Multibillion-dollar cost blowouts prompt calls for grid rethink

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Multibillion-dollar cost blowouts for poles and wires electricity transmission projects have prompted calls for major changes to the way developments are approved and kept on budget as Australia's escalating fuel crisis puts extra pressure on governments to keep a lid on power prices.

Around 6000 kilometres of new electrical cable projects are pencilled in for future construction under the Australian Energy Market Operator's blueprint for the power grid, which are needed to connect new renewables projects to the broader network as coal-fired generators reach the end of their life.

The costs of some transmission projects have tripled since they were first announced. **Bloomberg**

However, planning delays and supply chain pressures have dramatically pushed up costs for many projects. According to AEMO, cost estimates for new poles and wires projects have surged by up to 100 per cent since 2024, while the timing for building them has also been pushed back.

The issue is contentious because the cost of building new network infrastructure is recouped via consumer power bills. Network operators typically have to apply to the energy regulator for approval to build projects and recoup their costs.

However, AEMO [https://www.afr.com/link/follow-20180101-p5o4q8] also conducts detailed analysis of Australia's grid requirements, before declaring projects "actionable", which is designed to speed up the prolonged regulatory process required to green-light critical network infrastructure.
In December, state and federal energy ministers launched a broad review of the grid operator's governance and accountability to governments, including budget oversight, board appointments, potential conflicts of interest and the potential to convert it to a statutory authority.

Policy Institute Australia, an independent think tank backed by Tanarra Capital founder John Wylie [https://www.afr.com/companies/media-and-marketing/why-john-and-myriam-wylie-are-funding-a-new-policy-think-tank-20250323-p5llrx], said that while AEMO's "actionable" declaration did not guarantee a project would go ahead, in practice it made it very likely to proceed "even if new information dramatically changes its estimated costs or benefits".

The VNI West project connecting NSW and Victoria via 240 kilometres of heavy-duty power cable, for example, is still going ahead despite now costing more than double the estimated maximum cost that was forecast to deliver net benefits to consumers.

The PIA, which is supportive of the energy transition, said the responsibility for grid planning should instead rest with the states, and formal reviews should be launched into all major transmission projects over the next two years to confirm their viability.

It also said AEMO's blueprint for the grid, the Integrated System Plan, should be transformed into a "multi-scenario technical projection", rather than a road map that is constrained by declared government policies.

PIA chief executive Amy Auster said that governance arrangements in Australia's power system needed to transition to suit a renewable energy future.

"Like the energy system itself, our governance and regulatory arrangements for the energy sector were built for a different time," she said. "We still have time to get the settings right, but the window is closing.

"If governments apply these reforms consistently, the energy transition can be delivered more efficiently and at lower cost. If not, consumers will face higher bills, slower decarbonisation and greater risk to system reliability."

Responsibility

Tony Wood, a senior fellow at the Grattan Institute think tank, said it was reasonable to question AEMO's ability to declare projects actionable but finding a solution to grid planning dilemmas could not be solved by simply shifting responsibility onto the states.

“There are clearly some problems with the way this works at the moment,” he said. “In principle, I agree that ministers should be able to have confidence that what’s being built is the right answer.”

“Someone should be under the hammer for delivering a project on time and on budget.”

The PIA report found that average estimated cost overruns for the 10 largest infrastructure projects on Australia’s east coast announced since 2010 had been 100 per cent – at an average of over $10 billion per project.

According to PIA, the total expected costs of transmission projects has nearly tripled in real terms since AEMO’s 2020 ISP, from $30 billion to between $65 billion and $85 billion. PIA said the forecast increase in grid expenditure could add up to $600 to annual household bills.

Nexa Advisory CEO Stephanie Bashir said much of the new grid infrastructure would have a positive effect on bills, but the biggest cost of Australia’s transmission buildout was getting the projects built on time.

“My view is that we need accountability placed on the transmission networks around delivery and budgets and in particular the networks delivering large interconnectors,” she said.

“Attempting to ‘fiddle’ around the edges with [AEMO’s grid planning role] is not going to move the dial in the short or medium term.”

She said the solution was for state and federal governments to contribute more to upfront capital expenditure in the early stages of projects, which would help to expedite delays in the approvals process.

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