Directlink– Annual Information Order

Additional Supporting Information – for the year ended 30 June 2025

In accordance with the **Annual Information Order**, the following information is required to be provided.

1. Policies and Procedures

Directlink provides the following supporting information to the Australian Energy Regulator (AER):

- APA Regulatory Accounting Principles and Policies – to be provided as part of this submission (Appendix A).
- APA Capitalisation Policy – to be provided as part of this submission (Appendix B).
- Approved Cost Allocation Method – has already been provided to the AER on 31 January 2024.

2. Regulatory Adjustments Recorded in the Data Workbooks

Applicable to:

- Workbook 06 – Operating Expenditure
- Workbook 09 – Revenue and Financial Statements

2.1 Workbook 06 – Operating Expenditure (Workbook 06)

In workbook 06, there is 2 regulatory adjustment which is required to reflect:

- Adjustment 1 – to reflect debt raising cost
- Adjustment 2 – to reflect debt raising cost Capital expenditure

2.1.1 Adjustment 1 – Debt raising costs

(a) **Detailed explanation for the underlying reason for the regulatory adjustment**
Debt raising costs are not incurred for accounting purposes however the regulatory operating costs includes an allowance for debt raising costs, as debt raising costs forms part of the asset's calculation of revenue per the building block approach as part of its Revenue Determination.

(b) **Methodology and assumptions used to quantify the regulatory adjustment**
Below are the steps taken to for calculating the regulatory adjustment:

- Calculated using the AER-approved methodology for debt raising costs.
- Based on the average value of the Regulatory Asset Base (RAB) for the reporting year, determined using the AER's Roll Forward Model (RFM).

- An AER-approved debt raising cost rate is applied to the notional debt-funded portion of the RAB (i.e., 60%).
- The resulting amount represents the regulatory operating expenditure allowance for debt raising costs.

Formula:

Raising Cost Adjustment=(Average RAB×Notional Debt Proportion)×AER Debt Raising Cost Rate

(c) Relevant debits and credits associated with the regulatory adjustment

Dr: Debt Raising Costs (Profit & Loss) and

Cr: Equity (Balance Sheet)

2.1.2 Adjustment 2 – Cable repair kits

(a) Detailed explanation for the underlying reason for the regulatory adjustment

Costs for cable repair kits were capitalised for statutory purposes however, under the Interconnector's Revenue Determination, these costs are required to be expensed for regulatory reporting. Therefore, they are excluded from capital expenditure and reclassified as operating expenditure for regulatory purposes.

(b) Methodology and assumptions used to quantify the regulatory adjustment

Below are the steps taken to for calculating the regulatory adjustment:

- identify all cable repair kit projects where costs were incurred during the year and were capitalised as part of the Construction works in progress (CWIP) account.
- Reclassify the full value of these costs from capital expenditure to operating expenditure for regulatory reporting.

(c) Relevant debits and credits associated with the regulatory adjustment

Dr: Operating expense (Profit & loss) and

Cr: CWIP Account (Balance sheet)

2.2 Workbook 09 Revenue and Financial Statements (Workbook 9)

In workbook 9, there are 2 regulatory adjustments which are required to reflect:

- Adjustment 1 – regulatory depreciation expense
- Adjustment 2 – debt raising costs (refer explanation provided in section 2.1.1)

2.2.1 Adjustment 1 – Regulatory Depreciation expense

(a) **Detailed explanation for the underlying reason for the regulatory adjustment**

An adjustment is made to depreciation and amortisation to reflect the total regulatory depreciation expense approved by the AER.
This includes forecast depreciation from the AER's Post-Tax Revenue Model (PTRM) and the indexation on the opening regulated asset base (RAB).
It aligns the financial statements with the regulatory approach, which differs from statutory (accounting) depreciation.

(b) **Methodology and assumptions used to quantify the regulatory adjustment**

Below are the steps taken to for calculating the regulatory adjustment:

- Regulatory depreciation is taken from the AER-approved PTRM for the relevant revenue determination year.
- Accounting depreciation is taken from the Interconnector's audited financial statements.
- The adjustment equals the difference between regulatory and accounting depreciation.
- Regulatory depreciation includes RAB indexation and follows the AER's approved asset lives and inflation assumptions.

(c) Relevant debits and credits associated with the regulatory adjustment

Dr: Regulatory deprn expense (Profit & Loss)

Cr: Accounting deprn & amortisation expense (Profit & Loss)

Cr: Equity (Balance Sheet)

3. Regulatory adjustment journal

As the Interconnector has previously provided the AER with a regulatory adjust journal in response to annual reporting obligations in place for previous years, the Interconnector must continue to provide this journal. Below is the journal for the year ended 30 June 2025.

For the year ended 30 June 2025

Journal number	Account Debited / Account Credited	Amount Debit $'000	Amount Credit $'000
GJ01	Property, Plant & Equipment - Accumulated Depreciation	102,866	
	Property, Plant & Equipment - Cost		60,700
	Depreciation expense(Accounting)		-
	Impairment		
	Access Arrangement - Costs		353
	Access Arrangement - Amortisation		-
	Operating and maintenance costs	366	
	Depreciation expense (Regulatory)	5,470	
	Loss on disposal of property, plant & equipment (Accounting)		
	Equity		47,648
	Being the adjustment made on the written down value of the assets to bring it into line with the net regulatory values of assets at the end of the regulatory reporting period.	108,701	108,701
GJ02	Regulatory: Debt Raising Cost	91	
	Equity		91
	Being adjustment for Debt raising costs, as forms part of Opex when determining the Building block as part of Directlink's Revenue Determination.		

4. Material differences

The service provider must identify each difference (where the difference is equal to or greater than ± 10 per cent) between the amount reported and if relevant, the amounts approved by the AER.

4.1 Service target performance incentive scheme Vs actual performance reported
More faults were experienced than included in the targets.

4.2 AER's forecast operating expenditure Vs Actual operating expenditure

	FY25
	$ (nominal)
Forecast operating expense (AER Final Decision)	5,706,304
Actual operating expense	8,018,931
Variance (overspend)	(2,312,627)
Variance %	41%

Explanation for the overspend:

There was a number of cable faults experienced on Directlink. This lead to a significant increase in materials associated with cables and cable kits being used on Directlink which increased these costs in $1.1m. however, there have been a wide range of individual cost increases since the AER forecast the operating expenditure. This includes increases in wages/labour costs and contractor costs.

4.3 AER's forecast capital expenditure Vs Actual capital

	FY25
	$ (nominal)
Forecast capital expense (AER Final Decision)	4,632,191
Actual operating expense	8,128,297
Variance	(3,496,106)

Explanation for the overspend:

There were a number of projects undertaken in FY25 that were not foreseen at the time of the AER's Final Determination. These projects include:

- Landslip Remediation
- SCADA Upgrade
- Fire Systems Upgrades Phase 2/3
- RTU Upgrade - Comms Interface to AEMO
- SIB Fire Systems upgrades FY2024-25
- Air Filters and Sound Dampeners Replacement
- Essential Spares - Capacitors - Mul 1

There was also a small difference ($160.153) in the forecast for the IGBT upgrade.