



Australian Government



**AUSTRALIAN
ENERGY
REGULATOR**

Preliminary Position paper

**System Strength Project
(hybrid priority network infrastructure project)**

(1 October 2026 – 30 September 2031)

**Appendix A
Adjustment mechanisms**

June 2026

© Commonwealth of Australia 2026

This work is copyright. In addition to any use permitted under the *Copyright Act 1968* all material contained within this work is provided under a [Creative Commons Attributions 4.0 International licence](#) with the exception of:

- the Commonwealth Coat of Arms
- the AER logo
- any illustration diagram, photograph or graphic over which the AER does not hold copyright but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website as is the full legal code for the CC BY 4.0 licence.

Important notice

The information in this publication is for general guidance only. It does not constitute legal or other professional advice. You should seek legal advice or other professional advice in relation to your particular circumstances.

The AER has made every reasonable effort to provide current and accurate information, but it does not warrant or make any guarantees about the accuracy, currency or completeness of information in this publication.

Parties who wish to re-publish or otherwise use the information in this publication should check the information for currency and accuracy prior to publication.

At the AER, we use artificial intelligence (AI) to enhance our internal productivity and data analysis. Our AI tools do not make decisions or take action on our behalf. We maintain high standards of security measures to safeguard personal information. The AER remains fully responsible for all work and oversight, including checking the quality of any AI outputs. We ensure our AI use complies with all legal and regulatory requirements. To learn more, see the [ACCC/AER AI transparency statement](#). If you have any questions about this statement or would like further information on our use of AI, please contact us.

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Email: aer inquiry@aer.gov.au
Tel: 1300 585 165

AER reference: #32077102

Contents

A. Adjustment mechanisms	1
A.1 Adjustment mechanisms for events prescribed in EII Chapter 6A	1
A.2 Adjustment mechanisms for routine administrative events	2
A.3 Adjustment mechanisms for standard events	3
A.4 Adjustment mechanisms for ‘other events’	7
A.5 Adjustment mechanisms for contract-related events	10
Glossary	34

A. Adjustment mechanisms

A.1 Adjustment mechanisms for events prescribed in EII Chapter 6A

Transgrid’s proposal contained 4 adjustment mechanisms for events prescribed in our revenue determination guideline for non-contestable network infrastructure projects (EII Chapter 6A), which largely mirrors Chapter 6A of the NER. They are:

- a regulatory requirement as defined in clause 46(3) of the EII Regulation
- a service standard event
- a tax change event
- an insurance event.

Revenue adjustments for events prescribed in EII Chapter 6A are intended to be available for all Network Operators. These events have the same definition under the EII framework as they do under the NER.

Our preliminary position is that we are likely to accept all 4 of the proposed adjustment mechanisms for events prescribed in EII Chapter 6A (Table 1) as they are consistent with our 2026–31 final determination for the Enabling Central-West Orana (CWO) project.

Table 1 AER’s preliminary position on adjustment mechanisms for events prescribed in EII Chapter 6A

Adjustment event	Description of adjustment
Regulatory Requirements as defined in cl.46(3) of the EII Regulation	An increase or decrease in the revenue Transgrid may recover to accommodate additional prudent, efficient, and reasonable costs Transgrid incurs in complying with a regulatory requirement, as defined in cl. 46(3) of the EII Regulation.
A service standard event	An increase or decrease in the revenue Transgrid may recover to accommodate the additional costs Transgrid incurs from a service standard event, as defined in NER Chapter 10, Service Standard Event.
A tax change event	An increase or decrease in the revenue Transgrid may recover to accommodate the additional costs Transgrid incurs from a tax change event, as defined in NER Chapter 10, Tax Change Event.
An insurance event	An increase or decrease in the revenue Transgrid may recover to accommodate the additional costs Transgrid incurs from an insurance event, as defined in NER Chapter 10, Insurance Event.

A.2 Adjustment mechanisms for routine administrative events

Transgrid’s proposal contained 3 adjustment mechanisms for routine administrative events. These are:

- Updates for actual inflation
- Updates to return on debt
- Updates to return on equity.

We have amended the names and definitions of each adjustment mechanism for a routine administrative event in Transgrid’s proposal to reflect similar wording used in our 2026–31 Enabling CWO project final determination.¹ Specifically, from:

- ‘Updates for actual inflation’ to ‘Annual update for actual inflation’
- ‘Updates to return on debt’ to ‘Return on debt update’
- ‘Updates to return on equity’ to ‘Risk-free rate update’.

We consider this change was appropriate to maintain regulatory consistency between determinations but does not change the operation of the adjustment mechanisms proposed by Transgrid in its revenue proposal. We have also amended the relevant CPI quarter for the actual inflation adjustment to reflect our standard approach for other EII decisions.

Our preliminary position is that we are likely to accept all 3 adjustment mechanisms for routine administrative events, along with the definitions in Table 2, as they are consistent with our 2026–31 final determination for the Enabling CWO project.

Table 2 AER’s preliminary position on adjustment mechanisms for routine administrative events

Adjustment event	Description of adjustment
Annual update for actual inflation	An annual update to revenue for the actual rate of inflation. Actual inflation is the percentage change in the relevant price index “ABS CPI Quarterly All Groups, Australia”, as published by the Australian Bureau of Statistics’ (ABS), from March in year t-2 to March in year t-1. Should this index cease to be calculated or is substantially changed, the AER will nominate the best available substitute index.
Return on debt update	Adjustment to update the allowed rate of return, to reflect more recent averaging periods. The updated allowed rate of return is the applicable rate of return calculated for year t, updated for the return on debt

¹ AER, *Final decision – Transgrid – Central-West Orana Enabling REZ non-contestable project 2026–31 – Appendix B – Adjustment mechanisms*, January 2026, p. 3.

calculated for year t, in accordance with the 2022 RORI and using the averaging periods approved by the AER.²

Calculation of the trailing average cost of debt will follow the approach set out in the AER's final decision, including any transition to the trailing average for the return on debt calculation.

Risk-free rate update	<p>An adjustment to the return on equity to true-up for the final averaging period for the risk-free rate.</p> <p>In the event the risk-free rate from Transgrid's nominated averaging period is not available at the time of the AER's Revenue Determination, the return on equity is to be updated prior to the first year of the regulatory period. The final decision risk-free rate, and subsequently the return on equity, is to be recalculated using the nominated averaging period as approved in the final decision.</p>
-----------------------	--

A.3 Adjustment mechanisms for standard events

Transgrid's proposal contained 4 'Common Adjustments in AER determinations' to reflect the pass-through events accepted by the AER in Transgrid's 2023–28 Revenue Determination under the NER. We have changed the name of this category of event to 'standard events' to ensure consistency with our 2026–31 revenue determination for the Enabling CWO project.

We made the following minor changes to the descriptions of Transgrid's proposed adjustment mechanisms for standard events:

- All 'standard event' definitions – we have added wording to clearly identify the cost impacts flowing from the trigger events separate from the trigger event descriptions proposed by Transgrid.
- Insurance coverage event – we added six clauses under the 'For the purpose of this insurance coverage event' heading, to reflect similar wording used in our 2026–31 Enabling CWO project final determination.³ We consider this change was appropriate to clarify the wording in the definition and maintain regulatory consistency between determinations.
- Insurance coverage event, Natural disaster event, and Terrorism event – we changed 'in providing EII services' or 'in providing NSW system strength services' to 'in carrying out the System Strength Project', as 'EII services' is not a term defined in the EII Act/Regulation, and it is not clear what would be covered by this term.
- Insurer's credit risk event, Natural Disaster event, and Terrorism event – we changed 'pass through application' to 'revenue adjustment application', as this term is more appropriate under the EII framework.

² AER, *Guidance note – Amendments to NER PTRM for determinations under the Electricity Infrastructure Investment Act and Regulations*, November 2024.

³ AER, *Final decision – Transgrid – Central-West Orana Enabling REZ non-contestable project 2026–31 – Appendix B – Adjustment mechanisms*, January 2026, p. 5.

Our preliminary position is that we are likely to accept all 4 adjustment mechanisms for standard events, along with the definitions in Table 3, as they are consistent with our 2026–31 final determination for the Enabling CWO project.

Table 3 AER’s preliminary position on adjustment mechanisms for routine administrative events

Adjustment event	Description of adjustment
Insurance coverage event	<p>An increase or decrease in the revenue Transgrid may recover to accommodate the change in costs Transgrid incurs arising from an insurance coverage event.</p> <p>An insurance coverage event occurs if:</p> <ol style="list-style-type: none"> 1. Transgrid: <ol style="list-style-type: none"> a. makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy or set of insurance policies, or b. would have been able to make a claim or claims under a relevant insurance policy or set of insurance policies but for changed circumstances, and 2. Transgrid incurs costs: <ol style="list-style-type: none"> a. beyond a relevant policy limit for that policy or set of insurance policies, or b. that are unrecoverable under that policy or set of insurance policies due to changed circumstances, and 3. The costs referred to in paragraph 2 above materially increase the costs to Transgrid in carrying out the System Strength Project. <p>For the purpose of this insurance coverage event:</p> <p><i>'changed circumstances'</i> means movements in the relevant insurance market, including liability insurance, that are beyond the control of Transgrid, where those movements mean that it is no longer possible for Transgrid to take out an insurance policy or set of insurance policies at all or on reasonable commercial terms that include some or all of the costs referred to in paragraph 2 above within the scope of that insurance policy or set of insurance policies.</p> <p><i>'costs'</i> means the costs that would have been recovered under the insurance policy or set of insurance policies had:</p> <ul style="list-style-type: none"> – the limit not been exhausted, or – those costs not been unrecoverable due to changed circumstances. <p>a relevant insurance policy or set of insurance policies is an insurance policy or set of insurance policies held during the regulatory control period or a previous regulatory control period in which Transgrid was regulated;</p>

Transgrid will be deemed to have made a claim on a relevant insurance policy or set of insurance policies if the claim is made by a related entity of Transgrid in relation to any aspect of Transgrid's network or business; and

Transgrid will be deemed to have been able to make a claim on a relevant insurance policy or set of insurance policies if, but for changed circumstances, the claim could have been made by a related entity of Transgrid in relation to any aspect of Transgrid's network or business.

'related entity' has the meaning given to 'related bodies corporate' in section 50 of the Corporations Act 2001 (Cth), but on the basis that 'subsidiary' has the meaning given to Subsidiary in this Agreement and that 'body corporate' includes a trust.

Note: For the avoidance of doubt, in assessing an insurance coverage event through application under clause 6A.7.3(j) of EII Chapter 6A, the AER will have regard to:

- i) the relevant insurance policy or set of insurance policies for the event
- ii) the level of insurance that an efficient and prudent Network Operator would obtain, or would have sought to obtain, in respect of the event
- iii) any information provided by Transgrid to the AER about Transgrid's actions and processes, and
- iv) any guidance published by the AER on matters the AER will likely have regard to in assessing any insurance coverage event that occurs.

Insurer's credit risk event

An increase or decrease in the revenue Transgrid may recover to accommodate the change in costs Transgrid incurs arising from an insurer's credit risk event.

An insurer's credit risk event occurs if an insurer of Transgrid becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, Transgrid:

- is subject to a higher or lower claim limit or a higher or lower deductible than would have otherwise applied under the insolvent insurer's policy; or
- incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer.

Note: In assessing an insurer credit risk event revenue adjustment application, the AER will have regard to, among other things:

- i) Transgrid's attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer's track record, size, credit rating and reputation, and
 - ii) in the event that a claim would have been covered by the insolvent insurer's policy, whether Transgrid had reasonable opportunity to insure the risk with a different provider.
-

Natural disaster event An increase or decrease in the revenue Transgrid may recover to accommodate the change in costs Transgrid incurs arising from a Natural disaster event.

'Natural disaster event' means any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the regulatory control period that changes the costs to Transgrid in carrying out the System Strength Project, provided the cyclone, fire, flood, earthquake or other event was:

- a consequence of an act or omission that was necessary for the Network Operator to comply with a regulatory obligation or requirement or with an applicable regulatory instrument, or
- not a consequence of any other act or omission of the Network Operator.

Note: In assessing a Natural disaster event revenue adjustment application, the AER will have regard to, among other things:

- i) whether Transgrid has insurance against the event, and
- ii) the level of insurance that an efficient and prudent Network Operator would obtain in respect of the event.

Terrorism event An increase or decrease in the revenue Transgrid may recover to accommodate the change in costs Transgrid incurs arising from a Terrorism event.

'Terrorism event' means an act (including, but not limited to, the use of force or violence or the threat of force or violence) of any person or group of persons (whether acting alone or on behalf of or in connection with any organisation or government), which:

- from its nature or context is done for, or in connection with, political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear); and
- changes the costs to Transgrid in carrying out the System Strength Project.

Note: In assessing a Terrorism event revenue adjustment application, the AER will have regard to, among other things:

- i) whether Transgrid has insurance against the event
 - ii) the level of insurance that an efficient and prudent Network Operator would obtain in respect of the event, and
 - iii) whether a declaration has been made by a relevant government authority that a Terrorism event has occurred.
-

A.4 Adjustment mechanisms for ‘other events’

Transgrid’s proposal contained 4 adjustment mechanisms for ‘events impacting Transgrid’s costs’.⁴ This event category covers changes to Transgrid’s costs from events which it considers are outside of its control or which cannot be reasonably mitigated, prevented or insured against. We have changed the name of this category of event to ‘Other events’ to ensure consistency with our recent 2026–31 revenue determination for the Enabling CWO project.

Transgrid proposed 3 events related to ‘Transport works’, to manage costs related to delivery of the synchronous condensers to the 5 sites, and an event to capture impacts on Transgrid’s costs of approved variations to its contestable contracts. The 3 proposed events related to Transport works are ‘Transport route due diligence and enabling works’, ‘Major Transport Work’, ‘Transport works undertaken by local council’. Of these 3 events, Transgrid proposed the major transport works and council works events as having 2 adjustment mechanisms, a forecast mechanism (part a) and a true-up mechanism (part b).⁵

Our preliminary position is that we are not likely to accept Transgrid’s proposed adjustment mechanisms for non-contestable transport works events, namely: ‘Transport route due diligence and enabling works’, ‘Major Transport Work’ (parts a and b), ‘Transport works undertaken by local council’ (parts a and b). However, we are likely to substitute a single adjustment mechanism for its non-contestable transport works costs in place of its 3 proposed adjustment mechanisms. Additionally, we are likely to require that this adjustment mechanism trigger a review and remake of Transgrid’s 2026–31 System Strength Project revenue determination, limited to costs directly related to Transgrid’s non-contestable transport works.

We expect this adjustment mechanism will cover a similar scope to Transgrid’s proposed adjustment mechanisms for non-contestable transport works events but would allow our decision on this adjustment to be made at a more appropriate time. We consider this adjustment mechanism should be triggered once Transgrid has executed contracts for both its major transport works and council works, as there will be greater certainty around the scope of the costs involved and any likely contractual variations. See section 4.2.3.4 of our preliminary position paper for further details.

We have included some indicative wording for this non-contestable transport works adjustment mechanism in Table 4 below. This wording is intended to be representative only. We will develop the wording of this adjustment mechanism further prior to our final decision and seek input from Transgrid to ensure its non-contestable transport costs can be adequately considered in our review and remake. We will also consider further our process for reviewing and remaking the 2026-31 System Strength Project revenue determination.

Additionally, our preliminary position is to accept Transgrid’s proposed adjustment mechanism for a Contract variations impact on Transgrid’s costs event. We have included a

⁴ Transgrid, *System Strength Project 2026-31 - Revenue Proposal*, April 2026, p. 111.

⁵ Transgrid, *System Strength Project 2026-31 - Revenue Proposal*, April 2026, p. 124.

working definition for this mechanism in Table 4 but intend to engage with Transgrid to further refine the wording of this event to ensure only relevant costs are captured.

Table 4 AER’s preliminary position on adjustment mechanisms for other events

Adjustment event	Description of adjustment
Non-contestable transport works event (indicative wording only)	<p>An increase or decrease in the revenue Transgrid may recover to accommodate the change in prudent, efficient and reasonable costs Transgrid incurs arising from a Non-contestable Transport Works Adjustment Event.</p> <p>A Non-contestable Transport Works Adjustment Event occurs upon the later of:</p> <ol style="list-style-type: none"> 1. Transgrid transport works costs: <ul style="list-style-type: none"> • the OEM (GE Vernova) notifies Transgrid that viable transport routes have been identified for all 5 project sites with certain upgrades or other works required, and • Transgrid incurs additional efficient costs relating to: <ul style="list-style-type: none"> ○ due diligence on those routes ○ undertaking necessary preparatory work prior to transport works including environmental approvals, transport deeds, consultation, work scoping ○ Major Works procurement and contract management. 2. Major transport works: <ul style="list-style-type: none"> • Contracts for all viable transport routes to all 5 project sites are executed with successful tenderers for major transport works following a procurement process run by Transgrid, and • each contract includes a cost estimate for completion of the work. 3. Council-related transport works: <ul style="list-style-type: none"> • All Contracts/agreements (including cost estimates for completion of works) with relevant local councils have been executed for Council-delivered transport works required for the delivery of OSOM equipment to all 5 project sites, and • each contract includes a cost estimate for completion of the work. This cost estimate may include specific council requirements and council costs including quality checks, dilapidation studies, specific design requirements, engineering studies, site attendance, additional project management, defect rectification, close out requirements, sign off and restoration works.
	<p>which results in an unavoidable change in Transgrid’s transport works costs.</p>
	<p>If a Non-contestable Transport Works Adjustment Event occurs, Transgrid must submit its proposed transport works costs (not already included in its 2026–31 System Strength Project revenue determination) and any contractual variations related to these costs, to us for our assessment. We will review and remake Transgrid’s 2026–31 System Strength Project revenue determination. The review and remake of Transgrid’s 2026-31 System Strength Project revenue determination will be limited to</p>

increases or decreases in its revenue and/or adjustment mechanisms to reflect changes to its transport works costs.

At the time of the review and remake, we will examine Transgrid's forecast transport works costs, any associated contract variations, and additional adjustment mechanisms required to recover those contract variations. We will then remake our revenue determination to reflect the prudent, efficient and reasonable transport works costs and any additional adjustment mechanisms.

Note: Transgrid must not seek any changes to other areas of its 2026–31 System Strength Project revenue determination through this review and remake process.

Contract variations impact on Transgrid's costs event

An increase or decrease in the revenue Transgrid may recover to accommodate the change in prudent, efficient and reasonable costs Transgrid incurs arising from a Contract Variations Impact on Transgrid's Costs Event.

A Contractual Variations Impact on Transgrid's Costs Event occurs where:

- An approved variation under any of the contestable contracts that directly results in an unavoidable change in Transgrid's costs (due to changes in scope or timing), where this could be an increase or decrease, and
- This change is relative to the activities and costs presented in the forecast expenditure approved in the 2026–31 System Strength Project revenue determination.

Note:

- Transgrid must justify that any costs claimed under a Contract Variations Impact on Transgrid's Costs Event are:
 - directly related to an approved contract variation,
 - not covered by any other risk allowance, provisional sum, adjustment mechanism, or other expenditure forecast cost as described within the 2026–31 System Strength Project revenue determination, and
 - not able to be reasonably mitigated, insured against or prevented.
 - Any increase or decrease in costs due to this event is non-contestable and therefore subject to our assessment for prudence, efficiency, and reasonableness.
 - This adjustment does not allow recovery of costs associated with D&C contractor delay that is eligible for recovery through liquidated damages paid by the D&C contractors (in line with clause 33.9 of both D&C contracts).
-

A.5 Adjustment mechanisms for contract-related events

Transgrid's proposal contained 5 adjustment mechanisms for 'contestable contract-related variation events',⁶ to reflect the circumstances under which the contractor is entitled to increased or decreased costs. We have changed the name of this category of event to 'contract-related adjustment mechanisms' to better reflect the nature of the events.

Following submission of its proposal and in response to information requests, Transgrid proposed several additions and clarifications to its adjustment mechanisms for contestable contract-related variation events to fully reflect the contractual arrangements. This includes:

- addition of an annual true-up to adjust for any discrepancy between the forecast timing of contract payments and actual payments made each regulatory year
- addition of an annual true-up to adjust for any unspent provisional sums
- clarification of the OEM cost variation event to include reimbursement of the long service levy paid by the OEM supplier under the *Building and Construction Industry Long Service Payments Act 1986*
- clarification of the D&C cost variation events to apply variations under the D&C contracts related to Middle East conflict.

As noted in section 4.2.3.3 of the preliminary position paper, we have made some amendments to refine and simplify the adjustment mechanisms for contestable contract-related variation events. This includes consolidation of the Minor Transport Works Event adjustment mechanism with the D&C Contract Variation Event adjustment mechanisms, resulting in 6 adjustment mechanisms contained in this preliminary position paper for contract-related variation events. We will continue to refine the details in finalising our determination to ensure the adjustment mechanisms accurately reflect the contractual arrangements and constrain the recovery of costs to prudent, efficient and reasonable amounts.

Table 5 provides a current draft of each of the adjustment mechanisms for contestable contract-related variation events. Tables 6 to 9 provides a draft summary of variation clauses contained in each contract which may trigger an adjustment mechanism. Our preliminary position is to accept the contract-related adjustment mechanisms presented in Table 5, noting the adjustment mechanisms may be subject to further amendments, with the following items still under consideration:

- We may remove the provisional sum true-up event if we do not accept Transgrid's proposed provisional sum allowance (see section 4.2.2 of the preliminary position paper).

⁶ Transgrid's proposal only identifies 4 adjustment mechanisms under the contestable contract-related adjustments category. However, following its submission Transgrid proposed to split the D&C contract adjustments by contractor, resulting in an additional adjustment mechanism and making a total of 5.

- We may specify certain events under the variation clauses which may trigger an adjustment mechanism do not apply should we determine to include a risk allowance for those variation events (see section 4.2.2 of the preliminary position paper).
- We may consider whether to include an annual adjustment mechanism to adjust forecast contestable expenditure for the remaining years of the regulatory period based on an updated forecast of contract payment milestone dates (see section 4.2.3.1 of the preliminary position paper).

Table 5 AER’s preliminary position on adjustment mechanisms for contestable contract variation events

Adjustment event	Description of adjustment
OEM cost variation event	<p>An increase or decrease in costs Transgrid is required to pay the OEM supplying the synchronous condensers, arising from an OEM Contract Variation Event.</p> <p>An OEM Contract Variation Event occurs where Transgrid approves a substantiated variation claim in line with the relevant variation clauses in the OEM contract, as set out in Table 6. Within Table 6, the “Supplier” is GE Vernova and the Principal is Transgrid.</p>
LTSA cost variation event	<p>An increase or decrease in costs Transgrid is required to pay the OEM for long term servicing and maintenance of the synchronous condensers, arising from a Long Term Service Agreement (LTSA) Contract Variation Event.</p> <p>A LTSA Contract Variation Event occurs where Transgrid approves a substantiated variation claim in line with the relevant variation clauses in the LTSA, as set out in Table 7. Within Table 7, the “Contractor” is GE Vernova and the Principal is Transgrid.</p>
D&C Contractor 1 cost variation event	<p>An increase or decrease in costs Transgrid is required to pay Contractor 1 for design and construction (D&C) works, arising from a D&C Contractor 1 Contract Variation Event.</p> <p>A D&C Contractor 1 Contract Variation Event occurs where Transgrid approves a substantiated variation claim in line with the relevant contract variation clauses in the Contractor 1 D&C Contract, as set out in Table 8. Within Table 8, the Principal is Transgrid and the Superintendent is an agent for Transgrid.</p>
D&C Contractor 2 cost variation event	<p>An increase or decrease in costs Transgrid is required to pay Contractor 2 for D&C works, arising from a D&C Contractor 2 Contract Variation Event.</p> <p>A D&C Contractor 2 Contract Variation Event occurs where Transgrid approves a substantiated variation claim in line with the relevant contract variation clauses in the Contractor 2 D&C Contract, as set out in Table 9. Within Table 9, the Principal is Transgrid and the Superintendent is an agent for Transgrid.</p>
Annual update for actual expenditure	<p>An increase or decrease in the revenue Transgrid may recover where the actual contestable expenditure under a contestable contract (the OEM contract, LTSA, Contractor 1 D&C contract and Contractor 2 D&C</p>

contract) in a regulatory year is different from the forecast expenditure included in the revenue determination for that regulatory year.

This occurs where actual contract milestone or progress payments are made in a different year than forecast for contestable capex and contestable opex included in the revenue determination for that regulatory year. The discrepancy occurs because payments to a contractor are made when the contractor has completed the work linked to specified payment milestones, which may differ from the forecasts which form the basis of the revenue proposal.

This adjustment excludes payments relating to any provisional sum allowance.

This adjustment mechanism is limited to reflect a change in timing of when expenditure occurs. Application of this adjustment does not allow for any change in the total expenditure under the contestable contracts.

Annual update for actual provisional sum expenditure

An increase or decrease in the revenue Transgrid may recover to accommodate the change in prudent, efficient and reasonable costs incurred due to a Provisional Sum True-up Event.

A Provisional Sum True-up Event occurs where:

- the actual provisional sums incurred in a regulatory year due to approved contract variations are different to the contract provisional sum amount forecast in the revenue determination for that regulatory year, and
- the cumulative total provisional sum amount incurred under each contract up to and including that regulatory year is less than the total provisional sum amount for that contract allowed for in the AER's revenue determination.

For avoidance of doubt, this adjustment mechanism ceases to operate in the year in which the actual payments for contract variations exceed the provisional sum amount for the OEM contract, LTSA, Contractor 1 D&C contract and Contractor 2 D&C contract.

Table 6 describes the OEM Contract Variation Event clauses that may lead to an increase or decrease costs Transgrid is required to pay the OEM (GE Vernova) for the supply of synchronous condensers.

Table 6 OEM Contract Variation Event clauses

Event or circumstance	OEM Supply Contract Clause	Description of event and costs that may be incurred
Change in Law	5.2(c)	<p>Circumstances: Change in, repeal of, or enactment of a new, Applicable Law in Australia or a change to or repeal of a Principal Approval. A Principal Approval in this circumstance would be Environmental Approvals and AEMO Approvals for network connection and commissioning (as detailed in Item 1.2 and Item 26.10 of Appendix 1 - RFT Part 3.5 Responsibility Matrix in Schedule 7 - Part 3.1 - Technical Specification within the OEM Contract).</p> <p>Costs incurred: The difference in cost attributable to the Change in Law. Valued in accordance with clause 28.5 of the OEM Contract, subject to substantiation by the Supplier.</p>
Defective Equipment or Services	13.4, 13.5(b)	<p>Circumstances: At any time prior to the Date of Practical Completion, if the Principal discovers material, Equipment, or work which is Defective, omitted or not in accordance with the Contract the Principal may direct a Variation in lieu of having the Contractor perform rectification. For example, the Principal may agree to vary the OEM Contract to accept less than full rectification, or vary the OEM Contract to accommodate a method of rectification other than the Contractor's proposed method.</p> <p>Costs incurred: The difference in cost between the directed form of rectification and the agreed cost of full rectification. This may involve a cost reduction in favour of the Principal, or a cost increase if the Principal directs a Variation to alter the Supply to accommodate the defect in such a way that the Contractor incurs more cost than would have been incurred using an alternate acceptable means of rectification. Valued under clause 28.5 of the OEM Contract.</p>
Latent Conditions	14.4(b)	<p>Circumstances: The Supplier encounters physical conditions on the Site or its surroundings (excluding weather conditions) which differ materially from the physical conditions which should reasonably have been anticipated by the Supplier at the time of the Supplier's tender. For example, during excavation for a footing subterranean rock is encountered with a compressive strength exceeding what was indicated in the geotechnical report provided at the time of tender.</p>

Event or circumstance	OEM Supply Contract Clause	Description of event and costs that may be incurred
		<p>Costs incurred: Costs incurred by the Supplier carrying out additional work, using additional Constructional Plant, and other costs including the cost of delay or disruption. Valued under clause 28.5 of the OEM Contract.</p>
<p>Finding of minerals, fossils and relics</p>	<p>15.6(b)</p>	<p>Circumstances: Valuable minerals, fossils, articles or objects of antiquity or of anthropological or archaeological interest, treasure trove, coins and articles of value found on the Site. For example, the finding of Aboriginal artifacts on Site.</p> <p>Costs incurred: Cost incurred by the Supplier taking precautions to prevent their loss, removal or damage. Valued under clause 28.5 of the OEM Contract.</p>
<p>Rate of progress</p>	<p>17.4(c)</p>	<p>Circumstances: The Principal or the Superintendent may direct in what order and at what time the various stages or parts of the Supply shall be performed. For example, to mitigate constraints such as delay by a D&C Contractor precluding the Supplier’s reasonable access to portions of the Supply.</p> <p>Costs incurred: Costs incurred by the Supplier exceeding those costs that would have been incurred but for the direction issued by the Principal or Superintendent. Costs are typically associated with relocation and reallocation of resources and associated inefficiencies. Valued under clause 28.5 of the OEM Contract.</p>
<p>Consequences of a Direction to Accelerate</p>	<p>18.4(b)</p>	<p>Circumstances: The Principal may at any time prior to the Date for Practical Completion direct the Supplier to accelerate the Supply following the Supplier providing an acceptable Acceleration Proposal (requested by the Principal).</p> <p>Costs incurred: The Principal shall pay the Supplier an amount valued and due in accordance with clause 28.5 of the OEM Contract for extra costs as are necessarily incurred by the Supplier in complying with the Direction to Accelerate.</p>
<p>Cost of suspension</p>	<p>19.4(b)</p>	<p>Circumstances: The Principal may direct the Supplier to suspend the whole or any part of the Supply at any time. For example, a delay by a D&C Contractor causes the Supplier’s progress to be stagnated for an extended period and it is determined that it would be more cost efficient to suspend the works than deal with ongoing and cumulative extension of time and delay and disruption claims. During a period of suspension, the Supplier is required to make reasonable endeavours to mitigate costs.</p> <p>Costs incurred: Difference in cost to remove resources, including without limitation, staff, plant or any other resources from Site and return at a later date, valued under clause 28.5 of the OEM Contract.</p>

Event or circumstance	OEM Supply Contract Clause	Description of event and costs that may be incurred
Delay or disruption costs (Extra Costs)	20.1	<p>Circumstances: Where the Supplier has been granted an extension of time to the Date for Practical Completion for a breach of the Contract by the Principal, the Principal has not made available certain areas of the Site during a pre-agreed Disruption Period or the Principal has not provided an Outage during a pre-agreed Outage period (Compensable Cause).</p> <p>Costs incurred: Extra direct costs reasonably incurred and caused by the Compensable Cause, as valued in accordance with clause 28.5 of the OEM Contract and up to the daily cap stated in Item 41A in Annexure A of the OEM Contract.</p>
Reinstatement	27.2(b)	<p>Circumstances: If reinstatement is required to any of the Equipment before the Date of Practical Completion due to an Excepted Risk (negligent act or omission of the Principal or Superintendent).</p> <p>Costs incurred: Reinstatement of damage to structures and Equipment. Valued under clause 28.5 of the OEM Contract.</p>
Variations Direction (<\$50,000)	28.1	<p>Circumstances: The Principal or Superintendent may unilaterally issue a Variation Direction where the value of the Variation is less than \$50,000 and involves Site work only. For example, typically for minor scope growth or changes.</p> <p>Costs incurred: Contingent upon the scope of the change and substantiation by the Supplier. Valued in accordance with clause 28.5 of the OEM Contract and up to \$50,000.</p>
Variations Direction (≥\$50,000) and Variation Proposals	28.1, 28.2	<p>Circumstances: The Principal or Superintendent may issue a Variation Direction in response to a Variation Proposal provided by the Supplier (in response to a Variation Proposal Request by the Principal) or a General Request for Valuation provided by the Supplier (where the Supplier considers it has entitlement and no direction has been issued by the Principal or Superintendent). For example, the Supply Contract has been awarded based on a preliminary design. As design progresses necessary changes may be identified by either party to address circumstances unknown at the time of tender, such as interface issues with D&C Contractors' designs or location of Equipment. The need for changes may also arise due to unforeseen Site circumstances both in terms of the Supplier's own work and interface with the D&C Contractor's work.</p>

Event or circumstance	OEM Supply Contract Clause	Description of event and costs that may be incurred
		<p>Costs incurred: Contingent upon the scope of the change and substantiation by the Supplier. Valued in accordance with clause 28.5 of the OEM Contract.</p>
Costs of Testing	29.7(a)	<p>Circumstances: Testing directed by the Principal that is outside the requirements of the OEM Contract and does not arise due to any fault of the Supplier. For example a regulatory body requires additional tests to be undertaken to prove the efficacy of the synchronous condensers before the project is deemed to have satisfied all requirements.</p> <p>Costs incurred: Resources and any plant required to undertake the additional tests. Valued in accordance with clause 28.5 of the OEM Contract.</p>
Defect (Accepted by Principal without rectification)	31.1(b)	<p>Circumstances: A defect arises during the Defects Liability Period and the Principal issues a notice to the Supplier advising that it will accept the Defect. For example, a superficial defect such as damage to paintwork that is not critical to the operation of the Equipment, or a substantial defect that is not reasonably fixable such as a defective concrete footing that does not affect operation of the Equipment because other footings adequately support the load.</p> <p>Costs incurred: A cost reduction in favour of the Principal based on the avoided cost of rectifying the defect. Valued in accordance with clause 28.5 of the OEM Contract.</p>
Defect (Rectification Directed)	31.1(e)	<p>Circumstances: A defect arises to a synchronous condenser or a power transformer during the Defects Liability Period and the Supplier puts forward an adequate rectification proposal that does not involve replacement of the synchronous condenser or power transformer but the Principal directs such replacement.</p> <p>Costs incurred: All costs associated with the transportation of the defective synchronous condenser or power transformer to the Supplier's designated location and the return of the replacement unit(s) to the Principal.</p>
Serial Defects	31.2(f)	<p>Circumstances: A serial defect arises in relation to a synchronous condenser or a power transformer during the Defects Liability Period and the Supplier puts forward an adequate rectification proposal that does not involve replacement of the synchronous condenser or power transformer but the Principal directs such replacement.</p>

Event or circumstance	OEM Supply Contract Clause	Description of event and costs that may be incurred
		Costs incurred: All costs associated with the transportation of the defective synchronous condenser or power transformer to the Supplier's designated location and the return of the replacement unit(s) to the Principal.
Extra cost or expense	48.1	Circumstances: A broad provision to provide entitlement to the Supplier for claims not contemplated elsewhere in the OEM Contract. Costs incurred: Contingent upon the nature of the claim and substantiation by the Supplier.
Long Service Levy	50.4	Circumstances: Reimbursement by the Principal of any Long Service Levy paid by the Supplier under the <i>Building and Construction Industry Long Service Payments Act 1986</i> (NSW) prior to commencement of work on site. Costs incurred: 0.25% of the Net Aggregate Contract Sum as set out in Annexure A of the OEM Contract.

Table 7 describes the LTSA Contract Variation Event clauses that may lead to an increase or decrease costs Transgrid is required to pay the GE Vernova for the maintenance and servicing of synchronous condensers.

Table 7 LTSA Contract Variation Event clauses

Event or circumstance	LTSA Contract Clause	Description of event and costs that may be incurred
Change in Law	5.4(c)	Circumstances: Change in, repeal of, or enactment of a new Applicable Law in Australia or changes in the custom tariffs where the Services is carried out, after the date of signing of the contract. Costs incurred: The difference in cost attributable to the Change in Law subject to substantiation by the Contractor. The adjustment will be determined based on prevailing market rates and any other reasonable industry benchmarks and valued in accordance with clause 19.4 of the LTSA Contract.

Event or circumstance	LTSA Contract Clause	Description of event and costs that may be incurred
Defective Equipment or Services	22.3	<p>Circumstances: If the Contractor can rectify a defect without replacement, however Principal directs the defective equipment to be replaced.</p> <p>Costs incurred: Costs associated with transport for defective equipment to the Contractor and the replacement equipment to the Principal.</p>
Contamination	12.8, 33.4(b)	<p>Circumstances: If hazardous materials or contamination is encountered during maintenance activities that are not a result of activities under the LTSA Contract, the Contractor will be entitled to suspend works.</p> <p>Costs incurred: The Principal shall pay all reasonable expenses incurred by the Contractor in connection with such suspension, including expenses for repossession, fee collection, demobilisation/remobilisation, and costs of storage during suspension.</p>
Cost of suspension	33.4(b)	<p>Circumstances: If works are suspended for reasons defined in Clause 33.2(b) of the LTSA Contract including health, safety or security of personnel or site, or due to a Principal Default Event, or at the request of the Principal and not contributed to by the Contractor.</p> <p>Costs incurred: The Principal shall pay all reasonable expenses incurred by Contractor in connection with such suspension, including expenses for repossession, fee collection, demobilisation/remobilisation, and costs of storage during suspension.</p>
Variations Directions, Variation Proposals	19.1, 19.4	<p>Circumstances: Additional services may be requested by the Principal to be carried out on the plant serviced by the LTSA Contract. This may include additional inspections or maintenance whilst the contractor is mobilised to site.</p> <p>Costs incurred: Cost of providing additional services to be agreed in accordance with clause 19.4(b) of the LTSA Contract.</p>
Costs of Testing	19.6	<p>Circumstances: The Principal may request Additional Services due to Regulatory requirements, such as Synchronous Condensers Performance Standards (SCPS) compliance testing.</p>

Event or circumstance	LTSA Contract Clause	Description of event and costs that may be incurred
		<p>Costs incurred: Cost of providing additional services agreed in accordance with clause 19.4(b) of the LTSA Contract.</p>
Extension of warranty for Spare Parts	22.4	<p>Circumstances: The Principal may request the Contractor to provide an extension of warranty for Spare Parts.</p> <p>Costs incurred: If the condition and remaining useful life of the Spare Parts is deemed suitable for warranty extension, the Contractor may submit an Additional Service Proposal for such an extension. Cost of providing additional services to be agreed in accordance with clause 19.4(b) of the LTSA Contract.</p>
Outages	11(g)(iv)	<p>Circumstances: If a planned outage is cancelled through no fault of the contractor.</p> <p>Costs incurred: The Contractor is entitled to costs for any additional services required as a result of a qualifying cancelled planned outage. Cost of providing additional services to be agreed in accordance with clause 19.4(b) of the LTSA Contract.</p>
Fee Escalation	Schedule 4	<p>Circumstances: The fees under the LTSA Contract are subject to escalation annually for the life of the contract.</p> <p>Costs incurred: Labour escalation is calculated based on the annual movement of the Wage Price Index from the Australian Bureau of Statistics, and is applied to fees for contract establishment, annual maintenance, and training. Items subject to materials escalation are Spare Parts and replenishment Spare Parts procured under the LTSA Contract. Material escalation is based on the annual movement of the British Electrotechnical and Allied Manufacturers' Association's Factory Built Assemblies Cost Index (BFB).</p> <p>Wage Price Index to be applied is under Catalogue 6345, Table 3b (Series ID A2599049K – Total hourly rates of pay excluding bonuses; NSW; Private; All industries)</p>
Extra cost or expense	35	<p>Circumstances: A broad provision to provide entitlement to the Contractor for claims not contemplated elsewhere in the LTSA Contract.</p> <p>Costs incurred: Contingent upon the nature of the claim and substantiation by the Contractor.</p>

Table 8 describes the D&C Contractor 1 Contract Variation Event clauses that may lead to an increase or decrease in costs Transgrid is required to pay the D&C Contractor 1 for delivery of D&C works.

Table 8 D&C Contractor 1 Contract Variation Event clauses

Event or circumstance	D&C Contractor 1 Contract Clause	Description of event and costs that may be incurred
Change in Law	14.2(c)	<p>Circumstances: A legal or regulatory change occurring after the date of signing of the D&C Contractor 1 Contract that increases the time or cost (or both) for the Contractor performing its obligations under the D&C Contractor 1 Contract. This may include changes to workplace health and safety (WHS), environmental, Industrial Relations, Building Codes, Australian Standards, licencing, public health orders, restrictions on movement, rationing, new taxes or levies.</p> <p>Costs incurred: The difference in cost attributable to the Change in Law. Valued in accordance with clause 38.5 of the D&C Contractor 1 Contract.</p>
Defective Equipment or Services	27.2, 27.3	<p>Circumstances: At any time prior to the Date of Practical Completion, if the Principal discovers material or work which is Defective, omitted or not in accordance with the D&C Contractor 1 Contract, the Principal may direct a Variation in lieu of having the Contractor perform rectification. A Variation Direction relating to defective works could range from a Direction to omit that element from the scope of works resulting in a negative cost adjustment, to a Direction to carry out an enhancement to the scope of works resulting in a positive cost adjustment.</p> <p>Costs incurred: Omission of the Defective works would result in a negative cost adjustment based on the avoided cost of rectifying the defect, while enhancement would result in a positive cost adjustment based on the difference between the agreed cost of the proposed rectification and the directed enhancement. Valued in accordance with clause 38.5 of the D&C Contractor 1 Contract.</p>
Latent Conditions	12.3(b)	<p>Circumstances: The Contractor may encounter a physical condition existing at the Site or its surrounding which causes additional cost or delay (or both), which was not apparent from reasonable inspection, and which differs materially from conditions disclosed in contract documents or from conditions that a competent contractor would reasonably anticipate. This may include unforeseen ground conditions, unknown underground services or</p>

Event or circumstance	D&C Contractor 1 Contract Clause	Description of event and costs that may be incurred
		<p>structures, unknown natural obstructions, archaeological or heritage finds, or discrepancies between contract information and actual site conditions.</p> <p>Costs incurred: Costs incurred by the Contractor in dealing with the latent condition including additional work, using additional Constructional Plant, testing, disposal, and other costs including the cost of delay or disruption. Valued in accordance with clause 38.5 of the D&C Contractor 1 Contract.</p>
Contamination	12A.1(e)	<p>Circumstances: The presence of unknown contamination requiring the Contractor to perform additional works including classification, treatment, control, loading, transportation, tipping and disposal of, or otherwise dealing with, any unknown contamination or its effects at the site. Only to the extent the Contractor has not introduced or knowingly disturbed such contamination. Such contamination could result from unknown contamination on or under the ground or in buildings, and could consist of asbestos containing material, acid sulphate soils, presence of heavy metals, illegally dumped waste, or tyres.</p> <p>Costs incurred: Additional cost for testing, isolation, treatment, excavation, stockpiling, loading, transportation and disposal at a registered waste facility. Valued in accordance with clause 38.5 of the D&C Contractor 1 Contract.</p>
Finding of minerals, fossils and relics	24.5(b)	<p>Circumstances: The Contractor is required under a direction by the Principal or the Superintendent to prevent loss or removal or damage of valuable minerals, fossils, articles or objects of antiquity or of anthropological or archaeological interest, treasure trove, coins and articles of value found on the Site. For example, Aboriginal artifacts.</p> <p>Costs incurred: Cost incurred in complying with a direction by the Principal or the Superintendent to prevent loss or removal or damage (including costs of additional work performed, additional Constructional Plant used or any delay or disruption costs). Valued under clause 38.5 of the D&C Contractor 1 Contract.</p>
Rate of progress	31.1(d)	<p>Circumstances: The Principal or the Superintendent may direct the Contractor in what order and at what time the various stages or parts of the Works shall be performed. For example, to mitigate constraints such as delay in the supply of Principal Supplied Equipment or clashes with other projects on the Site. This could be a Direction to commence out of sequence works on a portion of works or to commence a different unscheduled separate portion of works which may involve demobilisation, remobilisation, or additional resourcing.</p>

Event or circumstance	D&C Contractor 1 Contract Clause	Description of event and costs that may be incurred
		<p>Costs incurred: Costs incurred by the Contractor exceeding those costs that would have been incurred but for the Direction issued by the Principal or Superintendent this may include costs for additional work performed, additional plant and equipment used, demobilisation and remobilisation or any delay or disruption costs. Valued in accordance with clause 38.5 of the D&C Contractor 1 Contract.</p>
Consequences of a Direction to Accelerate	46.4(b)	<p>Circumstances: The Principal may direct the Contractor to accelerate its scope of work (Direction to Accelerate). The need to accelerate may be driven by a variety of causes including ameliorating the impact of prior delays; avoiding overlap between the OEM and D&C works on site; and avoiding equipment storage costs. This variation could arise throughout the duration of the D&C Contractor 1 Contract. Cost entitlement occurs only where the Contractor would otherwise have not been required to bear the cost of acceleration under the D&C Contractor 1 Contract or where the acceleration is to overcome a delay for which the Contractor is entitled to an extension of time for that delay.</p> <p>Costs incurred: An amount valued in accordance with clause 38.5 of the D&C Contractor 1 Contract for extra costs (including costs of additional work performed, additional Constructional Plant used, or any delay or disruption costs) as are necessarily incurred by the Contractor in complying with the Direction to Accelerate.</p>
Cost of suspension	32.4(a)	<p>Circumstances: Where the Works are suspended due to no fault of the Contractor, and it would be prudent to suspend rather than deal with ongoing and cumulative extension of time and delay and disruption claims. During a period of suspension, the Contractor is required to mitigate costs.</p> <p>Costs incurred: The difference in costs incurred by the Contractor such as demobilising, lack of efficiency in undertaking out of sequence work on areas of the project not subject to the suspension, redeploying resources to other projects and/or standing down resources. Valued in accordance with clause 38.5 of the D&C Contractor 1 Contract.</p>
Delay or disruption costs (Extra Costs)	34.1	<p>Circumstances: Where the Contractor has been granted an extension of time to the Date for Practical Completion for a Compensable Cause, defined as:</p> <ul style="list-style-type: none"> - A breach of contract by the Principal - Act of prevention by the Principal or its associates, unless authorised or permitted by the contract - Native title claim - Delay caused by occupier or person of interest in the site

Event or circumstance	D&C Contractor 1 Contract Clause	Description of event and costs that may be incurred
		<ul style="list-style-type: none"> - Delay by any authority in providing specified transport approvals. <p>Costs incurred: Extra direct costs reasonably incurred and caused by the Compensable Delay Cause (valued under clause 38.5 of the D&C Contractor 1 Contract) capped at the rate per day of delay stated in Item 29 in Annexure A of the D&C Contractor 1 Contract.</p>
Reinstatement	16.2(c)	<p>Circumstances: Where loss or damage occurs to anything the Contractor is responsible for (such as the Site, Works, materials, or equipment) by any reason which is an Excepted Risk, the Contractor must reinstate the Site. Excepted Risks are:</p> <ul style="list-style-type: none"> - any breach of Contract by the Principal or negligent act or omission of the Principal, its associates or its employees; - any risk specifically excepted elsewhere in the Contract; - war, invasion, act of foreign enemies, hostilities; - civil war, rebellion, revolution, insurrection or military or usurped power, martial law or confiscation by order of any Authority; - ionising radiations or contamination by radioactivity from any nuclear fuel or from any nuclear waste from the combustion of nuclear fuel; and - any risk directly arising from a latent defect in material supplied by the Principal. <p>provided that the loss or damage was not caused or contributed to by the Contractor.</p> <p>Costs incurred: Full cost for reinstatement of the works including demolition, plant & equipment, labour, materials, and testing. Valued in accordance with clause 38.5 of the D&C Contractor 1 Contract. Where there is loss or damage due to a blend of Excepted Risks and other risks, the costs will take into consideration the cost of the Excepted Risk portion only.</p>
Variation Directions	38.1	<p>Circumstances: The Principal may vary the Contractor’s scope of works over the life of project due to unforeseeable changes by issuing a Variation Direction in accordance with clause 38.1 of the D&C Contractor 1 Contract.</p> <p>The Variation Direction describes the scope and other requirements applicable to the works.</p>

Event or circumstance	D&C Contractor 1 Contract Clause	Description of event and costs that may be incurred
		<p>Note that for the purposes of applying the adjustment mechanism a Variation Direction event excludes Transport Infrastructure Works and Transport Infrastructure Directable Works which is covered as a separate Contract Variation Event.</p> <p>Costs incurred: Contingent upon the scope of the change of works and substantiation by the Contractor. Valued in accordance with clause 38.5 of the D&C Contractor 1 Contract.</p>
<p>Transport Infrastructure Works; Transport Infrastructure Directable Works</p>	<p>38.1, 38.2, 33.9(f), Schedule 12.</p>	<p>Circumstances: The Principal may issue a Variation Direction to the Contractor for minor works related to transport infrastructure to enable the carriage of equipment to its final location. This event relates to work, effort or activity to improve, modify or upgrade existing state or local council roads and materially associated infrastructure to facilitate transport of all necessary plant and equipment to the Site.</p> <p>Under clause 38.1 of the D&C Contractor 1 Contract, the Principal may issue a Variation Direction to the Contractor for minor transport works if:</p> <ul style="list-style-type: none"> • it aligns with the definition of Transport Infrastructure Directable Works as defined in the Contract, or • the Principal has issued a Variation Proposal Request to the Contractor for Transport Infrastructure Works (works that fall outside the definition of Transport Infrastructure Directable Works), under clause 38.2 of the D&C Contractor 1 Contract. <p>Costs incurred: Costs are valued in accordance with clause 38.5 of the D&C Contractor 1 Contract, adjusted for any amount calculated under the pain share - gain share incentive regime (as per Schedule 12 of the D&C Contractor 1 Contract). The reward or penalty applicable under the incentive regime is based on the actual time taken to complete any applicable Transport Infrastructure (Directable) Works compared to the pre-agreed completion date.</p>
<p>Costs of Testing</p>	<p>28.7(a)</p>	<p>Circumstances: Testing directed by the Principal that is outside the requirements of the Contract and does not arise due to any fault of the Contractor. For example, a regulatory body requires additional tests to be undertaken.</p> <p>Costs incurred: Costs incurred for resources and any plant required to undertake the additional tests. Valued in accordance with clause 38.5 of the D&C Contractor 1 Contract.</p>
<p>Extra cost or expense</p>	<p>45.1</p>	<p>Circumstances: A broad provision to provide an entitlement for the Contractor for a Claim not contemplated elsewhere in the D&C Contractor 1 Contract.</p>

Event or circumstance	D&C Contractor 1 Contract Clause	Description of event and costs that may be incurred
		<p>Costs incurred: Contingent upon the nature of the Claim and substantiation by the Contractor.</p>
Outages	30(h)	<p>Circumstances: If the Contractor is not permitted to proceed with works during a scheduled outage, the Contractor may be able to claim additional costs. For example, an outage may be unavailable due to emergency works or AEMO intervention, which delays the Contractor in achieving Practical Completion.</p> <p>Costs incurred: Costs incurred which are more than otherwise would have been incurred if the outage proceeded, including costs of additional resources, prolongation, storage and critical resource re-alignment and demobilisation/remobilisation. Valued in accordance with clause 38.5 of the D&C Contractor 1 Contract.</p>
Middle East Pre-Agreed Variation	Annexure B – Special Condition 6	<p>Circumstance: A pre-agreed variation amount paid to the Contractor to accept price risk for fuel and commodities due to the Middle East Conflict, in line with Annexure B – Special Condition 6 of the D&C Contractor 1 Contract.</p> <p>Costs incurred: Two pre-agreed lump sum variation amounts are specified in Annexure B – Special Condition 6 of the of the D&C Contractor 1 Contract:</p> <ul style="list-style-type: none"> • Pre-Agreed Variation 1 is to be paid to the Contractor after contract execution (guaranteed), reflecting substantiated risk costs for commitments already made or to be made shortly after contract execution. • Pre-Agreed Variation 2 is a conditional payment to the Contractor if at the end of the fourth week from the Date of Contract the average of the daily Diesel Terminal Gate Price (Sydney) as published by the Australian Institute of Petroleum for the 7 days prior to that date is greater than the Diesel Terminal Gate Price (Sydney) as at 30 January 2026. Where this condition is met, the Superintendent must issue a Variation Direction.
Change in Law (Middle East Conflict)	Annexure B – Special Condition 5	<p>Circumstances: The Contractor is impacted by a ‘Change in Law (Middle East Conflict)’ event, which means:</p> <ul style="list-style-type: none"> • a change in (including repeal of) an Applicable Law in Australia or a change in a law of any government entity in a Key Equipment Supply Country to the extent it impacts on the relevant item of Key Equipment; • the enactment of a new Applicable Law in Australia or the enactment of a new law by any government entity in a Key Equipment Supply Country to the extent it impacts on the relevant item of Key Equipment; or • a change in a requirement of a Principal Approval (Environmental Approvals as per Item 8A in Annexure A of the D&C Contractor 1 Contract),

Event or circumstance	D&C Contractor 1 Contract Clause	Description of event and costs that may be incurred
		<p>in each case occurring after 30 January 2026, and that is directly or substantially attributable to a Middle East Conflict Event.</p> <p>Costs incurred: The difference in cost attributable to the Change in Law (Middle East Conflict). Valued in accordance with clause 38.5 of the D&C Contractor 1 Contract.</p>

Table 9 describes the D&C Contractor 2 Contract Variation Event clauses that may lead to an increase or decrease costs Transgrid is required to pay the D&C Contractor 2 for delivery of D&C works.

Table 9 D&C Contractor 2 Contract Variation Event clauses

Event or circumstance	D&C Contractor 2 Contract Clause	Description of event and costs that may be incurred
Change in Law	14.2(c)	<p>Circumstances: A legal or regulatory change occurring after the date of signing of the D&C Contractor 2 Contract that increases the time or cost (or both) for the Contractor performing its obligations under the D&C Contractor 2 Contract. This may include changes to WHS, environmental, Industrial Relations, Building Codes, Australian Standards, licencing, public health orders, restrictions on movement, rationing, new taxes or levies.</p> <p>Costs incurred: The difference in cost attributable to the Change in Law. Valued in accordance with clause 38.5 of the D&C Contractor 2 Contract.</p>
Defective Equipment or Services	27.2, 27.3	<p>Circumstances: At any time prior to the Date of Practical Completion, if the Principal discovers material or work which is Defective, omitted or not in accordance with the D&C Contractor 2 Contract, the Principal may direct a Variation in lieu of having the Contractor perform rectification. A Variation Direction relating to defective works could range from a Direction to omit that element from the scope of works resulting in a negative cost adjustment, to a Direction to carry out an enhancement to the scope of works resulting in a positive cost adjustment.</p> <p>Costs incurred: Omission of the Defective works would result in a negative cost adjustment based on the avoided cost of rectifying the defect, while enhancement would result in a positive cost adjustment based on the difference between the agreed cost of the proposed rectification and the directed enhancement. Valued in accordance with clause 38.5 of the D&C Contractor 2 Contract.</p>

Event or circumstance	D&C Contractor 2 Contract Clause	Description of event and costs that may be incurred
Latent Conditions	12.3(b)	<p>Circumstances: The Contractor may encounter a physical condition existing at the Site or its surrounding which causes additional cost or delay (or both), which was not apparent from reasonable inspection and which differs materially from conditions disclosed in contract documents or from conditions that a competent contractor would reasonably anticipate. This may include unforeseen ground conditions, unknown contamination, unknown underground services or structures, unknown natural obstructions, archaeological or heritage finds, or discrepancies between contract information and actual site conditions.</p> <p>Costs incurred: Costs incurred by the Contractor in dealing with the latent condition including additional work, using additional Constructional Plant, testing, disposal, and other costs including the cost of delay or disruption. Valued in accordance with clause 38.5 of the D&C Contractor 2 Contract.</p>
Finding of minerals, fossils and relics	24.5(b)	<p>Circumstances: The Contractor is required under a direction by the Principal or the Superintendent to prevent loss or removal or damage of valuable minerals, fossils, articles or objects of antiquity or of anthropological or archaeological interest, treasure trove, coins and articles of value found on the Site. For example, Aboriginal artifacts.</p> <p>Costs incurred: Cost incurred in complying with a direction by the Principal or the Superintendent to prevent loss or removal or damage (including costs of additional work performed, additional Constructional Plant used or any delay or disruption costs). Valued under clause 38.5 of the D&C Contractor 2 Contract.</p>
Rate of progress	31.1(d)	<p>Circumstances: The Principal or the Superintendent may direct the Contractor in what order and at what time the various stages or parts of the Works shall be performed. For example, to mitigate constraints such as delay in the supply of Principal Supplied Equipment or clashes with other projects on the Site. This could be a Direction to commence out of sequence works on a portion of works or to commence a different unscheduled separate portion of works which may involve demobilisation, remobilisation, or additional resourcing.</p> <p>Costs incurred: Costs incurred by the Contractor exceeding those costs that would have been incurred but for the Direction issued by the Principal or Superintendent this may include costs for additional work performed, additional plant and equipment used, demobilisation and remobilisation or any delay or disruption costs. Valued in accordance with clause 38.5 of the D&C Contractor 1 Contract.</p>

Event or circumstance	D&C Contractor 2 Contract Clause	Description of event and costs that may be incurred
Consequences of a Direction to Accelerate	46.4(b)	<p>Circumstances: The Principal may direct the Contractor to accelerate its scope of work (Direction to Accelerate). The need to accelerate may be driven by a variety of causes including: ameliorating the impact of prior delays; avoiding overlap between the OEM and D&C works on site; and avoiding equipment storage costs. This variation could arise throughout the duration of the D&C Contractor 2 Contract. Cost entitlement occurs only where the Contractor would otherwise have not been required to bear the cost of acceleration under the D&C Contractor 2 Contract or where the acceleration is to overcome a delay for which the Contractor is entitled to an extension of time for that delay.</p> <p>Costs incurred: An amount valued in accordance with clause 38.5 of the D&C Contractor 2 Contract for extra costs (including costs of additional work performed, additional Constructional Plant used, or any delay or disruption costs) as are necessarily incurred by the Contractor in complying with the Direction to Accelerate.</p>
Cost of suspension	32.4(a)	<p>Circumstances: Where the Works are suspended due to no fault of the Contractor, and it would be prudent to suspend rather than deal with ongoing and cumulative extension of time and delay and disruption claims. During a period of suspension, the Contractor is required to mitigate costs.</p> <p>Costs incurred: The difference in costs incurred by the Contractor such as demobilising, lack of efficiency in undertaking out of sequence work on areas of the project not subject to the suspension, redeploying resources to other projects and/or standing down resources. Valued in accordance with clause 38.5 of the D&C Contractor 2 Contract.</p>
Delay or disruption costs (Extra Costs)	34.1	<p>Circumstances: Where the Contractor has been granted an extension of time to the Date for Practical Completion for a Compensable Cause, defined as:</p> <ul style="list-style-type: none"> - Act of Prevention <ul style="list-style-type: none"> o a breach of the Contract by the Principal; o an act of prevention by the Superintendent or any of the Principal Associates. o the Principal fails to comply with an obligation as stated in Part 5.4 Project Schedule, Part 3.5 Responsibility Matrix, the Contract or the Construction Program by the time stated in the relevant document; o the Principal fails to approve or provide reasons for non-approval for a sub-contractor within 10 Business Days after a request by the Contractor for approval;

Event or circumstance	D&C Contractor 2 Contract Clause	Description of event and costs that may be incurred
		<ul style="list-style-type: none"> ○ the Principal fails to obtain any Principal Approvals as required by the Contract (Annexure A, Item 8A) resulting in a delay to the Construction Program; and ○ the Principal fails to issue a Notice to Proceed within 10 Business Days of the date that Separable Portion was planned to commence (as shown in the latest Construction Program) - The Principal fails to provide the Principal Supplied Materials when due or in good condition (clause 26.4(d)) - A delay arising from Essential Energy not being able to provide an Outage consistent with a Contractor's compliant application for the Outage (clause 30(h1)) <p>Costs incurred: Extra costs reasonably incurred or committed and caused by the Compensable Cause (valued under clause 38.5 of the D&C Contractor 2 Contract) capped at the rate per day of delay stated in Item 29 in Annexure A of the D&C Contractor 2 Contract.</p>
Reinstatement	16.2(c)	<p>Circumstances: Where loss or damage occurs to the anything the Contractor is responsible for (such as Site, Works, materials or equipment by any reason which is an Excepted Risk the Contractor must reinstate the Site. Excepted Risks are:</p> <ul style="list-style-type: none"> - any negligent act or omission of the Principal, the Superintendent or their employees; - any risk specifically excepted elsewhere in the Contract; - war, invasion, act of foreign enemies, hostilities, providing that any of which was not declared, known or ought reasonably to have been known prior to the Date of Contract; - civil war, rebellion, revolution, insurrection or military or usurped power, martial law or confiscation by order of any Authority; - ionising radiations or contamination by radioactivity from any nuclear fuel or from any nuclear waste from the combustion of nuclear fuel not caused by the Contractor or the Contractor's employees or agents; and - any risk directly arising from a latent defect in material supplied by the Principal, <p>provided that the loss or damage was not caused or contributed to by the Contractor.</p>

Event or circumstance	D&C Contractor 2 Contract Clause	Description of event and costs that may be incurred
		<p>Costs incurred: Full cost for reinstatement of the works including demolition, plant & equipment, labour, materials and testing. Valued in accordance with clause 38.5 of the D&C Contractor 2 Contract. Where there is loss or damage due to a blend of Excepted Risks and other risks, the costs will take into consideration the cost of the Excepted Risk portion only.</p>
<p>Variation Directions</p>	<p>38.1</p>	<p>Circumstances: The Principal may vary the Contractor’s scope of works over the life of project due to unforeseeable changes by issuing a Variation Direction in accordance with clause 38.1 of the D&C Contractor 2 Contract.</p> <p>The Variation Direction describes the scope and other requirements applicable to the works.</p> <p>Note that for the purposes of applying the adjustment mechanism, a Variation Direction event excludes Transport Infrastructure Works and Transport Infrastructure Directable Works which is covered as a separate Contract Variation Event.</p> <p>Costs incurred: Contingent upon the scope of the change of works and substantiation by the Contractor. Valued in accordance with clause 38.5 of the D&C Contractor 2 Contract.</p>
<p>Transport Infrastructure Works; Transport Infrastructure Directable Works</p>	<p>38.1, 38.2, Schedule 12</p>	<p>Circumstances: The Principal may issue a Variation Direction to the Contractor for minor works related to transport infrastructure to enable the carriage of equipment to its final location. This event relates to work, effort or activity to improve, modify or upgrade existing state or local council roads and materially associated infrastructure to facilitate transport of all necessary plant and equipment to the Site.</p> <p>Under clause 38.1 of the D&C Contractor 2 Contract, the Principal may issue a Variation Direction to the Contractor for minor transport works if:</p> <ul style="list-style-type: none"> • it aligns with the definition of Transport Infrastructure Directable Works as defined in the Contract, or • the Principal has issued a Variation Proposal Request to the Contractor for Transport Infrastructure Works (works that fall outside the definition of Transport Infrastructure Directable Works), under clause 38.2 of the D&C Contractor 2 Contract. <p>Costs incurred: Costs are valued in accordance with clause 38.5 of the D&C Contractor 2 Contract, adjusted for any amount calculated under the pain share - gain share incentive regime (as per Schedule 12 of the D&C Contractor 2 Contract). The reward or penalty applicable under the incentive regime is based on the actual time</p>

Event or circumstance	D&C Contractor 2 Contract Clause	Description of event and costs that may be incurred
		taken to complete any applicable Transport Infrastructure (Directable) Works compared to the pre-agreed completion date.
Costs of Testing	28.7(a)	<p>Circumstances: Testing directed by the Principal that is outside the requirements of the Contract and does not arise due to any fault of the Contractor. For example, a regulatory body requires additional tests to be undertaken.</p> <p>Costs incurred: costs incurred for resources and any plant required to undertake the additional tests. Valued in accordance with clause 38.5 of the D&C Contractor 2 Contract.</p>
Extra cost or expense	45.1	<p>Circumstances: A broad provision to provide an entitlement for the Contractor for a Claim not contemplated elsewhere in the D&C Contractor 2 Contract.</p> <p>Costs incurred: Contingent upon the nature of the Claim and substantiation by the Contractor.</p>
Outages	30(h)	<p>Circumstances: If the Contractor is not permitted to proceed with works during a scheduled outage, the Contractor may be able to claim additional costs. For example, an outage may be unavailable due to emergency works or AEMO intervention, which delays the Contractor in achieving Practical Completion.</p> <p>Costs incurred: Costs incurred which are more than otherwise would have been incurred if the outage proceeded, including costs of additional resources, prolongation, storage and critical resource re-alignment and demobilisation/remobilisation. Valued in accordance with clause 38.5 of the D&C Contractor 2 Contract.</p>
Middle East Pre-Agreed Variation	Annexure B – Special Condition 6	<p>Circumstance: A pre-agreed variation amount paid to the Contractor to accept price risk for fuel and commodities due to the Middle East Conflict, in line with Annexure B – Special Condition 6 of the D&C Contractor 2 Contract.</p> <p>Costs incurred: Two pre-agreed lump sum variation amounts are specified in Annexure B – Special Condition 6 of the of the D&C Contractor 2 Contract</p> <ul style="list-style-type: none"> • Pre-Agreed Variation 1 is to be paid to the Contractor after contract execution (guaranteed), reflecting substantiated risk costs for commitments already made or to be made shortly after contract execution. <p>Pre-Agreed Variation 2 is a conditional payment to the Contractor if at the end of the fourth week from the Date of Contract the average of the daily Diesel Terminal Gate Price (Sydney) as published by the Australian Institute of</p>

Event or circumstance	D&C Contractor 2 Contract Clause	Description of event and costs that may be incurred
		<p>Petroleum for the 7 days prior to that date is greater than the Diesel Terminal Gate Price (Sydney) as at 30 January 2026. Where this condition is met, the Superintendent must issue a Variation Direction.</p>
<p>Change in Law (Middle East Conflict)</p>	<p>Annexure B – Special Condition 5</p>	<p>Circumstances: The Contractor is impacted by a ‘Change in Law (Middle East Conflict)’ event, which means:</p> <ul style="list-style-type: none"> • a change in (including repeal of) an Applicable Law in Australia or a change in a law of any government entity in a Key Equipment Supply Country to the extent it impacts on the relevant item of Key Equipment; • the enactment of a new Applicable Law in Australia or the enactment of a new law by any government entity in a Key Equipment Supply Country to the extent it impacts on the relevant item of Key Equipment; or • a change in a requirement of a Principal Approval (Environmental Approvals as per Item 8A in Annexure A of the D&C Contractor 2 Contract), <p>in each case occurring after 30 January 2026, and that is directly or substantially attributable to a Middle East Conflict Event.</p> <p>Costs incurred: The difference in cost attributable to the Change in Law (Middle East Conflict). Valued in accordance with clause 38.5 of the D&C Contractor 2 Contract.</p>

Glossary

Term	Definition
AER	Australian Energy Regulator
AEMO	Australian Energy Market Operator
Assessment approach guidance note	guidance note on the AER's EII Assessment Approach for Non-contestable revenue determinations (September 2025)
CAG	Consumer Advisory Group
Capex	capital expenditure
CCP35	consumer challenge panel, sub-panel 35
CESS	capital expenditure sharing scheme
Confidentiality Guideline	Draft confidentiality guideline - Electricity Infrastructure Investment Act (August 2023)
CSPER	Centre for Smart Power and Energy Research
Enabling CWO project	Enabling Central-West Orana REZ network infrastructure project carried out by Transgrid
D&C contract	design and construct contract
EBSS	efficiency benefit sharing scheme
EII Act	Electricity Infrastructure Investment Act 2020 (NSW)
EII Chapter 6A	Appendix A of the non-contestable Guideline, a modified version of Chapter 6A of the NER applying to EII projects
EII PTRM	refers to a NER PTRM modified for the purposes of making non-contestable revenue determinations under the EII framework (EII Act and EII Regulation)
EII Regulation	Electricity Infrastructure Investment Regulation 2021 (NSW)
non-contestable Guideline	Revenue determination guideline for non-contestable network infrastructure projects
HCC Project	Hunter-Central Coast REZ network infrastructure project
IPF	Infrastructure Planner Fees
ISP	Integrated System Plan is a whole-of-system plan that provides an integrated roadmap for the development of the NEM, published by AEMO.
JEC	Justice and Equity Centre
LTSA	Long Term Service Agreement

NER	National Electricity Rules
Non-contestable Guideline	Revenue determination guideline for non-contestable network infrastructure projects
NSW DCCEEW	NSW Department of Climate Change, Energy, the Environment and Water
OEM	Original Equipment Manufacturer
opex	operating expenditure
OSOM	oversize and over mass
PACR	Project Assessment Conclusions Report
PNIP	Priority Network Infrastructure Project
PTRM	Post-Tax Revenue Model
RAB	Regulatory Asset Base
REZ	Renewable Energy Zone
RIN	Regulatory Information Notice
RIT-T	Regulatory Investment Test for Transmission
RoRI	2022 Rate of Return Instrument
System Strength Project	System Strength Project carried out by Transgrid
TAC	Transgrid Advisory Council
WACC	weighted average cost of capital
WSB Project	Waratah Super Battery non-contestable project carried out by Transgrid