Revenue determination (Contestable)

ACEREZ – Main Central-West Orana Renewable Energy Zone network project

Made under the Electricity Infrastructure Investment Act 2020 (NSW)

Summary report

August 2025

AUSTRALIAN ENERGY REGULATOR

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AER reference: AER22005187

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Overview

The NSW Electricity Infrastructure Roadmap (the Roadmap) sets out a plan for the development of Renewable Energy Zones (REZ) in NSW that will allow multiple renewable generation and storage projects to be grouped into specific locations to achieve a number of NSW Government policy objectives.

CWO REZ network project

The Central-West Orana (CWO) Renewable Energy Zone (REZ) is approximately 20,000 square kilometres and is located in central NSW and centred by Dubbo and Dunedoo. It is the first REZ to be developed under the *Electricity Infrastructure Investment Act 2020* (EII Act). The CWO REZ is designed to initially deliver 4.5 gigawatts (GW) of network capacity utilising generation from solar, wind and energy storage, with capacity to increase to 6 GW by 2038.

The CWO REZ was declared by the NSW Minister for Energy and Environment under section 19(1) of the EII Act in November 2021.[1] The declaration was amended in December 2023 and April 2024.

The CWO REZ network project comprises:

- **Main CWO REZ network project (Project)** – the network infrastructure to connect new renewable generation and storage projects within the CWO REZ to the existing NSW transmission network. The Project is the subject of the contestable revenue determination described in this summary report.
- **Enabling CWO REZ network project (Enabling project**) – upgrades to the existing NSW transmission network to transfer energy from the CWO REZ to major load centres in NSW. This project will be undertaken by Transgrid and will be subject to a separate non-contestable revenue determination.

Throughout 2022 and 2023, the NSW Infrastructure Planner for the CWO REZ, Energy Corporation of NSW (EnergyCo) undertook a competitive assessment process to select a Network Operator for the Project.[2] ACEREZ Partnership (ACEREZ), a consortium comprising Cobra, Acciona and Endeavour Energy, was the successful tenderer.

EnergyCo also undertook two other competitive assessment processes for the Project to procure:

1. **Independent Certifier –** to certify completion of the various elements of the project.
2. **Synchronous condensers** – to provide system strength for the Project, EnergyCo authorised ACEREZ to carry out a competitive assessment process to procure the supply and installation of seven 250 MVA synchronous condenser units[3] to deliver a system strength solution of 1750 MVA for the Project.

On 4 June 2024, AEMO Services (the Consumer Trustee) authorised ACEREZ to be the Network Operator for the Project under section 31(1)(b) of the EII Act.[4] ACEREZ will

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1 https://gazette.nsw.gov.au/gazette/2021/11/2021-569.pdf

2 EnergyCo is a corporation constituted under the *Energy and Utilities Administration Act 1987 (NSW)* and is responsible for leading the delivery of Renewable Energy Zones (REZs) as part of the NSW Government's Electricity Infrastructure Roadmap.

3 Synchronous condensers are designed to safeguard the stability of a transmission network by providing voltage regulation, short circuit current and synchronous inertia (system strength).

4 AEMO Services, Notice of Authorisation – Main CWO REZ Network Infrastructure Project, 4 June 2024.

construct, own, control and operate the Project for 35 years, after which the asset will be handed back to EnergyCo.

Revenue determination

On 24 October 2024, ACEREZ submitted a revenue proposal to the AER setting out the total amount it proposed to be paid for the Project and the corresponding quarterly schedule of payments. It also proposed adjustment mechanisms by which those payments could be adjusted over the term of the Project. ACEREZ's proposal is based upon the outcomes of the three competitive assessment processes undertaken by EnergyCo.

The AER is required under section 38 of the EII Act to make a determination in respect of the amount payable to an authorised Network Operator.

Our determination commenced on 13 December 2024 and is required to be remade every five years until the expiry of the Project term (and such additional time as may be required to allow for any end of Project term adjustments) or the Project Deed is terminated.[5] We published the determination on our website on 4 April 2025 following our consideration of non-disclosure claims from EnergyCo and ACEREZ.

ACEREZ and EnergyCo subsequently achieved Contract Close and Financial Close for the Project (on 28 March 2025 and 4 April 2025 respectively). Following Financial Close for the Project, ACEREZ submitted a Financial Close Revenue Determination Adjustment proposal (adjustment proposal) to the AER on 7 May 2025. The revenue proposal sought adjustments to the amounts payable to ACEREZ over the Project term, as well as some amendments to the wording of the revenue determination to reflect the Project Deed at Contract Close.

We have decided to review and remake the determination to amend the adjustment mechanisms and NFI Events to reflect the final agreed Project Deed[6] and to carry out the adjustments.[7] Our Guideline outlines the process for reviewing and remaking a determination.

We were satisfied the updates to the wording of the Project Deed were implemented through the change processes set out in the Commitment Deed and Project Deed, and all adjustments were undertaken in accordance with the Project Deed and our revenue determination. On this basis, we are able to adopt the changes and carry out the adjustments in our remade determination in accordance with the outcome of the competitive assessment process.[8]

This summary report of the remade revenue determination sets out our assessment of ACEREZ's initial revenue proposal and adjustment proposal. The result of our assessment was that we were satisfied that:

- the **competitive assessment processes** undertaken by EnergyCo were 'genuine and appropriate' (section 4.1) as they satisfied the requirements in our *Revenue Determination Guideline for NSW Contestable Network Projects*[9] (Guideline). On this basis, we must rely on and adopt the outcomes from the competitive assessment processes in our determination.[10]

5 Section 40(1)(a) of the EII Act.

6 Section 40(2) of the EII Act.

7 Clause 51(2)(b) and (3) of the EII Regulation.

8 Clause 51(3)(b) of the EII Regulation.

9 AER, *Revenue determination guideline for NSW contestable network projects, Final*, 19 August 2022.

10 Clause 45(6) of the EII Regulation.

- ACEREZ is entitled to recover the proposed **costs associated with contractual or regulatory requirements** (section 4.3).
- the **amount payable and schedule of payments** are consistent with the Project Deed[11] which is the outcome of the competitive assessment processes.
- the **adjustment mechanisms** (section 8) are consistent with the Project Deed.
- All but one **amendment to the Project Deed between execution of the Commitment Deed[12] and Contract Close** were compliant with the processes agreed in the Commitment Deed (section 4.2). Section 4.4 of this report sets out why we accepted all additional amendments proposed in ACEREZ's adjustment proposal.
- ACEREZ's **application of adjustment mechanisms in the adjustment proposal** was consistent with the Project Deed and our revenue determination (section 4.4).

On this basis, our remade revenue determination confirms a total amount payable to ACEREZ over the 35 years of the Project. It also confirms the schedule of quarterly amounts to be paid to ACEREZ and the dates on which those quarterly payments are to be made.

The *Electricity Infrastructure Investment Regulation 2021* (NSW) (EII Regulation) requires that we only publish a schedule of payments for the five years following our contestable revenue determination.[13] For this reason, the schedule of payments set out in this summary report shows payments through to December 2029.

Publication

For contestable revenue determinations, we are required under clause 53(1)(a)(ii) of the EII Regulation to publish on our website a notice that includes:

- a summary of the revenue determination (clause 53(1)(a)(ii)(A)), and
- the NER-equivalent capital cost of the Project (clause 53(1)(a)(ii)(B)).

We are also required to publish the reasons for making the revenue determination (clause 53(1)(a)(iii)).

This summary report has been prepared to address the requirements for publication of the notice and reasons for making the revenue determination in accordance with the obligations in clause 53(1)(a) of the EII Regulation.

In preparing this summary report, we provided ACEREZ and EnergyCo an opportunity to identify information which they claim should not be disclosed. We have considered the requirements of clause 53(6) of the EII Regulation in our decision to publish this summary report.

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11 The Project Deed between EnergyCo and ACEREZ is the contractual basis for ACEREZ acting as Network Operator for the CWO REZ. ACEREZ must enter into the Project Deed as a requirement of the Consumer Trustee's authorisation. The Project Deed submitted with ACEREZ's initial revenue proposal was in draft form and was finalised at Contract Close.

12 EnergyCo, ACEREZ, the D&C Contractor and the M&L Contractor entered into the Commitment Deed on 18 December 2023. The Commitment Deed sets out the agreed outcome from the competitive assessment process to select a Network Operator for the CWO REZ and the rights and obligations of the parties in the period to Contract Close of the Project Deed.

13 Clause 53(3)(d) of the EII Regulation.

1 Regulatory framework

1.1 Overview of the framework

In November 2020, the NSW Government released the Roadmap, which is enabled by the EII Act. The AER was appointed to be the economic regulator of network infrastructure projects under the EII Act in 2021. Our key function under Division 3 of Part 5 of the EII Act is to make revenue determinations for Network Operators selected by the Infrastructure Planner and authorised or directed to carry out the network infrastructure project.[14]

The scope and timing of projects are decided by the Infrastructure Planner.

A Network Operator may be selected to carry out a network infrastructure project in one of two ways:

1. Under a contestable process, a Network Operator is selected through a competitive assessment process conducted by the Infrastructure Planner.
2. Under a non-contestable process, a Network Operator is selected directly by the Infrastructure Planner.

In both cases, the Network Operator must be authorised by the Consumer Trustee, or authorised or directed by the Minister, before carrying out the network infrastructure project.

1.2 Contestable processes

Under the EII framework[15] the Infrastructure Planner may undertake a competitive assessment process to select a Network Operator, or a service provider to assist a Network Operator, to carry out all or part of a network infrastructure project.[16] The Infrastructure Planner is responsible for:

- identifying the network infrastructure project options and selecting the preferred project,
- setting the procurement strategy,
- conducting the competitive assessment process,
- evaluating submissions, and
- selecting a successful proponent to recommend for authorisation.

The AER has no direct role in these aspects of the project. However, if the Infrastructure Planner intends to undertake a competitive assessment process, it must consult with the AER before and during the process and provide information to the AER on the process.[17]

The contestable process relies on competition between market participants to reveal efficient costs. Our role in relation to contestable processes is to assess whether a competitive assessment process was genuine and appropriate, and if so, we must rely on and adopt the

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[14] Under the EII Act, a network infrastructure project can be either a REZ network infrastructure project or a priority transmission infrastructure project.

[15] The *Electricity Infrastructure Investment Act 2020* (NSW) (EII Act) and *the Electricity Infrastructure Investment Regulation 2021* (NSW) (EII Regulation), collectively.

[16] Clause 45 of the EII Regulation.

[17] Clause 45(4) of the EII Regulation.

outcome in our revenue determination. and we must make a revenue determination consistent with the outcomes of the competitive assessment process.

Our Guideline sets out requirements on the Infrastructure Planner to facilitate AER observation of a competitive assessment process. The Infrastructure Planner must:

- provide us with a procurement strategy at the commencement of the process.[18] We notify the Infrastructure Planner whether we are satisfied that the procurement strategy is likely to result in a genuine and appropriate competitive assessment process.
- allow the AER to monitor the competitive assessment process, request information and observe key meetings.
- provide the AER with a procurement report on the conduct of the competitive assessment process once the process is complete.[19] We assess the procurement report in making our assessment of whether a process was genuine and appropriate.

1.3 Revenue determinations

Following authorisation of a Network Operator by the Consumer Trustee or the Minister, the Network Operator is required to submit a revenue proposal to the AER setting out the amount it proposes to be paid for carrying out the network infrastructure project. Our Guideline sets out the information requirements for a revenue proposal.

For a Network Operator selected through a competitive assessment process, the proposal must be consistent with the outcome of that process and the terms of any contractual arrangements it has entered into (or will enter into).

Clause 46(1)(a)(i) of the EII Regulation prescribes that a genuine and appropriate competitive assessment process:

- results in the cost of carrying out an infrastructure project being prudent, efficient, and reasonable, and
- provides incentives to promote economic efficiency, and
- results in revenue for the ongoing ownership, control and operation of the infrastructure project being commensurate with the regulatory and commercial risks.

On this basis, we must make a revenue determination consistent with the outcomes of a genuine and appropriate competitive assessment process.[20]

Also, clause 46(1)(b) of the EII Regulation sets out other specific costs that a Network Operator is entitled to recover through a revenue determination. These include:

- prudent, efficient and reasonable costs incurred by the Network Operator in complying with a regulatory requirement[21]
- payments required to be made by the Network Operator to the Infrastructure Planner under a contractual arrangement, if the Network Operator was required to enter the contractual arrangement under the relevant authorisation.

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18 Information that must be included in a procurement strategy is set out in section 4.2 of our Guideline.

19 Information that must be included in a procurement report is set out in section 5.2 of our Guideline.

20 Clause 47E(3) of the EII Regulation.

21 ‘Regulatory requirement’ is defined in clause 46(3) of the EII Regulation as ‘a requirement imposed on the Network Operator by a relevant law but does not include a requirement to pay a fine, penalty or compensation for a breach of a requirement imposed on the Network Operator by a relevant law.’

Under the EII framework, our revenue determination must include the:

- amount payable to a Network Operator – section 38(1) of the EII Act
- components of the amount payable including an allowance for repayment of the prudent, efficient and reasonable capital costs as determined under the Transmission Efficiency Test, a return on capital costs and an allowance for operating costs in relation to a network infrastructure project – section 38(2) of the EII Act
- schedule of amounts required to be paid to the Network Operator and the dates on which the amounts must be paid. If the determination is being made as a result of a competitive assessment process, the schedule must correspond with the term of the Project Deed that the Network Operator is required to enter into under the relevant authorisation.[22] – clause 52 of the EII Regulation.

Section 38(4) of the EII Act states that before making a determination we are required to calculate the prudent, efficient and reasonable capital costs for development and construction of the network infrastructure project, which is referred to as the Transmission Efficiency Test. Our Guideline sets out that we will take the capital costs established through a genuine and appropriate competitive assessment process as the determined capital costs for development and construction under the Transmission Efficiency Test.

For REZ network infrastructure projects, section 38(6) of the EII Act also provides that the amount we determine for the capital costs for the development and construction of the project (applying the Transmission Efficiency Test) must not exceed the maximum capital amount as advised by the Consumer Trustee under section 31(2). This amount represents the maximum capital cost for delivering the CWO REZ network project that will provide a net benefit to NSW electricity customers relative to a scenario of meeting the Roadmap generation and storage targets without the CWO REZ network project.

Once we have made a determination, the Scheme Financial Vehicle, which manages payments to and from participants under the NSW framework, is required to pay the Network Operator in accordance with it.[23] However, while we are required to determine the schedule of payments to be paid to ACEREZ for the whole project, it is not expected that the full cost of the project will be recovered from NSW electricity customers. Access fees to be paid by generators and storage projects connecting to the CWO REZ are intended to offset the cost of 'hub to project' (connection) assets as well as system security (synchronous condenser) costs for the network.[24] In addition, access fees are also intended to include a contribution to reduce consumer funded costs of the core network infrastructure.[25] The Scheme Financial Vehicle will collect the access fees from generation and storage projects and offset them against the total Roadmap costs to be recovered from the NSW distribution networks (and ultimately NSW electricity customers).[26]

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22 Clause 52(2)(b) of the EII Regulation.

23 Section 39(1) of the EII Act.

24 AEMO Services has the role of setting the Access Fees that are payable to the Scheme Financial Vehicle by Access Rights Holders in an Access Scheme.

25 The Base Fee component of Access Fees will contribute to community benefit sharing and employment initiatives in the CWO REZ and CWO Access Scheme administration, with the residual amounts used to reduce consumer contributions to the costs of the CWO REZ. *Central-West Orana Renewable Energy Zone Access Fee Guidelines*, October 2024 (p.10).

26 Under the *NSW Electricity Infrastructure Investment Act 2020* (EII Act), we are required to make an annual contribution determination to ensure the Scheme Financial Vehicle has sufficient funds to meet its liabilities.

1.4 Revenue adjustments

Our revenue determination may include provision for the adjustment of any amount included in the revenue determination, including the timing or circumstances of when an adjustment must be carried out and whether it requires the determination to be remade.[27]

Under the EII Regulation, all adjustments, whether or not the revenue determination is reviewed and remade, must be carried out in accordance with our Guideline and for a contestable revenue determination, the contractual arrangements the network operator entered into as required under the relevant authorisation.[28]

Under our Guideline, the Network Operator may submit a revenue adjustment proposal to the AER setting out the revised amount it proposes to be paid for carrying out the network infrastructure project due to the application of any adjustment mechanisms.

Our Guideline sets out our process for assessing adjustment proposals from a Network Operator, including the timing of those proposals and our assessment decisions.

1.5 Review and remake of revenue determinations

The AER is required to remake a revenue determination once every 5 years,[29] and can review and remake a revenue determination at any time, subject to the regulations.[30]

As part of the AER's power to review and remake a revenue determination under the EII Act, the AER may decide to review and remake to ensure the revenue determination is consistent with the contractual arrangements and may also decide to review and remake to carry out adjustments.[31]

The requirement under section 38(6) of the EII Act, that the determined capital costs for the development and construction of the project must not exceed the maximum capital amount as advised by the Consumer Trustee, does not apply to amounts determined through the application of adjustment mechanisms.[32]

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27 Clauses 51(1),(2) of the EII Regulation.

28 Clause 51(3) of the EII Regulation.

29 Section 40(1)(a) of the EII Act.

30 Section 40(2) of the EII Act.

31 Section 40(2) of the EII Act and clause 51(2)(b) and (3) of the EII Regulation.

32 Section 38(6A) of the EII Act.

2 Main Central-West Orana network project

2.1 Project context

The CWO REZ was declared by the NSW Minister for Energy and Environment under section 19(1) of the EII Act in November 2021.[33] The declaration was amended in December 2023[34] and again in April 2024.[35] The CWO REZ is approximately 20,000 square kilometres located in central NSW and centred by Dubbo and Dunedoo. It comprises two network projects, namely:

- **Main CWO REZ network project (Project) –** involving the construction and operation of network infrastructure to connect new renewable generation and storage projects within the CWO REZ to the existing NSW transmission network. The Project is the subject of this contestable revenue determination.
- **Enabling CWO REZ network project (Enabling project**) – involving upgrades to the existing NSW transmission network to allow the transfer of energy from the CWO REZ to major load centres in NSW. It will be undertaken by Transgrid and will be subject to a separate non-contestable revenue determination.

As part of the Minister's declaration of the CWO REZ, EnergyCo was appointed as the Infrastructure Planner. Throughout 2022 and 2023, EnergyCo undertook a competitive assessment process to select a Network Operator for the Project. ACEREZ was the successful tenderer.

2.2 Project overview

The Project involves the construction and maintenance of a transmission network to connect new renewable generation and storage within the CWO REZ to the existing NSW transmission network at Wollar. As shown in figure 2.1, the project spans a corridor from Wollar to Elong Elong via Merotherie. It is designed to initially deliver 4.5 GW of network capacity [36] and support up to 7.7 GW of generation. In summary, the network will consist of:

- **Core infrastructure**: Comprising a 90 km transmission line corridor between Wollar and Elong Elong, with a new switching station at Barigan Creek and energy hubs at Elong Elong and Merotherie. The transmission lines will be two double circuit 500 kilovolt (kV) lines (initially operated at 330 kV between Merotherie and Elong Elong).
- **Hub to project infrastructure**: A 330 kV network of assets extending from energy hubs at Merotherie and Elong Elong to generator connection points. In total this network will cover a corridor of around 150 km.
- **System strength infrastructure**: Comprising seven 250 megavolt amperes (MVA) synchronous condenser units located at the energy hubs.

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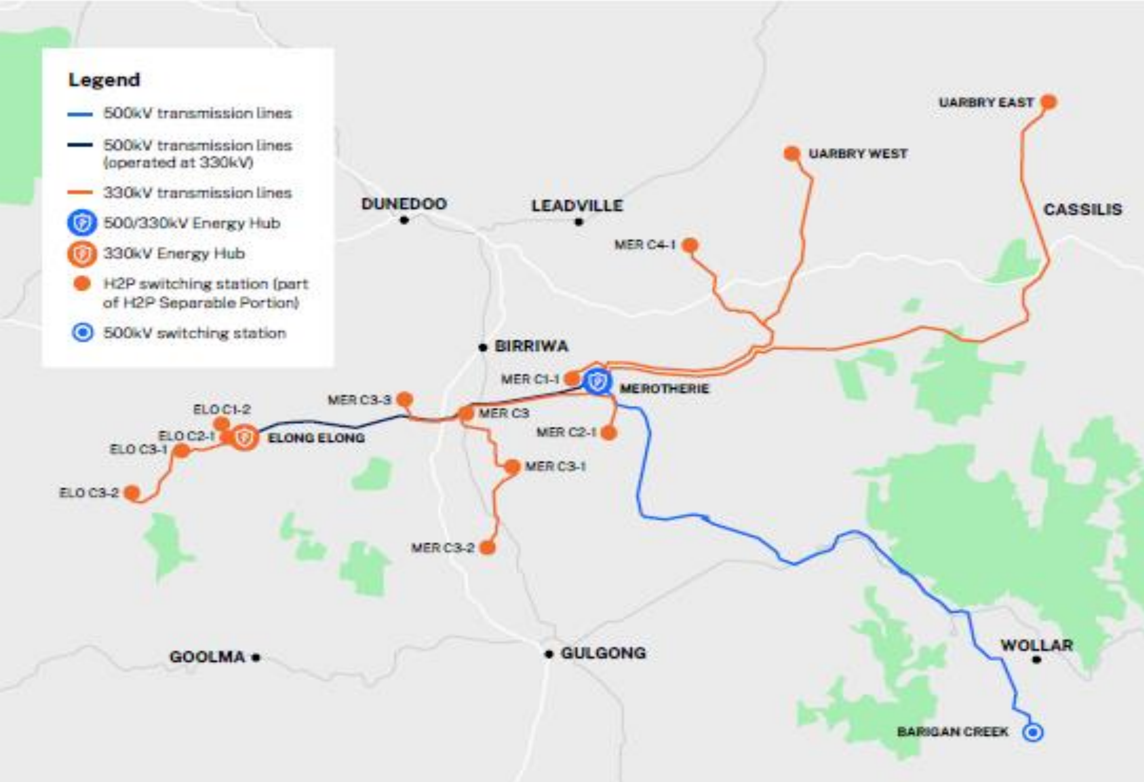
33 NSW Government Gazette dated 5 November 2021.

34 NSW Government Gazette dated 15 December 2023. This amendment was to increase the intended network capacity from 3 GW to 6 GW.

35 NSW Government Gazette dated 19 April 2024. This amendment was to provide more detail on the network infrastructure to be developed.

36 Network capacity for the Project is planned to be increased to 6 GW by 2038.

Figure 2.1: Map of the Project



Note: This figure reflects the project scope as authorised by AEMO Services. The project proposed by ACEREZ excludes five switching stations: MER C3, MER C3-3, MER C3-1, MER C2-1 and ELO C3-1.

ACEREZ, as the Network Operator, will build, own and operate the Project for 35 years, after which the network will be handed back to EnergyCo, with an agreed expiry payment to be paid to ACEREZ.[37] Infrastructure completion will be staged between April 2028 and April 2030, with generation projects commencing progressively from December 2028 to September 2030.[38]

The Project term commenced on the date of Financial Close (4 April 2025), and ends on the Expiry Date (4 April 2060), unless extended or terminated in accordance with the Project Deed.

2.3 Authorisation of the Project

EnergyCo is required to assess and make recommendations about REZ network infrastructure projects to the Consumer Trustee (AEMO Services). On 22 December 2023, EnergyCo submitted an Infrastructure Planner Recommendation Report[39] to AEMO Services that recommended AEMO Services authorise:

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37 The Expiry Payment (Terminal Value) is a payment to ACEREZ by EnergyCo in the final period of the Project term, calculated in accordance with Schedule 25 (Expiry and Termination Payments) to compensate ACEREZ for the remaining value of the assets that are transferred to EnergyCo. The Expiry Payment does not form part of the revenue determination.

38 Based on the dates for operational completion of each separable portion (network component) as set out in the Project Deed.

39 EnergyCo published a summary report of its assessment and recommendations for the CWO REZ network infrastructure. The report is available on EnergyCo's website.

- ACEREZ to carry out the Project, and
- Transgrid to carry out the Enabling project.

On 4 June 2024, after conducting its assessment, AEMO Services authorised ACEREZ to carry out the Project (and Transgrid to carry out the Enabling project) in accordance with the terms of its Notices of Authorisation and section 31(1)(b) of the EII Act.[40] As required by section 31(2) of the EII Act, AEMO Services also determined a maximum capital amount for the development and construction of the Project (section 5.2 discusses our application of the maximum capital amount).

Scope of the authorisation

Section 37(1) of the EII Act requires that in exercising our functions we take into account a number of principles, including that a Network Operator is entitled to recover the prudent, efficient and reasonable costs incurred by the Network Operator for carrying out the infrastructure project. Section 37(2) of the EII Act states that the carrying out of a project by a Network Operator includes the development and construction of network infrastructure as specified in the Network Operator's authorisation.

Given these requirements we must ensure that in making our revenue determination the Project's scope is consistent with that contained in AEMO Services' authorisation.

ACEREZ's revenue proposal

ACEREZ's revenue proposal provides information on the consistency of the Project scope with AEMO Services' authorisation. ACEREZ notes that the scope of the Project can change in defined circumstances, in accordance with the Project Deed, after the submission of its proposal. Specifically:

- Foundation Energy Suppliers may be removed from the Project if conditions in the authorisation are not met by 30 June 2025.[41]
- Changes in scope may be required to ensure Project objectives can continue to be met following a change in circumstances.[42]

In all cases, changes to the scope of the Project will be undertaken consistent with AEMO Services' authorisation of the Project.

AER considerations

Table 2.1 sets out the scope and terms of the Project as authorised by AEMO Services. It also sets out our assessment of the scope of the Project proposed by ACEREZ compared with that authorised by AEMO Services. For the reasons set out in the table, we consider the Project scope contained in ACEREZ's revenue proposal is consistent with AEMO Services' authorisation.

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40 Details of AEMO Services' authorisations for the CWO REZ main and enabling projects can be found on its website.

41 Pre-Agreed Changes (as described in Schedule 5 of the Project Deed) may be directed by EnergyCo in accordance with clause 26 of the Project Deed to remove assets related to Foundation Energy Suppliers at any time prior to the relevant Pre-Agreed Change Election Date.

42 Clauses 25 (Changes), 26 (Infrastructure Planner initiated Changes) and 27 (Network Operator initiated Changes) of the Project Deed set out the process applicable to changes in scope, which will remain operative over the Project term.

Table 2.1: Scope and terms of the Project as authorised by AEMO Services

Authorised scope and terms of the Project	Proposed Project/AER comment
Term of authorisation The authorisation takes effect from the date of the authorisation and ceases to have effect on the earlier of: • 30 June 2025 if the Project Deed has not been executed by both ACEREZ and EnergyCo; or • the expiry or termination of the Project Deed.	The term of the Project is 35 years from the date of Financial Close (4 April 2025) as set out in the Project Deed.
Main CWO REZ Network Infrastructure Project (a) A 500 kV transmission network from Wollar to Elong Elong via Merotherie comprising: 1) a 500 kV switching station at Barigan Creek; 2) a 500/330 kV substation at Merotherie (Merotherie Energy Hub); 3) a 330 kV substation at Elong Elong (Elong Elong Energy Hub); 4) a transmission line from the Barigan Creek Switching Station to the Merotherie Energy Hub comprising two 500 kV double circuit lines; and 5) a transmission line from the Merotherie Energy Hub to the Elong Elong Energy Hub comprising two 500 kV double circuit lines, with: 6) an initial transfer capacity at the Barigan Creek Switching Station of 4.5 GW; 7) an operating voltage of 500 kV for the network infrastructure from the Barigan Creek Switching Station to the Merotherie Energy Hub (inclusive); and 8) an operating voltage of 330 kV for the network infrastructure from the Merotherie Energy Hub to the Elong Elong Energy Hub (inclusive), and generally as described in the diagram included in Annexure A of the authorisation.	ACEREZ proposed the following assets as set out in the Project Deed: • the Barigan Creek Switching Station, Merotherie 500 kV substation infrastructure, Merotherie North 330 kV substation infrastructure and two 500 kV double circuit lines between Barigan Creek Switching Station and the Merotherie Energy Hub. • a Merotherie South 330 kV substation and a 330 kV line to Separable Portion 1 (North). *This substation infrastructure comprises the Merotherie Energy Hub* • 330 kV substation infrastructure (the Elong Elong Energy Hub) and two 500 kV double circuit lines between the Merotherie Energy Hub and the Elong Elong Energy Hub (with the lines initially being operated at 330 kV).
(b) 330 kV transmission networks comprising the H2P Separable Portions, with an operating voltage of 330 kV. The authorisation sets out 13 switching stations for the H2P separable portions.	The H2P assets proposed by ACEREZ are consistent with the authorisation. The Project Deed excludes the following switching stations on the basis that the conditions in the authorisation for including the separable portion were not

Authorised scope and terms of the Project	Proposed Project/AER comment
The authorisation also includes a map of the general location of each switching station (and associated network elements). Each H2P Separable Portion is conditional on: 1) an Access Right Holder being granted an Access Right at a H2P Switching Station in the H2P Separable Portion; 2) the relevant Access Right Holder entering into an Access Payment Deed with the Scheme Financial Vehicle; and 3) the relevant Access Right Holder providing any security required by the Scheme Financial Vehicle under the Access Payment Deed, for the purpose of the Access Scheme and in each case by 30 June 2025. If the above condition is not satisfied in respect of a H2P Separable Portion, the relevant H2P Separable Portion will be automatically excluded from the authorised Main CWO REZ Network Infrastructure Project.	expected to be met: MER C3; MER-C3-3; MER C3-1; MER C2-1 and ELO C3-1. ACEREZ has proposed a mechanism to remove separable portions (or components of a separable portion) where the conditions of authorisation are not met by 30 June 2025. If required, this would occur though a Net Financial Impact Event (Infrastructure Planner initiated change) that applies a Pre-Agreed Change as set out in Schedule 5 of the Project Deed.
(c) System strength infrastructure at the Energy Hubs, comprising synchronous condensers with a nominal nameplate rating of up to 1,750 MVA.	Seven 250 MVA synchronous condenser units will be installed. This delivers the total system strength specified by the authorisation. Of the seven synchronous condenser units: • 4 units will be installed at the Merotherie Energy Hub; and • 3 units will be installed at the Elong Elong Energy Hub.
(d) All ancillary plant, equipment or other assets that will be connected to or used by the Network Operator for the purposes of controlling and operating the above network infrastructure.	ACEREZ proposed ancillary assets consistent with Exhibit 1 of the Project Deed and the authorisation.
(e) Any change, modification or addition to the above network infrastructure: 1) required for the Network Operator to comply with its obligations under the National Electricity (NSW) Law or otherwise at law; or 2) made in accordance with the Project Deed, provided that following the relevant change, modification or addition, the authorised Main CWO REZ Network Infrastructure Project will remain consistent with the description in	ACEREZ proposed Net Financial Impact Events that allow for changes to network infrastructure. In assessing any adjustment proposal from ACEREZ that includes a change to network infrastructure, the AER is required to confirm that the change is consistent with the authorisation.

Authorised scope and terms of the Project	Proposed Project/AER comment
sections (a) to (d) above.	
Transfer of REZ network infrastructure project assets If the Network Operator, having developed and constructed any asset comprising part of the authorised Main CWO REZ Network Infrastructure Project, ceases to own or lease the relevant asset, that asset will automatically cease to be authorised under this instrument. If the Network Operator acquires or leases an asset which: (a) comprises part of an authorised REZ network infrastructure project under another instrument under the Act; and (b) connects to or will be used by the Network Operator in connection with the control or operation of the Main CWO REZ Network Infrastructure Project, the relevant asset will be deemed to be authorised under this instrument.	The Project Deed requires the transfer from ACEREZ to Transgrid of all assets associated with Barigan Creek Switching Station following construction completion. On transfer, the assets related to Barigan Creek Switching Station will cease to be authorised as part of the Project.
Specified contractual arrangements The Network Operator is required to enter into the following contractual arrangement for the purpose of carrying out the Main CWO REZ Network Infrastructure Project: (a) the Project Deed.	ACEREZ entered into the Project Deed at Contract Close (28 March 2025).

3 ACEREZ's proposals

3.1 Compliance with requirements

On 24 October 2024, ACEREZ submitted its revenue proposal to the AER for a contestable revenue determination for the Project.[43] Following Financial Close for the Project, ACEREZ submitted an adjustment proposal on 7 May 2025.[44] ACEREZ states that its proposals were prepared to be consistent with the requirements set out in the EII Act and the EII Regulation as they relate to the Project. It also states that its proposals comply with:

- the requirements of the AER's Contestable Guideline;
- the requirements of the AER's Information notice issued to ACEREZ;
- the contractual arrangements established under the Commitment Deed and those that have been agreed between ACEREZ and EnergyCo under the Project Deed; and
- any other contractual arrangements entered into by ACEREZ with other parties.

ACEREZ provided statutory declarations signed by its Chief Executive confirming that the information contained in its revenue and adjustment proposals is consistent with the contractual arrangements provided with its proposals, our Information notice and the Consumer Trustee's authorisation.

The proposals each contain a table setting out where relevant obligations have been addressed.

Based on our review of ACEREZ's proposals we found they were compliant with the above requirements. We note that the EII Act and EII Regulation do not provide a function for the AER to publish ACEREZ's proposals.

3.2 Key elements of the revenue proposal

Set out below is a summary of the key elements of the revenue proposal submitted by ACEREZ for the Project.

Competitive procurement processes

The EII Regulation prescribes that we must rely on and adopt any information provided to us by the Infrastructure Planner:

- that was obtained from a competitive assessment process; and
- if we are satisfied that the competitive assessment process was 'genuine and appropriate'.[45]

ACEREZ's revenue proposal provides an overview of the three competitive assessment processes undertaken for the Project (that is, the selection of a Network Operator, the selection of an Independent Certifier and the procurement of synchronous condensers). ACEREZ submits that as components of the Project were established through competitive

43 Initial Revenue Proposal for the Central-West Orana Renewable Energy Zone – Network Operator, 24 October 2024.

44 Revenue adjustment proposal for the Central-West Orana Renewable Energy Zone – Network Operator, 7 May 2025.

45 Clause 45(6) of the EII Regulation.

assessment processes, its revenue proposal should be assessed by the AER as a contestable determination.

Section 4.1 of this document contains our assessment of whether the competitive assessment processes undertaken for the Project were genuine and appropriate and the implications of that assessment.

Finalisation and change items

The Commitment Deed entered into by EnergyCo and ACEREZ following the competitive assessment process for selection of the Network Operator allows for the Project Deed and related contractual arrangements to be amended between execution of the Commitment Deed and Contract Close (subject to any requirements in the Commitment Deed being met).

ACEREZ's revenue proposal provides a summary of the amendments to the Project Deed, arising from finalisation and change items, that have been agreed between ACEREZ and EnergyCo between the execution of the Commitment Deed and the submission of the revenue proposal.[46] Details provided include:

- the process that has been followed to resolve each item against the requirements in the Commitment Deed,
- the time and cost impact of resolving an item (where applicable), and
- any changes made to the Project Deed or related contractual arrangements.

Section 4.2 of this document contains our assessment of whether the amendments negotiated by the parties met the requirements set out in the Commitment Deed.

Capital costs

ACEREZ's revenue proposal sets out its proposed capital costs for the Project. The capital costs are separately set out for development and construction capital costs and non-development and construction capital costs.

Our assessment of ACEREZ's proposed capital costs are set out in section 5 of this document, including our consideration of the Transmission Efficiency Test and our application of the maximum capital cost to the determined development and construction capital costs.

Operating and maintenance costs

ACEREZ's revenue proposal sets out its proposed operating and maintenance costs for the Project, broken down into the following categories: Maintenance and Lifecycle costs; Infrastructure Planner Fees (Operations); Strategic Benefit Payments; and Network Operator Costs.

Our assessment of ACEREZ's proposed operating and maintenance costs are set out in section 6 of this document.

Regulatory and contractual costs

ACEREZ's proposal provides information on costs associated with regulatory requirements, including their legislative basis, their forecast amount and their duration.

ACEREZ's revenue proposal sets out Infrastructure Planner Fees that ACEREZ is required to pay to EnergyCo under the Project Deed. These fees are intended to reimburse

46 All changes to the financial model since Commitment Deed execution and the revenue proposal have been audited by BDO (see Attachment 13.6 of the revenue proposal).

EnergyCo's costs incurred for the Project, including in relation to development expenditure, project management costs, and costs associated with acquiring land and easements.

Our assessment of ACEREZ's proposed regulatory and contractual costs is set out in section 4.3 of this document.

Total revenue and schedule of payments

ACEREZ's revenue proposal sets out the total amount it proposes to be paid for carrying out the Project (as a quarterly schedule of payments).[47] It also breaks down the total amount payable into the following components: return on capital; return of development and construction capital costs; return of non-development and construction capital costs; and operating and maintenance costs.

Our assessment of the proposed revenue is set out in section 7 of this document.

Revenue adjustments

ACEREZ's revenue proposal sets out the adjustment mechanisms which ACEREZ is seeking to be included in our determination and includes evidence of the relevant Project Deed provisions that require these mechanisms.

A description of the adjustment mechanisms and our review of them is set out in section 8 of this document.

Supporting information

ACEREZ's revenue proposal included the following supporting information:

- Commitment Deed – setting out the agreed outcome from the competitive assessment process for selection of the Network Operator.
- Draft Project Deed – setting out the terms and conditions on which ACEREZ will carry out the Project.
- Financial model – used to calculate the schedule of payments to ACEREZ, along with an independent audit report by BDO[48] confirming the model accurately calculates the schedule of payments.

Our review of relevant aspects of the Commitment Deed and the draft Project Deed are discussed throughout this document, but we confirm that the revenue proposal reflects these documents. The financial model is discussed further in section 7.

3.3 Key elements of the adjustment proposal

Set out below is a summary of the key elements of the adjustment proposal submitted by ACEREZ for the Project.

Project Deed amendments

The Commitment Deed entered into by EnergyCo and ACEREZ following the competitive assessment process for selection of the Network Operator allows for the Project Deed and

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47 ACEREZ, *Initial Revenue Proposal for the Central-West Orana Renewable Energy Zone – Network Operator - Confidential*, 23 October 2024, pp. 83,84.

48 BDO provides audit, tax and advisory services and was engaged by ACEREZ to provide assurance over the financial model. BDO was required to conduct its review in accordance with ASRS 4400 – Agreed-Upon Procedures Engagements to report factual findings. BDO's scope included confirming the inputs into the model reflect the Project Deed and that all calculations in the model are correct.

related contractual arrangements to be amended between execution of the Commitment Deed and Contract Close (subject to any requirements in the Commitment Deed being met).

ACEREZ's adjustment proposal provides a summary of the amendments to the Project Deed that have been agreed between ACEREZ and EnergyCo between the submission of the initial revenue proposal and Contract Close.

Section 4.4 of this document contains our assessment of whether the amendments negotiated by the parties met the requirements set out in the Commitment Deed.

Application of adjustment mechanisms

The initial revenue determination set out adjustment mechanisms that apply to the Project (see Section 8 of this document). ACEREZ's adjustment proposal included a summary of the application of a number of these adjustment mechanisms following Financial Close, including:

- the process that has been followed to apply each adjustment mechanism against the requirements in the revenue determination, and
- the cost impact of applying the adjustment mechanism.

Capital costs

ACEREZ's adjustment proposal sets out its updated capital costs for the Project. The capital costs are separately set out for development and construction capital costs and non-development and construction capital costs.

Operating and maintenance costs

ACEREZ's adjustment proposal sets out its updated operating and maintenance costs for the Project, broken down into the following categories: Maintenance and Lifecycle costs; Infrastructure Planner Fees (Operations); Strategic Benefit Payments; and Network Operator Costs.

Total revenue and schedule of payments

ACEREZ's adjustment proposal sets out the updated total amount it proposes to be paid for carrying out the Project and the quarterly schedule of payments. It also breaks down the total amount payable into the following components: return on capital; return of development and construction capital costs; return of non-development and construction capital costs; and operating and maintenance costs.

Supporting information

ACEREZ's adjustment proposal included the following supporting information:

- Project Deed – setting out the terms and conditions on which ACEREZ will carry out the Project.
- Financial model – used to calculate the schedule of payments to ACEREZ based on the terms of the Project Deed, along with an audit report from BDO confirming the model accurately calculates the schedule of payments.

4 Basis of acceptance of costs

This section sets out our assessment of the costs proposed by ACEREZ.

Our assessment requirements vary based on how the cost was established. Most of the proposed costs were established through three competitive assessment processes undertaken for the Project, or through finalisation and change processes undertaken following the conclusion of these competitive assessment processes in accordance with the Commitment Deed. A set of costs have also been proposed based on contractual payments to EnergyCo under the Project Deed and regulatory requirements that ACEREZ must comply with under a relevant law.

4.1 Competitive assessment process and our role

The development, construction and operation of the Project has been procured through a competitive assessment process. As two aspects of the Project were not able to be finalised through that process, EnergyCo decided to contestably procure those elements through separate processes. The three elements of the Project that have been contestably procured are set out below.

1. **Network Operator** – EnergyCo undertook a competitive assessment process to procure a Network Operator to construct, operate and maintain the Project. The process commenced in late 2021 and concluded in December 2023. EnergyCo selected ACEREZ as the successful tenderer and the parties signed a Commitment Deed on 18 December 2023.
2. **Independent Certifier** – An independent party[49] who will provide design, construction, and completion certification to both EnergyCo and ACEREZ through to construction completion (expected in 2030). EnergyCo commenced a competitive assessment process to select the Independent Certifier (IC) in early 2023 and GHD/Jacobs was selected as the successful tenderer in December 2023. EnergyCo and GHD/Jacobs signed the IC Project Deed on 11 December 2023 and ACEREZ acceded to the IC Project Deed on 18 December 2023.
3. **Synchronous Condensers** – EnergyCo authorised ACEREZ to carry out a competitive assessment process to procure the supply and installation of seven 250 MVA synchronous condenser units[50] to deliver a system strength solution of 1750 MVA for the Project. The bidders were also required to price a service arrangement for maintaining the synchronous condensers for a 5-year period. The process commenced in August 2023 and concluded in July 2024, with Siemens Energy selected as the successful tenderer.

The general procurement stages followed by EnergyCo (and ACEREZ for the synchronous condenser process) in each of the competitive assessment processes were:

- Market sounding – included briefings to the market to gauge interest in delivering the required activities and identify parties that had relevant experience and qualifications to perform the work.

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49 The role of an Independent Certifier on a project is to provide specialist advice, monitor compliance with design, specification and statutory standards and ensure all project requirements are met. Although acting on behalf of the principal stakeholder to the project, the Independent Certifier is required to act impartially.

50 Synchronous condensers are designed to safeguard the stability of a transmission network by providing voltage regulation, short circuit current and synchronous inertia (system strength).

- Expression of interest – seeking submissions from potential bidders against criteria assessing their qualifications, experience and organisational capacity to undertake the work.
- Request for proposal – requiring successful respondents from the expression of interest stage to respond to a detailed statement of requirement. The request for proposal set out the process to be followed in assessing the proposals and the criteria against which proposals would be assessed.
- Revise and confirm – used to update tenderers' bids to reflect changes arising from clarifications during the request for proposal stage and any changes introduced by EnergyCo after the submission date.
- Negotiation – involved meetings between the tenderers and EnergyCo to resolve departures from the bid requirements contained in bids.

Our role

Consistent with our Guideline, we reviewed the procurement strategies developed by EnergyCo at the commencement of each competitive assessment process. While suggesting improvements to some aspects of the strategies, we were satisfied that the process set out in each procurement strategy was likely to result in a genuine and appropriate competitive assessment process.

We attended key meetings throughout each competitive assessment process, including meetings of the evaluation and review panels, and negotiation meetings between EnergyCo (or ACEREZ) and the tenderers. Where we identified any issues we raised them with the evaluation panel chair. All issues were resolved to our satisfaction during the processes.

EnergyCo consulted with us throughout each competitive assessment process and provided us with information on each process when requested. For example, EnergyCo provided us with key draft procurement documentation such as expression of interest and request for tender documents, tender evaluation plans and evaluation reports for our review and comment. We also met regularly with EnergyCo on each procurement process.

At the end of each process we received a procurement report from EnergyCo. The reports and associated attachments generally met our information requirements. Where information requirements were not met, we requested further information or considered the deficiency to be immaterial to the outcome of the process. We consider that all three procurement reports provided a sound basis for us to conduct our assessment of the processes.

Consistent with our Guideline we also engaged an expert consultant (Dench McClean Carlson) to review the various draft procurement documents related to each procurement process. At the end of each process we requested Dench McClean Carlson provide advice, based on its review of the procurement report, as to whether it considered the process met our evaluation criteria. In each case it advised that it considered the competitive assessment process had met our evaluation criteria and was genuine and appropriate.

Review of the competitive assessment processes

ACEREZ's revenue proposal requests that we make our revenue determination based on the outcomes of the three competitive assessment processes undertaken by EnergyCo for the Project. To do this, the AER must be satisfied that each competitive assessment process was 'genuine and appropriate'.

Our Guideline sets out our approach to reviewing a competitive assessment process to determine whether the process was genuine and appropriate. In summary, we assess whether the competitive assessment process:

1. was undertaken in accordance with the EII Act and EII Regulation;

2. was undertaken consistent with the Infrastructure Planner's procurement strategy; and
3. reflects our competitive assessment evaluation criteria.[51]

Below we set out our assessment of the three competitive assessment processes against the above criteria.

Consistency with the EII Act and EII Regulation

We consider the three competitive assessment processes undertaken for the Project were consistent with the requirements of the EII Act and the EII Regulation for the following reasons:

- The EII Regulation allows the Infrastructure Planner to carry out a competitive process in relation to a REZ for which it is appointed.[52] EnergyCo was appointed the Infrastructure Planner for the CWO REZ under section 63 of the EII Act.
- The EII Regulation requires the Infrastructure Planner to request binding bids from two or more proponents.[53] EnergyCo sought and received binding bids from at least two proponents for each competitive assessment process.
- The EII Regulation requires the Infrastructure Planner to develop eligibility criteria and a selection process.[54] EnergyCo developed eligibility criteria and a process to select a Network Operator provider for each competitive assessment process. These were set out in procurement strategies and evaluation plans.
- The EII Regulation requires that before and during a competitive assessment process, the Infrastructure Planner must consult with the AER and provide the AER with information about and obtained from the competitive assessment process.[55] EnergyCo consulted with the AER through regular meetings, responded to requests for information, and invited AER staff to observe evaluation panel meetings. EnergyCo also provided us with information about, and the outcomes of, the processes consistent with the requirements in our Guideline.

Consistency with the procurement strategy

Based on our observation of each process, review of key project documentation and assessment of the procurement reports, we consider the competitive assessment processes were undertaken consistent with their respective procurement strategies in respect of all major elements including:

- the market sounding and invitation process;
- the expression of interest and request for proposal evaluations;
- the approach to interactions and negotiations with tenderers;
- the management of conflicts and probity concerns; and
- the decision-making process and recording of information.

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[51] AER, *Revenue determination guideline for NSW contestable network projects*, Aug 2022, s.5.3, pp.14-15.

[52] Clause 45(1) of the EII Regulation.

[53] Clause 45(2) of the EII Regulation.

[54] Clause 45(3) of the EII Regulation.

[55] Clause 45(4) of the EII Regulation.

Consistency with competitive assessment evaluation criteria

Our Guideline sets out four high-level evaluation criteria and several sub-criteria we use to assess whether a competitive assessment process was genuine and appropriate.[56] Our assessments against our high-level evaluation criteria are set out below for each procurement process.

Criterion 1: Sufficient competitive tension exists such that a competitive outcome is likely to be achieved.

We are satisfied that each competitive assessment process met this criterion.

Market sounding processes undertaken by EnergyCo identified strong market interest in each process. Binding offers were received from multiple engaged bidders and at least two bidders remained active throughout the request for tender stage and subsequent negotiations.

Criterion 2: The assessment process supports detailed, credible, and compliant submissions from proponents.

We consider that the proponents in each competitive assessment process were provided with sufficient information to make detailed, credible and compliant submissions. For each process:

- Procurement documents released to proponents were comprehensive and set out clear and detailed project scopes covering technical engineering, commercial, legal, and regulatory requirements and responsibilities. They also clearly set out procurement rules, processes, and procedures that were appropriate for each procurement process.
- Proponents were provided opportunities to seek clarification in a transparent and fair manner through briefings, interactive workshops and interviews, and in writing through a request for clarification process. The process provided proponents with an equal opportunity to participate in the process on the basis of transparent terms, conditions and requirements.
- Amendments to the Project scope and requirements were communicated to all tenderers with the opportunity to revise bids where appropriate.
- Timeframes for the process were generally reasonable and allowed participants to develop compliant submissions. Where appropriate, extensions of time were granted to all tenderers to ensure complete and compliant submissions.
- Returnable schedules were clearly linked to the evaluation criteria set out in the procurement documentation, and minimum requirements with which submissions had to comply were identified and reasonable.

Criterion 3: The decision-making, governance and probity arrangements ensure a fair and rigorous process.

We consider the decision-making, governance, and probity arrangements supported fair and rigorous competitive assessment processes for the following reasons:

- An independent probity advisor observed all briefings, evaluation meetings and interactive workshops and found that the evaluation plan, negotiation plan and probity conduct plan were followed throughout each assessment process.

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56 We also use the criteria to assess whether a procurement strategy is likely to result in a genuine and appropriate competitive process at the outset of a competitive assessment process.

- A probity register was maintained throughout each process and material probity issues were recorded and mitigated or resolved. The probity advisor found there were no outstanding material probity issues at the conclusion of each process.
- Governance processes were clear and robust and carried out in accordance with the procurement strategy. They included detailed assessment of the bids by subject matter experts, with suitably qualified decision-makers and a clear approval process.
- Bid departures were normalised to allow for a like-for-like assessment of the bids.
- A sensitivity analysis was conducted on the evaluation outcome to assess the impact certain criteria and weightings had on the overall ranking. In addition, the evaluation process was informed by separate analysis of the likely prudent, efficient and reasonable costs for the activity.

Criterion 4: The outcomes of the competitive assessment process can be reflected in a revenue determination.

We were satisfied that the outcomes from the competitive assessment processes can be reflected in our revenue determination as they:

- included payments to or by ACEREZ that could be included in the financial model to calculate a quarterly schedule of payments that ACEREZ is entitled to recover; and
- contained arrangements for adjusting the amounts to be paid under the Project Deed, which we consider were capable of being reflected in adjustment mechanisms.

Overall conclusion on procurement processes

Based on our review of the competitive assessment processes and advice from our expert consultant (Dench McClean Carlson), we decided that we were satisfied that each of the competitive assessment processes were genuine and appropriate on the following dates:

- Independent Certifier (8 March 2024)
- Network Operator (31 May 2024)
- Synchronous Condensers (18 October 2024).

Given our genuine and appropriate assessments, we must rely on and adopt the outcomes from those processes in this revenue determination for ACEREZ. Sections 5, 6, 7 and 8 of this document reflect the outcomes of the three competitive assessment processes and the impact of the finalisation and change items discussed in section 4.

4.2 Finalisation and change items

The Commitment Deed sets out the outcome of the Network Operator competitive assessment process. It allows for the Project Deed and related contractual arrangements to be amended between execution of the Commitment Deed and Contract Close, subject to any amendments meeting the requirements set out in the Commitment Deed. Where amendments were agreed between EnergyCo and ACEREZ prior to the submission of ACEREZ's revenue proposal, ACEREZ has included the amendments in its revenue proposal.

ACEREZ's revenue proposal notes that Part D (Finalisation Items List) of Schedule 1 of the Commitment Deed included 33 'finalisation items' which could not be resolved before its execution and the processes and principles that the parties agreed to resolve each item. These items required further engagement by EnergyCo with ACEREZ, AEMO, Transgrid, connecting generators and other parties, or were dependent on other regulatory, legislative or commercial processes being concluded. Prior to executing the Commitment Deed, EnergyCo and ACEREZ confirmed the baseline position for each finalisation item (based on the risk allocation in ACEREZ's bid). The Finalisation Items List required any cost and time impact of a finalisation item to be resolved through the application of Schedule 6A (Net Financial Impact) of the Project Deed.

ACEREZ states that between the execution of the Commitment Deed and submission of its revenue proposal, ACEREZ and EnergyCo have worked to resolve the finalisation items. It submits that the process for resolving each item included a combination of:

- amendments to the project documents – updates and amendments relative to those at Commitment Deed; and
- commercial agreement on any time and cost impact – in accordance with Schedule 6A and the Project Deed. This includes:
  - updates to the financial model to reflect the agreed time and/or cost impact, or;
  - development of adjustment mechanisms which set out how revenue may be adjusted in the future to address any time and cost impacts associated with the finalisation item.

ACEREZ's proposal indicates that all 33 finalisation items were resolved prior to submission of the revenue proposal. Of these items, 19 items were fully resolved with no time or cost impact.

ACEREZ's revenue proposal also reflects the time and cost outcome of 12 change items initiated by EnergyCo or as a result of a compensation event (such as a change in law) that were resolved between the Commitment Deed and the submission of the revenue proposal.

ACEREZ noted that there are four mechanisms in the Commitment Deed (incorporated from the Project Deed) under which changes to the Project Deed are permitted. These are:

- a compensation event under clause 22 of the Project Deed;
- an Infrastructure Planner-initiated change under clause 26 of the Project Deed;
- a Network Operator-initiated change under clause 27 of the Project Deed; and
- the election of a pre-agreed change by EnergyCo under clause 26 of the Project Deed.

There are specific processes in the Project Deed relating to these different mechanisms for agreeing changes. However, cost impacts of all changes are required to be resolved using the principles and processes set out in Schedule 6A.

Schedule 6A establishes a framework under which the cost of a change can be calculated and agreed. Application of the schedule enables the parties to draw upon the various controls, definitions, and pre-determined cost elements within the schedule which were bid as part of the competitive assessment process. The specific elements of Schedule 6A that are used in calculating the cost impact of a change depends on the types of costs impacted by the change. The overarching aim of Schedule 6A is to provide a framework for a prudent, efficient and reasonable cost outcome to be determined in relation to the change. The key principles in Schedule 6A include:

- A Network Operator can only recover incremental costs of the event, based on fair and reasonable, arm's length arrangements.
- Costs must be no higher than equivalent costs in the schedule of rates agreed through the tender process.
- An amount can be recovered for identified risks (EnergyCo can require the Network Operator to conduct a quantitative risk assessment to support any claim).
- A pre-agreed margin will be added to approved costs.
- The Network Operator must use reasonable endeavours to mitigate any costs.

ACEREZ's revenue proposal provides information on the process followed for resolving each change (including finalisation items) as well as supporting information. ACEREZ states that it, along with EnergyCo, acted reasonably and in good faith to resolve the finalisation items and other changes. It explained that the resolution process was undertaken through a series of negotiations, facilitated through meetings held between the parties, and through exchange of documentation and correspondence consistent with the principles and process agreed in the Commitment Deed. This process included input from relevant experts and legal advisors.[57]

A series of other updates to financial model inputs were also made between Commitment Deed and the submission of ACEREZ's revenue proposal, and are reflected in the proposal. ACEREZ has provided evidence that each of these financial model updates is covered by an adjustment mechanism in the Project Deed, and that the updates were undertaken in accordance with the relevant process set out in the adjustment mechanism.

In addition, some amendments have been addressed through the inclusion of bespoke adjustment mechanisms in the Project Deed or may be resolved later through ACEREZ making a claim using the Net Financial Impact process set out in Schedule 6A of the Project Deed (and then incorporated in the financial model through the general Net Financial Impact adjustment mechanism). We will be required to assess whether an adjustment mechanism in the revenue determination has been applied correctly at the time of a future adjustment proposal. The proposed adjustment mechanisms and Net Financial Impact Events are discussed in section 8 of this document.

AER assessment

We do not have a role in assessing the prudency, efficiency or reasonableness of any amendments agreed between ACEREZ and EnergyCo. As we have decided that the three competitive assessment processes for the Project were genuine and appropriate, we are required to rely on and adopt the outcome of those processes.

The Commitment Deed, which includes processes for agreeing any amendments to the Project Deed, is an outcome of the competitive assessment process. On this basis, we must adopt any cost or time impacts if those processes have been complied with.

We assessed the process for agreeing amendments and applying financial model updates for compliance with the requirements in the Commitment Deed and Project Deed. In doing so, we reviewed the description of the process and outcome for each item, including the supporting evidence provided in the revenue proposal. Based on our assessment, we confirm that for all but one proposed amendment:

- each amendment qualified as a finalisation item or change event under a category set out in the Commitment Deed, and each financial model update is covered by an adjustment mechanism in the Project Deed.
- each amendment was consistent with the risk allocation (baseline) agreed at the time of execution of the Commitment Deed.
- the principles and processes in Schedule 6A have been applied in establishing cost and time impacts of each amendment, or a relevant adjustment mechanism or update process in the Project Deed has been applied.
- each amendment or model update has been accurately included in the financial model accompanying the revenue proposal.

[57] ACEREZ, *Revenue proposal, Attachment 13.7: changes between commitment deed and submission of the initial revenue proposal*, 24 October 2024, p. 88.

Overall, we consider that ACEREZ's revenue proposal has justified all but one change item, all finalisation items and all financial model updates included in its revenue proposal.

The impact of the change items, finalisation items and financial model updates is an increase in capital costs of $372m (nominal) and an increase in operating and maintenance costs of around $130m[58] (nominal) over the Project term and those outcomes have been adopted in our revenue determination.

We have excluded from our revenue determination the capital amount associated with one change that we consider was not sufficiently justified in the evidence provided in ACEREZ's revenue proposal. The item relates to $5m (nominal) in development and construction capital costs associated with an incentive scheme for the Independent Certifier. Based on the evidence provided we do not consider the inclusion of the item was consistent with the risk allocation established at the conclusion of the Independent Certifier tender process, and a change in risk allocation was not sufficiently justified in accordance with the requirements in Schedule 6A of the Project Deed.

To apply the above exclusion to our determination, we required ACEREZ to resubmit its financial model, which it did on 28 November 2024. ACEREZ also provided an updated model audit report from BDO (on 3 December 2024) confirming the exclusion had been correctly reflected in the model and an updated statutory declaration signed by the Chief Executive confirming the model was consistent with the changes requested by the AER. We consider the revised financial model excludes the relevant capital amount.

4.3 Regulatory and contractual costs

Contractual costs (Infrastructure Planner Fees)

EnergyCo (as the Infrastructure Planner for the Project) has a range of obligations it must meet during the development, delivery and operation phases of the Project. The costs of EnergyCo meeting these obligations prior to Financial Close have been funded through a NSW Treasury Loan and the Transmission Acceleration Facility (TAF). This funding was provided on the expectation that it would be recovered from the successful Network Operator through payments required to be made to EnergyCo under a contractual arrangement.

The Project Deed for the Project requires ACEREZ to pay EnergyCo the following Infrastructure Planner Fees (totalling $2,768m) to cover EnergyCo's actual and expected costs:

- Construction Fees – paid to EnergyCo during the delivery phase of the project for development and delivery activities undertaken or planned to be undertaken by EnergyCo prior to Financial Close or during the delivery phase.
- Operating and Maintenance (O&M) Fees – paid to EnergyCo for functions to be performed by EnergyCo during the operations phase of the project.
- Recovered Fees – an amount paid to EnergyCo at Financial Close equal to any payments made by EnergyCo to ACEREZ prior to Financial Close for agreed early works activities undertaken by ACEREZ.

The Project Deed includes other provisions that may require ACEREZ to pay an amount to EnergyCo if defined events occur over the Project term. However, ACEREZ's revenue

58 This amount excludes an estimated increase in Infrastructure Planner Fees (O&M) of $973m required by EnergyCo since Commitment Deed. These additional Infrastructure Planner Fees largely reflect a change in the funding approach for the Project and are offset by savings in other cost components (return on capital and return of capital).

proposal does not nominate any costs other than Infrastructure Planner Fees to be considered contractual costs for the purpose of clause 46(1)(b)(ii) of the EII Regulation.

Construction Fees

Construction Fees recover EnergyCo's costs in relation to the Project incurred prior to Financial Close, and costs forecast to be incurred during the delivery phase. In total, the Project Deed requires ACEREZ to pay Construction Fees of $747m (nominal) over the period from 2024–25 to 2030–31. The payment profile is set out in Schedule 10 of the Project Deed, with an initial payment of $270m (nominal) at Financial Close and quarterly payments thereafter. The Construction Fees were included by ACEREZ in its revenue proposal as part of its development and construction capital costs.

Table 4.1 sets out the broad categories of EnergyCo's costs to be recovered through Construction Fees paid by ACEREZ.

Table 4.1: EnergyCo's costs to be recovered via Construction Fees ($m, nominal)

Delivery phase activities	Estimate
Development activities prior to Financial Close	198
Delivery activities from Financial Close to end of delivery phase	271
Recovery of overheads related to the Project	209
Social licence activities within CWO REZ	68
Total Construction Fees to be funded by ACEREZ	**747**

EnergyCo's development activities prior to Financial Close included work to refine the project scope, site investigations and environmental impact statement approvals. It also included managing the competitive assessment processes. Activities during the delivery phase will include EnergyCo oversight of ACEREZ and delivering commitments under the Project Deed. In addition to EnergyCo staff costs, other costs involved in undertaking the above activities include advisory services such as financial, legal, technical, commercial, insurance and probity.

Operating and maintenance Fees

O&M Fees cover EnergyCo's costs in relation to its obligations under the Project Deed over the operations phase of the Project. O&M fees are set out in section 2.4 of Schedule 10 of the Project Deed. The draft Project Deed accompanying ACEREZ's initial revenue proposal included O&M fees totalling $1,293.1m (nominal). ACEREZ provided an updated total cost for O&M fees in its adjustment proposal based on the Project Deed of $1,294.4m (nominal).

The O&M Fees were included by ACEREZ in its revenue proposal as part of its operating and maintenance costs. The fees consist of:

- EnergyCo's operational costs related to contract management and oversight of ACEREZ, and broader operational activities within the CWO REZ. For example, these activities include regulatory functions, engagement with third parties, technical and operations, generator connections and corporate functions (such as finance, legal, community and stakeholder, safety and governance).
- Costs related to servicing a Clean Energy Finance Corporation loan provided to EnergyCo to finance land and biodiversity costs for the Project.

Recovered Fees

Recovered Fees differ from Construction Fees and O&M Fees as they relate to reimbursement of amounts paid by EnergyCo to ACEREZ under the Bid Cost Contribution Deed and the Commitment Deed. These payments funded early activities required to be undertaken by ACEREZ up to Financial Close (for example, completing design documentation) to maintain on-time delivery of the Project.

ACEREZ estimated in its initial revenue proposal that Recovered Fees would total $726.5m. The actual value was set at Financial Close at $480.4m. ACEREZ was required to pay the agreed amount of Recovered Fees to EnergyCo at Financial Close in accordance with Schedule 10 (clause 2.2(b)) of the Project Deed.[59] The estimated value of Recovered Fees were included by ACEREZ in its initial revenue proposal as part of its development and construction capital costs. The financial model was updated at Financial Close to reflect the actual Recovered Fees. We note that the value of Recovered Fees does not impact the total development and construction capital costs for the Project as it just reflects an allocation of capital costs before and after Financial Close.

AER assessment of Infrastructure Planner Fees

The AER considers that the Infrastructure Planner Fees (comprising Construction Fees and O&M Fees) payable by ACEREZ to EnergyCo, as set out in ACEREZ's revenue proposal, are contractual costs that ACEREZ is entitled to recover through its revenue determination under clause 46(1)(b)(ii) of the EII Regulation.

ACEREZ is required to pay the Infrastructure Planner Fees to EnergyCo under clause 21.1(b) of the Project Deed and in accordance with Schedule 10 of the Project Deed (clause 2.1). The Project Deed is a contractual arrangement that ACEREZ is required to enter into under section 8 of the Consumer Trustee's Notice of Authorisation.[60]

As the AER considers that as the principle in clause 46(1)(b)(ii) of the EII Regulation has been met, the AER is not required to review the prudency, efficiency or reasonableness of the Infrastructure Planner Fees and must include the fees in its revenue determination.

Recovered Fees reflect ACEREZ's costs bid as part of the competitive assessment process. As such, ACEREZ is entitled to recover these amounts as an outcome of a genuine and appropriate competitive assessment process, rather than through clause 46(1)(b)(ii) of the EII Regulation.

While we have no formal power to review and approve contractual costs in our revenue determination, given the materiality of the proposed Infrastructure Planner Fees we requested information from the TAF Investment Committee and EnergyCo on the governance arrangements for the approval and oversight of TAF funding and the expenditure of those funds.

Transmission Acceleration Facility Investment Committee

The TAF is a NSW Government-funded revolving capital facility to fund development activities to accelerate the delivery of critical transmission infrastructure, community and employment benefits and other enabling projects to meet the EII Act and Roadmap objectives. It is governed by the TAF Investment Committee – an advisory committee with independent and NSW Government representatives established under the *Energy and*

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[59] EnergyCo provided information on its payment assessment process for assessment of ACEREZ's early activity costs, including information required to support a payment claim.

[60] AEMO Services, *Notice of Authorisation – Main CWO REZ Network Infrastructure Project*, 4 June 2024.

Utilities Administration Act 1987. Governance arrangements for the TAF Investment Committee were approved by the NSW Government Expenditure Review Committee (ERC).

The TAF Investment Committee makes recommendations on TAF funding proposals for decision by the EnergyCo Board and Chief Executive. The committee also provides assurance, reporting and governance advice. TAF funding proposals are assessed against five criteria:

- eligibility of the expenditure under the funding guidelines,
- recoverability of the expenditure,
- a risk assessment (covering financial, operational and delivery risks)
- a cash flow assessment, and
- appropriate governance, reporting and financial controls are in place to monitor and manage the use of funds.

The TAF Investment Committee found the funding proposals related to the Project were reasonable, efficient and necessary for the acceleration of delivered renewable energy in NSW. Its recommendations were endorsed by the EnergyCo Advisory Committee[61] and signed-off by the EnergyCo Chief Executive.

EnergyCo governance arrangements

EnergyCo indicated that CWO REZ expenditures related to Infrastructure Planner Fees are managed by its central Project Management Office, with oversight provided by members of the EnergyCo Executive Leadership Team. It advised that oversight includes monthly reviews and reporting of actual expenditure against forecasts. Actual monthly expenditure is also provided to the NSW Energy Department and NSW Treasury. EnergyCo also noted that its Board's involvement in expenditures related to Infrastructure Planner Fees involves providing commentary and feedback when briefed on any significant issues.

Adjustment of Infrastructure Planner Fees

EnergyCo has the ability to adjust Construction Fees and O&M Fees under the Project Deed (clause 2.5 of Schedule 10). EnergyCo advised that it is required to monitor its expenditure in accordance with its existing governance arrangements and may adjust the fees where costs incurred, or to be incurred, are higher or lower than estimated at the time of ACEREZ's revenue proposal.[62] An adjustment to the Infrastructure Planner Fees will be treated as a Net Financial Impact Event in accordance with Schedule 6A of the Project Deed, following which ACEREZ can submit an adjustment proposal to us to reflect the updated fee amount in its revenue determination.

Regulatory requirement costs

ACEREZ's revenue proposal contains allowances associated with a number of regulatory requirements related to the Project. The Project Deed includes provisions that allow ACEREZ's revenue to be adjusted (or 'trued up') for differences in forecast allowances and actual costs for regulatory requirements. A description of each regulatory requirement for which ACEREZ has proposed to recover costs, the relevant law they are made under, their annual cost, their assumed duration and the adjustment mechanism for truing up the cost is set out in the table 4.2.

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61 The EnergyCo Advisory Committee has since been replaced by an EnergyCo Board.

62 EnergyCo, *AER information request regarding IPFs and CEFC Facility*, 24 October 2024.

ACEREZ provided an updated annual cost for payments under the Strategic Benefits Payments Scheme in its adjustment proposal to correct an error. ACEREZ also set out the finalised External Dispute Resolution Scheme Fees for 2024–25.

Table 4.2: Regulatory requirements and associated annual expenditure ($m, Mar 2024)

Regulatory requirement	Relevant law	Cost p.a.	Duration	Relevant adjustment mechanism
Participant Fees payable to AEMO	National Electricity Rules: clause 2.11 (Participant fees) and clause 2.5 (Registration as a Network Service provider)	0.50	From Financial Close (aligned with the expected date of TNSP registration) until the end of the Project term	Clause 5.11 of the Project Deed and clause 5.6 of Schedule 6A
Payments under the Strategic Benefits Payments Scheme	Electricity Supply Act 1995+	3.31	Commences from 3 months after the energisation date for each Separable Portion, for 20 years	Clause 5.12 of the Project Deed and clause 5.8 of Schedule 6A
Transmission Operator's Licence fees	Electricity Supply Act 1995 (Schedule 2, section 6(2)(h))	0.25	From commencement of the operations phase to the end of the Project term	Clause 5.13 of the Project Deed and clause 5.9 of Schedule 6A
External Dispute Resolution Scheme Fees	Electricity Supply Act 1995 (Schedule 2, section 6(1)(b))*	0.06 (2024–25) 0 (ongoing)^	6 months from commencement of the Transmission Operator's Licence until the end of the Project term	Clause 5.14 of the Project Deed and clause 5.17 of Schedule 6A

+ The Scheme is still under development, but the NSW Government has indicated that it will be implemented by way of a new transmission licence condition under the Electricity Supply Act.

* Condition 15 of the Transmission Operator's Licence requires ACEREZ to be a member of an External Dispute Resolution Scheme that manages disputes and complaints against the Licence Holder. The relevant scheme is managed by the Energy and Water Ombudsman of NSW.

^ Consistent with the Project Deed (Clause 5.14(a)(iii)) ACEREZ has not made any allowance for External Dispute Resolution Scheme Fees in its revenue proposal. The Project Deed provides for ACEREZ's revenue to be adjusted to reflect actual fees paid by ACEREZ each year.

AER assessment of regulatory requirement costs

Under clause 46(1)(b)(i) of the EII Regulation, ACEREZ is entitled to recover prudent, efficient and reasonable costs incurred in complying with a regulatory requirement.[63] All fees and payments identified by ACEREZ in its revenue proposal are imposed on ACEREZ as a Network Operator by a relevant law (within the meaning of clause 46(3) of the EII Regulation). The amount of each fee or payment is set by the relevant law or by the regulating entity of the relevant law. As ACEREZ has no discretion as to whether or how much it pays in relation to the regulatory requirements, we consider the costs can be considered to be prudent, efficient and reasonable costs incurred by ACEREZ in complying with a regulatory requirement.

We also note that the application of adjustment mechanisms to these regulatory requirement costs ensure that ACEREZ will only recover the actual costs imposed on it. The costs are treated as operating and maintenance costs in ACEREZ's revenue proposal and are included in the operating and maintenance costs in section 6 of this document.

4.4 Financial Close Revenue Determination Adjustment proposal

Project Deed amendments

We have reviewed the amendments to the wording of Project Deed that have been agreed between ACEREZ and EnergyCo between the submission of the initial revenue proposal and Contract Close. Our role was to determine whether those amendments were made in accordance with the approval process set out in clause 4.2 of the Commitment Deed and that the Project Deed remained consistent with the outcome of the competitive assessment process. If so, the amendments would need to be reflected in our revenue determination.

Most of the wording amendments were administrative or for clarification purposes, or to reflect the agreed outcome of a Net Financial Impact Event. Following our review, we are satisfied all amendments were made consistent with clause 4.2 of the Commitment Deed and remained consistent with the outcome of the competitive assessment process.

Under the EII Regulation, adjustments for a contestable revenue determination must be carried out in accordance with the contractual arrangements the network operator entered into as required under the relevant authorisation.[64] As some of the Project Deed amendments go to detailed wording of adjustment mechanisms set out in our revenue determination, we have remade the revenue determination to reflect these amendments to ensure consistency with the contractual arrangements and to enable the adjustments to be carried out.[65]

Application of adjustment mechanisms

ACEREZ's adjustment proposal includes the application of adjustment mechanisms following Financial Close. The adjustment mechanisms applied were:

- Debt Financing Commitments

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63 'Regulatory requirement' is defined in clause 46(3) of the EII Regulation as 'a requirement imposed on the Network Operator by a relevant law but does not include a requirement to pay a fine, penalty or compensation for a breach of a requirement imposed on the Network Operator by a relevant law'.

64 Clause 51(3)(b) of the EII Regulation.

65 Under section 40(2) of the EII Act, the AER can review and remake a determination at any time, subject to the regulations.

- Foreign Exchange and Commodities
- Delivery Phase Insurance Cost
- Operations Phase Aviation Liability Insurance Cost
- Base Case Interest Rate at Financial Close
- Financial Close cost profile
- BCSS Funding Option
- Alternative Interest Rate Swaps at Financial Close
- GST
- Net Financial Impacts
- CPI
- WPI

We have reviewed ACEREZ's application of each adjustment mechanism and found that they were all applied consistent with the requirements of the Financial Model Update Protocol in the Project Deed and our revenue determination.

Our assessment included a review of the inputs and calculations in the financial model submitted by ACEREZ with its adjustment proposal to ensure that revenue accurately reflected the agreed outcomes. We also had regard to the BDO audit report on the updated model in undertaking our assessment.

Our assessment confirmed that:

- the relevant trigger event for each adjustment has occurred.
- the process used to calculate the adjustment amount was consistent with the Project Deed and our revenue determination.
- all required evidence supporting the adjustment amount was provided.
- the adjustment amounts were properly applied in the financial model.

For the 'Net Financial Impacts' adjustment mechanism, we have reviewed whether each Net Financial Impact was agreed between EnergyCo and ACEREZ in accordance with the principles and processes set out in Schedule 6A of the Project Deed and remain aligned with the risk allocation agreed through the competitive assessment process.

ACEREZ proposed an adjustment to reflect the occurrence of 10 Net Financial Impact Events under the following categories in the definition of 'NFI Event' set out in Schedule 6A of the Project Deed:

- compensation event
- Infrastructure Planner-initiated change
- extension to the expiry date
- external dispute resolution scheme membership fees.

Our review of the application of Net Financial Impact Events confirmed that:

- the relevant trigger event for each Net Financial Impact Event had occurred.
- the calculation of each Net Financial Impact was consistent with the principles and processes in Schedule 6A of the Project Deed.
- all required evidence supporting the agreed Net Financial Impact was provided.

On the basis of the above assessments, we have updated our revenue determination and schedule of payments to reflect the application of the adjustment mechanisms proposed by ACEREZ.

5 Capital costs

5.1 ACEREZ's revenue proposal

ACEREZ's revenue proposal sets out its proposed total capital expenditure as established through the competitive assessment process. The capital cost of the Project is the cost to build and finance the project and is broken down into two main components: development and construction capital costs and non-development and construction capital costs.

Development and construction capital costs

Development and construction capital costs are the primary component of the capital cost of the Project and include:

- Core infrastructure: the costs associated with the development of the electricity network between Barigan Creek and Elong Elong, via Merotherie.
- Hub to Project (H2P) network infrastructure: the costs associated with the development of the network infrastructure that connects generation projects to each energy hub.
- System strength infrastructure: the costs associated with the development of the system strength infrastructure, which primarily involves the purchase and installation of seven synchronous condensers.
- Infrastructure Planner Fees (Construction Fees): used to reimburse EnergyCo its development and project management costs, including management overheads.
- Interest during construction: the interest costs associated with providing project finance prior to the Conversion Date (the date, shortly after the Last Date of Infrastructure Completion, at which the initial construction financing facilities are replaced with longer term project financing facilities).
- Finance fees: establishment fees, commitment fees and undrawn fees paid on debt facilities and equity commitment fees paid in relation to undrawn equity.
- Other costs: such as costs for operation and maintenance of a Separable Portion incurred prior to the Last Date of Infrastructure Completion (where these costs are not treated as operating and maintenance costs).

Development and construction capital costs are financed by ACEREZ through a range of sources including bank debt, equity, Rewiring the Nation funding from the Clean Energy Finance Corporation[66] and Tranche 1 revenue (revenue paid during the delivery phase that is not linked to specific Project milestones). Those development and construction capital costs not funded by Tranche 1 revenue are recovered by ACEREZ through Tranche 2 revenue (revenue paid over the Project term following achievement of Project milestones linked to completion of each Separable Portion) via the return of and return on capital components, and the expiry payment that compensates ACEREZ for the residual value of the network at the end of the Project term.[67]

Non-development and construction capital costs

ACEREZ states that non-development and construction capital costs reflect the bespoke financing structure of the Project. ACEREZ treats replacement expenditure for the network over the contract term as operating and maintenance costs.

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66 https://www.cefc.com.au/where-we-invest/cleaner-greener-energy/rewiring-the-nation-fund/

67 The expiry payment does not form part of the revenue determination.

5.2 AER assessment

Development and construction capital costs

In assessing ACEREZ's proposed development and construction capital costs we must apply the Transmission Efficiency Test to calculate the prudent, efficient and reasonable level of those costs. We must also confirm that they do not exceed the maximum capital cost for the Project advised by the Consumer Trustee.

Transmission Efficiency Test

On the basis of our assessment in section 4, we were satisfied that the competitive assessment processes for the Project were genuine and appropriate.

We have reviewed ACEREZ's proposal and found that the proposed development and construction capital costs are consistent with the outcomes of the competitive assessment processes (as adjusted for the change items) and the Project Deed, except for the one item related to a proposed incentive scheme for the Independent Certifier (discussed in section 4.2, p.25). We requested ACEREZ resubmit the financial model for the Project to reflect the AER's finding that this item was not consistent with the requirements for amendments set out in the Commitment Deed. ACEREZ provided an updated model that excluded the item.

Given the above analysis and on the basis of the revised model provided, we consider ACEREZ's adjusted development and construction capital costs for the Project have met the requirements of the Transmission Efficiency Test.

Maximum capital cost

We found that the development and construction capital costs proposed by ACEREZ do not exceed the maximum capital amount for the project advised by the Consumer Trustee. On this basis, we are able to make our determination on the basis of the development and construction capital costs proposed by ACEREZ, as adjusted in the revised financial model.

Section 31(3) of the EII Act, states that the AER must not disclose the maximum amount to any person. Therefore, the maximum capital amount cannot be disclosed in this document.

Non-development and construction costs

ACEREZ's proposed non-development and construction capital costs are consistent with the outcomes of the competitive assessment processes (as adjusted for the change items and the consequential change from the exclusion of one change item noted above). On this basis, we consider these non-development and construction capital costs to be prudent, efficient and reasonable.

5.3 AER determination

For the reasons provided in section 5.2, we consider ACEREZ's proposed development and construction capital costs for the Project in its revenue proposal can be taken to have met the requirements of the Transmission Efficiency Test and do not exceed the maximum capital amount for the Project advised by the Consumer Trustee.

On this basis, we adopted ACEREZ's proposed development and construction capital costs (as reflected in the resubmitted financial model) in our determination. We also adopted ACEREZ's proposed non-development and construction capital costs (as reflected in the resubmitted financial model) for the reasons provided in section 5.2.

For the reasons provided in section 4.4, we have adjusted the determined development and construction capital cost and non-development and construction capital costs based on ACEREZ's adjustment proposal.

Overall, capital costs for the Project have reduced from the initial revenue determination, reflecting:

- increases in costs from Net Financial Impact Events (largely related to costs associated with the Closing the Loophole legislation[68] and to reflect the final project agreements between ACEREZ and Transgrid) and the application of adjustment mechanisms including 'Foreign Exchange and Commodities', 'Delivery Phase Insurance Cost' and 'Alternative Interest Rate Swaps at Financial Close',
- offset by a cost reduction from the exercise of the 'BCSS Funding Option' adjustment that removes that asset from the package to be funded by ACEREZ.

Following our decision on ACEREZ's adjustment proposal, we provided the remade revenue determination to EnergyCo and requested it calculate and consult with us on the NER-equivalent capital cost for the Project. Consistent with the EII Regulation, after consulting with us, EnergyCo provided the AER with a written notice setting out a NER-equivalent capital cost that was based on the development and construction capital cost set out in our remade revenue determination.[69]

Broadly, the NER-equivalent capital cost reflects the costs to develop and construct the project that will be funded by NSW electricity customers (that is, excluding costs to be funded through access fees by connecting generators), but excludes capitalised interest during construction and finance fees. The NER-equivalent capital cost also includes land and biodiversity costs funded by EnergyCo through a Clean Energy Finance Corporation loan, as this will ultimately be recovered through ACEREZ's revenue determination.

We are required to publish the NER-equivalent capital cost in this summary report under clause 53(1)(a)(ii)(B) of the EII Regulation, instead of our total determined development and construction capital cost.

Table 5.1 sets out the NER-equivalent capital cost for the Project of $5,526.1m (nominal) following our adjustment decision, as calculated by EnergyCo. This is a reduction of $173.2m (nominal) in the total NER-equivalent of the development and construction capital cost set out in our initial revenue determination.

Table 5.1: 'NER-equivalent' development and construction capital cost ($m, nominal)

Development and construction capital costs	2025	2026	2027	2028	2029	Total
Total	**2,977.9**	**1,549.1**	**716.2**	**230.6**	**52.2**	**5,526.1**

68 Closing the Loophole legislation refers to the *Fair Work Legislation Amendment (Closing Loopholes) Act 2023* and the *Fair Work Legislation Amendment (Closing Loopholes No. 2) Act 2024*. This legislation amends workplace relations laws including in relation to labour hire arrangements and delegates' rights.

69 Clause 53(2) of the EII Regulation. The NER-equivalent capital cost is the amount that, in the opinion of the Infrastructure Planner, is equivalent to the amount that would be calculated and published as the capital cost of the Project under the National Electricity Rules.

6 Operating and maintenance costs

6.1 ACEREZ's revenue proposal

ACEREZ's revenue proposal contains operating and maintenance costs associated with the Project, broken down annually into the following categories:

- **Maintenance and Lifestyle (M&L) Costs:** costs incurred by the M&L Contractor responsible for the physical assets of the Project. These costs will largely be incurred during the operations phase.[70] Lifecycle costs include replacement expenditure for the assets over the Project term.
- **Infrastructure Planner Fees (Operations):** costs as decided by EnergyCo as payable to it by ACEREZ during the operations phase. Payment of these fees is a contractual requirement on ACEREZ in the Project Deed. These costs are discussed in section 4.3 of this document.
- **Strategic Benefits Payments:** costs payable to landholders under the NSW Strategic Benefits Payments Scheme. The payments are currently set at a rate of $200,000 (real March 2022) per kilometre of transmission infrastructure hosted on a landholder's property, paid in annual instalments over 20 years. ACEREZ is required to make the payments under the scheme. These costs are discussed in section 4.3 of this document.
- **Network Operator Costs:** costs relating to the management and operation of the Network Operator Special Purpose Vehicle. The Network Operator will be the licenced and registered operator of the Project and be responsible for system operations, compliance and reporting functions.

ACEREZ's proposed operating and maintenance costs will start to be incurred by the Project following the Date of Infrastructure Completion for the first Separable Portion (that is, in 2027–28).

6.2 AER assessment

On the basis of our assessment in section 4 of this document, we were satisfied that the competitive assessment processes for the Project were genuine and appropriate. Further, we consider all amendments to the Project Deed and related contractual arrangements between execution of the Commitment Deed and submission of ACEREZ's revenue proposal affecting operating and maintenance costs were made consistent with the requirements of the Commitment Deed.

We have reviewed ACEREZ's proposal and found that the proposed operating and maintenance costs are consistent with the outcomes of the competitive assessment processes (as adjusted for the change items) and the Project Deed, except for one item.

In our review of the financial model, we identified that an amount for strategic benefit payments in one year was overestimated by $2.4 million. We requested ACEREZ resubmit the financial model for the Project to reflect the revised estimate of the strategic benefit payment. ACEREZ provided an updated model that adjusted the estimated cost for that year.

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70 The M&L Contractor will incur some costs during the delivery phase as it commences mobilisation activities and operations activities for each Separable Portion as it reaches Infrastructure Completion.

Given the above analysis and on the basis of the revised model provided, we consider ACEREZ's adjusted operating and maintenance costs for the Project to be prudent, efficient and reasonable.

6.3 AER determination

For the reasons set out in section 6.3, we consider that ACEREZ's proposed operating and maintenance costs for the Project in its revised revenue proposal to be prudent, efficient and reasonable and are adopted in our determination.

For the reasons provided in section 4.4, we have adjusted the determined operating and maintenance costs based on ACEREZ's adjustment proposal.

Overall, operating and maintenance costs for the Project have reduced from the initial revenue determination, reflecting the net impact of Net Financial Impact Events, including:

- increases in operating costs associated with the Closing the Loophole legislation and an extension to the expiry date (to reflect the date of financial close),
- offset by savings in operating costs, including a reduction in Strategic Benefits Payments to reflect a calculation error in the financial model.

Clause 53(3)(c) of the EII Regulation requires that we only publish operating and maintenance costs for the Project for a 5-year period. Table 6.1 sets out total operating and maintenance costs of $190.7m for that period, broken down by category. This is a reduction in total operating and maintenance costs from the initial revenue determination of $5.0m (nominal).

Table 6.1: ACEREZ's annual operating and maintenance costs over the period 2025–2029 ($m, nominal)

Year	Infrastructure Planner Fees - Operations	Strategic Benefit Payments	Other operating and maintenance costs	Total
2025	0	0	0	0
2026	0	0	0	0
2027	0	0	0	0
2028	0	3.9	48.6	52.5
2029	34.1	3.7	100.3	138.2
Total	**34.1**	**7.7**	**148.9**	**190.7**

7 Total revenue and schedule of payments

7.1 ACEREZ's revenue proposal

ACEREZ's revenue proposal contains a total revenue requirement (amount payable) over the 35-year Project term. The total amount payable is broken down into quarterly payments.

ACEREZ proposed payments be paid to it by the Scheme Financial Vehicle on the first business day of the third month of each quarter. ACEREZ has set out the composition of each payment into the following:

- Return on capital
- Return of development and construction capital costs
- Return of non-development and construction capital costs
- Operating and maintenance costs.

The total amount payable and the above components have been calculated in the financial model agreed between EnergyCo and ACEREZ to reflect the outcome of the competitive assessment processes. Allocation of revenue into the relevant components is based on assumptions specific to ACEREZ's financial model and differs from the approach adopted by the AER under a building block model. As such, these amounts are not directly comparable to amounts in AER revenue determinations made under the National Electricity Rules.

ACEREZ has also proposed that the schedule of payments be subject to adjustment mechanisms set out in the Project Deed. These mechanisms are discussed in section 8 of this document.

7.2 AER assessment

On the basis of our assessment in section 4, we were satisfied that the competitive assessment processes for the Project were genuine and appropriate. Further, we consider all but one change made to the Project Deed and related contractual arrangements between execution of the Commitment Deed and submission of ACEREZ's revenue proposal were made consistent the requirements of the Commitment Deed.

We have reviewed ACEREZ's proposal and found that the proposed total revenue and schedule of payments are consistent with the outcomes of the competitive assessment processes (as adjusted for the change items) and the Project Deed. Our assessment of ACEREZ's total proposed revenue included a review of the inputs and calculations in the financial model submitted by ACEREZ to ensure that revenue accurately reflected the agreed outcomes. We have also had regard to the BDO audit report in undertaking our assessment.

We requested ACEREZ resubmit the financial model for the Project to reflect the AER's findings that the outcome for one change item was not consistent with the requirements for amendments set out in the Commitment Deed, and one item of operating costs was overestimated. ACEREZ provided an updated model that addressed these matters, an audit report from BDO on the revised model and an updated statutory declaration signed by the Chief Executive confirming the model was consistent with the changes requested by the AER.

Given the above analysis and on the basis of the revised model, we consider ACEREZ's adjusted amount payable and schedule of quarterly payments is consistent with the principles in section 37(1) of the EII Act.

7.3 AER determination

Total amount payable and components

Based on our assessment of the competitive procurement processes and ACEREZ's revenue proposal, we determined the total amount payable to ACEREZ over the Project term.

In addition to determining the amount payable to ACEREZ we have also set out amounts for the following components comprising the total amount payable.

(a) repayment of development and construction capital costs,

(b) repayment of non-development and construction capital costs,[71]

(c) the return on capital costs,

(d) an allowance for operating costs,

(e) other components prescribed by the regulations.[72]

For the reasons provided in section 4.4, we adopted ACEREZ's proposed adjustment to revenue and the schedule of payments in the revenue determination.

Clause 53(3)(d) of the EII Regulation requires that we only publish the schedule of payments for a five-year period. As such, table 7.1 sets out our determination on the schedule of payments to be made to ACEREZ by the Scheme Financial Vehicle over the period from the date of our initial revenue determination to December 2029. Payments to ACEREZ over this period total $1,511.9m (nominal), an increase in total revenue from the initial revenue determination of $36.6m (nominal) over the 5-year period. The table also shows the components that the quarterly payments are comprised of.

While total capital expenditure has reduced from the initial revenue determination, debt costs increased following the application of adjustment mechanism 'Alternative Interest Rate Swaps at Financial Close' which increased the return on capital component. Further, there has been a reallocation of some costs from the Expiry Payment to the return of development and construction capital cost component.

71 This component is not required under section 38(2) of the EII Act. We have included it to provide a full breakdown of the total amount payable, given some non-development and construction capital costs are incurred during the Project term.

72 Note that the EII Regulation does not set out any additional components for contestable determinations.

Table 7.1: Schedule of quarterly payments to be made to ACEREZ for 2025–2029 ($m, nominal, GST exclusive)

Quarter ending	Return on capital	Return of development and construction capital costs	Return of non-development and construction capital costs	Operating costs	Quarterly payment
Mar 2025	0	0	0	0	0
Jun 2025	0	0	0	0	0
Sep 2025	0	70.0	0	0	70.0
Dec 2025	0	70.0	0	0	70.0
Mar 2026	0	70.0	0	0	70.0
Jun 2026	0	74.3	0	0	74.3
Sep 2026	0	74.3	0	0	74.3
Dec 2026	0	74.3	0	0	74.3
Mar 2027	0	74.3	0	0	74.3
Jun 2027	0	74.3	0	0	74.3
Sep 2027	0	74.3	0	0	74.3
Dec 2027	0	74.3	0	0	74.3
Mar 2028	0	74.3	0	0	74.3
Jun 2028	0	74.4	0	0.3	74.8
Sep 2028	0	60.5	0	31.9	92.4
Dec 2028	0	64.6	0	20.3	84.8
Mar 2029	0	70.3	0	27.3	97.5
Jun 2029	0	77.9	0	27.0	104.9
Sep 2029	0	82.8	0	56.5	139.3
Dec 2029	0	86.8	0	27.5	114.2
Total	**0**	**1,321.2**	**0**	**190.7**	**1,511.9**

8 Revenue adjustments

8.1 ACEREZ’s revenue proposal

The amounts that ACEREZ has proposed to be paid for carrying out the Project:

- reflect forecasts of key financial parameters such as interest swap rates, CPI and WPI;
- assume that the Project will be undertaken in accordance with the planned project scope and accompanying milestones, operational requirements and performance targets contained in the Project Deed; and
- reflect the legal and regulatory requirements at the time of the ACEREZ’s revenue proposal.

ACEREZ’s revenue proposal contains adjustment mechanisms that, in specific circumstances, provide for changes to the determined revenue and quarterly schedule of payments to reflect outcomes that vary from these forecasts, assumptions and requirements.

In total, ACEREZ’s revenue proposal includes 29 adjustment mechanisms that can be applied to adjust its determined revenue and its quarterly schedule of payments. ACEREZ has provided evidence confirming that each adjustment is consistent with the Project Deed it is required to enter into under its authorisation for the Project. A summary of each of the proposed adjustments is set out below.

ACEREZ’s revenue proposal also sets out the timing of future adjustment and redetermination[73] decisions. It submits that as set out in the Project Deed, these would be made as part of:

- *Annual adjustment processes* throughout the delivery and operations phases of the project.
- *Five-year revenue redeterminations*[74] throughout the delivery and operations phases of the project (these revenue redeterminations would replace the annual adjustment process in the relevant year).

In addition to these regular adjustment decisions, ACEREZ has also proposed a set of additional adjustment or redetermination decision points based on the occurrence of specific project milestones or events:

- *Financial Close Revenue Determination Adjustment* – adjustment proposal to be submitted to the AER after Financial Close.
- *Interim Delivery Phase Revenue Determination Adjustment* – adjustment proposal to be submitted to the AER if a Liquidity Financing Facility (LFF) Increase Event occurs.
- *Final Delivery Phase Revenue Redetermination* – adjustment proposal to be submitted to the AER after all Separable Portions have achieved Infrastructure Completion and all Foundation Energy Supplier Facilities have achieved Operational Completion. As this decision point is a significant event in the Project that will trigger a number of adjustment mechanisms (including adjusting determined revenue to

73 A redetermination may refer to remaking the determination under section 40(1) of the EII Act or a ‘review and remake’ under section 40(2) of the EII Act.

74 Section 40(1) of the EII Act requires the AER to remake a determination once every 5 years.

reflect repayment of the LFF), we will review and remake the determination in applying any adjustments.

- *Interim Operations Phase Revenue Determination Adjustments* – adjustment proposal to be submitted to the AER if an Operations Phase Liquidity Event occurs.
- *Additional Revenue Redetermination* – revenue proposal to be submitted to the AER if the Network Operator is notified that the Consumer Trustee has directed an Additional Revenue Redetermination.[75]
- *Final Revenue Adjustment Decision* – adjustment proposal to be submitted to the AER at the completion of the Project term (after the Expiry Date).

The decision points set out above will typically not require the AER to review and remake our determination unless noted as a redetermination. However, the AER in assessing an adjustment proposal may decide to apply the adjustment through a review and remake of the determination.[76] Whether an adjustment mechanism requires a revenue determination to be 'reviewed and remade' necessarily involves a case-by-case approach, requiring consideration of the individual facts and circumstances of the proposed adjustment, including whether the adjustment reflects the occurrence of a significant event. There is no quantitative cost threshold applied. However, where the adjustment is not mechanical in nature or requires a more rigorous assessment, we consider the adjustment may require the revenue determination to be reviewed and remade.

Not all adjustment mechanisms are applied at all decision points. In particular, a sub-set of adjustment mechanisms apply only at the Financial Close Revenue Determination Adjustment decision point.

Table 8.1 sets out the adjustment mechanisms contained in the Project Deed to be applied at the Financial Close Revenue Determination Adjustment. Note that capitalised terms have the meaning stated in the Project Deed.

The wording of adjustment mechanisms 'Financial Close Date and Cost Profile Adjustment' and 'GST' have been updated based on ACEREZ's adjustment proposal to ensure the adjustment mechanisms reflect the wording in the Project Deed. As noted in section 4.4, all amendments were made consistent with clause 4.2 of the Commitment Deed and remained aligned with the agreed commercial positions.

Table 8.1: Adjustment mechanisms to be applied in the Financial Close Revenue Determination Adjustment

Adjustment Name	Description
Debt Financing Commitments	Revenue will be adjusted to reflect the final terms of the debt financing commitments (including pricing of debt and hedging products, margins and upfront fees) entered into at Financial Close between ACEREZ and the debt financiers, replacing the estimates in our determination.
Foreign Exchange and Commodities	Revenue will be adjusted to reflect the change in the Australian dollar cost of specified equipment and materials due to movements in foreign currency exchange rates and commodity prices.
Delivery Phase	Revenue will be adjusted to reflect the agreed costs at Financial

75 Section 40(1)(b) of the EII Act.

76 Clause 51(2)(b) of the EII Regulation.

Adjustment Name	Description
Insurance Cost	Close for specified insurance policies related to the delivery (construction) phase, replacing the estimates in our determination.
Operations Phase Aviation Liability Insurance Cost	Revenue will be adjusted to reflect the agreed cost for Aviation Liability Insurance (Non-Owned Aviation Liability) at Financial Close, replacing the estimates in our determination.
Base Case Interest Rate at Financial Close	Revenue will be adjusted to reflect an updated interest rate forecast at Financial Close. This base case interest rate will inform forecasts of debt financing costs for the Project term.
Financial Close cost profile	Revenue will be adjusted to reflect the actual date of Financial Close, any changes to key project dates (Infrastructure Completion, Operational Completion and the Expiry Date), or where the Infrastructure Planner requests a reallocation of costs across the RNI Separable Portions or a reprofiling of costs within a RNI Separable Portion. These changes will result in a reprofiling of project expenditure and revenue, and a recalculation of the expiry payment.
BCSS Funding Option	Revenue will be adjusted if EnergyCo elects to change in the financing arrangements for the Barigan Creek Switching Station.
Interest Rate Swaps at Financial Close	Revenue will be adjusted to reflect any difference between the swap rate assumptions in our revenue determination and the actual interest swap rates agreed for the Debt Financing Facilities at Financial Close.
Alternative Interest Rate Swaps at Financial Close	An alternative mechanism to 'Interest Rate Swaps at Financial Close'. This mechanism applies a different swap execution protocol in setting the actual interest swap rates.
GST	The financial model for the initial revenue determination assumed that GST is not payable by the Scheme Financial Vehicle on amounts paid to ACEREZ. EnergyCo may direct an update to the financial model to reflect the application of GST to amounts paid by the Scheme Financial Vehicle to ACEREZ.
Net Financial Impact Events	Where a Net Financial Impact Event[77] occurs and the cost impact is determined in accordance with Schedule 6A (Net Financial Impacts) of the Project Deed, any required revenue adjustment will be applied through this adjustment mechanism. *Note: This adjustment mechanism can also be applied in later (post-Financial Close) adjustment decisions.*
CPI	Revenue will be adjusted to reflect differences between the forecast and actual Consumer Price Index (CPI) applied to specified costs. *Note: This adjustment mechanism can also be applied in later (post-Financial Close) adjustment decisions.*
WPI	Revenue will be adjusted to reflect differences between the forecast and actual Wage Price Index (WPI) applied to specified costs.

[77] Net Financial Impact Events are specific events defined within Schedule 6A of the Project Deed, for which ACEREZ can make a claim for costs. Schedule 6A sets out the process for resolving any claim for costs.

Adjustment Name	Description
	Note: This adjustment mechanism can also be applied in later (post-Financial Close) adjustment decisions.

Table 8.2 sets out the adjustment mechanisms contained in the Project Deed to be applied at adjustment and redetermination decision points post-Financial Close. Not all adjustments in table 8.2 apply at all adjustment and redetermination decision points.

The adjustment mechanism ‘GST’ can no longer be included in subsequent adjustment proposals post-Financial Close based on a change to the adjustment mechanism requested in ACEREZ’s adjustment proposal. This change reflects that EnergyCo directed that GST should apply to the Project and considers the matter is fully resolved through the application of the ‘GST’ adjustment mechanism as part of our remade revenue determination.

Table 8.2: Adjustment mechanisms to be applied throughout the Project term

Adjustment Name	Description
Thin Capitalisation Tax Changes	Revenue may be adjusted to ensure ACEREZ is no better or worse off following a ‘Thin Capitalisation Outcome’ resulting from the application of the Thin Capitalisation Tax Changes.
Early Operational Completion	Revenue will be increased if ACEREZ achieves early Operational Completion of a Foundation Energy Supplier Facility (the connection point to the network infrastructure), with ACEREZ entitled to claim additional equity payments for each day it is early relative to the original date.
LFF Notional Term Out	Revenue may be increased to reflect a ‘notional’ repayment of amounts drawn down from the LFF, following an LFF Increase Event.
LFF Repayment	Revenue will be increased to reflect the repayment of amounts drawn down from the LFF at the time the facility is closed.
Extension to Expiry Date	Revenue may be adjusted to reflect a reprofiling of debt and equity components as a result of an extension to the Expiry Date (in response to a change to the Last Date for Infrastructure Completion).
Extensions of time for Operational Completion	Revenue may be adjusted where there is an extension of time granted to the Date for Operational Completion of a Foundation Energy Supplier Facility. The adjustment is to compensate ACEREZ for any revenue withheld due to a delay in achieving Operational Completion, where ACEREZ is subsequently granted an extension of time.
Joint Completion Incentive Amount	Revenues may be adjusted to reflect any incentive payment amount due to ACEREZ where Connection Completion of Barigan Creek Switching Station to the Merotherie Energy Hub is achieved on or before the Reference Date.
Net Financial Impact Events	Where a Net Financial Impact Event occurs and the cost impact is determined in accordance with Schedule 6A (Net Financial Impacts) of the Project Deed, any required revenue adjustment will be applied through this adjustment mechanism.
CPI	Revenue will be adjusted to reflect differences between forecast and actual CPI applied to specified costs.
WPI	Revenue will be adjusted to reflect differences between forecast and actual WPI applied to specified costs.

Adjustment Name	Description
RSP True-up	Where a revenue adjustment results in a revised calculation of revenue for a previous revenue period, this adjustment mechanism will 'true-up' the revenue amount.
Sync Con M&L FX and Escalation	Revenue will be adjusted to reflect updated operating cost amounts in the synchronous condenser service agreement based on actual indexation and foreign exchange rates.
Relevant Other Expenditure Amounts	Revenue may be adjusted to reflect a release from the RSP Account, if agreed between EnergyCo and ACEREZ, to fund additional expenditure requirements related to the Project but not covered by our revenue determination.
Interest rate Adjustment	Revenue will be adjusted to reflect any difference between the Base Case Interest Rate and the final interest rates determined for the Debt Financing Facilities.
Release from RSP Account	Amounts paid to ACEREZ must first be deposited into the RSP Account. The RSP Account is controlled by EnergyCo, allowing it to withhold revenues from ACEREZ in response to certain conditions or trigger events. This adjustment decreases revenue to reflect the release of money to ACEREZ that was previously withheld in the RSP Account. This results in the withheld RSPs being permanently deducted from ACEREZ's determined revenue. The following events may result in an amount being retained in the RSP Account: • Delays to Infrastructure Completion[78] – an amount for each day late in achieving Infrastructure Completion of a Separable Portion. • Delays to Operational Completion[79] – an amount for each day late in achieving Operational Completion of each Foundation Energy Supplier Facility. • Network Operator Performance Regime abatement – an amount to reflect the Network Operator's failure to meet specified performance targets/standards. • Asset Management Failure – an amount where ACEREZ fails to remedy Asset Management Failures within the remediation period. • Date of Construction Commencement – an amount for each day late in achieving Construction Commencement from the Accelerated Construction Date. Amounts withheld in the RSP Account may be used by EnergyCo for certain costs related to the Project. Any remaining amounts are released from the RSP Account to ACEREZ at each revenue adjustment or redetermination decision from the end of the delivery phase.

78 Infrastructure Completion is defined in section 13.2 of the Project Deed and includes achievement of requirements including completion of works and first energisation.

79 Operational Completion is defined in section 13.8 of the Project Deed and includes achievement of requirements including a Foundation Energy Supplier Facility having connected and exported electricity.

Adjustment Name	Description
Refinancing	Revenue may be reduced to reflect a Refinancing Gain.
Base Case Interest Rate after Financial Close	Revenue may be adjusted for any updates to the Base Case Interest Rate, if advised by EnergyCo.
Consumers' Additional Net Revenue Share	Revenue may be adjusted to reflect sharing of 50 per cent (or a lesser agreed amount) of Net Additional Revenue earned by ACEREZ from use of the Project's assets for activities and services outside the Project scope.
Asset Management Failure	Revenue may be adjusted to reverse any Asset Management Failure deductions withheld in the RSP Account, where ACEREZ remedies the Asset Management Failure.

The Project Deed includes 24 Net Financial Impact Events for which ACEREZ may make a claim for costs. If ACEREZ's Net Financial Impact claim is approved by EnergyCo, it can propose an adjustment under the 'Net Financial Impact Events' adjustment mechanism.

Two new Net Financial Impact Events were added to the Project Deed subsequent to our initial revenue determination, and one existing Net Financial Impact Event was amended. We have updated our revenue determination to reflect the Net Financial Impact Events in the Project Deed based on our assessment in section 4.4.

Net Financial Impact Events include Compensation Events (such as a change in law), changes (for example, to the project scope or timing) directed by the Infrastructure Planner, events or activities that are outside the control of ACEREZ and provisions to reflect the final cost of regulatory obligations on ACEREZ where these are currently unknown.

The Project Deed includes a range of options for initially funding a Net Financial Impact amount. These include drawing down funds from the Liquidity Finance Facility (which will be reflected in ACEREZ's revenue through the 'LFF Repayment' adjustment mechanism), or by directly adjusting ACEREZ's future revenue through the 'Net Financial Impact Events' adjustment mechanism.

ACEREZ and EnergyCo can also agree on additional adjustment mechanisms as part of a Net Financial Impact assessment and incorporate these mechanisms in the Project Deed. However, these mechanisms can only be included in our determination through a redetermination process.

8.2 AER assessment

We reviewed the adjustment mechanisms set out in ACEREZ's revenue proposal and found them to be consistent with the Project Deed ACEREZ is required to enter into under its authorisation for the Project.

As part of our review of the adjustment mechanisms, we engaged with ACEREZ and EnergyCo to ensure the mechanisms could be practicably applied and were unambiguous. ACEREZ and EnergyCo agreed to a number of changes to the adjustment mechanisms to provide additional clarity as to their operation.

8.3 AER determination

The 29 adjustment mechanisms proposed by ACEREZ have been included in our revenue determination as they reflect the outcome of the competitive assessment processes as set out in the Project Deed.

Net Financial Impact Events are not explicitly set out in the revenue determination. They are incorporated into our determination through the operation of Adjustment Mechanism TM-01 – Net Financial Impacts. Under this adjustment mechanism, ACEREZ can propose an adjustment to the schedule of payments to reflect the outcome of a successful Net Financial Impact claim under Schedule 6A of the Project Deed.

Glossary

Term	Definition
AER	Australian Energy Regulator
ACEREZ	The authorised Network Operator for the Main CWO REZ network project: 1. Cobra CWO NO Pty Limited (ACN 670 780 631) as trustee of the Cobra CWO NO Trust; 2. Concesiones CWO REZ NO Pty Limited (ACN 670 755 521) as trustee of the Concesiones CWO REZ NO Trust; and 3. Edwards REZ NO Pty Limited (ACN 670 791 321) as trustee of the Edwards REZ NO Trust, ERIC Epsilon REZ NO 1 Pty Ltd (ACN 669 396 801) as trustee of the ERIC Epsilon REZ NO Trust 1, ERIC Epsilon REZ NO 2 Pty Ltd (ACN 669 396 909) as trustee of the ERIC Epsilon REZ NO Trust 2, ERIC Epsilon REZ NO 3 Pty Ltd (ACN 669 397 040) as trustee of the ERIC Epsilon REZ NO Trust 3 and ERIC Epsilon REZ NO 4 Pty Ltd (ACN 669 397 237) as trustee of the ERIC Epsilon REZ NO Trust 4, being a partnership carried on under the name of Endeavour REZ NO Partnership, operating as a partnership carried on under the name of ACEREZ Partnership (ABN 48 205 081 299).
Authorisation	As defined in section 36(4) of the *EII Act*, means: (a) an authorisation by the Consumer Trustee under section 31 to carry out a REZ network infrastructure project, or (b) an authorisation by the Minister under subsection (2), or (c) a direction given by the Minister under section 32 to carry out a REZ network infrastructure project or priority transmission infrastructure project.
Competitive Assessment Process	As defined in Schedule 4 of the *EII Regulation,* means a process carried out by the Infrastructure Planner under clause 45 of *EII Regulation* to competitively assess persons who apply to carry out all or part of – (a) a REZ network infrastructure project, or (b) a priority transmission infrastructure project.
CPI	Consumer Price Index
Consumer Trustee	As defined in the *EII Act*, means a person or body authorised under section 60 of the *EII Act* to exercise the functions of the *Consumer Trustee*. AEMO Services Ltd has been appointed by the Minister as the Consumer Trustee.
EII Act	*Electricity Infrastructure Investment Act 2020 (NSW)*
EII Framework	The *EII Act* and any regulations made under it.
EII Regulation	*Electricity Infrastructure Investment Regulation 2021 (NSW)*
EOI	Expression of interest
Guideline	The *Revenue Determination Guideline for NSW contestable network projects* prepared and published by the AER in August 2022 as updated

Term	Definition
	from time to time.
H2P	Hub-to-Project
IC	Independent Certifier
Infrastructure Planner	A person authorised to exercise the functions of an Infrastructure Planner under section 63 of the *Ell Act*. The Infrastructure Planner performs a range of planning and contracting functions. The Energy Corporation of NSW has been appointed to undertake this role for the five REZs specified in section 23 of the *Ell Act*.
Main CWO REZ Network Project	The main Central-West Orana Renewable Energy Zone network infrastructure project, as authorised by the C*onsumer Trustee* under section 31 of the *EII Act* on 4 June 2024.
Maximum Capital Cost	The maximum amount for the prudent, efficient and reasonable capital costs to develop and construct each network infrastructure project as notified to the AER by the Consumer Trustee under section 31(2) of the *EII Act*. In accordance with section 31(3) of the *EII Act* the maximum capital cost must not be disclosed by the AER to any person. The AER must ensure when determining the amount payable to a Network Operator under section 38 of the *EII Act* that the amount we determine for the capital costs for the development and construction of the Project does not exceed the maximum capital cost.
Minister	The New South Wales Minister for Energy
Network Operator	As defined in the *EII Act* means a person who owns, controls or operates, or proposes to own, control or operate, infrastructure under the *Ell Act.*
Priority Transmission Infrastructure Project	As defined in the *EII Act* means a transmission infrastructure project that: (a) is located in the State, and (b) is identified in, or forms part of an infrastructure project identified in, the most recent Integrated System Plan published by AEMO under the National Electricity Rules.
Procurement Rules	Rules set out in the Infrastructure Planner's procurement strategy for undertaking a competitive assessment process.
Procurement Strategy	A strategy for undertaking a competitive assessment process.
Network Infrastructure Project	A REZ network infrastructure project or priority transmission infrastructure project as defined under the *Ell Act*.
REZ or Renewable Energy Zone	As defined in the *EII Act* means the geographical area of NSW and the infrastructure specified in a declaration by the Minister under section 19 of the *Ell Act*.
REZ Network Infrastructure Project	As defined in the *EII Act* means a network infrastructure project that: (a) forms part of a renewable energy zone, and (b) consists of network infrastructure of a class prescribed by the regulations.
RFT	Request for Tender
RNI	Renewable Energy Zone Network Infrastructure

Term	Definition
RFP	Request for proposal
RSP	RNI Service Payments (that is, the schedule of payments contained in our determination).
SFV (Scheme Financial Vehicle)	A person or body authorised under section 62 of the EII Act to exercise the functions of the Scheme Financial Vehicle.
TET (Transmission Efficiency Test)	The test to be applied to calculate the prudent, efficient, and reasonable capital costs for development and construction of a network infrastructure project.
WPI	Wage Price Index