Australian Government

AUSTRALIAN ENERGY REGULATOR

Explanatory Statement

Draft amendments to the NSW Electricity Infrastructure Fund - Contribution Determination Guideline

July 2026

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Inquiries about this publication should be addressed to:

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

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Amendment record

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Contents

1 Introduction

This explanatory statement accompanies the draft amendments to the Australian Energy Regulator's (**AER**) *NSW Electricity Infrastructure Fund Contribution Determination Guideline* (**Guideline**) and associated *NSW Electricity Infrastructure Fund Contribution Determination Model* (**Model**). It describes our position on the matters identified as requiring amendment through our 2026 review of the Guideline and Model and sets out our reasoning for the changes proposed.

The Guideline sets out our approach to making annual contribution determinations under section 56 of the *Electricity Infrastructure Investment Act 2020* (NSW) (**EII Act**), including the process and method for how the AER makes a contribution determination, as well as the roles and responsibilities of each scheme entity. The Model operationalises our method for making contribution determinations through Excel-based functions.

We consider it timely to conduct a review of the Guideline and Model with the aim of ensuring they remain fit-for-purpose, as the AER approaches its fifth contribution determination in February 2027.

1.1 Authority to amend the Guideline and Model

We can amend our Guideline and Model from time to time under section 64(4) of the EII Act. We have published the proposed amendments to our Guideline and Model on our website for a period of 20 business days and we will consider any submissions received within that period before finalising these amendments.

1.2 Scope of the review

Since 2022, the AER has undertaken three separate public consultation processes on the Guideline. These consultations have sought stakeholder feedback on:

- the contribution determination process (i.e. the processes that apply to all scheme entities in preparing, and the AER in making, an annual contribution determination); and
- the core contribution determination methodology (i.e. the inputs, model calculations and outputs).

The current review of the Guideline and Model is more in the nature of a "check-up", rather than a fundamental redesign. We intend to maintain the core methodologies at the heart of contribution determinations but of course remain open to submissions on core design issues. For example, we currently plan to maintain the core 3-year average of net costs method, combined with method for apportionment across the three NSW distributors being based on energy delivered and peak demand data, but would of course consider submissions on these issues.

Our aim is also to make the Guideline more comprehensive, in that the new version will capture our minimum prudent cash balance method and our method for setting the

percentage of the contribution determination that relates to long term energy service agreements for generation.[1]

1.3 Getting involved

We are now asking stakeholders to provide submissions on the draft amendments to our Guideline and Model, and other matters raised in this Explanatory Statement. We will consider those submissions before we finalise any changes. We aim to develop and finalise our amendments to the Guideline and Model for use in making the 2027–28 Contribution Determination.

We encourage engagement from all stakeholders. The decisions we make and the actions we take affect a wide range of individuals, businesses, and organisations. Hearing from those affected by our work helps us make better decisions, provides greater transparency and predictability, and builds trust and confidence in the regulatory regime.

Table 1 sets out the key milestones planned for the completion of this review.

Table 1 Key milestones for review of the Guideline

Indicative dates	Key milestone
22 July 2026	Publish draft amendments to the Guideline and Model on AER website, with an accompanying explanatory statement
22 July 2026 – 19 August 2026	Consultation period
19 August 2026	Submissions close
14 September 2026	Publish final amendments to the Guideline and Model on AER website, with an accompanying explanatory statement

1.4 Invitation for submissions

We invite stakeholders to make submissions on the draft amendments to the Guideline and Model by 19 August 2026.

Submissions should be emailed to: REZ@aer.gov.au with an email title of 'Contribution Determination Guideline and Model 2026 review – submission'.

Alternatively, submissions may be sent to:

Mr Scott Haig
Acting General Manager,
Renewable Energy Zones Branch, Networks Regulation
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

[1] As required under section 36 of the *Electricity Infrastructure Investment Regulation 2021* (NSW).

We prefer all submissions be publicly available to facilitate an informed and transparent consultative process. We will treat submissions as public documents unless otherwise requested. We will publish all non-confidential submissions on the AER's website. For further information on the AER's use and disclosure of information provided to it, see the AER Information Policy.

We request parties wishing to submit confidential information to:

- clearly identify the information that is the subject of the confidentiality claim
- provide a non-confidential version of the submission in a form suitable for publication on the AER's website.

2 Purpose of the review and policy considerations

2.1 Purpose

The NSW Electricity Infrastructure Roadmap (**Roadmap**) was established under the EII Act to support the NSW energy transition through coordinated investment in generation, storage and network infrastructure.

In the early years of the Roadmap's implementation, there was a relatively high degree of uncertainty regarding the timing, profile and magnitude of forecast costs. As a result, the AER has throughout those years adopted an adaptable approach to making annual contribution determinations that reflects the circumstances of the relevant determination year.

As the Roadmap matures, more infrastructure projects have progressed through to construction, and the scale of NSW's investment has increased. As a result, our contribution determinations are likely to increase over the coming years. At the same time, more information on Roadmap costs and risks has become available. In this context, we consider it timely to review the Guideline and Model to ensure the contribution determination framework remains fit for purpose and appropriately reflects the policy considerations outlined below.

2.2 Policy considerations

In undertaking our review of the Guideline and Model, we have considered several policy considerations that underpin the effective operation of the contribution determination framework. These considerations have informed both the proposed methodologies we seek to incorporate into the Guideline and Model and our assessment of potential amendments to matters on which we seek stakeholder feedback.

The key policy considerations are as follows:

- **Ensuring the Scheme Financial Vehicle can meet its liabilities as they fall due:** Section 56(1) of the EII Act requires the AER to determine the amount needed for the Scheme Financial Vehicle to make payments from the Electricity Infrastructure Fund (**Fund**) for a financial year, including the amount needed to meet its liabilities as they fall due. This is the primary obligation under the framework, and we have therefore carefully weighed this against all other policy considerations. A key challenge for the AER is that contribution determinations require a forward-looking assessment of the cash the Fund will need to meet liabilities at a future point in time. This requires the AER to balance the need to maintain sufficient liquidity to manage cost volatility and reasonably foreseeable liquidity risks against the need to avoid unnecessary cost impacts for NSW electricity consumers. The AER's contribution determination settings may also affect the NSW Roadmap's credit rating, which has flow-on impacts for financing costs across the scheme. The AER therefore endeavours to strike a balance between preserving the Fund's solvency within reasonable risk tolerance limits, while mitigating cost impacts on NSW electricity consumers.

- **Limiting variability in contribution determination amounts:** Clause 35(1)(a) of the *Electricity Infrastructure Investment Regulation 2021* (**EII Regulation**) requires the AER, in making a contribution determination, to limit variability in contribution determinations from year to year. This reflects a key policy objective of promoting stability and predictability in the recovery of Roadmap costs. As the Roadmap matures and larger costs are realised, there is an increased risk of sharp year to year fluctuations in contribution determination amounts. This consideration is particularly relevant where forecast costs increase materially over a relatively short period, creating a risk of sharp changes in annual contribution determinations if no smoothing mechanism is applied.
- **Aligning the costs and benefits of the Roadmap over time:** A broader policy consideration, informed by policy work undertaken during the early implementation phase of the Roadmap, is whether Roadmap costs are recovered over the period in which consumers are expected to benefit from the relevant investments, including through lower wholesale electricity costs. We observe that, given the long lead times associated with construction of new electricity infrastructure, this time gap is beyond the scope of our current three-year averaging method to align costs and benefits directly. However, where possible, we have sought to take this aspect of the EII framework into consideration in the development of our methods.

In reviewing the Guideline and Model, the AER has sought to strike an appropriate balance between these considerations so that the contribution determination framework remains fit for purpose as the Roadmap matures.

3 Proposed amendments to the Guideline and Model

Our review of the Guideline and Model identified several targeted amendments that clarify aspects of the existing framework and set out the methodologies the AER proposes to apply as standard practice. We outline our reasoning for these amendments below.

For ease of reference, Table 2 and Table 3 set out the proposed amendments to the Guideline and Model, respectively.

Table 2: Summary of amendments to the Guideline

Section	Title	Description
Throughout	Minor and administrative amendments	Amendments to align with legislative amendments, stylistic amendments and amendments to improve clarity
Throughout	Figures	Updated figures to latest version as necessary
1.6	Purpose of this guideline	Removal of outdated reference to the Infrastructure Planner's recovery of administrative costs
2.1, Table 2	Process for contribution determination	Inclusion of additional milestones relating to: • submission of a minimum prudent cash balance proposal by the Scheme Financial Vehicle; and • comment on the proposal by the Consumer Trustee
4.5	Minimum prudent cash balance	Inclusion of methodology to calculate the minimum prudent cash balance
4.7	Exemptions	Inclusion of information relating to the calculation under clause 36 of the EII Regulation.
5.6	Apply exemptions	Reference to methodology to calculate the percentage under clause 36 of the EII Regulation.
5.7	Calculation of percentage of contribution determination that relates to generation LTESAs	Inclusion of methodology to calculate the percentage under clause 36 of the EII Regulation.
7.1	Non-disclosure claims	Inclusion of process to handle non-disclosure claims

Table 3: Summary of amendments to the Model

Sheet	Row	Description
Financial	25 - 27	LTESA expenditure generation forecast as at reference year
Financial	30	LTESA expenditure generation forecast as at target year
Financial	74	Generation LTESA sub-component of minimum prudent balance
Apportionment	177	3-year average generation LTESA forecast as at reference year (as a baseline for running account calculation)
Apportionment	180	3-year average generation LTESA forecast as at target year (revised forecast as at target year)
Apportionment	183	3-year rolling average of generation LTESAs in central forecast
Apportionment	185	Generation LTESAs component of minimum prudent cash balance
Apportionment	190	Opening balance as at target year (equal to closing balance as at previous year with time value of money adjustment)
Apportionment	191	Correct amount subject to exemptions as at target year
Apportionment	192	Adjustment to achieve correct amount as at target year
Apportionment	193	Historical 3-year average LTESA forecast (as at reference year)
Apportionment	194	Historical amount included in minimum prudent cash balance (as at reference year)
Apportionment	195	Closing balance (as at reference year)
Apportionment	198	Contribution determination amount
Apportionment	199	Amount of contribution determination attributable to LTESAs (Generation) (volumetric)

Apportionment	200	Amount of contribution determination attributable to all other cost categories (peak demand)
Apportionment	205 – 208	Percentage of contribution determination related to LTESAs for generation for each DNSP

3.1 Key methodologies

We propose to amend the Guideline to set out two key methodologies that underpin the annual contribution determination process:

- the methodology for setting the minimum prudent cash balance for the Fund; and
- the methodology for calculating the percentage of the contribution determination that relates to generation long-term energy service agreements (**LTESAs**) under clause 36 of the EII Regulation.

These methodologies have not previously been described in detail in the Guideline.

3.1.1 Minimum prudent cash balance

Section 56(3)(a) of the EII Act requires the AER to include a minimum prudent cash balance for the Fund in a contribution determination. The purpose of the minimum prudent cash balance is to support the Fund's ability to meet its expected liabilities as they fall due, while maintaining an appropriate buffer against reasonably foreseeable liquidity risks.

To date, the AER has adopted a methodology for calculating the minimum prudent cash balance that is proportionate and appropriate to the prevailing circumstances. Each year, the methodology has been informed by a proposal prepared by the Scheme Financial Vehicle. Our previous minimum prudent cash balance methodologies included:

- For the 2023–24 and 2024–25 contribution determinations, the AER set the minimum prudent cash balance at an amount equal to half of the forecast net costs for the t+1 year. This approach was appropriate in the early stages of the Roadmap, when detailed forecasting information was more limited.
- For the 2025–26 contribution determination, the AER moved away from a purely formulaic approach and adopted a bottom-up approach. This approach was aimed at more accurately estimating cost volatility, with a focus on the key drivers of the Fund's liquidity risk. These drivers included the timing mismatch between the Fund's incomings and outgoings, volatility of LTESA costs under stressed scenarios, and estimated volatility of network costs based on historical variability of relevant indicators. To inform and cross-check this methodology, the AER developed a set of scenario analyses to test the Fund's cash position and assess whether the minimum prudent cash balance would maintain sufficient liquidity under a range of plausible stress conditions. This included a

baseline scenario,[2] which was used as a reference point, alongside four stress scenarios.[3]

- For the 2026–27 contribution determination, the AER further refined the elements captured in the 2025–26 approach. This included introducing a non-cash component funded by a liquidity facility to reduce the need for the Fund to hold as much cash to manage cost volatility.

The draft amendments set out the methodology we consider most appropriate for calculating the minimum prudent cash balance in future years. The proposed methodology is largely based on the approach adopted for the 2026–27 contribution determination, with refinements to reflect the increasing availability of more detailed cost information and the growing scale of infrastructure-related expenditure. This includes the addition of the infrastructure cost risk category, termed the network infrastructure buffer. We expect the method will continue to need to be adaptable to the circumstances before us each year.

The SFV draws on the cash held for the purposes of the minimum prudent cash balance to the extent necessary each year. Where this occurs, the Fund simply draws on this cash to the extent necessary and the minimum prudent cash balance is not held as a separate bucket of cash for practical purposes. If the SFV has drawn down the minimum prudent cash balance, the implication here is that the forecast costs data the AER adopted in previous contribution determinations was incorrect. In the following contribution determination, the AER will adopt corrected forecasts and the contribution determination model's true up mechanism will result in a higher contribution determination amount, to recover the extra cash needed to compensate the Fund for the minimum prudent cash balance monies used.

3.1.1.1 Methodology

Section 4.5 of the Guideline outlines the calculation methods for the primary funding buffers used to manage liquidity risks for the Fund. Further explanation of these risk categories is provided below.

Counterparty default buffer

This component addresses the risk that a counterparty may not pay an amount to the SFV when it falls due. Credit risk depends on both the likelihood that a counterparty fails to meet its contractual payment obligations and the amount owed to the SFV. The SFV must manage credit risk exposures in an adaptable and active way and must assess the appropriate buffer size each contribution determination cycle, noting that this point in time estimate may change over the forward year as conditions evolve.

Key credit risk exposures for the SFV that arise from the scheme architecture set out in the EII Act include (but are not limited to):

- LTES Agreement counterparties' financial obligations to the SFV,
- REZ Access Right Holder financial obligations to the SFV,

[2] The baseline scenario captures only transaction lags in cash inflows and outflows for the Fund and does not incorporate additional liquidity risks or stress events.

[3] These stress scenarios included delayed DNSP payments, material increases in network operator costs, higher than expected non-LTESA costs and higher than expected LTESA costs.

- Distribution network service provider (**DNSP**) financial obligations to the SFV related to contribution determinations, and
- Financial obligations to the SFV related to the operation of the Electricity Infrastructure Fund (for example, interest payments).

As the Fund begins to see potential exposures increase in line with the delivery of the Roadmap, the approach will be tailored using an appropriate cumulative probability of default over the relevant risk window period to reflect the breadth of credit exposure across the Fund's inflow projections.

Timing mismatch buffer

The timing of the DNSP payments is set out in the EII Regulation[4] and is discussed in section 1.5 of the Guideline. This timing mismatch creates a liquidity risk window which spans 18 months, beginning from the publication of the contribution determination in February until the start of the subsequent contribution determination's first contribution order payment in November of the following year.

Even where payments are predictable and risk is low, a minimum cash buffer is needed to cover the structural timing gap between Fund inflows and outflows.

For this, we rely on the SFV's cash flow model, which contains the best available information regarding likely future outflows from the Fund. This component can be forecast by the SFV in the lead up to the AER's contribution determination decision each February and is static within a financial year.

LTESA buffer

This component addresses the inherently uncertain liabilities that the SFV faces in relation to generation LTESA contracts entered into under the Electricity Infrastructure Investment Safeguard. Forecasting SFV liabilities under these contracts requires a risk-based approach to modelling and forecasting methods to arrive at prudent buffer amounts.

For an exercised LTESA, the SFV liability is calculated as the difference between the contract fixed price and the variable price for sent-out MWh generation across all trading intervals. The maximum possible payout is the difference between the fixed price and zero, multiplied by the LTES Operator's sent-out generation.

Forecasting these liabilities is inherently challenging because the range of potential outcomes depends on uncertain future market results and the project owner's exercise decisions. Accurate forecasting therefore requires sophisticated modelling of future electricity market scenarios, project-specific production profiles, and the operation of support payments and revenue-sharing obligations over the contract term. As a result, assumptions about LTESA costs are highly sensitive to modelling assumptions and carry significant uncertainty.

To manage these uncertainties, the LTESA payment variability buffer is calculated in two components, which are detailed in Table 5 of the Guideline:

[4] EII Regulation, s. 38.

1) Reasonably likely LTESA cost variability; and

2) Unlikely high-impact events.

Network infrastructure buffer

This component addresses uncertainty in costs associated with the SFV's liabilities covering network infrastructure, resulting from the processes set out in Part 5 of the EII Act. These liabilities primarily arise through two scenarios:

- Where a project has an existing AER determination, costs are established and more predictable. However, additional costs may arise where the relevant AER revenue determination embeds adjustment mechanisms that allow additional costs contingent on future trigger events, or where the AER remakes its decision within the relevant period.
- Where a project is not yet subject to an AER determination, a best estimate of costs is used for the main net costs calculation. However, forecasting uncertainty, timing mismatches and variations based on the AER's actual decision making may result in variations to these estimates, which also need to be managed by this contingency amount. The probability of these variations is reduced where the project determination is to be made by the AER later in the relevant contribution determination period.

In previous contribution determination processes, we estimated this component by analysing historical time series data for relevant indices to determine an appropriate contingency percentage. Historical analysis was also undertaken to test the correlation of these indices and ensure that they are indicative of real project cost changes.

These indices were:

- Foreign exchange (trade-weighted index, TWI);
- Interest rates (1-month Overnight Index Swap, OIS);
- Commodities prices (Index of Commodities Prices, ICP);
- General inflation (Consumer Price Index, CPI); and
- Wage inflation (Wage Price Index, WPI).

We plan to refine our method going forward. In future, we propose to base our method on more detailed information we intend to gather from the Infrastructure Planner. We consider that the project teams within the Infrastructure Planner have the best available information concerning likely future cost fluctuations, because they work on these projects day-to-day and are most aware of any changes in circumstances. For example, in the case where no AER revenue determination is in place, these project teams would have the best information about any updates to the timing of the delivery of a project. Where there is an AER revenue determination in place, these project teams would be in the best position to understand whether any adjustment mechanisms are likely to be triggered and the relevant timing and magnitude of the proposed adjustment.

Our current intention is to request that the Infrastructure Planner provide us with a lower bound, most likely case, and upper bound estimate in relation to each infrastructure project. Using probabilistic terminology, the Infrastructure Planner could for example provide us with

a P10, P50 and P90 estimate in relation to each infrastructure project. With a complete data set of these data points for all infrastructure projects, we envisage undertaking quantitative and/or qualitative analysis to determine the most appropriate size of the overall infrastructure cost buffer embedded within the minimum prudent cash balance. For example, the data could allow us to run quantitative simulations (such as Monte Carlo simulations) to produce a probabilistic range of likely overall infrastructure costs (for example, a probabilistic range in costs from a P0 to P100 level). The AER could then decide on the appropriate probability level at which to set the overall infrastructure buffer. For example, at the P80 or P90 level.

In setting the overall infrastructure buffer, we expect to also consider likely upcoming infrastructure cost volatility. To illustrate, if the P10, P50 and P90 estimates are closely clustered around the P50 number, this would indicate less upcoming volatility. We expect that we could measure this using standard deviations from the mean, for example. Where the Infrastructure Planner's data indicates higher volatility, then this would be a factor in favour of a larger infrastructure buffer.

We do acknowledge however that some risks covered under this contingency amount are highly unpredictable and will require a qualitative overlay and a 'best endeavours' approach. For example, the AER may approve adjustment mechanisms at the time of determination (and then also approve amounts under those mechanisms) which include matters such as natural disasters, terrorism and force majeure, which are not readily able to be forecast.

3.1.1.2 Future amendments to the methodology

We expect that our method for the minimum prudent cash balance will continue to need to be adaptable, reflecting the latest assessment of the risks that may affect the Fund's cash position at the point in time of each contribution determination.

If in the future we need to depart from the method described in the Guideline, we intend to do so based on a transparent set of principles. For this reason, we have set out principles in section 4.5 of the Guideline to inform whether it is reasonably necessary to amend or adapt the methodology in future years. These principles are intended to ensure that any future changes remain directed to the purpose of the minimum prudent cash balance, are based on the best available information, and respond only to changes that are material to the Fund's risk profile.

3.1.1.3 Additional proposed amendments to the Guideline relating to the minimum prudent cash balance

We also propose to amend Table 2 of the Guideline to include an additional process requiring the Scheme Financial Vehicle to engage with the AER and the Consumer Trustee on its minimum prudent cash balance proposal. This reflects the Consumer Trustee's role under the statutory Risk Management Framework, including its role in managing LTESA-related risks. We consider it appropriate for the Consumer Trustee to have an opportunity to comment on the proposal before it is adopted by the AER.

3.1.2 Percentage under clause 36

Clause 36 of the EII Regulation requires the AER to give each NSW DNSP a notice setting out the percentage of the contribution determination that relates to generation LTESAs. This percentage is important because it informs the operation of the exemption's framework under

clause 37 of the EII Regulation in relation to emissions-intensive trade-exposed entities that may be entitled to a partial exemption from generation LTESA-related costs.

Generation LTESA costs may be reflected in both the central forecast[5] and the minimum prudent cash balance.[6] For this reason, the percentage calculated under clause 36 of the EII Regulation needs to account for both components. In previous contribution determinations, our methodology for calculating the percentage under clause 36 has involved using one of the two following methods:

- In a contribution determination year where there were no generation LTESAs captured in the minimum prudent cash balance:

$$\frac{\left(3\ year\ average\ of\ LTESA\ costs\ \times DNSP's\ proportion\ of\ volumetric\ energy\ delivered\right)}{\left\{\begin{array}{c}\left(3\ year\ average\ of\ LTESA\ costs\ \times DNSP's\ proportion\ of\ volumetric\ energy\ delivered\right)\\ +\left(3\ year\ average\ of\ all\ other\ costs\times DNSP's\ proportion\ of\ peak\ demand\ data\ \right)\end{array}\right\}}$$

- In a contribution determination where there were no generation LTESAs captured in the central forecast:

$$\frac{Amount\ of\ generation\ LTESA\ costs\ in\ the\ minimum\ prudent\ cash\ balance}{Total\ contribution\ determination\ amount}$$

The draft amendments propose to provide clearer guidance on how this percentage is calculated. We consider that additional guidance on this issue will assist DNSPs, exempt customers and other stakeholders to better understand the methodology and its implications.

3.1.2.1 Methodology

Section 5.7 of the Guideline outlines the methodology that we propose to apply to calculate the percentage under clause 36. Table 4 below sets out the key components of the methodology and the potential issues that the methodology is intended to address.

Table 4: Components of the proposed percentage under clause 36 methodology

Component	Explanation
Generation LTESAs captured in the central forecast	**Potential issues that we have sought to resolve** The contribution determinations capture three forecast years. The forecast costs in relation to generation LTESAs for these forecast years are inherently uncertain and subject to change from year to year. Each year, the AER adopts the latest revised forecast for each forecast year (t-1, t and t+1), as well as the actual amount for the t-2 year. As these forecasts are inherently forward-looking and may be revised upward or

[5] The contribution determination includes an amount of generation LTESAs captured in the central forecast. The central forecast represents the median expected outcome of generation LTESA amounts based on the Scheme Financial Vehicle's forecast of future settlement payments.

[6] The contribution determination also includes an amount of generation LTESAs captured in the minimum prudent cash balance. As explained in section 3.1.1.1 of this Explanatory Statement, the minimum prudent cash balance embeds an LTESA buffer, which is a forecast of LTESA costs where the price and volume parameters have been stressed.

	downward in later determinations, there is a risk that affected parties could otherwise be over-compensated or under-compensated over time if revisions to forecasts are not appropriately accounted for. The proposed methodology addresses this by using a running account approach to recognise forecast changes over time. A worked example is provided in Appendix A.
Generation LTESAs captured in the minimum prudent cash balance	**Potential issues that we have sought to resolve** The minimum prudent cash balance operates as a stock that may increase or decrease from one year to the next as the Fund's risk profile changes. For example, our contribution determination for FY26 set the minimum prudent cash balance to $269.10 million. The Fund then recovered this amount by the end of the FY26 year. For the FY27 contribution determination, we also set the minimum prudent cash balance to $269.10 million. If exempted customers were provided an exemption proportionate to the generation LTESA amount embedded within the minimum prudent cash balance for both FY26 and FY27, this would have resulted in double counting and would leave the exempted customers over-compensated. The proposed methodology addresses this by using a running account approach to avoid double counting over time. A worked example is provided in Appendix B.
Hybrid LTESAs	While hybrid LTESAs include both generation and storage components, the Consumer Trustee considers them a variant of the existing generation LTESA. No hybrid LTESAs have been awarded at the time of publication and have only been offered as of Tender 8. **Potential issues that we have sought to resolve** Hybrid LTESAs introduce a complication because they comprise generation and storage elements. If we were to account for them incorrectly as part of calculating the percentage under clause 36 of the EII Regulation, this could result in exempted parties being either under or over-compensated. **Proposed Approach** Hybrid LTESAs will be settled based on Sent Out Net Exports, which is closely aligned to the existing generation

	metric.[7] Our view is that the hybrid LTESA design aligns with the policy reasoning for exempting parties under section 36 from the portion of LTESA costs associated with generation, as set out in a policy paper published by the NSW Government in 2021.[8] We therefore propose to include 100% of hybrid LTESA costs in the generation category for the purposes of calculating the exempted amounts.

3.1.2.2 The potential for a negative percentage

The running account of generation LTESAs in the central forecast and minimum prudent cash balance may be adjusted upward or downward over time. This method will ensure that, as at the point in time of each target year, the amount of generation LTESA costs that are subject to an exemption reflects the correct amount based on revisions to generation LTESA forecasts and changes to the minimum prudent cash balance target over time.

Given the forecasts and minimum prudent cash balance may fluctuate upward and downward from year to year, our proposed method could result in a counter-intuitive situation where exempted customers pay more than non-exempted parties in some years, in order to adjust for an over-compensation in historical years. In the usual course, we expect that any negative adjustment will be offset by greater positive amounts. For example, a downward adjustment in the generation LTESA amount embedded within the minimum prudent cash balance will likely, in the coming years, be offset by a larger upward adjustment in the amount of generation LTESAs in our central forecasts.

However, in particular when the NSW Roadmap winds down and the minimum prudent cash balance returns to zero in the long term, the running account method would likely ultimately result in a negative percentage. However, despite this, we consider the running account method presents a fair and rational method to calculate the percentage. We expect that a negative percentage could be implemented through the process developed by NSW Department of Climate Change, Energy, the Environment and Water (**DCCEEW**), in the same way as a positive percentage.[9]

3.2 Apportionment

Clause 35(1)(b) of the EII Regulation requires the AER, in making a contribution determination, to have regard to the equitable allocation of the contribution determination between DNSPs, based on each provider's volumetric energy delivered[10] and peak

[7] https://asl.org.au/-/media/services/files/tender-round-8/260520-tender-round-8-tender-guidelines-20-may-2026.pdf?rev=a7f5ac3a2ebb4f2a9283e24081b756b3&sc_lang=en

[8] OECC, *Electricity Infrastructure Roadmap, Electricity Infrastructure Fund (Part 7 of the Electricity Infrastructure Investment Act 2020)*, *Exemption Administration Process*, May 2022.

[9] OECC, *Electricity Infrastructure Roadmap, Electricity Infrastructure Fund (Part 7 of the Electricity Infrastructure Investment Act 2020)*, *Exemption Administration Process*, May 2022.

[10] Volumetric energy delivery means the measured or estimated amount of electricity delivered to electricity customers from a DNSP's network, measured in gigawatt hours at the appropriate customer charging location (as defined by section 35(2) of the EII Regulation).

demand[11] in the previous financial year. Consistent with this requirement, the AER apportions the total contribution determination amount across the three NSW DNSPs using:

- An energy delivered metric for LTESAs for generation; and
- a peak demand metric for all other categories of Roadmap costs (i.e. network costs, admin costs, storage/firming LTESAs).

Additionally, each year the Clean Energy Regulator (**CER**) provides NSW DCCEEW with information on what entities are exempt from the Renewable Energy Target (**RET**) and Energy Savings Scheme (**ESS**). As part of this assessment process, NSW DCCEEW determines which National Meter Identifiers (**NMIs**) are eligible for exemption.

For each exempt NMI, a distribution business must identify the annual volumetric energy delivered and peak demand data for the previous financial year. A distribution business must provide the SFV and AER with the total volumetric energy delivered value and the total peak demand value for all exempt NMIs by mid-January each year. These values are used to adjust the apportionment ratios so that distribution businesses with exempt entities are allocated Roadmap costs based on total energy delivered and peak demand, minus the total energy delivered and peak demand of all exempt entities within their distribution areas. We do not propose to amend this apportionment method.

In previous years, we have adjusted the apportionment data to account for embedded network customers. However, going forward, we propose to no longer adjust for embedded networks. This is because our analysis suggests that there are only a small number of embedded network customers and therefore, adjusting for those customers does not have a material impact on the total apportionment year-to-year.

[11] Peak demand means the aggregate amount of actual, non-coincident and raw electricity demand, measured in megavolt amps, at the zone substation level and at the trading interval when the aggregate amount is the highest (as defined by section 35(2) of the EII Regulation).

4 Additional matters for consideration

4.1 Non-disclosure claims

In July 2026, we published our Non-disclosure Guideline[12] which is intended to replace the 2023 draft Confidentiality Guideline. The Non-disclosure Guideline reflects recent legislative and regulatory amendments and sets out our approach for assessing how network operators and other entities assisting with the delivery of the NSW Electricity Infrastructure Roadmap are to make claims for non-disclosure under the EII Act.

While the Non-disclosure Guideline does not cover annual contribution determinations, the AER will apply a consistent approach to that set out in the Non-disclosure Guideline in assessing non-disclosure claims arising through the contribution determination process. The draft *NSW Electricity Infrastructure Fund Contribution Determination Guideline* (the Guideline to which this Explanatory Statement relates) includes proposed amendments in section 7.1 to address those matters.

4.2 Three-year average method

Currently, we are not proposing any specific amendments to the Guideline or Model in relation to the 3-year rolling average methodology. However, we invite stakeholder feedback on whether the current approach remains fit for purpose or whether the AER should consider adapting it in future years.

To date, the AER has calculated the contribution determination amount by estimating costs using a three-year rolling average method. This approach was the subject of consultation by the NSW Government in 2021 through its Electricity Infrastructure Fund policy paper on Part 7 of the EII Act and was reflected in subsequent consultations by the AER.

The policy paper recognised that scheme costs were likely to vary across years, reflecting both the timing and nature of key cost components. In particular, it noted that LTESA-related costs may vary in timing and magnitude, while infrastructure costs may increase as larger step changes over time. Against that background, the policy paper proposed a three-year rolling average method as a means of smoothing the recovery of scheme costs over time, while ensuring adequate funds are available to maintain the Scheme Financial Vehicle's liquidity.

As such, under the current approach, the contribution determination amount is calculated by:

- the estimate of the current (year t-1) net expenditures;
- the forecast net expenditure for the upcoming year t (the year for which the contribution determination is made); and
- the forecast net expenditure for the forecast year t+1.

[12] AER, Non-disclosure Guideline, 2 July 2026.

This approach is intended to limit year to year variability in contribution determinations, consistent with clause 35(1)(a) of the EII Regulation.[13] In addition to smoothing costs, the benefits of the three-year rolling method include that:

- it ensures a clear line of sight for short and medium-term liquidity considerations for the Scheme Financial Vehicle through the data submitted by scheme entities; and
- it provides a forward-looking estimate of total scheme costs, reducing the need for the Scheme Financial Vehicle to rely on the minimum prudent cash balance or other tools to ensure that it can make the payments required when they fall due from the Fund.

However, as the Roadmap matures and forecast costs become larger and more predictable, the current method may warrant reconsideration. In applying this method in future years, we envisage this approach may result in the following impacts:

- in a phase where scheme costs are expected to increase year on year as Roadmap projects commence, a three-year averaging method that looks forward could have the effect of bringing costs to consumers forward in time, increasing costs in the target year but reducing proportional increases in future years; and
- a three-year period may not be long enough to materially align Roadmap costs with the period over which consumers receive benefits, given there may be a lag between when costs are imposed on NSW electricity consumers and when those benefits are realised.

We have therefore undertaken scenario analysis of a range of alternative methods that could be applied in place of the current three-year rolling average method. This analysis indicates that alternative approaches provide minor, if any, additional smoothing benefit.

Table 5 below outlines key advantages and limitations of each approach that we have identified.

Table 5: Assessment of alternative methods to three-year rolling average method

Alternate Method	Advantages	Limitations
Shorter rolling average A rolling average approach is retained, but the averaging period is shortened (e.g. one lagging year and the forecast year).	• Less weight is attributed to forecast costs, reducing the extent to which cost recovery is brought forward in time.	• May increase volatility of future contribution determination amounts, noting that step-changes are likely to be significant as infrastructure costs become realised.

[13] A requirement that the AER must consider when making its contribution determination under section 35(1)(a) of the EII Regulation.

Longer rolling average Extends the averaging window beyond three years to further smooth cost recovery	• Reduces the impact of short-term fluctuations in underlying costs, reducing volatility of future contribution determination amounts	• Costs may be recovered further from when they are incurred

We invite stakeholder feedback on whether the current three-year average method remains fit for purpose or whether an alternate method may be more appropriate.

5 Appendix

5.1 Appendix A – Worked Example regarding method to calculate percentage required under clause 36 of EII Regulation – Running account of 3-year rolling average of generation LTESAs in the central forecast

To estimate generation LTESA costs, the AER takes a 3-year average of net costs across the forecast years (t-1, t and t + 1), and inputs the actual costs incurred for the historical year t-2 into the model's true-up mechanism. Each year, the data for the forecast years (t-1, t and t + 1) is updated with the latest forecasts and one more year of actuals data becomes known. Table 6 below shows the data used up to the point of the latest contribution determination for 2026–27. For the latest 2026–27 contribution determination, the forecast years were 2025–26, 2026–27, and 2027–28. The actuals data year was 2024–25. To ensure exempted customers are not over- or under-compensated, the percentage required by clause 36 of the EII Regulation needs to consider these ongoing revisions to generation LTESA cost forecasts.

Table 6: Visual representation of the generation LTESA cost data used up until the most recent contribution determination for 2026–27

	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28
2023–24 target year	t – 1 target year forecast	t target year forecast	t + 1 target year forecast			
2024–25 target year	t – 2 target year actuals	t – 1 target year forecast	t target year forecast	t + 1 target year forecast		
2025–26 target year	t – 3 target year actuals	t – 2 target year actuals	t – 1 target year forecast	t target year forecast	t + 1 target year forecast	
2026–27 target year	t – 4 target year actuals	t – 3 target year actuals	t – 2 target year actuals	t – 1 target year forecast	t target year forecast	t + 1 target year forecast

As explained, we proposed to introduce a 'running account' method to calculate the percentage required under clause 36 of the EII Regulation. To adjust the percentage under clause 36 each year to account for revisions to generation LTESA forecasts, we compare the historical generation LTESA forecasts as at the previous year with the latest updated revised forecasts at the point in time that we make the contribution determination in February each year. This comparison of the latest dataset to the historical dataset is complicated by the 3-year average method, which results in reference years capturing a blend of revised forecast and actuals data.

Table 7 shows the years captured by the 3-year average calculation and the split of years that are **actuals** and **forecasts** for each year. Our running account calculations look at each previous reference year and adjust to account for revisions to forecasts, or adopt the actuals amount where no forecast year is captured by the 3-year average calculation. When the three-year rolling average of a reference year contains three actuals years, the amount in the central forecasts is the actual amount in that reference year. This is because, when there are three actuals years in the rolling average, we are no longer dealing with a forecast.

Table 7: Visual representation of data used to compare revised dataset to historical dataset

	2022–23	**2023–24**	**2024–25**	**2025–26**	**2026–27**	**2027–28**
2023–24 target year	t – 1 target year (**21/22**, **22/23**, **23/24**) forecast	t target year (**22/23**, **23/24**, **24/25**) forecast				
2024–25 target year	t – 2 target year (**21/22**, **22/23**, **23/24**) forecast	t – 1 target year (**22/23**, **23/24**, **24/25**) forecast	t target year (**23/24**, **24/25**, **25/26**) forecast			
2025–26 target year	t – 3 target year (**22/23**) Actuals	t – 2 target year (**22/23**, **23/24**, **24/25**) forecast	t – 1 target year (**23/24**, **24/25**, **25/26**) forecast	t target year (**24/25**, **25/26**, **26/27**) forecast		
2026–27 target year	t – 4 target year (**22/23**) Actuals	t – 3 target year (**23/24**) Actuals	t – 2 target year (**23/24**, **24/25**, **25/26**) forecast	t – 1 target year (**24/25**, **25/26**, **26/27**) forecast	t target year (**25/26**, **26/27**, **27/28**) forecast	

The below series of tables illustrate how the running account method works. The data is illustrative data only. Table 8 shows illustrative 3-year average data for the 2024–25 contribution determination. The target year is shaded green and the actuals year is shaded grey.

Table 8: Illustrative data for the 2024–25 year

	2022–23	2023–24	2024–25	2025–26	2026–27
2024—25 contribution determination	10	10	10	10	N/A

Table 9 shows the situation where, for the subsequent 2025–26 year, the forecast for the 2025–26 year has been revised from 10 units to 15 units (highlighted yellow).

Table 9: Illustrative data for the 2025–26 year

	2022–23	2023–24	2024–25	2025–26	2026–27
2025—26 contribution determination	10	10	10	15	10

Table 10 shows how the running account method would work. The running account adjusts for the additional 5 units as part of the calculation of the percentage for the 2025–26 year. Our method calculates the correct cumulative amount of LTESA costs to be subject to the exemption calculations as at each target year.

Table 10: Illustrative data for the 2025–26 year

	2022–23	2023–24	2024–25	2025–26	2026–27

2024—25 contribution determination	10	10	10	10	
2025—26 contribution determination	10	10	10	15	10
Calculation	10 - 10 = 0	10 - 10 = 0	10 – 10 = 0	15 – 10 = 5	10 - 0 = 10
Notes	This is two actuals years hence there will be no change.	Adjustment of 0 units	Adjustment of 0 units	Adjustment of +5 units	Adjustment of +10 units

5.2 Appendix B – Worked Example – Running account of generation LTESAs in the minimum prudent cash balance

Table 11 shows how the amount input into the percentage calculation is adjusted each year to account for changes to the minimum prudent cash balance. The below data is illustrative data only.

Table 11: Illustrative data for the 2025–26 year

Contribution Determination Target Year	**2022–23**	**2023–24**	**2024–25**	**2025–26**	**2026–27**	**2027–28**	**2028–29**
Amount of generation LTESA's in minimum prudent balance	10	15	12	17	11	7	32
Calculation	10 – 0 = 10	15 – 10 = 5	12 – 15 = -3	17 – 12 = 5	11 – 17 = -6	7 – 11 = -4	32 – 7 = 25
Notes	First year so no true-up	Adjustment of + 5	Adjustment of – 3	Adjustment of + 5	Adjustment of – 6	Adjustment of – 4	Adjustment of 25