

## 1. Overview

The Long Duration Storage (LDS) Long-Term Energy Service Agreement (LTESA) is a product designed to incentivise investment in LDS projects under the NSW Electricity Infrastructure Roadmap.

It provides projects with a series of options to access a capped annuity payment as a top up to a project's Net Operational Revenues (NOR).

## 2. Financing considerations

The LDS 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 40-year contract terms exceed typical project finance debt tenors, allowing for refinancing optionality.
- **Stable Contracted Cash Flows:** certainty of receiving annuity payments supports debt serviceability.
- **Optionality:** ability to enter annuity 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:** Aa3 rated counterparty with statutory right to recover costs.

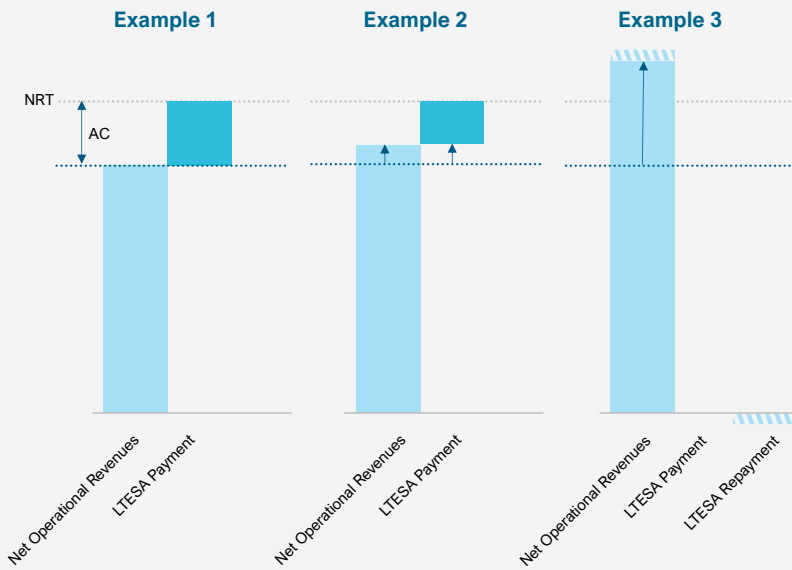
## 3. Key features

- **Flexible Options to Enter Annuity Product**  
A series of options to enter annuity periods over the contract term (up to 40 years), with no upfront premium. Options can be exercised annually, with each annuity period lasting one year.
- **Long-Term Contracts**  
Up to 40 years for pumped hydro and 14 years for batteries. Lesser of 40 years and asset life for all other technologies.
- **Revenue Top-Up**  
Upon exercise, revenue top-up provided if NOR fall below a defined Net Revenue Threshold (NRT).
- **Limited Repayment**  
Upside sharing capped by historical net payments, ensuring project is no worse off with an LDS LTESA.
- **Quarterly Annuity Payments**  
Payments received four times a year.
- **Operating Strategy**  
Set by operator, subject to limited restrictions. LDS 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.
- **No Upfront Option Premium**  
Immediate value upon signing, with no upfront option premium and no close out repayment.

## 4. LDS LTESA examples

Net Revenue Threshold and Annuity Cap form part of the Bid Variables that must be supplied in each Proponent's Bid.

**Figure 1: Options to access a capped annuity**



- 1. Full AC paid:** Project earns Net Operational Revenue but needs the Annuity Cap to be paid in full for the sum of revenues to meet Net Revenue Threshold.
- 2. Partial AC paid:** Project earns more Net Operational Revenue so the Annuity Cap is not paid in full. LTESA Payment is less than in (1).
- 3. Repayment to SFV:** Projects earns Net Operational Revenue in excess of the Net Revenue Threshold. None of the Annuity Cap is paid and LTESA Payment is zero. Project may have to make a LTESA Repayment of some amounts.

**Table 1: LTESA Key Terms**

Key term	Description
<b>Bid terms</b>	
<b>Option periods</b>	Depending on the technology, the LTESA provides for up to 14 or 40 years-worth of options to enter Annuity Periods, commencing from the First Option Date.
<b>Annuity Cap</b>	The annuity amount (in \$/year) submitted by the Proponent in a Tender Round process, being the maximum annuity per year that the SFV may pay to the LTES Operator.
<b>Net Revenue Threshold</b>	A Net Revenue Threshold (in \$/year) bid by the Proponent, below which the Project is expected to receive an annuity payment of up to the Annuity Cap, and above which additional provisions apply including triggering the repayment mechanism.
<b>Escalation</b>	Under the Default terms, the Annuity Cap and Net Revenue Threshold escalate each year at the lesser of CPI and 3%.
<b>COD Target Date</b>	The target date for the LTES Operator to achieve commercial operations for the Project. The COD Sunset Date is 18 months after the COD Target Date, which is the last date by which LTES Operator must achieve commercial operations for the Project or agree a cure plan, following which SFV may be entitled to terminate this agreement.
<b>Excluded periods</b>	Option periods where the LTES Operator commits to not be able to exercise its option to enter an Annuity Period.
<b>Other key commercial terms</b>	
<b>Annuity Period</b>	The fixed duration of each Annuity Period is one financial year. Annuity Periods begin on 1 July and end on the following 30 June.
<b>Net Operational Revenue</b>	Intended to cover all revenue streams for the Project that the LTES Operator receives, netted off against permitted costs. This would include, but is not limited to, gross revenue generated through the wholesale energy market, ancillary markets, system services, any future emerging markets and any other offtake contracts, minus certain costs, including the cost of purchasing energy to generate these revenues (where applicable).
<b>LTESA annuity payment calculation</b>	The annuity payments are calculated such that they equal the lesser of the: <ul style="list-style-type: none"> <li>• Annuity Cap, or</li> <li>• <math>\text{Annuity Cap} - 75\% \times (\text{Net Operational Revenues} - (\text{Net Revenue Threshold} - \text{Annuity Cap}))</math>.</li> </ul>

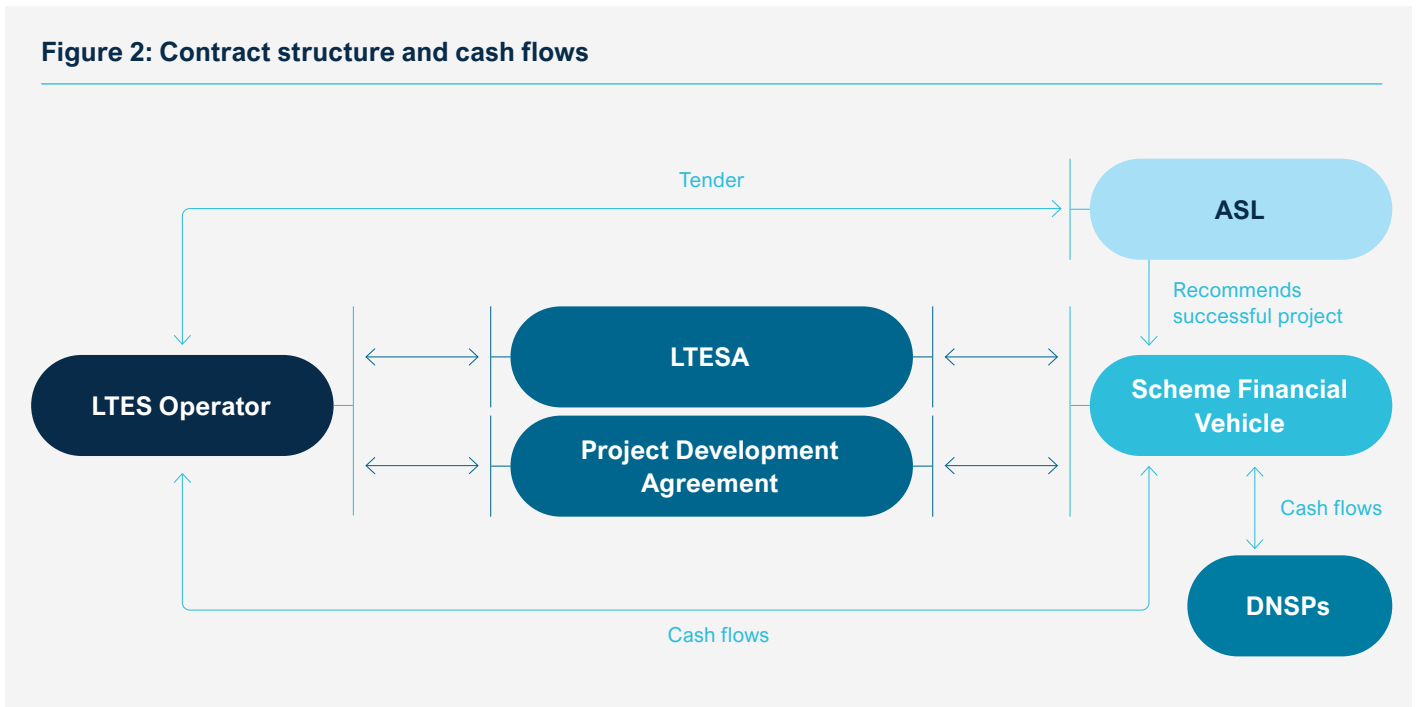
Key term	Description
<b>Repayment mechanism</b>	<p>Repayments apply in both exercise and non-exercise periods when the LTES Operator’s Net Operational Revenue exceeds its Net Revenue Threshold.</p> <p>The repayment mechanism works as follows:</p> <ul style="list-style-type: none"> <li>• Repayment applies to the amount of Net Operational Revenue that exceeds the Net Revenue Threshold.</li> <li>• A standardised benefit-sharing percentage of 50% applies to the repayment calculation up to the maximum recovery (below).</li> <li>• Maximum recovery through the repayment mechanism is 100% of historical cumulative net payments from the SFV to LTES Operator.</li> </ul>
<b>Termination Amount</b>	<p>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.</p> <p>LTES Operator must pay SFV the Early Termination Amount for SFV’s valid termination under the LTESA. The Early Termination Amount:</p> <ul style="list-style-type: none"> <li>• for a Major Casualty Event is calculated as \$40,000 per MW of Contracted Export Capacity (max \$8,000,000); or</li> <li>• otherwise, the above amount plus the lesser of 15% of the Fixed Termination Amount and 90% of Historical Net Payments</li> </ul>
<b>Maintain 8 hours storage</b>	<p>The LTES Operator must ensure that the Project maintains a storage capacity that is equivalent to a duration of least 8 hours at its Relevant Capacity across the term of the LTESA.</p>
<b>Availability and Storage Rebate</b>	<p>In exercise periods, the LTES Operator must meet defined performance measures and pay the SFV:</p> <ul style="list-style-type: none"> <li>• an Availability Rebate if the Project’s Equivalent Availability Factor falls below the Equivalent Available Threshold</li> <li>• a Storage Rebate if the Project’s tested storage capacity falls below the Contracted Storage Capacity</li> </ul> <p>Each of the Availability and Storage Rebates will be assessed annually and summed together, with the Aggregate Rebate limited to the sum of payments from the SFV to LTES Operator for that Annuity Period.</p> <p>Whilst the Storage Rebate is calculated annually, results from any Additional Storage Tests undertaken throughout the Annuity Period are accounted for. If at the commencement of an Annuity Period, the LTES Operator is in the process of curing an LDS Failure (that is, a previous test fails to demonstrate that the Project has a Relevant Capacity that can be dispatched continuously for at least 8 hours), the most recent test result (from a previous Annuity Period) applies until a further test is completed.</p>

## 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**



This document has been prepared to assist Proponents (and their Associates and Consortium Members) in making their own evaluation of the suitability of their Project to participate in a Tender Round for LTESAs. ASL has taken care in the preparation of the information contained or referred to in this document but cannot guarantee its accuracy or completeness. In the event of any discrepancy between the information contained or referred to in this document, and the information provided in Tender Guidelines or Project Documents for a specific tender, the Tender Guidelines or Project Documents will prevail. This document is not intended to provide any advice or imply any recommendation or opinion constituting advice. Proponents should seek their own independent legal advice on the operation of the Project Documents.