

NSW Electricity Infrastructure Fund– Draft Contribution Determination Guideline

May 2022

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Contents

Glossary	1
Invitation to make submissions	2
Confidentiality.....	2
Next steps	2
1 Introduction	3
1.1 The NSW Roadmap	3
1.2 The NSW Electricity Infrastructure Fund.....	3
1.3 EII Regulations.....	5
1.4 Purpose of this guideline	5
1.5 Interaction with the National Electricity Rules	6
1.6 Who are we?	7
1.7 Authority for this guideline	7
1.8 Structure of this guideline	9
1.8.1 Process	9
1.8.2 Method	9
2.3 Initiating contribution determination process.....	13
2.3.1 Data inputs and supporting information	14
2.3.2 Basis of preparation document	15
2.3.3 Independent audit requirement of actuals data	15
2.3.4 Quality assurance processes.....	16
2.4 Quarterly contribution orders	17
2.5 Additional process matters	17
2.5.1 Handling of errors	17
2.5.2 Consultations.....	17
3 Overview of contribution determination method	18
4 Inputs	21
4.1 General	21
4.2 Costs.....	22
4.3 Revenues.....	23
4.4 Compliance worksheets	24
4.5 Volumetric Data.....	24
4.6 Exemptions	24
4.7 Financial parameters.....	26
5 Calculations.....	27
5.1 Collate costs/revenues	27

5.2	3-year rolling average.....	27
5.3	Apply true-up from second year onwards	27
5.4	Apportionment across NSW DNSPs.....	28
5.5	Apply exemptions	29
6	Outputs	32
6.1	Minimum prudent cash balance for Fund.....	32
7	Contribution determination gazettal notice.....	33
8	Variation of contribution determination	34

Glossary

Term	Definition or extended form
AER	Australian Energy Regulator
Contribution Determination	The annual contribution determination to be made by the AER as Regulator under section 56 of the EII Act.
Contribution Order	The contribution orders issued by the Scheme Financial Vehicle to Designated Network Service Providers under section 58 of the EII Act.
Consumer Trustee	A person or body authorised under section 60 of the EII Act to exercise the functions of the Consumer Trustee. The Consumer Trustee is required to act independently and in the long-term financial interests of NSW electricity consumers. AEMO Services Ltd has been appointed to undertake this role.
DNSP	A distribution network service provider which, for the purposes of the EII Act, has the same meaning as in the NER.
Financial Trustee	A person or body authorised under section 61 of the EII Act to exercise the functions of the Financial Trustee.
Fund	Electricity Infrastructure Fund
EII Act	Electricity Infrastructure Investment Act 2020 (NSW)
Infrastructure Planner	A person authorised to exercise the functions of an infrastructure planner under section 63 of the EII Act. The Infrastructure Planner performs a range of planning and contracting functions. The Energy Corporation of NSW has been appointed to undertake this role for the five REZs specified in the EII Act.
IPART	NSW Independent Pricing and Regulatory Tribunal
NEL	National Electricity Law
NER	National Electricity Rules
OECC	Office of Energy and Climate Change within the NSW Department of Treasury.
Network infrastructure project	A REZ Network Infrastructure Project or Priority Transmission Infrastructure Project as defined under the EII Act or EII Regulations.
Regulations	Any regulations made under the EII Act.
Regulator	A person or body authorised under section 64 of the EII Act to exercise the functions of a regulator.
REZ	Renewable Energy Zone, being the geographical area of NSW and the infrastructure specified in a declaration by the Minister under section 19 of the EII Act.
Roadmap	NSW Electricity Infrastructure Roadmap
Scheme Financial Vehicle	A person or body authorised under section 62 of the EII Act to exercise the functions of the Scheme Financial Vehicle.
Scheme Entities	Consumer Trustee, Financial Trustee, Infrastructure Planner, Regulator and Scheme Financial Vehicle

Invitation to make submissions

We invite interested parties to make written submissions in response to this draft Guideline by close of business **29 July 2022**.

Please contact us if you would like to meet with AER staff during this consultation period.

Submissions should be sent electronically to REZ@aer.gov.au with the title 'Submission – NSW Electricity Infrastructure Fund – draft Guideline'. We ask that all submissions sent in an electronic format are in Microsoft Word or other text-readable document form.

Alternatively, submissions may be sent to:

Kami Kaur
General Manager, NSW REZ
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Submissions provided electronically do not need to be provided separately in hard copy.

Confidentiality

The AER prefers that all submissions be publicly available to facilitate an informed and transparent consultative process. Submissions will be treated as public documents unless otherwise requested.

Parties wishing to submit confidential information are requested to:

- clearly identify the information that is the subject of the confidentiality claim, and
- provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submissions will be placed on the [AER's website](#). For further information regarding the AER's use and disclosure of information provided to it, see the [ACCC/AER Information Policy](#) June 2014 available on the AER's website.

Enquiries about this paper, or about lodging submissions, should be directed to REZ@aer.gov.au.

Next steps

We will consider submissions received and publish a final Guideline in **September 2022**.

1 Introduction

1.1 The NSW Roadmap

The [NSW Electricity Infrastructure Roadmap](#) (Roadmap) sets out the NSW Government's plan for the transition of the electricity market in NSW. It centres on coordinating private investment in new network, generation, long-duration storage, and firming infrastructure as ageing coal-fired generation plans retire.

The Roadmap is being implemented under NSW's *Electricity Infrastructure Investment Act* (the EII Act).

The Roadmap or scheme will involve various costs, including payments to network operators,¹ the costs associated with successful tenderers for infrastructure underwriting contracts (known as long-term energy service agreements), and the administrative costs of scheme entities.² Specifically, the contribution determination facilitates the recovery of these costs to implement and support the continued operation of the Roadmap.

1.2 The NSW Electricity Infrastructure Fund

Part 7 of the EII Act sets out a framework for costs associated with the Roadmap to be managed through an Electricity Infrastructure Fund (Fund) established by a Scheme Financial Vehicle.

Specifically, section 56(1) of the EII Act requires us to make an annual contribution determination that will set out the amount that is required for the scheme financial vehicle to be able to make payments from the Fund that are required under the EII Act, including the amount required for the scheme financial vehicle to meet its liabilities as they fall due.

Section 56 of the EII Act also states that our determination is to include:³

- a minimum prudent cash balance for the Fund; and
- the amount required to be paid by each NSW distribution network service provider (DNSP).

In making a contribution determination, we must consult with the financial trustee and consider the matters prescribed by the *Electricity Infrastructure Investment Amendment Regulation 2021* which incorporates the EII Amendment Regulation 2022 (EII Regulations).⁴ The EII Act requires us to gazette our contribution determination by 28 February each year.⁵ To enable us to make the contribution determination, section 56(7) of the EII Act provides us with the power to request information from the scheme financial vehicle that we consider necessary to complete this function.⁶

¹ Both in relation to a REZ Network Infrastructure Project or Priority Transmission Infrastructure Project as defined under the EII Act or EII Regulations.

² The scheme entities that will recover costs under the contribution determination are the AER as a Regulator, the Consumer Trustee (AEMO Service Ltd), the Financial Trustee and IPART as a Regulator.

³ EII Act, s 56.

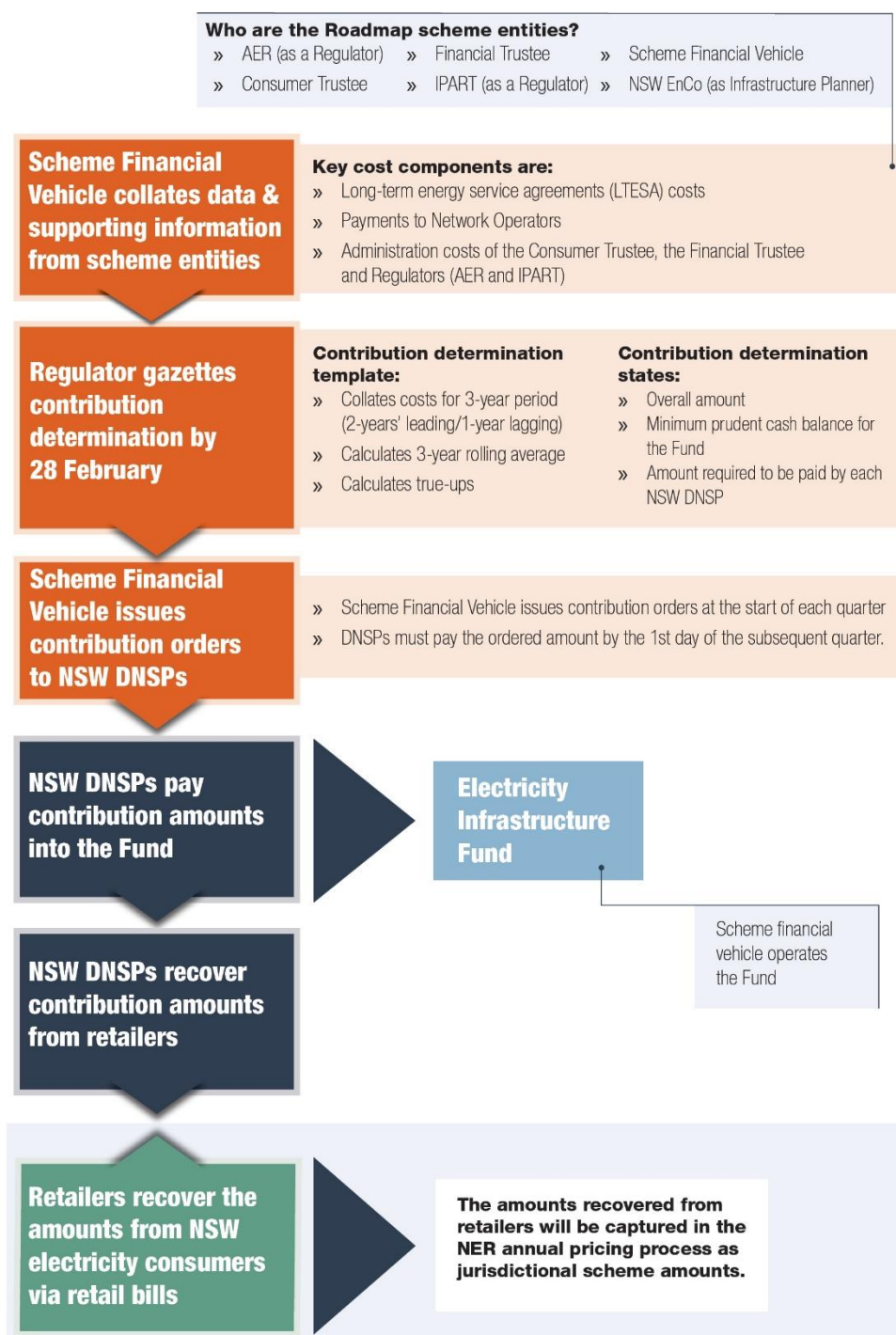
⁴ See: <https://legislation.nsw.gov.au/view/whole/html/inforce/current/sl-2021-0102#sec.16F>

⁵ EII Act, s. 56(5).

⁶ We also have information gathering powers under clause 16K of the EII Regulations.

The contribution determination will be implemented through contribution orders issued by the scheme financial vehicle and recovered through payments from the NSW DNSPs (Ausgrid, Endeavour Energy and Essential Energy). The NSW DNSPs must then recover their respective contribution amounts by passing the costs through to NSW electricity customers on their retail bill.⁷

Figure 1: Overview of contribution determination process



⁷ OECC, [Electricity Infrastructure Fund \(Part 7 of the EII Act 2020\), Policy Paper](#), September 2021, p. 4.

1.3 EII Regulations

In making a contribution determination, the EII Regulations require us to consider the following matters:

- a. The need to limit variability in contribution determinations from year to year. (That is, stability and minimal cost volatility).⁸
- b. The equitable allocation of the contribution determination between DNSP's based on each DNSP's:
 - i. Volumetric energy delivered in the previous financial year; and
 - ii. Peak demand in the previous financial year.⁹
- c. The need for the scheme financial vehicle to be able to meet its liabilities as they fall due.¹⁰
- d. Information provided to us by the consumer trustee, the financial trustee, the infrastructure planner or the Tribunal (i.e., IPART).¹¹

The OECC's policy paper on the Fund¹² also sets out 'best practice' principles to guide development of the framework. Two that were not captured in EII Regulations, but we consider important for NSW electricity consumers are that the contribution determination process and method be:

- Simple – The arrangements should be easy to understand and, where appropriate, minimise administrative burden.
- Auditable – Processes and data should be transparent, auditable and verifiable.

1.4 Purpose of this guideline

To give effect to our regulatory functions under the EII Act and Regulations, this guideline sets out our process and method for how we intend to make a contribution determination, along with the roles and responsibilities of each scheme entity. Our method will be implemented through an Excel-based template called the contribution determination template (template).

This guideline also details:

- instructions to assist owners of source data complete the template.¹³
- expectations for provision of supporting material, auditing, quality assurance and an approach to confidentiality.
- details of how the contribution determination template and supporting information is compiled by the scheme financial vehicle and submitted to us to check for compliance with the EII Act and Regulations and this guideline.

Bringing the above material together will enable us to confirm the costs of the Roadmap. Specifically, this includes:

⁸ See section 5.2 of this guideline on 3-year rolling average.

⁹ See section 5.4 of this guideline on apportionment.

¹⁰ See section 6.1 of this guideline on minimum prudent cast balance.

¹¹ See section 2.3 of this guideline on supporting information.

¹² OECC, [Electricity Infrastructure Fund \(Part 7 of the EII Act 2020\), Policy Paper](#), September 2021, p. 8.

¹³ For example, the Consumer Trustee 'owns' the source data regarding

- Payments to network operators, in relation to REZ network infrastructure projects or priority transmission infrastructure projects under Part 5 of the EII Act.
- The costs associated with underwriting of generation, storage or firming infrastructure investments by the Roadmap's Consumer Trustee through the electricity infrastructure investment safeguard provisions under Part 6 of the EII Act (i.e., long-term energy service agreements).
- The administrative costs of the scheme entities that perform functions under the EII Act:¹⁴
 - Regulator (AER).¹⁵
 - Consumer Trustee (AEMO Services Limited).¹⁶
 - Financial Trustee (To be confirmed).¹⁷
 - NSW Independent Pricing and Regulatory Tribunal (IPART) as a Regulator.¹⁸

1.5 Interaction with the National Electricity Rules

Under the National Electricity Rules (NER), DNSPs charge electricity retailers network tariffs to enable them to recover from electricity customers the revenue needed to build, operate and maintain the poles and wires used to transport electricity.

The NER require DNSPs to apply to the AER to assess their revenue requirements, which typically occurs every five years.

Every 5 years (typically), DNSPs submit their proposed revenue requirement to us. Chapter 6 of the NER sets out the framework we apply to assess the efficiency of the proposed revenue requirement. In doing so, the NER require us to set a cap on the revenues or prices that a DNSP may earn or charge during a 5-year regulatory period.

During the 5-year regulatory period covered by our revenue determination, we also undertake an annual pricing process to check the DNSPs are implementing the revenue determination correctly and to apply annual updates to revenue and prices like inflation and CPI.

Additionally, DNSPs must recover jurisdictional scheme amounts annually. Upon application we must determine a jurisdictional scheme where State or Territory legislation mandatorily requires DNSPs to pay a specified amount into a fund established under a State or Territory Act amongst other eligibility criteria.¹⁹ Once the scheme is determined, at each annual pricing review we must pass the jurisdictional scheme amount directly through network tariffs.

¹⁴ EII Act, s. 55.

¹⁵ EII Act, s. 64.

¹⁶ EII Act, s. 60.

¹⁷ EII Act, s. 61. At the time of publishing our draft guideline a financial trustee had not been appointed. The scheme financial vehicle's administration costs will be paid for by the financial trustee.

¹⁸ EII Act, s. 64.

¹⁹ NER, cl. 6.18.7A(x).

In December 2021, we determined the scheme under section 58(1) of the EII Act to be a jurisdictional scheme, following an application from the OECC.²⁰ Therefore, the contribution determination we make under the EII Act is a jurisdictional scheme amount that will be passed through to NSW electricity customers via their retail bill. In applying our guideline, the scheme entities and we will undertake a rigorous data collation, assurance and compliance process. However, when we conduct the annual pricing process under the NER, consistent with our usual annual pricing process for jurisdictional scheme amounts, we will not reinterrogate the jurisdictional amounts arrived at in our contribution determination beyond NER requirements and our usual treatment of jurisdictional amounts.²²

1.6 Who are we?

Our role is to ensure energy consumers are better off, now and in the future. We are the economic regulator for electricity and gas networks in every state and territory in Australia, except Western Australia. We regulate electricity networks under the National Electricity Law and NER.

In November 2021, we were appointed as a regulator under the EII Act.²³ One of our conferred functions as regulator is to make annual contribution determinations under section 56 of the EII Act. This function is the subject of this guideline.

Other functions undertaken by us under the EII Act, which are not covered by this guideline, include:

- undertaking a Transmission Efficiency Test and make five-yearly revenue determinations for network infrastructure projects authorised by the Consumer Trustee for each REZ (Part 5 of the EII Act);²⁴
- approving a risk management framework developed by the Consumer Trustee (Part 6 of the EII Act); and
- being consulted on tender rules in relation to long-term energy service agreements (Part 6 of the EII Act).

1.7 Authority for this guideline

The EII Act requires us to publish guidelines to vary contribution determinations.²⁵ The EII Act also gives us a general power to issue guidelines in relation to the exercise of our functions.²⁶

We consider it appropriate to issue a guideline about our annual contribution determination process and method more broadly, rather than confining the guideline to the issue of variation of an annual contribution determination. However, at section 8 we discuss how we would exercise our functions to vary a contribution determination to satisfy the EII Act's specific requirement in this regard.²⁷

²⁰ <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/nsw-electricity-infrastructure-investment-act-jurisdictional-scheme-application>

²¹ NER, cl. 6.18.7A(x). We do not have discretion to reject a jurisdictional scheme application if the jurisdictional scheme eligibility criteria are satisfied.

²² NER, cl. 6.18.7A

²³ <https://www.aer.gov.au/communication/aer-appointed-as-regulator-of-the-nsw-renewable-energy-zones>

²⁴ Network infrastructure projects can also be authorised by the NSW Minister.

²⁵ EII Act, s. 57(2).

²⁶ EII Act, s. 64(4). This subsection covers issuing guidelines in relation to the exercise of functions by the persons and bodies appointed under the EII Act.

²⁷ EII Act, s. 57(2).

We may update this guideline from time to time. If we do so, we will consult on and publish the updates. We expect that we may need to update the template at each contribution determination process to reflect any changes required resulting from the preceding determination.

Notably, there are three inputs to the contribution method included in our guideline and template that we have developed based on policy positions of the OECC, the scheme financial vehicle and consumer trustee respectively.

First, the OECC is releasing a policy paper on its intended approach for an exemption administration process²⁸ to apply to emissions intensive trade exposed entities and producers of green hydrogen. The OECC's policy paper states that it intends to apply to us to determine a second jurisdictional scheme under the EII Act (in relation to regulations made under section 58(6) specifically) in July to give effect to an exemptions framework applicable to approved emissions intensive trade exposed entities and producers of green hydrogen.²⁹ We will consider the application when it is received. We discuss the exemptions framework at section 4.6.

The OECC is currently developing its policy positions into regulations for approval by the NSW Executive Council.³⁰ We note that any changes to the policy positions on the exemptions framework (and expected regulations) will need to be reflected in this guideline before it is finalised in September 2022.

Second, the scheme financial vehicle must input a minimum prudent cash balance to the template.³¹

Third, the consumer trustee must input costs of long-term energy service agreements to the template.³²

Both the consumer trustee and scheme financial vehicle must comply with the risk management framework established under section 51(1) of the EII Act to protect the financial interests of NSW electricity customers with respect to long-term energy service agreements.

We must approve the risk management framework,³³ and at the time of publishing this draft guideline, we have not approved it.

To support the risk management framework, we understand that the consumer trustee and scheme financial vehicle will create several detailed subsidiary policies that will state their respective governance arrangements, methodologies, assurances etc., that align with the risk management framework that we approve. The consumer trustee and scheme financial vehicle may not have all subsidiary policies completed in time for the first contribution determination. Notwithstanding, this guideline sets out our expectations for all scheme entities, including the consumer trustee and scheme financial vehicle respectively in terms of the data, supporting information and assurances we require to make a contribution determination.

²⁸ OECC, *Electricity Infrastructure Road, Electricity Infrastructure Fund (Part 7 of the Electricity Infrastructure Investment Act 2020), Exemption Administration Process*, May 2022.

²⁹ OECC, *Electricity Infrastructure Road, Electricity Infrastructure Fund (Part 7 of the Electricity Infrastructure Investment Act 2020), Exemption Administration Process*, May 2022, p. 8.

³⁰ The Constitution of New South Wales provides for an Executive Council as the formal, official arm of government to give legal authority to such things as proclamations and regulations under the Acts authorised by the NSW Parliament.

³¹ The scheme financial vehicle inputs an adjustment factor that allows it to keep the minimum prudent cash balance (so that the balance does not become negative). It also inputs its expected total scheme costs that together with the adjustment factor to allow the balance > 0 during the year under a range assumptions about long-term energy service agreements.

³² EII Act, s. 56(7).

³³ EII Act, s. 51(3).

The contribution determination template

We developed the template to provide efficiencies in scheme entities' preparation, assurance and compliance with the EII Act and Regulations and this guideline.

We ask that the structure of the template is not altered without prior discussion with us. This will ensure that any errors that arise are appropriately considered and actioned across all scheme entities (if relevant), and consistency and the function of the template are maintained.

1.8 Structure of this guideline

The remainder of this guideline is split into process and method.

1.8.1 Process

The process section provides stakeholders with end-to-end insight into how we reach a contribution determination. This covers not only our processes as the regulator, but the processes we have set for all scheme entities including:

- Timelines
- Data requirements
- Supporting information requirements e.g., explanation of methodologies and basis of preparation
- Auditing and quality assurance
- Confidential material
- Handling of errors
- Consultation with financial trustee.

1.8.2 Method

The method section provides a snapshot of each part of the template's worksheets, commentary on its purpose, along with instructions on how to populate the template to allow the scheme financial vehicle to compile its response to our information request. Topics covered in this section include inputs, calculations and outputs of the template.

2 The contribution determination process

This chapter sets out the contribution determination processes that apply to all scheme entities in preparing, and us as the regulator, in making an annual contribution determination.

2.1 Transitional arrangements for the first contribution determination

The entities that have been assigned functions under the Roadmap scheme are currently implementing the first stages of the Roadmap and therefore have no historical data on the costs of the scheme.

Consequently, we require a transitional process to enable us to make our first contribution determination by 28 February 2023.

Table 1 provides an overview of the timing and process for the first contribution determination.

Table 1: Overview of first contribution determination process

Date	Milestone
By 1 Oct 22	AER issues information request to scheme financial vehicle³⁴
	<p>AER will write to the scheme financial vehicle requesting information necessary to make a contribution determination and provide the template and this guideline.</p> <p>From this point, the scheme financial vehicle is responsible for contacting scheme entities and compiling all relevant data and supporting material and conducting quality assurance.</p>
By 31 Oct 22	Scheme entities submit data and supporting material to the scheme financial vehicle*
	<p><i>* Scheme entities must conduct their own quality assurance prior to submission to scheme financial vehicle.</i></p> <p><u>Consumer Trustee</u></p> <p>Provides 2-years leading, 1-year lagging data, as follows:</p> <ul style="list-style-type: none"> • LTESA costs estimate for the current financial year (e.g., as at October 2022, this would cover FY 22–23). • Forecast LTESA costs for the subsequent two financial years (e.g., as at October 2022, this would cover FY 23–24 and FY 24–25). <p><u>Payments to Network Operators</u></p> <p>The AER/Infrastructure planner (TBC) provides 2-years leading, 1-year lagging data, as follows:</p> <ul style="list-style-type: none"> • REZ Network Infrastructure Projects or Priority Transmission Infrastructure Projects costs estimate for the current financial year (e.g., as at October 2022, this would cover FY 22–23) • Forecast REZ network infrastructure costs for REZ Network Infrastructure Projects or Priority Transmission Infrastructure Projects for the subsequent two financial years (e.g., as at October 2022, this would cover FY 23–24 and FY 24–25). <p><u>Administration costs</u></p> <p>Scheme entities provide 2-years leading, 1-year lagging data, as follows:</p>

³⁴ AER relies on information gathering powers under EII Act, s. 56(7) EII Act and the EII Regulations.

Date	Milestone
	<ul style="list-style-type: none"> Administration costs estimate for the current financial year (e.g., as at October 2022, this would cover FY 22–23). Forecast administration costs for the subsequent two financial years (e.g., as at October 2022, this would cover FY 23–24 and FY 24–25). <p>The scheme entities that will recover administration costs are the consumer trustee, financial trustee and regulators (AER and IPART).</p> <p>Volumetric, peak demand and exemptions data</p> <p><u>NSW DNSPs provide volumetric energy, peak demand and exemptions data (e.g., as at October 22, this data relates to FY 21–22).</u></p>
By 30 Nov 22	<p>Scheme financial vehicle completes compliance check, submits completed template and all supporting material to AER</p> <p>The scheme financial vehicle must conduct a review of all data and supporting information supplied by scheme entities to check it for accuracy.</p> <p>Scheme financial vehicle inputs financial parameters into the template, including its cash flowing modelling and relevant loan amount,³⁵ together with all supporting information.</p>
By 15 Jan 23	<p>Consumer trustee submits updated forecast to AER</p> <p><u>LTESA forecast</u></p> <p>Consumer trustee provides AER with final forecast data for the subsequent two years i.e., the finalised 2-years leading data.</p>
1 Dec 22 – 31 Jan 23	<p>AER conducts compliance checks</p> <p>AER checks data and supporting information and obtains any corrections or updates required through the scheme financial vehicle.</p> <p>AER obtains volumetric energy and peak demand data from NSW DNSPs' annual reporting Regulatory Information Notices (RINs) to calculate apportionment of contribution determination across the NSW DNSPs.</p>
By 28 Feb 23	<p>AER gazettes first contribution determination</p> <p>AER publishes the gazetted contribution determination.</p>

2.2 Process for subsequent contribution determinations

The process for subsequent contribution determinations replicates the transitional arrangements save for some changes to the timeline. This will require scheme entities to provide data on a 2-years leading, 1-year lagging basis (along with actuals data) as proposed by the OECC.³⁶

We will commence all subsequent contribution determinations by writing to the scheme financial vehicle in August³⁷ instead of October.

³⁵ We understand that the Scheme Financial Vehicle intends to obtain an \$80m loan from the NSW Government to support the Fund's liquidity in the early years of the scheme, to be paid out over 8 years.

³⁶ OECC, [Electricity Infrastructure Fund \(Part 7 of the EII Act 2020\), Policy Paper](#), September 2021, p. 19.

³⁷ Issued pursuant to the AER's information power under s. 56(7) EII Act and EII Regulations.

For all subsequent contribution determinations, the scheme financial vehicle must submit the completed template and supporting material in October, rather than November.

These differences in the timing are necessary because this guideline will not be finalised until September 2022.

Table 2 sets out the process for subsequent contribution determinations including specific details for the data to provide for the 3-year rolling average.

Table 2: Overview of process for subsequent contribution determinations

Date	Milestone
By 31 Aug each year	AER issues request to scheme financial vehicle³⁸
	<p>AER will write to the scheme financial vehicle requesting information necessary to make a contribution determination and provide the template and this guideline.</p> <p>From this point, the scheme financial vehicle is responsible for contacting scheme entities and compiling all relevant data and supporting material and conducting quality assurance.</p>
By 30 Sep each year	Scheme entities that own input data submit data to the scheme financial vehicle*
	<p><i>* Scheme entities must conduct their own quality assurance prior to submission to scheme financial vehicle.</i></p> <p><u>Consumer Trustee</u></p> <p>Provides 2-years leading, 1-year lagging data, as follows:</p> <ul style="list-style-type: none"> • LTESA costs estimate for the current financial year (e.g., as at September 2023, this would cover FY 23–24). • Forecast LTESA costs for the subsequent two financial years (e.g., as at September 2023, this would cover FY 24–25 and FY 25–26). <p><u>Payments to Network Operators</u></p> <p>The AER/Infrastructure Planner (TBC) provides 2-years leading, 1-year lagging data, as follows:</p> <ul style="list-style-type: none"> • REZ Network Infrastructure Projects or Priority Transmission Infrastructure Projects costs estimate for the current financial year (e.g., as at September 2023, this would cover FY 23–24) • Forecast REZ network infrastructure costs for REZ Network Infrastructure Projects or Priority Transmission Infrastructure Projects for the subsequent two financial years (e.g., as at September 2023, this would cover FY 24–25 and FY 25–26). <p><u>Administration costs</u></p> <p>Scheme entities provide 2-years leading, 1-year lagging data, as follows:</p> <ul style="list-style-type: none"> • Administration costs estimate for the current financial year (e.g., as at September 2023, this would cover FY 23–24). • Forecast administration costs for the subsequent two financial years (e.g., as at September 2023, this would cover FY 24–25 and FY 25–26). <p>The scheme entities that will recover administration costs are the Consumer Trustee, Financial Trustee and Regulators (AER and IPART).</p> <p>Volumetric, peak demand and exemptions data</p>

³⁸ As above.

Date	Milestone
	<u>NSW DNSPs provide volumetric energy, peak demand and exemptions data (e.g., as at September 23, this data relates to FY 22–23).</u>
By 31 Oct each year	Scheme financial vehicle completes compilation of template and supporting material The scheme financial vehicle must conduct a review of all data and supporting information supplied by scheme entities to check it for accuracy. Scheme financial vehicle inputs financial parameters into the template, including its cash flowing modelling and relevant loan amount, ³⁹ together with all supporting information.
By 15 Jan each year	Consumer trustee provides final forecast <u>LTESA forecast</u> Consumer trustee provides AER with final forecast data for the subsequent two years i.e., the finalised 2-years leading data.
1 Nov – 31 Jan each year	AER conducts compliance checks AER checks data and supporting information and obtains any corrections or updates required through the scheme financial vehicle. AER obtains energy and peak demand volumetric data from NSW DNSPs' annual reporting Regulatory Information Notices (RINs) to calculate apportionment of contribution determination across the NSW DNSPs.
By 28 Feb	AER gazettes contribution determination AER publishes the gazetted contribution determination.

2.3 Initiating contribution determination process

To initiate the contribution determination process each year we will write to the scheme financial vehicle:⁴⁰

- Requesting that it complete the template, including consulting with scheme entities to input relevant data consistent with this guideline.
- To obtain all relevant supporting material from scheme entities to support data inputs as detailed in this guideline.
- To compile all data and supporting material and conduct quality assurance.
- To submit the completed template and package of supporting material under cover letter outlining the quality assurance processes undertaken.
- To provide a contribution determination amount based on the data and material obtained.

³⁹ We understand that the Scheme Financial Vehicle intends to obtain an \$80m loan from the NSW Government to support the Fund's liquidity in the early years of the scheme, to be paid out over 8 years.

⁴⁰ Pursuant to the AER's information powers under s. 56(7) EII Act and the EII Regulation 2022.

2.3.1 Data inputs and supporting information

Table 3 sets out specific data inputs and corresponding supporting information required from each scheme entity.

Table 3: Data inputs and supporting information requirements

Scheme entity	Data input	Supporting information
All scheme entities	For all data points in the template	<ul style="list-style-type: none"> A basis of preparation document – the requirements in relation to this document are set out in section 2.3.2.
All scheme entities	All 'actuals' data points	<ul style="list-style-type: none"> All 'actuals' costs data must be independently audited – the requirements in relation to independent audits are set out in section 2.3.3. A copy of the audit opinion report must be provided as supporting information – see section 2.3.3.
Scheme financial vehicle	The minimum prudent cash balance for the Fund under s. 56(3)(a)	<ul style="list-style-type: none"> A summary of the methodology to calculate a minimum prudent cash balance for the Fund, including relevant assumptions. A statement by the Chair of the scheme financial vehicle's Board that: <ul style="list-style-type: none"> the minimum prudent cash balance methodology has been approved by the scheme financial vehicle's Board. the methodology complies with relevant subsidiary policies and the risk management framework under section 51 of the EII Act. it has reviewed data supplied by scheme entities against supporting information for accuracy and found no errors.
Consumer trustee	Costs in relation to long-term energy service agreements (LTESAs) under Part 6 of the EII Act	<ul style="list-style-type: none"> A summary of the methodology used to calculate LTESA costs, including the relevant assumptions.⁴¹ A statement by the Chair of the consumer trustee (AEMO Services Ltd) that: <ul style="list-style-type: none"> the methodology has been approved by the Board of AEMO Services Ltd. the methodology complies with the relevant subsidiary policies and risk management framework under section 51 of the EII Act.

⁴¹ Probabilistic assumptions about the distribution of long-term energy service agreement costs, AEMO scenario for wholesale prices, etc. A dashboard summary will be provided to ensure transparency of modelling assumptions.

Scheme entity	Data input	Supporting information
AER/Infrastructure Planner [To be confirmed]	Payments to Network Operators approved under Part 5 of the EII Act ⁴²	<ul style="list-style-type: none"> The relevant AER revenue determination and any relevant AER revenue adjustment determinations [To be confirmed].⁴³
AER Consumer Trustee Financial Trustee IPART	Administration costs of scheme entities	<ul style="list-style-type: none"> A statement by each entity's Chief Executive that: <ul style="list-style-type: none"> they have approved the administration costs input to the template. the cost recovery complies with any relevant governmental guidelines e.g., with Australian Government Cost Recovery Guidelines (RMG 304).⁴⁴ Copies of the entity's invoices for administrative costs submitted to the scheme financial vehicle.
Office of Energy and Climate Change		<ul style="list-style-type: none"> The exemptions data must be independently audited – the requirements in relation to independent audits are set out in section 2.3.3.

2.3.2 Basis of preparation document

The basis of preparation document required in table 3 must:

- demonstrate how the information provided is consistent with the requirements of this guideline.
- explain the source of the information.
- explain the methodology applied, including any assumptions made and the reasonableness of those assumptions.
- explain, in relation to forecast data, the basis for the forecast estimate, including the approach used, assumptions made and reasons why the estimate is the data owner's best estimate.
- explain the data owner's quality assurance processes.

2.3.3 Independent audit requirement of actuals data

As set out in table 3, all actuals data must be independently audited.⁴⁵

The audits must be conducted in compliance with Australian Auditing and Assurance Standards.

⁴² Both a REZ Network Infrastructure Project or Priority Transmission Infrastructure Project as defined under the EII Act or EII Regulations.

⁴³ This issue requires further consideration with relevant scheme entities and will be resolved in the final contribution determination guideline.

⁴⁴ These Guidelines apply to Commonwealth entities only.

⁴⁵ This requirement applies to us as a Regulator and scheme entity.

The audit must produce an audit opinion report as to whether the actuals data provided is presented accurately in accordance with the requirements of our information request and the relevant basis of preparation document.

The audit must be carried out by a person who:

- a. is a registered company auditor who is a member of the Institute of Chartered Accountants Australia or of CPA Australia that holds a Certificate of Public Practice, or
- b. is independent from the data owner and all its related bodies corporate – that is, not a principal, member, shareholder, officer, or employee of the data owner or its related entities.
- c. has experience in conducting financial, performance, operation or quality assurance audits and conducting data sampling in the electricity industry.
- d. possesses relevant knowledge and experience in the electricity industry, engineering, IT systems, asset management and customer service as relevant to the audit or review.
- e. understands regulatory accounting methods.
- f. understands the definitions, procedures and methodologies specified in the EII Act and Regulations and this guideline that have been used in the preparation of the data the subject of the audit or review; and
- g. is available to discuss issues relating to the audits with us, including where an audit opinion report or review conclusion statement is critical of, or highlights deficiencies in, the audited financial information and/or supporting information.

2.3.4 Quality assurance processes

We expect that each scheme entity will support the scheme financial vehicle by checking the accuracy of its data inputs and veracity of supporting material before providing it to the scheme financial vehicle.

The scheme financial vehicle will conduct a quality assurance of the completed template against the package of supporting material and relevant assurances.

In essence, this places the onus on each scheme entity to be responsible for the veracity, auditability and transparency of its inputs and supporting material. We consider that this approach, consistent with our approach to annual pricing under the NER,⁴⁶ increases the likelihood of the contribution determination amount that the scheme financial vehicle submits is capable of being approved.

Once we receive the contribution determination template and supporting information from the scheme financial vehicle, we will review the material for accuracy and compliance with the EII Act, Regulations and this guideline.

We consider this 'rolling' quality assurance process will limit errors and hence, the need for us to request the scheme financial vehicle to resubmit the template or additional supporting material. For each version of the template resubmitted, we must perform a compliance check. Further engagement processes are time consuming and puts at risk our ability to make our contribution determination within the legislative timeframe set under the EII Act.

⁴⁶ AER, [Annual pricing review process, Final position paper - first stage](#), December 2021.

2.4 Quarterly contribution orders

After we gazette our contribution determination, each financial year the scheme financial vehicle will issue to each NSW DNSP four contribution orders. Each contribution order contains the amount each NSW DNSP is to pay to the scheme financial vehicle so it may recover Roadmap costs.

The contribution period and schedule of payments, shown in table 4 are set out in the EII Regulations. The contribution orders and payments from NSW DNSPs continue on the same quarterly cycle.

Table 4: Schedule of DNSP contributions into the Fund

Contribution period	Quarterly payment schedule
1 July – 30 September	1 November
1 October – 31 December	1 February
1 January – 31 March	1 May
1 April – 30 June	1 August

Source: OECC, *Electricity Infrastructure Roadmap, Electricity Infrastructure Fund (Part 7 of the Electricity Infrastructure Investment Act 2020), Exemption Administration Process*, May 2022, p. 16.

2.5 Additional process matters

2.5.1 Handling of errors

Any errors, deviations of actuals from estimates, or changes to forecasts that occur after a contribution determination has been gazetted will be dealt with under the subsequent contribution determination through our approved mechanism.

2.5.2 Consultations

In making the contribution determination each year, we will conduct appropriate consultations. This includes consulting with the Financial Trustee as required under s. 56(6) of the EII Act. Specifically, we will consult with the Financial Trustee before gazetting our contribution determination and provide feedback on the process to create a culture of continuous improvement.

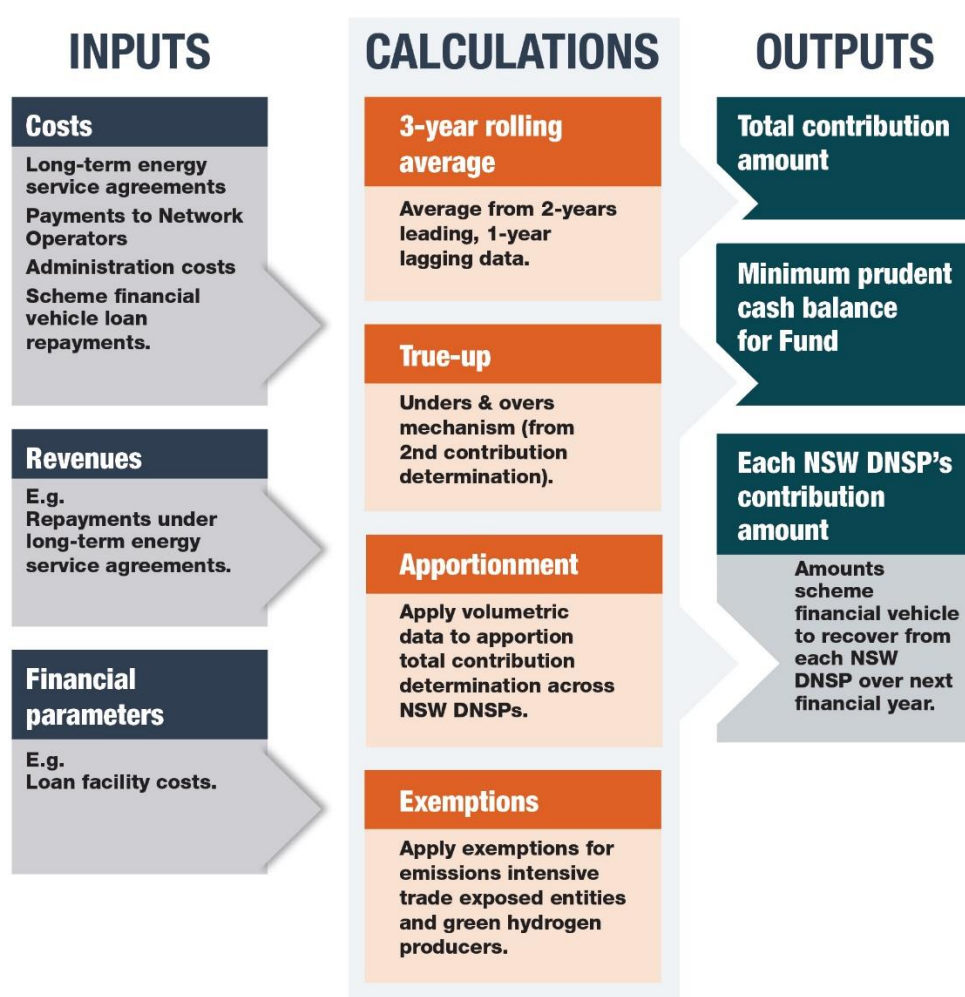
3 Overview of contribution determination method

This chapter sets out the contribution determination method that will apply to all scheme entities in preparing, and us as the regulator, in making an annual contribution determination.

It consists of screen shots of each template worksheet and an explanation of the purpose and method behind each worksheet.

As stated in chapter 2, in the first instance each scheme entity is responsible for assuring the quality of its data and supporting material, before the scheme financial vehicle conducts a further assurance process.

Figure 2: Overview of contribution determination method



Source: AER

The contribution determination method (for both the transitional and subsequent years) consists of two stages:

- The first stage calculates the contribution determination for the Fund.
- The second stage apportions the contribution amount for the Fund across the three NSW DNSPs.

Stage 1

The calculation of the contribution determination for the Fund first combines the inputs of forecast revenues and costs to calculate forecast annual net expenses for the scheme financial vehicle. This includes a notional allowance for the Fund's minimum prudent cash balance to ensure the scheme financial vehicle's solvency during the year.⁴⁷

Specifically, to set the contribution determination amount for financial year $t+1$, the process during financial year t relies on the following data from each scheme entity:

- the estimate of the current (year) net expenditures
- the forecast net expenditure for year $t+1$ (the year for which the contribution determination is made), and
- the forecast net expenditure for year $t+2$.

Using the three-year rolling average of net expenditures above, we make two adjustments:

- An adjustment to maintain the minimum prudent cash balance of the Fund under the forecast volatility of long-term energy service agreement costs, as input by the scheme financial vehicle, and
- A true-up to enable recovery of the difference between the estimated and actual historical costs (year $t-1$) that gave rise to the previous contribution determination (year t).
 - The true-up is implemented as an unders and overs mechanism, combining the historical revenue collected, forecast revisions and interest rates applied with the three-year rolling average.

Stage 2

After calculating the total contribution determination, we must apportion the total between the three NSW DNSPs. Apportionment uses different methods for the "volumetric energy" and "peak demand" components of the net expenditure.⁴⁸ The volumetric energy component consists of the annual long-term energy service agreement costs, while the remaining costs (residual costs) are allocated using "peak demand".

The volumetric energy component of the costs is allocated between the NSW DNSPs using each DNSP's share of annual volumetric energy delivered (consumption) net of consumption by emissions intensive and trade exposed entities and green hydrogen producers. That is, annual energy consumption uses data provided to us through completion of our annual regulatory information notices (RINs) after applying exemption rates for exempt entities and green hydrogen producers.

A similar process is then applied to the residual costs using peak demand as the basis for allocation. We determine each NSW DNSP's share of these residual costs by its annual non-coincident peak demand after applying exemptions.

Finally, we combine long-term energy service agreement costs and residual costs allocated separately to each NSW DNSP as detailed above to establish the annual contribution determination for each NSW DNSP. Our contribution determination will list the total contribution amount and a breakdown for each NSW DNSP,⁴⁹ to enable implementation of rebates to exempt entities and green hydrogen consumers by the respective NSW DNSPs.

⁴⁷ EII Act, s. 56(1).

⁴⁸ EII Regulations, s. 16(2) for definitions of peak demand and volumetric energy delivery.

⁴⁹ EII Act, s. 56(3)(b).

Stakeholders should refer to the OECC's policy paper⁵⁰ for details on the objectives and operation of its exemption framework. The OECC's exemption framework largely sits outside of the contribution determination process apart from the apportionment process outlined above.

⁵⁰ OECC, *Electricity Infrastructure Road, Electricity Infrastructure Fund (Part 7 of the Electricity Infrastructure Investment Act 2020), Exemption Administration Process*, May 2022.

4 Inputs

This chapter explains the necessary cost and revenue inputs from each scheme entity to calculate forecast annual net expenses of the Roadmap scheme.

4.1 General

The template includes a title page, general page, input pages, calculation pages and a lookups page. The title page includes an inputs key, version log, contents list, and change log.

Figure 3: Extract of template key

Description Table 1 Keys	
Key:	
	Final determination AER input
	Annual AER input
	Annual SFV input
	Annual Consumer Trustee input
	Annual Financial Trustee input
	Annual IPART input
	Annual NSW EnCo input
	Calculation
	N/A

The general worksheet includes inputs for the current contribution determination year and specifies the relevant year for apportionment purposes.

Figure 4: Extract of general inputs table

Input table 1 General inputs		
Inputs	Source	Value
Year ending	AER	June
Current Contribution Determination regulatory year (t)	AER	2025–26
Energy forecasting year for Apportioning	AER	2022–23
Contribution Determination period, first year	AER	2023–24
Next Contribution Determination regulatory year (t+1)	Calculated	2026–27
Second next Contribution Determination regulatory year	Calculated	2027–28
Current regulatory control period, last year	Calculated	2031–32
Days per year	Calculated	365
Unit for inputs and revenues	AER	\$millions
Unit for output tables (from revenues)	AER	\$millions
Unit for consumption totals and outputs	AER	GWh

Note that in year t when making the contribution determination for the year $t+1$, audited RIN data for year $t-1$ is available. The template enables the choice of the energy forecasting year to support apportionment of costs. Data for exempt customers (NMI, volumetric energy and peak demand) should relate to the same year ($t-1$).

The lookups worksheet contains lookups for use throughout the template, including unit denominations and month and year references.

4.2 Costs

The purpose of the expenditure table ('Financial' in the worksheet) is to capture scheme entities' administrative expenses, long-term energy service agreements and/or risk management expenses, payments to network operators and the scheme financial vehicle's loan costs.

Figure 5: Extract of expenditure worksheet

Input table 3 Expenditure	Source	Unit
LTES Expenditure		
LTESA - Generation	SFV	\$millions
LTESA - LDS & Firming	SFV	\$millions
Risk management contracts	SFV	\$millions
Total LTES Expenditure	Calculation	\$millions
Payments to Network Operators		
Payments to Network Operators	NSW EnCo	\$millions
Total Payments to Network Operators	Calculation	\$millions
Administration Expenditure		
Administration (AER)	AER	\$millions
Administration (Consumer Trustee)	Consumer Trustee	\$millions
Administration (Financial Trustee)	Financial Trustee	\$millions
Administration (IPART)	IPART	\$millions
Total Administration Expenditure	Calculation	\$millions
Other Costs		
Other Costs	SFV	\$millions
Total Other Costs	Calculation	\$millions

The main costs for the scheme financial vehicle are long-term energy service agreement costs, payments to network operators, administration expenses and loan repayments.

Long-term energy service agreements are option contracts to enter a derivative arrangement that provides successful energy projects with access to minimum cash flows for their energy service. The costs associated with these contracts include forecast derivative payments to long-term energy service operators. These forecasts involve modelling wholesale energy prices to specified confidence intervals by the consumer trustee and in accordance with its Treasury Policy (a subsidiary policy to the Risk Management Framework).

Risk management contracts are costs incurred from contracts entered to manage the market, liquidity and counterparty risks of the long-term energy service agreements. These include energy derivatives and insurance products.

Payments to network operators are costs associated with REZ Network Infrastructure Project or Priority Transmission Infrastructure Project as defined under the EII Act or EII Regulations.

Administration costs are costs incurred by the consumer trustee, financial trustee and regulators to in exercising their functions under the EII Act.

Loan repayment costs are costs arising from the scheme financial vehicle's repayment of the initial grant, additional loans and related interest and financing costs.

Scheme entities provide their actual, revised estimate and forecast costs via the 'Financial' worksheet.

Figure 6: Extract of minimum prudent cash balance table

Input table 5 Minimum Prudent Balance	Source	Unit
Minimum Prudent Balance		
Adjustment to ensure MPB (notional)	SFV	\$millions
Total Minimum Prudent Balance	Calculation	\$millions

The scheme financial vehicle is also required to input an amount to maintain a minimum prudent cash balance to ensure solvency.

4.3 Revenues

The template includes revenues tables in the 'Financial' worksheet. The purpose of this worksheet is to capture the revenue earned by the scheme financial vehicle through various income streams.

Figure 7: Extract of revenues table

Input table 2 Revenues	Source	Unit
AER Decision on Contribution Determination		
Contribution Determination	AER	\$millions
Contribution Determination Revenue		
Collected Revenue from DNSP contributions	SFV	\$millions
Deliberate under-recoveries	SFV	\$millions
Non Contribution Determination Revenue		
LTESA - Generation	SFV	\$millions
LTESA - LDS & Firming	SFV	\$millions
Risk management contracts	SFV	\$millions
Other Revenue	SFV	\$millions
Access fees	SFV	\$millions
Interest on investment activities	SFV	\$millions
Total Revenue (Excluding Contribution Determinations)	Calculation	\$millions

The main sources of revenue for the scheme financial vehicle are contribution determinations, long-term energy service agreements and access scheme fees.

Long-term energy service agreement revenues include repayments that LTES operators make to the Fund as provided under the terms of long-term energy service agreements.

The revenues worksheet also includes a line to capture 'green rights'. This is based on our understanding that long-term energy service agreements will be designed such that, during exercise periods, the scheme financial vehicle will be entitled to revenues from existing or new markets, including applicable green rights (i.e., large-scale generation certificates) and other economic rights conferred on the project by regulation for its capacity or generation.⁵¹

Scheme entities provide their actual, revised estimate and forecast revenues via the 'Financial' worksheet.

⁵¹ OECC, *Electricity Infrastructure Roadmap, Long-Term Energy Service Agreement Design (Consultation paper)*, August 2021, p. 2.

4.4 Compliance worksheets

'Compliance' worksheet is included in the template to allow for reporting of contribution determination amounts.

4.5 Volumetric Data

The volumetric data to be entered in the 'Energy' worksheet are volumetric energy and peak demand sourced from the AER's RINs data. The RIN item 'Total energy delivered DOPED01' is used for volumetric energy and 'DOPSD0201 Non-coincident Summated Raw System Annual Maximum Demand' for peak demand. We require this data to apply exemptions and apportion the contribution determination across the three NSW DNSPs.

Figure 8: Extracts of volumetric data tables

Input table 6 Annual Volumetric Energy Delivery - DOPED01			Source	Unit
DNSP				
Ausgrid		SFV		GWh
Endeavour Energy		SFV		GWh
Essential Energy		SFV		GWh
Total Volumetric Energy Delivery		Calculation		GWh

Input table 7 Annual Peak Demand - DOPSD0201			Source	Unit
DNSP				
Ausgrid		SFV		MVA
Endeavour Energy		SFV		MVA
Essential Energy		SFV		MVA

4.6 Exemptions

Exemptions and exemption rates are provided in the 'Exemptions' worksheet.

Figure 9: Extracts of exemptions data tables

Input table 8 EITE Exemption Rates			Source	Unit
Percent of volumetric energy exempted		SFV		Per cent
Percent of peak demand exempted		SFV		Per cent

Input table 9 EITE Volume Energy Exemptions			Source	Unit
DNSP				
Ausgrid		SFV		GWh
Endeavour Energy		SFV		GWh
Essential Energy		SFV		GWh

Input table 11 Green Hydrogen Exemption Rates		Source	Unit
Year of Commissioning			
2028 or earlier	Percent of volumetric energy exempted	SFV	Per cent
2029	Percent of volumetric energy exempted	SFV	Per cent
2030	Percent of volumetric energy exempted	SFV	Per cent
2031 onwards	Percent of volumetric energy exempted	SFV	Per cent
2028 or earlier	Percent of peak demand exempted	SFV	Per cent
2029	Percent of peak demand exempted	SFV	Per cent
2030	Percent of peak demand exempted	SFV	Per cent
2031 onwards	Percent of peak demand exempted	SFV	Per cent

Input table 12 Green Hydrogen Volumetric Energy Exemptions		Source	Unit
DNSP	Year of Commission		
Ausgrid	2022	SFV	GWh
Ausgrid	2023	SFV	GWh
Ausgrid	2024	SFV	GWh
Ausgrid	2025	SFV	GWh
Ausgrid	2026	SFV	GWh
Ausgrid	2027	SFV	GWh
Ausgrid	2028	SFV	GWh
Ausgrid	2029	SFV	GWh
Ausgrid	2030	SFV	GWh
Endeavour Energy	2022	SFV	GWh
Endeavour Energy	2023	SFV	GWh
Endeavour Energy	2024	SFV	GWh
Endeavour Energy	2025	SFV	GWh
Endeavour Energy	2026	SFV	GWh
Endeavour Energy	2027	SFV	GWh
Endeavour Energy	2028	SFV	GWh
Endeavour Energy	2029	SFV	GWh
Endeavour Energy	2030	SFV	GWh
Essential Energy	2022	SFV	GWh
Essential Energy	2023	SFV	GWh
Essential Energy	2024	SFV	GWh
Essential Energy	2025	SFV	GWh
Essential Energy	2026	SFV	GWh
Essential Energy	2027	SFV	GWh
Essential Energy	2028	SFV	GWh
Essential Energy	2029	SFV	GWh
Essential Energy	2030	SFV	GWh

The OECC considered that its policy intent to provide cost exemptions for emissions intensive trade exposed entities and green hydrogen producers is consistent with the objects of the EII Act to support economic development and manufacturing.⁵²

The OECC's policy position is that emissions intensive trade exposed entities will be exempt from 90 per cent of Roadmap costs attributed to generation costs only.⁵³ These entities will still have to pay for the storage component of Roadmap costs and other residual costs.

⁵² OECC, *Electricity Infrastructure Roadmap, Electricity Infrastructure Fund (Part 7 of the Electricity Infrastructure Investment Act 2020)*, p. 28.

⁵³ OECC, *Electricity Infrastructure Fund (Part 7 of the Electricity Infrastructure Investment Act 2020) - Exemption Administration Process*, May 2022, p. 6.

Green hydrogen producers will receive an exemption from all components of the Roadmap costs, including generation, storage and residual Roadmap costs. However, the rate of exemption will depend on the year a facility is commissioned, and production commences.⁵⁴

For facilities commencing production up to and including 2028, the exemption rate is 90 per cent. The OECC considered that as the green hydrogen industry is in its infancy, this level of exemption is appropriate for the industry's early-stage viability.⁵⁵

For facilities commencing production in 2029 or 2030, the level of exemption reduces to 60 per cent and 30 per cent respectively.

For facilities built after 2030, no exemption will apply.

Exemption rates will apply for 10 years.

4.7 Financial parameters

The financial parameters for the contribution determination include interest rate, repayable grant and loan facility costs. They are supplied in the 'Financial' worksheet.

Figure 10: Extract of financial parameters table

Input table 1 Financial information	Source	Unit
Economic Variables		
Contribution Determination Interest Rate	SFV	Per cent

The contribution determination interest rate is the interest rate applied to the overs and unders calculation.

⁵⁴ As above.

⁵⁵ As above.

5 Calculations

The calculations worksheets provide the calculations that underlie the outputs worksheets. These include calculations of allowable, forecast, and estimated revenues and the amounts for the unders and overs accounts.

5.1 Collate costs/revenues

The collation of costs and revenues are calculated in the worksheet 'Contribution Det Itemised', where the revenues and net expenditure are calculated and summarised.

Figure 11: Extract of revenues and expenditure summary table

Calculation table 3 Revenues & Expenditure Summary		Source	Unit
Target Costs Summary			
Revised Revenue		Calculation	\$millions
Revised Expenditure		Calculation	\$millions
Revised Net Costs		Calculation	\$millions
Revised Target Costs (Moving Average)		Calculation	\$millions
Revised Collected Revenues & Contribution Determination		Calculation	\$millions

5.2 3-year rolling average

The 3-year rolling average (Revised Target Costs) is calculated from net expenses derived by collating costs and revenues. The period for a current contribution determination applies 2-years leading and 1-year lagging. The worksheet 'Contribution Det Itemised' calculates the 3-year rolling average. The 3-year rolling average reflects an OECC policy position.⁵⁶

The benefits of applying a 3-year rolling average include smoothing bill volatility for NSW electricity consumers arising from volatility in wholesale market costs, providing the scheme financial vehicle liquidity by "frontloading" liquidity from later periods, and matching costs to benefits.

5.3 Apply true-up from second year onwards

The true-up mechanism using the unders and overs calculation applies from the second year onwards (i.e., February 2024 contribution determination). This mechanism means that the true-up fully passes through the difference between estimated and actual costs, as well as differences between revised forecasts. This mechanism allows the scheme financial vehicle to recover its costs.

If the total net costs were below what was provided for in a contribution determination, the revenue would be returned to NSW electricity customers (through the NSW DNSPs) via this unders and overs mechanism in the next determination year. Should the Roadmap generate revenue, then that revenue would be returned to NSW electricity customers.

The calculations for the true-up and contribution determination are in the worksheet 'Contribution Det Under & Over'.

⁵⁶ OECC, *Electricity Infrastructure Roadmap, Electricity Infrastructure Fund (Part 7 of the Electricity Infrastructure Investment Act 2020)*, p. 19.

Figure 12: Extract of true-up mechanism table

Calculation table 1 Contribution Determination Unders & Overs	Source	Unit
Contribution Determinations Unders & Overs		
Revenue collected from DNSP contributions & forecast collections	'Financial'	\$millions
Target Allowed Costs (AER Contribution Determination)	Calculation	\$millions
Revised Target Costs	Calculation	\$millions
Balancing adjustment made when year was 't'	Calculation	\$millions
Minimum Prudent Balance Adjustment	Calculation	\$millions
Adjustment for first two years	Calculation	\$millions
Deliberate under-recoveries	'Financial'	\$millions
Net under/over-recovery of revenue	Calculation	\$millions
Interest Rate applicable to Balance	'Financial'	\$millions
Contribution Determination - Opening Balance (excluding MPB)	Calculation	\$millions
Interest on Opening balance	Calculation	\$millions
Miscellaneous adjustments	Calculation	\$millions
Total under/over-recovery of revenue (inc. balancing adjustment)	Calculation	\$millions
Interest on under/over-recovery for regulatory year	Calculation	\$millions
Contribution Determination - Closing Balance (excluding MPB)	Calculation	\$millions

The unders and overs calculation is determined by first calculating the net under/over recovery of revenue, which is the difference between the revised target costs (moving 3-year rolling average for all years) and revenue collected from NSW DNSP contributions and forecast collections, after adjustments and deliberate under-recoveries.

The contribution determination opening and closing balances are then calculated. Interest for a full year, net under/over recovery of revenue with an additional half year of interest and miscellaneous adjustments are added to the opening balance to calculate the contribution determination closing balance.

Through this process the true-up is the balancing adjustment to the current contribution determination year. This adjustment ensures the contribution determination closing balance for the year is equal to zero.

After the contribution determination is calculated, the contribution determination amount is split into the “volumetric energy” component and the “peak demand” component. The volumetric energy component is the annual long-term energy service agreement cost, while the remainder is allocated to “peak demand”.

Figure 13: Extract of contribution determination components table

Calculation table 4 Contribution Determination Components	Source	Unit
Contribution Determination Components		
Volumetric Energy Component (inc. True-Up)	Calculation	\$millions
Peak Demand Component (inc. True-Up)	Calculation	\$millions
Total Expenditure	Calculation	\$millions
Volumetric Energy Component Percent	Calculation	Per cent
Peak Demand Component Percent	Calculation	Per cent
Value of Contribution Determination (Revised)	Calculation	\$millions
Volumetric Energy Component Contribution Determination	Calculation	\$millions
Peak Demand Component Contribution Determination	Calculation	\$millions

5.4 Apportionment across NSW DNSPs

Apportionment of contribution determination cost components to NSW DNSPs is calculated in the worksheet ‘Apportion to DNSP’.

The volumetric energy component of the contribution determination amount is allocated between the NSW DNSPs using each DNSP’s share of annual volumetric energy delivered. Annual

volumetric energy delivered uses RIN data after applying exemption rates⁵⁷ for emissions intensive trade exposed entities and green hydrogen producers. The volumetric energy delivered is based on the latest RIN data from the item 'Annual Volumetric Energy Delivered – DOPED01' measured in gigawatt hours.

Similarly, this allocation process is applied to the “peak demand” component using each NSW DNSP’s share of annual peak demand after applying exemption rates. The demand measure is based on the latest RIN data from the item 'Annual Peak Demand - DOPSD0201 (non-coincident)'.

Figure 14: Extract of volumetric energy by DNSP table

Calculation table 8.1 DNSP Volumetric Energy Delivered	Source	Unit
Volumetric Energy Delivered		
DNSP	Source	Unit
Ausgrid	'Energy!'	GWh
Endeavour Energy	'Energy!'	GWh
Essential Energy	'Energy!'	GWh
Total Volumetric Energy	'Energy!'	GWh

5.5 Apply exemptions

The application of exemptions to the apportionment across the NSW DNSPs involves us applying the emissions intensive trade exposed entities and green hydrogen exemptions to the volumetric component. Although there are currently no exemptions for the “peak demand” component, the functionality has been built into the template.

The total volumetric energy exempted for each entity is its annual volumetric energy consumption multiplied by the exemption rate. The total energy exempted for each NSW DNSP is the sum of all energy consumption exempted for all entities under each NSW DNSP.

Figure 15: Extract of volumetric energy apportionment tables

Calculation table 8.4 DNSP Volumetric Energy Apportionment After Exemptions	Source	Unit
Total Volumetric Energy Exempted by DNSP		
DNSP	Source	Unit
Ausgrid	'Exemptions!'	GWh
Endeavour Energy	'Exemptions!'	GWh
Essential Energy	'Exemptions!'	GWh
Total Volumetric Energy Exempted by DNSP	'Exemptions!'	GWh
Volumetric Energy after Exemptions		
DNSP	Source	Unit
Ausgrid	Calculation	GWh
Endeavour Energy	Calculation	GWh
Essential Energy	Calculation	GWh
Total Volumetric Energy	Calculation	GWh
Apportionment of Volumetric Energy between DNSPs (after exemptions)		
DNSP	Source	Unit
Ausgrid	Calculation	Per cent
Endeavour Energy	Calculation	Per cent
Essential Energy	Calculation	Per cent
Total Volumetric Energy	Calculation	Per cent

⁵⁷ Exemption percentage of the component payment by each customer will be included in EII Regulations once drafted.

Calculation table 9.4 DNSP Peak Demand Apportionment After Exemptions		Source	Unit
Total Peak Demand Exempted by DNSP			
DNSP		Source	Unit
Ausgrid		'Exemptions!'	MVA
Endeavour Energy		'Exemptions!'	MVA
Essential Energy		'Exemptions!'	MVA
Total Peak Demand Exempted by DNSP		Exemptions!'	MVA
Peak Demand after Exemptions by DNSP			
DNSP		Source	Unit
Ausgrid		Calculation	MVA
Endeavour Energy		Calculation	MVA
Essential Energy		Calculation	MVA
Total Peak Demand		Calculation	MVA
Apportionment of Peak Demand between DNSPs (after exemptions)			
DNSP		Source	Unit
Ausgrid		Calculation	Per cent
Endeavour Energy		Calculation	Per cent
Essential Energy		Calculation	Per cent
Total Peak Demand		Calculation	Per cent

The total volumetric energy after exemptions is calculated. The proportion of the total volumetric energy consumption for each NSW DNSP is applied to the volumetric energy component cost to determine the volumetric energy component cost for each NSW DNSP. The same process is applied to the “peak demand” component using the “peak demand” exemption rate.

Figure 16: Extract of cost apportionment between DNSPs tables

Calculation table 10 Forecast Apportioned Costs between DNSPs	Source	Unit
Calculation table 10.1 Forecast Contribution Determination Components	Source	Unit
Contribution Determination Components		
Volumetric Energy Component Contribution Determination	"Contribution Det Itemised"	\$millions
Peak Demand Component Contribution Determination	"Contribution Det Itemised"	\$millions
Calculation table 10.2 Forecast Apportioned Volumetric Costs between DNSPs	Source	Unit
Apportioned Volumetric Energy Costs by DNSP		
Ausgrid	Calculation	\$millions
Endeavour Energy	Calculation	\$millions
Essential Energy	Calculation	\$millions
Total	Calculation	\$millions
Apportioned Volumetric Energy Costs by Percentage		
Ausgrid	Calculation	Per cent
Endeavour Energy	Calculation	Per cent
Essential Energy	Calculation	Per cent
Total	Calculation	Per cent
Calculation table 10.3 Forecast Apportioned Peak Demand Costs between DNSPs	Source	Unit
Apportioned Peak Demand Costs by DNSP		
Ausgrid	Calculation	\$millions
Endeavour Energy	Calculation	\$millions
Essential Energy	Calculation	\$millions
Total	Calculation	\$millions
Apportioned Peak Demand Costs by Percentage		
Ausgrid	Calculation	Per cent
Endeavour Energy	Calculation	Per cent
Essential Energy	Calculation	Per cent
Total	Calculation	Per cent
Calculation table 10.4 Forecast Apportioned Total Costs between DNSPs	Source	Unit
Apportioned Total Costs by DNSP		
Ausgrid	Calculation	\$millions
Endeavour Energy	Calculation	\$millions
Essential Energy	Calculation	\$millions
Total	Calculation	\$millions
Apportioned Total Costs by Percentage		
Ausgrid	Calculation	Per cent
Endeavour Energy	Calculation	Per cent
Essential Energy	Calculation	Per cent
Total	Calculation	Per cent

After the percentages are calculated, the component costs for each NSW DNSP are calculated. The combined component costs are the contribution determination for each NSW DNSP.

6 Outputs

The outputs worksheets ('Compliance', 'Tables', 'Charts') provide:

- The headline numbers for the contribution determination, being the total contribution determination and the contributions to be recovered by each NSW DNSP for the relevant contribution determination period (calculated as set out in chapter 5).
- The minimum prudent cash balance for the Fund.

6.1 Minimum prudent cash balance for Fund

The minimum prudent cash balance for the Fund is to provide⁵⁸ the scheme financial vehicle with the necessary liquidity to remain solvent. The item *minimum prudent cash balance* on the 'Financials' worksheet allows for this adjustment. It is reported on the 'Tables' worksheet as one of the components of the contribution determination.

Figure 17: Extract of contribution determination output tables

Output Table 1 Contribution Determination for Forecast Year	Source	Unit
Apportioned Total Costs by DNSP		
Ausgrid		\$millions
Endeavour Energy		\$millions
Essential Energy		\$millions
Total		\$millions
Including Minimum Prudent Balance Adjustment		
		\$millions
Output Table 2 Contribution Determination - Volumetric Energy Component by DNSP	Source	Unit
Apportioned Volumetric Energy Costs by DNSP		
Ausgrid	'Apportion to DNSP'	\$millions
Endeavour Energy	'Apportion to DNSP'	\$millions
Essential Energy	'Apportion to DNSP'	\$millions
Total	'Calculation'	\$millions
Apportioned Volumetric Energy Costs by Percentage		
Ausgrid	'Apportion to DNSP'	Per cent
Endeavour Energy	'Apportion to DNSP'	Per cent
Essential Energy	'Apportion to DNSP'	Per cent
Total	'Calculation'	Per cent
Output Table 3 Minimum Prudent Balance Adjustment by Year	Source	Unit
Minimum Prudent Balance		
Adjustment to ensure MPB (notional)	'Financial'	\$millions

The 'Tables' worksheet also contains historical contribution determinations, energy data, exemptions and year on year expense analysis. The 'Charts' worksheet presents charts using information from the 'Tables' worksheet.

⁵⁸ EII Act, s. 53(3).

7 Contribution determination gazettal notice

Our gazetted contribution determination each February will be brief, setting out:

- i. How we have made our contribution determination, which will be demonstrated in the completed template (redacted for valid confidentiality claims) and in line with this guideline
- ii. A total contribution determination amount for the upcoming financial year
- iii. The amount required to be paid by each NSW DNSP (being total (ii) apportioned across Ausgrid, Endeavour Energy and Essential Energy)⁵⁹
- iv. The minimum prudent cash balance for the fund.⁶⁰

Upon gazettal of our contribution determination, we will also publish it on our website.

If we deviate from this guideline in making our contribution determination, we will include reasons to reflect how in our gazettal notice.

We are continuing to explore whether additional material beyond the completed template may be gazetted to demonstrate the 'details of how'⁶¹ we made our contribution determination. Under the EII Act, incorrect disclosure of information carries a penalty.⁶² However, we are mindful of providing stakeholders with insight into our how we have carried out this regulatory function.

⁵⁹ As above.

⁶⁰ EII Act, s. 56(3).

⁶¹ EII Act, s. 56(4)(a).

⁶² EII Act, s. 75.

8 Variation of contribution determination

The EII Act permits us to vary a contribution determination if it appears to us that:

- a. the scheme financial vehicle will not be able to meet its liabilities as they fall due, or
- b. the cash balance of the Fund has fallen, or is likely to fall, below the minimum prudent cash balance specified in the determination.⁶³

The EII Act also requires us to publish on our website guidelines about the exercise of our functions (i.e., to vary a contribution determination).⁶⁴

While this chapter of the guideline sets out the process and circumstances for considering a variation, it is likely there would need to be extenuating circumstances for us to consider varying a contribution determination. This is because of the way the contribution determination feeds into our regulatory functions under the NER (see figure 1). Specifically:

- We gazette our contribution determination in February each year
- Scheme financial vehicle issues contribution orders to NSW DNSPs
- NSW DNSPs pay into the Fund managed by the scheme financial vehicle
- NSW DNSPs submit annual pricing proposals to us in April each year. This includes the contribution determination amount, which is a cost passed directly through to NSW electricity consumers (via retail bills) as a jurisdictional scheme amount under the NER.

Should we vary a contribution determination outside of this broader regulatory pricing framework, we would be enabling the scheme financial vehicle to issue contribution orders to the NSW DNSPs. The NSW DNSPs would be obligated to make the required contributions to the Fund, but unable to pass those costs on to consumers until the next annual pricing process. Consequently, the DNSPs would be funding the Roadmap's costs and liabilities for the intervening period. This would be contrary to the NSW Government's intent. The OECC stated in its policy paper:⁶⁵

It is not intended that distribution businesses or retailers be the financing vehicle for the Fund, and they are not expected to be worse off due to their role in relation to the Fund. Rather, their role is to manage the application of cost pass-through to consumers either as a jurisdictional scheme in the case of distribution businesses or to consumers for retailers.

To vary a contribution determination would likely result in a greater increase to NSW electricity consumers than would otherwise have been the case at the next annual pricing review. This is because the contribution determination costs for the coming financial year would be passed on simultaneously with the costs of a variation.

Further, the scheme financial vehicle must act in a commercially reasonable and prudent way⁶⁶ and is expected to comply with the risk management framework and subsidiary policies that include a Treasury and Liquidity policies and other strict governance arrangements. It also has access to a liquidity facility. The scheme financial vehicle, operating under these and other reporting and accounting mechanisms, should be able to manage the Fund in such a way that a variation is not necessary.

⁶³ EII Act, s. 57(1).

⁶⁴ EII Act, s. 57(2).

⁶⁵ OECC, *Electricity Infrastructure Road, Electricity Infrastructure Fund (Part 7 of the Electricity Infrastructure Investment Act 2020), Exemption Administration Process*, May 2022, p. 5.

⁶⁶ EII Act, s62(4).

Against this background, we would adopt the following process in considering whether to vary a contribution determination:

- a. The scheme financial vehicle is to write to the us, detailing the following (and providing supporting material where relevant):
 - i. That the scheme financial vehicle will not be able to meet its liabilities as they fall due, including the specific liabilities and amounts, or
 - ii. That the cash balance of the Fund has fallen, or is likely to fall, below the minimum prudent cash balance specified in the determination
- b. The steps the scheme financial vehicle has taken to raise necessary funds and the outcomes of such steps.
- c. Modelling to support the variation the scheme financial vehicle thinks is required.
- d. In considering this material, we may:
 - i. Consult with the financial trustee
 - ii. Seek further information from the scheme financial vehicle and other scheme entities as required.
 - iii. Seek independent advice
- e. We will advise the scheme financial vehicle of our decision whether to vary a contribution determination as soon as practicable.