Final Decision

Marinus Link Stage 1, Part B (Construction costs)
Electricity Transmission Determination
2025–30

February 2026

AUSTRALIAN ENERGY REGULATOR

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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).

This document sets out our Final Decision for Marinus Link Stage 1, Part B (Construction costs) and follows our Initial Draft Decision[1] and Supplementary Draft Decision.[2] Marinus Link is a component of 'Project Marinus' that also includes the North West Transmission Development progressed by TasNetworks.[3] The Australian Energy Market Operator's (AEMO) 2026 Draft Integrated System Plan (ISP) includes Stage 1 of 'Project Marinus' as an anticipated ISP project under the optimal development path that will deliver a 750 megawatt (MW) high voltage direct current (HVDC) cable connecting Victoria and Tasmania and associated transmission upgrades.[4] The 2026 draft ISP notes Stage 2 of 'Project Marinus' is likely to retain actionable status in the 2026 ISP and will deliver a second 750 MW HVDC cable connecting Tasmania and Victoria and further network upgrades.[5]

The costs of Marinus Link will be recovered through transmission charges levied on Victorian and Tasmanian electricity customers. The recovery of costs will occur once Marinus Link commences services, which is expected in 2030, and the allocation of the costs between Victoria and Tasmania will be based on an agreement that has been reached between the Victorian and Tasmanian Governments.

Australia's energy sector is transitioning towards a net zero future, with the Australian Government targeting 82% renewable electricity in our electricity grids by 2030. The transition is further supported by individual state renewable energy targets set in Tasmania and Victoria. However, we are mindful that our Final Decision comes at a challenging time for energy consumers, many of whom share concerns about energy affordability and security as well as the impact large scale energy infrastructure projects may have on the environment and communities.

There has been considerable stakeholder interest and a diverse range of views expressed regarding Marinus Link throughout the process, reflective of the complexity of a project of national significance that spans multiple jurisdictions. It is important that stakeholders continue to engage in these processes to ensure our decisions meet the long term interest of consumers. Stakeholders will have an opportunity for further engagement on Marinus Link when MLPL submits a full revenue proposal in January 2029, ahead of commissioning the first cable, expected in 2030.

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1 Australian Energy Regulator (AER), *Initial Draft Decision – Marinus Link Stage 1, Part B (Construction costs) Transmission Determination 2025–30*, May 2025.

2 AER, *Supplementary Draft Decision – Marinus Link Stage 1, Part B(Construction costs)*, November 2025.

3 AER, *TasNetworks – North West Transmission Development Stage 1 – Contingent Project – Decision*, February 2026

4 Australian Energy Market Operator (AEMO), *Draft 2026 Integrated System Plan*, December 2025, p 78.

5 AEMO, *Draft 2026 Integrated System Plan*, December 2025, p 79.

The role of the AER is to assess the prudency and efficiency of the costs proposed by Marinus Link Pty Ltd (MLPL). This document sets out our Final Decision for MLPL's Stage 1, Part B (Construction costs) revenue proposal (construction costs proposal).

Our assessment of MLPL's proposal

As MLPL does not currently provide transmission services, the process for assessing MLPL's proposals is different to our other revenue determination processes. Our determination is made under the Intending Transmission Network Service Provider (Intending TNSP)[6] provision of the National Electricity Rules (NER).[7] We published a Commencement and Process Paper[8] specifying the process for making the transmission determination. The Commencement and Process Paper sets out a staged approach comprising:

- Stage 1, Part A (Early works), determined the pre-construction costs that can be included in the opening regulatory asset base (RAB). The AER's early works decision was published in December 2023.[9]
- Stage 1, Part B (Construction costs), determines the construction costs that can be included in the opening RAB.
- Stage 2 Revenue Proposal (to be finalised in 2030) determines MLPL's revenues using the RAB determined in the Stage 1 decisions.

The first regulatory period will apply from 1 July 2025 to 30 June 2030. This covers the construction phase up to the commissioning date of the first cable.

On 29 November 2024, MLPL submitted its Stage 1, Part B (Construction costs) proposal[10] for $3,534.3 million ($2023) in capital expenditure (capex). Any construction costs approved by us will form the basis for a subsequent revenue determination which MLPL is expected to lodge in 2029. We have adopted a staged approach for assessing the construction costs which included an Initial Draft Decision limited to market tested costs, published in March 2025, and a Supplementary Draft Decision published in November 2025.

Our Initial Draft Decision[11] accepted the market tested costs for the HVDC cable system and the converter station equipment and supply, with a total forecasted capex of $1,632.2 million ($2023).

On 17 October 2025, MLPL provided a revised total capex forecast of $3,495.3 million ($2023), including the balance of works, and updated estimates for support activities and risk allowance capex that was not included in our Initial Draft Decision.[12]

Our Supplementary Draft Decision[13] in response to the revised proposal was to not accept MLPL's proposed capex of $3,495.3 million ($2023) and instead substitute an alternative

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6 AER, *Marinus Link – Notice of Decision and Commencement and Process Paper,* June 2023.

7 NEL, cl. 6A.9.4

8 AER, *Marinus Link - Revised Commencement and Process Paper*, December 2024.

9 AER**,** *Revenue Determination - Marinus Link - Stage 1, Part A (Early works)***,** December 2023.

10 Marinus Link Pty Ltd (MLPL), *ML-B-002 MLPL Revenue Proposal Stage 1 - Part B (Construction)*, December 2024.

11 AER, *Initial Draft Decision - Marinus Link Stage 1, Part B (Construction costs) Transmission Determination 2025–30*, May 2025.

12 MLPL, *Attachment 1 - Marinus Link Update to Revised Revenue Proposal*, October 2025.

13 AER, *Supplementary Draft Decision – Marinus Link Stage 1, Part B(Construction costs),* November 2025.

estimate of $3,316.9 million ($2023). We received 4 submissions in response to the Supplementary Draft Decision, including a submission from MLPL, and have considered stakeholder submissions in our Final Decision.

Project risks

As Marinus Link is a large complex greenfield project, it is more difficult to accurately forecast costs than most other transmission projects. The resulting risk of over (or under) spending is correspondingly higher than normal. Our Final Decision adopts a balanced approach to risk sharing between MLPL and consumers. Throughout the extensive consultation process, stakeholders have provided a range of views as to how risk should be apportioned with submissions focussing on cost pass throughs, the capital expenditure sharing scheme (CESS) and MLPL's proposed risk allowance. Our approach includes incentives for MLPL to contain costs, while providing a reasonable opportunity for MLPL to recover all of its construction costs. We have done this by:

- Including a prudent and efficient risk allowance. This provides a cost 'buffer' for unexpected cost increases.
- Including cost pass throughs for events outside of MLPL's control.
- Modifying the CESS to reduce the impact of substantial cost over (or under) spends.

Our approach to risk in the Final Decision reflects both the complexity of delivering a project on the size and scale of Marinus Link as well as what we have heard from stakeholders during consultation.

Our Final Decision on Stage 1, Part B (Construction costs)

Our Final Decision is to not accept MLPL's proposed capex of $3,498.4 million ($2023). Instead, we substitute an alternative estimate of $3,470.6 million ($2023) to ensure consumers pay no more than necessary for the delivery of Marinus Link. Our capex determination reflects alternative estimates for support activities and project risk allowance.

Other key elements of our Final Decision include to:

- Apply the CESS, but not accept the two approaches MLPL proposed in its submission in response to the Supplementary Draft Decision. Rather, under the CESS, a 30:70 sharing ratio for expenditure variations up to a 10% over or underspend and then an incremental 10:90 sharing ratio will apply.
- Accept MLPL's proposed cost pass through events for: insurance coverage event, insurer's credit risk event, natural disaster event, and terrorism event.
- Not accept MLPL's proposed cost pass through events for: biodiversity event, unavoidable contract variations event, contractor insolvency event, and contractor force *majeure* event.

This document sets out the assessment approaches applied; enquiries made as part of our review and the rationale for our Final Decision.

Next steps

Consistent with the approach set out in the Commencement and Process Paper,[14] a full revenue determination using the standard 15-month process under Chapter 6A of the NER is expected to commence in January 2029, ahead of commissioning the first cable, expected in 2030.

14 AER, *Marinus Link - Revised Commencement and Process Paper*, December 2024, p 3.

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1 Stakeholder engagement

Stakeholder engagement is an important element of the regulatory process as it provides us with supporting evidence that proposals are aligned with consumer interests and expectations. Our expectations for consumer engagement in network revenue determinations are set out in the Better Resets Handbook.[15]

Throughout the process we have recognised the scope of MLPL's proposal is narrower than a typical revenue proposal given Marinus Link will not be operational, nor recover costs from consumers, until 2030. Consequently, MLPL's construction cost proposal does not consider issues relating to operating expenditure (opex), replacement or augmentation capex, depreciation, service performance or transmission pricing. However, we consider effective consultation should inform aspects of the construction cost proposal, including application of the CESS, capex and cost pass throughs.

1.1 MLPL's stakeholder engagement

MLPL commenced consumer engagement in July 2018 to raise awareness of Project Marinus. Targeted engagement with landholders, local communities and Traditional Owners in Victoria and Tasmania began in 2020, including the establishment of the Aboriginal Advisory Group, First Peoples Advisory Group and the Gippsland Stakeholder Laison Group.

MLPL established a Consumer Advisory Panel in April 2022 which provides a forum for MLPL to consult, inform and involve consumer representatives from Tasmania and Victoria on Marinus Link. The Consumer Advisory Panel has covered a range of topics including social licence, tendering and procurement, incentive schemes and cost pass throughs.

Project costs and benefits emerged as a key point of interest for stakeholders during MLPL's consumer engagement. The Consumer Advisory Panel has maintained a clear focus on this issue, including how costs and benefits are distributed between Victorian and Tasmanian consumers. In response to stakeholder interest on this issue, MLPL commissioned FTI Consulting to provide updated customer benefit analysis and sought stakeholder submissions on the latest analysis.

1.2 What we have heard from stakeholders

Transmission is an important enabler of Australia's energy transition given its role in connecting renewable energy hubs to population centres and industry. We understand that large transmission projects can have a significant impact on communities, landholders and the environment. We also acknowledge our Final Decision comes at a time when consumers are increasingly concerned about energy affordability. Given community interest in these issues, we consider it critical that the consultation process supports transparency and that stakeholder submissions and views put to us, inform our Final Decision.

Our consultation on MLPL's construction cost proposal commenced with the publication of our Issues Paper on 21 March 2025, supported by a public forum on 3 April. On 16 May 2025, we released the Initial Draft Decision followed by a Supplementary Draft Decision

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

published on 28 November 2025. We held public forums after the publication of both Draft Decisions and invited submissions. Releasing Initial and Supplementary Draft Decisions meant the AER was able to support the timely delivery of Marinus Link while ensuring consultation on construction cost information was done in the context of market tested information and without confidentiality claims on key aspects of the proposal. In total we received 26 submissions and we closely considered each of these during our assessment of MLPL's construction cost proposal, including at the Initial Draft, Supplementary Draft and Final Decision.[16]

Stakeholders provided a range of views in submissions and when participating in public forums. Key issues that emerged include:

- Concerns regarding affordability, including the combined bill impacts of transmission in Tasmania and cost allocation between Victoria and Tasmania.
- Questions regarding increased construction costs, including determining an appropriate risk allowance, and project benefits.
- Application of the CESS, including the importance of applying a robust CESS to support efficient delivery of Marinus Link.
- Consideration of cost pass throughs, including the four novel pass throughs proposed by MLPL.
- MLPL's community stakeholder and social licence activities.
- Concern over the environmental and social impacts of large scale transmission projects.
- The appropriate pathway for Stage 2 of Project Marinus, including enabling capex for the second cable.

In reaching our Final Decision, we have carefully considered all the submissions we have received in relation to MLPL's construction cost proposal. Aspects of our Final Decision and the process we established to support the assessment of MLPL's construction cost proposal that reflect stakeholder feedback include:

- In response to stakeholder concerns regarding increased project costs and the impact on project benefits, the Commencement and Process Paper set an expectation that MLPL would complete both AEMO's feedback loop process and update its regulatory investment test for transmission (RIT-T). The feedback loop was completed in August 2025,[17] and the RIT-T update occurred in July 2025.[18] We considered these processes were necessary to provide stakeholders with confidence that Project Marinus remained on the 2024 ISP optimal development path and will deliver benefits to consumers.

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16 14 submissions were received for the Issues Paper, 6 for the Initial Draft Decision, 2 following the release of MLPL's revised proposal, and 4 for the Supplementary Draft Decision.

17 AEMO feedback loop assessments are available at https://aemo.com.au/en/energy-systems/majorpublications/integrated-system-plan-isp/integrated-system-planfeedback-loop-notices.

18 All RIT-T reports and updates are available at https://www.marinuslink.com.au/rit-t-process.

- In part, due to stakeholder interest in MLPL's proposed risk allowance, we commissioned independent expert advice to inform our assessment of this component of MLPL's construction cost proposal.
- Our decision to not accept the four additional cost pass throughs proposed by MLPL for biodiversity, unavoidable contract variations, contractor insolvency and contractor force *majeure* has been informed by stakeholder views that risk should not be borne by consumers where those risks can be substantially mitigated by MLPL.
- Our decision to not accept MLPL's proposed CESS sharing ratio and instead apply a more robust ratio is consistent with stakeholder views that highlighted the importance of providing meaningful cost containment incentives.
- Our decision to approve capex in support of MLPL's social licence and community engagement initiatives is consistent with stakeholder views that highlighted the importance of MLPL engaging with impacted communities.

The AER acknowledges and appreciates the time and resources individuals and organisations have invested in preparing submissions and engaging in our consultation process.

2 Key components of our Final Decision

This section considers key elements of MLPL's construction costs proposal. The AER's Commencement and Process Paper specifies modifications to the transmission determination process including the matters for determination at each stage.[19] For the construction costs proposal, the Commencement and Process Paper notes these key elements as part of the decision we would make at this current stage. Other determinants of revenues and tariffs, such as opex, depreciation, and pricing methodologies, will be considered when MLPL submits its Stage 2 revenue proposal in 2029.

2.1 Capitalisation of expenditure

This section sets out our calculation of the forecast opening RAB as at 1 July 2030 for MLPL. This includes the escalation of capitalised costs that MLPL will recover from customers through revenues in the regulatory control period commencing after construction has completed and commissioning of the asset has occurred.

In this Final Decision, we determine a forecast opening RAB value of $4,930.1 million ($ nominal) as at 1 July 2030, which is $41.6 million (0.8%) lower than the $4,971.7 million proposed by MLPL in its revised proposal for construction costs. It is $209.0 million (4.4%) higher than the value determined in our Supplementary Draft Decision of $4,721.1 million. The increase is driven primarily by our Final Decision on forecast capital expenditure for the 2025–30 regulatory period.

The opening RAB as at 1 July 2030 consists of:

- An updated opening RAB as at 1 July 2025 from the opening RAB determined in our Supplementary Draft Decision reflecting updates to equity raising costs.
- Updated forecasts for Stage 1, Part B (Construction costs) capital expenditure for the period from 2025–26 to 2029–30.
- Return on capital for the above expenditures based on the allowed weighted average cost of capital (WACC).
- Capitalised benchmark debt and equity raising costs.

For our Supplementary Draft Decision, we made modelling amendments affecting the opening RAB as at 1 July 2030. In its submission in response to the Supplementary Draft Decision, MLPL accepted these changes which included:

- Applying an extra year's expected inflation to the calculation of benchmark debt raising costs.
- Applying the geometric mean of annual expected inflation from 2025–26 to 2029–30 to align with our method set out in the 2020 inflation review.[20]

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19 NER, cl 6A.9.3(c)(1).

20 AER, *Final position paper - Regulatory treatment of inflation*, December 2020; AER, *Amended electricity transmission PTRM*, May 2022.

- Removing the capitalised maximum allowed revenue (MAR) (associated with Stage 1, Part B expenditure) from the expenditure funding requirement of the benchmark equity raising cost calculations.

In determining the forecast opening RAB as at 1 July 2030, we note the following:

- We determine an opening RAB of $402.6 million ($ nominal) as at 1 July 2025. This is $2.0 million higher than the opening RAB of $400.6 million we determined in our Supplementary Draft Decision. This increase is driven by our alternative forecast Stage 1, Part B (Construction costs) capex for 2025–30 regulatory period updating the equity raising costs, which are capitalised in the opening RAB.
- Our calculation of the opening RAB as at 1 July 2030 does not make any adjustment for depreciation. This is because Marinus Link is not expected to be commissioned until 1 July 2030, and therefore depreciation will not commence for the 2025–30 regulatory control period.
- The approach to capitalise benchmark debt and equity raising costs into the RAB is consistent with our standard regulatory practice. These costs are to be included in the RAB because no revenue will be recovered from consumers relating to these benchmark allowances until prescribed services are expected to commence in 2030–31.
- MLPL is in discussion with Clean Energy Finance Corporation (CEFC) on the details of concessional financing. We will assess the impact of any concessional financing arrangement on the opening RAB as at 1 July 2030 once the concessional finance agreement is finalised.

Table 1 below sets out the components of our Final Decision opening RAB for the 2025–30 regulatory control period.

Table 1 AER Final Decision – Capitalisation of expenditure calculation for the 2025–30 period – Marinus Link Stage 1, Part B (Construction costs) ($ million, nominal)

	2025–26	2026–27	2027–28	2028–29	2029–30
Opening RAB	402.6[a]	970.7	2,191.1	3,250.8	4,238.8
Part B Expenditure (Construction costs) net of grant funding	532.2	1,134.4	905.0	766.6	410.0
Allowed return on opening RAB[b]	21.6	54.2	127.5	196.6	266.1
Allowed return on annual expenditure[c]	14.1	31.3	25.9	22.8	12.7
Debt raising costs	0.2	0.6	1.3	2.0	2.5
Closing RAB	970.7	2,191.1	3,250.8	4,238.8	**4,930.1**

Source: AER analysis.

(a) Includes capitalised equity raising costs for Stage 1, Part A (Early works) in 2021–22 and Stage 1, Part B (Construction costs) in 2023–24.

(b) Calculated by multiplying the opening RAB with the allowed nominal WACC of 5.36% which will be updated annually for return on debt updates as set out in section 2.2 for the 2025–30 period.

(c) Calculated by multiplying the expenditure (construction costs) net of grant funding with the allowed nominal WACC of 5.36% which will be updated annually for return on debt updates as set out in section 2.2 for the 2025–30 period.

2.1.1 Concessional finance

In March 2024, the Australian Energy Market Commission (AEMC) finalised a rule change regarding the passing of the benefits of concessional finance onto consumers through lower transmission revenues to be recovered and lower network tariffs.[21] The rule change provides a mechanism for the sharing of concessional finance benefits to consumers through a specified annual reduction to the MAR, a reduction of the value of the specified assets in the RAB or a combination of both.[22]

MLPL expects to receive concessional finance through the CEFC, and is required to provide the AER with a copy of the agreement within 40 business days of entering into that agreement.[23] Once finalised, the AER must make a concessional finance adjustment pursuant to the conditions under clause 6A.3.3 of the NER, which will reduce the costs that MLPL will need to recover from consumers once Marinus Link is commissioned in 2030.[24]

MLPL highlighted that these arrangements may, depending on the terms of the agreement, impact its:[25]

- opening RAB as at 1 July 2025,
- opening RAB as at 1 July 2030; and
- return on capital in the second regulatory period, commencing 1 July 2030.

2.2 Rate of return and value of imputation credits

The AER's 2022 Rate of Return Instrument (RORI) sets out the approach we will use to estimate the return on debt, the return on equity and the overall rate of return.[26]

The return each business is to receive on its 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 two sources of funds for investment: equity and debt. The allowed rate of return provides the business with a return on capital to service the interest rate 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

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21 AEMC, *National Electricity Amendment (Sharing concessional finance benefits with consumers) Rule 2024 No. 7*.

22 AEMC, *National Electricity Amendment (Sharing concessional finance benefits with consumers) Rule 2024 No. 7*, p i.

23 NER, cl. 6A.3.3(a)

24 MLPL, *MLPL-B-002 MLPL Revised Revenue Proposal Stage 1 - Part B (Construction)*, July 2025, pp 6–7.

25 MLPL, *MLPL-B-002 MLPL Revised Revenue Proposal Stage 1 - Part B (Construction)*, July 2025, pp 54–55.

26 AER, *Rate of Return Instrument (Version 1.2)*, March 2024.

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 national energy laws and rules to apply the RORI to estimate an allowed rate of return. For this Final Decision, we have applied the 2022 RORI.[27] This Final Decision on the rate of return supersedes the Supplementary Draft Decision.

MLPL's revised proposal adopted the 2022 RORI. The 5.36% (nominal vanilla) rate of return in this Final Decision is the same as that adopted in MLPL's revised proposal, as well as that in our Initial and Supplementary Draft Decisions. This is because MLPL's actual risk-free rate and debt averaging periods are applied in both the Initial and Supplementary Draft Decisions and Final Decision.[28] As our Initial Draft Decision accepted MLPL's proposed risk-free rate and debt averaging periods,[29] and these periods were not changed in MLPL's revised proposal,[30] they have not been revisited in the Supplementary Draft Decision or in this Final Decision.

Our calculated rate of return in Table 2 applies to the first regulatory year of the 2025–30 period. A different rate of return may apply for the remaining years of the period. This is because we will update the return on debt component of the rate of return each year, in accordance with the 2022 RORI, to use a 10-year trailing average portfolio return on debt that is rolled-forward each year. Hence, only 10% of the return on debt is calculated from the most recent averaging period, with 90% from prior periods.

Table 2 Final Decision on MLPL's rate of return (nominal)

	AER's Initial Draft Decision (2025–30)	MLPL's revised proposal (2025–30)	AER's Supplementary Draft Decision (2025–30)	AER's Final Decision (2025–30)	Allowed return over the regulatory control period
Nominal risk-free rate	4.47%[a]	4.47%	4.47%[a]	4.47%[a]	Constant (%)
Market risk premium	6.20%	6.20%	6.20%	6.20%	Constant (%)
Equity beta	0.6	0.6	0.6	0.6	Constant
Return on equity (nominal post-tax)	8.19%	8.19%	8.19%	8.19%	Constant (%)
Return on debt (nominal pre-tax)	3.46%[b]	3.46%	3.46%[b]	3.46%[b]	Updated annually

27 AER, *Rate of Return Instrument (Version 1.2)*, March 2024.

28 AER, *Initial Draft Decision - Marinus Link Stage 1, Part B (Construction costs) Transmission Determination 2025–30*, May 2025, p 7; MLPL, *MLPL-B-002 MLPL Revised Revenue Proposal Stage 1 - Part B (Construction)*, July 2025, p 53; AER, *Supplementary Draft Decision - Marinus Link Stage 1, Part B (Construction costs)*, November 2025, p 7.

29 AER, *Initial Draft Decision - Marinus Link Stage 1, Part B (Construction costs) Transmission Determination 2025–30*, May 2025, p 7; AER, *Supplementary Draft Decision - Marinus Link Stage 1, Part B (Construction costs)*, November 2025, p 7.

30 MLPL, *MLPL-B-002 MLPL Revised Revenue Proposal Stage 1 - Part B (Construction)*, July 2025, p 54.

Gearing	60%	60%	60%	60%	Constant (60%)
Nominal vanilla WACC	5.36%	5.36%	5.36%	5.36%	Updated annually for return on debt
Expected inflation	2.72%	2.66%[c]	2.82%	2.82%	Constant (%)

Source: AER analysis; AER, *Initial Draft Decision - Marinus Link Stage 1, Part B (Construction costs) Transmission Determination 2025–30,* 16 May 2025, pp 7-8; MLPL, *MLPL-B-002 MLPL Revised Revenue Proposal Stage 1 - Part B (Construction) - July 2025*, July 2025, pp 53-54; AER, *Supplementary Draft Decision - Marinus Link Stage 1, Part B (Construction costs) Electricity Transmission Determination 2025–30*, November 2025, pp 7-8.

(a) Calculated using MLPL's risk-free rate averaging period of 20 business days from 3 January 2025 to 31 January 2025.

(b) Calculated using MLPL's actual nominated return on debt averaging period.

(c) MLPL provided separate annual inflation forecasts for each regulatory year. The inflation forecast shown in the table is a geometric average of MLPL's annual forecasts over the 2025–30 regulatory control period. The first year expected inflation in MLPL's forecasts is 3.10%.

Debt and equity raising costs

In addition to compensating 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 normally include debt raising costs in the 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 capex forecast because these costs are only incurred once and would be associated with funding the particular capital investments. Our approach to forecasting debt and equity raising costs is set out in more detail in our past determinations.[31] In this decision, both the debt and equity raising costs are capitalised in MLPL's construction costs. MLPL has proposed to use our approach to estimate debt and equity raising costs.[32]

Our Final Decision, consistent with our Initial and Supplementary Draft Decisions, is to apply a debt raising cost of 9.74 basis points per annum, which has been used to calculate the debt raising cost forecast set out in section 2.1.[33]

We have updated our estimate of equity raising costs relative to the Supplementary Draft Decision for the 2025–30 period based on the benchmark approach using updated inputs. This results in equity raising costs of $42.8 million.[34]

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31 AER, *Draft Decision Attachment 3 - Rate of return - Ergon Energy - 2025–30 Distribution revenue proposal*, September 2024, pp 4–6.

32 MLPL, *MLPL-B-015 Revised Revenue Proposal Regulatory Financials*, October 2025.

33 AER, *Supplementary Draft Decision - Marinus Link Stage 1, Part B (Construction costs)*, November 2025, pp 8-9.

34 AER, *Supplementary Draft Decision - Marinus Link Stage 1, Part B (Construction costs)*, November 2025, pp 8-9.

Imputation credits

Our Final Decision applies a value of imputation credits (gamma) of 0.57, as set out in the 2022 RORI.[35] This is the same as our Initial and Supplementary Draft Decisions and MLPL's initial and revised proposals also adopted this value.[36]

Expected inflation

As set out in Table 3, our estimate of expected inflation is 2.82%. It is an estimate of the average annual rate of inflation expected over a five-year period based on the outcome of our 2020 inflation review.[37] This is the same estimate as our Supplementary Draft Decision and MLPL's initial and revised proposals also adopted our approach.[38]

Table 3 Final Decision on MLPL's forecast inflation (%)

	Year 1	Year 2	Year 3	Year 4	Year 5	Geometric average
Expected inflation	3.70%	2.70%	2.63%	2.57%	2.50%	2.82%

Source: AER Analysis; RBA, Statement on Monetary Policy, November 2025, Table 3.1: Detailed Forecast Table. See: https://www.rba.gov.au/publications/smp/2025/nov/outlook.html#table-3-1

Our Final Decision uses the Reserve Bank of Australia's (RBA) November 2025 Statement on Monetary Policy which contains a consumer price index forecast for the year ending June 2027. This means the first two years of the 2025–30 period is based on RBA forecasts and, thereafter, a linear glide path from year three to the mid point of the RBA's inflation target band of 2.5% in year five.

35 AER, *Rate of return Instrument (version 1.2)*, March 2024, cl. 27.

36 MLPL, *MLPL-B-002 MLPL Revised Revenue Proposal Stage 1 - Part B (Construction)*, July 2025, p 53; AER, *Initial Draft Decision - Marinus Link Stage 1, Part B (Construction costs) Transmission Determination 2025–30*, May 2025, p 9; AER, *Supplementary Draft Decision - Marinus Link Stage 1, Part B (Construction costs)*, November 2025, p 9.

37 AER, *Final position, Regulatory treatment of inflation*, December 2020.

38 MLPL, *MLPL-B-002 MLPL Revised Revenue Proposal Stage 1 - Part B (Construction)*, July 2025, p 54; AER, *Supplementary Draft Decision - Marinus Link Stage 1, Part B (Construction costs)*, November 2025, p 9.

3 Capital expenditure

Capital expenditure (capex)—the capital costs and expenditure incurred in the provision of network services—mostly relates to assets with long lives, the costs of which are recovered over the life of those assets. Forecast capex directly affects the size of the capital base and the revenue generated from the return on capital and depreciation building blocks.

As we set out in the following sections, our Final Decision substitutes an alternate capex forecast of $3,470.6 million compared to $3,498.4 million ($2023) which was included in MLPL's submission to our Supplementary Draft Decision.[39]

Table 4 AER Final Decision – Capital expenditure ($2023, million)

Cost category	AER Supplementary Draft Decision	MLPL's Submission	AER Final Decision
Converter Station Design and Equipment Supply	776.7	776.7	776.7
HVDC Cable System – Submarine and Land Cables	908.6	908.6	908.6
Balance of Works	909.1	909.1	909.1
Risk Allowance	198.7	364.9	354.2
Support Activities	523.8	539.1	524.2
Sub-total	**3,316.9**	**3,498.4**	**3,472.8**
Modelling adjustments to reflect updated CPI			(2.2)
Total capex			**3,470.6**

Source: AER analysis; MLPL, *MLPL Response to AER Supplementary Draft Decision*, December 2025, pp 1,6.

3.1 Our capex assessment approach

In making our Final Decision, we have determined capex for each year of the regulatory control period that we consider is reasonably required. In assessing capex, we must assess whether the business's proposed capex reasonably reflects the capital expenditure criteria, which in turn reference the capital expenditure factors.[40] Our assessment is also guided by the National Electricity Objective (NEO)[41] and the Revenue and Pricing Principles (RPPs).[42]

39 MLPL, *MLPL Response to AER Supplementary Draft Decision*, December 2025.

40 NER, cl. 6A.6.7(c). The capital expenditure objectives are set out in NER, cl. 6A(a).

41 NEL, s. 16(1)(a). The NEO is defined in s. 7 of the NEL.

42 NEL, s. 16(2). The revenue and pricing principles are set out in s. 7A of the NEL.

In undertaking our assessment, we had regard to the AER's Expenditure Forecast Assessment Guideline for Electricity Transmission and the AER's Guidance Note for Regulation of Actionable ISP projects.[43] Together, this guidance sets out how we will approach our regulatory assessment for electricity transmission proposals and actionable ISP projects. On the latter, and relevant for this Final Decision, it also sets out our expectations on what TNSPs should demonstrate to aid our assessment of project risks and cost estimates.

Our assessment has also included MLPL's revised proposal and updates, the range of supporting documents and models MLPL provided supporting its proposal and its responses to our requests for information.

We also engaged Energy Market Consulting associates (EMCa) to review the prudency and efficiency of MLPL's proposed risk allowance.[44] We refer to EMCa's advice where relevant.

3.2 Costs for converter stations, HVDC cable system, and balance of works

The scope of works for the converter stations program includes construction of two 320 kV converter stations proposed to be located at Heybridge in North-West Tasmania and Hazelwood in the Gippsland region of eastern Victoria.

The scope of work for the HVDC cable system program includes the design, supply and installation of the HVDC submarine and land cables, including the earthing system and fibre optical telecommunication cables required for the cable monitoring systems and communication between the converter stations. It also includes landfall horizontal directional drilling.

The balance of works scope of work includes:[45]

- the detailed design, construction and installation of the balance of plant forming part of the converter stations and buildings, being the main converter interface transformers and the main converter valves, including supports,
- the mechanical and electrical equipment and services,
- delivery interface management between the balance of works, converter and cable packages; and
- the land cable civil works (including trenching works, horizontal directional drilling works and joint bays) and access roads.

The cable, converter station, and balance of works programs were subjected to a competitive tendering process. An AER observer was present throughout the tendering process. We

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43 AER, *Expenditure forecast assessment guideline for electricity transmission*, October 2024; AER, *Guidance note: Regulation of actionable ISP projects*, March 2021.

44 EMCa, *Marinus Link project: Assessment of proposed risk allowance expenditure for Stage 1*, October 2025.

45 MLPL, *MLPL-B-005 Attachment 3 – Revised explanation of capital expenditure requirements – Balance of works*, July 2025.

provided detail on the tendering process in our Issues Paper.[46] We consider this competitive process gives a level of confidence that the programs have been procured and can be delivered at an efficient cost, given the specifications and requirements for Marinus Link. We also consider the expenditure is prudent and is likely to be necessary to deliver the Project Marinus actionable ISP project.

We maintain our position from both our Initial Draft Decision and Supplementary Draft Decision that we are satisfied the procurement processes have been conducted to a high standard, sustained competitive tension, and have been consistent with industry norms and with government procurement requirements.[47]

On this basis, we include in our capex forecast $776.7 million, $908.6 million, and $909.1 million for converter stations, HVDC cable system, and balance of works respectively.

3.3 Risk allowance

The economic regulatory framework incentivises TNSPs to proactively identify and manage project risks ex-ante. As set out in our guidance note for the regulation of actionable ISP projects, we can accept a project risk allowance by assessing the residual risks identified by the TNSP, and the efficiency of the associated cost estimates (i.e. the consequential cost adjusted to reflect the likelihood of occurrence).[48] Residual risks are those that affect the cost of the project and cannot be efficiently transferred, avoided or mitigated by the TNSP. We note MLPL expects that our staged approach to our Marinus Link determinations, beginning with our determination for early works, will improve the accuracy of construction cost forecasts and reduce risk of project delays.[49]

We expect TNSPs to comprehensively and transparently identify and assess the different project risks for which it is seeking a cost allowance. This aids us in determining efficient and prudent expenditure associated with an actionable ISP project.

It is important to note that we will not provide a project risk allowance that completely covers the eventuality of all consequential costs being incurred, as this assumes that each of these costs are guaranteed to eventuate and does not recognise their distribution or probability of occurrence. There are also project risks and efficiencies that lead to cost reductions, and these should be equally considered. Importantly, our determination is not intended to completely de-risk the project, as investment projects are inherently uncertain and financing arrangements account for this.

We also note that while it is important to proactively identify and manage project risks, it may not be efficient to fully identify and mitigate (or avoid or transfer) all project risks. It is efficient

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46 AER, *Issues Paper – Marinus Link Stage 1, Part B (Construction costs)*, March 2025, p 17.

47 AER, *Initial Draft Decision - Marinus Link Stage 1, Part B (Construction costs) Transmission Determination 2025–30*, May 2025, pp 14–15. AER, *AER Supplementary Draft Decision - Marinus Link Stage 1, Part B (Construction costs*), November 2025.

48 AER, *Guidance note: Regulation of actionable ISP projects*, March 2021, section 2.6.

49 Marinus Link, *Marinus Link - Revenue proposal - Stage 1 part A early works - 31 July 2023*, 31 July 2023, p.28.

to accept some risks where the cost of mitigation measures exceeds the expected cost impact should the risk eventuate (taking into account the likelihood of this occurring).

3.3.1 Our Supplementary Draft Decision

In our Supplementary Draft Decision in November 2025, we included an estimate of $198.7 million ($2023) for risk allowance, which was $162.8 million (45%) lower than MLPL's forecast of $361.5 million ($2023).

We considered that MLPL had not sufficiently justified the prudency and efficiency of all its proposed risk allowance. Our overall assessment of MLPL's methodology and individual risks was that there was a level of uncertainty with many risks and cost estimates, there was a lack of evidence and artefacts to support some of MLPL's claims, and that the risk cost estimates tended to be upwardly biased. We also considered there are instances where risk and costs should not be included as MLPL has not appropriately considered where risks are within the reasonable control of MLPL, accounted for by MLPL in other proposed expenditure categories, within contracts, covered by insurance or recoverable from a third party. However, in many instances we considered that MLPL's identified risks and the proposed risk costs were reasonable.

Our assessment in the Supplementary Draft Decision was based on the information before us at the time. We noted that this information did not meet the expectations set out in our guidance note[50] that TNSPs provide well supported risk allowance proposals that clearly demonstrate the identification of risks and the efficiency of the associated cost estimates. In particular, we noted a lack of evidence and artefacts to support MLPL's claims.[51]

Our assessment was informed by both a top-down and bottom-up assessment. In the Supplementary Draft Decision our bottom-up assessment was focused on the largest 30 risks (by cost) identified by MLPL, making up 90% of the total risk allowance. To assist our assessment we engaged EMCa to undertake an independent review of MLPL's proposed risk allowance.[52] EMCa has expertise in assessing risk costs for high profile and large cost electricity transmission projects. More details on our assessment, and how it has been extended in this Final Decision, is in section 3.3.3 below.

3.3.2 Submissions on our Supplementary Draft Decision

In response to our Supplementary Draft Decision MLPL provided a revised risk allowance of $364.9 million ($2023), $3.4 million higher than its October 2025 risk allowance proposal. MLPL's revised estimate largely maintains the same identification and cost of risks as its earlier proposal, the main differences being:

- removing some risks that have closed as contracting progresses,
- updating some risk cost estimates to reflect approved contract rates; and

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50 AER, *Guidance note: Regulation of actionable ISP projects*, March 2021

51 AER, *AER Supplementary Draft Decision - Marinus Link Stage 1, Part B (Construction costs)*, November 2025, pp.16-17.

52 EMCa, Marinus Link project: Assessment of proposed risk allowance expenditure for Stage 1, October 2025.

- including two new risk allowances for biodiversity and contractor insolvency risks that were previously sought as pass through events.

MLPL also submitted additional supporting information outlining how it has estimated the probability of occurrence and cost consequence for various risks included in its risk allowance.

Other stakeholder submissions in response to our Supplementary Draft Decision were mixed. Energy Networks Australia submitted that a well-calibrated risk allowance is essential to ensuring that major regulated projects can attract and retain the capital required for timely delivery. Energy Networks Australia also submitted that transparency and consistency in the AER's approach to risk allowances are as important as the quantum itself, including consistency across the suite of regulatory mechanisms for allocating and managing risk (cost pass throughs, contingent projects, incentive mechanisms, and ex post efficiency reviews).[53]

Conversely, Save Our Surroundings Riverina submitted that it did not support providing MLPL with a risk allowance, submitting that risk estimates are inherently subjective and speculative.[54] The Tasmanian Minerals Manufacturing and Energy Council submitted that our assessment of MLPL's risk allowance highlighted the need for tighter controls and performance-based incentives to prevent cost overruns.[55]

3.3.3 Our assessment

Our assessment has been informed by both top-down and bottom-up assessments of MLPL's proposed risk allowance. We also engaged EMCa to review the new information submitted by MLPL in response to our Supplementary Draft Decision.[56]

Top-down assessment

Our top-down assessment involved both a consideration of MLPL's methodology for estimating its risk allowance, and benchmarking MLPL's proposed risk allowance to other energy infrastructure projects.

We agree with MLPL that it is prudent to rely on a range of information, including the experience of subject matter experts (SMEs) to identify risks and establish the efficiency of the associated cost estimates. However, the NER and our guidance require TNSPs to provide the relevant evidence to support the assumptions relied upon to develop the risk allowance. Without this evidence, we were unable to confirm in our Supplementary Draft Decision whether the identified risks and their proposed costs are prudent and efficient.

MLPL's methodology involved estimating worst case, likely case, and best case scenarios for identified risks. As noted by EMCa, for some risks the worst case estimate appeared to reflect an extreme and very low likelihood case, such that, based on the evidence provided, it

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53 Energy Networks Australia, *Submission to AER on Marinus Link Supplementary Draft Decision*, December 2025.

54 Save Our Surroundings Riverina, *Submission to AER on Marinus Link Supplementary Draft Decision*, December 2025.

55 Tasmanian Minerals Manufacturing and Energy Council, *TMEC - Submission to AER on Marinus Link Supplementary Draft Decision*, December 2025.

56 EMCa, *Assessment of Revised risk allowance expenditure for Stage 1*, January 2026.

did not present a credible estimate when compared to MLPL's assigned likelihood of occurrence.

In response to the Supplementary Draft Decision MLPL provided a significantly improved set of information and supporting documentation. We consider this improved information set meets the expectations set out in our guidance note for a well supported risk allowance proposal, and mitigates our concerns about potential bias in the application of the risk estimation methodology.

The additional information provided by MLPL included detailing how MLPL and its advisers applied this methodology and how its approach aligned with industry practice including Infrastructure Australia Guidelines. Of note, the Infrastructure Australia Guidelines refers to removing the influence of extreme values, to remove potential bias:[57]

> *The worst-case and best-case assessment are important parts of the process, to break the anchoring effect, but they are no[t] used in the model. It is important that they are both plausible and extreme so that they free participants to consider realistic levels of variation of the values used in the model, the P10, most likely and P90 values*

EMCa clarified that its concern of bias related to the application of the methodology, and the lack of supporting information about this application, rather than the method itself:[58]

> *The process described by E3 Advisory appears to broadly align with the IA guidance, however absent evidence that the application of its methodology has moderated the upper and lower boundaries, our October 2025 report stated that the distribution appeared overly influenced by extreme values which occur rarely and was upwardly biased.*

In reviewing the new information provided by MLPL, EMCa also finds that issues it previously identified have been largely addressed in MLPL's revised submission.[59]

In the Supplementary Draft Decision we consider benchmarking of MLPL's proposed risk allowance, and found that its proposed allowance of 10% of total capex could be considered reasonable when compared to similar type transmission projects.

MLPL engaged Aurecon to benchmark MLPL's proposal against a range of other international subsea HVDC interconnectors and the AER's determination for Transgrid's HumeLink. Aurecon's analysis showed a range of between 3% to 12%, with an average of 8.8%. Excluding those at the lower end as being less comparable, it noted most reference projects had an aggregated risk allowance between 9% to 12%.[60]

EMCa undertook a similar benchmark assessment to that of Aurecon, including with reference to similar international benchmark projects. EMCa's assessment indicated a

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57 Infrastructure Australia, Guidance Note 3A – Probabilistic contingency estimation, November 2023, p 17.

58 EMCa, *Assessment of Revised risk allowance expenditure for Stage 1*, January 2026, p 20.

59 EMCa, *Assessment of Revised risk allowance expenditure for Stage 1*, January 2026, p 22.

60 MLPL, *MLPL-B-011 Attachment 9 – Updated Independent Verification of MLPL costs (Aurecon Advisory)*, October 2025, pp 120–125.

similar, but slightly different, range to Aurecon's of between 3.0% to 10.5%, with an average of 8%. EMCa acknowledged the comparators considered by it and Aurecon did not reflect the specific circumstances of Marinus Link. However, EMCa concluded that both its and Aurecon's assessments indicate that a risk allowance in a range between 5% to 10% is likely to be reasonable, with Marinus Link at the top of this range.

In response to our Supplementary Draft Decision MLPL submitted a report from E3 Advisory that considered the individual characteristics of the benchmark projects considered by Aurecon and EMCa to assess which projects were relatively more comparable to Marinus Link. E3 Advisory submitted that the benchmark projects at the lower end of EMCa's range are less relevant comparators, noting the project contract configuration and complexity, size of the capex allowance, and brownfield compared to greenfield construction.[61] E3 Advisory submitted that risk allowances for more relevant comparator projects range from 8.7% to 10.5%.

We consider that these submissions do not materially alter the outcomes of this benchmarking analysis, and that a top-down assessment indicates that Marinus Link's proposed risk allowance could be considered within a reasonable range, though likely at the upper end of that range.

Bottom-up assessment of MLPL's specific risk cost allowances

In addition to top-down assessments, we reviewed individual risks and cost estimates included in MLPL's proposed risk allowance. As with our Supplementary Draft Decision we focused on the largest 30 risks (by cost) identified by MLPL, making up 90% of the total risk allowance.

In response to our Supplementary Draft Decision MLPL provided additional context and explanations for the selection of its input assumptions that has led to its selection of probabilities and consequences. Overall, for most of the risks proposed, we consider that MLPL has now provided sufficient additional information that indicates to us that the consequences that it describes are reasonably based on the nature of the project, economic conditions and contractual arrangements.

We also engaged EMCa to undertake an independent review of the new information provided by MLPL. EMCa found that, in most instances, the new and additional supporting information addressed their key areas of concern, highlighting that:

- The probability of occurrence of the risk has been reasonably derived, supported by a SME assessment process that is likely to provide a reasonable estimate. To a material extent, MLPL was now able to provide sufficient evidence to support its assumptions.
- MLPL has reasonably demonstrated that it is exposed to a higher level of residual risk in its contractual framework than was demonstrated in its original submission.
- For its estimate of most likely consequence, the rationale provided by MLPL generally supports the provided estimate. A key contributor of the risk allowance is project delivery

[61] MLPL, *MLPL Response to AER Supplementary Draft Decision*, 19 December 2025, pp 12-13. E3 Advisory, *Response to risk allowance assessment – AER supplementary draft decision for Marinus Link stage 1, Part B (construction costs)*, 22 December 2025, p 21.

risk. In its October 2025 report EMCa identified areas where MLPL did not appear to have taken sufficient account of (or at least had not demonstrated that it had taken sufficient account of) contractual risk and contingency provisions, including schedule risk. After review of the additional information provided by MLPL, MLPL has reasonably demonstrated that it is exposed to a higher level of residual risk in its contractual framework than was demonstrated in its original submission, and as a result the estimates are sound.

- For its estimate of worst case consequence, MLPL has provided additional context and case examples that can be more directly related to the Marinus Link project than was evident in the original submission. As a result, EMCa finds that MLPL has considered the impacts of its contractual provisions, schedule management and existing controls such that the worst case consequence that it has determined, albeit a low probability event, is possible.

While EMCa found that most of MLPL's proposed risk allowance was supported by the additional information provided in response to our Supplementary Draft Decision, it remained concerned about a number of potentially duplicate or unjustified risk allowances, for example:

- EMCa could not discern a difference between the derivation of Risk ID 4A and 4B other than the assigned probability based on the stage of the project, and when aggregated totals 65%, which appears high.
- Based on the additional information provided by MLPL, Risk ID 28 (Insufficient flow of generative output or insufficient demand to conduct testing and commissioning) is captured as a cause of risk included by Risk ID 100 (Repeated failure of a testing or commissioning requirement), and therefore assuming Risk ID 100 is retained, Risk ID 28 is not required.
- Risks relating to design interfaces are also present in multiple risks such as Risk ID 64 (The asset control systems established by contractors fail to meet required performance i.e. SCADA and Metering Systems, resulting in consequential impacts on MLPL) and Risk ID 3C (Design changes not communicated / coordinated between contractors).
- MLPL included Risk ID 26 (Service provider costs escalate over time above existing allowances). MLPL has control over its appointment of service providers and therefore its costs.

We considered EMCa's findings carefully and find their report persuasive. The information submitted by MLPL does not clearly set out that the risks identified above are distinct from other identified allowances that appear to reflect the same risks, or that the risks could not be mitigated by MLPL. We find that overall MLPL's risk allowance is likely overstated by about 3 per cent.

In its revised risk allowance, submitted in response to our Supplementary Draft Decision, MLPL included new risk allowances for biodiversity risk and contractor insolvency risk. MLPL noted that it accepted our Supplementary Draft Decision to not accept nominated pass through events for these risks, and submitted that an increased risk allowance is required as the risk is no longer mitigated by a pass through. Similarly, MLPL submitted that a further two new risks should be provided for in the event that we do not accept MLPL's proposed nominated pass through events for contractor force *majeure* and unavoidable contract variations.

As discussed in section 5, our Final Decision does not accept MLPL's proposed nominated pass through events for contractor force *majeure* and unavoidable contract variations. However, we do not consider it prudent to include these four new risk allowances proposed by MLPL. We consider that residual risk allowance proposed by MLPL and accepted in this Final Decision already compensates for these risks, and that MLPL has not sufficiently demonstrated how these risks are not already covered by the remaining risk allowances.[62] We also consider contractor insolvency risk and contractor force *majeure* risk may be within the control of MLPL or mitigated through contract design.

Taking into account our bottom up assessment, removing the duplicate and unsupported risks noted above, and removing the new risks related to pass through events that MLPL included in its revised risk allowance, we estimate a prudent and efficient risk allowance to be $354.2 million ($2023).

3.3.4 Our Final Decision

Our Final Decision includes an estimate of $354.2 million ($2023) for risk allowance, which is $10.9 million (or 3%) lower than MLPL's forecast of $364.9 million ($2023).

3.4 Support activities

Support activities are the other activities MLPL will undertake to support the delivery of Marinus Link. These activities include the following:

- Landholder and community engagement programs,
- Land and easement acquisition and management,
- Environmental impact assessment and management,
- Technical designs and specifications,
- Procurement strategy and execution,
- Program and project management,
- Corporate costs and support; and
- Insurance.

3.4.1 Our Supplementary Decision

In our Supplementary Draft Decision in November 2025, we included an estimate of $523.8 million for support activities, which was $15.5 million (3%) lower than MLPL's forecast of $539.3 million.

Our Supplementary Draft Decision excluded expenditure for support activities that we considered MLPL had not sufficiently justified or for which we considered the costs were overestimated. We considered our alternate forecast to be prudent and efficient for MLPL to

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62 We consider that existing risk allowances #6 (uncertainty in the availability, timing and cost of biodiversity offsets) and #7 (external party appeals and approvals resulting in delays in securing environment, heritage and planning approvals) already provide for biodiversity risks; that risk allowance #29 (replacement of contractor for reasons outside of MLPL's control) already provides for contractor insolvency risk; that risk allowance #30 (uninsurable risks and/or gaps in cover) provides for contractor force *majeure* risk.

deliver Marinus Link and still offer competitive salaries for its recruitment, which was one of its concerns.

3.4.2 Submissions on our Supplementary Draft Decision

In response to our Supplementary Draft Decision MLPL submitted a revised forecast of $539.1 million for support activities and integrated delivery partner (IDP) costs. This compares to our Supplementary Draft Decision estimate of $523.8 million, and MLPL's earlier forecast, submitted in October 2025, of $539.3 million.[63]

MLPL's revised forecast for its support activities and IDP costs is consistent with its October 2025 forecast, differing only as a result of MLPL accepting our Supplementary Draft Decision on costs for board travel and board professional development, resulting in a reduction of $0.2 million to its forecast.[64] MLPL submitted further reasoning and documentation in support of its forecast of support activities costs. We outline its reasoning and our assessment below.

The Tasmanian Minerals Manufacturing and Energy Council submitted that expenditure on corporate roles and overheads must be rigorously justified, with clear disclosure of how these costs deliver consumer benefit.[65]

3.4.3 Our assessment

Internal and IDP labour costs account for $213.2 million of MLPL's revised forecast of support activities costs (39% of $539.1 million), and $199.7 million of our Supplementary Draft Decision estimate of supporting activities costs (38% of $523.8 million).[66]

In our Supplementary Draft Decision, we requested MLPL provide information about how the staffing levels and expenditure was determined for internal roles and asked for a copy of its agreement with its IDP partner, Jacobs. Based on a bottom-up assessment, we were satisfied the majority of MLPL's labour expenditure was prudent and efficient. [67]

However, we concluded that certain labour roles were not required and/or remuneration was overestimated. These include stakeholder engagement roles that fell under corporate costs and support, that were focused on specific types of engagement and were in addition to more general stakeholder and communication roles. We also identified what we considered duplicate roles and positions that, when considering the scope of the work required, were not commensurate to the business's needs or were inefficiently costed.

In response to our Supplementary Draft Decision, MLPL provided further description of each role's unique responsibilities.[68] Considering this extra information we are satisfied that most

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63 MLPL, *Attachment 1 - Marinus Link Update to Revised Revenue Proposal*, October 2025, p 1.

64 MLPL, *MLPL Response to AER Supplementary Draft Decision*, 19 December 2025; MLPL, *Attachment 1 - Detailed Response on Support Activities Expenditure*, 19 December 2025.

65 Tasmanian Minerals Manufacturing and Energy Council, *TMEC - Submission to AER on Marinus Link Supplementary Draft Decision*, December 2025.

66 AER analysis; AER, *AER Supplementary Draft Decision - Marinus Link Stage 1, Part B (Construction costs*), November 2025.

67 AER, *AER Supplementary Draft Decision - Marinus Link Stage 1, Part B (Construction costs*), November 2025.

68 MLPL, *Attachment 1 - Detailed Response on Support Activities Expenditure*, 19 December 2025, pp 2-8.

of the roles we previously considered duplicates have not been assigned overlapping responsibilities. However, MLPL has not provided sufficient evidence that the cost of these roles is efficient or that these responsibilities could not be absorbed by other roles.

Regarding roles that we included in our alternate forecast at reduced costs, MLPL submitted that it needs above average salaries to remain competitive and thus reduce recruitment time and limit turnover of specialised labour. MLPL disputed our use of public recruitment websites to benchmark salaries for these roles, stating that MLPL is a megaproject organisation requiring specialist knowledge in project delivery, regulatory, commercial and stakeholder interface experience.[69]

Remuneration rates from public recruitment websites formed only part of our benchmark. Further, our alternate estimates for these roles were lower than MLPL's forecast, but they were higher than these publicly available benchmarks. We considered that the location of MLPL's roles, their non-ongoing nature, and their specialised requirements may merit higher than average remuneration, but not as high as MLPL proposed. MLPL did not provide any additional evidence that its moderately higher forecast remuneration rates are prudent and efficient or that the remuneration rates in our Supplementary Draft Decision would result in inefficiency.

In light of the limited additional information submitted in response to our Supplementary Draft Decision, we estimate prudent and efficient labour costs for support activities to be $199.7 million. This maintains our position from the Supplementary Draft Decision on these items.

Non-labour costs account for $327.2 million of MLPL's revised forecast of support activities costs (61% of $539.1 million), and $324.2 million of our Supplementary Draft Decision estimate of supporting activities costs (62% of $523.8 million).[70]

In the Supplementary Draft Decision, our bottom-up assessment found the majority of MLPL's proposed non-labour support activities costs to be prudent and efficient. However, we were not satisfied of the prudency and efficiency of certain items. We considered it would not be prudent and efficient to provide additional expenditure allowances for specific awards and staff benefits in light of the above-market direct labour costs already allowed for. We were also not satisfied that the scope and timing of proposed expenditure on mobile phones and office IT equipment is prudent and efficient.

In response to our Supplementary Draft Decision MLPL provided additional explanation of what these costs would entail, as well as invoices and quotations for certain items. However, MLPL did not provide additional information to support its submission that these costs are prudent and efficient, particularly in light of the other expenditure allowances already provided for.

Nonetheless, we have re-examined a number of items proposed by MLPL. As a result of this further investigation we find that funding of professional memberships is in line with standard industry practices and we have included these costs. We have also reconsidered

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69 MLPL, *Attachment 1 - Detailed Response on Support Activities Expenditure*, 19 December 2025, pp 9-11.

70 AER analysis; AER, *AER Supplementary Draft Decision - Marinus Link Stage 1, Part B (Construction costs)*, November 2025.

interrelationships between support activities and our risk allowance. We consider that subscriptions for productivity tools (e.g., LinkedIn Recruiter and Microsoft Co-Pilot) are likely to be prudent and efficient costs that may assist MLPL in managing risks in line with our risk allowance.

In light of these further investigations and the limited additional information submitted by MLPL, we estimate prudent and efficient non-labour costs for support activities to be $324.6 million, 0.4 million higher than our Supplementary Draft Decision.

3.4.4 Our Final Decision

Our Final Decision includes an estimate of $524.2 million for support activities, which is $14.9 million (3%) lower than MLPL's revised forecast of $539.1 million.

4 Incentive schemes

Incentive schemes form an important part of our regulatory toolkit and complement our approach to assessing costs. They encourage businesses to pursue expenditure efficiencies while still maintaining the reliability and overall performance of their networks.

As MLPL's proposal only covers capital expenditure (capex), only the capital expenditure sharing scheme (CESS) is relevant for this Final Decision. We will consider applying the efficiency benefit sharing scheme and the service target performance incentive scheme as part of our assessment of MLPL's Stage 2 proposal that is expected to be submitted in 2029.

4.1 Our capital expenditure sharing scheme assessment approach

The CESS provides financial rewards for network service providers whose actual capex is less than forecast and financial penalties for those network service providers whose actual capex is more than forecast. In doing this, the CESS aims to incentivise network service providers to become more efficient over time. Consumers benefit through lower regulated prices. The CESS shares any gains or losses due to underspending or overspending capex relative to the forecast between service providers and consumers.

Our usual approach is to include a CESS that shares underspends or overspends between a service provider and its customers at a ratio of 30:70. That is service providers keep 30% of the value of any underspending relative to forecast (or bear 30% of the value of any overspending relative to forecast) while customers keep 70% of the gains (or wear 70% of the losses of any overspend).

In our most recent Capital Expenditure Incentive Guidelines for Electricity Network Service Providers from August,[71] we noted that we would consider modified CESS arrangements for large transmission projects taking into account:

- the service provider's CESS and capex proposals,
- benefits to consumers from the exemption,
- the size of the project,
- the degree of capex forecasting risk; and
- stakeholder views.[72]

4.2 Our Supplementary Draft Decision

Our Supplementary Draft Decision applied a 30:70 CESS sharing ratio up to a 10% over or underspend and then an incremental 10:90 sharing ratio.

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71 AER, *Capital Expenditure Incentive Guidelines*, August 2025.

72 AER, *Capital Expenditure Incentive Guidelines*, August 2025, pp 8-9.

The approach aimed to provide high powered incentives for smaller expenditure variations and protect MLPL from large penalties for large overspends while still imposing material incremental penalties for all levels of overspend.

Our Supplementary Draft Decision did not accept MLPL's earlier CESS proposals. MLPL initially proposed a 5:95 sharing ratio, and in response to our Initial Draft Decision proposed a 10:90 sharing ratio for overspends of up to 10% of forecast capex, and then 0:100 sharing ratio with scrutiny from ex-post reviews for overspends of more than 10%.

We agreed with MLPL's view that financeability risks for MLPL are higher than usual but did not adopt MLPL's proposals on the basis that the CESS sharing ratios were too low powered to encourage sufficient cost containment effort. Consistent with our HumeLink decision and Initial Draft and Supplementary Draft Decisions for MLPL, our proposed tiered approach aims to balance MLPL's financeability concerns with the desire for sufficient incentives.

4.3 MLPL's submission

MLPL maintains that the incentive rates in the Supplementary Draft Decision do not sufficiently account for the characteristics of Marinus Link. Its submission argues:

- The incentive rates are too high given the actions available to MLPL to respond to the incentives and MLPL's concessional finance.
- The overall risk profile for MLPL is too high given the Supplementary Draft Decision's proposal to reduce the risk allowance included in the cost forecast and reject cost pass through proposals.
- The incentive rate is higher than used in HumeLink. With current interest rates the sharing rate using the HumeLink approach is around 6% for expenditure variations of more than 10% of forecast. This compares to the 10% proposed in our Supplementary Draft Decision.
- The incentive rates proposed may inadvertently encourage an excessive focus on costs at the expense of project quality.

Drawing on advice from their consultant, Incenta, MLPL propose two possible alternatives:

1. Adopt the approach recently introduced by Ofgem[73]. For large projects such as Marinus Link, Ofgem use a 25:75 sharing ratio for expenditure variations up to 5%, then a 5:95 sharing ratio for the next 10% (i.e. expenditure variations of more than 5% but less than 15%) and finally a 0:100 sharing ratio for expenditure variations of more than 15%; or
2. Revise the incentive rate cut off, so that the 30:70 sharing ratio applies up to expenditure variations of 5% (instead of the 10% used in the Supplementary Draft Decision), and then the 10:90 ratio applies.

[73] Ofgem adopted the approach for large projects in its latest RIIO published in December 2025.

4.4 Our assessment

We have assessed MLPL's submission against the criteria in the Capital Expenditure Incentive Guidelines,[74] focusing on:

- The incentive properties of the option (that is, how effective the option is likely to be in incentivising cost containment effort by the TNSP).
- Financeability (that is, whether the option is consistent with the principle of providing a reasonable opportunity to recover efficient costs incurred in providing network services, in this case the cost of building Marinus Link and associated financing costs).

Financeability risks for MLPL are likely to be higher than usual because:

- The risk of forecasting error is high as forecasting for large greenfield projects is inherently more difficult than recurrent capex.
- Transmission and distribution networks normally have a 'portfolio' of projects which reduces the impact of forecast error for any one of those projects. As a single asset business MLPL does not have such diversification opportunities.
- More factors may be beyond the control of the TNSP for large complex projects than routine projects.

For these reasons, and the implications for equity returns and project viability, we adopted the tiered approach in our Supplementary Draft Decision with a lower CESS sharing ratio for expenditure variations of more than 10%. This reduces the revenue at risk compared to our standard 30:70 sharing ratio. For example, the CESS penalty with a 20% overspend is 4% of forecast project costs when adopting a tiered approach, compared to 6% with our standard approach.

The financial impact of the different CESS options considered is shown in Table 5. The table shows CESS penalties as a percentage of the project's forecast costs for different overspend amounts. The table does not show the financial impact of underspends, but as the scheme is symmetric the rewards are the same as the penalties for a given variation from forecast costs.[75]

Consistent with our Supplementary Draft Decision, we consider that the incentives associated with MLPL's initial and revised proposal are likely to be too low powered to drive significant cost containment effort. For example, the penalty with both proposals would only be 1% of project costs with a 20% cost overspend.

The two alternatives proposed in MLPL's submission are higher powered, for example, a 20% cost overspend will result in a penalty of 1.75% of project costs using the Ofgem approach. However, we still have reservations about the effectiveness of the options in incentivising cost containment effort.

Ofgem's approach provides no incremental financial rewards or penalties once project costs vary by more than 15% of forecast. Similarly, the sharing ratio is just 5:95 for expenditure

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74 AER, *Capital Expenditure Incentive Guidelines*, August 2025.

75 For example, a 10% overspend using the approach proposed in the Supplementary Draft Decision results in a penalty of 3% of project costs, and a 10% underspend results in a reward of 3% of project costs.

variations of 5 to 15%, an amount we concluded is inadequate in the context of MLPL's proposal. We note that Ofgem has adopted a total expenditure approach rather than the separate capex and opex categories that we use, and forecasts cost and risk allowances in different ways. In the context of MLPL, Ofgem's approach does not seem appropriate.

The second approach proposed by MLPL (that is, a 30:70 sharing ratio for expenditure variations of up to 5% of project costs and then a 10:90 sharing ratio for all variations over 5%) also dilutes incentives, though less so than the other options proposed. Relative to our Supplementary Draft Decision this approach would lower the incentive power by two thirds for expenditure variations between a 5% and 10% over or underspend.

We consider that the tiered approach adopted in the Supplementary Draft Decision provides meaningful cost containment incentives and that the financial impact is manageable. We consider maintaining a robust incentive at lower levels of overspend is important given lower expenditure variations are likely to be more controllable. Having considered MLPL's submission, we maintain the standard CESS incentive of a 30:70 sharing ratio for expenditure variations of up to a 10% over or underspend remains desirable to incentivise efficient capital expenditure given:

- There is scope for MLPL to outperform forecasts, and expenditure variations are likely to be relatively small.
- The pass through provisions included in our Final Decision allow MLPL to recover costs associated with a wide range of factors outside MLPL's control.
- Inclusion of risk allowances in the capex forecast gives MLPL a forecasting error 'buffer'.
- MLPL has undertaken positive measures to reduce forecasting error, including by tendering most of the work and providing incentives to suppliers to limit cost increases.

MLPL argues that the CESS provisions should be seen as part of the broader risks inherent in the project. It considers the reduction in the risk allowance and rejection of some pass through proposals in our Supplementary Draft Decision changed the overall risk package and strengthened the case for a lower powered CESS.

We agree that the CESS needs to be viewed in the context of the overall risks facing MLPL. In response to MLPL's submission, we have significantly increased the risk allowance compared to the Supplementary Draft Decision. Our judgement is that the revised package provides an appropriate balance between incentives and financeability risks.

Table 5 Total financial impact of overspends (% of total project costs)*

Over spend amount (%)	5:95 (MLPL initial proposal)	10:90 capped at 10% (MLPL revised proposal)	Supplementary draft decision (30:70 up to 10% and then incremental 10:90)	Ofgem (25:75 up to 5%, 5:95 from 5% to 15% and then 0:100)	30:70 up to 5% and then incremental 10:90
5	0.25	0.5	1.5	1.25	1.5

Over spend amount (%)	5:95 (MLPL initial proposal)	10:90 capped at 10% (MLPL revised proposal)	Supplementary draft decision (30:70 up to 10% and then incremental 10:90)	Ofgem (25:75 up to 5%, 5:95 from 5% to 15% and then 0:100)	30:70 up to 5% and then incremental 10:90
10	0.5	1	3	1.5	2
20	1	1	4	1.75	3
30	1.5	1	5	1.75	4

4.5 Our Final Decision

Our Final Decision applies a 30:70 CESS sharing ratio for expenditure variations up to a 10% over or underspend and then an incremental 10:90 sharing ratio.

5 Pass through events

During the regulatory control period MLPL can apply to pass through to its customers, in the form of higher or lower network charges, certain material changes in its efficient costs caused by pre-defined exogenous events. These events are called cost pass through events. Such events are limited to circumstances where the business can recover potential costs of defined yet unpredictable events that are outside the control of the network business.

The NER prescribe the following pass through events for all transmission determinations:[76]

- a regulatory change event,
- a service standard event,
- a tax change event,
- an insurance event; and
- an inertia shortfall event.

In addition to these prescribed events, other pass through events may be 'nominated' by a service provider for a regulatory control period.[77]

This section sets out our Final Decision on the nominated pass through events to apply to MLPL for the 2025–30 regulatory control period.

5.1 Our pass through assessment approach

The NER sets out how we must assess nominated pass through events, and how we must assess an application from a service provider to pass through changes in costs where an event occurs.[78]

Our assessment approach is guided by the National Electricity Objective (NEO)[79] and the Revenue and Pricing Principles (RPPs).[80] The RPPs include that the service provider should have a reasonable opportunity to recover at least the efficient costs of providing services and complying with regulatory obligations.[81] The NEO and the RPPs also reflect the importance of incentives to promote economic efficiency,[82] and balance the risks of under and over investment.[83]

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76 NER, cll. 6A.7.3(a1)(1)–(4) and (6).

77 NER, cl. 6A.7.3(a1)(5).

78 NER, cll. 6A.6.9(b), 6A.7.3.

79 NEL, s. 16(1)(a). The NEO is defined in s. 7 of the NEL.

80 NEL, s. 16(2). The revenue and pricing principles are set out in s. 7A of the NEL.

81 NEL, s. 7A(2).

82 NEL, s. 7A(3).

83 NEL, s. 7A(6).

In determining whether we accept a nominated pass through event, we must take into account the 'nominated pass through event considerations' which are as follows:[84]

a) whether the event proposed is an event covered by a category of pass through event specified in clause 6.6.1(a1)(1) to (4) (in the case of a distribution determination) or clause 6A.7.3(a1)(1) to (4) (in the case of a transmission determination);

b) whether the nature or type of event can be clearly identified at the time the determination is made for the service provider;

c) whether a prudent service provider could reasonably prevent an event of that nature or type from occurring or substantially mitigate the cost impact of such an event;

d) whether the relevant service provider could insure against the event, having regard to:

   1) the availability (including the extent of availability in terms of liability limits) of insurance against the event on reasonable commercial terms; or
   2) whether the event can be self-insured on the basis that:

      i) it is possible to calculate the self-insurance premium; and

      ii) the potential cost to the relevant service provider would not have a significant impact on the service provider's ability to provide network services; and

e) any other matter the AER considers relevant and which the AER has notified network service providers is a nominated pass through event consideration.

The AEMC described the purpose of the nominated pass through event considerations as:

> *…to incorporate and reflect the essential components of a cost pass through regime in the NER. It was intended that in order for appropriate incentives to be maintained, any nominated pass through event should only be accepted when event avoidance, mitigation, commercial insurance and self-insurance are unavailable*.[85]
>
> *…that a pass through event should only be accepted when it is the least inefficient option and event avoidance, mitigation, commercial insurance and self-insurance are found to be inappropriate. That is, it is included after ascertaining the most efficient allocation of risks between a service provider and end customers*.[86]

This protects the incentive regime under the NER by limiting erosion of a service provider's incentives to use market based mechanisms to mitigate the cost impacts that would arise. This promotes the efficient investment in, and efficient operation and use of, network services for the long term interests of consumers with respect to price.[87]

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84 NER, cl. 6A.6.9(b) and Chapter 10: Glossary, definition of 'nominated pass through event considerations'.

85 AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination,* 2 August 2012, p 19.

86 AEMC, *Cost pass through arrangements for Network Service Providers*, *Rule Determination*, 2 August 2012, p 20.

87 AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p 28.

As a matter of good regulatory practice, we also take into account the desirability of consistency in our approach to assessing nominated pass through events across our electricity determinations and gas access arrangements.[88]

5.2 Our Supplementary Draft Decision

MLPL proposed eight nominated pass through events for the 2025–30 period. We accepted MLPL's proposed insurance coverage event, insurer's credit risk event, natural disaster event, and terrorism event.[89]

However, we did not accept the proposed nominated pass through events for:

- unavoidable contract variations event,
- contractor force *majeure* event,
- contractor insolvency event; and
- biodiversity event.

We did not accept these nominated pass through events on the basis that:[90]

- some events were not well defined,
- it was not clear as to the extent these events were within the control of MLPL,
- the risk of some of these events were already compensated for in the forecast capex; and
- some of these risks should be more efficiently managed by early works.

5.3 MLPL's submission

MLPL submitted that the risk allowance may need to be adjusted upwards if the pass through events are not accepted by the AER. MLPL stated this position recognises the practical reality that residual risks must be addressed either as a risk allowance or a pass through event.[91]

MLPL resubmitted nominated pass through events for an unavoidable contract variations event, and a contractor force *majeure* event.[92] MLPL also submitted that if we do not accept its proposed pass through for the unavoidable contract variations and the contractor force *majeure* event, an additional risk allowance has been calculated to account for the residual risk of these events.[93]

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88 AEMC, *Cost pass through arrangements for Network Service Providers, Rule Determination*, 2 August 2012, p 18.

89 AER, *Supplementary Draft Decision – Marinus Link Stage 1, Part B (Construction costs)*, November 2025, pp 31–32.

90 AER, *Supplementary Draft Decision – Marinus Link Stage 1, Part B (Construction costs)*, November 2025, pp 32–37.

91 MLPL, *MLPL response to AER supplementary Draft Decision*, p 31.

92 MLPL, *MLPL-B-002 MLPL Revised Revenue Proposal Stage 1 - Part B (Construction)*, July 2025, p 68.

93 MLPL, *MLPL response to AER supplementary Draft Decision*, p 31.

MLPL also no longer proposes that the contractor insolvency event and biodiversity event be included as nominated pass through events and has instead included a risk allowance to compensate for these risks in its forecast capex.[94]

5.4 Our assessment

Insurance coverage, insurer's credit risk, natural disaster and terrorism events

MLPL proposed pass through events for an insurance coverage event, insurer's credit risk event, natural disaster event and terrorism event. We accept these events for the reasons outlined in our Supplementary Draft Decision. The definitions of these events are set out in the pass through definitions, refer Appendix A.

Unavoidable contract variations event

MLPL proposed this event to recover costs due to a material contract variation relating to the construction of Marinus Link Stage 1 to accommodate a change in project design or proposed route that is beyond MLPL's control MLPL. We did not accept this pass through event in our Supplementary Draft Decision on the basis that a change in project design and route is not well defined and may not be outside MLPL's control (e.g. expected project costs may inform changes to route selection that is within MLPL's control). We also noted in our Supplementary Draft Decision that the project design and route selection is impacted by planning and environmental approvals. Given the Victorian and Commonwealth Government provided environmental approval for Marinus Link in May and August 2025, there should be greater certainty on project design and route selection.[95]

MLPL has not responded to our view that an allowance for early works has been provided to MLPL for the purposes of reducing project cost uncertainty. In response, MLPL submitted it has defined the event as unavoidable contract variations where only those variations that cannot be avoided would be permitted as a cost pass through event.[96] MLPL also proposed that in assessing an 'unavoidable contract variations' pass through application, the AER have regard to, amongst other things, evidence that the contract variation has been caused by factors that were beyond MLPL's control.[97] However, as we outlined in our Supplementary Draft Decision, we are concerned that a cost variation in relation to a contract variation may not be clearly identifiable as beyond MLPL's control.

On the basis of this consideration, we are not satisfied that accepting this pass through event would be consistent with the nominated pass through event considerations under the NER. We therefore we do not approve the inclusion of this proposed pass through event in our Final Decision.

In response to our view that early works would be expected to reduce project cost uncertainty, MLPL considers there are still residual cost risks. In the event that we do not accept this pass through event, MLPL has estimated the residual risks of this event by

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94 MLPL, *MLPL response to AER supplementary Draft Decision*, p 31.

95 AER, *Supplementary Draft Decision – Marinus Link Stage 1, Part B (Construction costs)*, November 2025, p 32.

96 MLPL, *MLPL response to AER supplementary Draft Decision*, p 29.

97 MLPL, *MLPL response to AER supplementary Draft Decision*, p 29.

including a risk allowance in its forecast capex. Our assessment of MLPL's risk allowance is set out in our assessment of forecast capex, refer to section 3.3.

Contractor force *majeure* event

MLPL proposed this event for a material change in construction costs incurred by MLPL due to an unforeseen force *majeure* event impacting the construction contractor. In our Supplementary Draft Decision, we observed that:

- some of the events included are likely to be already covered by an existing category of pass through event,
- the nature of some of the events are not clearly identifiable; and
- some of these events are of a nature or type that we would expect a prudent service provider to reasonably prevent from occurring or substantially mitigate the cost impact.

We also commented that the impact of a force *majeure* event is a matter that should already be contemplated and appropriately reflected in the commercial terms negotiated between MLPL and its contractors. The allocation of such risks is a contractual issue within MLPL's control, arising from the agreements it has entered into with its delivery partners. Accordingly, we considered that MLPL and its contractors are best placed to anticipate and manage the consequences of these events. For this reason, we did not propose to accept this nominated pass through event, which, in substance, pertains to the terms of the relevant contractual arrangements.

In response, MLPL commented that the contractual terms and conditions have been settled and there is no scope to amend the definition. MLPL also commented that there is no reason to suppose that seeking a narrower definition of contractor force *majeure* would have been acceptable by prospective service providers.[98]

We remain of the view that the risks associated with a force *majeure* event are not always well defined and are within MLPL's control as part of contract negotiations and as such these risks are best managed by MLPL and its contractors. On the basis of these considerations, we are not satisfied that accepting this pass through event would be consistent with the nominated pass through event considerations under the NER. We therefore do not approve the inclusion of this nominated pass through event in the Final Decision.

MLPL has calculated a risk allowance for the likelihood of a contractor force *majeure* event if we do not accept this pass through event in the Final Decision. Our assessment of MLPL's risk allowance is provided in section 3.3.

Contractor insolvency event

MLPL no longer proposes a contractor insolvency event which occurs if a contractor is declared insolvent and as a result there is a material increase in MLPL's costs of constructing or commissioning Marinus Link.[99] Instead MLPL propose that a risk allowance

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98 MLPL, *MLPL response to AER supplementary Draft Decision*, p 29.

99 MLPL, *MLPL response to AER supplementary Draft Decision*, p 31.

for this event be included in its forecast capex. Our assessment of MLPL's proposed risk allowance is discussed in section 3.3.

Biodiversity event

MLPL no longer proposes a biodiversity event which occurs if there is a change in MLPL's biodiversity obligations in relation to Marinus Link which results in a cost impact (positive or negative) to achieve compliance.[100] Instead MLPL propose that a risk allowance for this event be included in its forecast capex. Our assessment of MLPL's proposed risk allowance is discussed in section 3.3.

Materiality threshold and cost recovery

Our Supplementary Draft Decision accepted MLPL's approach to applying the materiality threshold in the NER and the approach to cost recovery, as MLPL will not be receiving an approved MAR allowance in the 2025–30 period. The methodology for determining the materiality threshold and the cost recovery mechanism for the purposes of the Final Decision are set out in our Supplementary Draft Decision.[101]

We therefore determine to apply the pass through regime to MLPL, during the period before it begins to earn revenue, as follows:

- if MLPL applies to pass through a positive pass through amount under cl. 6A.7.3(c) of the Rules, and the AER determines that a positive change event has occurred, the approved pass through amount will be added to the RAB for Marinus Link,
- if MLPL notifies the AER of a negative change event under cl 6A.7.3(f), or the AER otherwise becomes aware of a negative change event, and the AER determines a negative pass through amount, the negative pass through amount will be deducted from the RAB for MLPL.

5.5 Our Final Decision

Our Final Decision is to accept the insurance coverage event, insurer's credit risk event, natural disaster event and terrorism event proposed by MLPL.[102]

100 MLPL, *MLPL response to AER supplementary Draft Decision*, p 31.

101 AER, *Supplementary Draft Decision – Marinus Link Stage 1, Part B (Construction costs)*, November 2025.

102 This is one of the constituent decisions we must make under NER, cl. 6A.14.1(9). MLPL proposed to amend the standard wording of the insurance coverage, natural disaster and terrorism events to refer to changes in costs of constructing or commissioning Marinus Link.

6 Contingent Project Application

MLPL's revised proposal accepted our Initial Draft Decision to not accept the contingent project application for Stage 2.

Refer to the Marinus Link Initial Draft Decision for the reasons for our decision.[103]

[103] AER, *Initial Draft Decision - Marinus Link Stage 1, Part B (Construction costs) Transmission Determination 2025–30*, May 2025, pp 23–26.

7 Constituent decisions

The AER decided to adopt a two-stage approach in assessing the construction costs proposal. This included an Initial Draft Decision which was published in March 2025 and, a Supplementary Draft Decision published in November 2025 and this Final Decision.

In accordance with clause 6A.14.1 of the NER, this Final Decision on the transmission determination that will apply to MLPL Stage 1, Part B for the 2025–30 regulatory control period is predicated on the following decisions by the AER (constituent decisions).

Constituent decisions

NER clause/s	Constituent decision
6A.14.1(1)(v)	The AER's final decision is to approve the commencement and length of the regulatory control period as proposed by MLPL in the construction costs proposal, for the reasons set out in the Executive Summary. The AER's final decision is that the regulatory control period will commence on 1 July 2025, and that the length of the regulatory control period will be 5 years (concluding 30 June 2030).
6A.14.1(2)(ii)	Acting in accordance with clause 6A.6.7(d) of the NER, the AER's final decision is not to accept the total of the forecast capital expenditure for the 2025–30 regulatory control period that is included in the current revenue proposal. The AER's final decision therefore sets out an alternative estimate of the total of MLPL's required capital expenditure for the 2025–30 regulatory control period of $3,470.6 million ($2023), and reasons for that decision, in section 3 of this Final Decision.
6A.14.1(4)(i) 6A.14.1(4)(iv)	The AER's Final Decision is that, having regard to the requirements of clause 6A.8.1, the following proposed contingent projects described in the construction costs proposal are not contingent projects for the purposes of the transmission determination, for the reasons

NER clause/s	Constituent decision
	set out in section 5 of our Initial Draft Decision:[104] • The construction of the second 750 MW cable and associated works • The early works associated with the construction of the second 750 MW cable and associated works The AER has therefore not made decisions under clauses 6A.14.1(4)(ii) and (iii) for these proposed contingent projects.
6A.14.1(5)	MLPL did not submit a financeability request and therefore the AER has not made a decision under clause 6.14.1(5) of the NER.
6A.14.1(5A)	The AER's final decision on how applicable incentive schemes are to apply to MLPL in the 2025–30 regulatory control period is: • A variation of the CESS set out section 4 of this Final Decision will apply, for the reasons set out in section 4 of this Final Decision.
6A.14.1(5B)	The AER's Final Decision on the allowed rate of return for the 2025–26 regulatory year of the 2025–30 regulatory control period is 5.36% (nominal vanilla) for the reasons set out in section 2.2 of this Final Decision. The rate of return for the remaining regulatory years of the 2025–30 regulatory control period will be updated annually because the AER's decision is to apply a trailing average portfolio approach to estimating debt which incorporates annual updating of the allowed return on debt.
6A.14.1(5C)	The AER's Final Decision on the allowed imputation credits for each regulatory year of the 2025–30 regulatory control period is 0.57 as set out in section 2.2 of this Final Decision.

104 AER, *Initial Draft Decision – Marinus Link Stage 1, Part B (Construction costs) Transmission Determination 2025–30*, May 2025, pp 23–26.

NER clause/s	Constituent decision
6A.14.1(5D)	The AER's Final Decision on the RAB as at the commencement of the 2025–30 regulatory control period, in accordance with clause 6A.6.1 and Schedule 6A.2 of the NER, is $402.6 million ($nominal), as set out in section 2.1 of this Final Decision
6A.14.1(9)	The AER's Final Decision is that the following additional pass through events are to apply for the 2025–30 regulatory control period in accordance with clause 6A.6.9: • insurance coverage event • insurer's credit risk event • terrorism event • natural disaster event. These events have the definitions set out in Appendix A.

Notes: In this table, 'regulatory control period' means the period 1 July 2025 to 30 June 2030 determined in accordance with clause 6A.14.1(1)(v).
Source: References in this table to where detailed constituent decisions can be found are to documents and models published on the AER's website.

8 List of submissions

Issues Paper	Date
Amarlie Crowden	April 2025
Anita Turnbull	April 2025
Carol-Ann Fletcher	April 2025
Carran Doolan	April 2025
Clean Energy Tasmania	April 2025
Gippsland Climate Change Network	April 2025
Jack Gilding	April 2025
John Pauley	April 2025
Save our Surroundings Riverina	April 2025
Marinus Link Pty Ltd	April 2025
Nexa Advisory	April 2025
Private Citizen	April 2025
Private Citizen (2)	April 2025
SOLVE	April 2025
Initial Draft Decision	Date
Energy Users Association of Australia	August 2025
John Pauley	August 2025
Private Citizen	August 2025
Rainforest Reserves Australia	August 2025
Save our Surroundings Riverina	August 2025
Professor Richard Eccleston	August 2025
Revised Proposal and Revised Proposal Updates	Date
Hydro Tasmania	November 2025
John Devereaux	November 2025
Supplementary Draft Decision	Date
Marinus Link Pty Ltd	December 2025
Tasmanian Minerals, Manufacturing and Energy Council	December 2025

Energy Networks Australia	December 2025
Save our Surroundings Riverina	December 2025

9 Shortened Forms

Term	Definition
ACCC	Australian Competition and Consumer Commission
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Capex	Capital expenditure
CEFC	Clean Energy Finance Corporation
CESS	Capital expenditure sharing scheme
CPA	Contingent project application
EBSS	Efficiency benefit sharing scheme
EMCa	Energy Market Consulting associates
HVDC	High voltage direct current
IDP	Integrated delivery partner
ISP	Integrated System Plan
MAR	Maximum allowed revenue
MLPL	Marinus Link Pty Ltd
MW	Megawatt
NEL	National Electricity Laws
NER	National Electricity Rules
NEO	National Electricity Objectives
Opex	Operating expenditure
PTRM	Post-Tax Revenue Model
RAB	Regulatory asset base
RBA	Reserve Bank of Australia
RIT-T	Regulatory investment test for transmission
RORI	Rate of Return Instrument
RPP	Revenue and Pricing Principles
SME	Subject matter expert
STPIS	Service target performance incentive scheme

Term	Definition
TNSP	Transmission network service provider
WACC	Weighted average cost of capital

A Cost pass through definitions

Marinus Link Pty Ltd (MLPL) proposed eight pass throughs: insurer coverage event, insurer credit risk event, natural disaster event, terrorism event, unavoidable contract variations event, contractor insolvency event, contractor force *majeure* event and biodiversity event.[105]

Our Final Decision is to accept the insurance coverage event, insurer's credit risk event, natural disaster event and terrorism event proposed by MLPL.[106] We did not accept MLPL's proposed unavoidable contract variations event, contractor force *majeure* event, contractor insolvency event and biodiversity event. We do not consider that these events are capable of being defined events.[107] MLPL did not propose a contractor insolvency event and biodiversity event in its response to the Supplementary Draft Decision.[108]

This appendix specifies the definitions for the pass through events proposed by MLPL which we considered in our Final Decision and our proposed definitions for the accepted pass through events.

A.1 MLPL's proposal

MLPL's proposed nominated pass through events are set out in Table A.1.

Table A.1 MLPL's nominated pass through events

Proposed event	MLPL's proposed definition
Insurance coverage event	An insurance coverage event occurs if: 1.MLPL: a. makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy or set of insurance policies; or b. would have been able to make a claim or claims under a relevant insurance policy or set of insurance policies but for changed circumstances; and 2. MLPL incurs costs: a. beyond a relevant policy limit for that policy or set of insurance policies; or b. that are unrecoverable under that policy or set of insurance policies due to changed circumstances; and

105 MLPL, *MLPL-B-002 MLPL Revised Revenue Proposal Stage 1 - Part B (Construction)*, July 2025, p 68.

106 This is one of the constituent decisions we must make under NER, cl. 6A.14.1(9). MLPL proposed to amend the standard wording of the insurance coverage, natural disaster and terrorism events to refer to changes in costs of constructing or commissioning Marinus Link.

107 AER, *Supplementary Draft Decision - Marinus Link Stage 1, Part B (Construction costs)*, November 2025, p 32.

108 MLPL, Submission to AER Supplementary Draft Decision, December 2025, p. 31

Proposed event	MLPL's proposed definition
	3. The costs referred to in paragraph 2 above materially increase the costs to MLPL in constructing or commissioning Marinus Link. For the purposes of this insurance coverage event: 'changed circumstances' means movements in the relevant insurance market, including liability insurance, that are beyond the reasonable control of MLPL, where those movements result in it no longer possible for MLPL to take out an insurance policy or set of insurance policies at all or on reasonable commercial terms that include some or all of the costs referred to in paragraph 2 above within the scope of that insurance policy or set of insurance policies. . 'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had: i. the limit not been exhausted; ii. those costs not been unrecoverable due to changed circumstances. A 'relevant insurance policy' or 'set of insurance policies' is an insurance policy or set of insurance policies held during the regulatory control period or prior to the commencement of the regulatory control period; and i. MLPL will be deemed to have made a claim on a relevant insurance policy or set of insurance policies if the claim is made by a related party of MLPL in relation to any aspect of MLPL's network or business; and ii. MLPL will be deemed to have been able to make a claim on a relevant insurance policy or set of insurance policies if, but for changed circumstances, the claim could have been made by a related party of MLPL in relation to any aspect of MLPL's network or business. Note for the avoidance of doubt, in assessing an insurance coverage event through application under rule 6A.7.3(j), the AER will have regard to: i. the relevant insurance policy or set of insurance policies for the event; ii. the level of insurance that an efficient and prudent Transmission Network Service Provider (TNSP) would obtain, or would have sought to obtain, in respect of the event; iii. any information provided by MLPL to the AER about MLPL's actions and processes; and iv. any guidance published by the AER on matters the AER will likely have regard to in assessing any insurance coverage event that occurs.

Proposed event	MLPL's proposed definition
Insurer credit risk event	An insurer credit risk event occurs if an insurer of MLPL becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, MLPL: a) is subject to a higher or lower claim limit or a higher or lower deductible than would have otherwise applied under the insolvent insurer's policy; or b) incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer Note: in assessing an insurer credit risk event pass through application, the AER will have regard to, amongst other things: i. MLPL's attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer's track record, size, credit rating and reputation; and ii. In the event that a claim would have been covered by the insolvent insurer's policy, whether MLPL had reasonable opportunity to insure the risk with a different provider.
Natural disaster event	Natural disaster event means any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the 2026–30 regulatory control period that changes the costs to MLPL in constructing or commissioning Marinus Link, provided the cyclone, fire, flood, earthquake or other event was: a) a consequence of an act or omission that was necessary for MLPL to comply with a regulatory obligation or requirement or with an applicable regulatory instrument, or b) not a consequence of any other act or omission of the service provider. Note: In assessing a natural disaster event pass through application, the AER will have regard to, among other things: i. whether MLPL has insurance against the event, and ii. the level of insurance that an efficient and prudent TNSP would obtain in respect of the event.
Terrorism event	Terrorism event means an act (including, but not limited to, the use of force or violence, or the threat of force or violence, or group of persons (whether acting alone or on behalf of or in connection with any organisation or government), which: a) from its nature or context is done for, or in connection with, political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear); and

Proposed event	MLPL's proposed definition
	b) changes the costs to MLPL in constructing or commissioning Marinus Link. Note: In assessing a terrorism event pass through application, the AER will have regard to, amongst other things: i. whether MLPL has insurance against the event; ii. the level of insurance that an efficient and prudent TNSP would obtain in respect of the event; and iii. whether a declaration has been made by a relevant government authority that a terrorism event has occurred.
Unavoidable contract variations event	An unavoidable contract variations event occurs if: a) a variation to a contract relating to the construction of Stage 1 of Marinus Link is required to accommodate a change in project design or proposed route that is beyond MLPL's control; and b) the required variation to that contract has a material impact (positive or negative) on MLPL's costs of constructing or commissioning Marinus Link The cost of the unavoidable contract variations event may include, but is not limited to, the increase or decrease in the prudent and efficient costs of any civil or building works, environmental and planning approvals; and any plant, equipment, materials and labour costs; and delay costs. Note: In assessing an unavoidable contract variations event pass through application, the AER will have regard to, amongst other things: i) evidence that the contract variation has been caused by factors that were beyond MLPL's control; ii. MLPL's attempts to mitigate and prevent the event from occurring; iii. the prudency and efficiency of the contract amounts claimed by MLPL, including whether it accords with the terms and conditions of the relevant contract; iv. the prudency and efficiency of any actual or forecast costs to be incurred by MLPL as a result of the event.
Contractor force *majeure* event	A contractor force *majeure* event is the material change in construction costs incurred by MLPL due to an unforeseen force *majeure* event impacting the construction contractor. The contractor force *majeure* event includes the additional prudent and efficient construction costs incurred by MLPL, as a result of an unforeseen force *majeure* event impacting the contractor, where: (i) the costs are not covered by an existing insurance policy or other pass through event, and

Proposed event	MLPL's proposed definition
	(ii) the force *majeure* event is declared in accordance with the terms of the relevant contract. Note: In assessing a contractor force *majeure* event pass through application, the AER will have regard to, amongst other things: i. whether the event is covered by insurance; ii whether the event falls within the definition of a different pass through event, in which case the relevant costs can only be recovered once; iii. the prudency an efficiency of the contract amounts claimed by MLPL, including whether it accords with the terms and conditions of the relevant contract; and iv. the prudency and efficiency of any actual or forecast costs to be incurred by MLPL as a result of the event.

Source: MLPL, *Revised Revenue Proposal Stage 1 – Part B (Construction costs*), November 2024, pp 67-84.

Table A.2 AER pass through event definitions

Pass through event	Final Decision definition
Insurance coverage event	An insurance coverage event occurs if: 1. MLPL: a) makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy or set of insurance policies; or b) would have been able to make a claim or claims under a relevant insurance policy or set of insurance policies but for changed circumstances; and 2. MLPL incurs costs: a) beyond a relevant policy limit for that policy or set of insurance policies; or b) that are unrecoverable under that policy or set of insurance policies due to changed circumstances; and 3. The costs referred to in paragraph 2 above materially increase the costs to MLPL in in constructing or commissioning Marinus Link. For the purposes of this insurance coverage event: • 'changed circumstances' means movements in the relevant insurance market, including liability insurance, that are beyond the control of MLPL, where those movements mean that it is no longer possible for MLPL to take out an insurance policy or set of insurance policies at all or on reasonable commercial terms that include some or all of the costs referred to in paragraph 2 above within the scope of that insurance policy or set of insurance policies.

Pass through event	Final Decision definition
	• 'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had: – the limit not been exhausted; or – those costs not been unrecoverable due to changed circumstances. • a ‘relevant insurance policy or set of insurance policies’ is an insurance policy or set of insurance policies held during the regulatory control period or a previous regulatory control period in which MLPL was regulated; and • MLPL will be deemed to have made a claim on a relevant insurance policy or set of insurance policies if the claim is made by a related party of MLPL in relation to any aspect of MLPL’s network or business; and • MLPL will be deemed to have been able to make a claim on a relevant insurance policy or set of insurance policies if, but for changed circumstances, the claim could have been made by a related party of MLPL in relation to any aspect of MLPL's network or business. Note: for the avoidance of doubt, in assessing an insurance coverage event pass through application under rule 6A.7.3(j), the AER will have regard to: i) the relevant insurance policy or set of insurance policies for the event ii) the level of insurance that an efficient and prudent TNSP would obtain, or would have sought to obtain, in respect of the event iii) any information provided by MLPL to the AER about MLPL's actions and processes; and iv) any guidance published by the AER on matters the AER will likely have regard to in assessing any insurance coverage event that occurs.
Insurer credit risk event	An insurer credit risk event occurs if an insurer of MLPL becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, MLPL: a) is subject to a higher or lower claim limit or a higher or lower deductible than would have otherwise applied under the insolvent insurer's policy; or b) incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer. Note: in assessing an insurer credit risk event pass through application, the AER will have regard to, amongst other things: i) MLPL’s attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer's track record, size, credit rating and reputation; and

Pass through event	Final Decision definition
	ii) in the event that a claim would have been covered by the insolvent insurer's policy, whether MLPL had reasonable opportunity to insure the risk with a different provider.
Natural disaster event	Natural disaster event means any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the 2026–30 regulatory control period that changes the costs to MLPL in constructing or commissioning Marinus Link, provided the cyclone, fire, flood, earthquake or other event was: a) a consequence of an act or omission that was necessary for the service provider to comply with a regulatory obligation or requirement or with an applicable regulatory instrument; or b) not a consequence of any other act or omission of the service provider. Note: In assessing a natural disaster event pass through application, the AER will have regard to, amongst other things: i) whether MLPL has insurance against the event; ii) the level of insurance that an efficient and prudent NSP would obtain in respect of the event.
Terrorism event	Terrorism event means an act (including, but not limited to, the use of force or violence or the threat of force or violence) of any person or group of persons (whether acting alone or on behalf of or in connection with any organisation or government), which: 1. from its nature or context is done for, or in connection with, political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear); and 2. changes the costs to MLPL in providing constructing or commissioning Marinus Link. Note: In assessing a terrorism event pass through application, the AER will have regard to, amongst other things: i) whether MLPL has insurance against the event ii) the level of insurance that an efficient and prudent NSP would obtain in respect of the event; and iii) whether a declaration has been made by a relevant government authority that a terrorism event has occurred.