INFRASTRUCTURE PARTNERSHIPS AUSTRALIA

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Via email

SUBMISSION TO THE AUSTRALIAN ENERGY REGULATOR ON TRANSGRID'S APPLICATION TO REOPEN FOR CAPEX – PROJECT ENERGYCONNECT

Infrastructure Partnerships Australia is pleased to provide this submission to the Australian Energy Regulator on Transgrid's Application to reopen its 2023-28 Revenue Determination to address the impact of Contract Failure on the capex requirements to deliver Project EnergyConnect.

Infrastructure Partnerships Australia is an independent think tank and executive member network, providing research focused on excellence in social and economic infrastructure. We exist to shape public debate and drive reform for the national interest. As the national voice for the infrastructure sector in Australia, our membership reflects a diverse range of public and private sector entities, including infrastructure owners, operators, financiers, advisers, technology providers and policy makers. In the interest of transparency, it should be noted that Transgrid and a number of finance providers across the Australian energy landscape are members of Infrastructure Partnerships Australia. Notwithstanding this, the views contained in this submission are solely those of Infrastructure Partnerships Australia and are independent of the views of any of our member organisations.

Australia's utility infrastructure businesses operate and maintain large, interconnected asset bases that must perform reliably and continuously, and are responsible for planning and delivering capacity expansions to meet evolving demand. As natural monopolies, who do not face direct market competition, they are rightly subject to economic regulation designed to simulate efficient market conditions. Regulation of utilities should promote prudent and efficient investment decisions, while protecting customers from undue prices and poor service performance.

Done well, economic regulation should protect the long-term interests of customers by balancing three objectives as part of a tripartite tension:

- Allowing utilities to recoup prudent and efficient revenue to maintain and replace assets and operations for existing customers as well as provide infrastructure for new customers
- Charging a fair price for services that meet legislated requirements

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- Providing returns to shareholders that reflect the scale of their investment and efficiency of the corporation from which they are drawn.

In delivering Project EnergyConnect, Transgrid encountered circumstances which it believes had a cumulative impact on its contractor's ability to deliver the project in a manner and to an extent that was unforeseeable and beyond Transgrid's control. These circumstances forced Transgrid into alternative contractual arrangements to complete the project for a substantially higher cost than expected in Transgrid's 2023-28 revenue determination. Transgrid has characterised these circumstances as a 'Contract Failure'[1]. Despite this cost increase, the project is still assessed as having net market benefits, so continuing to deliver the project would provide the best outcome for consumers[2].

As outlined in the materials submitted to the Australian Energy Regulator (AER) in support of this reopener process, Transgrid believes it has conducted itself in a prudent and efficient manner to ensure this project, which is beneficial to Australian energy consumers, be delivered for the lowest possible cost despite unforeseen circumstances[3]. In seeking to reopen the revenue determination, through the first reopener application for a transmission project administered by the AER, there is an opportunity to set a precedent which keeps the long-term interests of consumers front and centre in the future regulation of transmission infrastructure in Australia.

Should these circumstances not be accurately accounted for in the reopener process and the additional costs related to delivering Project EnergyConnect not be allocated to the most appropriate party, then the tripartite tension governing the economic regulation of transmission infrastructure would be violated and Australian consumers would be poorer for the outcome.

Any reopener determination that sees Transgrid, and its shareholders, bear additional costs relating to Project EnergyConnect in circumstances where Transgrid has acted prudently and efficiently – ostensibly in favour of the short-term interests of the consumer - would have a deleterious effect on the long-term interests of the consumer. This outcome would counterintuitively lead to higher overall costs as it would sour investor sentiment, leading to an inevitable increase in the cost of finance for all essential projects being delivered by Transgrid, and other transmission network service providers (TNSPs).

While it may not be the most prominent component of an electricity bill, the cost of finance is a not immaterial cost for consumers, and one that is very inelastic. There is no alternative to paying for transmission infrastructure outside of private capital providers who, appropriately, demand risk-weighted returns on their investment.

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[1] An application to reopen the 2023-2028 Revenue Determination, Transgrid, 2026
[2] Gross market benefit assessment of Project EnergyConnect, EY, 2025
[3] Rectification actions and options report, Transgrid, 2026

Any decline in investor sentiment for Australian energy infrastructure would be potentially catastrophic to the continued delivery of Australia's energy transition, as Transgrid's shareholders – and their peer financial institutions - are the same cohort whose capital is required to finance Australia's modern electricity system.

Infrastructure Partnerships Australia conducts the Australian Infrastructure Investment Monitor on an annual basis. The Investment Monitor provides a comprehensive view of investor appetite and sentiment for the Australian infrastructure market. The report reveals insights into the drivers and challenges for infrastructure investors, which include superannuation and pension funds, fund managers, banks and other infrastructure professionals. This report is informed by a survey which captures the views of international and Australian investors who together collectively own or manage over A$686 billion of infrastructure assets globally. The survey findings are furthered by insights from a series of interviews undertaken with 13 prominent members of the infrastructure investment community.

In the 2025 Edition of the Investment Monitor, surveyed respondents indicated transmission and distribution assets were the second-most preferred asset type to invest in Australia, behind only renewable grid storage and firming. Support for Australian assets is underpinned by investors viewing Australia as a transparent and predictable market that provides investment certainty[4]. Should the AER determine that Transgrid be responsible for unforeseen and uncontrollable costs related to Project EnergyConnect where Transgrid has acted reasonably, then the views proffered by investors in this year's edition of the Investment Monitor would decline markedly. The real-world impact of this decline being higher financing costs for TNSPs and higher electricity bills for consumers.

Of course, a good outcome in this situation also relies upon the AER attributing any costs it does not deem to be prudent and efficient to Transgrid. This reopener process should not be seen as an isolated zero-sum game, with total costs borne by one side or the other. Rather the AER should use this opportunity to set a reopener precedent for transmission infrastructure that is sophisticated and ultimately fair to both the utility businesses who deliver this essential infrastructure and the consumers who rely on it. Such a precedent would ensure the tripartite tension governing the economic regulation process is maintained even during difficult circumstances.

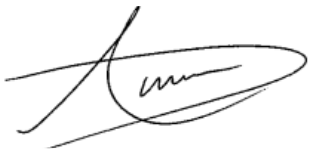
Should an outcome be achieved that as accurately as possible accounts for the unforeseen and uncontrollable circumstances present in the delivery of Project EnergyConnect, then investor sentiment would be buoyed. This uplift in sentiment would be felt not just by the financiers of Project EnergyConnect, but by all financial institutions involved in providing capital for Australia's transmission infrastructure. Such an outcome, while potentially more expensive in the short-term for consumers, may result in relative electricity bill savings for

[4] Australian Infrastructure Investment Monitor, Infrastructure Partnerships Australia, 2025

consumers for decades to come. Any course of action that the AER can take to enable lower prices for Australian energy consumers in the long run is one that should be pursued at all costs.

Infrastructure Partnerships Australia looks forward to further assisting the AER. If you require additional detail or information, please do not hesitate to contact Jack Bateman, Head of Data and Analytics, on +61 2 9152 6000 or jack.bateman@infrastructure.org.au.

Yours Sincerely,



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