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**Project** CMPJ0453 – Regulatory Proposal 2023-28 – Augex Review  
**Subject** Overview of engagement  
**Client** Transgrid  
**Prepared by** CutlerMerz **Date** 03/12/2021

## Purpose

To summarise the process and findings from CutlerMerz’s assurance review of Transgrid’s proposed ex-ante and contingent project expenditure for its 2023-28 regulatory proposal.

## Background

Transgrid is presently finalising its 2023-28 regulatory proposal for submission to the Australian Energy Regulator (AER) that is due in January 2022. The 2023-28 regulatory proposal is expected to set out an unprecedented capital works program. Accordingly, Transgrid requires assurance that the proposed expenditure has been rigorously tested and justified so that it has the highest likelihood of gaining the AER’s approval.

Given this imperative, Transgrid’s Network Planning team engaged CutlerMerz in late September 2021 to undertake an independent expert review of Transgrid’s proposed expenditure on network augmentation projects for the 2023-28 regulatory period, in order to inform Transgrid’s strategy and maximise the likelihood that all projects are accepted and their expenditure is determined to be prudent and efficient by the AER.

## Scope of Review

CutlerMerz was asked to review Transgrid’s list of proposed augmentation ex-ante and contingent projects (as at the time of engagement) and advise whether:

- any currently proposed ex-ante projects should be transferred to contingent projects
- any currently proposed contingent projects should be transferred to ex-ante
- any currently proposed contingent projects should be removed from the 2023-28 regulatory proposal altogether

The following projects were excluded from consideration in the review:

- ex-ante projects below the capex value eligibility threshold (circa \$36m) for a contingent project
- projects expected to be delivered under the NSW Government Roadmap legislation
- Integrated System Plan (ISP) contingent projects

The focus of the review was on the need and justification for project investment in the 2023-28 regulatory period. CutlerMerz was not required to undertake a detailed consideration of Transgrid’s identification and assessment of technical options, including whether the preferred option was the most efficient.

To further support the justification of key projects, Transgrid requested CutlerMerz to review and update the Option Evaluation Reports (OERs) for nine projects, to build in a more compelling strategic rationale for these projects prior to submission to the AER.

## Key Documentation

Transgrid supplied CutlerMerz with key project documentation to undertake the review, in the form of:

- Augex ex-ante and Contingent Project expenditure forecasts (in spreadsheet form with project totals only)
- Augex Overview Paper 2023-28
- Option Evaluation Reports (OERs)
- Need/Opportunity Statement and Option Screening Assessments (NOSAs)
- (where relevant) Needs Statements and Option Feasibility Studies

A number of additional sources were drawn on by CutlerMerz to inform the review, including Transgrid’s 2021 TAPR, the 2020 Integrated System Plan and project RIT-T documentation, together with NSW Government policy, priorities and projects relating to growth, development and investment. Project websites for major projects and mines were also

CutlerMerz also reviewed Endeavour Energy’s DAPR and RIT-D documentation (where relevant to specific projects).

## Process for Review

To commence the review we jointly identified the eligible augex projects and an initial shortlist of contingent projects deemed to have the highest uncertainty around their categorisation (ex-ante and contingent). As the review progressed, all contingent projects were subsequently reviewed (move to ex-ante, retain as contingent, or remove from the 2023-28 regulatory proposal).

Weekly meetings were held with Transgrid’s Network Planning team to discuss the preliminary findings, test assumptions and progress the review through an iterative process. CutlerMerz also spoke to personnel from Endeavour Energy to clarify the extent of any interactions with Transgrid’s projects.

In terms of the review and update of the nine OERs, CutlerMerz provided recommended track changes with a focus on the Executive Summary and Project Need sections.

CutlerMerz reviewed all projects solely on their individual merits in terms of need, timing and cost, in order to reach an independent view of the most appropriate category for proposed projects (i.e. ex-ante vs contingent).

We recognise Transgrid has strategic priorities that may influence the final category selected for these projects, but we have not attempted to incorporate these considerations in our assessment.

## Key Findings and Recommendation

Following our assessment, we have recommended that Transgrid’s currently proposed list of ex-ante and contingent projects be adjusted as per the following table:

| Move from ex-ante to contingent  | Move from contingent to ex-ante  | Remove from 23-28 reg proposal  |
|--|--|---|
| 1. N2534 Manage increased fault levels in Southern NSW (Stage 1) <ul style="list-style-type: none"> <li>• Capex - \$48.6m</li> </ul> | 1. N2363 Improving stability in South-Western NSW <ul style="list-style-type: none"> <li>• Capex - \$121m</li> </ul> 2. N2384 Supply to Bathurst Orange and Parkes (stage <ul style="list-style-type: none"> <li>• Capex - \$107m</li> </ul> 3. 1693 Supply to North-West Slopes Area <ul style="list-style-type: none"> <li>• Capex - \$158m</li> </ul> | 1. N2585 Increase supply from Northern NSW <ul style="list-style-type: none"> <li>• Capex - \$400m</li> </ul> |

|                 |                |                |
|-----------------|----------------|----------------|
| TOTAL - \$48.6m | TOTAL - \$386m | TOTAL - \$400m |
|-----------------|----------------|----------------|

Based on these recommendations, this would result in proposed expenditure in the 2023-28 regulatory proposal of:

- **\$680 million** in ex-ante augex
- **\$9,488 million** in contingent (if NSW Government Roadmap and AEMO ISP project are included)

The attached presentation sets out CutlerMerz’s reasoning for these recommendations in detail. We understand that these recommendations are likely to differ from Transgrid’s final position on these projects as part of the 2023-28 regulatory proposal. As indicated, our review is based only on the individual circumstances of each project.

### Next Steps

To provide Transgrid with additional confidence that the proposed capex for these projects is prudent and efficient, we recommend that a review of the options and their associated capital costs is undertaken ahead of submitting the 2023-28 regulatory proposal to the AER.



## Appendix – List of Reviewed OERs

|       |  |
|-------|--|
| 1687  | Supply to Western Sydney Priority Growth Area                      |
| N2384 | Supply to Bathurst Orange and Parkes (stage 1)                     |
| 1693  | Supply to North-West Slopes Area                                   |
| 2153  | Strategic Easement acquisition for supply to Sydney from the south |
| 1316  | Maintain voltage in Beryl area                                     |
| 2145  | Southern NSW - Improve voltage control                             |
| N2360 | Maintain Voltage in the Vineyard Area                              |
| N2534 | Manage increased fault levels in Southern NSW                      |
| N2584 | Maintain Voltage in Greater Sydney area                            |