Draft Decision on Basslink Electricity Transmission Determination 2026 to 2030

(1 July 2026 to 30 June 2030)

Attachment 3
Operating expenditure

September 2025

AUSTRALIAN ENERGY REGULATOR

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Note

This attachment forms part of the Australian Energy Regulator's (AER's) draft decision on the transmission determination that will apply to Basslink for the 2026–30 period. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

Overview

Attachment 1 – Opening regulatory asset base

Attachment 2 – Capital expenditure

Attachment 3 – Operating expenditure

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3 Operating expenditure

On 26 June 2025, we published our final decision to accept Basslink's application to convert its market network service to a prescribed transmission service. Our final conversion decision sets out our reasoning as to why regulation of Basslink is consistent with the National Electricity Objectives (NEO).[1]

APA Group (APA) is the owner of Basslink Pty Ltd, the company that owns and operates the Basslink interconnector. For consistency and clarity, we refer to 'Basslink' throughout this draft decision and the asset as the Basslink interconnector.

The decision to convert the interconnector and classify Basslink's network services as prescribed transmission services will take effect on 1 July 2026. The National Electricity Rules require us to make a revenue determination for a Transmission Network Service Provider (TNSP) in respect of prescribed transmission services.[2]

Given the timing of our conversion decision, the regulatory period for our revenue determination is shortened to four years, 2026–30. This attachment sets out our draft decision on Basslink's operating expenditure (opex) for the 2026–30 period.

We seek stakeholder feedback on our draft revenue determination on opex, which will be considered with other stakeholder views, along with Basslink's revised proposal, in making our final revenue determination.

Operating expenditure (opex) is the forecast of operating, maintenance and other non-capital expenses incurred in the provision of network services. Forecast opex for prescribed transmission services is one of the building blocks we use to determine a service provider's total regulated revenue requirement.

This attachment outlines our assessment of Basslink's proposed total opex forecast for the 2026–30 regulatory control period.

3.1 Our position on opex

Our position is not to accept Basslink's proposed total opex forecast, including debt raising costs of $118.9 million (or an annual average opex of $29.7 million) ($2025–26).[3] This is because our alternative estimate of opex including debt raising costs is $101.0 million (or an annual average of $25.3 million) ($2025–26), which is materially different ($17.9 million or 15.1% lower) to Basslink's total opex forecast proposal. Therefore, we consider that Basslink's total opex forecast does not reasonably reflect the opex criteria, having regard to the opex factors.[4]

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1 AER, *Final Decision – Basslink conversion application*, June 2025.

2 NER, cl. 6A.2.1.

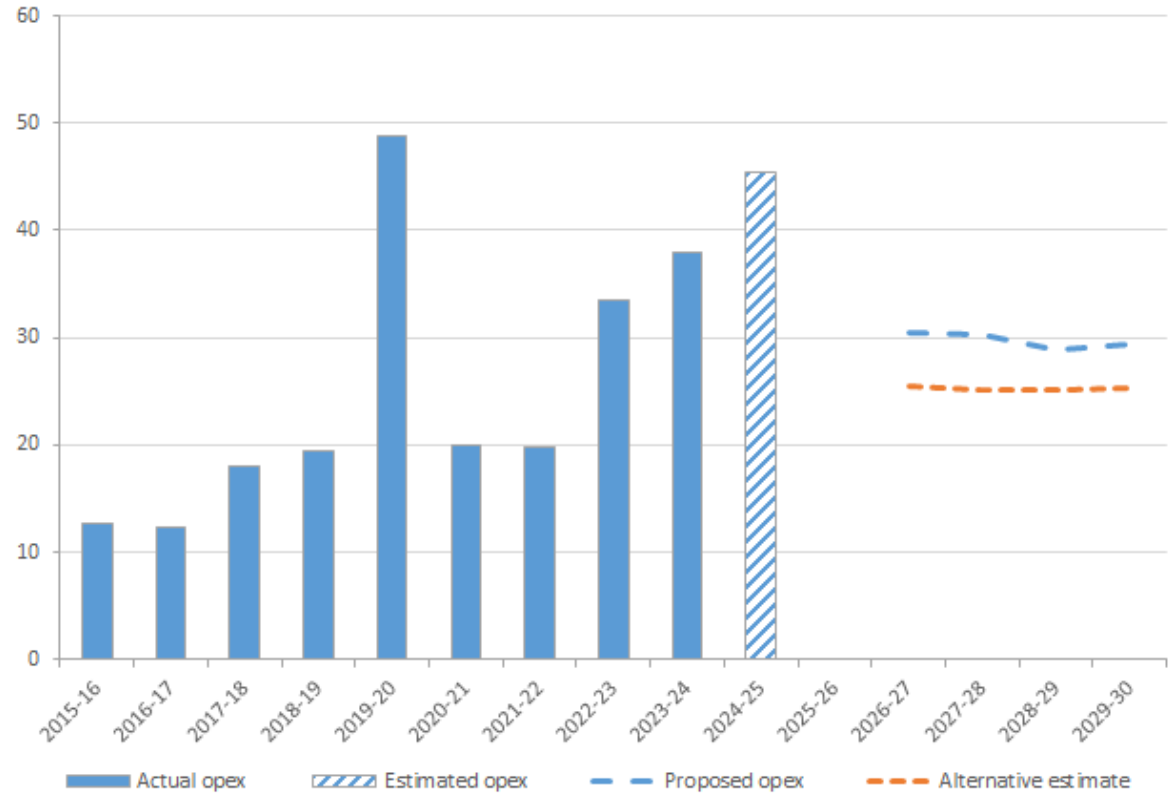
3 APA, *Basslink - PTRM - Post conversion Decision v2*, 20 August 2025.

4 The legal framework for our decision is set out in section 6.3 Assessment approach.

Our alternative estimate of the annual average forecast opex for the 2025–30 period is $7.3 million (22.5%) lower than Basslink's actual and estimated opex for the 2020–25 period[5]. Basslink's 2026–30 forecast average annual opex is $2.9 million or 8.8% lower than its average annual opex actual (and estimated) of $32.6 million[6] for 2020–25.

Figure 3–1 compares our alternative estimate of opex to Basslink's proposal for the 2026–30 regulatory control period. It also shows Basslink's actual opex over 2015–16 to 2023–24 and estimated opex for 2024-25.

Figure 3–1 Historical and forecast opex ($2024–25 million)



Source: APA Group, Basslink – Forecast Opex model – Updates v2 – Public.xlsx, 23 July 2024; APA Group, Basslink - PTRM - Update v2 - Public.xlsx, 23 July 2024; AER analysis.
Note: Includes debt raising costs. One-off costs, including arbitration and legal costs, have been removed from 2020-21 to 2022-23 opex totals.

Table 3–1 sets out Basslink's opex proposal, our alternative estimate and the differences between these forecasts.

5 This amount excludes one-off costs, particularly in 2020–21 and 2022–23, attributable to arbitration and legal costs.

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Table 3–1 Comparison of Basslink's proposal and our position on opex ($million, 2024–25)

	Basslink Proposal	AER Position	Difference ($)	Contribution to Total Difference (%)
Based on reported opex	94.3	94.4[(a)]	0.1	0.1%
One-off costs Adjustments	–	–	–	–
Remove category specific forecasts	–53.7	–53.8	–0.1	–0.0%
Trend: Output growth	–	–	–	–
Trend: Price growth	0.7	1.6	1.0	0.8%
Trend: Productivity growth	–0.3	–0.8	–0.5	–0.4%
Total trend	**0.4**	**0.8**	**0.5**	**0.4%**
Step change: FCSPS	4.0	4.0	–	–
Step change: Corporate Opex	11.3	11.3	–	–
Step change: SOCI Cyber	3.4	2.8	–0.6	–0.5%
Step change: IT and OT	8.6	8.6	–	–
Total step changes	**27.4**	**26.8**	**–0.6**	**–0.5%**
Category specific forecast: Insurance	48.9	31.2	–17.7	–14.9%
Total opex, excluding debt raising costs	**117.2**	**99.4**	**–17.8**	**–14.9%**
Debt raising costs	1.7	1.6	–0.1	–0.1%
Total opex (including DRC)	**118.9**	**101.0**	**–17.9**	**–15.1%**

Source: APA Group, Basslink – Forecast Opex model – Updates v2 – Public.xlsx, 23 July 2024; APA Group, Basslink - PTRM - Update v2 - Public.xlsx, 23 July 2024; AER analysis.

Note: (a) The AER and Basslink numbers are different due to a different inflation rate being applied. Numbers may not add up to total due to rounding. Differences of '0.0' and '–0.0' represent small variances and '–' represents zero.

Our lower alternative estimate of total opex for Basslink is primarily due to reducing the insurance forecast (-17.7 million or -36.2%).

3.2 Basslink's proposal

Basslink initially proposed opex of $168.8 million ($2024–25) including debt raising costs, for the 2025–30 period.[7] It subsequently revised its proposed opex to $148.7 million ($2024–25).[8]

Following our decision to convert Basslink to a regulated TNSP, it provided an updated opex model for the 2026-30 period. It proposed opex of $118.9 million ($2025–26) or an annual average of $29.7 million.

Basslink applied our 'base-step-trend' approach to forecast opex for the 2025–30 period. Basslink:[9]

- used reported opex in 2021–22 as the base to forecast ($25.8 million annually ($2025–26) or $103.2 million across the four-year forecast period)
- removed $15.7 million annually or $62.6 million ($2025–26) from base opex across the four-year period to reflect:
  - one off costs (-$2.2 million annually or -$8.9 million across the four-year forecast period)
  - items included in the category specific forecasts (insurance) (-$13.4 million annually or $53.7 million across the 2026-30 period)
- did not include a trend increment from the base year (2021–22) to the final year (2025–26)
- proposed an opex trend (price and productivity) growth ($0.4 million[10] for the 2026-30 period)
- proposed category specific forecasts for insurance, corporate opex, SOCI cyber, and IT and OT ($72.2 million for the 2026-30 period)
- proposed step changes for the Frequency Control System Protection Services (FCSPS) ($1.0 million annually or $4.0 million for the 2026–30 period).
- added forecast debt raising costs ($1.7 million) to arrive at a total opex forecast of $118.9 million over the 2026–30 regulatory control period.

Table 3–2 Basslink's opex for the 2025–30 period ($million, 2024–25)

	2026–27	2027–28	2028–29	2029–30	Total
Total Opex, excluding debt raising costs	29.1	29.0	29.4	29.7	117.2

7 APA, , *Basslink Transmission Revenue Proposal*, September 15, 2023, p 190.

8 APA, *Basslink Transmission Proposal*, Response to Information Request 05, received 17 July 2024: APA, *Basslink - PTRM - Post conversion Decision v2*, 20 August 2025.

9 APA, *Basslink Transmission Revenue Proposal*, Response to Information Request 05, received 17 July 2024: Basslink - Forecast Opex model - 2nd Update, July 2024.

10 The total trend amount of $0.4 million is composed of price growth ($0.7 million) and productivity growth (-$0.3 million).

Debt raising costs	0.4	0.4	0.4	0.4	1.7
Total Opex, including debt raising costs	**29.6**	**29.5**	**29.8**	**30.1**	**118.9**

Source: APA Group, Basslink – Forecast Opex model – Updates v2 – Public.xlsx, 23 July 2024; APA Group, Basslink - PTRM - Update v2 - Public.xlsx, 23 July 2024; AER analysis.
Note: Numbers may not add up to total due to rounding.

3.2.1 Submissions on Basslink's proposal

Hydro Tasmania's submission pointed out that without the Frequency Control System Protection Scheme (FCSPS) Basslink would be limited to 144 MW import and 200MW export to ensure compliance with frequency operating standards. Hydro Tasmania state that these limits have rarely been applied because it has secured, at its own cost, sufficient FCSPS tripping services from large loads in Tasmania and provided generation for tripping which supports full flows across Basslink in both directions. While securing FCSPS tripping services is in Hydro Tasmania's commercial interests when the Basslink Operating Agreement is in place with APA, Hydro Tasmania submits that in a regulated environment (with either Basslink or Marinus regulated), these service costs should be recovered from consumers.[11]

Similarly, the Tasmanian Minerals, Mining and Energy Council raised the question of what the likely System Protection Scheme (SPS) costs would be for Basslink if it is regulated.[12]

The Tasmanian Government stated that it is supportive of the step change in the subsea cable repair strategy and that the regulatory framework should provide the resources and incentives so that a cable failure is addressed as expeditiously as possible. It also stated that the Government considers that the procurement of load and generator tripping services (through the Basslink System Protection Scheme directly, or through a whole-of-state approach) is a legitimate cost to Basslink in order for it to operate above 144 MW in either direction. Accordingly, the Government is of the view those costs should form part of Basslink's overall allowed operating expenditure under a regulated interconnector model on the same basis as all other operating costs incurred in delivering the prescribed transmission services. [13]

3.3 Assessment approach

Our role is to decide whether to accept a business's total opex forecast. We are to form a view about whether a business's forecast of total opex 'reasonably reflects the opex

11 Hydro Tasmania, *Submission on Basslink Conversion Application and Electricity Transmission Determination*, 16 February 2024, p 3.

12 Tasmanian Minerals, Mining and Energy Council, TMEC Submission Basslink Transmission Determination 2025-30, 15 February 2024, p 3.

13 Tasmanian Government, *Submission on Basslink Conversion Application and Electricity Transmission Determination - Tasmanian Government Submission*, February 2024, pp 14-15.

criteria'.[14] In doing so, we must have regard to the opex factors specified in the National Electricity Rules (NER).[15]

The *Expenditure forecast assessment guideline* (the Guideline), together with an explanatory statement, sets out our assessment approach in detail.[16] While the Guideline provides for greater regulatory predictability, transparency and consistency, it is not mandatory. However, if we make a decision that is not in accordance with the Guideline, we must state the reasons for departing from the Guideline.[17]

Our approach is to assess the business's forecast opex over the regulatory control period at a total level, rather than to assess individual opex projects. To do so, we develop an alternative estimate of total opex using a 'top-down' forecasting method, known as the 'base-step-trend' approach.[18] We compare our alternative estimate with the business's total opex forecast to form a view on the reasonableness of the business's proposal. If we are satisfied the business's forecast reasonably reflects the opex criteria, we must accept the forecast.[19] If we are not satisfied, we must reject the business's forecast[20] and substitute it with our alternative estimate that we are satisfied reasonably reflects the opex criteria.[21]

In this position paper, we take into account the reasons for the difference between our alternative estimate and the business's proposal, and the materiality of the difference. Further, we take into consideration interrelationships between opex and the other building block components of our position.[22]

Figure 3–2 summarises the 'base–step–trend' forecasting approach.

14 NER, cl. 6A.6.6(c).

15 NER, cl. 6A.6.6(e).

16 AER, *Expenditure forecast assessment guideline for electricity transmission*, November 2013; AER, *Expenditure forecast assessment guideline, Explanatory statement*, November 2013.

17 NER, cl. 6A.2.3(c).

18 A 'top-down' approach forecasts total opex at an aggregate level, rather than forecasting individual projects or categories to build a total opex forecast from the 'bottom up.'

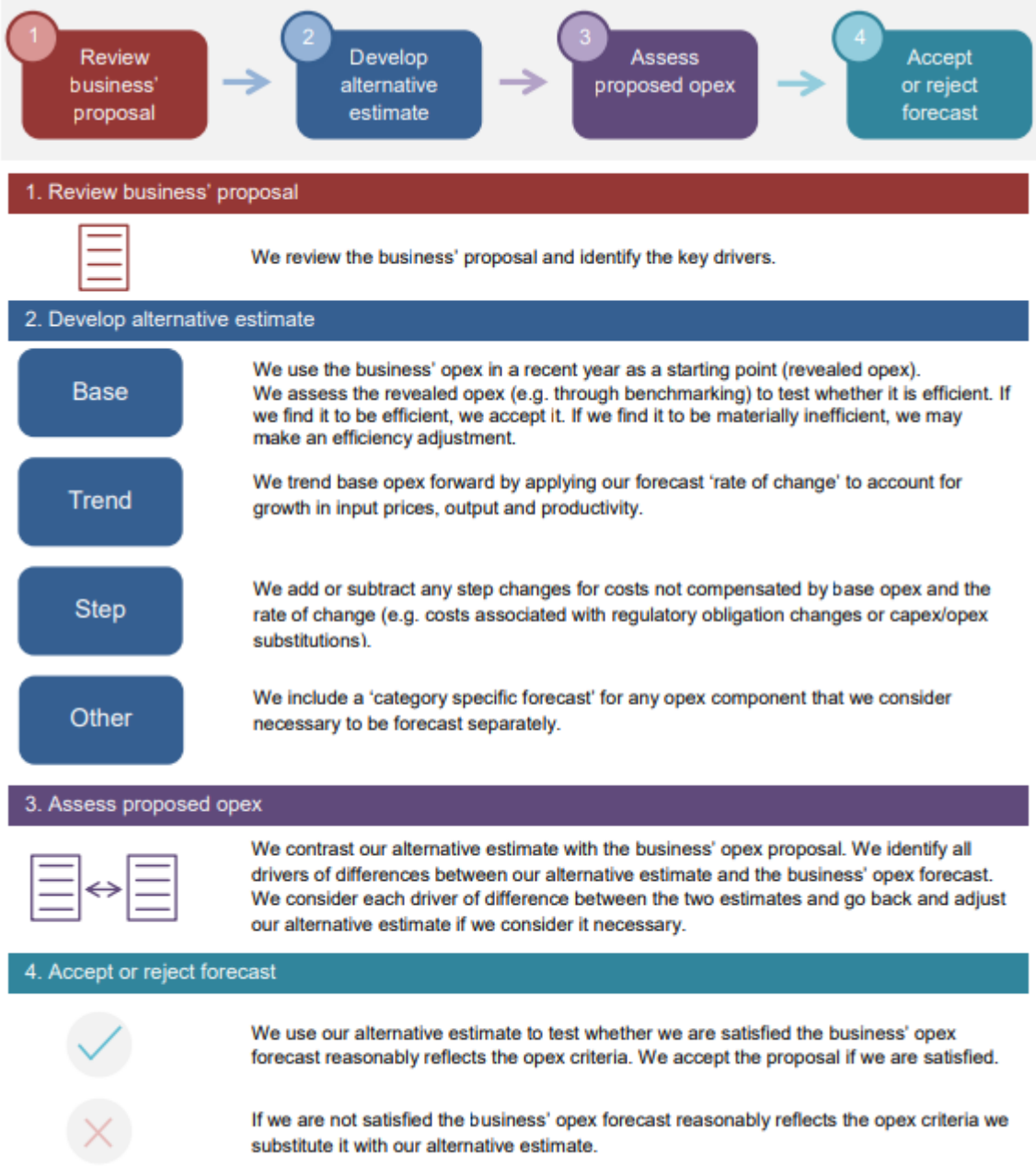
19 NER, cl. 6A.6.6(c).

20 NER, cl. 6A.6.6(d).

21 NER, cll. 6A.13.2(b) and 6A.14.1(3)(ii).

22 NEL, s. 16(1)(c).

Figure 3–2 Our opex assessment approach



3.3.1 Interrelationships

In assessing Basslink's total forecast opex, we also took into account other components of its proposal that could interrelate with our opex position. The matters we considered in this regard included:

- the impact of cost drivers that affect both forecast opex and forecast capital expenditure (capex). For instance, forecast labour price growth affects forecast capex and our forecast price growth used to estimate the rate of change in opex
- the approach to assessing the rate of return, to ensure there is consistency between our determination of debt raising costs and the rate of return building block

- the outcomes of Basslink's engagement with consumers and stakeholders in developing its proposal and any feedback we have had.

3.4 Reasons for our position

We do not accept Basslink's proposed total opex forecast of $118.9 million ($2025–26), including debt raising costs, for the 2026–30 period because we are not satisfied that it reasonably reflects the opex criteria, having regard to the opex factors.[23]

Our draft decision is to include an alternative estimate of total opex of $101.0 million, which is $17.9 million or 15.1% lower than Basslink's forecast opex. We are satisfied our alternative estimate of total forecast opex for Basslink reasonably reflects the opex criteria.

Table 3–1 sets out Basslink's proposal, our alternative estimate that is the basis for our position, and the difference between our position and the proposal.

The main drivers for the differences are also set out in Section 3.1. We discuss the components of our alternative estimate, and our assessment of Basslink's proposal, below. Full details of our alternative estimate are set out in our opex model, which is available on our website.

3.4.1 Base opex

This section provides our view on the prudent and efficient level of base opex that we consider Basslink would need for the safe and reliable provision of services over the 2026–30 regulatory control period.

3.4.1.1 Proposed base year

Basslink proposed a base year of 2021–22 and used an estimate of base year opex of $25.8 million or $103.2 million across the five-year forecast period.[24] Basslink originally submitted that it selected 2021–22 as its base year because:[25]

- it is the most recent audited financial year
- it is most reflective of current conditions and a typical year of operations on the Basslink interconnector
- relatively minor adjustment is required for non-recurrent expenditure or for inefficient recurrent operating expenditure compared with other years
- it reflects a 'revealed cost' approach, prior to APA becoming the Basslink operator in 2022–23, as preferred by the AER.

Consistent with our preferred approach, we consider it is reasonable for Basslink to use 2021–22 as the base year. This is because it reflects audited actual opex for a recent year

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23 APA, *Basslink - PTRM - Post conversion Decision v2*, 20 August 2025.

24 APA, *Basslink – PTRM – 2nd Update,* July 2024.

25 APA, *Basslink Transmission Revenue Proposal*, September 15, 2023, pp 176-180.

which we consider is reasonably representative of the nature of base opex costs that are required for the forecast regulatory control period.

For our alternative estimate, we have used 2021–22 as our base year consistent with Basslink's choice of base year and trend it forward to account for forecast growth in prices, output and productivity to derive our base year opex. We have used the latest inflation forecasts published by the Reserve Bank of Australia (RBA). We consider these inflation forecasts are the best forecast possible in the circumstances because they reflect the most up-to-date information available.

3.4.1.2 Efficiency of Basslink's base opex

As summarised in section 3.3, and in the Guideline, our preferred approach for forecasting opex is to use a revealed cost approach. This is because opex is largely recurrent and stable at a total level.

We are satisfied that Basslink's opex in 2021–22 is representative of its efficient opex requirements for the 2025–30 regulatory control period. This is because Basslink was operating as a market network service provider, under commercial pressure, via its contract with Hydro Tasmania, incentivising it to incur only efficient costs. This gives us comfort that the actual level of opex incurred should provide a good estimate of the efficient costs required for it to operate a safe and reliable network and meet its relevant regulatory obligations.

As Basslink is an interconnector we are unable to undertake benchmarking, however, as noted below in section 3.4.2.3, we are also proposing to include a productivity forecast for Basslink in the 2026–30 regulatory period, to encourage it to act in accordance with good industry practice.

3.4.1.3 Adjustments to base year opex

Basslink proposed a total adjustment to its base opex of -$2.2 million or -$8.9 million over the forecast period. This adjustment relates to Basslink's removal of one-off costs from the base year opex which are not considered business as usual costs. They include costs associated with arbitration, legal and professional fees, and refinancing and administration.[26]

We have considered this proposed adjustment and have included it in our alternative estimate of opex in the base year.

Basslink also removed insurance expenditure of $13.4 million from its base year, in preparation for forecasting insurance as a category specific forecast (see section 3.4.3.5).

[26] APA, *Basslink Transmission Proposal*, September 15, 2023, pp 176-180.

3.4.2 Rate of change

Having determined base opex as an efficient starting point, we trend it forward to account for the forecast growth in prices, output and productivity. We refer to this as the rate of change.[27]

Generally, having determined base opex and calculated final year opex by adding a final year increment, we trend final year opex forward to account for the forecast growth in prices, output and productivity over the next regulatory control period. We refer to this as the rate of change. However, where the Efficiency Benefit Sharing Scheme (EBSS) is not in place, as with Basslink, we do not apply a final year increment to generate final year opex and instead apply the rate of change directly to its base year opex.

The rate of change proposed by Basslink contributed $0.4 million ($2025–26) to its total opex forecast of $118.9 million ($2025–26). The rate of change component contributes 0.3% to total opex on average each year.

Our alternative opex estimate includes price growth and productivity growth (but not output growth). Our alternative forecast rate of change contributes 0.9% or $0.9 million ($2025–26), to our total alternative opex of $101.0 million ($2025–26).

The three components of the rate of change are discussed in more detail below.

Table 3–3 shows the differences between Basslink's and our rate of change forecasts.

Table 3–3 Comparison of Basslink's and AER's forecast annual rate of change (%)

	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30
Basslink's proposal								
Price growth					0.65%	0.61%	0.72%	0.87%
Output growth					-	-	-	-
Productivity growth					-	-0.50%	-0.50%	-0.50%
Rate of change					**0.65%**	**0.10%**	**0.22%**	**0.36%**
Cumulative rate of change					**0.65%**	**0.76%**	**0.97%**	**1.34%**
AER alternative estimate								
Price growth	-1.36%	0.55%	2.19%	1.01%	0.61%	0.62%	0.74%	0.86%

[27] AER, Expenditure forecast assessment guideline - transmission, November 2013, pp. 23–24.

Output growth					-	-	-	-
Productivity growth	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%
Rate of change	**-1.65%**	**0.25%**	**1.88%**	**0.71%**	**0.31%**	**0.31%**	**0.44%**	**0.56%**
Cumulative rate of change	**-1.65%**	**-1.41%**	**0.45%**	**1.17%**	**1.48%**	**1.80%**	**2.24%**	**2.82%**
Difference in cumulative rate of change	1.65%	1.41%	-0.45%	-1.17%	-0.83%	-1.04%	-1.27%	-1.48%

Source: Basslink, *Forecast Opex model – Updates v2.xlsx*, 17 July 2024; AER analysis.
Note: The rate of change = (1 + price growth) × (1 + output growth) × (1 – productivity growth) – 1. Numbers may not add up to totals due to rounding. Amounts of '0.0' and '–0.0' represent small non-zero values and '–' represents zero.

3.4.2.1 Forecast price growth

Basslink applied an annual average forecast real price growth of 0.7% over the 2026–30 period. Basslink's cumulative price growth in 2029–30 is 2.9%. Basslink's forecast price growth increased its total opex forecast by $0.7 million.[28]

We also applied an average annual real price growth over 2026-30 of 0.7%. However in cumulative terms, the price growth we applied is 5.3% in 2029-30, reflecting the application of price growth from the 2021–22 base year. This increased our total opex alternative estimate by $1.6 million.

The difference between the price growth in Basslink's proposal and our alternative estimate is explained by the differing starting point of the cumulative price growth. Basslink started in 2026–27, while we started from the base year, 2021–22; and the different real wage price index (WPI) series we applied.

Both we and Basslink forecast price growth as a weighted average of forecast labour price growth and non-labour price growth:

- In the absence of an efficient final year increment, as would be established when a regulated business is subject to the EBSS incentive regime, we escalated the 2021–22 base year by the actual real WPI. We applied the cumulative Australian Bureau of Statistics' WPI actuals less CPI for 2021–22 to 2024–25.[29]

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28 APA, *Basslink - Forecast Opex model - Post conversion decision v2*, 20 August 2025; APA, *Basslink, Attachment 8.2: BIS Oxford Economics, Labour Escalation Costs – Basslink: Forecasts to 2029/30, Final Report*, May 2023, p 4.

29 The ABS WPI series is Cat. No. 6345.0 – Series ID A85020635J - Private and Public sectors; Ordinary Hourly Rates of Pay Excluding Bonuses; Electricity, gas, water and waste services. To make this a real series we deducted the CPI from this nominal ABS WPI series.

- For the forecast price growth between 2025–26 and 2029–30 we both used an average of two WPI growth forecasts for the electricity, gas, water and waste services (utilities) industry to forecast labour price growth, consistent with our standard approach. Basslink took the average of first, BIS Oxford Economics' (Basslink's consultant) nominal WPI series for the electricity, gas, water and waste services sector in Victoria and Tasmania,[30] and second, Deloitte Access Economics' (DAE) 2024 forecast of growth in the WPI for the Australian electricity, gas, water and waste services (utilities) industry.[31] We have used an average of Basslink's WPI forecasts from BIS Oxford Economics[32], and the 2025 DAE forecast of growth in the WPI for the Australian electricity, gas, water and waste services (utilities) industry.[33] We converted the nominal series into a real series by deducting CPI from the nominal series.
- we have added the 0.5% superannuation guarantee increase in the years 2022–23 to 2025–26. As Basslink didn't apply labour price growth from the base year, it didn't need to apply the superannuation guarantee.
- both we and Basslink applied a forecast non-labour real price growth rate of zero.
- We both applied our current standard transmission weights, consistent with our transmission benchmarking, which are 70.4% for labour and 29.6% for non-labour.

Consequently, the difference between our real price growth forecasts and Basslink's, though minimal, largely arises from our method of applying labour price growth and the superannuation guarantee from the base year to 2025–26, and using different DAE WPI forecasts.

Table 3–4 below compares our forecast labour price growth with Basslink's proposal.

Table 3–4 Forecast labour price growth, %

	2025–26	2026–27	2027–28	2028–29	2029–30
Basslink's proposal					
BIS Oxford Economics		1.11%	0.90%	1.18%	1.35%
Deloitte Access Economics (DAE)		0.74%	0.83%	0.86%	1.11%
Average		0.92%	0.86%	1.02%	1.23%
AER's alternative estimate					
BIS Oxford Economics	1.27%	1.11%	0.90%	1.18%	1.35%
Deloitte Access Economics (DAE)	0.61%	0.63%	0.85%	0.92%	1.11%

30 The Tasmanian forecast is based on the Australian forecast due to insufficient data being available to generate a Tasmanian forecast.

31 Deloitte Access Economics (DAE), *Labour Price growth 2024, final forecasts*, 16 August 2024.

32 APA, *Basslink, Attachment 8.2: BIS Oxford Economics, Labour Escalation Costs – Basslink: Forecasts to 2029/30, Final Report*, May 2023, p 4.

33 Deloitte Access Economics (DAE), *Labour Price growth 2024, Report 3 - forecasts*, 23 July 2025.

Average	0.94%	0.87%	0.87%	1.05%	1.23%
Superannuation guarantee increases	0.50%	-	-	-	-
Average (including superannuation guarantee increases)	1.44%	0.87%	0.87%	1.05%	1.23%
Overall difference	-1.44%	0.05%	-0.01%	-0.03%	0.00%

Source: Basslink, *Forecast Opex model – Updates v2.xlsx*, 17 July 2024; Deloitte Access Economics (DAE), *Labour Price growth 2024, final forecasts*, 16 August 2024; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

3.4.2.2 Forecast output growth

We both did not include a forecast output growth in forecast rate of change.

Output growth normally relates to factors including customer numbers, circuit length, ratcheted maximum demand, and energy throughput. Consistent with our decisions for Directlink and Murraylink, as Basslink is a point-to-point interconnector available to the Australian Energy Market Operator (AEMO) for dispatch as required, we consider that it does not have any potential for output growth.

3.4.2.3 Productivity growth

We have included a forecast productivity growth of 0.3% per year in our alternative estimate. This is our forecast of the industry average productivity growth for transmission network service providers, from our 2024 Annual Benchmarking Report.

Basslink forecast productivity growth of 0.5% per year for the 2025–30 period. Basslink submitted that its forecast is based on our inclusion of a 0.5% productivity growth per year in the final decision for the Murraylink Transmission Determination 2023–28.[34] This was based on our forecast productivity growth from our 2021 Annual Benchmarking Report, which we have now updated.

We consider it prudent and efficient to include a productivity forecast in our alternative estimate, as we consider a productivity growth factor captures the improvements in good industry practice that should be implemented by efficient operators as part of business-as-usual operations (e.g. through new technology or management practice changes). We provide further information on our position to forecast productivity growth for network operators in our March 2019 final decision on forecasting productivity growth for electricity distribution network service providers.[35]

3.4.3 Step changes

In developing our alternative estimate, we include prudent and efficient step changes for cost drivers such as new regulatory obligations or efficient capex / opex trade-offs. As we explain

[34] APA, Basslink 2025-30 Revenue Reset, Response to IR #05, question 6.a., 24 July 2024, p 4.

[35] AER, *Final decision paper – Forecasting productivity growth for electricity distributors*, March 2019.

in the Guideline, we will generally include a step change if the efficient base opex and the rate of change in opex of an efficient service provider does not already capture the proposed cost for such items and they are required to meet the opex criteria.[36]

Basslink initially proposed a step change[37] for the Subsea Cable Repair Strategy, totalling $26.9 million ($2024–25) or 15.9% of its proposed total opex forecast.[38] It subsequently modified its step change proposal to a total of $5.3 million ($2024–25) or 4.3% of total forecast opex. In its post-conversion update, Basslink stated that it is no longer pursuing a second vessel for repairing cable faults and has withdrawn this step change.

Basslink initially identified that it might also propose a step change to recover the costs of the Frequency Control System Protection Scheme (FCSPS).[39] Post-conversion, Basslink has forecast $4.0 million ($2025–26) for this step change.

Basslink proposed four category specific forecasts: Security of Critical Infrastructure (SoCI), IT and OT, Corporate Opex, and Insurance.[40]

Basslink submitted that as SoCI, IT and OT and Corporate Opex were not in the base year, they were required to separately forecast them. We consider that these amounts, which would ordinarily be included in the base year, should be accounted for as base year adjustments. Due to the difficulty of establishing the appropriate base year adjustments in the time available, we have included them as step changes to provide an alternative estimate of opex, which will in turn provide more indicative price impacts: We consider that the SoCI, IT and OT, Corporate Opex should be included as base year adjustments in Basslink's revised proposal.

Basslink submitted that its insurance obligations have been rationalised under APA's management relative to the Basslink Services Agreement. For this reason it proposed forecasting insurance as a category specific forecast. While insurance costs are typically included in base opex, in these circumstances where insurance comprises a large proportion of Basslink's total opex, we consider it reasonable to forecast insurance as a category specific forecast. Insurance growth rates and the opex trend are unlikely to be aligned, which may yield a material difference between actuals and the forecast that cannot be absorbed by other elements of the opex portfolio.

The step changes that we have included in our alternative opex estimate is shown in Table 3–5.

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36 AER, Expenditure forecast assessment guideline for electricity transmission, November 2013, p 23.

37 While Basslink presented Security of Critical Infrastructure expenditure as a step change in *Basslink Transmission Proposal*, 15 September 2023 (pp 188-189) it was included as a category specific forecast in its Basslink – Forecast Opex model – Post conversion decision v2. We have included it in our assessment of step changes at section 3.4.3.3.

38 APA, *Basslink – Attachment 8 – Forecast operating expenditure*, 15 September 2023, p 188.

39 APA, *Basslink Transmission Revenue Proposal*, 15 September 2023, pp 189-190.

40 APA, *Basslink Transmission Revenue Proposal*, 15 September 2023, pp 181-182, 182-186,188-189, 190.

Table 3–5 Basslink's proposed step change and the AER's position ($million, 2025)

Step change	Basslink's proposal	AER's alternative estimate	Difference
Subsea Cable Repair Strategy	-	-	-
Frequency Control System Protection Scheme	4.0	4.0	-
Security of Critical Infrastructure	3.4	2.8	–0.6
IT and OT	8.6	8.6	–
Corporate Opex	11.3	11.3	–
Total step changes	27.4	26.8	–0.6

Source: Basslink, *Forecast Opex model – Updates v2.xlsx*, 17 July 2024; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

3.4.3.1 Frequency Control System Protection Scheme

At the time it lodged its initial proposal, Basslink was uncertain how the existing Basslink Frequency Control System Protection Scheme (FCSPS) costs would be recovered. This was because it was not clear whether part of the costs would be recovered under TasNetworks' 2024-29 revenue determination.[41] Basslink indicated that there may be a step change for the Basslink System Protection Scheme (SPS) costs as part of its revenue determination.[42] Post our conversion decision, Basslink has provided evidence of TasNetworks' monthly charges to Basslink for the hardware and operational costs of the FCSPS. These equate to $1.0 million annually.

The SPS protects the Tasmanian network from excess current damage or an outage if Basslink trips or faults. The SPS for the Tasmanian network consists of two elements:

- the Network Control SPS - provides runback (governor) and tripping (CB operation) of generators to reduce load on identified transmission circuits following a network contingency; and
- the Frequency Control SPS - provides high speed generator and load shedding following a fault/trip of Basslink.

As the Tasmanian TNSP, TasNetworks owns and operates the hardware and software required to manage the Network Control SPS. Historically these costs have been passed through to Basslink, who in turn passed them through to Hydro Tasmania under its Operating Agreement. However, TasNetworks has been funded under its 2024–2029 revenue determination to provide the Network Control SPS, so TasNetworks will no longer pass this component of the SPS costs through to Basslink.[43]

41 APA, Basslink, Response to Information Request 07, received 30 September 2024, pp 8-11.

42 APA, *Basslink Transmission Revenue Proposal*, 15 September 2024, pp 189-190.

43 APA, Basslink, Response to Information Request 07, question 15, received 30 September 2024, p.7.

However, TasNetworks will continue to pass through the FCSPS costs to Basslink. These costs are the opex step change of $1.0 million annually.[44]

These costs are different to the system security network support costs, which consists of the cost of contracts with major energy users for load interruption[45] and with Hydro Tasmania for generator tripping[46]. These contracts are required so that Basslink can meet the Tasmanian Frequency Operating Standard (a standard established by the AEMC that defines the acceptable frequency range for Tasmania's power system). In the absence of these contracts Basslink is required to reduce its energy flow to 144 MW instead of 500 MW, to mitigate the impact of a single item of plant tripping on the operating frequency.[47] These costs are discussed in Attachment 9 – Pass through events, section 9.5.4. Basslink has indicated that it will propose applying the new rule provisions which will allow it to recover these costs as part of its annual pricing review. We released our System Security Network Support Payments Guideline on 29 November 2024.[48] We will be assessing Basslink's application to apply the new rule in accordance with this Guideline.

3.4.3.2 Security of Critical Infrastructure

Basslink proposed a category specific forecast of $3.4 million for Security of Critical Infrastructure (SoCI) for the 2026–30 period. These costs reflect Basslink's allocation of a portion of the APA Group shared costs incurred to comply with the requirements of the *Security of Critical Infrastructure Act 2018* (Cth) (SoCI Act).[49] Our position is to include $2.8 million for the 2026-30 period in our alternative estimate.

Basslink proposed this opex as a category specific forecast. We have reclassified it as a step change, as it represents new expenditure required to meet a regulatory obligation.

Basslink submitted that there are no SoCI costs included in the base year. Basslink's annual expenditure forecast for SoCI over the 2026–30 period is approximately double the average annual expenditure over FY2023 to FY2025.[50] Basslink submitted that it would be unable to meet the SoCI Act requirements if it maintained Basslink's current level of expenditure on SoCI.[51]

Table 3–6 Basslink's Security of Critical Infrastructure costs ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	Total
Basslink's proposal	1.1	0.8	0.8	0.8	3.4

44 APA, Basslink, Response to Information Request 07, question 15, received 30 September 2024, pp 7-8.

45 Load tripping services permit southward flows (exporting form Victoria into Tasmania) to exceed 144 MW.

46 Generation tripping services permit northward flows (exporting from Tasmania to Victoria) to exceed 144 MW.

47 APA, Basslink, Response to Information Request 07, question 15, received 30 September 2024, p 10.

48 AER, *System Security Network Support (SSNS) Payment Guideline*, 29 November 2024.

49 APA, *Basslink Transmission Revenue Proposal*, 15 September 2024, p 188.

50 APA, *Basslink Transmission Revenue Proposal*, 15 September 2024, Table 8.6, p 189.

51 APA, *Basslink, Attachment 7.5 – SoCI Business Case - Confidential*, 15 September 2023, p 20.

AER position	0.9	0.6	0.6	0.6	2.8
Difference	-0.1	-0.1	-0.1	-0.1	-0.6

Source: Basslink, *Forecast Opex model – Updates v2.xlsx*, 17 July 2024; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

As set out in Attachment 2 Capital Expenditure, sections 5.3.4 and 5.3.5, we have reviewed the programs that are being undertaken by the APA Group to meet the SoCI Act requirements. We are satisfied that the opex associated with the SoCI cyber programs are prudent and efficient. However, in relation to the physical security and natural hazards project we consider that the risk assessment provided by Basslink did not take into account Basslink's small perimeters, the operating environment and the existing controls which are in place.

We have included expenditure to partially address some of the identified risk, where we have assessed that this part of the expenditure is prudent and efficient. We have provided our reasoning in the Capex Confidential Appendix F. For the elements of capex that we did not include, we have removed the associated opex. This reflects the $0.6 million reduction in our alternative estimate for SoCI opex.

3.4.3.3 IT and OT

Basslink proposed a total of $8.6 million in opex for IT and OT for the 2026–30 period. Basslink forecast IT and OT as a category specific forecast on the basis that the costs incurred in 2021–22 do not reflect the expected costs of Basslink as a regulated asset.[52]

Basslink proposed this opex as a category specific forecast. We have reclassified it as a step change as it is increased expenditure over the base year amount, which is required to meet the standard specified by regulatory obligations.

Approximately 50% of the proposed expenditure was for changing the Basslink systems to align with the APA Group systems. Other programs were to replace Basslink's obsolete hardware and software.

We sought further information from Basslink regarding the Basslink specific expenditure and the efficiency of the APA Group IT/OT allocation applied to Basslink.

We consider that the opex proposed for the Basslink IT/OT program is prudent on the basis that:

- there are likely to be cost savings derived from operating Basslink at an APA Group level (e.g. corporate services, work and maintenance programming, remote operation of Basslink)

[52] APA, *Basslink Transmission Revenue Proposal*, 15 September 2024, p 176.

- the upgrade of Basslink's obsolescent IT and OT is likely to reduce the risk of unreliable operations and provide for increased efficiencies, i.e. cost savings, in operating Basslink.

We have included the $8.6 million proposed by Basslink for IT and OT in our alternative opex forecast as a step change.

3.4.3.4 Corporate overheads

Basslink proposed a total of $11.3 million in opex for corporate overheads. We have included this amount as a step change in our alternative opex forecast.

Basslink proposed this opex as a category specific forecast. We have reclassified it as a step change, as it represents additional expenditure which is required to be able to meet the standards specified by regulatory obligations.

The corporate overheads amount proposed excludes costs which are specific to Basslink, such as Basslink executives, tax advisory, company secretarial services, sponsorship and donations. These costs are included in the base year. The proposed amount is for corporate services provided by APA Group which were not formerly undertaken by Basslink. It includes the cost of regulatory and policy management staff, risk management and insurance coordination, and IT management and cyber security.

The share of APA Group corporate overheads (less the Basslink specific categories captured in the base year) allocated to Basslink for the 2026-30 period is based on Basslink's 2021–22 revenue share of total APA Group revenue.[53]

In response to our request, Basslink provided evidence that it is more cost efficient to provide corporate services through the APA Group to Basslink than run Basslink as a stand-alone enterprise.

3.4.3.5 Insurance

Basslink proposed a category specific forecast of $48.9 million over the 2026-30 regulatory period for Basslink's insurance premium costs. Our position is to include $31.2 million in our alternative estimate as a category specific forecast.

We did not include Basslink's forecast of insurance premiums in our opex. This is because Basslink's revealed insurance costs are significantly lower than its forecast costs. We also consider that the insurance costs should reflect the smaller suite of insurance required under APA's operation, compared with operations prior to 2022–23 when a broader suite of insurance was specifically required under the Basslink Services Agreement.

Basslink's actual and estimated insurance premiums were $7.9 million in 2023–24 and $7.8 million in 2024–25. These are significantly lower than Basslink's original forecasts of $12.4 million and 11.8 million ($2025–26). We requested that APA provide updated insurance

[53] APA, *Basslink Transmission Revenue Proposal*, 15 September 2023, p 182.

forecasts for the draft decision. These were not available in time for our decision, but APA has indicated that it will provide them in the revised proposal.

Table 3–7 Basslink's insurance premium costs ($million, 2025–26)

	2026–27	2027–28	2028–29	2029–30	Total
Basslink's proposal	11.7	12.1	12.4	12.7	48.9
AER position	7.8	7.8	7.8	7.8	31.2
Difference	-3.9	-4.3	-4.6	-4.9	–17.7

Source: Basslink, *Forecast Opex model – Updates v2.xlsx*, 17 July 2024; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

We typically do not approve new expenditure for changes in individual existing cost categories which differ from the trend growth rate, as we expect that some cost categories will increase or decrease by greater than trend and other cost categories by less than trend, but the net impact on total opex will be approximately equal to the trend component. We have made limited exceptions to this standard approach where we deem the cost is not adequately accounted for in the opex model by our trend forecast. Insurance premiums are a non-labour expense and as such have zero forecast real price growth (only inflated by CPI) in our opex model trend component. Additionally, the proportion of total costs the CPI basket places on insurance premiums differed substantially from the very high proportion of Basslink's revealed total network opex costs which its insurance premiums represent (44.6% of its proposed opex). Where changes in Marsh' insurance forecast premiums over the period do not mirror the opex trend, there may be a material difference between the actuals and the forecast that cannot be absorbed by other elements of the opex portfolio.

Basslink submitted that it was previously required to take out a suite of insurances specified in the Insurance Concession Deed, which was part of the Basslink Services Agreement. After taking operational control of Basslink (after the FY2022 base year), APA Group has been rationalising its insurances and using its APA Group structure to access international insurance markets. Basslink submits that this has caused its insurance to be substantially different to its historical insurance portfolio.[54]

These factors mean that the opex trend component does not adequately account for the large changes in insurance premiums at this time, and thus we have included these costs as a category specific forecast. This treatment of insurance premiums for Basslink aligns with our general position for transmission decisions.

Basslink's forecast is based on Marsh's insurance premium estimate for 2025–26, which is then projected forward to 2029–30 based on expected insurance market movements and forecast CPI. Marsh forecast $54.9 million ($nominal) for the 2025–30 period, which

54 APA, *Basslink Transmission Revenue Proposal*, 15 September 2023, pp 181-182.

incorporated a reduction in the policy deductible to reduce volatility, but results in a higher premium.[55]

Basslink sought feedback from its regulatory reference group on two choices for insurance: for the same insured amount ($50 million), have either a lower deductible ($5 million), higher annual premium ($8 million) or a higher deductible ($15 million), lower premium ($5 million).[56] While the group members chose the former, we do not consider that this is efficient. The historical number of on-shore and offshore cable events is 2 in 20 years. Hence the difference in the deductible of $10 million would be recovered through reduced premiums in just over 3 years, less than the expected 1 in 10-year event probability. We therefore consider that from an efficiency point of view, premiums should be based on the higher deductible, lower premium option.

For our alternative forecast, we have substituted Basslink's estimate of insurance for 2024–25 of $7.8 million as a placeholder. This is a total of $31.2 million, which approximates the $3 million-lower annual premium arising from the selection of a higher deductible.

3.4.3.6 Debt raising costs

We have included debt raising costs for the 2026–30 period of $1.6 million in our alternative estimate, which is $0.1 million lower than Basslink's proposed amount for debt raising costs of $1.7 million.

Table 3–8 Debt raising costs ($million, 2023–24)

	2026–27	2027–28	2028–29	2029–30	Total
Basslink's proposal	0.4	0.4	0.4	0.4	1.7
AER alternative estimate	0.4	0.4	0.4	0.4	1.6
Difference	0.0	0.0	0.0	0.0	0.1

Source: Basslink, *Forecast Opex model – Updates v2.xlsx*, 17 July 2024; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

Debt raising costs are transaction costs incurred each time a business raises or refinances debt. Our preferred approach is to forecast debt raising costs using a benchmarking approach rather than a service provider's actual costs in a single year. This provides consistency with the forecast of the cost of debt in the rate of return building block.

We used our standard approach to forecast debt raising costs, which is discussed further in our draft decision overview.

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55 APA, *Basslink, Marsh – Attachment 8.4 – Premium Projections and Insurance Market Update 230731 – Confidential*, Table 1, p 4, Table 10, p 16.

56 APA, *Basslink Transmission Revenue Proposal*, 15 September 2023, p 185.

Glossary

Term	Definition
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Capex	Capital expenditure
CPI	Consumer Price Index
DAE	Deloitte Access Economics
EBSS	Efficiency Benefit Sharing Scheme
FCSPS	Frequency Control System Protection Scheme
IT	Information technology
MNSP	Market Network Service Provider
NEO	National Electricity Objectives
NER	National Electricity Rules
Opex	Operating expenditure
OT	Operational technology
PTRM	Post Tax Revenue Model
RBA	Reserve Bank of Australia
SoCI	Security of Critical Infrastructure
SPS	System Protection Scheme
TNSP	Transmission Network Service Provider
WPI	Wage price index