably expects would occur in the 2024–29 period, with uncertainty related to the scope, timing and costs of the contingent project.

We reviewed TasNetworks' proposed contingent project against the assessment criteria in the NER. We considered whether:

- the proposed contingent project is reasonably required to be undertaken in order to achieve any of the capex objectives⁸
- the proposed contingent project capex is not otherwise provided for in the capex proposal⁹
- the proposed contingent project capex reasonably reflects the capex criteria, taking into account the capex factors¹⁰

⁷ AER, *Final process guideline for contingent project applications – September 2007*, September 2007.

⁸ NER, cl. 6A.8.1(b)(1) Relevantly, a transmission NSP must include forecast capex in its revenue proposal which it considers is required in order to comply with all applicable regulatory obligations or requirements, maintain the quality, reliability and security of supply, and maintain the safety of the transmission system through the provision of prescribed transmission services (see NER, cl. 6A.6.7(a)).

⁹ NER, cl. 6A.8.1(b)(2)(i).

¹⁰ NER, cl. 6A.8.1(b)(2)(ii).

- the proposed contingent project capex exceeds the defined threshold¹¹
- the trigger events in relation to the proposed contingent project are appropriate.¹²

When determining whether a trigger event is appropriate, we assess whether it is required:

- to be reasonably specific and capable of objective verification¹³
- to be a condition or event which, if it occurs, makes the project reasonably necessary in order to achieve any of the capex objectives¹⁴
- to be a condition or event that generates increased costs or categories of costs that relate to a specific location rather than a condition or event that affects the transmission network as a whole¹⁵
- to be described in such terms that it is all that is required for the revenue determination to be amended¹⁶
- to be a condition or event, the occurrence of which is probable during the 2024–29 period but the inclusion of capex in relation to it (in the total forecast capex) is not appropriate because either:
 - it is not sufficiently certain that the event or condition will occur during the regulatory control period or if it may occur after that period or not at all, or
 - assuming it meets the materiality threshold, the costs associated with the event or condition are not sufficiently certain.¹⁷

As part of our assessment, we reviewed whether the proposed contingent project is reasonably likely to be required in the 2024–29 regulatory control period based on the materiality and plausibility of the trigger events. This gives us a high-level view of whether the project is reasonably required to be undertaken in the regulatory control period in order to achieve any of the capex objectives and reflect the capex criteria.

5.1 Final decision

Our final decision is to accept TasNetworks' 6 contingent projects. We did not accept TasNetworks' original contingent project proposal in our draft decision.¹⁸ We were of the view that the initial trigger definitions were not sufficiently specific to allow us to objectively assess whether the projects had been triggered. Additionally, we were of the view that projects triggered by new generation were best conducted through AEMO's Integrated System Plan (ISP).

¹¹ NER, cl. 6A.8.1(b)(2)(iii).

¹² NER, cl. 6A.8.1(b)(4).

¹³ NER, cl. 6A.8.1(c)(1).

¹⁴ NER, cl. 6A.8.1(c)(2).

¹⁵ NER, cl. 6A.8.1(c)(3).

¹⁶ NER, cl. 6A.8.1(c)(4).

¹⁷ NER, cl. 6A.8.1(c)(5).

¹⁸ TasNetworks initial proposal contained 7 contingent projects. In its revised proposal TasNetworks removed 1 project, added 1 project, and combined 2 projects into a single project, resulting in 6 projects overall.

TasNetworks subsequently updated its triggers for the 6 contingent projects. We are of the view that the updated trigger events are appropriate to meet the requirements of rule 6A.8 of the NER, and TasNetworks has provided sufficient evidence to support the probability of the contingent projects occurring over the 2024-29 period.

5.2 TasNetworks' proposal

TasNetworks proposed 6 contingent projects in its revised proposal for the 2024-29 regulatory period, totalling \$955 million. This is an increase of \$50 million from TasNetworks' initial proposal, owing to the addition of a new contingent project (the North West Network Upgrade, \$174 million). TasNetworks' proposed contingent projects and trigger events are outlined in Table 5.1. The projects relate to new load and/or generation impacting thermal and/or stability limits or other system requirements to comply with the NER and jurisdictional requirements.

Table 5.1 TasNetworks' contingent projects (\$million, 2023-24) with revised triggers

Contingent Project	Trigger event	Estimated cost
George Town Network Upgrade	<ol style="list-style-type: none"> 1. Committed additional load of at least 210 MW, relative to the 2022 maximum load, to connect to the transmission network at George Town that results in non-compliance with the ESI regulation 5.(1)(a)(iii) 2. AER is satisfied that TasNetworks has successfully completed a RIT-T that demonstrates a network investment is the preferred option that provides net market benefits and / or addresses a reliability corrective action. 3. TasNetworks' Board commitment to proceed with the project, subject to the AER amending the revenue determination pursuant to the NER. 	135
Palmerston to Sheffield Network Upgrade	<ol style="list-style-type: none"> 1. Committed additional load of at least 210 MW, relative to the 2022 maximum load, to connect to the transmission network at George Town that results in non-compliance with the ESI regulation 5.(1)(a)(iii) 2. The AER is not currently considering the project, or part of the project, through a contingent project application triggered under NER Clause 5.16A.5 3. AER is satisfied that TasNetworks has successfully completed a RIT-T that demonstrates a network investment is the preferred option that provides net market benefits and / or addresses a reliability corrective action. 4. TasNetworks' Board commitment to proceed with the project, subject to the AER amending the revenue determination pursuant to the NER. 	240

George Town Reactive Support (stage 2)	<ol style="list-style-type: none"> 1. Committed additional load of at least 350 MW, relative to the 2022 maximum load, to connect to the transmission network at George Town that results in non-compliance with the ESI regulation 5.(1)(a)(iii) 2. AER is satisfied that TasNetworks has successfully completed a RIT-T that demonstrates a network investment is the preferred option that provides net market benefits and / or addresses a reliability corrective action. 3. TasNetworks' Board commitment to proceed with the project, subject to the AER amending the revenue determination pursuant to the NER. 	90
Sheffield to George Town Network Upgrade	<ol style="list-style-type: none"> 1. Committed additional load of at least 712 MW, relative to the 2022 maximum load, connecting to the transmission network at George Town that results in power flows that constrain the Sheffield-George Town transmission line or in non-compliance with the ESI regulation 5.(1)(a)(iii) 2. AER is satisfied that TasNetworks has successfully completed a RIT-T that demonstrates that upgrading the capacity between Sheffield and George Town is the preferred option that provides positive net market benefits and / or addresses a reliability corrective action. 3. TasNetworks' Board commitment to proceed with the project, subject to the AER amending the revenue determination pursuant to the NER. 	188
Waddamana to Palmerston Transfer Capability Upgrade	<ol style="list-style-type: none"> 1. Commitment of at least 660 MW of new generation, relative to 2022 installed capacity, in the Central Highlands REZ that results in constraints on the Waddamana–Palmerston transmission corridor. 2. The AER is not currently considering the project, or part of the project, through a contingent project application triggered under NER Clause 5.16A.5. 3. AER is satisfied that TasNetworks has successfully completed a RIT-T that demonstrates upgrading the transfer capability of the Waddamana– Palmerston transmission corridor is the preferred option that provides net market benefits and / or addresses a reliability corrective action. 4. Commitment by TasNetworks' Board to proceed with the project, subject to the AER amending the revenue determination pursuant to the NER. 	128
North West Network Upgrade	<ol style="list-style-type: none"> 1. Commitment of at least 100 MW of new generation or load, relative to 2022 maximum demand, to 	174

	<p>Hampshire Substation that results in constraints on the Burnie–Hampshire transmission corridor.</p> <ol style="list-style-type: none"> 2. The AER is not currently considering the project, or part of the project, through a contingent project application triggered under NER Clause 5.16A.5. 3. AER is satisfied that TasNetworks has successfully completed a RIT-T that demonstrates upgrading the network in North West Tasmania is the preferred option that provides net market benefits and / or addresses a reliability corrective action. 4. Commitment by TasNetworks' Board to proceed with the project, subject to the AER amending the revenue determination pursuant to the NER. 	
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Source: TasNetworks, *Response to #IR059*, 5 April 2024.

TasNetworks has made the following changes from its initial proposal:¹⁹

- It has withdrawn the Palmerston to George Town via Hadspen Network Upgrade contingent project (\$209 million). TasNetworks no longer considers the project is likely in the coming period
- It has combined the George Town Substation Network Reinforcement and the George Town Reactive Support (Stage 1) contingent projects into the George Town Network Upgrade (\$135 million) contingent project
- It has added a new project, called the North West Network Upgrade contingent project. This relates to servicing new generation or load, which may cause constraints in the Burnie to Hampshire corridor.

In its revised proposal, TasNetworks' contingent projects can be separated into the following categories:

- 3 projects that relate to augmentation expenditure to support the connection of major new industrial load in the George Town area (George Town Network Upgrade, George Town Reactive Support (stage 2), Sheffield to George Town Network Upgrade), and none of these projects overlap with the ISP
- a further George Town project (Palmerston to Sheffield Network Upgrade) that overlaps with Marinus Stage 1 2024 Draft ISP project (and is actionable under the ISP)
- 2 other projects that relate to the connection of new generation in Tasmania's northwest and overlap with projects included in the ISP (the North West Network Upgrade is an actionable project as part of Project Marinus, while the Waddamana to Palmerston Capability Upgrade is included as a future ISP project in the 2024 Draft ISP).

¹⁹ TasNetworks, *TasNetworks Revised Proposal November 2023*, November 2023; TasNetworks, *TasNetworks-Revised Proposal-Contingent Projects Overview report-Nov 23*, November 2023.

5.2.1 Submissions to the proposal

Support for multiple pathways to enable new generation

ABEL Energy, 4C Energy, and TasRex support TasNetworks' view that generation-related contingent projects should be able to be delivered by the revenue reset process, not just AEMO's ISP. They submit the two-year ISP process might be too slow, and allowing generation-related contingent projects to be in the revenue reset will allow them to be triggered if they are needed before the next ISP. They argue this will encourage generation project development in the short-term, as developers will have more confidence that the transmission capacity for their projects will be there for them.²⁰

First-mover problem for contingent projects and generation projects

ABEL energy and TasRex argue that the current contingent project triggering process might disincentivise the projects that would trigger the contingent projects in the first place. These submissions note that contingent projects will only be triggered once enough projects amounting to a given energy threshold have been committed. They argue, however, that such projects will only be committed when the developers have confidence that transmission capacity will be there to serve them. In short, the contingent projects will be triggered when load and generation projects are committed, but developers would only commit these projects once post-trigger development activities have taken place.²¹

This issue is beyond the scope of a revenue determination, where we are required to assess contingent projects based on the likelihood that a significant network investment will be needed if a specified set of trigger events are met.

Impact on regulatory asset base, revenue and retail prices

Aurora Energy and TSBC expressed concern about the total cost of these contingent projects. They are concerned about the potential increases to the regulatory asset base (RAB) and prices should some or all these projects be triggered. TSBC expressed concern regarding the accuracy of capex estimates for these contingent projects, stating that “[c]apex estimates for transmission projects have been notorious for their dramatic escalation”.²²

TasNetworks argues that the revenue associated with regulated network charges attributable to the additional load (for all the contingent project identified trigger loads) is forecast to be greater than the additional revenue associated with the contingent projects. This means the overall price impact of the contingent projects to existing customers is forecast to be lower. TasNetworks estimates that residential and small business customers bills will decrease by around 7% if all contingent projects are triggered. This estimate assumes Project Marinus is

²⁰ ABEL Energy, *ABEL Energy - Submission on TasNetworks' revised proposal and draft decision 2024-29 - January 2024*, 19 January 2024; 4C Energy, *4C Energy - Submission on TasNetworks' revised proposal and draft decision 2024-29 - January 2024*, 19 January 2024; TasRex, *TasRex - Submission on TasNetworks' revised proposal and draft decision 2024-29 - January 2024*, 19 January 2024.

²¹ ABEL Energy, *ABEL Energy - Submission on TasNetworks' revised proposal and draft decision 2024-29 - January 2024*, 19 January 2024; TasRex, *TasRex - Submission on TasNetworks' revised proposal and draft decision 2024-29 - January 2024*, 19 January 2024.

²² Aurora Energy, *Aurora Energy - Submission on TasNetworks' revised proposal and draft decision 2024-29 - January 2024*, 19 January 2024; TSBC, *TSBC - Submission on TasNetworks' revised proposal and draft decision 2024-29 - January 2024*, 19 January 2024.

completed, as Project Marinus would conduct some of the projects now included in TasNetworks’ contingent project set.²³ We consider this is plausible.

5.2.1.1 TasNetworks’ engagement

The Consumer Challenge Panel, sub-panel 27 (CCP27) submits that TasNetworks engagement with stakeholders regarding the bill impacts of these contingent projects has not been sufficient. It notes TasNetworks has addressed some criticisms by including estimated bill impacts for residential and small business distribution customers in its revised proposal. It notes TasNetworks has still not provided estimated bill impacts for larger industrial customers.

CCP27 states that the AER should say it expects TasNetworks to do extensive engagement for these projects when or if they are triggered. In general, CCP27 “challenges the AER to demonstrate in the Final Decision how customer preferences in relation to overall affordability of the proposal have been taken into account”.²⁴

TasNetworks’ advisory group, the Reset Advisory Committee (RAC), has also raised concerns around TasNetworks’ engagement. RAC acknowledges that TasNetworks did eventually provide bill impacts and that these bill impacts are much lower than was expected. RAC still criticises TasNetworks for providing this information so late in the engagement process and only after repeated requests.²⁵

We acknowledge the views that TasNetworks has not engaged as much as stakeholders might have expected. We encourage TasNetworks to engage further as part of the contingent project applications as circumstances are better understood. We note that, should a contingent project be triggered, the AER will review the proposed expenditure to ensure it is efficient.

5.3 Reasons for final decision

5.3.1 George Town load contingent projects

In our draft decision, we were satisfied that the George Town projects would likely be required if significant new load connected in that region. We also considered the timing of this was uncertain, such that it was appropriately considered as a contingent project. However, we were not satisfied with TasNetworks’ proposed trigger events. In particular, we considered the triggers were too general, and TasNetworks needed to include more specific events to allow us to objectively assess whether the contingent project was triggered.²⁶

In response to this, TasNetworks updated its trigger events. In particular, it provided a new element to its trigger events referring to a specific megawatt (MW) threshold and the specific

²³ TasNetworks, *TasNetworks Revised Proposal November 2023*, November 2023, p. 45; TasNetworks, *Response to #IR057*, 22 February 2024

²⁴ CCP27, *Consumer Challenge Panel 27 - Advice to AER - 2024-29 Revised Electricity Determination and Draft Decision - TasNetworks- January 2024*, 19 January 2024.

²⁵ CCP27, *Consumer Challenge Panel 27 - Advice to AER - 2024-29 Revised Electricity Determination and Draft Decision - TasNetworks- January 2024*, 19 January 2024; RAC, *RAC - Submission on TasNetworks’ revised proposal and draft decision 2024-29 - January 2024*, 5 February 2024.

²⁶ AER, *AER - Draft Decision Attachment 05 - Capital expenditure - TasNetworks - 2024-29 Transmission revenue proposal - September 2023*, September 2023, pp. 15-16.

location of the works. TasNetworks further refined these triggers in response to our information requests to address outstanding issues.

We consider that the revised triggers for the contingent projects associated with new loads at George Town comply with the requirements of the NER.²⁷ This is because the threshold sizes of the load triggers are now specific and reference to compliance with jurisdictional supply standards is included.²⁸ Further, consistent with our draft decision, we are also satisfied that the proposed capex is required to meet the capex objectives, reflects the capex criteria, and meets materiality, and is accompanied by sufficient information.²⁹ Consequently, we accept the 3 George Town load contingent projects, and have included the trigger events as part of our final decision. The triggers are outlined in full in Table 5.1.

5.3.2 Contingent projects that overlap with AEMO’s Integrated System Plan (ISP)

The remaining 3 proposed contingent projects each overlap in a significant way with the Project Marinus actionable ISP project or are included as a future ISP project. These projects are the:

- Waddamana to Palmerston Capability Upgrade (future ISP project),
- North West Network Upgrade (part of Project Marinus actionable ISP) and
- Palmerston to Sheffield Network Upgrade (part of the Project Marinus actionable ISP).

In the draft decision, we noted that projects related to the connection of generation were more appropriately dealt with by AEMO under the ISP process. We decided not to accept these triggers and noted that further consultation and submissions on the contingent projects was required. We stated that for these projects to be acceptable, the triggers should refer solely to new load.³⁰

Under rule 5.16A of the NER, there is a pathway for a project included by AEMO as an Actionable ISP project to trigger a contingent project application. The NER does not prevent triggers for such projects from also being included in an AER determination. Despite there being a specific pathway provided for actionable ISP projects under rule 5.16A, there is nothing in the NER that restricts consideration of an actionable ISP project solely to this pathway. Consequently, the AER must assess TasNetworks’ proposed contingent project triggers against the existing criteria of clause 6A.8.1 of the NER. It is not sufficient to exclude them on the basis of duplication with AEMO’s ISP pathway.

²⁷ NER cl. 6A.8.1(c).

²⁸ The Electricity Supply Industry regulations require that, in respect to an intact transmission system, load that is interrupted by a single asset failure is not to be capable of resulting in a black system. Furthermore, the unserved energy to load that is interrupted by a single asset failure is not to be capable of exceeding 3000 MWh at any time. A single asset failure means one single incident (other than a credible contingency event) that results in the failure of one single asset to perform its intended function. In this analysis, transformer or double circuit tower line failure is applied as necessary.

²⁹ The capex objectives and capex criteria are set out at, respectively, NER, cl. 6A.6.7(a) and NER, cl. 6A.6.7(c).

³⁰ AER, *AER - Draft Decision Attachment 05 - Capital expenditure - TasNetworks - 2024-29 Transmission revenue proposal - September 2023*, September 2023, p. 16.

TasNetworks noted in its revised proposal and subsequent correspondence with the AER the reasons why it has included these projects as part of our revenue determination. It stated that there are several smaller scale generation projects that may potentially seek to connect ahead of the Project Marinus ISP works. It is concerned that AEMO may see these proposed new generation projects as lower priority or not on the optimal development path, and given the ISP cycle is every two years, AEMO may defer the projects to the 2026 Integrated System Plan (ISP).

TasNetworks wishes to include the proposed contingent projects under both pathways to avoid the situation where the connection applicant proceeds to a formal application (i.e. a need for investment arises) before the ISP process is in train.

We met with AEMO to discuss these matters. AEMO staff agree that local TNSPs may have detailed local information regarding the timing and need for such projects and would prefer that the ISP did not delay contingent projects that may have alternative triggers to the ISP. AEMO staff are not opposed to the inclusion of ISP projects as contingent projects in TasNetworks' revenue determination.³¹

We consider the proposed contingent project triggers meet the criteria set out in clause 6A.8.1(c) of the NER. We have reviewed the project and the triggers under this clause. We consider the information provided by TasNetworks on prospective generation connections demonstrates that the projects are probable, but not sufficiently certain in the regulatory period. We were concerned that the triggers initially presented in the revised proposal were not sufficiently specific to allow objective verification. Specifically, TasNetworks did not specify the amount of new generation that would trigger the project. We raised this with TasNetworks, and it has amended the triggers to resolve these issues.³²

For completeness, TasNetworks has included an additional trigger, specifying that the trigger event will not be met if TasNetworks has already made a contingent project application for the same capex under clause 6A.8.2(a)(2) (i.e. under the actionable ISP process).³³ While we consider it unlikely that TasNetworks would seek to lodge multiple contingent project applications for the same project, such a trigger would remove the possibility of this occurring.

We will monitor whether the overlap between TasNetworks' proposed contingent projects and the ISP projects results in any unintended or perverse outcomes. If significant concerns arise in the future, it may be appropriate to seek a rule change to provide the AER with further discretion around the acceptance of these projects.

5.3.3 Deliverability

Given the size of the contingent project expenditure in relation to TasNetworks' capex proposal, we asked TasNetworks about deliverability challenges if multiple contingent projects are triggered.

³¹ Meetings with AEMO on 30 January and 6 February.

³² TasNetworks, *Response to #IR056*, 21 February 2024.

³³ TasNetworks, *Response to #IR059*, 5 April 2024.

TasNetworks considers that its large contingent project suite will not compromise delivery of its capex program. It has two separate business units, one for delivery of business as usual (BAU) capex, the other for contingent projects, which allow BAU capex and contingent project capex delivery to happen concurrently.

TasNetworks considers that its current delivery of the North West Transmission Development (NWTD) alongside BAU capex demonstrates the success of this approach.

TasNetworks does not expect constraints in terms of material or resources:

*TasNetworks does not forecast any materials or resource constraints between BAU and contingent projects as construction is forecast to be delivered utilising contracted resources and separate procurement contracts will be established for materials.*³⁴

While we consider TasNetworks' response is high level and subject to a degree of uncertainty, we note safeguards are present and available that reduce these concerns. We will assess TasNetworks' capacity to balance contingent projects and BAU capex if TasNetworks makes a contingent project application – we will have better information at the time of considering the contingent to assess the deliverability of particular projects. In addition, the Capital Expenditure Sharing Scheme (CESS) has an adjustment mechanism to ensure any deferral of works does not lead to a windfall gain for TasNetworks. The updated capital expenditure incentive guidelines from April 2023 established new transparency requirements for service providers to explain the reasons for their decisions to spend more or less than the capex allowance. This will allow us to identify and exclude inefficient deferral of capex from the CESS mechanism.³⁵

³⁴ TasNetworks, *Response to #IR058*, 7 March 2024

³⁵ AER, *AER - Final decision - Capital expenditure incentive guideline - 28 April 2023*, April 2023, pp. 6-7.

A Submissions on BAU capex

A.1 TasNetworks’ engagement

The Consumer Challenge Panel, sub-panel 27 (CCP27) notes that TasNetworks has not undertaken broad engagement for its revised proposal to “re-test customer support”. It also notes that TasNetworks has not been satisfactory in its responses to stakeholder queries regarding capex forecast inputs and assumptions. CCP27 wants us to demonstrate how customer preferences have been taken into account, given that TasNetworks has only conducted limited engagement.³⁶

As stated in our draft decision, we consider TasNetworks had broadly met the Better Resets Handbook expectation of genuine consumer engagement on capital expenditure proposals.³⁷ We acknowledge TasNetworks has not done sufficient engagement for its revised proposal, and we encourage it to do so for its next reset. Lacking thorough engagement for the revised proposal, we are less able to take positive consumer responses to its proposal into account. However, we are still of the view that its engagement for its initial proposal was sufficient. As TasNetworks’ revised proposal on BAU capex has not changed since our draft decision, we consider that its initial engagement is sufficient for this final decision.

A.2 TasNetworks capex forecast

The Tasmanian Small Business Council (TSBC) considers the difference between TasNetworks’ capex proposal and our alternative estimate is significant.³⁸

In our draft decision, we formed an alternative estimate of efficient capex that was \$11 million or 3.7% less than TasNetworks’ forecast. We decided that this difference was not significant, and included TasNetworks’ forecast capex, as it reasonably reflected the capex criteria.³⁹

We consider some discretion is required in determining whether our alternative estimate is a better estimate of prudent and efficient capex, given the magnitude of the difference, the potential for forecasting error, the level of uncertainty that a service provider faces in its future investment decisions, and the presence of incentive schemes such as the Capital Expenditure Sharing Scheme, that incentivise cost savings.

On balance, weighing up these various factors, we remain of the view that the difference in magnitude between TasNetworks’ forecast and our estimate is not material, such that our estimate does not represent a better forecast of prudent and efficient capex.

³⁶ CCP27, *Consumer Challenge Panel 27 - Advice to AER - 2024-29 Revised Electricity Determination and Draft Decision - TasNetworks- January 2024*, 19 January 2024.

³⁷ AER, *AER – Draft Decision Attachment 05 – Capital expenditure – TasNetworks – 2024-29 Transmission revenue proposal – September 2023*, September 2023, p. 7.

³⁸ TSBC, *TSBC - Submission on TasNetworks’ revised proposal and draft decision 2024-29 - January 2024*, 19 January 2024.

³⁹ The capex criteria are set out at NER, cl. 6A.6.7(c).

Shortened forms

Term	Definition
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulatory
BAU	business-as-usual
capex	capital expenditure
CCP27	Consumer Challenge Panel, sub-panel 27
ISP	Integrated System Plan
NEL	National Electricity Laws
NEM	National Electricity Market
NEO	National Electricity Objectives
NER	National Electricity Rules
RAB	Regulated asset base
MW	Megawatt
RAC	TasNetworks' Reset Advisory Committee
NWTD	North West Transmission Development
TSBC	Tasmanian Small Business Council