APA
Australia's energy infrastructure partner

Basslink Transmission

Repair Vessel Cost Pass Through Event

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Purpose of this document

This document provides an outline of the proposed cost pass through event that Basslink is intending to include in its revised proposal.

The cost pass through event arises out of the uncertainty associated with the timing and cost of fitting out the vessel that replaces the current cable repair vessel, the CS Lodbrog.

In our Original Proposal, Basslink forecast capital expenditure of $11.8m (Real 30 June 2025) for the fit-out of the repair vessel that will replace the CS Lodbrog, on the basis we will need to replace some of the cable repair equipment in the likely event the next contract is not for the CS Lodbrog.

However, two factors mean that retaining a forecast is impractical:

— Our work with the fit-out of the CS Lodbrog has revealed that the fit-out cost is heavily influenced by the size and structures on the repair vessel, such that it is impossible to reasonably forecast the cost without a specifically identified replacement vessel, and.

— Alcatel Submarine Networks and Optic Marine, the owners of the CS Lodbrog, have indicated to the group that contracts the Lodbrog Services (of which Basslink is a party), that it intends to withdraw the Lodbrog from service prior to the end of the current contract's option period. This has cast doubt on the timing of the upgrade.

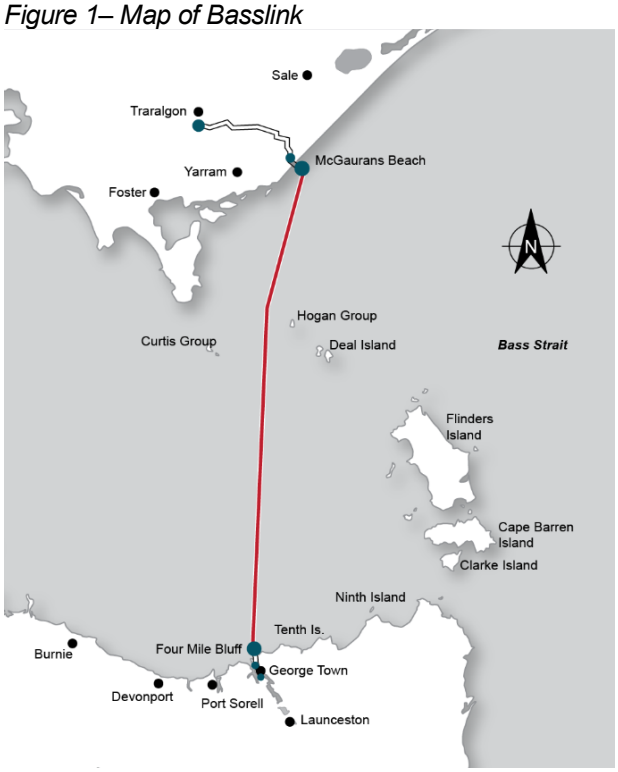
As a result, Basslink has taken the decision to withdraw the forecast capital expenditure and apply for a cost pass through.[1]

Basslink will be continuing stakeholder engagement on this proposed cost pass through event prior to the Revised Proposal.

[1] The formal withdrawal of the capital expenditure and submission of the cost pass through event application will not take place until the Revised Proposal

About Basslink

Figure 1– Map of Basslink



In October 2022, APA acquired Basslink which owns and operates the 370 kilometre (**km**) long high voltage direct current (**HVDC**) electricity interconnector between Victoria and Tasmania. The Basslink acquisition is consistent with our strategy to play a leading role in the energy transition.

Basslink starts at the Loy Yang switchyard in Gippsland (Southeast Victoria) and travels by a 61 km high-voltage overhead transmission line until it is submerged. From there it travels for 290 km under Bass Straight, at around 1.5 metres below the sea floor. It resurfaces again near George Town (Northern Tasmania) and travels another 11 km via a high-voltage overhead transmission line to the George Town substation.

Basslink is currently the sole electricity interconnector between Tasmania and Victoria and plays a critical role in enhancing security of supply on both sides of Bass Strait.

Basslink was originally developed to serve the following three main purposes:

— Provide electricity security for Tasmania in years of low rainfall

— Provide Victoria and Tasmania with access to a cheaper, more stable, electricity supply

— Provide generators across the National Electricity Market with additional revenue through access to customers in both Tasmania and the mainland.

Regulation of Basslink

Basslink began operations in 2006 as a Market Network Service Provider (**MNSP**). It had a commercial service contract in place with Hydro Tasmania that allowed Hydro Tasmania to trade the asset in the market at zero cost in return for an annual fee. This means that despite being a MNSP, Basslink operated as an 'open link' between Victoria and Tasmania, in a manner akin to that of a Transmission Network Service Provider (**TNSP**).

The initial agreement with Hydro Tasmania was terminated in 2022, when APA acquired the asset, and was replaced with a new agreement that extended the relationship between Hydro Tasmania and Basslink through to 30 June 2025, when APA envisaged Basslink would then be converted to a TNSP. APA submitted a conversion application to the AER in September 2023, however the AER's conversion decision took longer than expected. This means Basslink won't become a TNSP until a year later than expected – on 1 July 2026.

The revenues of TNSPs are regulated by the AER under Chapter 6A of the National Electricity Rules (**the Rules**). The inaugural Basslink Revenue Proposal will be used to set the opening RAB, operating and capital expenditure allowances and the associated revenue Basslink is able to recover from customers.

What we originally proposed and the NER requirements

The cost pass through events we proposed in the original Proposal

In our original September 2023 Proposal, we identified the following events as part of our proposal:

- Insurance coverage event
- Insurer credit risk event
- Natural disaster event
- Terrorism event
- REZ design report event
- Offshore project assessment event risking continued operation of Basslink

More details on these cost pass throughs are contained in our Proposal which can be viewed at Proposal | Australian Energy Regulator (AER).

NER requirements for cost pass through events

Clause 6A.7.3(a1) of the Rules provides that any of the following is a pass through event for a transmission determination:

(1) a regulatory change event;

(2) a service standard event;

(3) a tax change event;

(4) an insurance event;

(5) any other event specified in a transmission determination as a pass through event for the determination; and

(6) an inertia shortfall event.[2]

Clause 6A.6.9 provides that a Revenue Proposal may include a proposal as to the events that should be defined as 'pass through events' under clause 6A.7.3(a1)(5), having regard to the nominated pass through event considerations. The Rules provides that the nominated pass through event considerations are:

Whether the event proposed is covered by a category of pass-through event specified in NER clause 6A.7.3(a1)(1)-(4);

- Whether the nature or type of event can be clearly identified at the time the determination is made for the NSP;
- Whether a prudent service provider could reasonably prevent an event of that nature or type from occuring or substantially mitigate the cost impact of such an event;
- Whether the relevant service provider could reasonably insure against the event or whether the event can be self-insured; and
- Any other matter the AER considers relevant and which the AER has notified NSPs as a nominated pass-through event consideration.

We have been guided by these considerations in preparing our nominated cost pass through event proposal for the 2025-30 regulatory control period.

[2] Paragraph (6) does not apply in Victoria

Repair vessel cost pass through event

Repair of the 290km long subsea cable requires specialised vessels, equipment and technicians. Basslink contracts with Alcatel Submarine Networks and Optic Marine (the owners of the CS Lodbrog) through the South Pacific Marine Maintenance Agreement (**SPMMA**). Currently, this is a collective contract between cable system providers and the cable repair vessel owner.

Basslink is one of 24 members of the SPMMA and one of only three members who use the Lodbrog for power cables (the other 21 members operate in the telecommunications space). Basslink contributes less than 1% of the total contract cost.

Subsea power cables are significantly different to fibre optic cables. While fibre cables are generally about 20mm in diameter, Basslink's submarine cables are 120 mm in diameter. As a result, we need to procure vessel specific equipment which fits the requirements of our heavier, larger and less flexible cables.

At the end of each previous SPMMA contract, the repair vessel was changed. For the 2008 to 2017 period, it was the Ill De Rae, from 2017 to 23 the Reliance and from 2023 it was the CS Lodbrog. While changing and refitting vessels each contracting period is not ideal for Basslink, the cost of each specialist equipment installation has been more than offset by the savings from and advantage of being part of the SPMMA and having a repair vessel located in the Australasian and Pacific regions.

The current SPMMA contract with the owners of the Lodbrog is for 5 years with a 2-year option. The five years ends in March 2028. The owner of the Lodbrog has indicated their intention to withdraw the Lodbrog from service prior to the end of the current contract. They have flagged their intention to provide a new vessel to provide a cable laying and repair service in the South Pacific. The timing of the vessel withdrawal and the exact nature and specifications of the next vessel are currently unknown.

While Basslink's award winning fit-out of the Lodbrog has attempted to efficiently maximise the amount of equipment that can be transferred from one vessel to the next, it is highly likely there will be some expenditure required to fit-out the next vessel for electricity sub seas cable repair.

Proposed definition of the cost pass through event

The proposed scope of the cost pass through event is below. The scope is cognisant that recovering expenditure through a pass through is a last resort but that the AER still has scope to review the expenditure for prudency and efficiency.

Our proposed cost pass through event is:

> *A Repair Vessel Cost Pass Through occurs when expenditure is incurred to install, or adjust in preparation for installation, subsea cable repair equipment on a successor subsea cable repair vessel.*
>
> *Definitions*
>
> *subsea cable repair equipment – equipment used to identify, expose, raise, lower, cut, cap or repair the Basslink subsea cable.*
>
> *successor subsea cable repair vessel – any vessel that is used as a subsea cable repair vessel by Basslink that is not the CS Lodbrog.*

Rationale

The fit-out of the replacement cable repair vessel can't be included in the forecast capital expenditure or operating expenditure

The expenditure can't be forecast because the timing and the amount of the expenditure are unknown. The timing of the required fit-out of the successor vessel to the Lodbrog is uncertain. The availability of the vessel is entirely at the discretion of the owner of the vessel. The vessels that have been supplied historically under the SPMMA have been suitable to provide cable laying and repair services for subsea fibre optic cables, but they have required expenditure to be undertaken by Basslink to be able to use it for the repair of the Basslink subsea cable.

As noted above, the owner of the Lodbrog has indicated their intention to withdraw the Lodbrog from service prior to the end of the current contract. They have flagged their intention to provide a new vessel to provide a cable laying and repair service in the South Pacific. Provided that the vessel owner does not propose to materially vary the terms on which the new vessel is provided, it is likely to be approved by the vast bulk of the membership of the SPMMA. This means the timing of the expenditure is not within Basslink's control and it is not certain as to when it will occur.

While, as noted below, the nature of the equipment is understood in advance, the exact fit-out and installation is vessel specific and cannot be determined until the replacement vessel is known.

The nature or type of event can be clearly identified

The equipment that is necessary to repair an electricity cable is well defined. This has been incorporated in the definition of

> *subsea cable repair equipment – equipment used to identify, expose, raise, lower, cut, cap or repair the Basslink subsea cable.*

Therefore, the event is a repair vessel fit out is also a clearly definable event.

A prudent service provider can't reasonably prevent the event

As a minor party to the SPMMA, Basslink cannot direct or have a material influence on the other parties to the SPMMA. This means that a decision to end the SPMMA or to contract for a separate vessel is an exogenous action to Basslink consistent with the requirements of the Rules.

In the past, a decision by a vessel owner to withdraw the vessel from service and to replace it with another cable repair vessel has not resulted in significant expenditure for the other members of the SPMMA, as the overwhelming majority are telecommunications companies. Basslink is the exception. If the vessel owner does withdraw the CS Lodbrog from service early but replaces it with a telecommunications subsea cable ready vessel, the other members of the SPMMA are likely to approve the change, despite it not meeting Basslink's needs.

Basslink cannot veto a new repair vessel entering operation if the majority of SPMMA members support the change. Basslink pays less than 1% of the contract cost for the Lodbrog, and the cost of engaging a vessel on an ongoing basis outside the SPMMA framework is prohibitive.

Engaging a vessel on an as needs basis also carries risk that a vessel is not available when required, or that the only vessels available are in Europe or North America. The significant delays to repairing the Basslink cable should a vessel have to travel great distances to get to Australian waters would lead to a breach of the Amended Basslink Operating Agreement. This risk was visibly demonstrated in the repair of the 2015 Basslink cable fault.

A prudent service provider can't substantially mitigate the cost impact of such an event

Basslink will approach the fit-out in the most prudent and efficient manner possible. The AER has the powers to review the expenditure prior to approving the pass through under the pass through event. However, the cost cannot be avoided if the replacement subsea cable repair vessel is to be capable of repairing the Basslink subsea cable.

Commercial Insurance cannot be obtained

There is no commercial insurance product that can be acquired to cover the expenditure associated with the fit-out of a new repair vessel.

The event cannot be self-insured

Due to the uncertainty of the timing of the event and the extent of the expenditure that would be required, it is impossible for Basslink to calculate a premium for self-insurance.

Conclusion

For the reasons outlined above the proposed cost pass through event meets the requirements of the Rules.

Glossary

Term	Explanation
AER	Australian Energy Regulator – the body responsible for regulating Basslink as a TNSP
HVDC	High voltage direct current
km	kilometre
MNSP	Market Network Service Provider
NSP	Network Service Provider
TNSP	Transmission Network Service Provider
the Rules	The National Electricity Rules
SPMMA	South Pacific Marine Maintenance Agreement