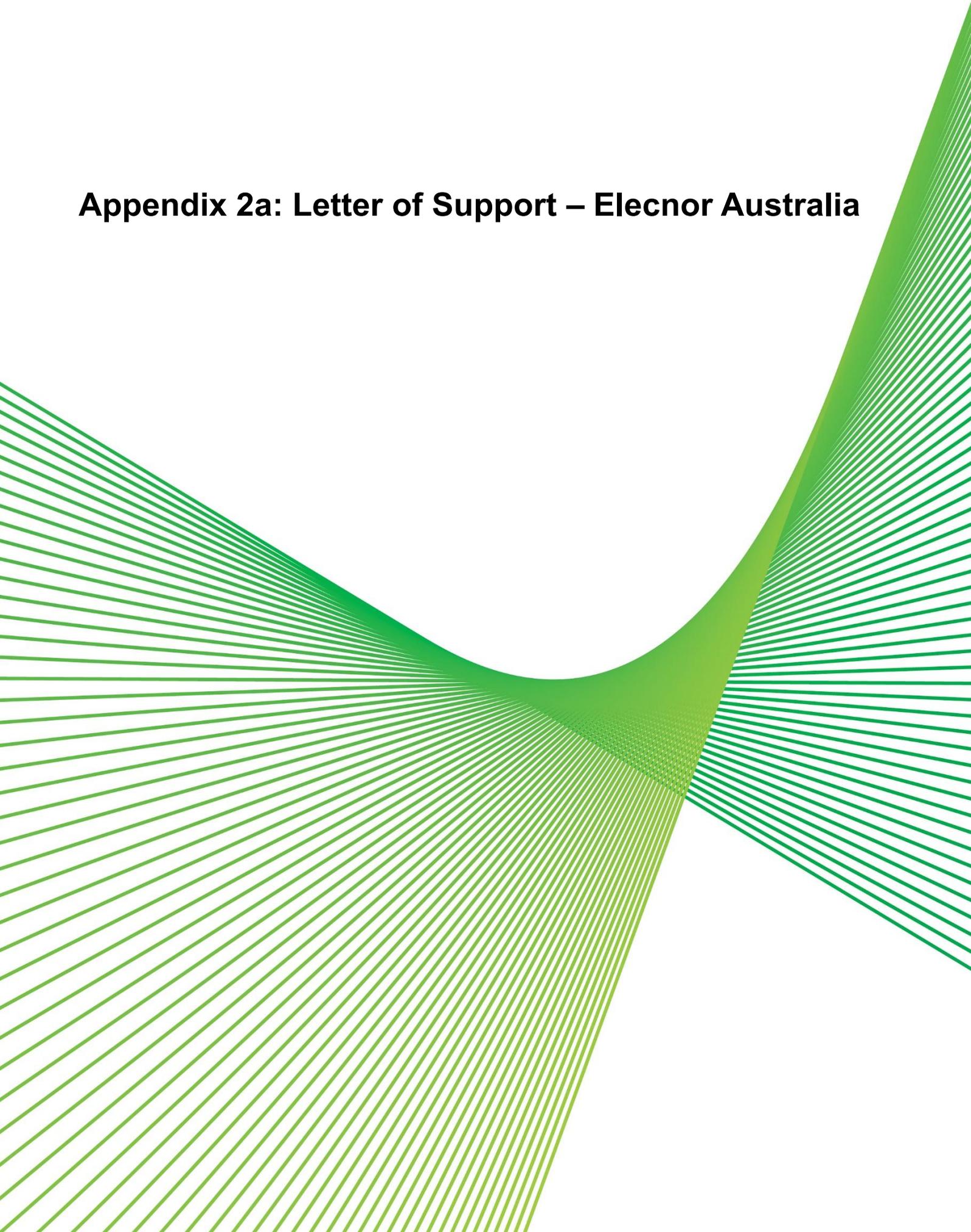


Appendix 2a: Letter of Support – Elecnor Australia



██████████
NSW Electricity Networks Operations Pty Ltd as
trustee for the NSW Electricity Networks Operations
Trust trading as Transgrid
180 Thomas Street
Sydney NSW 2000

13 November 2025

Dear Michael,

1. INTRODUCTION

Elecnor Australia have prepared this letter to provide certain details concerning the failure of the original EPC Contract and the processes by which the parties arrived at the terms and conditions in the new ICC contract.

This letter is provided by Elecnor Australia in support of Transgrid's reopener application to the Australian Energy Regulator.

This document also outlines the main challenges identified during the initial phase of the project (**SP1**) and the actions implemented to address them to ensure the success of SP2. These include organisational changes, system improvements, and a renewed focus on safety, planning, production control, and cost management.

2. CONTEXT

SEJV and Transgrid executed the EPC Contract during June 2021. In December 2022 Clough entered into voluntary administration, following which Elecnor Australia confirmed to Transgrid that it would fulfil Clough's obligations under the EPC Contract, taking full operational and financial control of SEJV, as well as sole liability and responsibility for the delivery of the project.

Because of Clough's entry into voluntary administration in December 2022, Elecnor Australia was unable to access all the project information necessary to manage Project Energy Connect (**PEC**), which was stored on Clough systems. Elecnor Australia progressively gained access to the information previously managed by Clough in mid-2023.

3. COST INCREASE

Once Elecnor Australia had full access to the PEC project information, Elecnor Australia was able to identify that the PEC was facing significant cost challenges, which were greater than Elecnor Australia's assessment in its letter to the AER in January 2023 concerning material cost increases.

The causes of the cost increases include:

- COVID-19
- Russia-Ukraine war
- Global hyperinflation
- Global maritime logistics issues
- Clough's voluntary administration and its consequences
- Extreme rainfall and flooding
- Incomplete engineering for construction primarily due to lack of opportunity to undertake investigations in tender due to Covid, for instance in existing substations
- Shortage of qualified personnel with Power Transmission experience and experience in the erection and assembly of towers

- Planning and environmental approvals by the NSW Department of Planning and Environment and the Commonwealth.

These causes of cost increase were ongoing over a long period of time and severely impacted the project, making it difficult to achieve a level of certainty regarding the costs to complete the project. It was only once Elecnor Australia had access to the Clough systems, work had progressed sufficiently on site to understand achievable production rates, and the market had stabilised in relation to the matters noted above, that Elecnor Australia was able to provide a revised contract price that confidently reflected the likely costs of delivering the project.

4. IMPACT OF THE COST INCREASE

The magnitude of the cost increase meant that the cost to deliver PEC substantially exceeded the contract price under the original EPC Contract as well as the total liability of Elecnor Australia and Elecnor S.A. and PEC would not be completed without a new contract.

5. NEGOTIATIONS WITH TRANSGRID

Transgrid and Elecnor Australia have been negotiating various claims and variations throughout 2023 and 2024, however it became apparent to both parties that the forecasts made during the Best and Final Offer in late 2020 were vastly different to the costs required to deliver PEC in 2023 and beyond. Whilst the parties had been working through various temporary solutions, it became clear that a new contract and a new contract price would be the only way to deliver PEC in a timely and efficient manner.

6. NEW CONTRACT PRICE

Elecnor Australia has been in negotiations with Transgrid with the aim of reaching a new contractual agreement that allows for the completion of the project under financial conditions that reflect the current reality, are based on a revised contractual schedule and have been calculated on a fair and reasonable basis and with due consideration of Elecnor Australia's risk exposure for securities and parent company guarantee, as well as the potential for litigation, should a new arrangement not be agreed between the parties.

Three specific milestones have provided the necessary conditions to re-evaluate the project execution price with logic and accuracy:

6.1. *March 2024 – Cost To Date Including Comparison of Invoices Vs. Progress*

Following Clough's exit from the project, Elecnor Australia continued to deliver the project, including undertaking the works that would have been undertaken by Clough, such as the civil works. Concurrently, Elecnor Australia was forced to re-implement all project management and accounting systems, as these belonged to Clough and were not transferred to Elecnor Australia. Additionally, Elecnor Australia was also required to obtain scheme accreditation from the Office of the Federal Safety Commissioner, which created additional uncertainty and delay.

As a result, whilst Elecnor Australia ensured project operations continued throughout 2023, they were managed with an accounting system still under implementation, leading in some cases to a delay of up to 150 days between the actual execution of activities and the processing of payment claims and invoices.

Thus, any comparison between executed works and associated costs lacked accuracy. The backlog of delayed invoices was cleared in March 2024, enabling accurate cost analysis from that point onwards.

6.2. *June 2024 – Assessment of productivity rates following completion of L1 Works and Civil and Electromechanical Works of S1a*

Until substantial parts of the construction works were completed, Elecnor Australia was unable to measure actual productivity rates. These real productivity rates, together with the information referred to in paragraph 6.1, became the basis for calculating the costs of L2, L5, S3, and S2 with greater precision. Consequently, the camp facilities, logistics, and other support departments were proportionally adjusted in terms of headcount and duration of stay.

6.3. *July 2024 – Release of Commonwealth Conditions 1 and 2*

Until mid-2024, over 50% of L2 and L5 were blocked, primarily due to outstanding environmental permits due to inconsistency between the NSW Planning and Environment approval and the

Commonwealth Planning and Environmental Approval. Following rectification of the approval, the final construction strategy for these works was established, defining the new budget and schedule for their execution.

6.4 Contract Reprice

With accurate analysis of cost to date, assessment of achievable productivities and a release of the planning constraints, a new price was calculated on a fair and reasonable basis, as explained in further detail below.

7. METHODOLOGY FOR THE NEW PRICE CALCULATION

Due to the significant cost increase, it was concluded that any comparison with the BAFO (Best and Final Offer) was no longer meaningful. Therefore, the new contract price calculation methodology had to be based on actual data and lessons learned from SP1, which only became fully available from July 2024 onwards as SP1 was completed.

The new calculation was divided into two components: the Base Case and the Risk Cost Allowance.

The Base Case reflects a project without constraints, using actual productivities, executed quantities aligned with engineering, and the rates paid for SP1 execution.

The Risk Cost Allowance includes the typical execution conditions of projects, considering constraints such as productivity fluctuations due to weather, safety conditions, subcontractor shortages, or inflation-driven cost increases.

The new contract price was developed on the basis of providing Elecnor Australia with a reasonable opportunity to recover its costs of completing PEC, and did not include an allowance for profit.

8. REVIEW OF THE NEW PRICE CALCULATION

The new price calculation was calculated by the cost controllers, along with the construction managers who would be undertaking the works, with the knowledge of Line 1, Substation 1a and Line 4 proven productivities and known challenges. Furthermore, the procurement of the majority of the subcontractors and materials was completed locking in the price further.

As the price is intrinsically linked to the schedule, the same exercise was undertaken in relation to the programme to ensure correct productivities, sequencing and constraints were assessed and incorporated.

The new price was then reviewed and critically examined firstly by the Project Coordinators (Project Managers) for each sub project, then by the discipline directors and finally at the project level by the Programme Director. Risk was assessed at every review and mitigations incorporated as appropriate.

Once the Programme Director was satisfied that the correct price had been calculated on a reasonable basis, further reviews were undertaken by the Elecnor Australia corporate discipline Country Managers, and Elecnor S.A. discipline General Managers and finally the Managing Director and CEO, before the new offer went to the board for final approval. The new price was critically examined and refined at every level. Furthermore, the new price was reviewed and critically examined by Transgrid from July 2024 through to October 2024. The process included Transgrid's Procurement, Commercial, Planning, Estimating and Construction personnel. During numerous sessions these personnel critically examined the programme, construction methodologies and productivities, supply rates, risks, opportunities and contingencies.

Therefore, with the knowledge built up from work undertaken, orders placed and constraints being released, this allowed for pricing the works on a reasonable basis, and with the robust and rigorous review process, it can be assured that the new price is the correct price. In addition, Transgrid secured performance commitments that were backed by incentive, audit and penalty regimes that put pressure on Elecnor Australia to overcome the remaining project delivery challenges.

9. CONCLUSION

The establishment of the new ICC contract for PEC following the failure of the EPC contract facilitates the completion of PEC at cost, avoids litigation between the Elecnor Group and Transgrid, and only enables Elecnor Australia to realise a profit due to better than market performance and risk management, and subject to the profit being shared with Transgrid per the profit share mechanism.

This outcome reflects a fair and pragmatic resolution to a set of unique and unforeseeable circumstances that were largely beyond the control of either party, despite the original contractual risk allocation. It represents an equitable outcome, negotiated by the parties, for ensuring the timely and efficient delivery of a critical infrastructure project.



PEC Project Director