Draft Decision on Basslink Electricity Transmission Determination 2026 to 2030

(1 July 2026 to 30 June 2030)

Overview

September 2025

AUSTRALIAN ENERGY REGULATOR

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AER reference: AER23007165

Amendment record

Version	Date	Pages
1	12 September 2025	42

Invitation for submissions

Basslink has the opportunity to submit a revised proposal in response to this draft decision by **14 November 2025**.

Interested stakeholders are invited to make a submission on both our draft decision and Basslink's revised proposal (once submitted) by **12 December 2025**.

We will consider and respond to all submissions received by that date in our final decision.

Submissions should be sent to: ResetCoord@aer.gov.au

Alternatively, submissions can be sent to:

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Executive General Manager, Networks
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Submissions should be in Microsoft Word or another text readable document format.

We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. We will treat submissions as public documents unless otherwise requested.

Parties wishing to submit confidential information should:

1. Clearly identify the information that is the subject of the confidential claim.
2. Provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submission will be published on our website.

Pre-determination conference

Consumer engagement is a valuable input to our determination. We encourage all interested stakeholders to join us at the Basslink pre-determination conference, an online public forum, on **30 September 2025**. Details of how to register for this forum are available on our website and through Eventbrite.

List of attachments

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:

Executive Summary

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia as it transitions to net zero emissions (the transition).

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 the business as 'Basslink' throughout this draft decision.

Basslink has played a significant role in the National Electricity Market (NEM) since it commenced operation in 2006. In Tasmania 77.1% of total electricity generated is sourced from hydroelectricity[1]. Basslink supplements hydro generation by allowing electricity imports from Victoria when hydro output is constrained (for example due to drought conditions). In Victoria it allows Hydro Tasmania to provide peaking capacity. This role is becoming increasingly relevant with the growth of wind and solar capacity in Victoria, and the need to firm up supplies.

On 19 May 2023, Basslink lodged an application with us:

- to convert Basslink's network services from market network services (that is, unregulated services) to prescribed transmission services (that is, regulated services); and
- requesting us to commence, and specify, the process of making a transmission determination for Basslink[2]

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 Objective (NEO).[3] APA, as the owner of Basslink, will ultimately determine whether Basslink's services convert to prescribed transmission services. If Basslink ceases to be registered with the Australian Energy Market Operator (AEMO) as a market network service provider and instead converts its network services to prescribed transmission services, this will take effect on 1 July 2026. Given the timing of our conversion decision, the regulatory period for which we are making a revenue determination for Basslink is 2026–30.

The National Electricity Rules (NER) require us to make revenue determinations for TNSPs in respect of prescribed transmission services.[4] Our draft decision has been balanced so that consumers only pay for what is necessary and in their long-term interests. When we undertake our expenditure assessments, we consider whether or not we are satisfied that the proposed expenditure reasonably reflects prudent and efficient costs and a realistic expectation of future demand and cost inputs (the capital and operating expenditure criteria). We must make our decision in a manner that will, or is likely to, deliver efficient outcomes in

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1 Tasmanian Economic Regulator, *Energy in Tasmania Report 2023–24,* March 2025, p 2.

2 APA, *Basslink: Application for conversion and request to commence the process for making a transmission determination*, May 2023.

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

4 NER cl. 6A.2.

terms of the price, quality, safety, reliability and security of supply, and to achieve targets for reducing Australia's greenhouse gas emissions that benefit consumers in the long term (as required under the NEO).

As with other revenue determinations we must use the building block approach to determine revenues, using forecasts of capital expenditure (capex), operating expenditure (opex), depreciation and tax and applying our 2022 Rate of Return Instrument. In making this revenue determination, we have assessed Basslink's proposal and made a number of adjustments. Our draft decision provides for a total revenue cap of $428.8 million ($nominal, smoothed) compared to the $442.9 million ($nominal, smoothed) proposed by Basslink.[5]

For consumers, the benefits of Basslink depend on its reliability. In the past Basslink's reliability has been mixed. Between December 2015 and June 2016, Basslink experienced an outage that compromised Tasmania's security of supply and added to wholesale prices in Victoria. In response to the outage Basslink changed the way it operates the interconnector to improve reliability. Our revenue determination supplements this by providing Basslink with adequate revenues for maintenance and for effective responses should outages occur.

Consumer needs should be a key focus of the network businesses' regulatory proposals. To assist, we introduced the Better Resets Handbook (the Handbook)[6], to further guide businesses to engage and design proposals that meet consumer needs through the energy transition. Basslink's consumer engagement was broadly in line with expectations in the Handbook, noting the complexity of consulting on aspects of the conversion application and revenue proposal. Consumer engagement identified affordability and cost allocation between Tasmania and Victoria as important issues. In October 2024, Basslink provided the AER with a revised opening Regulatory Asset Base (RAB) value and cost allocation methodology in response to stakeholder feedback.[7]

Basslink's submission[8] indicated that it would further engage with stakeholders following our draft decision. We encourage an ongoing consultative process on key elements of our draft decision to inform the revised proposal.

Our assessment of Basslink's revenue proposal

This draft decision allows Basslink to recover $428.8 million ($ nominal, smoothed) in revenue from its customers for the 2026–30 period. This is $14.0 million (or 3.2%) less than Basslink's updated proposal.[9]

The key elements driving Basslink's proposed total revenue over the 2026–30 period are return on capital, underpinned by the opening RAB, and, to a lesser extent, proposed capex and opex.

In a typical revenue determination, we compare revenue from one regulatory period to the next on a like-for-like basis. However, as Basslink is not currently a regulated asset there is

5 APA, *Basslink - PTRM – Post Conversion Decision v2, August 2025*.

6 AER, *Better Resets Handbook – towards consumer-centric network proposals*, July 2024.

7 APA provided updates to their pricing methodology and RAB in October 2024.

8 APA, *Submission on Basslink Commencement and Process Paper Consultation Paper*, July 2025.

9 APA, *Basslink - PTRM – Post Conversion Decision v2, August 2025*.

no immediate regulatory period to which we can compare. Further, unlike other revenue determinations, we must establish the opening RAB for the first time. We have set the RAB using the depreciated actual cost of Basslink. This approach reflects requirements in the NER, specifically that we must determine the opening value of Basslink's RAB by applying the 'methodologies, objectives and principles' applied in the Murraylink (2003) and Directlink (2006) conversion decisions.[10]

Our draft decision determines an opening value of Basslink's RAB as at 1 July 2026 of $720.51 million ($2026–27), $32.27 million less than the revised opening RAB value proposed by Basslink of $752.78 million ($2025–26).[11]

However, Basslink proposed that its first regulatory control period start on 1 July 2025 and its proposed opening RAB value was to apply from this date. Given the timing of our final decision on conversion, our draft decision is to commence Basslink's first regulatory control period on 1 July 2026, and our draft decision opening RAB value of $720.51 million applies from this date. If Basslink's first regulatory control period were to start on 1 July 2025, we estimate its opening RAB value would be $728.28 million ($2025–26), $24.5 million less than proposed by Basslink.

Our draft decision opening RAB value reflects Basslink's depreciated actual cost and is estimated consistent with the methodology used by Basslink in its proposed value of depreciated actual cost. In determining the value of Basslink's opening RAB, we have closely examined the opening RAB against the legal framework for prudency and efficiency. We have corrected a number of errors in Basslink's depreciated actual cost calculation and used alternative input values that we consider result in a more accurate reflection of Basslink's depreciated actual cost.

Basslink's capex and opex forecasts are the other key drivers of revenue over 2026–30 period. We have proposed reductions to both areas of expenditure following our assessment of Basslink's revenue proposal.

Our draft decision also lowers the capex forecast from $99.0 million ($2024–25) to $95.8 million, a 3.2% reduction. This amount includes a placeholder for the replacement of the control and protection system ($81.9 million), where we consider there is insufficient information to make a decision on the prudency and efficiency of the replacement.

We did not include $1.6 million for program management and consultation, which is the estimated cost of preparing its regulatory proposal for the next regulatory period. This is because we do not consider these costs meet the definition of an asset. There were

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10 NER, cl 11.6.20(a) and (e).

11 Basslink initially proposed an opening asset value of $831 million based on depreciated actual cost. On 12 April 2024, Basslink submitted an amended depreciated actual cost estimate of $792 million, reflecting revisions to on the day cost of debt instead of a trailing average cost of debt, estimates of forecast and actual inflation, and removal of the ambient temperature cooling project from forecast capital expenditure. On 10 July 2024, Basslink submitted a further amended depreciated actual cost estimate of $813 million, updated to include additional forecast expenditure in 2024-25 for cable spares and repair vessel fit out costs. On 27 September 2024, Basslink submitted a further amended depreciated actual cost estimate of $752.78 million, reflecting their use of different asset lives for the 'cables' and 'overhead lines' asset classes.

components of the Physical Security and Natural Hazards proposal ($0.6 million) that were not justified by Basslink's risk assessment underpinning the proposed works.

Our draft decision reduces the opex forecast from the revised proposed amount of $118.9 million to $101.0 million (unless stated otherwise, all values are presented in $2025–26), a reduction of 15.1%. This is primarily due to our alternative estimate including a lower insurance forecast as a placeholder (-$17.7 million or -36.2%). Basslink's revealed and estimated insurance costs for 2023–24 and 2024–25 are significantly lower than originally forecast. We also did not agree with Basslink's choice of a high insurance premium and a lower deductible as this was not efficient, given the low cable failure rate. Basslink was unable to provide updated forecasts for the draft decision but has indicated that the updates will be applied for the revised proposal. We did not allow some components of the Security of Critical Infrastructure (SoCI) cyber step change (-$0.6 million or -17.4%) reflecting our draft decision that the security requirements can be met without additional expenditure. We updated the inflation forecasts and applied our standard approach to labour inflation and productivity. Basslink chose 2021-22 as its base year.

Basslink's total approved revenue cap of $428.8 million ($ nominal, smoothed) over the 2026–30 regulatory period is allocated to the Victorian and Tasmanian regions to be recovered by consumers in each region. To allocate approved revenue, Basslink included its inter-regional revenue allocation in its proposed pricing methodology.

Basslink proposed to allocate 75% of regulated revenue to the Victorian region and 25% to the Tasmanian region. This is a revised approach from Basslink's initial proposal of 90% to the Victorian region and 10% to the Tasmanian region. Basslink submitted that its revised allocation reflects consumer preferences based on its stakeholder engagement and is consistent with the NER.[12]

The allocation of revenue within a region does not form part of Basslink's pricing methodology given there is an appointed Co-ordinating Network Service Provider (CNSP) for each region.[13] Each TNSP must determine the revenue for its own transmission system assets which are used to provide prescribed transmission services within each region, and provide this calculation to the CNSP for each region.[14] As such, Basslink must determine the allocation of its revenue between the interconnected regions (Tasmania and Victoria), and the NER does not empower the AER to approve such as allocation. Consequently, we do not have a decision-making role in approving or rejecting a TNSP's revenue allocation for each region as part of the approving Basslink's pricing methodology.

In this draft decision document, we have set out the assessment approaches applied, and enquiries made as part of our review, which have enabled us to arrive at this draft decision. This draft decision is a key stage in our assessment of Basslink's proposal. Basslink now has the opportunity to respond in a revised proposal that incorporates the substance of the changes required by, and addresses matters raised in, this draft decision.

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12 APA, *Pricing Methodology – Update to Basslink Pty Ltd proposal*, October 2024.

13 NER, cl. 6A.29.1(a).

14 NER, cl. 6A.29.1A(a).

Contents

1 Our draft decision

Our draft decision would, if implemented, allow Basslink to recover a total revenue cap of $428.8 million ($ nominal, smoothed) from its consumers from 1 July 2026 to 30 June 2030.

In the sections below we outline what is driving Basslink's revenue, and the key differences between our draft decision revenue and the $442.9 million ($ nominal, smoothed) in Basslink's proposal.[15]

1.1 Key differences between our draft decision and Basslink's proposal

Our draft decision makes reductions to core components of Basslink's proposal which have led to a lower revenue outcome. For the 2026–30 period, the main areas of difference between our draft decision and Basslink's proposal are our reductions to:

- forecast capex, primarily driven by not including expenditure for program management and consultation (-$1.6 million) and components of the Physical Security and Natural Hazards proposal (-$0.6 million). We have included a placeholder for the replacement of the control and protection system ($81.9 million), where we consider there is insufficient information to make a decision on the prudency and efficiency of the replacement.
- forecast opex, primarily driven by a lower insurance forecast placeholder reflecting a more efficient, lower premium and higher deductible option forecast as a placeholder (-$17.7 million or -36.2%). We did not allow some components of the SoCI cyber step change (-$0.6 million or -17.4%) reflecting our decision that these security requirements could be met without additional expenditure.
- the opening value for Basslink's RAB $720.51 million ($2026-27), is $32.27 million less than the revised opening RAB value proposed by Basslink of $753 million ($2025-26). We have corrected a number of errors in Basslink's opening RAB calculation and determined alternative input values that we consider are a more accurate reflection of Basslink's depreciated actual cost.
- lower return on capital, driven primarily by our draft decision on a lower projected RAB over the 2026–30 period. This is partially offset by a higher rate of return.[16]
- higher regulatory depreciation, driven by our draft decision on establishing the opening RAB as at 1 July 2026. We have reallocated assets from the 'Cable' asset class to the 'Other' asset class, which has a shorter remaining life and hence resulted in an increase in straight-line depreciation. We also approve a lower opening value than proposed, resulting in a lower RAB indexation which increases regulatory depreciation (since indexation is deducted from straight-line depreciation).
- higher cost of corporate income tax, driven primarily by our draft decision on a higher regulatory depreciation amount. The higher regulatory depreciation amount increases the cost of corporate income tax as it is a component of taxable income.

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15 APA, *Basslink - PTRM – Post Conversion Decision v2,* August 2025.

16 Average rate of return over the 2026–30 period.

We also made updates in our draft decision to reflect movements in some market variables, such as expected inflation and rate of return, which have impacted revenue outcomes for certain building blocks.

1.2 Expected impact of our draft decision on electricity bills

Basslink's revenue will be recovered from Victorian and Tasmanian customers through Australian Energy Market Operator (AEMO) and TasNetworks as the respective CNSPs in the Victorian and Tasmanian regions in accordance with Basslink's pricing methodology. This revenue does not directly translate to changes in annual electricity bills, principally because Basslink is just one component of the broader transmission network that serves Victoria and Tasmania.

Transmission charges make up around 7% of a typical residential electricity bill and 6% for a small business in Tasmania,[17] while in Victoria it is 4% and 6% respectively.[18] Other components of the electricity supply chain—the cost of purchasing energy from the wholesale market, distribution network charges, environmental schemes and the costs and margins applied by electricity retailers in determining the prices they will charge consumers for supply—also contribute to the prices ultimately paid by consumers. These other components of a consumer's electricity bill sit outside the decision we are making here and will also continue to change throughout the period.

Under Basslink's proposed cost allocation, 75% of Basslink's revenue will be recovered from Victorian customers and the remaining 25% from Tasmanian customers. For Victorian customers, we consider this will add approximately 0.6% to the typical annual residential electricity bills and 0.9% to annual small business electricity bills. For Tasmanian customers, we consider it will add approximately 1.1% to the typical annual residential electricity bills and 1.0% to annual small business electricity bills.

For illustrative purposes only, we estimate the impact ($ nominal) of our draft decision on the transmission network component of the average annual electricity bill for a customer in Victoria, as it is today, would be:[19]

- for a residential customer, an increase of $10 in 2026–27, then stay relatively flat for the remaining 3 years
- for a small business customer, an increase of $28 in 2026–27, followed by increases of $1 per annum for the remaining 3 years.

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17 Office of the Tasmanian Economic Regulator, *Typical Electricity Customers in Tasmania – 2022*, September 2022.

18 AER analysis; Essential Services Commission, *Victorian Default Offer 2025–26: Final Decision Paper*, 21 May 2025.

19 The 2025–26 total electricity bills for residential customers and small business customers in Victoria are estimated to be $1,675 and $3,620 respectively, which are based on the averages of the Victorian Default Offers in the AusNet, CitiPower, Jemena, Powercor and United Energy networks. Essential Services Commission, *Victorian Default Offer 2025–26: Final Decision Paper*, 21 May 2025, pp 11–13.

Similarly, for illustrative purposes only, we estimate the impact ($ nominal) of our draft decision on the transmission network component of the average annual electricity bill for a customer in Tasmania, as it is today, would be:[20]

- for a residential customer, an increase of $22 in 2026–27, followed by increases of $1 per annum for the remaining 3 years
- for a small business customer, an increase of $26 in 2026–27, followed by increases of $1 per annum for the remaining 3 years.

Our estimated bill impacts for Victoria are based on the typical annual electricity usage of 4,000 kWh and 10,000 kWh for residential and small business customers, respectively.[21] Our estimated bill impacts for Tasmania are based on the typical annual electricity usage of 7,428 kWh and 8,782 kWh for residential and small business customers, respectively.[22] Therefore, customers with different usage will experience different changes in their bills. Our electricity bill analysis excludes the impact of settlement residue auction (SRA) revenues because of the uncertainty around these future amounts. We also note that there are other factors, such as metering, wholesale and retail costs, which affect electricity bills.

Basslink proposed to allocate 75% of regulated revenue to the Victorian region and 25% to Tasmanian region. This is a revised approach from Basslink's initial proposal of 90% to Victoria and 10% to Tasmania. Basslink submitted that its allocation methodology reflects consumer preferences based on its consumer engagement and is consistent with the NER.[23]

We do not have a decision-making role in approving or rejecting a TNSP's revenue allocation within a region as part of the approving Basslink's pricing methodology.

The allocation of revenue within a region does not form part of Basslink's pricing methodology given there is an appointed Co-ordinating Network Service Provider (CNSP) for each region.[24] Rather, the CNSP appointed for each region is responsible for allocating the total regional aggregate annual revenue requirement (AARR) (that is, the combined AARR for all the TNSPs within its NEM region) and in doing so, the CNSP must use the AARR allocation for the region as determined by each TNSP for its own assets.[25] This means that Basslink determines the allocation of its AARR. The Australian Energy Market Operator (AEMO) and TasNetworks are the Victorian and anticipated Tasmanian CNSPs, respectively. They would apply their pricing methodologies to determine the transmission prices to be charged for the purposes of recovering Basslink's (and other TNSPs') revenue in Victoria and Tasmania, respectively.

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20 The 2025–26 total electricity bills for residential customers and small business customers in Tasmania are estimated to be $2,173 and $2,886 respectively, which are based on estimates in our final decision for the 2024–29 regulatory control period. AER, *Final Decision – TasNetworks Electricity Transmission Determination 2024 to 2029, Attachment 1 – Maximum allowed revenue*, April 2024, p 13.

21 Essential Services Commission, *Victorian Default Offer 2024–25: Final Decision Paper*, 21 May 2025, pp 11, 13.

22 Office of the Tasmanian Economic Regulator, *Typical Electricity Customers in Tasmania – 2022*, September 2022, pp. 1–2.

23 APA, *Pricing Methodology – Update to Basslink Pty Ltd proposal*, October 2024.

24 NER, cl. 6A.29.1(a).

25 NER, cll. 6A.29.1A and 6A.29.2.

The AEMC recently amended the NER under a rule determination entitled 'Flexibility in the allocation of interconnector costs.'[26] The amendments to the NER provide an alternative mechanism which enables implementation of an interconnector cost allocation agreement between Ministers of interconnected regions. The commencement date for the final rule was 3 July 2025. In the event of an agreement between Ministers during the 2026−30 regulatory period, Basslink would need to submit a revised pricing methodology to the AER by 1 October to enable the agreed cost allocation agreement to apply from 1 July the following year. The allocation of Basslink's revenue would be amended to reflect any agreement.

[26] AEMC, *Providing flexibility in the allocation of interconnector costs*, October 2024

2 Basslink's consumer engagement

Consumer engagement during the regulatory process is an important way to provide us with supporting evidence that proposals have been aligned with consumer interests and expectations. We introduced guidance on our expectations for consumer engagement through our 'Better Resets Handbook' in December 2021.[27]

It is the responsibility of network businesses to ensure that consumer views are considered and represented in their regulatory proposals. Often consensus is not possible, in which case the views of the differing groups and how the network sought to make its decision should be reflected in its proposal. Our role is to consider the consumer engagement process and stakeholder submissions when making our various decisions.

2.1.1 Basslink's engagement on its proposal

In November 2022 Basslink established the independent Regulatory Reference Group (RRG) with a co-creation workshop held in December 2022. A further six meetings were held been January and September 2023 to support development of Basslink's regulatory proposal. Basslink engaged directly with consumers through a series of workshops and online focus groups, with key areas of discussion including cost allocation and proposed capex and opex.

Basslink has continued to consult with the RRG, Victorian and Tasmanian stakeholders following submission of the revenue proposal. In September 2024 Basslink submitted a revised approach to cost allocation and updated opening RAB value.[28] These changes were in response to key issues raised by consumers, including affordability and cost sharing between Victorian and Tasmanian consumers. Basslink noted stakeholder feedback found conversion of the Basslink interconnector was not unanimously supported, with affordability and cost sharing of significant interest. Given the opening RAB value is a key driver of regulated revenues and in response to stakeholder feedback, Basslink proposed a lower opening RAB value and a revised approach to cost allocation.

Our observation was that on balance Basslink's consumer engagement was broadly in line with expectations in the Handbook, noting the complexity of consulting across elements of both the revenue and conversion proposals. Basslink's consultations offered a reasonable reflection of issues that were subject to influence from consumers, notably cost allocation and proposed capex and opex. Further, we note Basslink's revised approach to cost allocation and updated opening RAB value were in part driven by consumer concerns over affordability.

We encourage Basslink to continue to engage with consumers and stakeholders and to continue to demonstrate how consumer and stakeholder feedback has been incorporated in the revised proposal.

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27 AER, *Better Resets Handbook – towards consumer-centric network proposals*, July 2024.

28 APA, *Pricing Methodology – Update to Basslink Pty Ltd proposal,* October 2024.

3 Key components of our draft decision on revenue

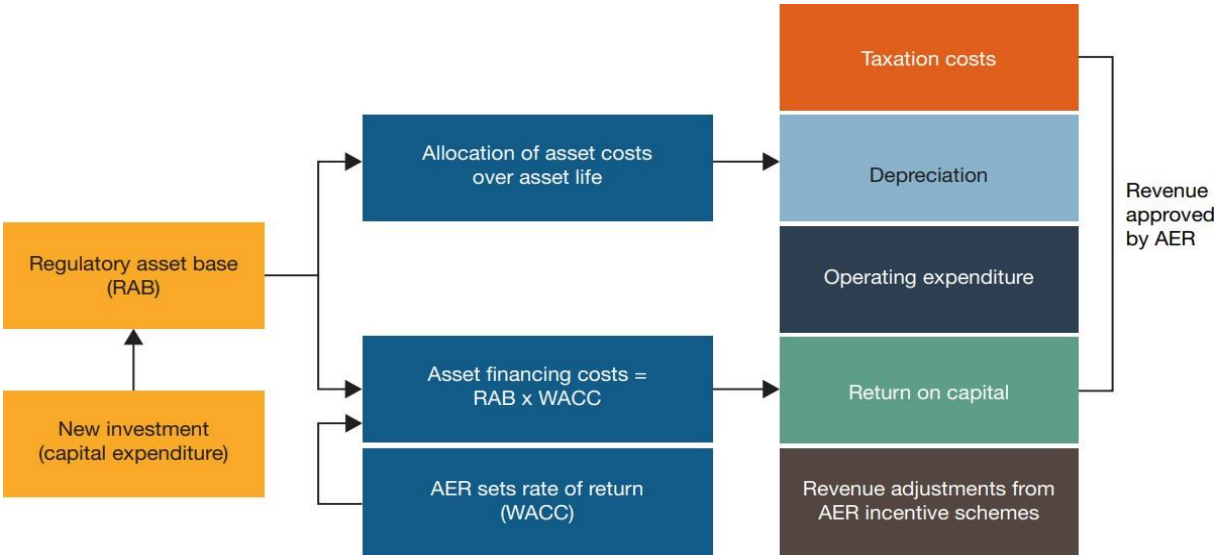
Building block approach

The foundation of our regulatory approach is a benchmark incentive framework to setting maximum revenues: once regulated revenues are set for a five-year period, a network that keeps its actual costs below the regulatory forecast of costs retains part of the benefit. This provides an incentive for service providers to become more efficient over time. It delivers benefits to consumers as efficient costs are revealed and drive lower cost benchmarks in subsequent regulatory periods. By only allowing efficient costs in our approved revenues, we promote achievement of the NEO and ensure consumers pay no more than necessary for the safe and reliable delivery of electricity.

Basslink's proposed revenue reflects its forecast of the efficient cost of providing transmission network services over the 2026–30 period. Its revenue proposal, and our assessment of it under the National Electricity Law and NER, are based on a 'building block' approach which looks at five cost components (see Figure 1):

- return on the RAB – or return on capital, to compensate investors for the opportunity cost of funds invested in this business
- depreciation of the RAB – or return of capital, to return the initial investment to investors over time
- forecast opex – the operating, maintenance and other non-capital expenses, incurred in the provision of network services
- revenue increments/decrements – resulting from the application of incentive schemes, such as the efficiency benefit sharing scheme (EBSS) and capital expenditure sharing scheme (CESS)
- estimated cost of corporate income tax.

Figure 1 The building block model to forecast network revenue



Source: AER.

3.1 Maximum allowed revenue

Our draft decision includes a determination of Basslink's annual building block revenue requirement (unsmoothed revenue) and annual MAR (smoothed revenue) across the 2026–30 period. The smoothed revenues we set in this draft decision are the amounts that are targeted for the provision of Basslink's prescribed transmission services for each year of the 2026–30 period.

The annual building block revenue requirement is the sum of the various building block costs for each year of the regulatory control period, which can be lumpy over the period. To minimise price shocks, revenues are smoothed within a regulatory control period while maintaining the principle of cost recovery under the building block approach. As such, revenue smoothing requires diverting some of the cost recovery to adjacent years within the regulatory control period.

We determine a total annual building block revenue requirement of $428.7 million ($ nominal, unsmoothed) for Basslink for the 2026–30 period. This is a reduction of $14.2 million or 3.2% compared to Basslink's proposal and reflects the impact of our draft decisions on the various building block costs.

We determine the annual expected MAR (smoothed) and X factor for each regulatory year of the 2026–30 period by smoothing the annual building block revenue requirement. Our draft decision approves an estimated total revenue cap (which is the sum of the annual expected MAR) of $428.8 million ($ nominal) for Basslink for the 2026–30 period. We approve X factors of zero for each of the regulatory years in 2027–28 to 2029–30.[29]

[29] Basslink is not required to apply an X factor for 2026–27 because we set the 2026–27 MAR in this decision.

Our draft decision on Basslink's transmission revenues for the 2026–30 period is set out in Table 1.

Table 1 Draft decision on Basslink's annual building block revenue requirement, annual expected MAR, estimated total revenue cap and X factor ($ million, nominal)

	2026–27	2027–28	2028–29	2029–30	Total
Return on capital	48.5	48.5	48.7	48.9	194.5
Regulatory depreciation[a]	26.0	27.6	28.9	30.3	112.9
Operating expenditure[b]	26.2	26.4	27.1	27.9	107.6
Revenue adjustments	0.0	0.0	0.0	0.0	0.0
Net tax amount	3.2	3.3	3.5	3.7	13.7
Annual building block revenue requirement (unsmoothed)	103.9	105.9	108.2	110.8	428.7
Annual expected MAR (smoothed)	**103.2**	**105.8**	**108.5**	**111.3**	**428.8[c]**
X factor (%)[d]	n/a[e]	–0.00%	–0.00%	–0.00%	n/a

Source: AER analysis.
(a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening RAB.
(b) Includes debt raising costs.
(c) The estimated total revenue cap is equal to the total annual expected MAR.
(d) The X factors will be revised to reflect the annual return on debt update. Under the CPI–X framework, the X factor measures the real rate of change in annual expected smoothed revenue from one year to the next. A negative X factor represents a real increase in revenue. Conversely, a positive X factor represents a real decrease in revenue.
(e) Basslink is not required to apply an X factor for 2026–27 because we set the 2026–27 MAR in this decision.

3.1.1 Annual revenue adjustment process

Appendix C sets out the annual revenue adjustment process that is applied to Basslink's MAR from the second year of the 2026–30 period.

3.1.2 X factor, annual expected MAR and estimated total revenue cap

The net present value (NPV) of the annual building block revenue requirement is $364.6 million as at 1 July 2026.[30] Based on this NPV and applying the CPI–X method, we determine the annual expected MARs (smoothed) for Basslink. We have set the MAR for the

[30] The PTRM must be such that the expected MAR for each year of the regulatory control period is equal to the NPV of the annual building block revenue requirement. NER, cl. 6A.5.3(c)(1).

first regulatory year (2026–27) at $103.2 million ($ nominal).[31] We then apply an expected inflation rate of 2.55% per annum and an X factor of zero for each regulatory year to determine the expected MARs in the remaining 3 years of the 2026–30 period (2027–28 to 2029–30).[32] We consider that our profile of X factors results in an expected MAR in the last year of the regulatory control period (2029–30) that is as close as reasonably possible to the annual building block revenue requirement for that year.[33]

In nominal terms, our draft decision provides for a MAR of $103.2 million in 2026–27, followed by average increases of 2.55% per annum over the subsequent 3 years to give a MAR of $111.3 million in 2029–30. The resulting estimated total revenue cap for Basslink is $428.8 million ($ nominal, smoothed) for the 2026–30 period.

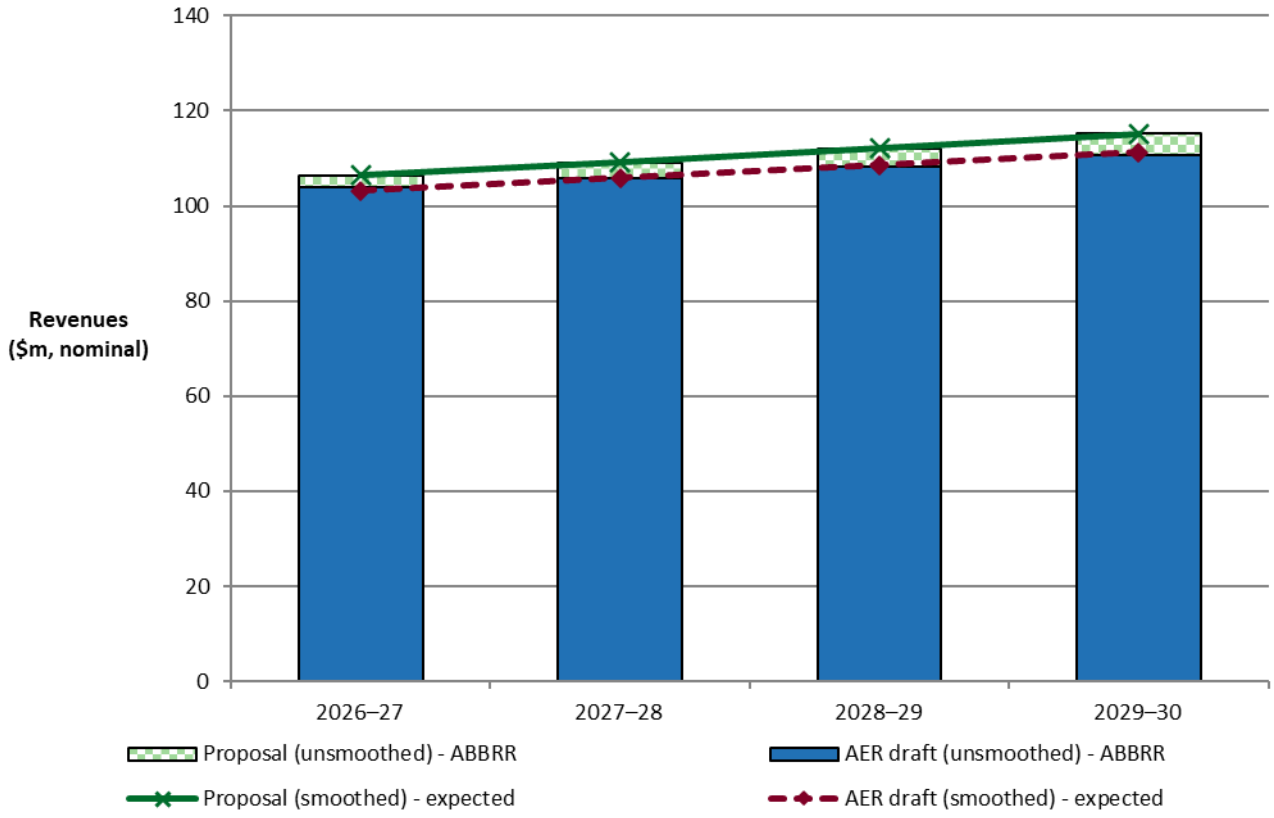
Figure 2 shows our draft decision on Basslink's annual expected MAR (smoothed revenue) and the annual building block revenue requirement (unsmoothed revenue) for the 2026–30 period.

31 Basslink is not required to apply an X factor for 2026–27 because we set the 2026–27 MAR in this decision.

32 Under cl. 6A.5.3(c)(3) of the NER, our PTRM must calculate the MAR for each regulatory year by escalating the MAR for the previous regulatory year using a CPI–X methodology.

33 Under cl. 6A.6.8(c)(2) of the NER, the X factor for each regulatory year must be such that the expected MAR for the last regulatory year is as close as possible to the annual building block revenue requirement for that year. We consider a divergence of up to 3% between the expected MAR and annual building block revenue requirement for the last year of the regulatory control period is appropriate, if this can achieve smoother price changes for users over the regulatory control period. In the present circumstances, based on the X factors we have determined for Basslink, this divergence is around 0.44%.

Figure 2 Draft decision on Basslink's revenue for 2026–30 period ($ million, nominal)



Source: AER analysis.
Note: Annual building block revenue requirement (ABBRR).

3.2 Regulatory asset base

The RAB accounts for the value of regulated assets over time. In a typical revenue determination, to set the value of the RAB for a new regulatory period, we take the opening value of the RAB from the end of the last period and roll it forward each year by indexing it for inflation, adding new capex and subtracting depreciation and other possible factors (such as disposals). This gives us a closing value for the RAB at the end of each year of the regulatory period. However, as Basslink is not a regulated TNSP there is no established RAB value to roll forward, consequently, we are required to determine the opening RAB value.

The value of the RAB is used to determine the return on capital and regulatory depreciation building blocks. It substantially impacts Basslink's revenue, and the price consumers ultimately pay. Other things being equal, a higher RAB would increase both the return on capital and regulatory depreciation components of the revenue determination.

3.2.1 Opening RAB as at 1 July 2026

For this draft decision, we determine an opening value for Basslink's RAB of $720.51 million ($2026-27) as at 1 July 2026.[34] The opening RAB is predominately constituted of the 'Cable' asset class (69% of the overall asset value).

Our draft decision opening RAB value of $720.51 million is $32.27 million less than the opening RAB value proposed by Basslink.[35] Our draft decision on the opening RAB value reflects a measure of Basslink's depreciated actual cost, and is estimated using the same methodology used by Basslink in its proposed value of depreciated actual cost. However, we have corrected a number of errors in the opening RAB calculation, and determined alternative input values that we consider are a more accurate reflection of Basslink's depreciated actual cost.

Basslink proposed an opening asset value as at 1 July 2026 of $752.8 million ($2025-26).[36] Basslink determined its proposed opening asset value by selecting the lower of depreciated actual cost, depreciated optimised replacement cost, and the benefits provided by the asset. This approach is consistent with the principles, objectives, and methodologies for determining the RAB applied in the previous conversion decisions for Murraylink (2003) and Directlink (2006) (previous regulatory approach).[37] We are required to apply the previous regulatory approach when determining Basslink's opening RAB value.[38]

Our draft decision on setting the opening RAB value, including the regulatory framework that applies to the decision and our reasoning, is set out in Attachment 1 of this decision.[39]

3.2.2 Forecast closing RAB as at 30 June 2030

Once we have determined the opening RAB as at 1 July 2026, we roll it forward by adding forecast capex and expected inflation, and reduce it by depreciation, to arrive at a forecast closing value as at the end of the 2026–30 period.[40]

Our draft decision determines a forecast closing RAB value at 30 June 2030 of $714.6 million ($ nominal) for Basslink. This is $55.2 million (7.2%) lower than Basslink's proposal of $769.8

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34 AER, *Basslink – Electricity Transmission Determination 2026 to 2030 – Attachment 1 – Opening Regulatory Asset Base*, September 2025, p 5.

35 The post-tax revenue model (PTRM) for Basslink's 2026–30 regulatory control period, published alongside our draft decision, presents our determination of the opening value and remaining lives at 1 July 2026 for each of Basslink's asset classes.

36 Basslink initially proposed an opening asset value of $831 million based on depreciated actual cost. On 12 April 2024, Basslink submitted an amended depreciated actual cost estimate of $792 million, reflecting revisions to on the day cost of debt instead of a trailing average cost of debt, estimates of forecast and actual inflation, and removal of the ambient temperature cooling project from forecast capital expenditure. On 10 July 2024, Basslink submitted a further amended depreciated actual cost estimate of $813 million, updated to include additional forecast expenditure in 2024-25 for cable spares and repair vessel fit out costs. On 27 September 2024, Basslink submitted a further amended depreciated actual cost estimate of $753 million, reflecting their use of different asset lives for the 'cables' and 'overhead lines' asset classes.

37 NER, cl. 11.6.20(a).

38 NER, cl. 11.6.20(e).

39 AER, *Basslink – Electricity Transmission Determination 2026 to 2030 – Attachment 1 – Opening Regulatory Asset Base*, September 2025.

40 NER, cl. S6A.2.4.

million. Our draft decision on the forecast closing RAB reflects our draft decision to reduce the opening RAB as at 1 July 2026, and our draft decisions on the expected inflation rate (section 3.3), forecast depreciation (section 3.4) and forecast capex (section 3.5).[41]

Table 2 sets out our draft decision on the forecast RAB for Basslink over the 2026–30 period.

Table 2 Draft decision on Basslink's RAB for the 2026–30 period ($ million, nominal)

	2026–27	2027–28	2028–29	2029–30
Opening RAB	720.5	719.8	723.0	725.9
Capital expenditure[a]	25.3	30.8	31.8	19.0
Inflation indexation on opening RAB	18.4	18.4	18.4	18.5
Less: straight-line depreciation[b]	44.3	46.0	47.4	48.8
Closing RAB	**719.8**	**723.0**	**725.9**	**714.6**

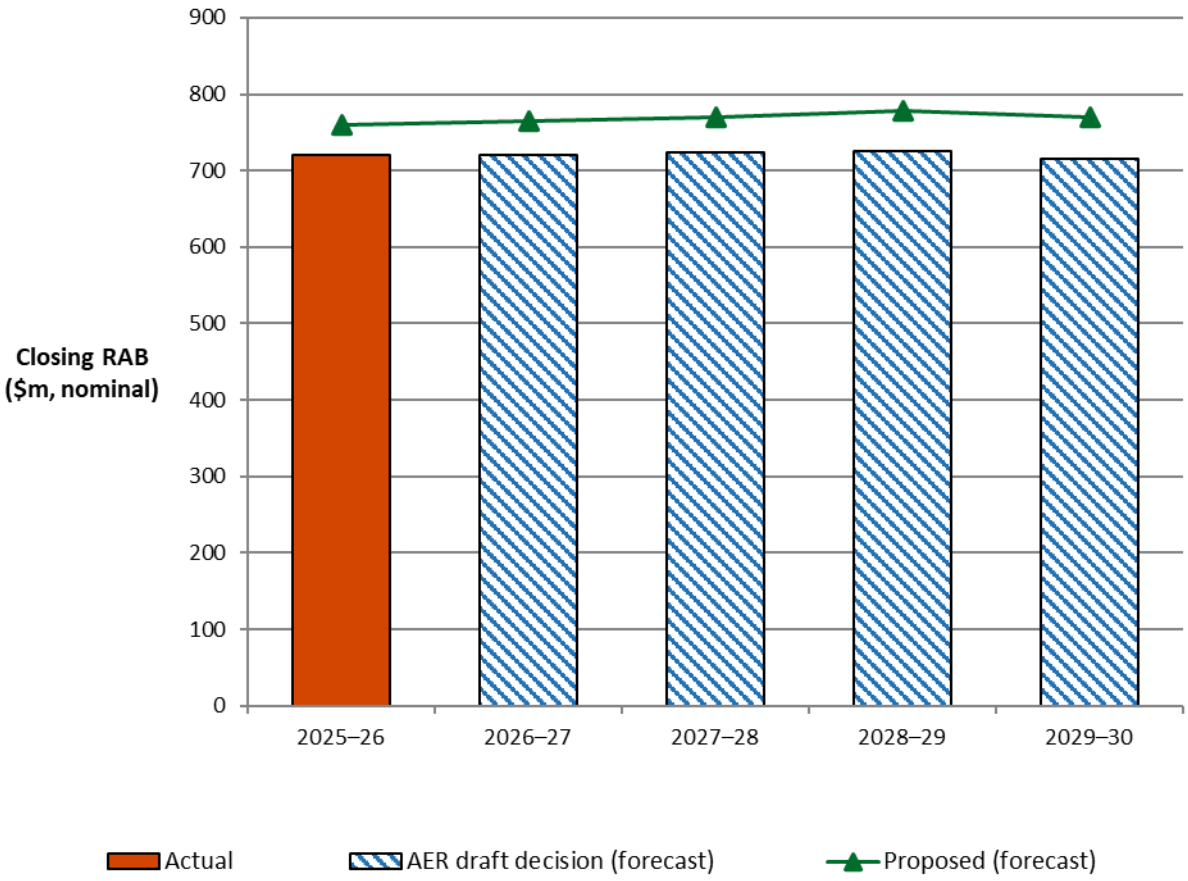
Source: AER analysis.
(a) As-incurred, and net of forecast disposals. In accordance with the timing assumptions of the post-tax revenue model (PTRM), the capex includes a half-year WACC allowance to compensate for the six-month period before capex is added to the RAB for revenue modelling.
(b) Based on as-commissioned capex.

Figure 3 shows the 2026–30 forecast RAB for Basslink's proposal and our draft decision, while Figure 4 shows the key drivers of change in our draft decision compared to its proposal. In nominal terms, our draft decision projects a reduction of $5.9 million (0.8%) to the RAB by the end of the 2026–30 period compared to the $7.5 million (1.0%) increase in Basslink's proposal. We have determined a projected closing RAB of $714.6 million ($ nominal) as at 30 June 2030, which is $55.2 million (7.2%) lower than Basslink's proposal of $769.8 million. This lower value is mainly due to our draft decision reduction to the opening RAB as at 1 July 2026 (discussed in section 3.2.1). Our draft decisions on a higher regulatory depreciation (section 3.4) and lower capex (section 3.5) also contribute to the lower closing RAB compared to Basslink's proposal.

In nominal terms, the closing RAB at the end of the 2026–30 period is forecast to be 0.8% lower than the opening RAB at the start of the period. Approved forecast net capex and expected inflation increase the RAB by 10.2% and 14.8%, respectively, while forecast depreciation reduces the RAB by 25.9%.

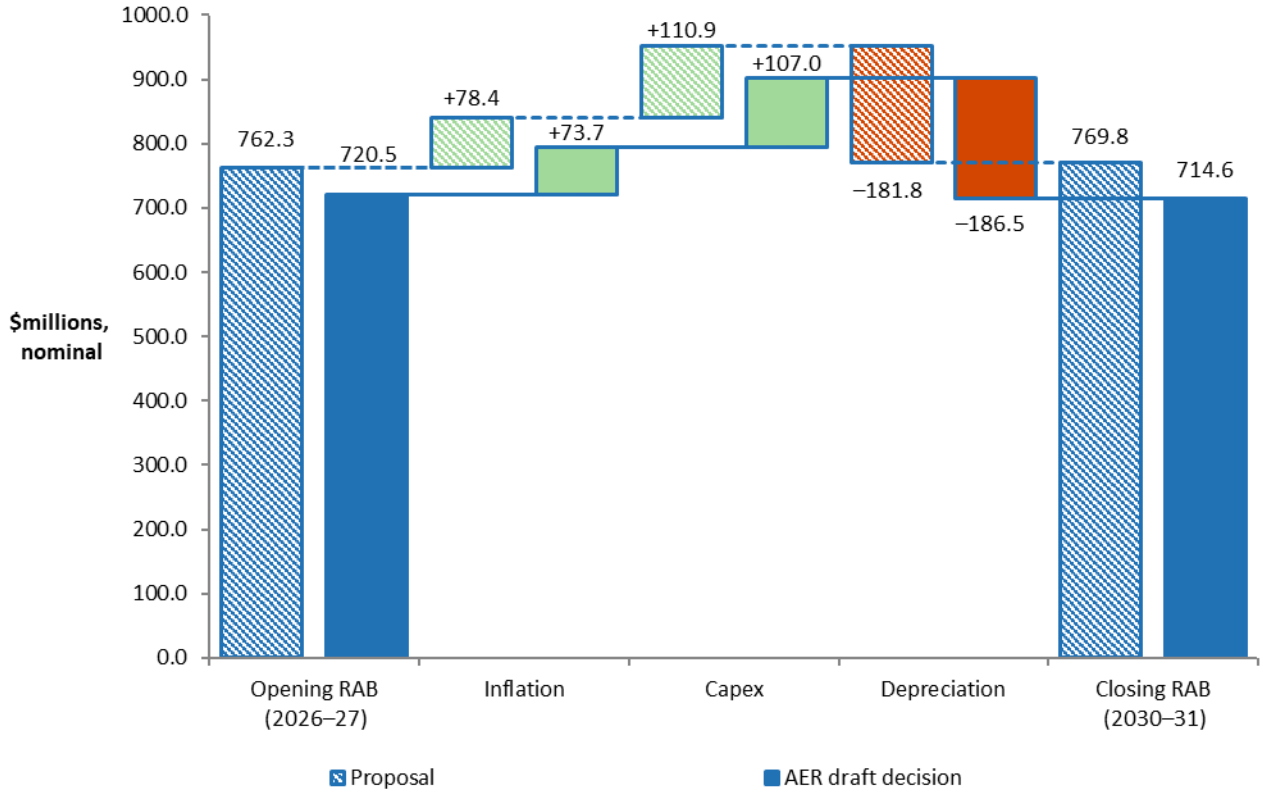
41 Capex enters the RAB net of forecast disposals. It includes equity raising costs (where relevant) and the half-year WACC to account for the timing assumptions in the PTRM. Therefore, our draft decision on the forecast RAB also reflects our amendments to the rate of return for the 2026–30 period (section 3.3).

Figure 3 Basslink's proposal and AER's draft decision 2026–30 forecast RAB ($ million, nominal)



Source: AER analysis.

Figure 4 Key drivers of change in the RAB over the 2026–30 period – proposal compared with AER's draft decision ($ million, nominal)



Source: AER analysis.
Note: Capex is net of forecast disposals. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

3.2.3 Application of depreciation approach in RAB roll forward for the 2030–35 revenue determination

When we roll forward Basslink's RAB for the 2026–30 period at the next (2030–35) revenue determination, we must adjust for depreciation. Our draft decision is to roll forward the RAB to establish Basslink's opening RAB at the commencement of the 2030–35 period using depreciation schedules (straight-line) based on forecast capex at the asset class level approved for the 2026–30 period.[42] This is consistent with Basslink's proposal to apply the forecast depreciation approach in the roll forward of its RAB for the commencement of the 2030–35 period.[43]

As discussed in section 4, we will also apply the CESS to Basslink for the 2026–30 period. We consider that the CESS will provide sufficient incentives for Basslink to achieve capex efficiency gains over that period. We are satisfied that the use of a forecast depreciation

[42] We must decide whether depreciation for establishing the RAB for the following regulatory control period is to be based on actual or forecast capital expenditure: NER, cl. 6A.14.1(5E).

[43] APA, *Basslink Transmission Revenue Proposal* , 15 September 2023, p 150.

approach in combination with the application of the CESS and our other ex-post capex measures are sufficient to achieve the capex incentive objective.[44]

3.3 Rate of return and value of imputation credits

The return each network business is to receive on its regulatory asset base (RAB), known as the 'return on capital', is a key driver of proposed revenues. We calculate the regulated return on capital by applying a rate of return to the value of the RAB.

We estimate the rate of return by combining the returns of the two sources of funds for investment: equity and debt. The allowed rate of return provides the network business with a return on capital to service the interest on its loans and give a return on equity to investors.

The estimate of the rate of return is important for promoting efficient prices in the long term interests of consumers. If the rate of return is set too low, the network business may not be able to attract sufficient funds to be able to make the required investments in the network and reliability may decline. Conversely, if the rate of return is set too high, the network business may seek to spend too much and consumers will pay inefficiently high tariffs.

We are required by the National Electricity Law (NEL) to apply the Rate of Return Instrument (Instrument) to estimate an allowed rate of return.[45]

In this draft decision, we have applied the 2022 Instrument to Basslink's proposal for the 2026–30 period and have estimated a placeholder allowed rate of return of 6.73% (nominal vanilla). This is higher than Basslink's proposed rate of return of 6.51% due to updates to the return on debt and the risk-free rate. The higher rate of return than proposed reflects financial market volatility which does not necessarily reflect movements in the cash rate. We will update the rate of return for our final decision.

Our calculated rate of return in Table 3 would apply to the first year of the 2026–30 period. A different rate of return may apply for the remaining regulatory years of the 2026–30 period. This is because we will update the return on debt component of the rate of return each year, in accordance with the 2022 Instrument.

Since this is Basslink's first regulatory determination, it will begin a transition period where its first year's return on debt will be estimated using the first year's averaging period. In subsequent years, only 10% of the return on debt will be calculated from the most recent averaging period and 90% from prior periods. We will update the estimate of the rate of return and expected inflation in our final decision.

Our draft decision also accepts Basslink's proposed risk-free rate averaging period and debt averaging periods because they comply with the conditions set out in the 2022 Instrument. We specify these periods in confidential Appendix E (which we have provided to directly to

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44 Our ex-post capex measures are set out in the capex incentives guideline, AER, *Capital expenditure incentive guideline for electricity network service providers*, April 2023, pp 13–21. The guideline also sets out how all our capex incentive measures are consistent with the capex incentive objective.

45 NEL, section 18H. The *2022 Rate of Return Instrument* was amended in March 2024. See the Rate of Return Instrument 2022.

the business only) and they will be used to update the risk-free rate and return on debt in the final decision.

Table 3 Draft decision on Basslink's rate of return (nominal)

	Basslink's proposal (2026–30)[a]	AER's draft decision (2026–30)	Allowed return over the regulatory control period
Nominal risk-free rate	4.18% [b]	4.36% [c]	
Market risk premium	6.20% [b]	6.20%	
Equity beta	0.6 [b]	0.6	
Return on equity (nominal post-tax)	7.90%	8.08%	Constant (%)
Return on debt (nominal pre-tax)	5.58%	5.83% [d]	Updated annually
Gearing	60%	60%	Constant (60%)
Nominal vanilla WACC	6.51%	6.73%	Updated annually for return on debt
Expected inflation	2.55%	2.55%	Constant (%)

Source: AER analysis; APA, *Basslink - Attachment 4.2 - PTRM - Updated*, October 2024.
(a) We use Basslink's WACC and the corresponding inputs from the second year of its original (5-year) proposal to represent the first year (i.e. 2026-27) of its revised (4-year) proposal in the table.
(b) Basslink's proposal did not provide a breakdown of the components used to calculate the return on equity, but Basslink did say they applied the 2022 Instrument. Therefore, we have assumed that it applied our benchmark values of 6.2% for market risk premium and 0.6 for equity beta. We also derived the risk-free rate based on these assumptions
(c) Calculated using a placeholder averaging period of 20 business days ending 31 July 2025.
(d) Calculated using Basslink's actual debt averaging period.

3.3.1 Debt and equity raising costs

In addition to providing for the required rate of return on debt and equity, we provide an allowance for the transaction costs associated with raising debt and equity. We include debt raising costs in the operating expenditure (opex) forecast because these are regular and ongoing costs which are likely to be incurred each time service providers refinance their debt. On the other hand, we include equity raising costs in the capital expenditure (capex) forecast because these costs are incurred once and would be associated with funding particular capital investments. Our approach to forecasting capital raising costs is set out in more detail in previous AER revenue determinations (for example, see 2024–29 Ausgrid Distribution Revenue Determination Draft Decision).[46]

[46] AER, *Draft Decision - Attachment 3 - Rate of Return - Ausgrid Electricity Distribution Determination 2024 to 2029*, September 2023, pp 4-6.

Basslink has proposed zero equity raising costs.[47] We have updated our estimate in this draft decision for the 2026–30 period based on the benchmark approach using updated inputs. This also results in zero equity raising costs.

Our draft decision applies a debt raising cost of 9.45 basis points per annum, which has been used to calculate the debt raising cost forecast set out in the opex attachment (attachment 3).[48]

3.3.2 Imputation credits

Our draft decision applies a value of imputation credits (gamma) of 0.57, as set out in the 2022 Instrument.[49] Basslink's proposal adopted the same value.[50]

3.3.3 Expected inflation

As set out in Table 4, our estimate of expected inflation for the 2026–30 period is 2.55%. It is an estimate of the average annual rate of inflation expected over a four-year period based on the outcome of our 2020 Inflation Review.[51] Basslink's proposal adopted our current approach for estimating expected inflation.[52]

Table 4 Draft decision on Basslink's forecast inflation (%)

	Year 1	Year 2	Year 3	Year 4	Geometric average
Expected inflation	2.60%	2.57%	2.53%	2.50%	2.55%

Source: AER Analysis; RBA, *Statement on Monetary Policy*, August 2025, Table 3.1: Forecast Table. See the Statement on Monetary Policy

Our draft decision uses the Reserve Bank of Australia's (RBA) August 2025 Statement on Monetary Policy which contains a consumer price index forecast for the year ending 30 June 2027. Thereafter, we apply a linear glide-path from year 1 to the mid-point of the RBA's inflation target band of 2.5% in year 4.

Figure 5 isolates the impact of expected inflation from other parts of our draft decision to illustrate its effect on the return on capital and regulatory depreciation building blocks, and the total revenue allowance. Where all other elements are held constant, lower expected inflation reduces the return on capital, but increases regulatory depreciation.

47 APA, *Basslink - Attachment 4.2 - PTRM - Updated*, October 2024.

48 AER, *Basslink – Electricity Transmission Determination 2026 to 2030 – Attachment 3 – Operating expenditure*, September 2025.

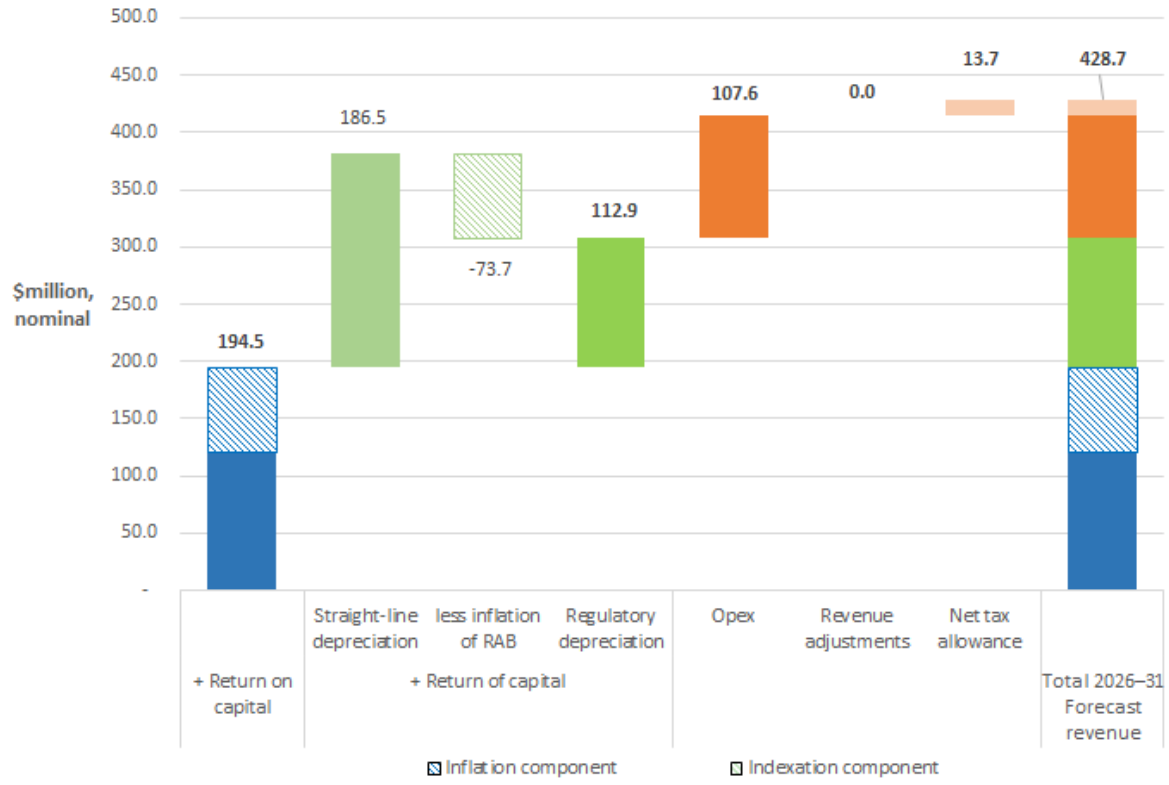
49 AER, *Rate of return Instrument (version 1.2)*, February 2023, cll. 27.

50 APA Group, *Basslink - Attachment 4.2 - PTRM - Updated*, October 2024.

51 AER, *Final position paper - Regulatory treatment of inflation*, December 2020.

52 APA Group, *Basslink - Attachment 4.2 - PTRM - Updated*, October 2024.

Figure 5 Inflation components in draft decision revenue building blocks ($ million, nominal, unsmoothed)



Source: AER analysis.

3.4 Regulatory depreciation

Depreciation is the amount provided so capital investors recover their investment over the economic life of the asset (return of capital). In deciding whether to approve the depreciation schedules submitted by Basslink, we make determinations on the indexation of the RAB and depreciation building blocks for Basslink's 2026–30 period.[53]

Our draft decision is to determine a regulatory depreciation amount of $112.9 million ($ nominal) for Basslink for the 2026–30 period. This is $9.5 million (9.2%) higher than Basslink's proposal of $103.4 million.[54] The key reasons for this increase are that as part of establishing the opening RAB as at 1 July 2026, we have reallocated some actual capex from the 'Cable' asset class to the 'Other' asset class, which has a shorter remaining asset life. Our draft decision to reduce the opening RAB as at 1 July 2026 also reduces the regulatory depreciation further due to lower indexation on the RAB.

The regulatory depreciation amount is the net total of the straight-line depreciation, less the inflation indexation of the RAB. Straight-line depreciation is impacted by our decision on

53 Under cll. 6A 5.4(a)(1) and (3) of the NER, indexation of the RAB and depreciation are specified as building blocks for a TNSP's annual revenue requirement.

54 APA, *Basslink - PTRM – Post Conversion Decision v2,* August 2025.

Basslink's opening RAB as at 1 July 2026,[55] forecast capex[56] and asset lives. Our draft decision straight-line depreciation for Basslink is $4.7 million higher than its proposal.

RAB indexation is impacted by our decision on Basslink's opening RAB,[57] forecast capex[58] and the expected inflation rate.[59] Our draft decision indexation on Basslink's forecast RAB is $4.7 million lower than its proposal, largely due to a lower opening RAB at 1 July 2026 compared to Basslink's proposal. This lower indexation contributes to further increase in regulatory depreciation (since indexation is deducted from the straight-line depreciation).

Table 5 sets out our draft decision on the forecast regulatory depreciation amount for Basslink over the 2026–30 period.

In coming to this draft decision on Basslink's regulatory depreciation, we accept the proposal on the following elements:

- straight-line method to calculate the regulatory depreciation
- application of the weighted average remaining life (WARL) approach to implement straight-line depreciation of existing assets
- asset classes and standard asset lives.

Table 5 Draft decision on Basslink's regulatory depreciation for the 2026–30 period ($ million, nominal)

	2026–27	2027–28	2028–29	2029–30	Total
Straight-line depreciation	44.3	46.0	47.4	48.8	186.5
Less: inflation indexation on opening RAB	18.4	18.4	18.4	18.5	73.7
Regulatory depreciation	**26.0**	**27.6**	**28.9**	**30.3**	**112.9**

Source: AER analysis.

3.4.1 Weighted average remaining life approach

For this draft decision, we accept Basslink's proposal to apply the WARL method as set out in the RFM to calculate the remaining asset lives at 1 July 2026. We consider this approach meets the requirements for determining depreciation under the NER.[60] In accepting the WARL method, we have updated Basslink's remaining asset lives to reflect our adjustments to the RFM (Attachment 2). This is because some of the inputs in the RFM, such as capex and actual inflation, affect the value of assets in the RAB and in turn, the calculation of the

55 See section 3.2.
56 See section 3.5.
57 See section 3.2.
58 See section 3.5.
59 See section 3.3.
60 NER, cl. 6A.6.3(b).

remaining asset lives as at 1 July 2026. Appendix D sets out our draft decision on Basslink's remaining asset lives as at 1 July 2026.

3.4.2 Standard asset lives

Our draft decision is to accept Basslink's proposed standard asset lives used to depreciate its forecast capex for the 2026–30 period. Accordingly, for the asset classes with forecast capex, we have accepted the proposed standard asset lives and this is reflected in our draft decision post-tax revenue model (PTRM). We have not assigned a standard asset life to those asset classes for which there is no forecast capex.

We are satisfied that:[61]

- the standard asset lives and depreciation approach more broadly would lead to a depreciation schedule that reflects the nature of the assets over the economic lives of the asset classes, and
- the sum of the real value of the depreciation attributable to the assets is equivalent to the value at which the assets are first included in the RAB for Basslink in this regulatory determination.

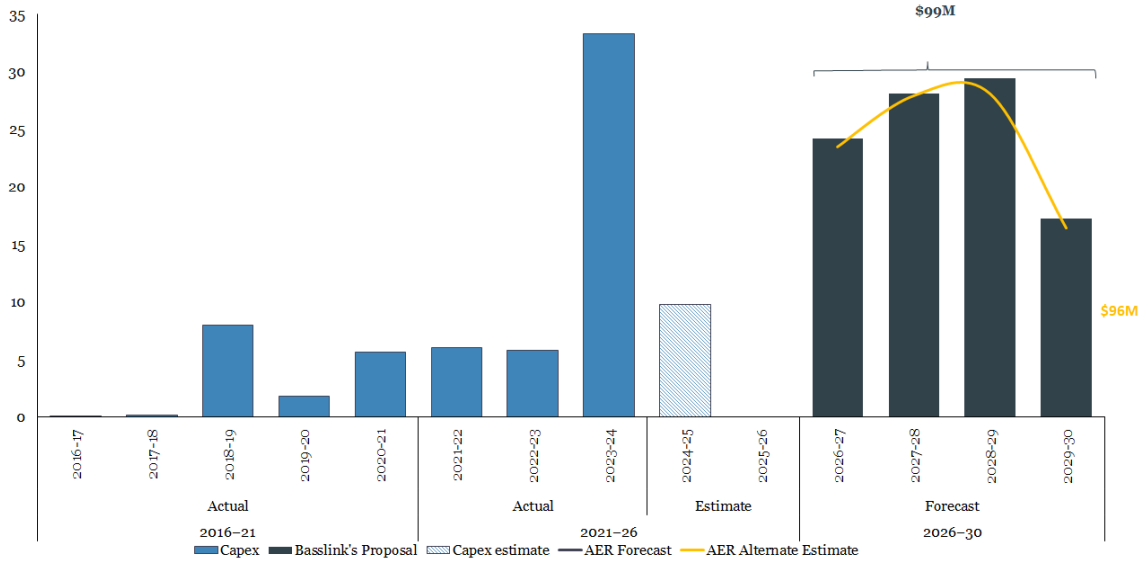
Appendix D sets out our draft decision on the standard asset lives for the 2026–30 period for Basslink.

3.5 Capital expenditure

Our draft decision is to approve capital expenditure (capex) of $95.8 million ($2024–25) for the 2026–30 period (see Figure 6 and Table 6 below). This is 3.2% lower than Basslink's proposed capex of $99.0 million. This amount includes a placeholder for the replacement of the Control and Protection System ($81.9 million), where we consider there is insufficient information to make a decision on the prudency and efficiency of the replacement.

[61] Under cll. 6A.6.3(b)(1) and (2) of the NER, we must be satisfied as to these matters when setting depreciation schedules.

Figure 6 Comparison of Basslink's past and forecast capex ($2024–25, millions)



Source: APA, *Basslink Forecast Capex Model – Update v.2 - Public.xls*, 25 July 2024; APA, *Basslink - Attachment 12 - Worksheet historical and forecast - 15 September 2023.xls*; AER analysis.

Table 6 AER Draft decision and Basslink proposed capex 2026–30 ($2024–25, millions)

Project	Basslink proposed capex	AER Draft Decision	Difference ($m)	Difference (%)
Control and protection system	82.6	81.9	-0.7	-0.8%
Other (DC Reactor refurbishment, spares, minor plant & equipment, program management)	3.9	2.2	-1.7	-44.0%
Subsea cable repair strategy	7.3	7.3	0.0	0.0%
SOCI	2.8	2.8	0.0	0.0%
Physical Security and Natural Hazards	1.7	1.0	-0.6	-37.4%
IT/OT	0.7	0.6	-0.1	-12.2%
Total capex	99.0	95.8	-3.1	-3.2%

Source: APA, Basslink Forecast Capex Model – Update v.2 - Public.xls, 25 July 2024.

Note: (a) The AER Draft Decision has zero labour escalation applied and has updated the CPI forecast. This explains the difference in some components eg. control and protection system, SoCI.
Numbers may not add up due to rounding.

The largest component of Basslink's capex proposal is replacement expenditure (93.8% of total capex). Its proposed capex is made up of: [62]

- $93.8 million for 'Stay In Business' projects, including
  - Replacement of the Control and Protection System (CPS) ($82.6 million); and
  - Other ($3.9 million), including DC Reactor refurbishment, allocations for spares and minor plant & equipment, and program management and consultation.
- $7.3 million for the Spare Subsea Cable, consisting of spare subsea cable and cable joining kits;
- $2.8 million for the Basslink allocation of the APA Group-wide costs to meet Security of Critical Infrastructure (SoCI) regulatory obligations;
- $1.7 million for the Physical Security and Natural Hazards proposal to improve security at the Loy Yang and George Town sites; and
- $0.7 million for information and operational technology (IT and OT). This includes both an allocation of APA Group-wide costs and Basslink specific expenditure.

Basslink originally included $10.2 million for repair vessel fit out, that is, fabrication of new cable repair and handling equipment to be installed in the next contracted repair vessel. Due to uncertainty about the timing of the new contract and the associated fit out costs, Basslink has indicated that it will propose a pass-through event for the recovery of these costs.

Basslink also initially included $7.0 million capex for Capability (Ambient Temperature Project).[63] It subsequently withdrew this project.

The reasons for our draft decision on our alternative capex forecast for each of these sub-components are set out below.

Replacement of the Control and Protection System ($81.9 million)

We have included $81.9 million[64] as a placeholder for Basslink's proposed Control and Protection System (CPS) expenditure. We have insufficient information to form a view on the prudency and efficiency of the latest proposal for replacing the CPS. We have asked Basslink to provide more information in its revised proposal following negotiations with potential suppliers.

Basslink initially proposed a total of $44.1 million for the replacement of Basslink's Human Machine Interface (HMI) and CPS over the 2025–30 period based on its experience with Murraylink and that of another HVDC operator.

Basslink updated its forecast to $87.7 million, of which $81.9 million is in the 2026–30 period. This forecast is based on a non-binding, class 4 estimate[65] for a replacement platform,

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62 APA, *Basslink Transmission Proposal: Attachment 7 – Forecast Capital Expenditure*, Table 7.1, 15 September 2023, p 155.

63 APA, *Basslink Transmission Proposal: Attachment 7 – Forecast Capital Expenditure*, 15 September 2023, pp 169-171.

64 Our amount is lower than the APA proposed amount due to our application of a lower rate of labour escalation compared that proposed by APA.

65 A class 4 estimate typically has an accuracy of between -30% and +50%.

including valve-based electronics, HMI/SCADA interfaces, and linked equipment including servers, printers, and other computer systems.

We examined whether refurbishment was an option as historically the CPS components have a low failure rate and Basslink has a holding of spares for the CPS. However, given these spares are now being run down, we consider that a partial or full replacement of the CPS is prudent.

We next considered the efficient timing of replacing the CPS and HMI. Basslink has indicated that Siemens is likely to have a replacement CPS platform available between 2030-32. Inquiries are also ongoing with other potential suppliers. Replacing the CPS before a new platform is developed risks early obsolescence. The evidence provided by Basslink suggests that retaining the existing CPS until a new platform is developed is prudent. The risks of CPS failure are low over the period given the low failure rates observed with the technology to date and estimates of the expected life. By contrast the potential gains from longevity of the replacement are likely to be significant. Similarly, we considered that early replacement of the HMI is not prudent given that Siemens spares, service and support are expected to be available until at least 2035-37. There is also no recommendation from Siemens for HMI replacement and it has a very low failure rate. Basslink has subsequently indicated that it will delay replacing the HMI until it replaces the CPS.

We also assessed whether a staged approach to replacement could be adopted. This is because essentially two CPS systems work in parallel, to provide the potential to cut across to the secondary system immediately in the event of a fault. We have asked Basslink to provide further information about this as a potential option in its revised proposal.

Removal of labour escalation

Basslink applied BIS Oxford's forecast wage price escalation to the labour component of two projects (DC Reactor refurbishment and replacement of the CPC). We did not apply the labour escalation as we do not apply it to external labour, on the basis that this is already priced into job quotes. Basslink did not provide a split of external compared with internal labour. It also did not justify applying the labour escalation to its internal costs.

Other stay in business ($2.2 million)

On the basis of the asset management documentation, we included the capex proposed by Basslink for the DC Reactor refurbishment. We reviewed the historical expenditure on spares and minor plant and equipment. The proposed expenditure for spares was in line with the historical expenditure. However, the historical data forming the basis for the minor plant and equipment forecast included items that were captured in other forecasts (eg. cable joining kits). Excluding these items resulted in a lower forecast. Basslink included capex for program management and consultation, which is for the preparation of its regulatory proposal for the next regulatory control period. We rejected it on the basis that these costs do not meet the definition of an asset.

Spare Subsea Cable ($7.3 million)

- Repair vessel fit out (to be proposed as a pass-through event)

Basslink maintains a contract which provides for access to a repair vessel in case it is needed to do a subsea cable repair on the Basslink interconnector. The contract for access to the repair vessel is renewed every five years. Due to conflicting availability of vessels in the region, a new vessel has been contracted every five years. Each vessel requires a bespoke fit out to manage the lifting of the cable from the sea bed and for repairs to be undertaken. Basslink initially proposed $9.8 million for pre-construction and, in the event it is required, the installation of this cable handling equipment on the vessel. However, there is uncertainty about the timing of the requirement for the new fit out due to boat contracts still being negotiated, and the extent of fit out equipment required due to the next boat being likely to incorporate some of the cable handling equipment when it is being built. Due to this uncertainty, Basslink has indicated that it will propose a pass-through event for the fit out of a repair vessel.

Increased holding of spare subsea cable ($7.3 million)

Initially Basslink did not propose any subsea cable capex as the manufacturer has a 7-year lead time. Basslink advised that a slot for acquiring cable has opened up for 2026-27 and that it is in its best interest to secure additional holdings of spare cable given the 7-10 year lead time, which would see a delay in cable provision till 2032-35.[66]

Basslink submitted that there is a 7% annual probability of a cable fault (based on Marsh' advice[67]), which is cumulative. Given the last cable fault was in 2019, this would result in a cumulative probability of 91% to 112% of a cable fault occurring (or 72% to 89%, applying actual fault data), before being able to access additional cable. Given this, we consider that it is prudent to acquire additional cable in this regulatory period.

Basslink also proposed additional capex for four spare rigid cable jointing kits. Basslink currently holds four spare flexible cable jointing kits, however Prysmium[68] is no longer training its staff in the use of flexible cable jointing kits. There is an 18-month lead time to secure cable jointing kits so Basslink considers it prudent to order these in advance of them being required for a cable repair. We consider that it is prudent to acquire the cable jointing kits as spares.

Physical Security and Natural Hazards ($1.0 million)

We reviewed the risk assessment and costs of the projects to improve security at the Loy Yang and George Town sites. We consider that the risk assessment provided by Basslink does not take into account Basslink's small perimeters operational environment and the existing controls which are already 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.

SoCI ($2.8 million)

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66 Basslink, Business Case: Marine Disaster Recovery Plan, 31 May 2024, p.5; Basslink, Response to Information Request 13, received 13 August 2025, p 7.

67 Marsh is Basslink's insurance consultant.

68 Prysmium is the cable manufacturer and provides cable repair services to Basslink.

Basslink proposed expenditure for four programs to enable Basslink to meet its regulatory obligation to maintain asset security. These programs are undertaken at an APA level, hence these are an allocation of the APA-wide costs based on Basslink's contribution to total APA revenue. We reviewed these programs and the allocation and consider it prudent and efficient to include the allocation in our alternative forecast.

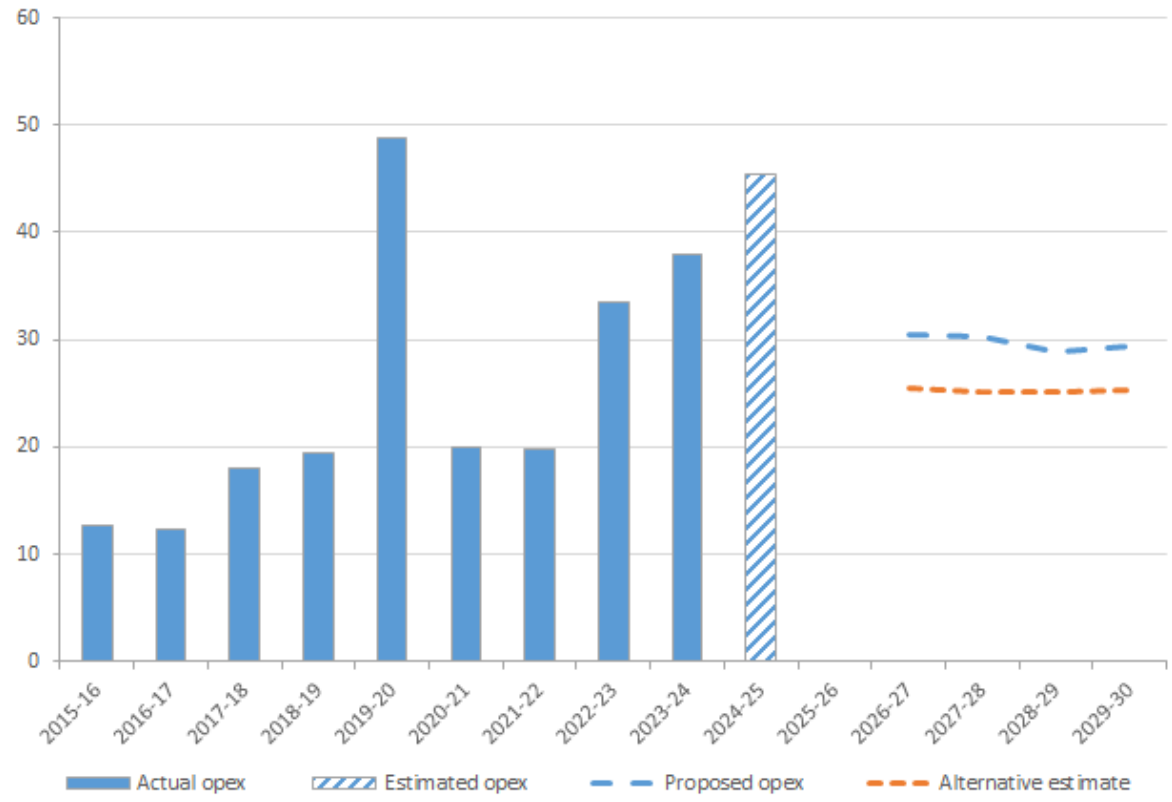
IT and OT ($0.6 million)

Basslink proposed hardware and software upgrades based on obsolescence or routine replacement. It also included an allocation of APA-wide costs for the IT/OT program being undertaken across all APA infrastructure assets. We reviewed the requirement for these programs and sought evidence from Basslink that it was more efficient for Basslink to come under the APA program rather than continuing on a stand alone basis. We were satisfied that the proposed expenditure was prudent and efficient except for video conferencing expenditure. We rejected this on the basis that the asset management documentation did not set out a replacement requirement for this.

3.6 Operating expenditure

Our draft decision is to include forecast operating expenditure (opex) of $101.0 million ($2025–26) for the 2026–30 period (see Figure 7 and Table 7). This is 15.1% lower than Basslink's proposed opex of $118.9 million.

Figure 7 Historical and forecast opex ($2025–26 million)



Source: APA, Basslink – Forecast Opex model – Updates v2 – Public.xlsx, 23 July 2024; APA, 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 7 Comparison of Basslink's proposal and our draft decision on opex ($2025–26, millions)

	Basslink Proposal	AER Draft Decision	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, Basslink – Forecast Opex model – Updates v2 – Public.xlsx, 23 July 2024; APA, 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.

In assessing Basslink's opex forecast for 2026–30 and deriving our alternative forecast we followed the steps below.

Basslink applied our 'base-step-trend' approach to forecast opex for the 2026–30 period.[69]

It used 2021–22 actual opex ($23.6 million ($2025-26) or $94.3 million across the four-year forecast period) and removed the insurance expenditure that was in the base year (-$13.4 million), and included insurance as a separate category specific forecast. We assess 2021-22 to be efficient on the basis that Basslink was operating as a market network service provider, under a commercial contract with Hydro Tasmania. As there was no incentive to overspend, we consider that the base year opex is efficient.

Basslink nominated 2021-22 as its base year. We applied labour price and productivity growth from the 2021-22 base year to derive carrying this through to the opex forecasts for 2026-27 to 2029-30. Our alternative opex estimates are slightly higher ($0.5 million) than Basslink's, primarily because we applied more recent labour cost data and adopted a lower partial productivity rate, reflecting our 2024 Annual Benchmarking Report's result.

Basslink proposed category specific forecasts for insurance, corporate opex, SoCI cyber, IT and OT ($72.2 million) and proposed a step change for the Frequency Protection System Protection Services ($4.0 million). We disagreed with Basslink's proposed classification of the corporate opex, SoCI cyber, IT and OT as category specific forecasts. We consider these should be base year adjustments, but due to insufficient time to determine the adjustment amount we have included these items as step changes, so that their costs are reflected in the price impacts. Each of the step changes is considered below.

For SoCI, Basslink included $3.4 million, which included an allocation of APA costs to Basslink for the group-wide security upgrades being undertaken. We included this allocation but rejected a component proposed by Basslink to upgrade security at the Basslink convertor and transition stations. We considered that the risk assessment provided by Basslink did not take into account Basslink's small perimeters and the existing controls which are in place. Our alternative step change forecast for SoCI costs is $2.8 million.

For IT and OT, Basslink included $8.6 million for the 2026–30 period for replacing obsolete hardware and software and for an allocation of the APA-wide IT and OT costs. We assessed the proposed programs and concluded that they are prudent and efficient and included Basslink's proposed amount in our alternative forecast.

Basslink proposed $11.3 million for corporate overheads. We included this amount in our alternative opex forecast after Basslink provided evidence that it was more cost efficient to provide APA services to Basslink than run Basslink as a stand alone enterprise.

Basslink proposed to treat insurance opex as a category specific forecast. While normally we consider that insurance forecasts should be included in the base year, as Basslink's insurance forecast accounts for 30.9% of total opex, we consider that it is appropriate that it is separately 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. We have included a lower insurance forecast ($31.2 million) as a placeholder in our opex forecast. This is because Basslink's

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69 APA, *Basslink Transmission Proposal*, Response to Information Request 05, received 17 July 2024: Basslink - Forecast Opex model - Updates v2.xlsx.

revealed and estimated insurance costs are significantly lower ($7.9 million in 2023-24 and $7.8 million in 2024-25) than originally forecast. We also did not adopt Basslink's choice of a high insurance premium and a low deductible (excess) given the low probability of cable failure, which reduces the proposed insurance costs by approximately $3 million annually. Basslink will provide updated forecasts of its insurance costs in its revised proposal.

Lastly, Basslink's forecast debt raising costs of $1.7 million, based on our forecasting method. We updated the forecast to $1.6 million, which reflects the updated RAB and inflation.

3.7 Corporate income tax

Our revenue determination includes the estimated cost of corporate income tax for Basslink's 2026–30 period. Under the post-tax framework, the cost of corporate income tax is calculated as part of the building block assessment using our PTRM.[70]

Our draft decision on Basslink's estimated cost of corporate income tax is $13.7 million ($ nominal) over the 2026–30 period. This represents an increase of $1.1 million (8.7%) from Basslink's proposal of $12.6 million.

The key reason for this increase is our draft decision on a higher regulatory depreciation amount.[71] Our draft decision on a lower tax depreciation also contributes to the increase.[72] This increase is partially offset by our draft decision on a lower return on equity[73].

Consistent with our draft decision on the opening RAB, we amend Basslink's opening tax asset base (TAB) value at 1 July 2026 to correct for some errors.

Our draft decision is to accept the majority of Basslink's proposed standard tax asset lives except for the 'Other' asset class.

Our draft decision also accepts Basslink's proposed:

- amount of forecast immediately expensed capex
- weighted average method to calculate the remaining tax asset lives at 1 July 2026.

Table 8 sets out our draft decision on the estimated cost of corporate income tax for Basslink over the 2026–30 period.

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70 NER, cl. 6A.5.4(a)(4).

71 See section 3.4. All else being equal, a higher regulatory depreciation amount will increase the cost of corporate income tax because it forms a component of the taxable income.

72 This amount is calculated in our PTRM based on the tax asset base and tax asset lives. All else being equal, a lower tax depreciation will increase the cost of corporate income tax because it is used as a deduction to arrive at the taxable income.

73 The lower return on equity amount is driven by reductions to the forecast RAB over the 2026–30 period (section 3.2.3). All else being equal, a lower return on equity amount will reduce the cost of corporate income tax because it is a component of the taxable income.

Table 8 Draft decision on Basslink's cost of corporate income tax for the 2026–30 period ($ million, nominal)

	2026–27	2027–28	2028–29	2029–30	Total
Tax payable	7.4	7.7	8.1	8.7	31.9
Less: value of imputation credits	4.2	4.4	4.6	4.9	18.2
Net corporate income tax allowance	**3.2**	**3.3**	**3.5**	**3.7**	**13.7**

Source: AER analysis.

3.7.1 Opening tax asset base as at 1 July 2026

For the reasons discussed in Attachment 2 we have accepted Basslink's proposed depreciated actual cost approach to calculate the opening RAB and we have applied this same approach for the TAB. However, similar to the opening RAB, we have amended the opening TAB to reflect some error corrections. We determine Basslink's opening TAB value as at 1 July 2026 to be $470.6 million ($ nominal). This represents a reduction of $28.8 million (4.8%) compared to its proposal of $499.4 million.

3.7.2 Forecast immediate expensing of capex

For this draft decision, we accept Basslink's proposed capex of $0.6 million ($2025–26) to be immediately expensed for tax purposes in the 2026–30 period.

We accept Basslink's proposed method to calculate its forecast of immediately expensed capex. This approach involves immediately expensing all of the capex for the 'spares' projects under the 'Switchyard components' asset class.

We will collect actual data relating to the immediate expensing of capex in our annual reporting regulatory information notices to further inform our decision for this type of expenditure in the next regulatory determination for Basslink.

3.7.3 Assets exempt from the diminishing value method

The PTRM applies the diminishing value method as the regulatory benchmark for tax depreciation to all new capex. However, there are some exceptions to this approach under the tax law such as assets relating to in-house software, buildings (capital works) and equity raising costs.[74]

Basslink proposed that its forecast capex associated with buildings (capital works) and in-house software for the 2026–30 period be exempted from the diminishing value tax depreciation method. We accept Basslink's proposal because the forecast capex satisfies

[74] Asset classes 47, 48, 49 and 50 in the PTRM provide for this.

the relevant definitions under the tax law.[75] Therefore, these assets will be depreciated using the straight-line method for tax purposes.

3.7.4 Standard and remaining tax asset lives

For this draft decision, we accept the majority of Basslink's proposed standard tax asset lives because they are broadly consistent with the tax asset lives prescribed by the Commissioner of Taxation in Australian Taxation Office (ATO) Taxation Ruling 2022/1.[76] However, we have amended the standard tax asset life for the 'Other' asset class. We have not assigned a standard tax asset life to those asset classes for which there is no forecast capex.

For the 'Other' asset class, we have reduced the standard tax asset life to be 5 years. Basslink proposed a standard tax asset life of 15 years to align with the life for 'other' asset type listed in the ATO's Taxation Ruling 2022/1. We also note Basslink proposed a standard asset life of 5 years for regulatory depreciation purposes for this asset class, which we have accepted because it reflects the economic life of the assets in that class.

Based on the forecast capex allocated to this 'Other' asset class, we note that the 'Cyber security' project, which comprises 43% of the forecast capex for this asset class, is capitalised IT. Historically, we have approved a standard tax asset life of approximately 5 years for IT systems asset classes.

We consider that the standard tax asset life for this particular asset class should not exceed its economic life. For our draft decision, we have therefore amended the standard tax asset life for the 'Other' asset class to be 5 years.

We accept Basslink's proposed weighted average method to calculate the remaining tax asset lives as at 1 July 2026. Basslink has applied the approach as set out in our RFM. We consider this approach meets the requirements for determining tax depreciation. In accepting the weighted average method, we have updated Basslink's remaining tax asset lives to reflect our adjustments to the RFM (Attachment 2). This is because some of the inputs in the RFM, such as capex and historical standard tax asset lives affect the value of assets in the TAB and in turn, the calculation of the remaining tax asset lives as at 1 July 2026.

Appendix D sets out our draft decision on the standard and remaining tax asset lives for Basslink. We are satisfied that these lives are appropriate for application over the 2026–30 period. We are also satisfied that they provide an estimate of the tax depreciation amount that would be consistent with the tax expenses used to estimate the annual taxable income for a benchmark efficient service provider.[77]

We note for Basslink's 2030–35 determination, the 'year-by-year' tracking method as set out in our depreciation module in the RFM should be used to calculate the tax depreciation of its

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75 ATO, *Taxation Ruling 2016/3*, October 2018; ATO, *Taxation Ruling 97/25*, July 2017; ITAA, section 995.1; ITAA, section 43.20.

76 ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*, June 2022.

77 This reflects the requirement in cl. 6A.6.4 of the NER.

existing assets as at 1 July 2030.[78] This change is required as a result of implementing the diminishing value tax depreciation method for capex in the 2026–30 period.[79]

[78] Under this approach, the capex for each year of a regulatory control period is depreciated individually for tax purposes. It will result in each tax asset class having an expanding list of sub-assets to reflect the regulatory year in which capital expenditures on those assets occurred.

[79] AER, *Final decision, Electricity transmission and distribution network service providers, Proposed amendments to the roll forward models (Distribution – version 3) (Transmission – version 4),* April 2020, pp 8, 11.

4 Incentive schemes

Incentive schemes are a component of incentive-based regulation and complement our approach to assessing efficient costs. They provide important balancing incentives under network determinations, encouraging businesses to pursue expenditure efficiencies while maintaining the reliability and overall performance of its network. Our draft decision is that the following incentive schemes will apply to Basslink in the 2026–30 period:

- Efficiency benefit sharing scheme (EBSS). This provides a continuous incentive to pursue efficiency improvements in opex and provide for a fair sharing of these between Basslink and network users. Consumers benefit from improved efficiencies through lower opex in regulated revenues for future periods.
- Capital expenditure sharing scheme (CESS). This incentivises efficient capex throughout the period by rewarding efficiency gains and penalising inefficiency each measured by reference to the difference between forecast and actual capex. Consumers benefit from improved efficiencies through a lower RAB, which is reflected in regulated revenues in future periods.

We propose to not apply the service target performance incentive scheme (STPIS).

- The service target performance incentive scheme (STPIS) balances incentives to reduce expenditure with the need to maintain or improve service quality, by providing financial incentives to maintain and improve service performance where consumers are willing to pay for these improvements. Once improvements are made, consumers benefit as the benchmark performance targets will be tightened in future years.

Our draft decision on the application of these schemes and allowances is set out in Attachments 4-6 of this draft decision.

Efficiency benefit sharing scheme (EBSS)

Basslink proposed not to apply the EBSS for the 2026–30 regulatory control period on the basis that opex is difficult to forecast due to significant uncertainty on future opex because of changes in Basslink's operating environment. Basslink submitted this would result in uncertain outcomes rather than incentives on the business. Basslink further submitted that the EBSS be applied from the 2030–35 regulatory control period onward. Our reasons for proposing to apply the EBSS for the 2026–30 regulatory control period are as follows:

- Our opex forecasts are reasonably likely to reflect prudent and efficient costs having regard to the changes in Basslink's operating environment such that we propose to apply the EBSS. This will provide continuous incentives for Basslink to minimise costs over the regulatory period.
- The absence of an EBSS limits incentives for cost efficiencies in the 2026–30 regulatory period and so reduces confidence that actual opex for the purposes of determining the forecast opex in the 2030–35 regulatory period will reflect prudent and efficient costs.

Capital expenditure sharing scheme

Basslink proposed to apply the CESS in the 2026–30 regulatory period. We propose to accept Basslink's proposal. This will provide constant incentives for Basslink to incur efficient capital expenditure over the regulatory period.

Service target performance incentive scheme (STPIS)

Basslink proposed not to apply the Service Component (SC) of the STPIS in the 2026–30 regulatory period. However, Basslink proposed to provide the AER with information on relevant SC parameter values during the 2026–30 regulatory period to enable the AER to set target values for these SC parameters in the next regulatory period. Basslink proposed to apply the Network Capability Component (NCC) and the Market Impact Component (MIC) for the 2026–30 regulatory control period.

Our draft decision is to not apply the STPIS to Basslink for the 2026–30 regulatory control period. We consider the NCC could not meaningfully apply to Basslink. There are limited opportunities to identify low-cost high-value NCC projects because Basslink has limited connection points and is not a meshed network. This is consistent with Basslink's proposal which did not identify any NCC projects for 2026–30. It is also consistent with the current STPIS, which excludes other interconnectors from the NCC.

Version 6 of the STPIS published in April 2025 (the version of the STPIS currently in force) suspended the application of the MIC.[80]

For the SC, the historical data needed to set the parameter values is not available. Consistent with Basslink's proposal, we propose to collect data from Basslink relevant to the SC over the 2026–30 regulatory period. The information collected in the 2026–30 regulatory period will enable the AER to set target parameter values for the relevant SC parameters in the 2030–35 regulatory period should the AER decide to apply the STPIS at the next determination.

Demand management innovation allowance mechanism (DMIAM)

Basslink has not proposed to apply the Demand Management Innovation Allowance Mechanism (DMIAM), and our draft decision is that the DMIAM will not apply. We consider that there is limited utility to energy users from Basslink undertaking demand management initiatives through the DMIAM.

[80] AER, *Electricity Transmission Service Target Performance Incentive Scheme Version 6*, April 2025.

A Constituent decisions

Our draft decision on Basslink's transmission determination for the 2026–30 regulatory control period includes the following constituent components:

Constituent component
In accordance with clause 6A.14.1(1)(i) of the NER, the AER's draft decision is not to approve the total revenue cap set out in Basslink's building block proposal. Our decision on Basslink's total revenue cap is $428.8 million ($ nominal, smoothed) for the 2026–30 regulatory control period. This is set out in section 3.1 of this Overview document.
In accordance with clause 6A.14.1(1)(ii) of the NER, the AER's draft decision is not to approve the maximum allowed revenue (MAR) for each regulatory year of the 2026–30 regulatory control period set out in Basslink's building block proposal. Our decision on Basslink's MAR for each year of the 2026–30 regulatory control period is set out in section 3.1 of this Overview document.
In accordance with clause 6A.14.1(1)(iii) of the NER, the AER's draft decision is to not apply Version 6 of the service target performance incentive scheme (STPIS) to Basslink for the 2026–30 regulatory control period.
In accordance with clause 6A.14.1(1)(iv) of the NER, the AER's draft decision on the values that are to be attributed to the parameters for the efficiency benefit sharing scheme (EBSS) that will apply to Basslink in respect of the 2026–30 regulatory control period are set out in Attachment 4 of this draft decision.
In accordance with clause 6A.14.1(1)(v) of the NER, the AER's draft decision is to not approve the commencement and length of the regulatory control period as Basslink proposed in its revenue proposal. The amended regulatory control period will commence on 1 July 2026 and the length of this period is four years, expiring on 30 June 2030.
In accordance with clause 6A.14.1(2)(ii) of the NER and acting in accordance with clause 6A.6.7(d), the AER's draft decision is to not accept Basslink's proposed total forecast capital expenditure of $99.0 million ($2024-25). Our draft decision therefore includes an alternative total forecast capital expenditure of $95.8 million ($2024-25) for the 2026–30 regulatory control period. The reasons for our draft decision are set out in Attachment 2 of this draft decision.
In accordance with clause 6A.14.1(3)(ii) of the NER and acting in accordance with clause 6A.6.6(d), the AER's draft decision is to not accept Basslink's proposed total forecast operating expenditure inclusive of debt raising costs of $118.9 million ($2024–25). Our draft decision therefore includes an alternative estimate of $101.0 million ($2024–25) including debt raising costs. The reasons for our draft decision are set out in Attachment 3 of this draft decision.

Constituent component
Basslink did not propose any contingent projects and therefore the AER has not made a draft decision under clause 6A.14.1(4) of the NER.
As Basslink's assets do not form part of an actionable ISP project, the AER has not made a draft decision under clause 6A.14.1(5) of the NER.
In accordance with clause 6A.14.1(5A) of the NER, the AER's draft decision is that the capital expenditure sharing scheme (CESS) as set out in the 2025 Capital Expenditure Incentives Guideline will apply to Basslink in the 2026–30 regulatory control period. The reasons for our draft decision are set out in Attachment 5 of this draft decision.
In accordance with clause 6A.14.1(5A) of the NER, the AER's draft decision is that the demand management innovation allowance mechanism (DMIAM) for electricity transmission networks will not apply to Basslink in the 2026–30 regulatory control period.
In accordance with clause 6A.14.1(5B) of the NER and the 2022 Rate of Return Instrument, the AER's draft decision is that the allowed rate of return for the 2026–27 regulatory year is 6.73% (nominal vanilla), as set out in section 3.3 of this Overview document. The rate of return for the remaining regulatory years of the 2026–30 period will be updated annually because our decision is to apply a trailing average portfolio approach to estimating debt which incorporates annual updating of the allowed return on debt.
In accordance with clause 6A.14.1(5C) of the NER and the 2022 Rate of Return Instrument, the AER's draft decision on the value of imputation credits is to adopt a value of 0.57. This is set out in section 3.3.2 of this Overview document.
In accordance with clauses 6A.14.1(5D) of the NER, the AER's draft decision, in accordance with clause 11.6.20, is that the opening regulatory asset base (RAB) as at the commencement of the 2026–30 regulatory control period, being 1 July 2026, is $720.51 million ($2026–27). The reasons for our draft decision are set out in Attachment 1 of this draft decision.
In accordance with clause 6A.14.1(5E) of the NER, the AER's draft decision is that the depreciation approach to be used to establish the RAB at the commencement of Basslink's regulatory control period as at 1 July 2030 is to be based on forecast capex (forecast depreciation). The reasons for our draft decision are set out in section 3.2 of this Overview document.
In accordance with clause 6A.14.1(8) of the NER, the AER's draft decision is to not approve Basslink's current proposed pricing methodology for the 2026–30 regulatory control period. The reasons for our draft decision are set out in Attachment 7 of this draft decision.

Constituent component
In accordance with clause 6A.14.1(9) of the NER, the AER's draft decision is to apply the following nominated pass through events to Basslink for the 2026–30 regulatory control period in accordance with clause 6A.6.9: • Insurance coverage event • Insurer's credit risk event • Terrorism event • Natural disaster event Our draft decision does not accept Basslink's proposed Renewable Energy Zone (REZ) design report event or offshore project assessment event. The definitions of these events and the reasons for our draft decision are set out in Attachment 9 of this draft decision.
By virtue of clause 11.98.8 of the NER, the changes to Chapter 6A made by the National Electricity Amendment (Transmission Connection and Planning Arrangements) Rule 2017 (2017 rule change) do not apply in Victoria. This means the provisions regarding negotiating frameworks and the Negotiated Transmission Services Criteria in version 109 of the NER continue to apply in Victoria. Under clauses 6A.2.2(3) and 6A.14.1(6) of the NER as applicable in Victoria, the AER's draft decision is to approve Basslink's proposed negotiating framework submitted on 20 October 2023. The reasons for this decision are set out in Attachment 8 of this draft decision.
By virtue of clause 11.98.8 of the NER, the provisions for negotiated transmission services in version 109 of the NER continue to apply in Victoria. In accordance with clause 6A.14.1(7) of the NER as applicable in Victoria, the negotiated transmission services criteria for Basslink are those specified in Attachment 8 of this draft decision.

B List of submissions

We received eight submissions in response to our Issues Paper.

Submission from	Date received
TasNetworks	9 February 2024
Tasmanian Government	13 February 2024
Tasmania Mineral and Energy Council (TMEC)	15 February 2024
Hydro Tasmania	16 February 2024
AEMO	19 February 2024
Aurora Energy	19 February 2024
APA	21 February 2024
Victorian Government	29 February 2024

We received three submissions in response to our June 2025 Consultation Paper[81] on amendments to the Basslink Commencement and Process Paper.

Submission from	Date received
APA	10 July 2025
Hydro Tasmania	11 July 2025
TMEC	10 July 2025

[81] AER, *Basslink Consultation Paper – Commencement and Process Paper Amendment*, June 2025.

C Annual revenue adjustment process

We use an expected inflation rate in our post-tax revenue model (PTRM) to calculate the expected MAR (as shown in Table 1) in nominal dollar terms. The calculation of the actual annual MAR will therefore require an adjustment for actual inflation. To this end, the actual MAR from the second year onwards is adjusted for actual inflation. As discussed in the *Rate of return instrument*, the MAR is also subject to adjustment to reflect our update of Basslink's return on debt annually.[82] This means the actual MAR from the second year onwards will be adjusted for revised X factors after the annual return on debt update. The method of this annual revenue adjustment process is set out below.

To enable the formula for the annual revenue adjustment process to operate correctly, we will refer to the expected MAR determined in this decision using the building block costs as the allowed revenue (AR). This is because the expected MAR determined using the building block costs does not incorporate performance incentive scheme revenue adjustments and pass through amounts that may apply to each regulatory year.

We determine the 2026–27 AR of $103.2 million for Basslink. Basslink then applies an annual adjustment to determine its AR for each subsequent year of the 2026–30 regulatory control period, based on the previous year's AR and using the CPI–X methodology.[83] That is, the subsequent year's AR is determined by adjusting the previous year's AR for actual inflation and the X factor determined after the annual return on debt update:

$$AR_t = AR_{t-1} \times (1 + \Delta CPI) \times (1 - X_t)$$

where:

AR = the allowed revenue

t = time period/financial year (for t = 2 (2027–28), 3 (2028–29), 4 (2029–30))

ΔCPI = the annual percentage change in the ABS Consumer price index all groups, weighted average of eight capital cities from December in year t – 2 to December in year t – 1

X = the smoothing factor determined in accordance with the PTRM as approved in the AER's final decision, and annually revised for the return on debt update in accordance with the formula specified in the *Rate of*

82 AER, *Rate of return instrument*, February 2023, cl. 24, note 29.

83 In the case of making the annual adjustment for year 2, the previous year's AR would be the same as the approved expected MAR for year 1 as contained in the PTRM.

return instrument calculated for the relevant year.[84]

The MAR used for transmission pricing is determined annually as part of the annual revenue adjustment process in accordance with the National Electricity Rules (NER). The MAR is determined each year by adding to (or deducting from) the allowed revenue:[85]

- the service target performance incentive scheme revenue increment (or revenue decrement)
- any approved pass through amounts
- any concessional finance adjustment amounts.

The annual MAR is established according to the following formula:

$$MAR_t = \text{(allowed revenue)} + \text{(performance incentive)} + \text{(pass through)} + \text{concessional finance adjustment}$$

$$= AR_t + ((AR_{t-2} \times ½) + (AR_{t-1} \times ½)) \times S_{ct} + P_t + CFA_t$$

where:

MAR	=	the maximum allowed revenue
AR	=	the allowed revenue
S	=	the percentage revenue increment or decrement determined in accordance with the service target performance incentive scheme
P	=	the pass through amount (positive or negative) that the AER has determined in accordance with clauses 6A.7.2 and 6A.7.3 of the NER
CFA	=	the concessional finance adjustment amount (negative) that the AER has determined in accordance with clauses 6A.3.3 and 6A.7.7 of the NER
t	=	time period/financial year (for *t* = 2 (2027–28), 3 (2028–29), 4 (2029–30))
ct	=	time period/calendar year (for *t* = 2 (2026), 3 (2027), 4 (2028)).

Basslink may also adjust the MAR for under- or over-recovery amounts. That is, if the revenue amounts earned from providing prescribed transmission services in previous regulatory years are higher or lower than the sum of the approved MAR for those years, the difference can be included in the subsequent year's MAR. In

[84] AER, *Rate of return instrument*, February 2023, cl. 9.

[85] NER, 6A.3.2.

the case of an under-recovery, the amount is added to the subsequent year's MAR. In the case of an over-recovery, the amount is subtracted from the subsequent year's MAR.

Table C.1 sets out the timing of the annual calculation of the AR and performance incentive.

Table C.1 Timing of the calculation of allowed revenues and the performance incentive for Basslink

t	Allowed revenue (financial year)	*ct*	Performance incentive (calendar year)
2	1 July 2027 – 30 June 2028	2	(1 January 2026 – 31 December 2026)/2
3	1 July 2028 – 30 June 2029	3	1 January 2027 – 31 December 2027
4	1 July 2029 – 30 June 2030	4	1 January 2028 – 31 December 2028

D Asset lives

Table D AER's draft decision on Basslink's asset lives for the 2026–30 regulatory control period (years)

Asset class	Standard asset life	Remaining asset life at 1 July 2026	Standard tax asset life	Remaining tax asset life at 1 July 2026
AC filters	n/a	10.0	n/a	15.0
AC switchyard	n/a	26.1	n/a	27.3
Auxiliary systems	n/a	10.8	n/a	20.9
Cable	40	20.8	40	21.3
Control system	20	20.0	15	15.0
Converter transformer	n/a	6.2	n/a	7.4
DC filter	n/a	0.0	n/a	0.0
DC switchyard	n/a	23.6	n/a	24.0
Easement	n/a	n/a	n/a	n/a
Freehold land	n/a	n/a	n/a	n/a
Measuring devices	n/a	0.0	n/a	0.0
Motor vehicles	n/a	2.0	n/a	9.8
Other	5	4.7	5	14.6
Overhead lines	n/a	20.0	n/a	20.0
Smoothing reactor	35	15.0	25	5.0
Station power supply	n/a	13.0	n/a	20.2
Switchyard components	40	20.4	40	20.7
Valve cooling	n/a	11.0	n/a	13.0
Valve hall	n/a	20.3	n/a	10.7
Building installation	40	21.9	40	23.0
In-house software	5	4.9	5	4.9
Equity raising costs	n/a	n/a	n/a	n/a

Source: AER analysis.
n/a: not applicable. We have not assigned a standard asset life to the majority of Basslink's asset classes as there is no forecast capex allocated to them.

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Capex	Capital expenditure
CESS	Capital expenditure sharing scheme
CPI	Consumer price index
CPS	Control Protection Scheme
EBSS	Efficiency benefit sharing scheme
EUAA	Energy Users' Association of Australia
HMI	Human Machine Interface
MAR	Maximum allowed revenue
NEL	National Electricity Laws
NEM	National Electricity Market
NEO	National Electricity Objectives
NER	National Electricity Rules
NPV	Net present value
Opex	Operating expenditure
PTRM	Post tax revenue model
RAB	Regulatory asset base
RBA	Reserve Bank of Australia
RFM	Roll forward model
SOCI	Security of Critical Infrastructure
SRA	Settlement residue auction
STPIS	Service target performance incentive scheme
TMEC	Tasmanian Mineral, Manufacturing and Energy Council
TNSP	Transmission Network Service Provider
WARL	Weighted average remaining life