Generation LTESA Fact Sheet

1. Overview

The generation Long-Term Energy Service Agreement (Generation LTESA) is a product designed to incentivise investment into new large-scale generation infrastructure under the NSW Electricity Infrastructure Roadmap.

It provides projects with a series of options to enter 1-year swaps and receive the fixed price reducing exposure to volatile wholesale electricity prices.

2. Key features

- **Flexible Options to enter into Swap:** A series of options to enter swap periods over the contract term (up to 20 years), with no upfront premium. Options can be exercised annually, with each swap period lasting one year.
- **Greater revenue certainty:** Upon exercise, the operator receives the Fixed Price for sent out generation, reducing spot price risk.
- **Flexibility to maximise revenue:** Ability to retain upside due to flexibility in exercising option structure. Allows for full exercise, partial exercise or no exercise in a swap period.
- **Monthly settlement payments:** Cash-settled on a monthly basis, helping projects to manage volatile cash flows.
- **Operating strategy:** Set by operator, subject to limited restrictions. The Generation LTESA is designed to integrate with both offtake contracts and merchant positions. Encourages project to respond to market opportunities and make strategic decisions around how to operate the project.
- **Project type flexibility:** Available to generation-only, assessed-hybrid and non-assessed hybrid projects.

3. Financing Considerations

The Generation LTESA has been developed with several financing considerations, aimed at improving project bankability and financing costs (e.g. higher debt gearing ratios), and attracting a wider group of financiers and investors:

- **Long-term tenor:** up to 20-year contract terms exceeds market standard for offtake contracts.
- **Optionality:** ability to partially exercise options and enter swap periods as needed unlocks additional value and flexibility for project financing.
- **Tripartite Deed:** provides step in rights for financiers, protecting value and reducing termination risk.
- **Standardised Agreements:** facilitate efficient due diligence and transaction execution.
- **Creditworthy counterparty:** Moody's Aa3 rated counterparty with statutory right to recover costs.

4. Gen LTESA examples

Fixed Price and Repayment Threshold Price form part of the Bid Variables that must be supplied in each Proponent's Bid.

Figure 1: Illustrative Generation LTESA settlement mechanics

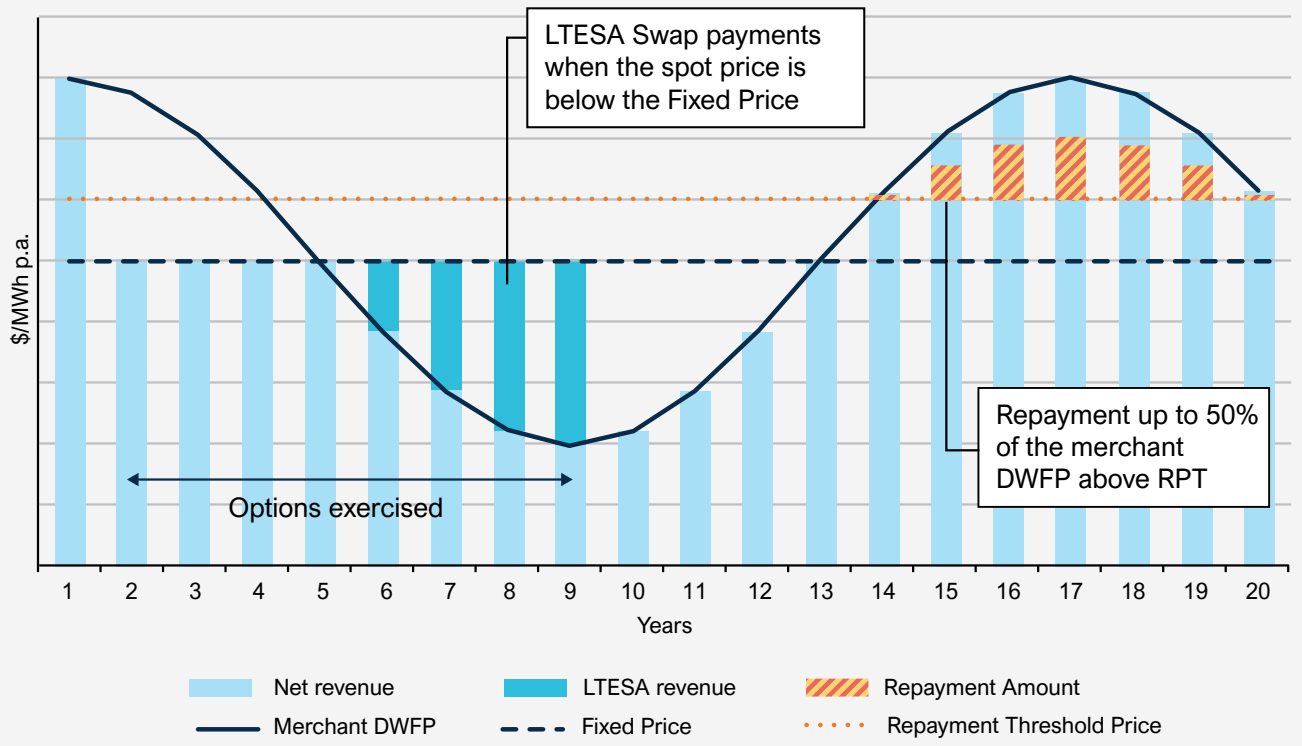

Figure 1 provides an **illustrative example** of how the LTESA would be settled. It shows:

Year 1 – does not exercise LTESA options

- Project is merchant exposed and receives the floating (spot) price for its generation.

Years 2 - 9 – exercises LTESA options

- In years 2 - 5, the sum of trading interval revenues are at or above the Fixed Price, so the project receives the Fixed Price. The project may have made payments to the SFV under the swap.
- In years 6 - 9, the sum of the trading interval revenues are lower than the Fixed Price and hence payments are made from the SFV to the project. This increases the Historical Net Payment from SFV to the project.

From year 10 – does not exercise LTESA options

- Project is merchant exposed and receives the floating (spot) price for its generation.
- Given the project has received payments during years 6 - 9 and the Dispatch Weighted Floating Price is above the Repayment Threshold Price, repayments apply for years 14 - 20.
- The applicable repayment is calculated by the lesser of the Historical Net Payment and the calculated repayment amount.

Table 1: Generation LTESA key terms

Key term	Description
Bid Terms	
Option periods	The LTESA provides for up to 20 years of options to enter Swap Periods, commencing from the First Option Date.
Fixed Price	The fixed price (in $/MWh) of the swap payment triggered on exercise of the option. This is to be bid in nominal dollars, not subject to escalation with CPI.
Repayment Threshold Price	The threshold price (in $/MWh) that is used to calculate potential repayments. This is to be bid in nominal dollars, not subject to escalation with CPI.
COD Target Date	The target date for the LTES Operator to achieve commercial operations for the Project.
Excluded periods	Option periods where the LTES Operator commits to not be able to exercise its option to enter a Swap Period.
Contracted Percentage	Allows the Operator to bid only a portion of the capacity of the Project to be covered by the LTESA, providing flexibility to LTES Operator.
Other key commercial terms	
Swap Percentage	The Swap Percentage is equal to the Contracted Percentage multiplied by Nominated Percentage, where the Contracted Percentage is a bid variable and the Nominated Percentage is specified by LTES Operator within each Exercise Notice.
Swap Period	The fixed duration of the cash settled swap is **one** financial year. Swap Periods begin on 1 July and end on the following 30 June.
Settlement mechanism	When an option is exercised it is settled monthly against Sent Out Generation as follows: • Notional Quantity = Swap Percentage x Sent Out Generation for trading interval x transmission and distribution loss factors • Monthly Settlement = (Fixed Price – Floating Price) x sum of the Notional Quantity for each trading interval within that month.
Contractual shape	Generation following, with the energy quantity of the swap based on the Project's sent out generation measured at a nominated export meter (and applying relevant marginal loss factors).
Negative price provision	The minimum Floating Price for swap payment calculations in a trading interval will be taken to be zero (0) for any periods of negative Floating Price (i.e. where it was otherwise less than zero).
Annual Payment Cap	A dollar cap on net annual payments by SFV to the LTES Operator, calculated as Fixed Price x Contracted Percentage x 100% x forecast P50 annual generation as submitted by the LTES Operator with its Bid. Payments from SFV to the LTES Operator are reduced to the extent that the Annual Payment Cap has been breached, however, where future payments are made from LTES Operator to SFV these are offset by unpaid 'excess' that would otherwise have applied above the cap.

Key term	Description
Repayment mechanism	The repayment mechanism applies in non-exercise periods (either full or partial non-exercise of an option). If the LTES Operator's dispatch-weighted floating price is above the Repayment Threshold Price. Fifty (50) percent of the revenue above the threshold is paid to the SFV, which is capped at the historical cumulative net payments (including shortfall sums) from the SFV to the LTES Operator and is reduced where the LTES Operator has entered an eligible contract.
Termination Amount	SFV must pay the LTES Operator the Fixed Termination Amount for termination by LTES Operator due to SFV payment default, SFV insolvency or amendment or repeal of EII Act. The Fixed Termination Amount is calculated as net present value of remaining annual payments discounted at 7% p.a. The LTES Operator must pay SFV the Early Termination Amount for SFV's valid termination under the LTESA. The early termination amount: • for a Major Casualty Event is calculated as $40,000 per MW of Contracted Export Capacity (max $12,000,000); or • otherwise, the above amount plus the lesser of 15% of the Fixed Termination Amount and 90% of Historical Net Payments
Green rights and other products (incl. capacity)	During Swap Periods, the SFV is entitled to the exercised portion of products or revenues from existing or new markets, including, applicable green rights (such as Large-scale Generation Certificates (LGCs)) and other economic rights conferred on the Project by regulation for its capacity or generation.
Minimum Generation	In Swap Periods, the LTES Operator must pay the SFV a shortfall sum if the Project's generation is below the Minimum Generation. It is set at an amount of energy (in MWh) equal to 75% × forecast P90 annual sent-out generation for the relevant Swap Period.

5. Contract structure and cash flows

LTESA tenders are run by ASL, as the independent NSW Consumer Trustee, with the Scheme Financial Vehicle (SFV) as the contract counterparty. The SFV is rated Aa3 by Moody's, providing strong financial stability and payment certainty. The SFV has statutory rights to recover costs from NSW electricity customers via Distribution Network Service Providers (DNSPs).

Figure 2: Contract structure and cash flows