

29 August 2023

Senator the Hon Katy Gallagher
Minister for Finance
Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

The Hon Chris Bowen MP
Minister for Climate Change and Energy
House of Representatives
PO Box 6022
Parliament House
CANBERRA ACT 2600

Dear Ministers,

Snowy 2.0 - Project Review/Reset Update
Commercial-in-Confidence

Further to the Company's letter of 2 May 2023 (**Letter**) and the Company's public announcement in May 2023 (**May Announcement**), I am writing on behalf of the Board of Snowy Hydro Limited (**Company**) to provide you with an update on the Snowy 2.0 project (**Project**) reset, in respect of the estimated cost to complete the Project.

Key findings include:

- As previously advised, the Project can be completed between December 2028 to December 2029 and deliver an additional 200MW or 10% capacity;
- The Project cost to end of June 2023 is \$4.3 billion; **s. 47G(1)(a)**

- The estimated Project cost to complete is \$7.7 billion (**Cost to Complete**). The revised target total cost of \$12 billion (**Total Cost**) **s. 47G(1)(a)**

- Based on revised economics, the value of the Project to the National Electricity Market has increased materially and, notwithstanding the increased capital expenditure, the Project remains value accretive; and

- s. 47G(1)(a)

Project Review/Reset

Since the Company's Letter and May Announcement, the Company (with external advisors) has continued to undertake a comprehensive and robust due diligence process to review the Project (**Project Review**) and reset the delivery timeline and budget.

The Project Review is now complete. The findings conclude that a "project reset" is required to optimise performance to successfully complete the Project within realistic time, risk and cost parameters and without compromising safety, environment or quality.

We **enclose** an Executive Summary of the Project Review. The key findings include:

- The Total Cost (\$12 billion) includes settlement of FGJV's claims up to 30 June 2023. s. 47G(1)(a)
- The Cost to Complete (+\$5.9 billion relative to the Final Investment Decision (**FID**) in December 2018) can be attributed to:
 - the same factors that drove the announcement of schedule delays in May 2023, namely: COVID-19, labour and material escalations, design immaturity at FID and site conditions and geology; and
 - increase in Owner's costs to provide greater oversight of the Project s. 47G(1)(a)
- A recommendation to amend the existing EPC s. 47G(1)(a)
 - the current fixed-price EPC Contract was executed in a relatively benign and supportive environment following FID. However, the EPC Contract is now not fit for purpose s. 47G(1)(a)

- **s. 47G(1)(a)** the Project can be completed by 31 December 2028**s. 47G(1)(a)**
- Based on revised economics, the value of the Project to the National Electricity Market has materially increased. Despite the increased capital expenditure, the Project remains value accretive; and
- **s. 47G(1)(a)**

The costs and forward looking economics reflected in this letter and attached Executive Summary were reflected in the final recommendations submitted and approved by Snowy Hydro's Board on 24 August 2023.

Funding Strategy

The Company is committed to working collaboratively with the Shareholder to formulate a funding strategy in support of an acceptable capital structure. **s. 47G(1)(a)**

s. 47G(1)(a)

s. 47G(1)(a)

As always, the Managing Director and CEO and I, will continue to keep you and your Departments updated.

Yours sincerely,

David Knox

David Knox
CHAIR

Attachment 1: Project Review Executive Summary

SNOWY 2.0 PROJECT RESET - EXECUTIVE SUMMARY

1 SNOWY 2.0 PROJECT REVIEW

1.1 OVERVIEW

As previously notified to the Shareholder Ministers, Snowy Hydro is experiencing significant schedule delays (in line with previous announcements) and cost increases for its Snowy 2.0 Project (**Snowy 2.0** or **Project**) due to the following four key factors:

- The mobilisation and resourcing implications of the COVID-19 pandemic;
- The effect of global supply chain disruption and inflation impacting the cost and availability of a skilled workforce, materials, and shipping;
- The required changes to design post Final Investment Decision (**FID**); and
- The impact of variable geological conditions across the 26km linear alignment of this underground project.

Snowy Hydro has been conducting a comprehensive and structured review to determine how these persisting factors may best be addressed, such that:

- Productivity is increased to the required levels without compromising on safety, environmental outcomes or quality; and
- Snowy 2.0 is delivered to realistic time, cost and risk parameters.

S. 47G(1)(a)

This Project review has now concluded, with final review recommendations submitted and approved by Snowy Hydro's Board on 24 August 2023.

1.2 PROJECT REVIEW OUTCOMES

S. 47G(1)(a)

s. 47G(1)(a)

s. 47G(1)(a)

3 UPDATED PROJECT COST AND BUSINESS CASE

3.1 PROJECT COST TO COMPLETE

Snowy Hydro and its advisors s. 47G(1)(a) have undertaken a comprehensive process to review Project costs. s. 47G(1)(a)

s. 47G(1)(a)

S. 47G(1)(a)

3.2 UPDATED BUSINESS CASE

s. 47G(1)(a)

Given these developments, and with the addition of the 200MW capacity for Snowy 2.0, **the Business Case review indicates that Snowy 2.0 remains economically viable**, despite an increase in the total Project cost **s. 47G(1)(a)**

s. 47G(1)(a)