APA
Australia's energy infrastructure partner

Basslink Transmission

Overview of the Updated Revenue Proposal

August 2025

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Purpose of this overview document

This document provides a summary of the changes made to the Basslink Revenue Proposal since it was lodged with the Australian Energy Regulator (**AER**) in September 2023.

The September 2023 Revenue Proposal was lodged in conjunction with the application to convert Basslink from a Market Network Service Provider (**MNSP**) to a Transmission Network Service Provider (**TNSP**). The AER's decision to convert Basslink to a TNSP took longer than anticipated, which means our original Revenue Proposal, requires some updates. Since September 2023, we've made several adjustments to ensure the proposal remains accurate and relevant:

- **Cost sharing**: The original proposal allocated 90% of Basslink's costs to Victorian consumers and 10% to Tasmanian consumers. Based on stakeholder feedback, we revised our cost sharing approach to 75% of costs allocated to Victorian consumers and 25% to Tasmanian consumers.
- **Affordability measures**: To assist in addressing affordability concerns we reduced two asset lives, bringing forward depreciation, along with other minor changes, thereby lowering the opening RAB by $73 million.
- **Shorter regulatory period**: The original Revenue Proposal covered a five-year regulatory period beginning on 1 July 2025. The regulatory period will now begin on 1 July 2026 and span four years. This entails changes to the models underlying the Revenue Proposal and the need to roll forward the opening Regulatory Asset Base (**RAB**) by a further year to align with the 1 July 2026 start date.
- **Expenditure forecasts**: We've updated previous expenditure forecasts for 2023–24 and 2024–25 to align with actual expenditure and updated forecasts. We have also refined some of our outer year forecasts to align with new and updated information.
- **Inflation updates**: We've updated Consumer Price Index (**CPI**) forecasts with actual results and the latest forecasts.
- **Weighted Average Cost of Capital (WACC)**: Previous forecasts for 2022–23 through to 2025–26 have been refreshed to reflect current market conditions.

These updates have not been made in isolation. We've continued to engage closely with the AER and our stakeholder Regulatory Reference Group throughout this process. All changes have been shared and discussed with these stakeholders to ensure transparency and alignment.

While many of these updates are captured in various submissions and updates on the AER's website, they can be difficult to follow, especially those made after the final conversion decision, which are not yet publicly available. We have prepared this overview to provide stakeholders with a clear, concise, and coherent summary of all changes made since the original proposal was lodged. The '*Document listing*' outlines the suite of documents that accompany this Overview.

We hope this document helps bridge the gap and supports your understanding of the updated Revenue Proposal. If you have any questions or would like to discuss any aspect further, we welcome your feedback. You can contact us by emailing yoursay@apa.com.au

The dollars in this document are Real 30 June 2026 and only relate to the four-year period, 1 July 2026 to 30 June 2030, unless otherwise stated. This differs from the original Revenue Proposal which presented dollars in Real 30 June 2025 and related to a five-year period, 1 July 2025 to 30 June 2030.

To allow for a comparison between the updated and original Revenue Proposal:

- We have excluded expenditure for the 1 July 2025 to 30 June 2026 period from the original Revenue Proposal amounts
- Dollars presented in the original Revenue Proposal have been converted to 30 June 2026 dollars using a CPI rate of 3.00%.

Numbers in charts and tables may not add due to rounding.

About 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.

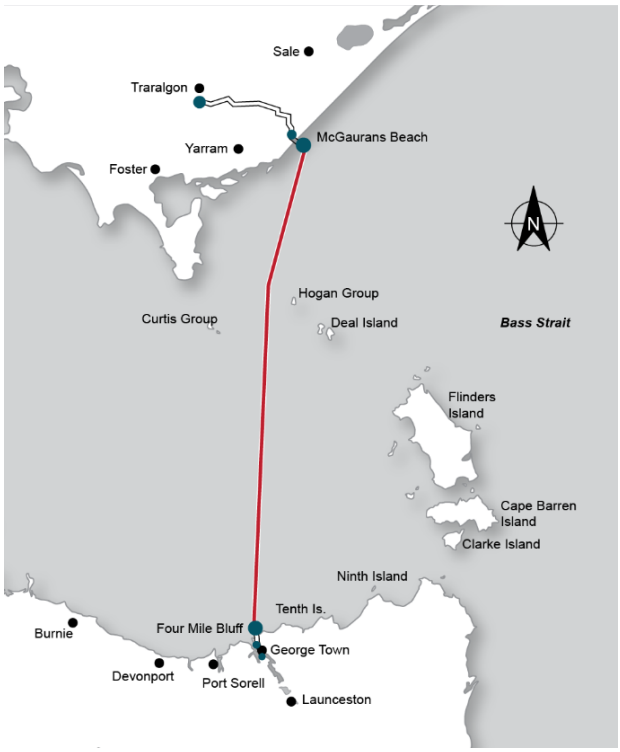
Basslink starts at the Loy Yang switchyard in Gippsland (Southeast Victoria) and travels by a 61 km high-voltage overhead transmission line until it is submerged. From there it travels for 290 km under Bass Straight, at around 1.5 metres below the sea floor. It resurfaces again near George Town (Northern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

Figure 1– Map of Basslink



Regulation of Basslink

Basslink began operations in 2006 as a 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 TNSP.

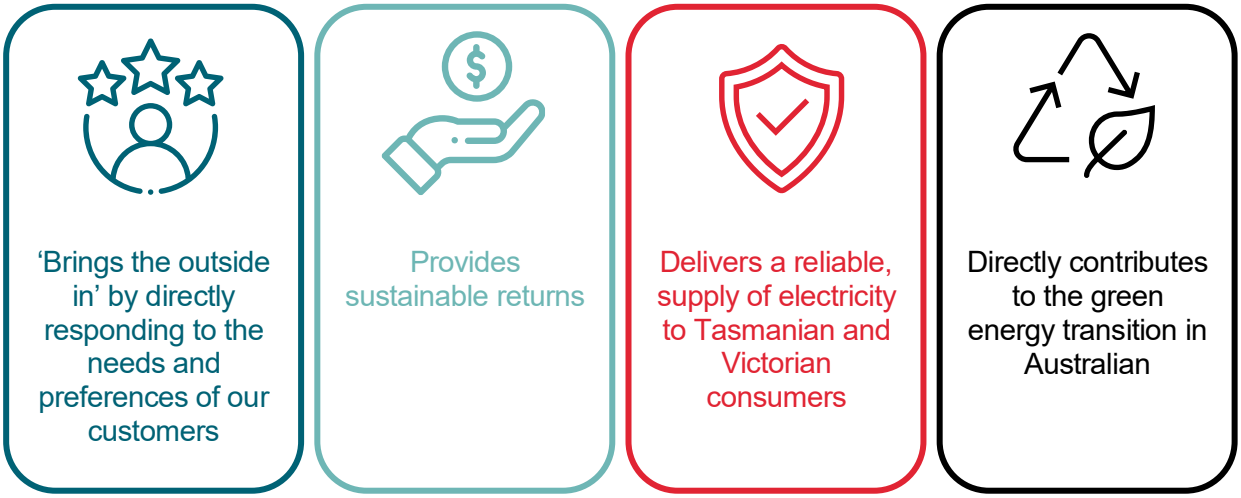
The initial agreement with Hydro Tasmania was terminated in 2022, when APA acquired the asset, and replaced with a new agreement that extended the relationship between Hydro Tasmania and Basslink through to 30 June 2025, when APA envisaged Basslink would then be converted to a TNSP. APA submitted a conversion 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.

Stakeholder engagement

Our engagement objectives

Our engagement objectives were co-designed with stakeholders and aimed to deliver a Revenue Proposal that:



Our engagement approach

Our engagement plan aimed to understand consumer and stakeholder views and ensure their preferences are reflected in the Revenue Proposal.

An integral part of this plan was the establishment of a stakeholder Regulatory Reference Group (**RRG**) in November 2022. The RRG comprises a cross-section of stakeholders representing residential, small business and large energy users in Tasmania and Victoria. It serves as an independent advisory group to support the development and implementation of both the engagement plan and the Revenue Proposal.

The RRG includes independent consumer advocates as well as representatives from:

- St Vincent's de Paul Society Victoria
- Tasmanian Minerals, Manufacturing and Energy Council
- Northern Tasmania Development Corporation
- Tasmanian Small Business Council
- Council on the Ageing Tasmania
- Gippsland Climate Change Network

We have been collaboratively working with the RRG under a principle of co-design for several years.

- The group was instrumental in refining engagement materials and the methods for consulting with consumers, industry and government stakeholders in the lead up to the September 2023 submission to the AER. Their guidance helped improve our understanding of the needs and expectations of different consumer segments.
- The RRG provided an independent report for the AER in August 2023 outlining their views on our engagement relative to the expectations outlined in the AER's Better Resets Handbook. Overall, the RRG considered we met the Better Resets Handbook requirements and engaged openly and collegially across all levels of the organisation.
- We have continued to engage with the RRG since submitting our conversion application and Revenue Proposal in September 2023.

Our engagement channels

We used deep, broad and targeted engagement methods in the development of the Revenue Proposal with senior APA staff steering the engagement program and attending all engagement activities. This included our CEO, Adam Watson, presenting at the consumer workshops.

16
Regulatory Reference Group meetings

2
online focus groups

2
in person consumer workshops

1,240
Consumers responses to online quantitative survey

1
Newsletter article

Many
Meetings with key stakeholders including Victorian and Tasmanian Governments

Engagement evaluation

At the end of each meeting, stakeholders were sent a short survey to complete rating the quality and content of the session.

94%
of stakeholder responses rated Basslink's engagement as
Good or Excellent

'The session was up to the usual APA standard, and I felt the discussion was able to consider the critical issues around the information provided. The summary provided by APA prior to the meeting provided an excellent base upon which discussions could be progressed.'

Stakeholder, RRG meeting #9

'Explained complex issue really well, enabled me to give useful feedback'

Stakeholder Meeting #11

'… it's quite refreshing to actually get a response when you ask a question ... and the way that information's presented, the way we can see how things have changed, the openness that APA have provided throughout this process … from my perspective it's been fantastic, and I thank APA quite sincerely for their openness and transparency.'

Stakeholder, RRG Meeting #16

'Provided space for a great discussion in which a variety of views could be expressed and discussed'

Stakeholder, RRG meeting #15

Timeline of engagement interactions

Month / Year	Activity	Issues discussed
November 2022	Established RRG	— Confirmation of participants and Terms of Reference
December 2022	RRG Co-creation workshop	— APA's plans for Basslink — Overview of proposed engagement — Core issues & priorities for engagement, including mapping of stakeholders and issues
January 2023	RRG meeting #1	— Regulatory conversion process — Overview of insurance issues — Opening RAB — Engagement timeline — Overview of consumer workshops
February 2023	RRG meeting #2	— Insurance options for Basslink — Cost sharing between Tasmania and Victoria — Materials for consumer workshops
March 2023	Presentation to Bell Bay Advances Manufacturing Zone	— Introduction to APA and Basslink — Plans for regulatory conversion — Opportunities for engagement
	Online focus groups with Victorian and Tasmanian participants	— Regulatory conversion — Preferences on options for capital expenditure, insurance and cost sharing
	RRG meeting #3	— Forecast capital expenditure — Forecast operating expenditure — Consumer workshop questions
	Melbourne consumer workshop	— Overview of Basslink and the regulatory process — Capital expenditure options with a focus on the control and protection system and reliability/affordability trade-offs — Insurance options, with a focus on price/risk trade-offs — Options for cost sharing between Tasmania and Victoria, with a focus on the costs, benefits and impacts of the options
April 2023	Launceston consumer workshop	
	Article in the Tasmanian Minerals, Manufacturing & Energy Councils fortnightly newsletter	— Introduction to APA and APA's plans for Basslink — Invitation to engage with APA In the development of the Regulatory Proposal
	RRG meeting #4	— Outcomes of the consumer workshops held in Melbourne and Launceston — Quantitative survey question line — Stakeholder engagement plans
May 2023	Meetings with: — Victorian Chamber of Commerce & Industry — Energy Users Association of Australia — Australian Industry Group	— Regulatory conversion — Stakeholder engagement to date and the outcomes of the consumer workshops, including the preference for capital expenditure, insurance and cost sharing between Tasmania and Victoria — Initial forecasts of key elements of the regulatory proposal
	Online quantitative survey of 1,240 Victorian and Tasmanian consumers	— Level of energy literacy and concern on energy issues — Views on energy preferences, including issues relating to affordability, transparency, reliability and future energy needs — Overall knowledge and sentiment towards Basslink — Preferences on option for capital expenditure, insurance and cost sharing between Tasmania and Victoria
	Meeting with Tasmanian Government – Renewables – Renewables, Climate & Future Industries Tasmania	— Overview of stakeholder engagement, including consumer workshop and quantitative survey outcomes — Overview of APA Basslink Regulatory Proposal

Month / Year	Activity	Issues discussed
June 2023	RRG meeting #5	— Outcomes from stakeholder meetings — Results from quantitative survey — Overview of APA's Basslink Regulatory Proposal
	Meeting with Victorian Department of Energy, Environment & Climate Action	— Overview of stakeholder engagement, including consumer workshop and quantitative survey outcomes — Overview of APA's Basslink Regulatory Proposal
September 2023	RRG meeting #6	— Update on APA's Basslink Regulatory Proposal — Future Stakeholder engagement on Basslink
	Conversion application and Revenue Proposal lodged with the AER	
November 2023	RRG meeting #7	— Update on Basslink — AER Issues Paper and Public Forum — Future Stakeholder engagement on Basslink
January 2024	RRG meeting #8	— Share APA's modelled scenarios, methodology and outcomes
March 2024	RRG meeting #9	— Submissions to the AER's Issues Paper — Regional market benefits for APA's modelled scenarios
July 2024	RRG meeting #10	— System Protection Scheme — Late submission to the AER's Issues Paper — Capital expenditure — Updates to Basslink timelines
	RRG meeting #11	— System Protection Scheme deep dive — Settlement Residue Auctions
September 2024	RRG meeting #12	— Initial response to AER's Consultation Paper and the ACIL Allen modelling
	RRG meeting #13	— Proposed changes to the RAB — Proposed updates to cost sharing approach
December 2024	RRG meeting #14	— Overview of the AER's draft decision on conversion — Contracting with Hydro Tasmania — Marinus Link timing and capacity — Economic efficiency versus customer prices
January 2025	RRG meeting #15	— Response to the AER's draft decision on conversion
July 2025	RRG meeting #16	— AER's final decision on conversion — Updates to operating expenditure — Updates to capital expenditure — Indicative revenue and price impacts — Frequency Control System Protection Scheme service costs

What we heard and how we have responded

The following table summarises our previous engagement findings and outcomes and instead focuses on engagement that has taken place since September 2023, and how this has been reflected in our updated Revenue Proposal. For more details on our previous engagement, please refer to our original Revenue Proposal and the accompanying Attachment 3: Stakeholder Engagement, Attachment 3.1: SECNewgate Engagement Summary Report and Attachment 3.2: SECNewgate Consolidated Energy Report.

Priority Issue	What we heard	How we responded in our …	
		Original Revenue Proposal	Updated Revenue Proposal
Reliability 	– Consumers and industry stakeholders both strongly supported a high level of reliability due to concerns about the potential for electricity outages if Basslink fails. – Consumers at the workshops wanted to ensure that there were timely repairs to Basslink's subsea cable should a failure occur in the future. Tasmanian consumers particularly referenced the need to avoid a repeat of Basslink's 2015 outage.	– We focussed on maintaining Basslink's high levels of reliability through three proposed investments • Replacement of the control and protection system – see the '*Our updated plan on a page*' and '*Forecast capital expenditure*' sections. • $7.0 million in capital expenditure to enable Basslink to operate at higher temperatures when customer demand for electricity is high. • $7.65 million annual expenditure to help reduce repair times and the time Basslink would be offline in the event of a major incident.	– The $7.0 million investment to enable Basslink to operate at higher temperatures was completed in 2024–25, so is now included in the opening RAB. – We have removed the proposed $7.65 million annual emergency preparedness expenditure as we have been unable to agree contract terms with our cable provider that will reliably deliver the services at a cost that will deliver sufficient consumer value.
Affordability 	– Consumers highlighted that energy costs and affordability of electricity are key concerns for both residential and small business consumers. – Some industry stakeholders indicated a preference for price stability, while others noted the importance of ensuring any cost savings following the regulation of Basslink are passed through to consumers.	– We were conscious of keeping Basslink's prices as low as possible, while maintaining a high level of reliability. – Consistent with consumer concerns around energy affordability, we proposed to adopt the Depreciated Actual Cost method for setting the RAB as it delivers the lowest initial forecast. – Basslink's costs were expected to have minor real cost declines year on year for the revenue period.	In response to stakeholder concerns regarding affordability, we have: – Reduced the standard lives of two asset classes bringing forward depreciation, along with other minor changes, which have reduced the proposed RAB value by $73 million. – This was supported by the RRG after clarifying the change has no impact on future repairs or maintenance – Modified the proposed cost sharing approach to reduce the bill impact for Victorian consumers – see the '*Cost sharing*' section below.

Priority Issue	What we heard	How we responded in our …	
		Original Revenue Proposal	**Updated Revenue Proposal**
Capital expenditure 	– Our engagement with consumers and stakeholders on capital expenditure focussed on the replacement of Basslink's control and protection system, due to the significant cost of the replacement system. Views were sought as to whether the system should be replaced in the 2025–30 period or the following revenue period. – There was strong support from consumers and the Victorian Chamber of Commerce and Industry for replacing the control and protection system in the 2025–2030 period.	– We recognised the strong and consistent preference for the earlier replacement of the control and protection system from consumers and stakeholders, noting this preference was consistent with the high importance placed on reliability. – We proposed $44.2 million for the replacement of the control and protection system in the 2025–30 period.	– Our updated Revenue Proposal maintains replacement of the control and protection system in the capital expenditure plans for 2026–2030, albeit the cost of the project has more than doubled from the original Revenue Proposal now the technology platform and project scope are better understood. See '*Our updated plan on a page*' for more detail. – The increased cost and scope of this project was explained to the RRG, and no concerns were raised.
Insurance 	– Our engagement focussed on whether APA should adopt a high insurance excess and a low premium with higher cost risks for customers should an insurance event occur, or a low insurance excess and a high premium with lower cost risks for customers should an insurance event occur. – Consumers indicated mixed views on this issue. – Industry stakeholders did not indicate an insurance preference.	– We proposed insurance arrangements that had a low level of excess and a higher level of premium as it offers a lower level of risk to customer prices in the long term. – The bill difference between the low and high excess approaches was relatively small and we considered this approach would meet consumer preferences around avoiding avoid bill shock, should damage occur.	– Given the small and volatile international market for subsea cable insurance, we recently sought updated estimates from our insurance broker. – The estimated costs for this insurance have declined since our original Revenue Proposal, and the data supports continuation of our original approach, which adopts a lower excess and a higher insurance premium to minimise potential bill shock for customers.

Priority Issue	What we heard	How we responded in our …	
		Original Revenue Proposal	Updated Revenue Proposal
Cost sharing	– Our engagement on cost sharing focussed on how Basslink's costs should be shared between Tasmanian and Victorian consumers. Three cost sharing options allowed under the Rules were discussed, including options based on the geographic split of Basslink's assets, energy flows between Tasmania and Victoria, and the market size of Tasmania and Victoria based on the number of electricity connections in each State. – Consumers indicated a preference for the market size approach to cost sharing deeming it to be fairest.	– Our original Revenue Proposal proposed cost sharing using the market size approach, given it was the clear preference of consumers, but we indicated that we intended to undertake further stakeholder consultation on this matter.	– After submitting our original Revenue Proposal, we reviewed the submissions to the AER's Basslink Issues Paper and engaged further with stakeholders. – In response, have amended the proposed cost sharing approach to include the two most preferred 'use' metrics of customers – Market Size and Energy Flows. These metrics have been weighted in line with consumer preferences. – This alternative cost sharing approach was presented to our RRG in September 2024. The group was supportive of this change. – More details can be found in '*Our amended cost sharing approach*' section.
Frequency Control System Protection Scheme costs (FCSPS)	– Stakeholders were keen to understand the magnitude of FCSPS costs and how they would apply to Basslink.	– We were unable to include any FCSPS costs in the original Proposal as the costs of procuring these services had never been previously quantified.	– We have included forecast costs for the hardware associated with FCSPS provision, as it is currently being provided by TasNetworks and can be reasonably forecast. – However, the costs for providing *FCSPS* are not currently included in our updated Proposal. Procurement of these services is on-going, and costs will be passed through as network support payments – more details can be found in the '*Frequency Control System Protection Scheme (FCSPS) costs*' section.

Our proposed revenue

All else being equal, our updated revenue requirement is lower than originally proposed as we have lowered the lives of two asset classes in response to stakeholders' concerns regarding affordability. This has lowered the opening Regulatory Asset Base (**RAB**), and therefore the updated revenue, given the RAB drives about 70% of Basslink's revenue.

Given the updated total proposed revenue of $431M is for a shorter four-year regulatory period, it cannot be directly compared to the original five-year Revenue Proposal. Instead, we present a comparison on an average annual basis.

Original Proposal	$105.8 million average annual 2026–30 revenue	→	Updated Proposal	$101.1million average annual 2026–30 revenue

The total proposed revenue needed to operate and maintain Basslink for the four-year period beginning 1 July 2026 through to 30 June 2030 (**2026–30**) is set out below.

+	**$187.9M**	**Return on capital** We used the AER's Rate of Return Instrument 2022 to calculate the 2026–31 Rate of Return and have not updated the calculations from our original Proposal – the estimated nominal Vanilla Weighted Average Cost of Capital for 2026–27 is 6.51%.
+	**$97.0M**	**Regulatory depreciation (return of capital)** Regulatory depreciation recovers a share of the outstanding cost of previous investments made to ensure ongoing reliable and safe operation of the Basslink interconnector.
+	**$107.8M**	**Operating expenditure** Operating activities are focused on delivering safety, security and reliability for the interconnector and have been forecast using the AER's preferred 'Base, Trend, Step' method.
−	**$ –**	**Revenue adjustments** As this is Basslink's inaugural regulatory period, there are no adjustments to account for penalties and rewards earned though any incentive schemes.
+	**$11.8M**	**Net tax allowance** Taxation is calculated based of forecast revenue, operating expenditure tax depreciation and tax rates.
−	**$0.0M**	**Revenue smoothing** Adjustment to smooth prices within the period and reduce price volatility in the following regulatory period.
=	**$404.5M**	→ **Smoothed maximum allowed revenue (2026–30)** The forecast of the revenue expected to be earned by Basslink for the four-year regulatory period.

Our revenue requirement

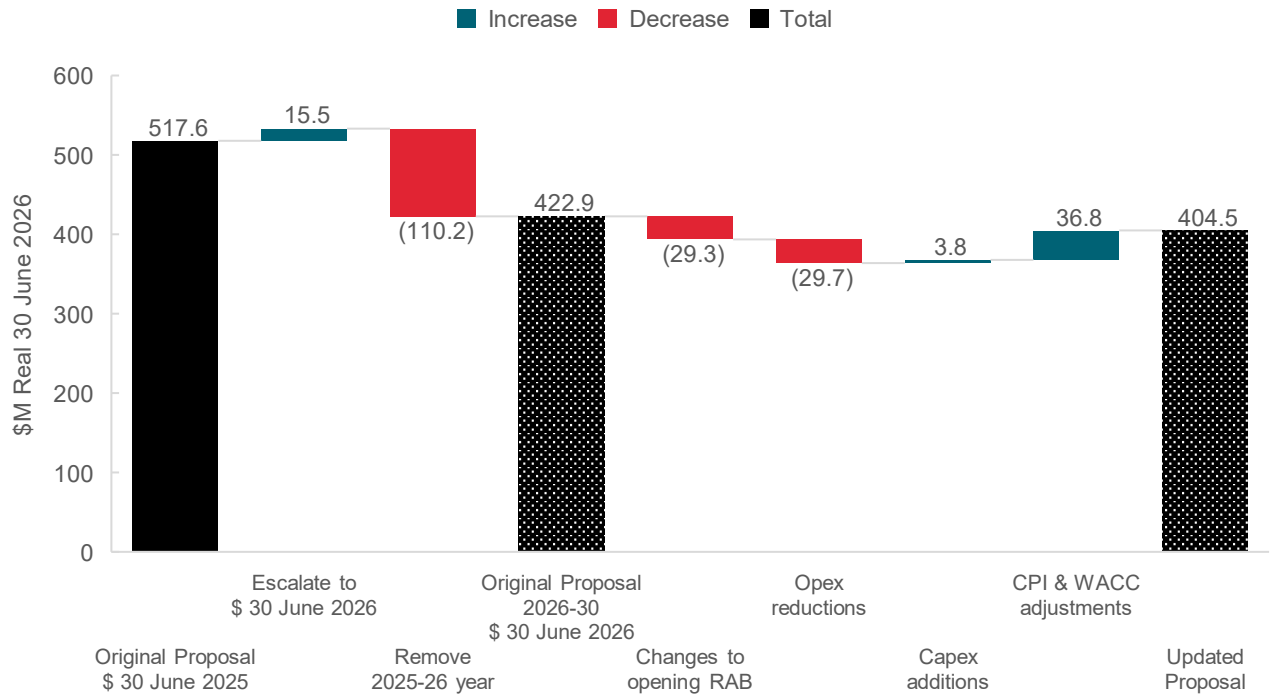
The building block revenue requirement for each year of the 2026–30 period is shown below, along with a comparison of the annual smoothed revenue for the same four years put forward in the original Revenue Proposal.

Building block revenue requirement and comparison to the original Revenue Proposal

$M Real 30 June 2026	2026–27	2027–28	2028–29	2029–30	Total
Return on Capital	48.4	47.3	46.5	45.8	**187.9**
Return of Capital (regulatory depreciation)	23.1	24.0	24.6	25.3	**97.0**
Operating Expenditure	26.8	26.8	26.9	27.3	**107.8**
Revenue Adjustments	–	–	–	–	**–**
Net Tax Allowance	2.8	2.9	3.0	3.1	**11.8**
Updated Building Block Revenue Requirement (unsmoothed)	101.0	101.0	101.0	101.5	**404.5**
Updated smoothed maximum allowed revenue	**101.0**	**101.1**	**101.2**	**101.2**	**404.5**
Original Proposal smoothed maximum allowed revenue	**108.4**	**106.7**	**104.9**	**103.2**	**423.3**
Difference – updated Proposal higher/(lower)	(7.4)	(5.6)	(3.8)	(2.0)	(18.8)

The following chart explains the movement in unsmoothed revenue between the original and updated Revenue Proposal.

Waterfall of unsmoothed revenue movements between the original and updated Proposal

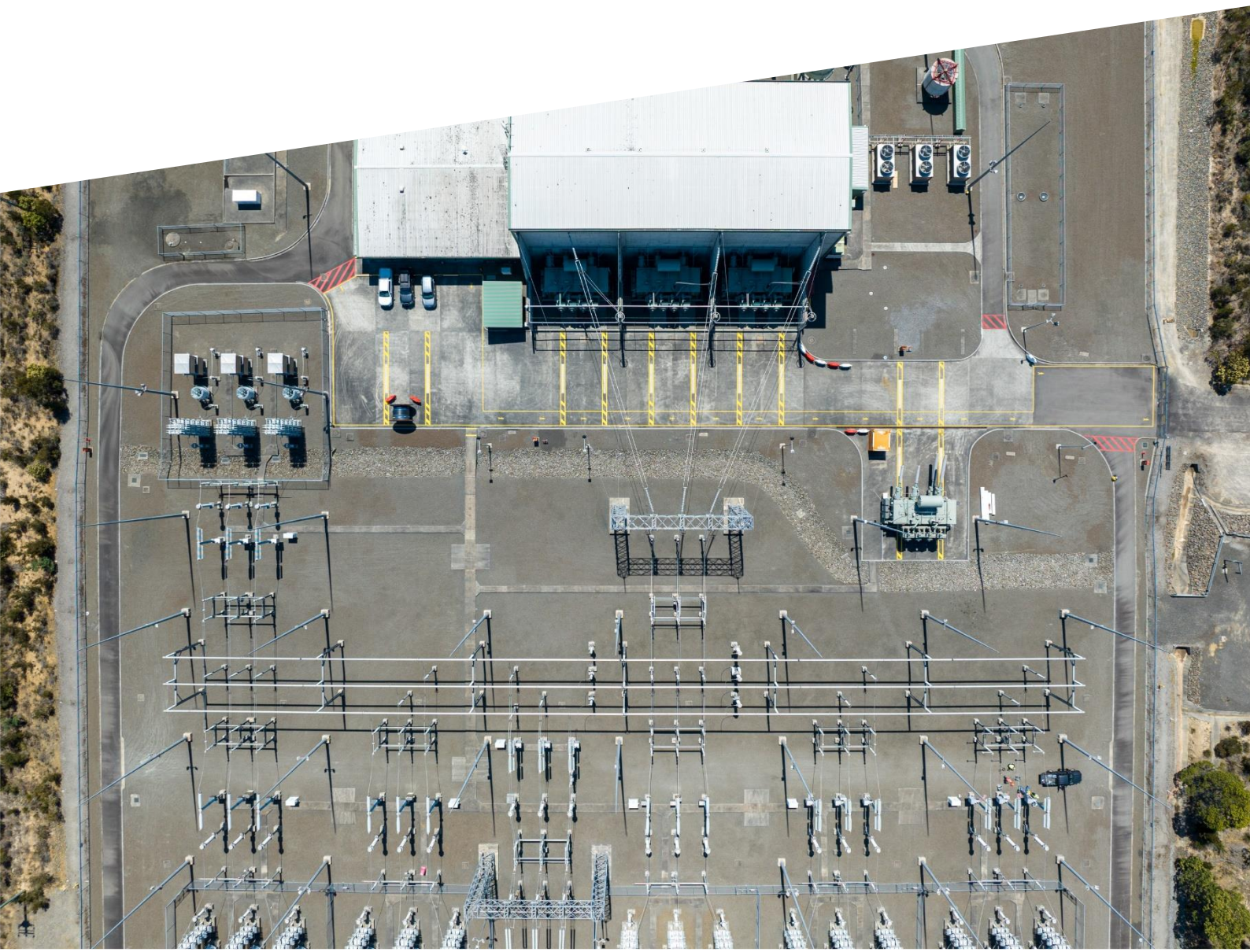


X factors

The X factors for both the updated and original Proposal are show in the table below. These have been calculated using the AER's revenue smoothing approach built into the Post Tax Revenue Model.

X factors and comparison to the original Revenue Proposal

	2026–27	2027–28	2028–29	2029–30
Updated Proposal X factors	6.22%	(0.06%)	(0.06%)	(0.06%)
Original Proposal X factors	4.63%	1.62%	1.62%	1.62%



Cost sharing

If Basslink is converted, it must determine how to allocate its aggregate annual revenue requirement between Victoria and Tasmania based on the use of the interconnector.

We have amended the proposed cost sharing approach put forward in the original Revenue Proposal based on stakeholder feedback.

	Original Revenue Proposal Allocation based on Market Size	Amended Revenue Proposal Allocation based on Market Size & Energy Flows
Tasmanian customers	10%	25%
Victorian customers	90%	75%

Our original cost sharing approach

We undertook a large amount of stakeholder engagement on how costs should be shared between Tasmania and Victoria. This included with our RRG, stakeholders including governments, consumer workshops and focus groups in both Tasmania and Victoria, and an online quantitative survey of 1,240 Tasmanian and Victorian customers – further details can be found in Attachment 3.1 and 3.2 of our Revenue Proposal.

Three different methods for allocating the costs of Basslink between Victorian and Tasmanian customers were considered in consultation. We described them as the Geographic Method, Energy Flows and Market Size.

Geographic Method

This is the approach that the AER adopted for Murraylink and Directlink. The revenue split is based on the value of the interconnector assets located in each region. Because there is more underground and overhead cable in Victoria than in Tasmania, 55% of Basslink's cost would be allocated to Victoria and 45% to Tasmania.

Energy Flows

This approach is based on energy flows across Basslink. The average across the 5 years until 2021–2022 results in revenue being allocated 50% to Victoria and 50% to Tasmania.

Market Size

This approach is based on the number of connections in each jurisdiction. The significantly greater number of connections in Victoria compared to Tasmania would result in revenue being allocated 90% to Victoria and 10% to Tasmania.

Customers generally preferred the Market Size approach to revenue allocation. This preference was very strong in Tasmania. The workshop in Melbourne also expressed a preference for the Market Size approach, but there was a mild preference for the Energy Flows approach over the Market Size approach in the Victorian responses to the quantitative survey.

On balance, the results from the workshops and quantitative survey expressed a preference for the Market Size approach and this was adopted in our Revenue Proposal. This resulted in an allocation of 10% of costs

to Tasmanian customers and 90% to Victorian customers. We did, however, note that this would be subject to further consultation.

Our amended cost sharing approach

Considering the feedback from our additional engagement with stakeholders on this matter and in the submissions made to AER, we have amended the proposed approach to include two 'use' metrics – Market Size and Energy Flows, rather than just Market Size. These were the two most preferred cost allocation methods of customers who participated in the Basslink engagement.

We have weighted the two 'use' metrics based on consumer preferences, as outlined in the diagram below. The full engagement report that supports this analysis can be found at Attachment 3.2 to the original Revenue Proposal.

This alternative cost sharing approach was presented to our RRG in September 2024. The group was supportive of this change.

Step1: Establish the weighting of each metric in the cost sharing calculation

	Market Size	Energy Flows
% of participants who preferred each 'use' method[1]	**44%**	**30%**
% of participants who preferred either 'use' method	44% + 30% **= 74%**	
Weighting to be applied to each 'use' method	44 / 74 **= 0.6**	30 / 74 **= 0.4**

Step 2: Determine the allocation to each state

	Tasmania	Victoria
Share of costs based on Market Size	**9%**	**91%**
Share of costs based on Energy Flows	**50%**	**50%**
Share of costs using blended Market Size and Energy Flows (using weightings calculated above)	(9% X 0.6) + (50% X 0.4) **= 25%**	(91% X 0.6) + (50% X 0.4) **= 75%**

[1] SECNewgate Basslink Consumer Engagement Report: Consolidated findings from workshops and survey, p41

Estimated annual bill impact of our updated Revenue Proposal

Our original Revenue Proposal was lodged using the then proposed cost sharing arrangement, of 10% to Tasmanian customers and 90% to Victorian customers, and before the AER commissioned ACIL Allen to model Basslink scenarios. This means our original bill estimates did not include the estimated impacts of Settlement Residue Auctions, which will lower bill impacts for customers.

Our updated Proposal adopts our amended cost sharing approach that sees 25% of Basslink's costs being borne by Tasmanian customers and 75% by Victorian customers and includes the $78 million RAB reduction and expenditure updates outlined in this Overview document.

It also incorporates the estimated impact of Settlement Residue Auctions as modelled by ACIL Allen but excludes the, as yet unknown, costs associated with the Frequency Control System Protection Scheme that will be passed through to customers. These Frequency Control System Protection Scheme costs **will increase the estimated bill impacts shown –** for more details see the '*Frequency Control System Protection Scheme (FCSPS) costs*' section.

Our original and updated estimated average annual bill increase over the 2026–30 period for Tasmanian and Victorian customers[2]

	Original Revenue Proposal		**Updated Revenue Proposal**	
	Cost sharing 10% Tasmania / 90% Victoria		Cost sharing 25% Tasmania / 75% Victoria Includes $73 million RAB reduction and expenditure updates Includes estimated Settlement Residue Auction proceeds	
				
 Residential customer	**$8**	**$11**	**$6**	**$1**
 Small business customer	**$15**	**$35**	**$11**	**$20**

It is important to note that actual price impacts will depend on the type of customer, their usage and level of connection. It is possible that some direct connected customers may experience larger increases in transmission charges without any offsetting reduction in energy costs.

[2] Assumes annual usage of 7,666 kWh for a Tasmanian residential customer, 4,727 kWh for a Victorian residential customer and 30,000 kWh for a small business customer, includes FCSPS hardware costs and estimated proceeds from Settlement Reside Auctions, but excludes cost impacts from FCSPS.

Our updated plan on a page

Our 2026–30 plan on a page summarises how our plans to deliver on the priority issues highlighted by stakeholders have changed between the original and updated Revenue Proposal.

Replacement of the Control and Protection System (C&PS)

To ensure Basslink continues to safely and reliably operate and integrate with the existing alternating current grids, we intend to replace the existing 'supercomputer' and the associated software interface in line with customers' preferred timing, ahead of them becoming obsolete and unsupported from 2030. The new, supported hardware and software will improve cybersecurity resilience and provide access to spares.

The costs put forward in the original Revenue Proposal were loosely based on the 2020 upgrade costs for Murraylink's C&PS. The updated amount is based on an operating equipment manufacturer quote and appropriately accounts for the different technologies between Basslink and Murraylink. It also recognises that Basslink must provide frequency control and stability services systems, and that replacing the C&PS also necessitates replacement of the valve-based electronics (that connect to the thyristors).

$ 45.5M*
Original Proposal

$85.5M*
Updated Proposal

Insurance

To help smooth prices for customers we maintain structuring offshore cable insurance with a higher upfront premium, but a lower excess should an event occur. This aligns with stakeholder preferences to reduce potential bill shock as, using the historical one in 10-year probability of a cable event, customers can expect to pay at least $5 million less than the alternative.

Given the significance of insurance as an ongoing portion of operating expenditure and the volatility of the market, we have updated our proposed cost to reflect the latest quote from our insurance broker.

$ 49.7M
Original Proposal

$37.7M
Updated Proposal

Spare subsea cable

Should the subsea cable be damaged, it is necessary to store sufficient spare cable to be able to repair any fault in a timely manner. Getting a manufacturing slot for subsea cable has become increasingly difficult due to the high uptake of HVDC cable internationally and the limited number of manufacturers.

At the time of the Revenue Proposal, there was an expectation that no manufacturing slots would be available until after 2030. However, ongoing discussions with the cable provider have identified an opportunity for Basslink to take advantage of a manufacturing slot in 2026–27. We have updated our Proposal to reflect the change in timing for the spare subsea cable and the associated joint kits required to execute a repair.

$ –*
Original Proposal

$10.8M*
Updated Proposal

Frequency Control System Protection Scheme (FCSPS) hardware costs

This is a payment to TasNetworks for the provision of hardware to facilitate FCSPS services. Under Basslink's previous agreement with Hydro Tasmania, these costs were reimbursed to Basslink. At the time of our Revenue Proposal, it was unclear who would be paying for these costs in the future.

It is now clear these costs will be levied by TasNetworks on Basslink, so we have updated our Revenue Proposal to include these costs.

$ –
Original Proposal

$ 4.0M
Updated Proposal

* 2025–30 (five year) full program costs

Regulatory Asset Base (RAB)

We have adjusted the opening RAB to account for the one-year delay in conversion to a TNSP. We have also refined previously estimated numbers, adjusted the lives of two asset classes and made other necessary adjustments – together these changes have reduced the opening RAB by $69 million.

Original Proposal **$831 million** on 1 July **2025** (nominal)

Updated Proposal **$762 million** on 1 July **2026** (nominal)

Our original opening RAB

The RAB is one of the most important elements in the building block revenue model, driving about 70% of Basslink's revenue requirement. The RAB consists of the adjusted total value of all regulated assets and is used in determining the allowance for depreciation and for a return on capital invested.

There are two methods available to determine the initial RAB under the Rules: the 'Depreciated Actual Cost' and 'Depreciated Optimised Replacement Cost', each of which delivers a different value. Our Revenue Proposal assumed Basslink would be converted to a TNSP on 1 July 2025 and proposed using 'Depreciated Actual Cost', as it produced a lower overall cost and, so, would best address affordability concerns raised by stakeholders. Under this approach the proposed 1 July 2025 opening RAB was $831 million.

Our updated opening RAB

Two major changes have occurred to the opening RAB since our Revenue Proposal was lodged.

1. We have reduced the lives of two asset classes

In September 2024, after considering stakeholder submissions to the AER and engagement undertaken since lodging the Revenue Proposal, we proposed lowering the regulated asset lives for two asset classes to help address affordability concerns:

- Reducing the 'Converter transformer' asset class life from 25 to 21 years and
- Reducing the 'Overhead lines' asset class from 55 to 40 years.

These adjustments brought forward additional depreciation, thereby lowering the opening RAB. In conjunction with construction cost finance corrections, this has reduced the opening RAB value by $73 million.

This proposed amendment was discussed with the RRG in September 2024. Concerns were initially raised as to whether a reduced opening RAB would have implications for future repairs and maintenance. However, after it was explained there was no impact on forward expenditure, the proposed reductions were broadly accepted as a welcome step to alleviate affordability concerns.

The originally proposed and updated asset classes and standard lives are presented in the table to the right.

Asset classes and standard lives (changes highlighted)

Standard life (years) by asset class	Original Proposal	Updated Proposal
AC filters	10	10
AC switchyard	40	40
Auxiliary systems	30	30
Buildings	40	40
Cable	40	40
Control system	20	20
Converter transformer	**25**	**21**
DC filter	10	10
DC switchyard	40	40
Easement	n/a	n/a
In-house software	5	5
Freehold land	n/a	n/a
Measuring devices	10	10
Motor vehicles	5	5
Other	5	5
Overhead lines	**55**	**40**
Smoothing reactor	35	35
Station power supply	13	13
Switchyard components	40	40
Valve cooling	13	13
Valve hall	40	40

2. We have adjusted the RAB to a 1 July 2026 start date

The one-year delay to Basslink becoming a TNSP means the RAB is now required to be set for a 1 July 2026 start date, rather than 1 July 2025. This has required adjustments to the Roll Forward Models (**RFM**) underlying the Regulatory Proposal to include the 2025–26 year. Previously estimated data for 2023–24 and 2024–25 has also been updated with actual data and revised estimates respectively.

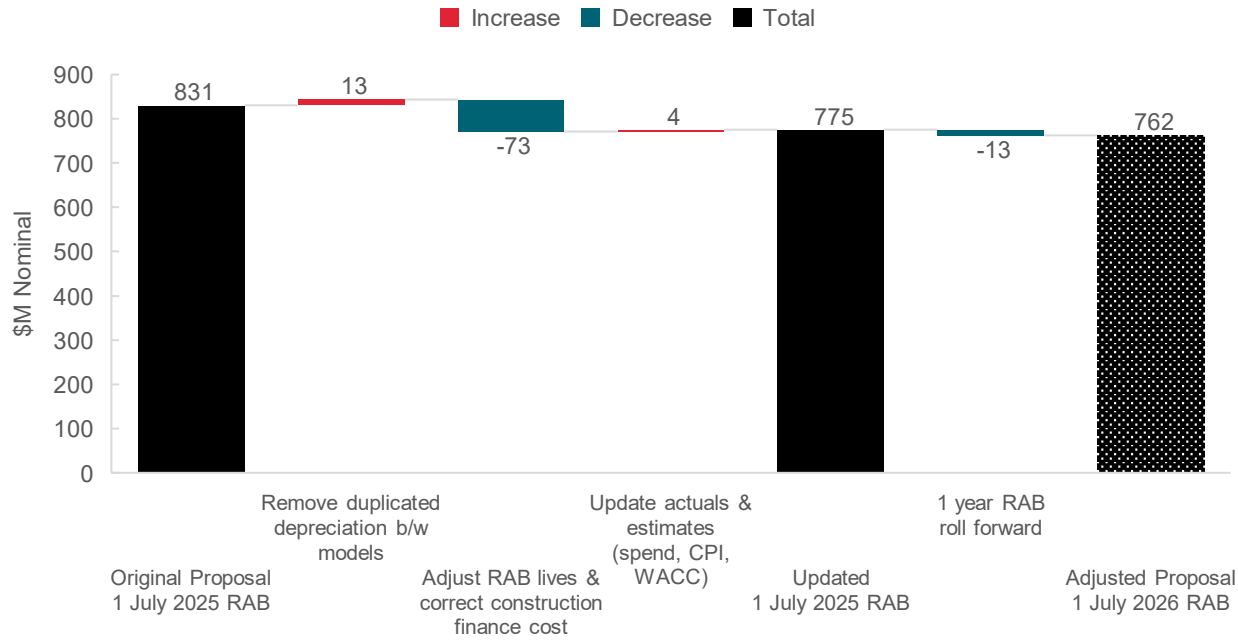
A comparison of the opening RAB value by asset class between the original Revenue Proposal and the updated Revenue Proposal is shown in the Table below.

Comparison of opening RAB value – partially as incurred

$M Nominal	Original Proposal RAB value at 1 July 2025	Updated Proposal RAB value at 1 July 2026
AC filters	1.1	1.3
AC switchyard	10.9	10.7
Auxiliary systems	8.3	8.1
Buildings	16.1	545.7
Cable	548.2	5.7
Control system	0.4	25.2
Converter transformer	82.0	(0.0)
DC filter	0.0	2.5
DC switchyard	2.5	13.3
Easement	13.5	4.2
In-house software	–	(0.0)
Freehold land	4.2	(0.0)
Measuring devices	0.0	17.8
Motor vehicles	0.1	72.5
Other	15.2	1.4
Overhead lines	94.0	0.0
Smoothing reactor	1.5	3.3
Station power supply	0.0	0.4
Switchyard components	3.4	28.5
Valve cooling	0.0	17.9
Valve hall	29.4	3.8
Total	**830.9**	**762.3**
Total $ Real 30 June 2026	**855.8**	**762.3**

The following chart explains the movement in the RAB between the original and updated Revenue Proposal.

Waterfall of RAB – partially as incurred movements between the original and updated Proposal



Forecast capital expenditure

Our original capital expenditure

The capital expenditure for the now four-year regulatory period (2026–30) put forward in the Revenue Proposal is shown below. The replacement of the C&PS was the only significant project put forward and the costs for this project are separated from other capital expenditure in the table.

Capital expenditure put forward in the original Revenue Proposal

$M Real 30 June 2026	2026–27	2027–28	2028–29	2029–30	Total
C&PS	6.5	3.2	8.7	19.0	**37.4**
Other capital expenditure	4.1	1.0	2.5	12.2	**19.9**
Total originally proposed	**10.6**	**4.2**	**11.2**	**31.2**	**57.3**

Our updated capital expenditure

The updated capital expenditure for the 2026–30 regulatory period is shown below. The replacement of the C&PS remains the only significant project and, as explained in our 'Our updated plan on a page', the costs for this project have more than doubled now that the full scope is better understood.

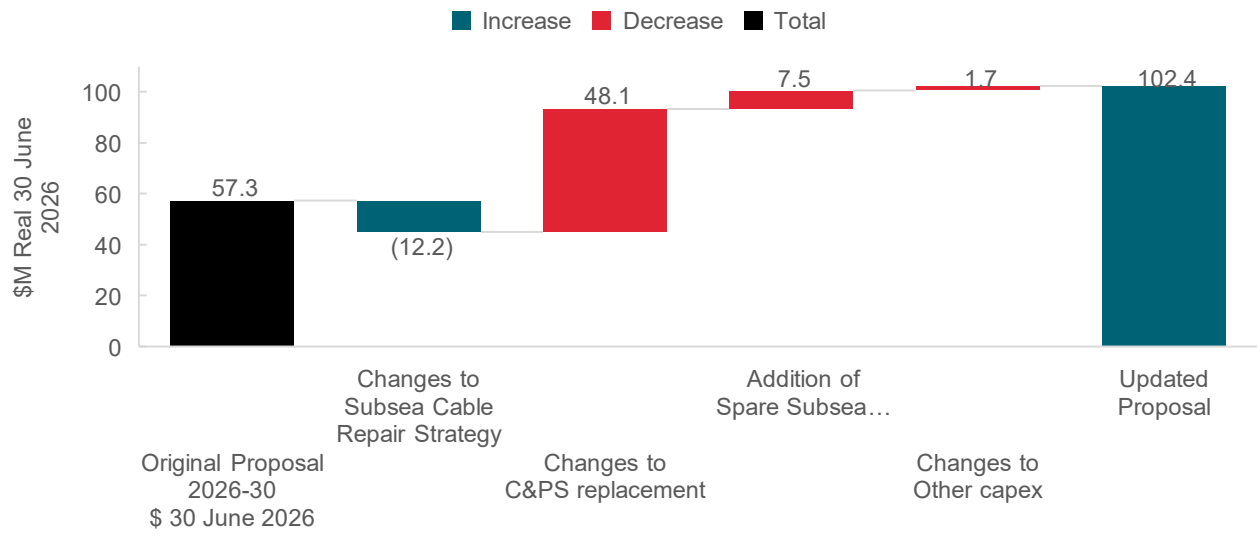
Updated capital expenditure forecast

$M Real 30 June 2026	2026–27	2027–28	2028–29	2029–30	Total
C&PS	13.3	28.0	28.1	16.1	**85.5**
Other capital expenditure	11.7	1.1	2.4	1.7	**16.9**
Total updated	**25.0**	**29.1**	**30.5**	**17.8**	**102.4**

Changes to our proposed capital expenditure

The following chart explains the movement in forecast capital expenditure between the original and updated Revenue Proposal. More detail on these other investment changes is explained below.

Waterfall of capital expenditure movements between the original and updated Proposal



Marine cable repair vessel equipment

We have removed the $12.2 million of costs put forward in the Revenue Proposal for fitting out a replacement for the Lodbrog repair vessel when it is due to be retired in 2027. This is due to uncertainties as to whether Lodbrog's life may be extended and the identification of a future repair vessel.

Should the services of a new repair vessel be required to be negotiated during the 2026–30 regulatory period, we do not expect such costs to exceed the $30 million required to be classified as a contingent project. As such, we are proposing the inclusion of a new Cost Pass Through category for the 2026–30 regulatory period to cover the unavoidable costs of securing another repair vessel should Lodbrog be retired as early as planned. If a cost pass through for such costs is required in the regulatory period, we will work with stakeholders to minimise the bill impact of this to the extent consistent with the National Electricity Rules.

CS Lodbrog

Spare subsea cable

As outlined in our 'Our updated plan on a page', we have secured an earlier manufacturing spot for the purchase of spare subsea cable than the 2032 date expected at the time of our Revenue Proposal. This has increased capital expenditure in the 2026–30 period by $7.5 million.

Minor capital expenditure

This relates to capital expenditure to cover unplanned equipment failures or replacements. Given the small nature of the projects undertaken, it is difficult to forecast, so the average of historic actuals was used to determine the value for the Revenue Proposal.

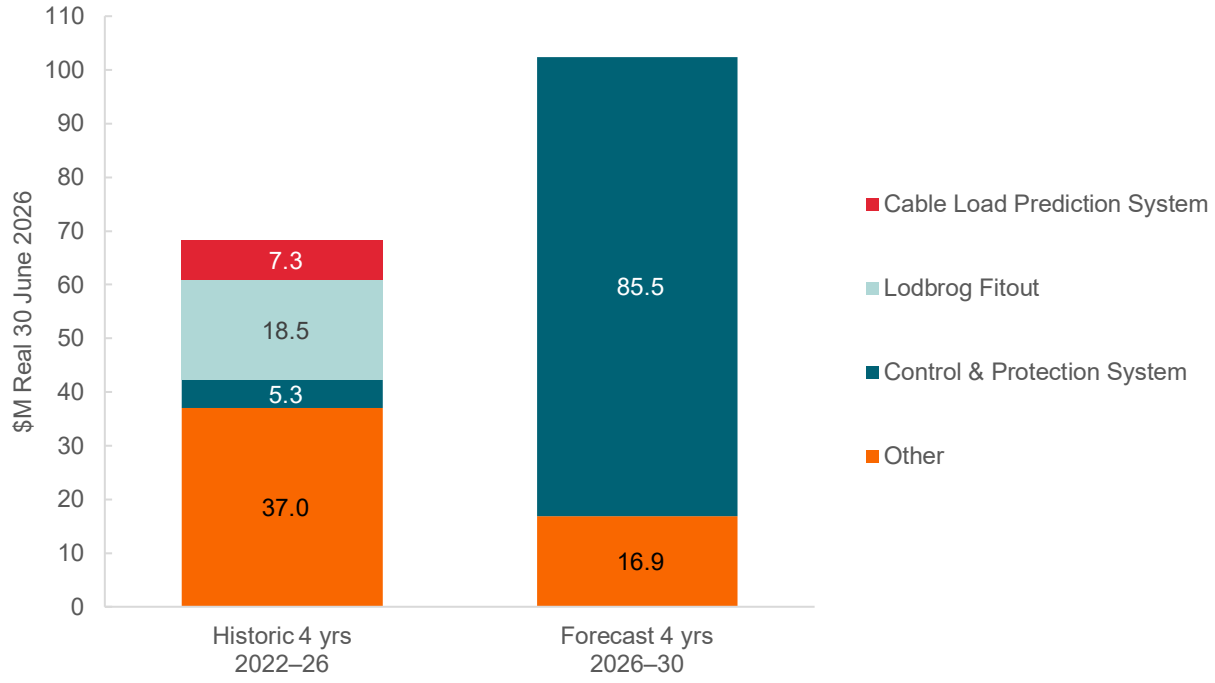
We have since identified an error in the original calculation, whereby we mistakenly used the average of the average annual project cost, rather than the average of the total annual costs. We have also taken the opportunity to update the calculation to include actual 2023–24 data and a more accurate cost estimate for 2024–25. Together, these changes have increase minor capital expenditure from $0.3 million in the original Revenue Proposal to $1.3 million in the updated Revenue Proposal.

Historic capital expenditure

While Basslink shares some similar components with other electricity infrastructure, such as overhead lines, it mostly consists of highly specialised and sophisticated components relevant to HVDC and subsea traversal. As the asset ages, the capital expenditure profile begins to appear lumpy as large stand-alone projects to resolve specific operational issues, largely arising from equipment obsolescence, are required to be undertaken.

This lumpiness is visible in the chart below, which compares the total capital expenditure for the 2026–30 period to the total forecast capital expenditure for the four years prior. Major 'one-off' projects, such as the C&PS replacement project, have been separately identified.

Basslink's historic forecast and proposed capital expenditure – major projects are highlighted



Forecast operating expenditure

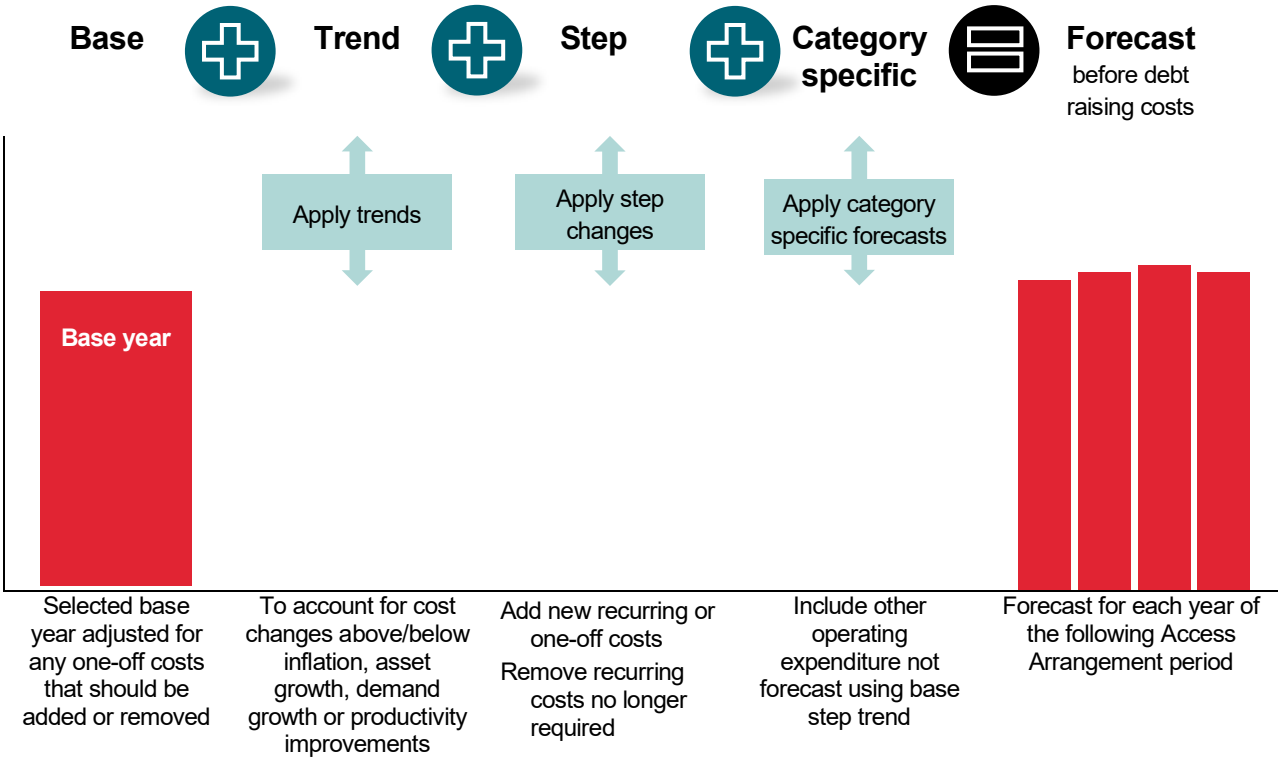
Our updated forecast operating expenditure is lower than our original Proposal. We have maintained the AER's preferred 'Base Trend Step' method for forecasting operating expenditure and 2021–22 as the base year.

At the time of our Revenue Proposal, 2021–22 was the most recent full financial year for which audited operating expenditure data was available. Whilst we have recently provided the AER with actual 2023–24 operating expenditure data, we have not yet had the time review the data to adjust for any one-off costs that should be added or removed. As such, our updated Proposal assumes 2021–22 as the base year, and we will consult with stakeholders ahead of lodging our Revised Proposal regarding the choice of the base year.

In this section, we explain updates to the proposed step changes and category specific forecasts and present and compare the originally proposed operating expenditure to the updated outcome inclusive of these changes.

Original Proposal	**$135 million** 2026–30 total operating expenditure	→	**Updated Proposal**	**$132 million** 2026–30 total operating expenditure

The Base Trend Step model adopts the following process:



Our original operating expenditure

The operating expenditure put forward in the Revenue Proposal is shown below.

Operating expenditure put forward in the original Revenue Proposal

$M Real 30 June 2025	2026–27	2027–28	2028–29	2029–30	Total
Adjusted 2021–22 base year	9.9	9.9	9.9	9.9	**39.5**
Price growth	0.2	0.2	0.3	0.4	**1.1**
Step changes:					
– Cable repair contract	7.7	7.7	3.8	–	**19.1**
Category specific forecasts:					
– Insurance	11.6	11.9	12.3	12.5	**48.3**
– Corporate operating expenditure	2.9	2.9	2.9	3.0	**11.7**
– SOCI cyber	1.1	0.8	0.8	0.8	**3.4**
– IT&OT	2.3	2.1	2.1	2.1	**8.6**
Original Base, Trend, Step result[3]	35.5	35.5	32.1	28.6	**131.8**
Converted to $ Real 30 June 2026	**36.4**	**36.4**	**32.8**	**29.3**	**134.9**

Our updated operating expenditure

As previously outlined, our updated Proposal maintains 2021–22 as the base year as we have not yet had time to fully examine more recent year's data. We will complete this review and assessment prior to submitting our Revised Proposal and defer the decision regarding the choice of base year to the AER.

Our updated operating expenditure is shown below and incorporates CPI updates, which are lower than previously forecast, as well as updates to step changes and category specific forecasts – for which explanations follow.

Operating expenditure in the updated Revenue Proposal

$M Real 30 June 2026	2026–27	2027–28	2028–29	2029–30	Total
Adjusted 2021–22 base year	10.1	10.1	10.1	10.1	**40.6**
Price growth	0.1	0.1	0.1	0.1	**0.3**
Step changes:					
– FCSPS hardware costs	1.0	1.0	1.0	1.0	**4.0**
Category specific forecasts:					
– Insurance	9.0	9.4	9.6	9.8	**37.7**
– Corporate operating expenditure	2.8	2.8	2.8	2.9	**11.3**
– SOCI cyber	1.1	0.8	0.8	0.8	**3.4**
– IT&OT	2.3	2.2	2.1	2.1	**8.6**
Updated Base, Trend, Step result[3]	**35.5**	**35.5**	**32.1**	**28.6**	**131.7**

[3] Excluding debt raising costs

Changes to our proposed operating expenditure

Removal of the cable repair contract step change

Our original Revenue Proposal included costs for a standing contract we were seeking with our subsea cable supplier to provide a smaller response vessel that could prioritise early attendance and support to locate any cable fault ahead of the Lodbrog's arrival. This approach aimed to reduce fault restoration times, thereby providing improved reliability and net customer benefits.

We have been unable to agree contract terms with our cable provider that will reliably deliver the services at a cost that will deliver sufficient consumer value. As the most likely outcome at this stage is that an agreement will not be reached, we have removed these costs from the updated Revenue Proposal.

Addition of FCSPS hardware costs as a step change

As outlined in 'Our updated plan on a page' we have included a new step change for the hardware costs associated with the provision of FCSPS services. These costs are essential to maintaining a safe and reliable interconnector between Victoria and Tasmania.

Insurance category specific forecast

As outlined in 'Our updated plan on a page' we have updated our insurance category specific forecast to account for market changes since the Proposal was first lodged. The proposal still reflects the outcome of our stakeholder engagement with a deductible (excess) is $5 million US dollars.

Incentive schemes

The incentive schemes proposed to apply to Basslink for the 2026–30 regulatory period remain unchanged from the original Proposal.

We are proposing the application of both the Service Target Performance Incentive Scheme and the Capital Expenditure Sharing Scheme in a manner consistent with other electricity transmission networks.

The **Service Target Performance Incentive Scheme** provides an incentive to improve or maintain our service levels.

The **Capital Expenditure Sharing Scheme** provides an incentive to improve the efficiency of capital expenditure.

We maintain our proposal that the Efficiency Benefit Sharing Scheme not apply to Basslink in its first regulatory period, as it may produce unexpected outcomes rather than drive efficiency improvements. The shortened four-year regulatory period would also require adjustments to the Efficiency Benefit Sharing Scheme model. We do, however, propose that the Efficiency Benefit Sharing Scheme apply in subsequent revenue periods.

We are not proposing to apply the Demand Management Innovation Allowance Mechanism given the limited demand management opportunities available to Basslink as a transmission network.

Cost pass throughs

We are proposing one additional cost pass through event in our updated Proposal to apply to Basslink for the 2026–30 regulatory period.

Our original cost pass throughs

The following cost pass through events were proposed in our original Revenue Proposal:

Insurance coverage event

Insurer's credit risk event

Natural disaster event

Terrorism event

Asset protection studies

Our updated cost pass throughs

Our updated Revenue Proposal maintains the original five cost pass through events proposed but includes an additional cost pass through for the costs that may be experienced should the CS Lodbrog subsea cable repair vessel be retired in the 2026–30 period.

Insurance coverage event

Insurer's credit risk event

Natural disaster event

Terrorism event

Asset protection studies

Replacement of marine cable repair vessel

to recover the unavoidable costs of securing another cable repair vessel should the CS Lodbrog be retired during the 2026–30 period.

The current contract for CS Lodborg was signed in March 2023 for a five-year period with the option for a further two-year extension, which would have covered almost the entire 2026–30 regulatory period. The ship's owner has since indicated that they are looking to retire the Lodbrog in 2028.

Our reasoning as to how this proposed cost pass through event meets the Rules, can be found in the accompanying '*Repair Vessel Cost Pass Through Event'* document – Attachment 6.

Should this new cost pass through event occur in the 2026–30 period, we will work with stakeholders to agree an appropriate period over which the costs should be recovered.

Frequency Control System Protection Scheme (FCSPS) costs

The FCSPS allows Basslink to operate at its full capacity, rather than restricting energy flows to 144 megawatts in each direction. The FCSPS trips loads or generators following a trip of Basslink on import or export respectively, to assist the Australian Energy Market Operator in managing Tasmanian frequency within the Tasmanian frequency operating standard.

These services are market benefit ancillary services and recoverable through the network system control ancillary service cost pass through mechanisms, under the 'Improving security frameworks for the energy transition' rule changes.

Basslink will procure and contract these services prior to 1 July 2026 and recover the expected payments through its transmission pricing each year. A true-up at the end of the year will ensure that only the cost of actual payments are passed through to customers.

There is a separate process that allows a TNSP to apply to the AER to make an advance determination regarding the treatment of proposed system security network support payments and Basslink is planning to utilise this process. You can read more about the AER's approach to ex-ante determinations on system security network support payments in their guideline document.

Basslink will continue to engage with stakeholders regarding the recovery and allocation of FCSPS costs.

Glossary

Term	Explanation
AER	Australian Energy Regulator – the body responsible for regulating Basslink as a TNSP
CPI	Consumer Price Index
C&PS	Control and protection system – the computer system that ensures the safe and reliable operation and seamless integration between the Tasmanian and Victorian electricity grids.
FCSPS	Frequency Control System Protection Scheme – the costs related to ensuring the operation of Basslink does not breach the Tasmanian system frequency standard. The scheme consists of both a hardware cost payable by Basslink to TasNetworks, for which an estimate has been included in the updated Revenue Proposal and the costs for contracting the services which are yet to be confirmed.
HVDC	High voltage direct current
km	kilometre
RAB	Regulated Asset Base – The RAB consists of the adjusted total value of all regulated assets and is used in determining the allowance for depreciation and for a return on capital invested. It is one of the most important elements in the building block revenue model, driving about 70% of Basslink's revenue requirement.
RRG	Regulatory Reference Group – our group of key stakeholders with whom we have engaged since November 2022
the Rules	The National Electricity Rules
WACC	Weighted Average Cost of Capital

Document listing

The documents that accompany this Overview document are:

- Attachment 1 – Updated PTRM
- Attachment 2a – Updated RFM – 07 to 16
- Attachment 2b – Updated RFM – 17 to 26
- Attachment 3 – Updated Forecast Capex Model
- Attachment 4 – Updated Forecast Opex Model
- Attachment 5 – Updated Control & Protection System Business Case
- Attachment 6 – Repair Vessel Cost Pass Through Event