

Final decision

System Strength Project (hybrid priority network infrastructure project)

(1 October 2026 – 30 September 2031)

Appendix B Adjustment mechanisms

September 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: AER24010395

Amendment record

Version	Date	Pages
1.0	30 September 2026	41

Note

This appendix forms part of the AER's final decision on Transgrid's 2026–31 System Strength Project (hybrid priority network infrastructure project). It should be read with all other parts of our final decision.

Our final decision includes the following documents:

- Final decision (main document)
- Appendix A – Quarterly payment schedule
- **Appendix B – Adjustment mechanisms**
- Appendix C – Rate of return averaging periods (Confidential)

Contents

Note	iii
B. Adjustment mechanisms	1
B.1 Adjustment mechanisms for events prescribed in EII Chapter 6A	1
B.2 Adjustment mechanisms for routine administrative events	2
B.3 Adjustment mechanisms for standard events	3
B.4 Adjustment mechanisms for other events.....	6
B.5 Contractual adjustment mechanisms.....	12
B.6 Formulaic description and process for adjusting revenue	34

B. Adjustment mechanisms

B.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 *National Electricity Rules* (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 final decision is 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 final decision on adjustment mechanisms for events prescribed in EII Chapter 6A

Adjustment mechanism	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.

B.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 the inflation and return on debt adjustment mechanisms 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’

We consider this change was appropriate to maintain regulatory consistency between determinations but does not change the operation of the adjustment mechanisms from those Transgrid proposed in its revenue proposal. We have also amended the relevant CPI quarter for the actual inflation adjustment to reflect our standard approach approved for other EII decisions and included an additional element to allow updating the pre-period inflation amounts.

Our final decision is to accept 2 of the 3 adjustment mechanisms for routine administrative events, along with the definitions in Table 2. The definitions are largely consistent with our 2026–31 final determination for the Enabling CWO project, with the additional element added to the inflation adjustment mechanism to allow updates to pre-period inputs. We have not accepted the proposed adjustment mechanism for updates to return on equity as this event is not required for the System Strength Project. See section 14 of our revenue determination for more details.

Table 2 AER’s final decision on adjustment mechanisms for routine administrative events

Adjustment mechanism	Description of adjustment
Annual update for actual inflation	An annual update to revenue for the actual rate of inflation. For the 2026–31 regulatory period, 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. For the pre-period (prior to the start of the 1 October 2026 regulatory period), actual inflation is the percentage change in the relevant price

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

index “ABS CPI Quarterly All Groups, Australia”, as published by the ABS, from December in year t-2 to December 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 calculated for year t, in accordance with the 2022 Rate of Return Instrument (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.
-----------------------	---

B.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 events’ 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 consistency across 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’s 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 final decision is 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 final decision on adjustment mechanisms for standard events

Adjustment mechanism	Description of adjustment
Insurance coverage event	An increase or decrease in the revenue Transgrid may recover to accommodate the change in costs Transgrid incurs arising from an insurance coverage event. An insurance coverage event occurs if: - Transgrid: - 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 - 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 - Transgrid incurs costs: - beyond a relevant policy limit for that policy or set of insurance policies, or - that are unrecoverable under that policy or set of insurance policies due to changed circumstances, and - The costs referred to in paragraph 2 above materially increase the costs to Transgrid in carrying out the System Strength Project. For the purposes of this insurance coverage event: <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. <i>‘costs’</i> means the costs that would have been recovered under the insurance policy or set of insurance policies had: - the limit not been exhausted, or - those costs not been unrecoverable due to changed circumstances. - a <i>‘relevant insurance policy’</i> or <i>‘set of insurance policies’</i> 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; 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 Transgrid or a related entity of Transgrid in relation to any aspect of Transgrid's network or business.

- '*related entity*' has the meaning given to 'related body corporate' in section 50 of the Corporations Act 2001 (Cth), but on the basis that 'subsidiary' has the meaning as defined 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 Transgrid 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 Transgrid.

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.
-

B.4 Adjustment mechanisms for other events

Transgrid’s proposal contained 4 adjustment mechanisms for ‘events impacting Transgrid’s costs’.⁴ 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. This event category covers changes to Transgrid’s non-contestable costs from events which

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

it considers are outside of its control or which cannot be reasonably mitigated, prevented or insured against.

Transgrid proposed an adjustment mechanism of ‘Contract variations impact on Transgrid's costs’ event to capture impacts on Transgrid’s costs of approved variations to its contestable contracts.⁵ Transgrid also proposed 4 adjustment mechanisms related to ‘Transport works’, to manage costs related to delivery of the synchronous condensers to the 5 sites.⁶

We have renamed 2 of Transgrid’s proposed transport works events to more accurately reflect the costs to be recovered by each event in our final decision. Specifically, we renamed the:

- ‘Transport route due diligence and enabling works’ event to ‘Transport Enabling Works’ event, and
- ‘Transport works undertaken by local council’ event to ‘Council or Other State Road Authority Transport Works’ event (for Part A) and ‘Council or Other State Road Authority Transport Works True Up’ event (for Part B).

Our final decision is to:

- accept Transgrid’s proposed adjustment mechanism for the ‘Contract variations impact on Transgrid's costs’ event
- accept Transgrid’s proposed adjustment mechanism for the ‘Transport Enabling Works’ and ‘Council or other State Road authority transport works’ (parts a and b) events, with amendments to include transport enabling measures in lieu of route upgrades and state road authority costs respectively.
- not accept Transgrid’s proposed standalone adjustment mechanism for the ‘Minor transport works’ event and instead include minor transport works as a trigger within the adjustment mechanisms for design and construct (D&C) contract variation events.
- not accept Transgrid’s proposed adjustment mechanism for the ‘Major transport works’ event and substitute with an adjustment mechanism which would require Transgrid’s 2026–31 System Strength Project revenue determination to be reviewed and remade under cl. 51(2) of the EII Regulation and s. 40(2) of the EII Act. The review and remake of the revenue determination would be limited to costs directly related to Transgrid’s major transport works, including contract variation clauses and any proposed CESS exclusion claims for major transport works costs.

See section 14 of our final decision document for more details.

Our final decision adjustment mechanisms for other events are presented in Table 4 below.

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

⁶ Minor Transport Works was proposed as a ‘Contestable contract related adjustment’ but still relates to Transport works.

Table 4 AER’s final decision on adjustment mechanisms for other events

Adjustment mechanism	Description of adjustment
Transport Enabling Works event	An increase in the revenue Transgrid may recover to accommodate the change in prudent, efficient and reasonable costs Transgrid incurs arising from a Transport Enabling Works event. A Transport Enabling Works event occurs where the Original Equipment Manufacturer (OEM, as defined under the OEM Supply Agreement with GE Vernova) notifies Transgrid that a viable transport route has been identified, and Transgrid incurs additional efficient costs relating to: • due diligence on those routes • undertaking necessary preparatory work prior to transport works including environmental approvals, transport deeds, consultation, work scoping • Major Transport Works procurement and contract management and/or • directing the OEM or another party to implement Transport Enabling Measures in Lieu of Route Upgrades. Where a Transport Enabling Works event occurs, Transgrid can recover the prudent, efficient and reasonable costs it incurred due to this event. For the purposes of this Transport Enabling Works event: • ‘OSOM’ refers to oversize over mass transport as defined under Heavy Vehicle National Law. • ‘<i>Transport Enabling Measures in Lieu of Route Upgrades</i>’ is defined as temporary, operational or mitigatory measures undertaken to facilitate OSOM transport movements where those measures avoid, reduce or defer the need for permanent Transport Works, enable transport to occur on time or are otherwise the most efficient means of enabling transport. • ‘<i>Due Diligence</i>’ refers to the assessment and validation activities undertaken by Transgrid to confirm that a proposed transport route, transport solution (or alternate route), or associated transport works represent a prudent, efficient and reasonable means of facilitating OSOM transport movements, including consideration of alternative routes, delivery approaches, costs, constructability, schedule impacts, risks and third-party requirements. • ‘<i>Work Scoping</i>’ refers to the activities undertaken by Transgrid to define, package and allocate transport works to the appropriate delivery pathway, including determining whether works are to be progressed through Transport Enabling Works, Minor Transport Works, Major Transport Works, or Council or Other State Road Authority Transport Works, and establishing the scope, procurement and approval requirements associated with those works. • ‘<i>Major Transport Works</i>’ means Transport Works not able to be recovered under the Transport Enabling Works event, and which

Transgrid's D&C contractors or a relevant road authority were not willing to undertake, but which are required to ensure the safe transportation of the synchronous condensers and any other equipment required in carrying out the System Strength Project, to the Locations.

- '*Transport Works*' and '*Locations*' have the meaning given in the Priority Network Infrastructure Project Direction in relation to the System Strength Project.
- '*D&C contractors*' refers to Consolidated Power Projects Australia (CPP) and UGL Engineering (UGL).
- '*relevant road authority*' means any local government, state or territory road authority responsible for, or having jurisdiction over, a road on which or in relation to which the Major Transport Works are required

Major Transport Works event

An increase in the revenue Transgrid may recover to accommodate the change in prudent and efficient costs Transgrid incurs arising from a Major Transport Work event.

A Major Transport Works event occurs where:

- Major transport Works are required in carrying out the System Strength Project; and
- A procurement process is managed by Transgrid for these Major Transport Works; and
- The costs implications of these Major Transport Works are known or can be reasonably forecast.

For the purposes of this Major Transport Works event:

- '*Major Transport Works*' means Transport Works not able to be recovered under the Transport Enabling Works event, and which Transgrid's D&C contractors or a relevant road authority were not willing or not able to undertake, but which are required to ensure the safe transportation of the synchronous condensers and any other equipment required in carrying out the System Strength Project, to the Locations.
- '*Transport Works*' and '*Locations*' have the meaning given in the Priority Network Infrastructure Project Direction in relation to the System Strength Project.
- '*D&C contractors*' refers to Consolidated Power Projects Australia (CPP) and UGL Engineering (UGL).
- '*relevant road authority*' means any local government, state or territory road authority responsible for, or having jurisdiction over, a road on which or in relation to which the Major Transport Works are required

Where the Major Transport Works event occurs, Transgrid's 2026–31 System Strength Project revenue determination will be reviewed and remade under cl. 51(2) of the EII Regulation and s. 40(2) of the EII Act. This review and remake will be limited to changes directly related to Major Transport Works event. For the avoidance of doubt, our review and

remake may also consider the exclusion of Major Transport Works from the CESS and additional adjustment mechanisms to reflect contractual variations for Major Transport Works or the difference between Transgrid's forecast and actual costs for Major Transport Works.

Where the Major Transport Works event occurs, Transgrid is required to provide:

- a forecast of the increase in costs associated with the Major Transport Works, noting any limitations or assumptions relied on in forecasting;
- a description of any tender and/or negotiation process in relation to the Major Transport Works, highlighting any measures used to ensure it resulted in a prudent, efficient, and reasonable outcome;
- any additional adjustment mechanisms proposed to reflect contract variations or the difference between forecast and actual costs;
- a justification for each proposed additional adjustment mechanism, explaining why Transgrid considers it more appropriate for these costs to be recovered via an adjustment mechanism than via its forecast capex as a risk cost; and
- any proposed CESS exclusions along with a justification for the CESS exclusion.

We will endeavour to complete our review and remake of the revenue determination as soon as practicable, balancing:

- the accelerated nature of the System Strength Project;
- appropriate stakeholder consultation; and
- the time required to ensure our review and remake decision reflects only the prudent, efficient, and reasonable costs of the Major Transport Works to be undertaken.

Council or Other State Road Authority Transport Works event	An increase in the revenue Transgrid may recover to accommodate the change in prudent and efficient costs Transgrid incurs arising from a Council or Other State Road Authority Transport Works event. A Council or Other State Road Authority Transport Works event occurs where: • A contract/agreement is executed for Council-delivered transport works and this includes a cost forecast for completion of the work, or • A contract/agreement is executed for transport works to be undertaken by a State Road authority and this includes a cost estimate for completion of the work. Where a Council or Other State Road Authority Transport Works event occurs, Transgrid can recover its prudent, efficient and reasonable forecast costs it expects to incur due to this event and/or costs it has already incurred in relation to the event.
Council or Other State Road Authority	An increase or decrease in the revenue Transgrid may recover to accommodate the change in prudent and efficient costs Transgrid incurs

Transport Works True Up	arising from a Council or Other State Road Authority Transport Works True Up event. A Council or Other State Road Authority Transport Works True Up event occurs where: • Works covered by contracts executed under the Council or Other State Road Authority Transport Works event are completed and the final contract cost is known and can be evidenced (including any approved variations and where outturn costs are lower due to de-scoping for example), and • Transgrid's costs for managing the work are known and can be evidenced. These costs are likely to result from contract management, interface management and engaging transport expertise; and/or • A State Road authority other than a Council has undertaken works and has invoiced Transgrid for this. Where works undertaken could include upgrades undertaken prior to OSOM deliveries or remediation afterwards. Where a Council or Other State Road Authority Transport Works True Up event occurs, Transgrid can recover the difference between its forecast costs under the associated 'Council or Other State Road Authority Transport Works' event and the prudent, efficient and reasonable costs it incurred due to this event.
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 or grant of an extension of time 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 in Transgrid's costs 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 demonstrate that any costs claimed under a Contract Variations Impact on Transgrid's Costs event are: – directly related to an approved contract variation or extension of time, where this can include the impacts of downstream contractual consequences of the initial event, – not covered by any other risk cost, adjustment mechanism, or other forecast expenditure 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 are recovered through liquidated damages paid by the D&C contractors (in accordance with clauses 33.9 and 33.10 of both D&C contracts).
-

B.5 Contractual adjustment mechanisms

Transgrid's proposal contained 5 contestable contract-related adjustments,⁷ to reflect the circumstances under which the contractor is entitled to additional or fewer costs. We have changed the name of this category of adjustment to 'contractual adjustment mechanisms' to better reflect the nature of the events covered.

Following submission of its proposal and in response to information requests, Transgrid provided more detailed descriptions of the contractual adjustment mechanisms and refined the list and description of contract variation clauses that may trigger an adjustment. Changes to the list of events for the adjustment mechanisms compared to table 45 of Transgrid's revenue proposal included:

- adding Transport Infrastructure Works and Transport Infrastructure Directable Works to the events that trigger the adjustment mechanisms for D&C contract variation events, rather than having this as a standalone adjustment mechanism
- adding reimbursement of the long service levy paid by the OEM supplier under the *Building and Construction Industry Long Service Payments Act 1986*
- removing Force Majeure from the OEM and LTSA contract variation events, as these clauses do not provide for a change in the contract sum
- replacing the placeholder event for the Middle East conflict costs in the adjustment mechanisms for D&C contract variation events with a trigger event for 'Change in Law (Middle East Conflict)'⁸
- adding Reliance Information as a trigger event in the adjustment mechanisms for the OEM and D&C contract variation events
- removing the triggers for Rate of progress and Delay or disruption costs (Extra Costs) from the LTSA contract variation events.

Our final decision is to accept one contractual adjustment mechanism per contract, but we have limited adjustments to costs for risks not included in Transgrid's risk cost allowance.

⁷ 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 adjustment mechanisms by contractor, making a total of 5 adjustment mechanisms.

⁸ The Middle East Pre-Agreed Variation events are not listed as triggers in the adjustment mechanisms as these costs have been included in the upfront capex allowance.

Proposals for contractual adjustments may include, in the estimation of costs, components that are outcomes of the genuine and appropriate competitive assessment processes. Our review of these components when assessing adjustment proposals will be limited to confirming entitlement based on the relevant trigger and checking that the values or process match those in the contracts. We will perform a prudence, efficiency and reasonableness assessment of any proposed adjustment components that we assess as non-contestable.

Our final decision on contractual adjustment mechanisms is presented in Table 5. Tables 6 to 9 provide a list of events and the corresponding variation clauses contained in each contract that may trigger the adjustment mechanisms. All capitalised terms have the same meaning given in the relevant contracts.

Table 5 AER’s final decision on contractual adjustment mechanisms

Adjustment mechanism	Description of adjustment mechanism
OEM contract variation event	A change in the revenue Transgrid may recover for a change in prudent, efficient, and reasonable costs Transgrid is required to pay the OEM supplying the synchronous condensers, arising from an OEM contract variation event. An OEM contract variation event occurs when Transgrid approves a contract variation in accordance with the relevant variation clauses in the Contract. The relevant variation clauses are set out in Table 6. Within Table 6, the Supplier is GE Vernova, the Principal is Transgrid and the Superintendent is an agent for Transgrid. Under this adjustment mechanism, Transgrid is not entitled to costs relating to risks covered by the capex allowance in this revenue determination.
LTSA contract variation event	A change in the revenue Transgrid may recover for a change in prudent, efficient, and reasonable costs Transgrid is required to pay the OEM from a Long Term Service Agreement (LTSA) contract variation event. A LTSA contract variation event occurs when: • Transgrid approves a contract variation in accordance with the relevant variation clauses in the LTSA, as set out in Table 7, or • fees payable under the LTSA are adjusted annually through the escalation formula in the Contract. Within Table 7, the Contractor is GE Vernova and the Principal is Transgrid.
D&C (CPP) contract variation event	A change in the revenue Transgrid may recover for a change in prudent, efficient, and reasonable costs Transgrid is required to pay Consolidated Power Projects Australia (CPP) from a D&C (CPP) contract variation event. A D&C (CPP) contract variation event occurs when Transgrid approves a contract variation in accordance with the relevant contract variation clauses in the Contract. The relevant variation clauses are set out in Table 8. Within Table 8, the Principal is Transgrid and the Superintendent is an agent for Transgrid. Under this adjustment mechanism, Transgrid is not entitled to costs relating to risks covered by the capex allowance in this revenue determination.

D&C (UGL) contract variation event	A change in the revenue Transgrid may recover for a change in prudent, efficient, and reasonable costs Transgrid is required to pay UGL Engineering (UGL) from a D&C (UGL) contract variation event. A D&C (UGL) contract variation event occurs when Transgrid approves a contract variation in accordance with the relevant contract variation clauses in the Contract. The relevant variation clauses are as set out in Table 9. Within Table 9, the Principal is Transgrid and the Superintendent is an agent for Transgrid. Under this adjustment mechanism, Transgrid is not entitled to costs relating to risks covered by the capex allowance in this revenue determination.
---	---

Table 6 describes the OEM contract variation events and corresponding clauses in the Contract that may lead to a change in costs Transgrid is required to pay GE Vernova for the supply of synchronous condensers.

Table 6 OEM contract variation events and clauses

Event or circumstance	OEM contract clause	Description of event and costs that may be incurred
Change in Law	5.2(c)	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 Contract). Costs incurred: The difference in cost attributable to the Change in Law. Valued in accordance with clause 28.5, subject to substantiation by the Supplier.
Defective Equipment or Services	13.4, 13.5(b)	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 Contract to accept less than full rectification, or vary the Contract to accommodate a method of rectification other than the Contractor's proposed method. 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.
Latent Conditions	14.4(b)	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.

Event or circumstance	OEM contract clause	Description of event and costs that may be incurred
		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.
Finding of minerals, fossils and relics	15.6(b)	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. Costs incurred: Cost incurred by the Supplier taking precautions to prevent the loss, removal or damage of the mineral, fossil or relic. Valued under clause 28.5.
Rate of progress	17.4(c)	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. 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.
Consequences of a Direction to Accelerate	18.4(b)	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). Costs incurred: Extra costs as are necessarily incurred by the Supplier in complying with the Direction to Accelerate. Valued under clause 28.5.
Cost of suspension	19.4(b)	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. 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.

Event or circumstance	OEM contract clause	Description of event and costs that may be incurred
Delay or disruption costs (Extra Costs)	20.1	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). Costs incurred: Extra direct costs reasonably incurred and caused by the Compensable Cause, as valued in accordance with clause 28.5 and up to the daily cap stated in Item 41A in Annexure A.
Reinstatement	27.2(b)	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). Costs incurred: Reinstatement of damage to structures and Equipment. Valued under clause 28.5.
Variation Direction (<\$50,000)	28.1	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. Costs incurred: Contingent upon the scope of the change and substantiation by the Supplier. Valued in accordance with clause 28.5 and up to \$50,000.
Variation Direction (≥\$50,000) and Variation Proposals	28.1, 28.2	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. Costs incurred: Contingent upon the scope of the change and substantiation by the Supplier. Valued in accordance with clause 28.5.

Event or circumstance	OEM contract clause	Description of event and costs that may be incurred
Costs of Testing	29.7(a)	Circumstances: Testing directed by the Principal that is outside the requirements of the Contract and does not arise due to any fault of the Supplier. For example, a regulatory body requires tests to be undertaken to prove the efficacy of the synchronous condensers before the project is deemed to have satisfied all requirements. Costs incurred: Resources and any plant required to undertake the tests. Valued in accordance with clause 28.5.
Defect (Accepted by Principal without rectification)	31.1(b)	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. 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.
Defect (Rectification Directed)	31.1(e)	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. 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.
Serial Defects	31.2(f)	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. 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.

Event or circumstance	OEM contract clause	Description of event and costs that may be incurred
Extra cost or expense	48.1	Circumstances: A broad provision to provide entitlement to the Supplier for claims not contemplated elsewhere in the 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.
Reliance Information	8.2	Circumstances: The Supplier relies upon the Reliance Information and that Reliance Information is inaccurate, or the actual conditions differ materially from those described in the Reliance Information, and that causes a change to the Supply. Costs incurred: Costs incurred by the Supplier exceeding those costs that would have been incurred but for the Reliance Information error. This may include costs for additional work performed, additional plant and equipment used, or delay or disruption costs. Valued in accordance with clause 28.5.

Table 7 describes the LTSA contract variation events and the corresponding clauses in the LTSA that may lead to a change in costs Transgrid is required to pay GE Vernova for the maintenance and servicing of synchronous condensers.

Table 7 LTSA contract variation events and 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.
Defects	22.3	Circumstances: A defect arises to LTSA Equipment that the Contractor can rectify without replacement but the Principal directs replacement of the LTSA Equipment. Costs incurred: All costs associated with the transportation of the defective LTSA Equipment to the designated location and the return of the replacement LTSA Equipment to the Principal. Where the direction requires a replacement of a Defective Synchronous Condenser Unit or Power Transformer which would have not otherwise been replaced, all costs associated with the transportation of the Defective Synchronous Condenser Unit or Power Transformer to the designated location and the return of the replacement unit(s) to the Principal.
Contamination	12.8, 33.4(b)	Circumstances: If hazardous materials or contamination is encountered during maintenance activities that are not a result of activities under the Contract, the Contractor will be entitled to suspend works. 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.
Cost of suspension	33.4(b)	Circumstances: If works are suspended for reasons defined in Clause 33.2(b) of the 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.

Event or circumstance	LTSA contract clause	Description of event and costs that may be incurred
		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.
Variation Directions, Variation Proposals	19.1, 19.4	Circumstances: Additional services may be requested by the Principal to be carried out on the plant serviced by the Contract. This may include additional inspections or maintenance whilst the contractor is mobilised to site. Costs incurred: Cost of providing additional services to be agreed in accordance with clause 19.4(b).
Costs of Testing	19.6	Circumstances: The Principal may request Additional Services due to Regulatory requirements, such as Synchronous Condensers Performance Standards compliance testing. Costs incurred: Cost of providing additional services agreed in accordance with clause 19.4(b).
Extension of warranty for Spare Parts	22.4	Circumstances: The Principal may request the Contractor to provide an extension of warranty for Spare Parts. 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).
Outages	11(g)(iv)	Circumstances: If a planned outage is cancelled through no fault of the Contractor. 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).
Fee Escalation	Schedule 4	Circumstances: The fees under the Contract are subject to escalation annually for the life of the contract. 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. 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). Items subject to materials escalation are Spare Parts and replenishment Spare Parts procured under the Contract. Material escalation is based on the annual movement of the British Electrotechnical and Allied Manufacturers' Association's Factory Built Assemblies Cost Index (BFB).

Event or circumstance	LTSA contract clause	Description of event and costs that may be incurred
Extra cost or expense	35	Circumstances: A broad provision to provide entitlement to the Contractor for claims not contemplated elsewhere in the Contract. Costs incurred: Contingent upon the nature of the claim and substantiation by the Contractor.

Table 8 describes the D&C (CPP) contract variation events and the corresponding clauses in the Contract that may lead to a change in costs Transgrid is required to pay CPP for delivery of D&C works.

Table 8 D&C (CPP) contract variation events and clauses

Event or circumstance	D&C (CPP) contract clause	Description of event and costs that may be incurred
Change in Law	14.2(c)	Circumstances: A legal or regulatory change occurring after the date of signing of the Contract that increases the time or cost (or both) for the Contractor performing its obligations under the 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. Costs incurred: The difference in cost attributable to the Change in Law. Valued in accordance with clause 38.5.
Defective Equipment or Services	27.2, 27.3	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 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. 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.

Event or circumstance	D&C (CPP) contract clause	Description of event and costs that may be incurred
Latent Conditions	12.3(b)	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 structures, unknown natural obstructions, archaeological or heritage finds, or discrepancies between contract information and actual site conditions. 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.
Contamination	12A.1(e)	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. 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.
Finding of minerals, fossils and relics	24.5(b)	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. 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.
Rate of progress	31.1(d)	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

Event or circumstance	D&C (CPP) contract clause	Description of event and costs that may be incurred
		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. 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.
Consequences of a Direction to Accelerate	46.4(b)	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 Contract. Cost entitlement occurs only where the Contractor would otherwise have not been required to bear the cost of acceleration under the Contract or where the acceleration is to overcome a delay for which the Contractor is entitled to an extension of time for that delay. Costs incurred: An amount valued in accordance with clause 38.5 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.
Cost of suspension	32.4(a)	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. 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.
Delay or disruption costs (Extra Costs)	34.1	Circumstances: Where the Contractor has been granted an extension of time to the Date for Practical Completion for a Compensable Delay Cause, defined as: - 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

Event or circumstance	D&C (CPP) contract clause	Description of event and costs that may be incurred
		- Delay caused by occupier or person of interest in the site - Delay by any authority in providing specified transport approvals. Costs incurred: Extra direct costs reasonably incurred and caused by the Compensable Delay Cause (valued under clause 38.5) capped at the rate per day of delay stated in Item 29 in Annexure A.
Reinstatement	16.2(c)	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: - 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. provided that the loss or damage was not caused or contributed to by the Contractor. Costs incurred: Full cost for reinstatement of the works including demolition, plant & equipment, labour, materials, and testing. Valued in accordance with clause 38.5. 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.
Variation Directions	38.1	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. The Variation Direction describes the scope and other requirements applicable to the works.

Event or circumstance	D&C (CPP) contract clause	Description of event and costs that may be incurred
		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. Costs incurred: Contingent upon the scope of the change of works and substantiation by the Contractor. Valued in accordance with clause 38.5.
Transport Infrastructure Works; Transport Infrastructure Directable Works	38.1, 38.2, 33.9(f), Schedule 12.	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. Under clause 38.1, the Principal may issue a Variation Direction to the Contractor for minor transport works if: • 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). Costs incurred: Costs are valued in accordance with clause 38.5, adjusted for any amount calculated under the pain share - gain share incentive regime (as per Schedule 12). 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.
Costs of Testing	28.7(a)	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. Costs incurred: Costs incurred for resources and any plant required to undertake the additional tests. Valued in accordance with clause 38.5.
Extra cost or expense	45.1	Circumstances: A broad provision to provide an entitlement for the Contractor for a Claim not contemplated elsewhere in the Contract. Costs incurred: Contingent upon the nature of the Claim and substantiation by the Contractor.

Event or circumstance	D&C (CPP) contract clause	Description of event and costs that may be incurred
Outages	30(h)	Circumstances: If the Contractor is not permitted to proceed with works during a scheduled outage, the Contractor may 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. 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.
Change in Law (Middle East Conflict)	Annexure B – Special Condition 5	Circumstances: The Contractor is impacted by a 'Change in Law (Middle East Conflict)' event, which means: • 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), in each case occurring after 30 January 2026, and that is directly or substantially attributable to a Middle East Conflict Event. Costs incurred: The difference in cost attributable to the Change in Law (Middle East Conflict). Valued in accordance with clause 38.5.
Reliance Information	7.2A	Circumstances: Where the Contractor relies upon the Reliance Information and that Reliance Information is inaccurate, or the actual conditions differ materially from those described in the Reliance Information, and that causes a material adverse effect on the work under the Contract. Costs incurred: Costs incurred by the Contractor exceeding those costs that would have been incurred but for the Reliance Information error. This may include costs for additional work performed, additional plant and equipment used, or delay or disruption costs. Valued in accordance with clause 38.5.

Table 9 describes the D&C (UGL) contract variation events and the corresponding clauses in the Contract that may lead to a change in costs. Transgrid is required to pay UGL for delivery of D&C works.

Table 9 D&C (UGL) contract variation events and clauses

Event or circumstance	D&C (UGL) contract clause	Description of event and costs that may be incurred
Change in Law	14.2(c)	Circumstances: A legal or regulatory change occurring after the date of signing of the Contract that increases the time or cost (or both) for the Contractor performing its obligations under the 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. Costs incurred: The difference in cost attributable to the Change in Law. Valued in accordance with clause 38.5.
Defective Equipment or Services	27.2, 27.3	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 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. 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.
Latent Conditions	12.3(b)	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. 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.

Event or circumstance	D&C (UGL) contract clause	Description of event and costs that may be incurred
Finding of minerals, fossils and relics	24.5(b)	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. 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.
Rate of progress	31.1(d)	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. 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.
Consequences of a Direction to Accelerate	46.4(b)	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 Contract. Cost entitlement occurs only where the Contractor would otherwise have not been required to bear the cost of acceleration under the Contract or where the acceleration is to overcome a delay for which the Contractor is entitled to an extension of time for that delay. Costs incurred: An amount valued in accordance with clause 38.5 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.

Event or circumstance	D&C (UGL) contract clause	Description of event and costs that may be incurred
Cost of suspension	32.4(a)	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. 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.
Delay or disruption costs (Extra Costs)	34.1	Circumstances: Where the Contractor has been granted an extension of time to the Date for Practical Completion for a Compensable Cause, defined as: - Act of Prevention - 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; - o 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 - o 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)). Costs incurred: Extra costs reasonably incurred or committed and caused by the Compensable Cause (valued under clause 38.5) capped at the rate per day of delay stated in Item 29 in Annexure A.

Event or circumstance	D&C (UGL) contract clause	Description of event and costs that may be incurred
Reinstatement	16.2(c)	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: - 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, provided that the loss or damage was not caused or contributed to by the Contractor. Costs incurred: Full cost for reinstatement of the works including demolition, plant & equipment, labour, materials and testing. Valued in accordance with clause 38.5. 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.
Variation Directions	38.1	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. The Variation Direction describes the scope and other requirements applicable to the works. 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. Costs incurred: Contingent upon the scope of the change of works and substantiation by the Contractor. Valued in accordance with clause 38.5.

Event or circumstance	D&C (UGL) contract clause	Description of event and costs that may be incurred
Transport Infrastructure Works; Transport Infrastructure Directable Works	38.1, 38.2, Schedule 12	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. Under clause 38.1, the Principal may issue a Variation Direction to the Contractor for minor transport works if: - 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. Costs incurred: Costs are valued in accordance with clause 38.5, adjusted for any amount calculated under the pain share - gain share incentive regime (as per Schedule 12). 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.
Costs of Testing	28.7(a)	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. Costs incurred: Costs incurred for resources and any plant required to undertake the additional tests. Valued in accordance with clause 38.5.
Extra cost or expense	45.1	Circumstances: A broad provision to provide an entitlement for the Contractor for a Claim not contemplated elsewhere in the Contract. Costs incurred: Contingent upon the nature of the Claim and substantiation by the Contractor.
Outages	30(h)	Circumstances: If the Contractor is not permitted to proceed with works during a scheduled outage, the Contractor may 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.

Event or circumstance	D&C (UGL) contract clause	Description of event and costs that may be incurred
		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.
Change in Law (Middle East Conflict)	Annexure B – Special Condition 5	Circumstances: The Contractor is impacted by a ‘Change in Law (Middle East Conflict)’ event, which means: • 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), in each case occurring after 30 January 2026, and that is directly or substantially attributable to a Middle East Conflict Event. Costs incurred: The difference in cost attributable to the Change in Law (Middle East Conflict). Valued in accordance with clause 38.5.
Reliance Information	7.2A	Circumstances: Where the Contractor relies upon the Reliance Information and that Reliance Information is inaccurate, or the actual conditions differ materially from those described in the Reliance Information, and that causes a material adverse effect on the work under the Contract. Costs incurred: Costs incurred by the Contractor exceeding those costs that would have been incurred but for the Reliance Information error. This may include costs for additional work performed, additional plant and equipment used, or delay or disruption costs. Valued in accordance with clause 38.5.

B.6 Formulaic description and process for adjusting revenue

This section sets out how the annual adjustment mechanisms should be used to adjust Transgrid's revenue for the project. Transgrid included a process for adjusting revenues in its revenue proposal.⁹ We consider this process broadly aligns with our Non-contestable Guideline.¹⁰ We have made the following amendments to the process in Transgrid's revenue proposal:

- Clarified that year t is the regulatory year for which the revenue is being adjusted.
- Clarified that for this determination the regulatory year is from October 1st to September 30th.
- Not included a specific materiality threshold for a submission of an adjustment application to be considered outside of the annual revenue adjustment process. However, we note that materiality is a factor we will consider in whether we accept the adjustment.
- Added two more steps to the model updates section in Table 10 (Run the *Annual update* macro and Update the *year of update*) to assist with modelling the revenue adjustments.

Our final decision revenue adjustment process is outlined below, and a description of accepted adjustment mechanisms and their triggers and other details are provided in sections 1-5 of this appendix.

The formula below sets out how revenue will be updated in light of adjustments (and the recalculation of our schedule of payments) for each regulatory year (October 1st to September 30th) within the regulatory period:

$$\sum_{n=1}^4 NPV(QP_n) = NPV(AR_t (Adjusted)) + NAA_t + PTC_t$$

Where:

- $NPV(QP_n)$ is the net present value of each quarterly payment in the year t , calculated by applying the updated rate of return, expressed as a quarterly-compounding discount rate.
- AR_t (Adjusted) is the annual revenue requirement for year t , calculated using the PTRM, adjusted for actual inflation and updated rate of return.
- NAA_t is the AER's approved non-automatic adjustment amount for year t , which may be a positive or negative, calculated in accordance with the adjustment mechanisms and triggers described in this appendix and section 14 of our revenue determination.

⁹ Transgrid, *System Strength Project 2026–31 Revenue Proposal*, April 2026, p. 134.

¹⁰ AER, *Revenue determination guideline for NSW non-contestable projects*, May 2026, pp. 31–32.

- PTC_t is the AER's approved pass through cost for year t , which may be a positive or negative amount, determined in accordance with the pass-through provisions in EII Chapter 6A.
- t is the regulatory year for which the revenue is being adjusted.

Consistent with the EII framework, annual adjustment proposals are to be made to the AER within the regulatory period. We expect Transgrid to provide all relevant information required for us to assess the proposed adjustment at least 63 business days prior to the start of the regulatory year in which the adjusted revenue will first apply. In exceptional circumstances we may allow adjustments to occur outside of the annual revenue adjustment process timeline described above, and these circumstances will be assessed on a case-by-case basis. In such cases, Transgrid must provide us with the relevant information to assess a proposed adjustment as soon as practicable following the trigger event.

Where we approve a revenue adjustment, the adjusted revenue will apply from the start of the next full quarter (unless otherwise specified in the revenue determination). We will endeavour to make revenue adjustment decisions within 42 business days of receipt of the revenue adjustment proposal.

Table 10 AER's final decision on the timing of revenue adjustments

Component	Description
Overall	The quarterly payment schedule is updated each year (t) to incorporate adjustments. The adjustments are incorporated into the EII PTRM, which then outputs the updated quarterly payment schedule. The updated EII PTRM is subject to our approval.
Adjustment of revenue process and timing	The payments are updated for each year using a 3-step process. 1. Transgrid updates the latest version of the EII PTRM to incorporate adjustments for the forthcoming year (year t) and submits this to the AER by 30 June. 2. We will review the updates and advise whether these are accepted by approximately 31 August.¹¹ If not accepted, we will provide Transgrid with an amended (approved) version of the EII PTRM. 3. We will provide the updated quarterly payment schedule to the SFV by 30 September along with our approval.
Adjustments	The adjustments for year t will include: • Prescribed pass-through events in accordance with EII Chapter 6A (section B.1 of this Appendix). • Automatic (periodic) Adjustments, defined as Routine administrative events (section B.2 of this Appendix).

¹¹ As per our Non-contestable Guideline, we will endeavour to make revenue adjustment decisions within 42 business days of receipt of the revenue adjustment proposal; AER, *Revenue determination guideline for NSW non-contestable projects*, May 2026, p. 32.

- Non-Automatic Adjustments, defined as all other adjustment mechanisms for events accepted in our final decision (sections B.3-5 of this Appendix).

Model updates	The adjustments are incorporated into the EII PTRM for year t as follows: • run the <i>Annual update</i> macro in the 'Revenue and payments' sheet to ensure the formula calculating all historical years' quarterly payments are removed and hardcoded.¹² • update the <i>year of update</i> (cell F17 of the 'Revenue and payments' sheet) to reflect year t. • actual inflation for year t is entered into the relevant cell at row 60 of the 'Revenue and payments' sheet. • the return on debt for year t is entered into the relevant cell at row 496 of the 'PTRM input' sheet • any approved Non-Automatic Adjustments are input to the capex, opex, or revenue adjustment sections in the 'PTRM input' sheet as per the AER's approval of those amounts • any approved amounts for prescribed cost pass-through events are input to the capex, opex, or revenue adjustment sections in the 'PTRM input' sheet as per the AER's approval of those amounts • the updated quarterly payment schedule is then available at row 48 of the 'Revenue and payments' sheet.
---------------	---

Source: Transgrid, System Strength Project 2026–31 – Revenue Proposal, April 2026, pp. 134–135; AER analysis.

Supporting documentation to assist our assessment of revenue adjustments

A revenue adjustment proposal must provide an updated schedule of payments, along with supporting evidence to confirm that:

- the trigger conditions have been satisfied; and
- the proposed adjustment to revenue reflects the change in cost due to the occurrence of the adjustment event.

In assessing the prudence, efficiency and reasonableness of adjustment proposals we will have regard to our *Guidance note on the AER's EII Assessment Approach for Non-contestable revenue determinations*. To aid our assessment, Transgrid should provide the following information (where relevant) as part of its adjustment proposals:

- A description of the relevant contract clause(s) and the event that triggered the clause(s).

¹² For the macro to be run properly, ensure the *year of update* dropdown in cell F17 of the 'Revenue and payments' sheet is set to year t-1.

- A description of the process undertaken to agree the variation claim and evidence of the original variation claim made by the contractor, Transgrid's response and the agreed amount.
- The calculation of the agreed variation amount, including any contestable components used in the calculation (with reference to the contracts).
- Evidence of the efficiency, prudence and reasonableness of the change in costs, with reference to the following, as appropriate:
 - a forecast of the change in costs, including the basis for all inputs and any limitations or assumptions relied on in forecasting;
 - evidence that the cost variation amount does not result in double counting with the base contract sum
 - analysis undertaken against benchmark costs or comparable external market data
 - independent analysis or advice by a quantity surveyor or other expert attesting to the efficiency, prudence and reasonableness of the forecast costs, and/or costs incurred, and/or process undertaken
 - review, approvals or directions from the Infrastructure Planner
 - quotes or open book claims from contractors, subcontractors or suppliers
 - a description of the reasonable endeavours undertaken to mitigate, reduce or limit costs
 - scoping reports confirming the scope of the works required to be undertaken
 - reference to a Minister's direction or other authorisation directing Transgrid to undertake the activities which resulted in the adjustment event occurring and costs being incurred
 - a description of any tender and/or negotiation process undertaken
- An explanation of how the proposed adjustment does not result in double counting with the forecast expenditure (including capex for a risk event) provided for in our revenue determination, or previous revenue adjustments.
 - To ensure no double-counting between the adjustments and the risk events covered by the capex allowance (Table 9.3), provide evidence of the risk event or circumstance related to the adjustment proposal in a form that is comparable to Transgrid's risk register for the System Strength Project.
- Any difference between the contract variation amount and the proposed adjustment to account for circumstances where Transgrid contributed to the event.