MARINUS LINK

Revenue Proposal Stage 1– Part A (Early works)

Submission to the Australian Energy Regulator

31 July 2023

Responsibilities

This document is the responsibility of the Marinus Link Team, Marinus Link Pty Ltd PO Box 606 Moonah Tasmania 7009, ABN 47 630 194 562 (hereafter referred to as MLPL).

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MARINUS LINK

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Executive summary

Marinus Link involves approximately 255 kilometres of undersea High Voltage Direct Current (**HVDC**) cable and approximately 90 kilometres of underground HVDC cable in Victoria. It also includes converter stations in Tasmania and Victoria. The total interconnection capacity will be 1500 MW, provided through two 750 MW cables.

Marinus Link is part of a larger project, which is referred to as Project Marinus, which will be developed and owned by different entities:

- Marinus Link will be owned and operated by Marinus Link Pty Ltd (**MLPL**).
- The North West Transmission Development component of Project Marinus will be owned and operated by TasNetworks.

AEMO estimates that Project Marinus is expected to deliver net market benefits on a scenario-weighted basis of $4.5 billion to the NEM over the life of the investment.[1] Australia's energy ministers have recognised that Project Marinus is a transmission project of national significance. The current timeframes for Marinus Link indicate that the first cable will be operational in January 2029 and the second cable in January 2031.

This document is MLPL's Revenue Proposal for 'early works' expenditure, which is being submitted to the Australian Energy Regulator (**AER**), in accordance with clause 6A.9.3(b) of the National Electricity Rules (**Rules**). This Revenue Proposal commences MLPL's revenue determination process for Marinus Link. It will be followed by a further Revenue Proposal in 2024 in relation to the construction costs for Marinus Link.

Early works expenditure has been defined as follows:[2]

> "Any activity which commences prior to construction […] if the activity can be justified as being necessary to:
>
> - improve the accuracy of project cost estimates, and
> - ensure that a project will be delivered within the time frames specified by the most recent Integrated System Plan."

MLPL has identified its early works activities in accordance with the above definition with the objective of delivering the best outcome for electricity consumers. Specifically, MLPL has been undertaking activities that

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1 AEMO, 2022 Integrated System Plan, June 2022, page 73.

2 AEMC, Final Report, Transmission Planning and Investment Review, Stage 2, 27 October 2022, page 41.

are essential to improve its estimate of the total project costs and remove potential constraints that could lead to project delays. As such, early works expenditure plays an important role in progressing towards making a final investment decision in relation to Project Marinus, which is scheduled to be made in December 2024.

The expenditure categories that comprise early works are:

- Landowner and community engagement programs, including traditional landowners, and stakeholder relations;
- Land and easement acquisition;
- Environmental impact assessments;
- Technical designs and specifications;
- Procurement strategy and execution;
- Program and project management; and
- Corporate costs and support.

For each category of expenditure, MLPL has established objectives that are focused on delivering the best outcome for customers in accordance with the definition of early works expenditure. The start date for early works activities is 1 July 2021, with the end date being 31 December 2024, i.e., shortly after a final investment decision is made. In addition to these early works activities, our early works expenditure includes land purchases that are required for the project, noting that the purchases at Heybridge and Mardan Farm occurred prior to 1 July 2021.[3] These costs will be included in MLPL's regulatory asset base as at 1 July 2021.

The table below shows the actual and forecast expenditure for early works activities over this period is $196.5 million, expressed in nominal terms, which reduces to $128.9 million net of grant funding.

Table 1: Proposed expenditure for early works activities ($m nominal)[4]

Category	2021-22	2022-23	2023-24	6 months to 31 Dec 2024	Total
Landowner and community engagement programs, including Traditional Owners, and stakeholder relations	4.0	6.0	9.0	4.1	23.2

[3] References to land purchased prior to 1 July 2021 include the actual land ($4.292 million), and buildings and other plant and equipment on that land of $0.666 million and $0.041 million respectively.

[4] Excludes land purchases at Heybridge and Mardan Farm, which are included in MLPL's regulatory asset base as at 1 July 2021.

Category	2021-22	2022-23	2023-24	6 months to 31 Dec 2024	Total
Land and easement acquisition	2.6	1.8	2.5	1.1	8.0
Environmental impact assessments	2.7	7.4	9.9	4.6	24.5
Technical designs and specifications	17.4	12.2	11.7	2.6	43.9
Procurement strategy and execution[5]	2.4	4.6	8.8	3.1	18.9
Program and project management	4.5	8.2	10.4	4.7	27.8
Corporate costs and support	6.6	13.9	21.0	8.7	50.2
Sub-total	**40.1**	**54.2**	**73.3**	**28.9**	**196.5**
Less Grant funding	-9.4	-27.2	-19.4	-11.6	-67.6
Net expenditure	**30.7**	**27.1**	**53.9**	**17.2**	**128.9**

Note: Numbers may not sum exactly due to rounding.

Attachment 1 of this Revenue Proposal provides further detailed information on the early works expenditure.

MLPL will not recover any costs from electricity consumers until Marinus Link commences operation, which is expected to be January 2029. To enable MLPL to recover the costs of its early works activities, the expenditure is included in MLPL's opening regulatory asset base for its first regulatory control period, which will apply for 3 years from 1 July 2025.

MLPL is a new transmission company that is now subject to regulation under Chapter 6A of the National Electricity Rules. However, this Revenue Proposal is much narrower in scope as it is principally focused on early works expenditure. The AER has explained its approach to regulating MLPL in its Commencement and Process Paper, which it published on 1 June 2023. The AER's revenue determination is important because it will establish an allowance for our early works expenditure and explain how the expenditure will be reflected in our regulatory asset base as at 1 July 2025.

MLPL is continuing to engage with its Consumer Advisory Panel and other stakeholders in relation to Marinus Link and this Revenue Proposal. We welcome their involvement throughout the project and look forward to their continued engagement.

[5] Excludes pre-payments that may be required to secure manufacturing capacity and any physical preparatory works associated with construction. The latter will be treated as construction costs and recovered in Part B (Construction costs).

1 Introduction and background

1.1 Purpose

Marinus Link Pty Ltd (**MLPL**) is submitting this Revenue Proposal Stage 1 – Part A (Early works) to the Australian Energy Regulator (**AER**), in accordance with clause 6A.9.3(b) of the National Electricity Rules (**Rules**). This Revenue Proposal commences MLPL's revenue determination process for Marinus Link, which is a proposed interconnector between Tasmania and Victoria.

As explained in this Revenue Proposal, Marinus Link is an infrastructure project of national significance which is expected to deliver significant benefits to electricity consumers by reducing wholesale electricity costs. It will also contribute to Australia's emissions reduction targets of 43% by 2030 and net zero by 2050. From a regulatory perspective, this Revenue Proposal is the first major step towards establishing a revenue determination for MLPL.

1.2 Revenue determination process

As a newly formed transmission company that intends to provide prescribed transmission services, MLPL is classified as an Intending Transmission Network Service Provider (**Intending TNSP**). In December 2022, the Australian Energy Market Commission (**AEMC**) amended Chapter 6A of the Rules to enable MLPL (and other Intending TNSPs) to lodge an Application to the AER for a revenue determination. This Rule determination was made in response to a Rule change request submitted by MLPL, which explained that Chapter 6A of the Rules allowed the AER to make revenue determinations for existing TNSPs, but not for Intending TNSPs such as MLPL.

The AEMC's Rule change addressed this gap by setting out specific arrangements for how the AER should conduct a revenue determination for Intending TNSPs. The first step in the process is the submission of an Application by the Intending TNSP to the AER, which sets out the proposed timetable for the revenue determination.

In March 2023, MLPL submitted its Application to the AER. In that Application, MLPL explained that a revenue determination by the AER for Marinus Link is a key input to MLPL making an investment decision to proceed with the construction of Marinus Link. From a commercial perspective, MLPL noted that investors will want to know how Marinus Link will earn revenue and whether that revenue is likely to be sufficient to provide a reasonable return on their investment. A revenue determination will provide that information.

In June 2023, the AER accepted MLPL's Application and published its Commencement and Process Paper, which describes how the AER intends to conduct the revenue determination process for MLPL. The AER's

Commencement and Process Paper accepted MLPL's proposal that the revenue determination should be conducted in two stages, as summarised below:

- Stage 1 will have two parts, Part A (Early works) and Part B (Construction costs) to provide for more accurate expenditure forecasts and an extended consultation process. Stage 1 will culminate with an AER revenue determination that establishes an expenditure allowance for the costs of planning and commissioning the project and a mechanism for setting MLPL's regulatory asset base. It will also establish the first regulatory period, which would apply for 3 years commencing on 1 July 2025.

  MLPL will not recover any revenue from electricity consumers during this regulatory period, as transmission services are not expected to commence until January 2029. In addition, Stage 1 will not determine some 'building block' components, such as MLPL's operating expenditure allowance, which are required to calculate MLPL's annual revenue requirements.

- Stage 2 will be a standard revenue determination which will establish the maximum allowed revenue that MLPL is able to earn when services commence in 2029. As such, it will determine each component that comprise the 'building block' approach to revenue setting. The second regulatory period will commence on 1 July 2028 and apply for 5 years. As already noted, prior to this period MLPL will not be recovering any revenue from electricity consumers.

Figure 1 and Figure 2 show the key milestones for Part A (Early works) and Part B (Construction costs), which together comprise Stage 1. As already noted, this Revenue Proposal is Part A (Early works). It will be followed by a Revenue Proposal for Part B (Construction costs) in February 2024.

Figure 1: Key milestones for Part A (Early works)

31 March 2023	**1 June 2023**	**31 July 2023**	**August 2023**	**30 Dec 2023**
MLPL submits Application for Revenue Determination	AER publishes Commencement and Process Paper	MLPL submits Revenue Proposal - Part A (Early works)	AER consultation process	AER makes Revenue Determination - Part A (Early works)

Figure 2: Key milestones for Part B (Construction costs)

January 2024	February 2024	28 February 2024	March 2024	July 2024
Project Marinus Feedback loop submitted to AEMO	AEMO confirms Project Marinus feedback loop	MLPL submits Revenue Proposal - Part B (Construction costs)	AER consultation process - Part B (Construction costs)	AER publishes Draft Decision - Part B (Construction costs)

August 2024	September 2024	20 Nov 2024	December 2024	1 July 2025
AER consultation and stakeholder submissions on Draft Decision	MLPL submits Revised Revenue Proposal - Part B (Construction costs)	AER makes Revenue Determination - Part B (Construction costs)	MLPL makes Final Investment Decision	First regulatory period commences

As this Revenue Proposal covers Stage 1 – Part A (Early works), the scope of the AER's revenue determination is substantially narrower than a standard determination process, which will apply to Stage 2. In broad terms, the AER's revenue determination for Stage 1 – Part A (Early works) will:

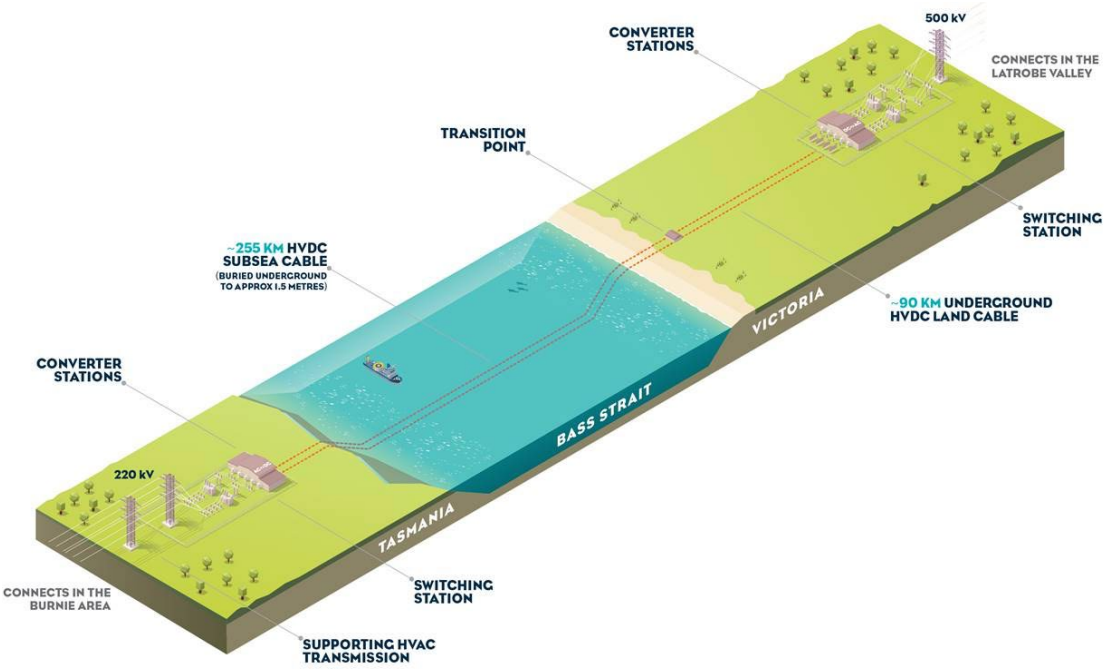
- Provide an allowance for MLPL's early works expenditure;
- Establish the arrangements, including the applicable cost of capital, for determining MLPL's opening regulatory asset base at the commencement of the first regulatory period, being 1 July 2025;
- Determine which, if any, incentive schemes should apply to early works expenditure; and
- Clarify the approach to nominated pass-through events.

MLPL confirms that the early works expenditure only relates to the activities that relate to the future provision of prescribed transmission services.

1.3 What is Marinus Link?

Marinus Link involves approximately 255 kilometres of undersea High Voltage Direct Current (**HVDC**) cable and approximately 90 kilometres of underground HVDC cable in Victoria. It also includes converter stations in Tasmania and Victoria, as shown in Figure 3. The total interconnection capacity will be 1500 MW, provided through two 750 MW cables.

Figure 3: Marinus Link overview



As coal-fired generation plant retires, Australia needs access to affordable, 'on-demand' electricity and the ability to store energy for long periods. Marinus Link can help to deliver this for National Electricity Market (**NEM**) customers. Tasmania's existing hydro capacity, along with wind resources and energy storage capability, will provide a reliable source of low-cost, on-demand, clean energy to the NEM.

Marinus Link is part of a larger project, which is referred to as Project Marinus, which will be developed and owned by different entities:

- Marinus Link will be owned and operated by MLPL, which is currently a wholly owned subsidiary of Tasmanian Networks Pty Ltd (**TasNetworks**). In October 2022, the Australian, Tasmanian and Victorian Governments entered an historic agreement to move to joint ownership of MLPL.

- The North West Transmission Development component of Project Marinus will be owned and operated by TasNetworks.

AEMO estimates that Project Marinus is expected to deliver net market benefits on a scenario-weighted basis of $4.5 billion to the NEM over the life of the investment.[6] Australia's energy ministers have recognised that Project Marinus is a transmission project of national significance. The current timeframes for Marinus Link indicate that the first cable will be operational in January 2029 and the second cable in January 2031.

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[6] AEMO, 2022 Integrated System Plan, June 2022, page 73.

1.4 Actionable ISP Status

The status of Marinus Link as an actionable Integrated System Plan (**ISP**) project is important in understanding why it is prudent and efficient for Marinus Link to proceed with early works activities.

The Australian Energy Market Operator (**AEMO**) is required to publish an ISP every two years. The ISP sets out an optimal development path (**ODP**) which identifies investments that meet the future needs of the NEM, including actionable and future ISP projects (transmission projects or non-network options). In its 2020 ISP, AEMO reached the following conclusions regarding Marinus Link:[7]

> "Marinus Link is a multi-staged actionable ISP project to be completed from 2028-29, with early works recommended to start as soon as possible and with further stages to proceed if their respective decision rules are satisfied."[8]

AEMO re-examined the case for Marinus Link in its 2022 ISP. Following extensive stakeholder consultation on the updated input data, assumptions and scenarios, AEMO's cost-benefit assessment found that the economic case for Marinus Link had strengthened since its 2020 ISP:[9]

> "Marinus Link is a single actionable ISP project, without staging between the first and second cables. The optimal delivery in Step Change is 2029-30 for cable 1, and 2031-32 for cable 2. Any delay reduces net market benefits in all scenarios but the unlikely Slow Change.
>
> The project's two cables are estimated to cost $2.38 billion ±30% (cable 1) and $1.40 billion ±30% (cable 2). At the higher end of this cost range, the project may no longer be optimally timed for delivery as soon as possible, but the regret of having invested too early is small. Its status as an actionable ISP project is not affected by materially higher discount rates, materially lower gas prices, or any other variations in inputs tested through sensitivity analysis."

In relation to actionable ISP projects more generally, AEMO's 2022 ISP highlighted their urgent need in the following terms:[10]

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7 AEMO, 2020 Integrated System Plan, July 2020, page 82.

8 'Decision rules' are conditions that must be met in order for a multi-staged actionable ISP project to proceed to the next stage.

9 AEMO, 2022 Integrated System Plan June 2022, page 73. It should be noted that AEMO's references to Marinus Link are references to Project Marinus, as defined in this Application.

10 AEMO, 2022 Integrated System Plan June 2022, page 18.

> "The schedule of actionable projects lists the earliest practical delivery time AEMO has been advised by the project proponents. Earlier delivery would either be more optimal to deliver benefits to consumers or would provide valuable insurance and guard against other potential delays. All actionable projects should therefore progress as urgently as possible, and state and Commonwealth mechanisms which support earlier progression of projects could deliver earlier benefits or cost savings."

In relation to this Revenue Proposal, AEMO's conclusion that actionable ISP projects are required urgently strongly supports the case for progressing early works activities. This observation is reinforced by AEMO's 2020 ISP, published in July 2020, which concluded that early works activities for Marinus Link should "start as soon as possible."[11]

1.5 Government support

Project Marinus has received significant Government support since the feasibility phase of the project commenced in 2017. Following grant funding to progress these early phases of the project, in December 2020, the Commonwealth and Tasmanian Governments established a Memorandum of Understanding (**MOU**) which included commitments to establish a separate business[12] to progress the delivery of the Design and Approvals (**D&A**) phase of the project to FID, which, at the time was anticipated to be prior to the end of 2023-24.

On 5 April 2022, the Australian Government announced grant funding of $75 million to support the 'design and approvals' phase for Project Marinus. This support for the project was reiterated in October 2022 through an agreement between the Australian, Tasmanian and Victorian Governments to progress Marinus Link. This agreement includes:[13]

- Access to a concessional loan from Rewiring the Nation, through the Clean Energy Finance Corporation for approximately 80 per cent of the project costs of Marinus Link, with the additional 20 per cent to be an equity investment shared equally between the Commonwealth, Victoria and Tasmania.

- Up to $1 billion of low-cost debt from Rewiring the Nation for Tasmania's Battery of the Nation projects, including Tarraleah Power Station redevelopment and Lake Cethana Pumped Hydro.

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11 AEMO, 2020 Integrated System Plan, July 2020, page 82.

12 At that time, the intention was to establish a special purpose vehicle (SPV). While ultimately an SPV was not established, MLPL acted on the commitment to establish a separate business to progress the construction, ownership and operation of Marinus Link in accordance with the MOU.

13 https://www.pm.gov.au/media/rewiring-nation-plugs-marinus-link-and-tasmanian-jobs

- Access for TasNetworks to low-cost debt for the North West Transmission Development (**NWTD**), which will link Cressy, Burnie, Sheffield, Staverton and Hampshire in Tasmania.

As noted in relation to AEMO's classification of Marinus Link as an actionable ISP project, the support from the Australian, Tasmanian and Victorian Governments reinforces the need for early works expenditure to progress the planning and approvals stage of the project. From a regulatory perspective, while the costs of early works will not be recovered from electricity consumers until Marinus Link begins to provide transmission services in the second regulatory period, concessional finance and grant funding will be taken into account in setting MLPL's future revenue requirements, as follows:

- The AEMC has recommended changes to the Rules to ensure that the benefits of concessional finance are passed on to electricity consumers, in accordance with the stated intentions of the provider of that finance. While these Rule changes have not yet been introduced, MLPL supports the AEMC's approach to concessional finance and AEMO's recommendations have been reflected in this Revenue Proposal.

- Grant funding attributable to MLPL will reduce the costs of Marinus Link that are recoverable from consumers through MLPL's annual revenue requirements. The table below shows the grant funding over the 1 July 2021 to 31 December 2024 early works period and the allocation to MLPL and NWTD based on their respective estimated share of the total expected D&A costs.

Table 2: Grant funding allocation ($m nominal)

	2021-22	2022-23	2023-24	6 months to 31 Dec 2024	Total
Total	12.1	35.0	25.0	15.0	87.1
MLPL share	9.4	27.2	19.4	11.6	67.6
NWTD share	2.7	7.8	5.6	3.4	19.5

1.6 Confidentiality

There are no parts of this Revenue Proposal or the Attachments where MLPL claims confidentiality. MLPL claims confidentiality in relation to the detailed build-up of our expenditure by early works category, which is provided in a spreadsheet that accompanies this Revenue Proposal.

1.7 Stakeholder Engagement

MLPL is continuing to engage with stakeholders and the broader community on all aspects of Marinus Link, including the revenue setting process. Further details of our stakeholder engagement are provided in Chapter 2 of this Revenue Proposal.

Any feedback or questions on this Revenue Proposal should be directed to:

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Email: team@marinuslink.com.au

1.8 Structure of this Revenue Proposal

The remainder of this Revenue Proposal is structured as follows:

- Section 2 describes our approach to stakeholder and community engagement, which has been ongoing since 2017 and will continue to be an important focus for the project, including as an early works activity;
- Section 3 provides details of our proposed expenditure for early works activities. We explain what is meant by 'early works' activities and the approach we have taken to ensure that we achieve the best value for electricity consumers;
- Section 4 sets out MLPL's proposed approach to establishing the opening regulatory asset base for MLPL and the allowed rate of return;
- Section 5 sets out MLPL's proposed application of the AER's incentive schemes for the proposed regulatory period;
- Section 6 sets out our approach to pass through events, which provides for cost recovery for events that are beyond our control;
- Section 7 sets out MLPL's concluding comments and proposed next steps; and
- Appendix 1 shows which AER decisions under clause 6A.14.1 of the National Electricity Rules are addressed in this Revenue Proposal. It also provides cross-references to those sections of this Revenue Proposal that are relevant to those decisions.

This Revenue Proposal also incorporates the following supporting documents, which provide additional information to assist the AER and stakeholders:

- Attachment 1 explains the scope of our early works activities and why our early works costs are prudent and efficient in accordance with the Rules requirements. In presenting this information, we

have had regard to the Rules requirements, including the operating and capital expenditure objectives.[14]

- Attachment 2 is a report from engineering consultants, Aurecon, that attests to the reasonableness of our forecasting methodology and resulting forecasts.
- Attachment 3 is the Directors' certification that the assumptions underpinning the expenditure forecasts are reasonable.

The attachments are provided as separate documents. In addition to these attachments, MLPL also submits the following three spreadsheets that accompany this Revenue Proposal:

- Spreadsheet 1 – Rules checklist, which explains how this Revenue Proposal complies with each of the relevant provisions in Rules.
- Spreadsheet 2 – Early works expenditure, provides a build-up of our proposed expenditure for each category of early works; and
- Spreadsheet 3 – Regulatory financials, sets out the calculation of MLPL's opening regulatory asset base and equity raising costs.

[14] MLPL notes that the capital and operating expenditure objectives do not directly relate to early works expenditure. Nevertheless, MLPL has interpreted the Rules as requiring MLPL to demonstrate that its actual and forecast expenditure is prudent and efficient, having regard to MLPL's particular circumstances and the project requirements, including the timing specified in the 2020 ISP..

2 Stakeholder and community engagement

Key Points:

- Project Marinus has been the subject of extensive investment analysis and stakeholder engagement since its inception in 2017.
- Our stakeholder and community engagement is an essential component of our early works activities as we focus on securing and maintaining community support for this project.
- MLPL has established a Consumer Advisory Panel (**CAP**) to ensure that consumer views are captured throughout the project, and particularly during the procurement phase.
- Marinus Link is expected to provide a significant net benefit to electricity consumers, as the savings from accessing lower cost generation substantially outweighs the cost of the network investment. The latest information on the price impact of Marinus Link on electricity consumers will be examined in Stage 1 - Part B (Construction costs) of the revenue determination process for MLPL.

2.1 Ongoing engagement from project commencement

Marinus Link is a significant transformation of the power system, and together with the transition to renewable energy, it is a complete revolution of Australia's energy system. It connects Tasmania's hydro storage capacity with the rest of Australia to sell Tasmania's excess energy and firming capacity when it is not needed in Tasmania. Tasmania will also benefit from enhanced access to the rest of Australia. Put simply, the cost of power to Tasmanians and all Australians will be lower with Marinus Link than it would be without it.

Our engagement with electricity consumers, stakeholders and the wider community does not begin or end with this Revenue Proposal. Instead, our engagement with consumers has been ongoing from project commencement and will continue beyond the revenue determination process, as we work to secure and maintain community support for this important project. In this section, we provide a summary of the extensive stakeholder engagement undertaken and planned for Project Marinus.

Project Marinus commenced in 2017 with $20 million in funding from the Tasmanian Government through TasNetworks and the Australian Government through the Australian Renewable Energy Agency. The feasibility and business case assessment phase concluded with the release of the Business Case Assessment Report in December 2019. In the final report, it was noted that:

> "A range of stakeholders, interest groups, and individuals have been engaged with across the NEM in order to raise awareness and understanding of Marinus Link and supporting transmission and its potential impacts, including route, environmental and cultural matters, pricing challenges, economic benefits and costs, and the business case assessment process. The project continues this engagement, promoting opportunities for stakeholders to provide feedback and comment, and outlining how this feedback will be considered."

In parallel with the feasibility and business case assessment, TasNetworks commenced the Regulatory Investment Test - Transmission (RIT-T) process. The RIT-T is the public economic cost benefit test that must be undertaken for large transmission projects. The purpose of the RIT-T is to identify the transmission investment option that maximises net economic benefits.

The RIT-T process for Project Marinus comprised the following documents:

- Project Specification Consultation Report, July 2018;
- Draft Project Assessment Report, December 2019;
- Supplementary Analysis Report, November 2020; and
- Project Assessment Conclusions Report, July 2021.

Extensive opportunities for stakeholder input were provided at each stage of the process. Each report provided a summary of the stakeholder feedback that had been received and explained how it had been addressed. AEMO conducted similar consultation exercises through its ISP process, noting that Marinus Link was classified as an actionable ISP project in both the 2020 ISP and the 2022 ISP, as already noted in section 1.4.

The extensive consultation conducted in relation to Marinus Link since 2017 is particularly important context for this Revenue Proposal, which relates to early works expenditure. To summarise, the case for Marinus Link has been thoroughly tested to this point through detailed analysis and with the benefit of extensive stakeholder consultation. As such, it is evident that early works activities are warranted, not least given AEMO's conclusion that the actionable ISP projects are needed urgently.

The principal question to be addressed in this Revenue Proposal is whether the proposed early works expenditure is prudent and efficient. While this is principally a technical question for the AER and its consultants to address, we have engaged directly with our CAP to explain the basis of our forecasts and the rationale for the proposed expenditure allowance. We discuss this engagement next.

2.2 Stakeholder and community engagement overview

2.2.1 Approach

A project of this scale will affect electricity consumers and a wide range of stakeholders and communities where the new energy infrastructure will be built. MLPL recognises the importance of engaging throughout the project's development to understand what is important to stakeholders and the community. This is critical to identifying the social, environmental and cultural impact of the project, as well as securing and maintaining community support for this project.

Marinus Link is subject to a large and complex multijurisdictional approvals process, including regulatory, planning and environmental approvals. These processes provide a number of statutory engagement opportunities. To support these approvals and project development, MLPL has adopted a best-practice engagement approach, which involves actively seeking out and hearing from the broadest cross-section of the community by making it as easy as possible to find information and provide feedback.

Community and stakeholder engagement on Marinus Link is comprised of a series of phases, aligning with the project stages and key milestones. MLPL commenced broader community and stakeholder engagement in Tasmania and Victoria in 2018. The engagement objectives have been to:

- Raise awareness about the project;
- Support the Feasibility Study, Business Case Assessment and RIT-T processes (as detailed in section 2.1);
- Communicate and engage with communities in Tasmania and Victoria in a variety of ways to ensure they have the opportunity to learn about the project, its benefits and impacts, and provide informed feedback to the project team;
- Provide information about the preferred route for Marinus Link and why it was chosen, and consult with landowners to minimise impacts on their properties;
- Support the project team's understanding of issues and concerns to inform the project's design and construction approach; and
- Engage with industry, suppliers, and local businesses to ensure they understand the opportunities and have capacity to respond to tenders.

Table 3: Overview of engagement and key activities

Phase	Description	Key activities
Phase 1 Mid-2018 to late 2019	The first formal phase of engagement took place over 18-months from July 2018 to December 2019. The objectives of this phase of engagement were to raise awareness about the project and support the Feasibility Study, Business Case Assessment and Regulatory Investment for Transmission (RIT-T) processes.	• Meetings • Workshops • Information sessions • Regular print and digital communications
Phase 2 Early 2020 to early 2022	The onset of Covid-19 and regional bushfire events in early 2020 delayed active on-ground engagements in Victoria. Face-to-face landowner and community engagement events had to be rescheduled or deferred until later in the year. In November 2020, MLPL began engaging with Gippsland landowners in Victoria to introduce Marinus Link and consult around the proposed route. Engagement with the broader Victorian public started in early 2021 and focussed on raising awareness of the project, capturing feedback on the proposed route and promoting the benefits for Victoria. From September 2021, the engagement focus shifted to raising awareness about the upcoming Commonwealth and Victorian environmental planning and assessment referrals. COVID-19 restrictions continued to limit on-the-ground engagement, so engagement activities were undertaken virtually until a return to face-to-face engagement in late 2021.	• Key stakeholder briefings • Pop-up community information stands • Stall at Farm World Exhibition • Community webinar • Launch of an interactive map where community members could leave feedback • Face-to-face meetings with landowners • Regular print and digital communications • Online meetings with Gippsland organisations • Presentations to community, environmental and industry groups • Drop-in community information sessions • Community webinars • Regular print and digital communications • Establishment of the Gippsland Stakeholder Liaison Group

Phase	Description	Key activities
Phase 3 Early 2022 – ongoing	MLPL engaged broadly across both Tasmania and Victoria to support the design and approvals phase. From early 2023, engagement has focused on updating the community and stakeholders on impact assessments being prepared to inform environmental and planning approvals and project design. Feedback is being gathered to develop appropriate mitigations.	• Establishment of an Aboriginal Advisory Group • Establishment of the CAP • Ongoing key stakeholder briefings • Ongoing meetings with landowners • Regular Gippsland Stakeholder Liaison Group meetings • Presentations to key stakeholder groups • Attending meetings of established community organisations • Pop-up community information stands • Community webinars • Regular print and digital communications

2.2.2 Feedback themes

Over the course of the engagement activities undertaken to date, people have provided feedback on themes that are most important to them. Given the project's footprint in both Tasmania and Victoria, different themes have emerged in these regions based on scope and potential impacts and opportunities. Feedback will be used by MLPL to inform project design, planning and environmental assessments, construction and operations.

As Marinus Link is in the early stages of development, the broader community and stakeholder engagement has focused on key elements of scope, impacts and opportunities that span the overall project. As such, feedback has not been specifically collected in relation to Part A (Early works), however, stakeholder and community concerns and expectations on how project development and construction will be managed have expenditure implications and are considered in this Revenue Proposal. Three overarching key feedback themes have been identified and are detailed further below.

Economic development

Stakeholder engagement to date has indicated the community wants to see capacity development within the region to ensure the project workforce can be sourced locally. Many stakeholder groups also referenced the number of other renewable energy projects taking place in Gippsland, Victoria. There is a broad consensus that a community benefit sharing scheme, which provides support to local initiatives, groups or sporting clubs, would help the communities most impacted by the project.

MLPL is committed to working with Australian businesses to secure the services and materials needed to deliver a project of this size. MLPL is currently leveraging the Industry Capability Network's supply chain portal to receive Expressions of Interest from businesses and suppliers across Australia, including those based in the Gippsland region. MLPL is already creating hundreds of direct and indirect jobs through the design and planning. On top of this it is estimated to create around 2800 direct and indirect jobs at peak construction across Tasmania and Victoria.

Landowner impacts

Private property owners have raised concerns relating to how an easement may impact future agricultural land use, biosecurity on farms during construction and how works may impact organic certifications. The project will continue to engage with potentially impacted landowners to micro-site the route and collaborate with them on individual property management plans, to ensure their concerns around construction impacts, biosecurity and organic certifications are adequately addressed.

Environmental impacts

The broader community has indicated interest in understanding impacts to vegetation, animal habitat and the marine environment from both the construction and operation of Marinus Link. Our engagement to date has also indicated the importance of explaining how construction impacts will be managed and how the project will minimise impacts to the environment. The project scope and construction methodology will continue to be refined and finalised following further investigations, as well as engagement with landowners, communities and stakeholders.

Table 4: Summary of feedback themes to date

Victoria	Tasmania
• General project details including timeline, scope, route alignment and location • Technical questions on proposed methodology and infrastructure • Easement requirements • Hazelwood converter station • Project land requirements • Planning and environmental approvals • Future engagement and approach • Construction and legacy impacts for local communities, landowners and the environment • Employment opportunities and skill pathways • Affiliations with other energy projects or policies	• Project benefits • Fibre optic cable • Project ownership and costs • Employment opportunities and skill pathways • Heybridge converter station • Construction impacts • Transfer and trading of electricity • Electricity costs • Electromagnetic fields • General project details including timeline, scope, route alignment and location • Subsea cable scope

• Project benefits • Fibre optic cable • Project ownership and costs • The National Electricity Market and firming power • Timing of closure of coal fired generation assets • Emissions • Electromagnetic Fields	• The North West Transmission Developments

Phase 3 engagement will continue throughout 2023 and will involve engaging landowners, stakeholders and communities across the project's geographic footprint to respond to these issues and concerns and outline how we have addressed them, prior to statutory planning approvals processes beginning in early 2024. Community and stakeholder engagement will be ongoing throughout the project, with future engagement phases expected to align with the planning approvals process, preparations for construction and delivery of the project.

2.3 Consumer Advisory Panel

2.3.1 Approach

The CAP provides a key forum for engaging electricity consumers on MLPL's Revenue Proposal. The CAP comprises members across many sectors of energy consumers and a broad geographical base. There are currently eight representatives on the panel intended to broadly represent electricity consumers across the NEM. The CAP's purpose is to:

- Provide consumers with a genuine opportunity to participate in the development of MLPL's Revenue Proposals, especially on elements where consumer feedback can have the greatest impact;
- Provide a forum for participants to raise questions and concerns on behalf of the consumers they represent; and
- Enable MLPL to ensure that consumers' views and preferences are reflected in its Revenue Proposals.

Engagement with consumers began in mid-2021 through online briefings which aimed to educate a broad cross-section of consumer representative groups about the project and the revenue setting process, and understand their capacity to participate in a CAP. This culminated in a workshop with consumer representative groups which formed the basis of the Marinus Link Consumer Engagement Plan.

The CAP was formally convened in April 2022 through an invited expression of interest process. CAP members participated in an initial Roundtable Series which aimed to provide them with the information they would need to participate in the process in a meaningful way. The Roundtable Series covered:

- The Marinus Link business case;
- Marinus Link's role in the future electricity market;
- How they project will be constructed;
- The question of who pays for Marinus Link; and
- Landowner engagement and community benefit sharing.

Throughout 2022 and 2023 CAP members participated in seven deliberative workshops to consider issues relevant to both the Part A (Early works) and Part B (Construction costs) Revenue Proposals in depth, understand the challenges and opportunities, share views and opinions and attempt to reach a shared conclusion. The workshops are summarised in the table below.

Table 5: CAP deliberative workshops

Topic	Engagement scope	IAP2 level[15]	Date
Workshop #1 (in person) • CAP foundations • Cost allocation • Procurement strategy • Risk allocation	Marinus Link cost allocation	Consult	30 July 2022
	Tendering and procurement process	Involve	
	Hedging approach and risk allocation	Consult	
Workshop #2 (online) • Procurement strategy • Tender evaluation	Tendering and procurement process	Involve	17 August 2022

[15] International Association of Public Participation (IAP2). The five levels of public participation are: Inform, Consult, Involve, Collaborate and Empower.

Topic	Engagement scope	IAP2 level[15]	Date
Workshop #3 (online, combined workshop with Gippsland Stakeholder Liaison Group) • Sustainability framework priorities	Sustainability approach	Involve	14 September 2022
Workshop #4 (in person) Role of an independent procurement evaluator • Sustainability framework commitments and willingness to pay • CAP in 2023	Tendering and procurement process	Collaborate	5 December 2022
	Sustainability approach	Involve	
	CAP in 2023	Collaborate	
Workshop #5 (online) • Proposed environmental impacts and mitigations	Environmental impacts and proposed mitigations	Consult	30 March 2023
Workshop #6 (in person) • Revenue Proposal Part A	Early Works	Consult	18 May 2023
	Input assumptions, escalations	Consult	
Workshop #7 (online) Revenue Proposal Part A	Review final draft of revenue proposal	Consult	19 July 2023
Workshop #8 (online) • Lessons learned • Approach to Revenue Proposal Part B engagement	Engagement approach	Collaborate	Proposed for August 2023

2.3.2 Feedback themes

Feedback from the CAP has influenced core activities during Early Works including stakeholder engagement, the procurement process and the development of Marinus Link's Sustainability Framework. Three broad themes have emerged during engagement for Part A.

Stakeholder engagement

CAP members have continuously stressed the importance for there to be a strong project narrative that explains the need for and value of Marinus Link. The CAP has also highlighted the importance of structured

stakeholder engagement that is both representative and values-based. The CAP recognises that there are costs associated with securing community support for this project, as well as reputational risk in not doing it successfully.

Early workshops with the CAP explored matters like Traditional Owner engagement, landowner engagement and community benefit sharing and the CAP considered consumers' willingness to pay for these and other sustainability initiatives in its December 2022 workshop. The CAP was generally supportive of initiatives that could be shown to deliver long-term value; however the CAP's view was that consumers would not support the project if costs escalated to the point that the business case no longer stacked up.

Procurement strategy and local content

The approach to procurement has been a focus area for the CAP given this is the largest driver of cost.

The procurement strategy changed throughout 2022 but the CAP has been supportive of the changes made, which have responded to market conditions. The CAP has been eager to understand how international suppliers will work with Australian partners to employ and support local suppliers. The group has expressed support for a strong weighting on Australian industry participation. CAP members are eager for local housing shortages to be considered part of the Australian industry participation criteria and project contracts to avoid the project impacting local communities and businesses trying to operate in the same market.

Through two workshops, CAP members had the opportunity to work with MLPL to shape the CAP's involvement in the procurement process. It has been agreed that Marinus Link will appoint an independent CAP observer who will participate in the procurement process. The CAP has provided input into the role description and requirements for the role and will be involved in selecting the observer.

Cost allocation

Though outside the scope of the revenue proposal, a recurring theme for the CAP has been the need for fair cost allocation for the project.

CAP members were provided with an opportunity to review and provide feedback on a proposed rule change request relating to cost allocation. While this did not proceed, the CAP did develop a fairness framework against which cost allocation options were assessed. This included four questions:

- Is the allocation of risk fair to consumers and consistent with the National Energy Objective?
- Will it reduce poverty, improve equity and protect vulnerable customers?
- Does it set a fair precedent in the long term?
- Will all parties believe they will see some benefit?

2.3.3 Response to Draft Revenue Proposal Part A

CAP members were provided with a copy of the Draft Revenue Proposal Part A in early May 2023, and MLPL hosted an online briefing to explain the key concepts of the draft ahead of a full-day workshop on 18 May to discuss the proposal in more detail. The CAP indicated its support for the activities being undertaken for early works, describing them as "essential".

While the CAP supported the concept of 'early works', it requested more granular cost information and benchmarking analysis against similar projects. Furthermore, the Draft Revenue Proposal included indicative costs that were subject to change, both in relation to the total expenditure and the allocation between expenditure categories. Accordingly, the CAP noted that it could not comment on the reasonableness of the expenditure, other than noting that further detailed information would need to be provided in the final document.

The table below provides further details of what was heard from the CAP during this workshop and how MLPL has responded in this Revenue Proposal.

Table 6: How we are addressing the CAP's feedback

What was heard	How MLPL has responded
CAP members urged MLPL to keep consumers front of mind when making decisions, highlighting that many consumers are on fixed incomes that are not keeping up with inflation. They also noted concern about the volume of transmission infrastructure projects being planned Australia, and the cumulative impact of costs for consumers.	MLPL shares the CAP's concerns regarding the difficulties facing consumers, particularly those on low, fixed incomes. MLPL will ensure that its Revenue Proposals for Part A (Early works) and Part B (Construction costs) reflect the efficient costs of delivering the services that are required to meet consumers' needs. In working with our service providers and contractors, we will continue to seek value for money, ensuring that consumers pay no more than necessary. MLPL will also continue to work with AEMO to ensure that the total costs of Project Marinus accord with the Optimal Development Path in the ISP.
The CAP supports the activities being undertaken for early works, but would like to see the costs broken down to a more granular level for each category and benchmarked against similar projects, especially corporate costs.	This Revenue Proposal is accompanied by a supporting paper which provides further detailed cost information on each early works category, including granular information on the cost build-up. For each category, we discuss the available benchmarking information.
The CAP sought a breakdown of grant funding from governments for the project.	This information is now provided in section 1.5.
The CAP encouraged MLPL to engage with large projects that have run within or under budget, to seek advice (i.e. Adelaide Oval).	MLPL notes that the project team has taken and will continue to make opportunities to learn from the successful delivery of other 'mega' projects.
A CAP member asked that the RAB be further broken down to reflect opex, capex and depreciation.	The early works expenditure will be capitalised and depreciated if the project proceeds. To address the

	request from the CAP member, we have separately identified land, which is the only physical asset acquired as part of the early works expenditure. The land costs are identified in the opening RAB calculation as at 1 July 2021.
The CAP considers that the CESS should apply to incentivise cost control, whereas the draft Revenue Proposal argues that the CESS should not apply.	MLPL's view is that the CESS should not apply. As explained in section 5.3, however, MLPL considers that the AER should determine whether the scheme should apply having regard to the factors set out in the AER's recent review of the scheme. These factors include a consideration of stakeholder views.

2.4 Price impact on electricity consumers

As explained in section 1.4, Marinus Link is an actionable ISP project because it is expected to provide substantial net benefits, which means that electricity consumers will be better off if Marinus Link proceeds. Nevertheless, electricity consumers will want to understand the price impact of Marinus Link.

Part A (Early works) of Stage 1 will focus on MLPL's early works costs and the arrangements for capturing these costs so that they form part of MLPL's regulatory asset base. A key purpose of early works expenditure is to enable the project proponent to improve the accuracy of its forecast expenditure, particularly given the significant uncertainties and risks associated with constructing large infrastructure projects. In MLPL's case, the updated project cost forecasts will be important as it works towards making a final investment decision towards the end of 2024.

At the conclusion of Part A (Early works) of Stage 1, the AER will set an allowance for early works expenditure but the updated project cost forecasts will not be available until we submit our Revenue Proposal for Part B (Construction costs), in February 2024. Other components of the building blocks that are required to calculate MLPL's annual revenue, such as MLPL's operating expenditure allowance, will not be considered until Stage 2 of the determination process. Nevertheless, we consider it important to provide electricity consumers with a high-level indication of the price impact if Marinus Link proceeds.

We therefore propose to provide consumer price impact information in our Revenue Proposal for Part B (Construction costs) of Stage 1. Further updated information on the consumer price impact will be provided in our Revenue Proposal for Stage 2. At this point, more complete information will be available regarding MLPL's annual revenue requirements. For Part A (Early works) of Stage 1, we consider that it would be premature to provide information on the consumer price impact of the project. In making this observation, we note that a primary purpose of early works expenditure is to improve the accuracy of the forecast project expenditure.

3 Early works expenditure

Key Points:

- Our early works activities are focused on:
  - improving the accuracy of our forecast construction costs; and
  - reducing the risks of project delays.
- For each category of early works expenditure we have:
  - set out an objective that captures the purpose of the expenditure;
  - developed a scope to describe the deliverables and resource requirements; and
  - applied a specific forecasting methodology, having regard to each activity and the best available information, including benchmarking data.
- To ensure that our proposed expenditure for early works activities is prudent and efficient, our bottom up assessment of each activity has been augmented by a top down review by our Board. This approach ensures that an overarching discipline is applied to our proposed expenditure.
- Our proposed early works activities cover the period:
  - From 1 July 2021, which is the first financial year immediately following completion of the RIT-T and AEMO's classification of Marinus Link as an actionable ISP project;
  - To 31 December 2024, which is shortly after MLPL's final investment decision.
- Our proposed early works expenditure will include a mix of actual and forecast expenditure. Our total proposed expenditure for early works activities over this period is $196.5 million, expressed in nominal terms, which reduces to $128.9 million net of grant funding.[16]
- In addition to these early works activities, our early works expenditure includes land purchases that are required for the project. The land purchases at Heybridge and Mardan Farm occurred prior to 1 July 2021 and are included in MLPL's regulatory asset base as at 1 July 2021.

[16] These costs include the land purchase at Hazelwood, but excludes land purchases at Heybridge and Mardan Farm, which are included in MLPL's regulatory asset base as at 1 July 2021.

3.1 What is 'early works' expenditure

The definition of 'early works' has been considered by the AEMC in stage 2 of its Transmission Investment and Planning Review. In that review, the AEMC concluded that the following broad definition of 'early works' is appropriate:[17]

> "Any activity which commences prior to the construction of the preferred option can be considered early works if the activity can be justified as being necessary to:
>
> - improve the accuracy of project cost estimates, and
> - ensure that a project will be delivered within the time frames specified by the most recent ISP.
>
> Early works are activities that help TNSPs prepare to construct the physical asset and not the actual construction of the asset."

The AEMC also explained that 'early works' may include:

- Activities to build community support for this project, including works to provide community benefits;
- Completion of environmental approvals;
- Construction works to test engineering design; and
- Purchasing easements and equipment.

AEMO's 2022 ISP adopted a similar approach to defining 'early works' for Transgrid's HumeLink project, which AEMO suggested covered the following range of activities:

- Community engagement – implementing stakeholder and community programs, including community support, social legacy, design and communication and community improvement.
- Land planning – land and environmental planning studies and approval activities.
- Land acquisition – acquiring land for a new substation and binding land options for transmission line easements.

[17] AEMC, Final Report, Transmission Planning and Investment Review, Stage 2, 27 October 2022, page 41.

- Procurement activities – the design and delivery of nine standard steel transmission towers, procurement of equipment with long lead times, and pre-construction development of substations and transmission lines.
- Labour – project management and labour to support environmental activities and land acquisition.
- Project development – engineering, legal and economic support.
- Regulatory approvals – completion of the HumeLink RIT-T and subsequent contingent project applications.

In this Revenue Proposal, our early works activities are consistent with the AEMC's definition, and the type of activities described by AEMO in relation to Transgrid's HumeLink project.

We discuss our expenditure categories and objectives next.

3.2 Expenditure categories and objectives

MLPL is currently engaged in the following activities that comprise early works expenditure:

- Engage with landowners and the community to gather feedback on the proposed route and to help inform the planning and assessment process.
- Acquire access to land and easements.
- Conduct a range of field work including cultural heritage, ecological and geotechnical surveys.
- Undertake environmental impact assessments and obtain the necessary planning and environmental approvals.
- Develop conceptual technical designs and specifications.
- Develop tender specifications for equipment manufacturing, construction and commissioning.
- Confirm and implement commercial arrangements, based on the revenue and service provision model.
- Develop plans to show how the existing transmission networks and future transmission routes will increase network capacity and ensure the power system can accommodate future energy developments proposed for the region.
- Complete the detailed estimate for the total project cost and the manufacturing, construction and commissioning schedule.

- Finalise the financing and revenue arrangements, including engaging with the AER, consumers and other stakeholders.

At a high level, the objective in undertaking these activities is to improve the accuracy of cost estimates for the construction of Marinus Link and ensure that the project can be delivered within the proposed timeframes. While this is a useful starting point for directing our efforts and ensuring that the costs incurred are prudent and efficient, we recognise the need to develop specific objectives for each category of early works expenditure to provide a clear statement regarding the purpose of the activity. This information is set out in the table below.

Table 7: Description of expenditure categories, objectives and activities

Category	Objectives	Activities
Landowner and community engagement programs, including Traditional Owners, and stakeholder relations	• To build community support for the project. This work is essential to optimise project design and avoid project delays. • To ensure the project achieves planning and approvals from relevant regulators. • To ensure that the project meets the needs of consumers and other stakeholders. In the absence of effective engagement, the project may be sub-optimal.	• Engage with landowners and affected communities, including Traditional Owners, to understand and address their concerns. • Work with Governments and other agencies to ensure that regulatory requirements and community expectations are understood and addressed. • Actively engage with the CAP, electricity consumers and other stakeholders to ensure that their views are reflected in our project plans to the greatest extent possible. • Work with industry stakeholders to maximise local content opportunities and inform tender documents.
Land and easement acquisition	• To improve the accuracy of the costs of land and easement acquisition and ensure that these costs are minimised, and risk of project delays minimised. • To facilitate the environmental assessment processes and optimal route design. In the absence of this activity, MLPL would be exposed to the risk of project delay	• Develop accurate assessment of land and easement acquisition requirements. • Obtain reasonable land valuations and commence genuine negotiations to minimise compulsory acquisition. • Negotiation of interim access agreements for survey purposes to inform the environmental assessment processes and route design.
Environmental impact assessments	• Ensuring that the planning and environmental requirements are properly understood and addressed. • Ensure cultural heritage surveys and project plans meet the requirements of the relevant government agencies and indigenous stakeholders.	• Conduct an effective environmental impact assessment and develop a comprehensive suite of environmental approval documentation. • Engage effectively with stakeholders, including the environmental and planning authorities, to ensure that their requirements and the expectations of the wider community are met

Category	Objectives	Activities
Technical designs and specifications	• To optimise the project design, including route selection, to deliver the best outcome for consumers. • To prepare accurate cost forecasts and minimise risk of increases in project costs by providing accurate information to potential service providers	• Undertake the planning and design activities needed to accurately define the project, including route design. • Complete pre-contracting activities for engineering, procurement and construction contracts
Procurement strategy and execution	• To establish a tender process that enables MLPL to discover the efficient costs of providing the project in accordance with the planned timeframes. • To establish contractual arrangements that share project cost risks efficiently between contractors and MLPL, for the benefit of electricity consumers. • Where pre-payments are required to avoid project delays, our objective is to achieve the best outcome for electricity consumers.	• Develop a tender strategy to deliver efficient outcomes in accordance with the project objectives. • Execute the procurement strategy to maximise effective participation in the tender process. Develop supporting tender materials and contracts, as required. • Ensure any pre-payment amounts are determined through a competitive tender process.
Program and project management	• To ensure the overall effectiveness of the project, including the efficient management of risk and costs for the benefit of electricity consumers. • To ensure that the tender process maximises effective participation in the tender process for the benefit of consumers. • To provide systems and processes that enable the efficient and timely delivery of the project.	• The overall project management is the responsibility of the Project Director, supported by direct reports responsible for respective work programs. • Development of the project execution strategy, which is a key input to the procurement strategy. • Implement systems and processes to provide key support functions including Health Safety and Environment (HSE), stakeholder engagement, project design, risk management, project controls/scheduling, cost estimating, interface management, quality control, document control and administration support.
Corporate costs and support	• To ensure that the project is supported by corporate functions and IT systems to promote the timely and efficient delivery of the project.	• MLPL's corporate activities include: governance, business establishment, finance, human resources, legal and regulatory support, including transmission pricing analysis.

Further information on the scope of these activities is provided in Attachment 1 to this Revenue Proposal. As explained in that attachment, each scope of work is focused on delivering the best value for electricity consumers, recognising that early works activities are intended to improve the accuracy of the forecast

construction costs and minimise the risk of project delays. In this regard, it is important to establish an appropriate scope of work that balances the associated costs and benefits, noting that the benefits cannot be known with certainty.

3.3 Forecasting period

In developing the early works forecasts, we have considered the appropriate forecasting period, i.e., the commencement date and end-date.

In relation to the commencement date, we are conscious that Project Marinus has a long history dating back to 2017. At that time, the project was at the feasibility stage, which was undertaken by TasNetworks, rather than MLPL, in its capacity as the relevant TNSP and the most likely project proponent. For the purposes of this Revenue Proposal, which is focused on MLPL's 'early works', we consider it more appropriate to set a commencement date that reflects the AEMC's definition, which is reproduced again below for ease of reference (with relevant phrases underlined):[18]

> "Any activity which commences prior to the construction of the preferred option can be considered early works if the activity can be justified as being necessary to:
>
> - improve the accuracy of project cost estimates, and
> - ensure that a project will be delivered within the time frames specified by the most recent ISP.
>
> Early works are activities that help TNSPs prepare to construct the physical asset and not the actual construction of the asset."

In our view, this definition indicates that 1 July 2021 is the regulatory year that defines the commencement of MLPL's early works activities. At this date:

- Project Marinus had been identified as an actionable ISP project in AEMO's 2020 ISP, published in July 2020; and
- TasNetworks had published its Project Assessment Conclusions Report, published in June 2021, which is the final stage of the RIT-T, which concluded that Project Marinus is the preferred option.

In addition to these early works activities, our early works expenditure includes land purchases at Heybridge and Mardan Farm that were incurred prior to 1 July 2021. The Hazelwood and Heybridge sites were acquired for the purpose of locating the converter stations, while Mardan Farm provides logistical value in relation to

[18] AEMC, Final Report, Transmission Planning and Investment Review, Stage 2, 27 October 2022, page 41.

construction in Victoria. For each land acquisition, MLPL obtained independent expert advice regarding the market value. As such, MLPL is confident that the decision to procure the land and the costs of the acquisitions are prudent and efficient, having regard to their market value and their strategic importance to the project.

It must also be noted that the Memorandum of Understanding (MOU) between the Commonwealth and Tasmanian Governments was agreed on 15 December 2020. The MOU required the establishment of a separate business to progress Marinus Link in accordance with the timeframes specified in the 2020 ISP. Based on a detailed review undertaken by EY, we have established a transition plan so that MLPL is able to operate prudently and efficiently without undue reliance on third parties or third party systems. The business establishment costs arising from that transition plan have been included as 'early works' expenditure. In relation to the end-date for early works, we have proposed MLPL's final investment decision, which is December 2024. This is the point at which MLPL makes a decision on whether to proceed with the project. After that date, it seems reasonable to regard the project as entering the construction phase.

In summary, based on the above discussion, MLPL's proposed expenditure for our early works activities covers the period 1 July 2021 to 31 December 2024.[19] It should be noted that MLPL's proposed expenditure will include a mix of actual and forecast expenditure. As explained in the next section, actual expenditure can provide a useful input for MLPL's forecast expenditure.

3.4 Forecasting methodology

In order to propose an allowance for our early works expenditure, we need to establish a forecasting methodology for each of the categories of early works having regard to the particular objective for that category of expenditure. This approach ensures that our proposed expenditure is closely aligned with the stated objective, so that the AER and all stakeholders can understand the deliverable or outcome from the proposed expenditure.

Attachment 1 to this Revenue Proposal explains the forecasting methodology for each of the expenditure categories described in the previous section. For the purpose of this section, it is helpful to provide the following overview of the methodologies used, noting that the approach will be tailored for each expenditure category:

- Labour costs for internal staff reflect the required allocation of full time equivalents (FTEs) based on the relevant scope for that early works activity.

[19] As already noted, land purchases are required for the project. Our early works expenditure includes the land purchase at Hazelwood, but excludes land purchases at Heybridge and Mardan Farm. The latter costs are reflected in MLPL's regulatory asset base as at 1 July 2021.

- Where available, the costs of outsourced services reflect quotations from specialist service providers based on agreed scopes of work. Where this information is not available, estimates are based on historical actuals and/or indicative quotations from service providers.

- Materials and equipment, including procurement of equipment with long lead items, are based on quotations or estimates from specialist service providers.

- Land acquisition and easement costs reflect estimates prepared by specialist advisors, having regard to the specific requirements of the project.

- Where available, cost estimates for each expenditure category are also informed by benchmarking with other projects, including information from other TNSPs. MLPL's historical actual costs are also used to inform forecast expenditure, where appropriate.

In applying the above methodology to each expenditure category, we have focused on the Rules requirement that our forecasts must be prudent and efficient. At a high level, 'prudency and efficiency' means providing the required outcomes at the lowest total cost to consumers. In terms of outcomes, as already explained, our planning and forecasting approach involves:

- Setting objectives for each category of early works, noting that these objectives must reflect the overarching objective of improving the accuracy of the forecast construction costs and avoiding project delays; and

- Scoping the work activities having regard to the costs and potential benefits.

As explained in Attachment 1, our view is that we have struck the right balance for each of the early works activities. In addition, the MLPL Board has applied an overall top-down discipline to the total early works expenditure to ensure that the expenditure at a project level is appropriate. This top-down review, which has required cost reductions for each expenditure category, provides additional assurance that MLPL's early works activities and costs are subject to strong internal governance.

3.5 Treatment of pre-payments to secure manufacturing capacity

As noted in Table 7, MLPL may need to make pre-payments to one or more successful tenderers in order to secure manufacturing capacity. This expenditure falls within the definition of early works, rather than construction costs because:

- It may be required to avoid project delays; and

- It may be required prior to making a Final Investment Decision.

As the terms and conditions relating to pre-payments will be determined through the tender process, the amounts (if any) to be paid will not be known until the tender has been awarded. MLPL will be focused on securing the best terms and conditions for electricity consumers, which will include a consideration of the amounts to be paid; whether the amounts are refundable; and the risk of project delays (and loss of net benefits) if the pre-payments are not made.

Prior to completing the tender process and negotiations with the successful tenderers, our best estimate of the pre-payment amounts will be commercially sensitive. In this Revenue Proposal, therefore, we have not included an estimate of the pre-payment amounts. Instead, we propose that the AER reviews the pre-payment amounts on a confidential basis and makes an allowance for these costs. Depending on the timing, it may be appropriate for the AER to conduct this review during its consideration of our Revenue Proposal for Part B (Construction costs). If this timing eventuated, the AER would be able to update the opening RAB as at 1 July 2025 to include the costs of any pre-payment amounts.[20]

We propose to discuss this issue with the AER to ensure that an approach to pre-payment amounts can be adopted which is in the best interests of electricity consumers.

3.6 Key assumptions

The information presented in sections 3.1 to 3.5 leads MLPL to adopt the following assumptions in presenting its forecast expenditure for its early works activities:

- The AER accepts MLPL's definition of early works expenditure including the timeframe, which covers the period from 1 July 2021 to 31 December 2024;
- MLPL's final investment decision will take place in late 2024, which means that it is reasonable for early works expenditure to cease on 31 December 2024;
- any changes made to the ownership structure of MLPL do not have any impact on environmental approval processes and/or the revenue determination process;
- There are no changes to MLPL's regulatory or legal obligations that lead to a change in the project timeframes or the costs of completing the early works activities;
- Stakeholders, including State and Federal Governments and AEMO, continue to support the urgent delivery of Project Marinus in accordance with AEMO's 2022 ISP;

[20] In contrast to pre-payment amounts that are to be recovered as early works, any physical preparatory works associated with construction will be treated as construction costs and recovered in Part B (Construction costs).

- There are no changes to the project design or timeframes as a result of factors beyond MLPL's control;
- There are no changes required by prospective tenderers that require rework of the technical designs and specifications or environmental impact assessments;
- The pre-requisites to achieve the final investment decision by late 2024, including but not limited to: land access options; environmental approvals; and tender responses, are expected to be satisfied; and
- The AER accepts MLPL's proposal that pass through provisions should apply in relation to early works expenditure.

If any of the above assumptions are not satisfied, the expenditure proposed in this Revenue Proposal may be subject to change.

3.7 Proposed expenditure for early works activities

MLPL's proposed expenditure for early works activities is set out in the table below, covering the period 1 July 2021 to 31 December 2024.

Table 8: Proposed expenditure for early works activities ($m nominal)[21]

Category	2021-22	2022-23	2023-24	6 months to 31 Dec 2024	Total
Landowner and community engagement programs, including Traditional Owners, and stakeholder relations	4.0	6.0	9.0	4.1	23.2
Land and easement acquisition	2.6	1.8	2.5	1.1	8.0
Environmental impact assessments	2.7	7.4	9.9	4.6	24.5
Technical designs and specifications	17.4	12.2	11.7	2.6	43.9
Procurement strategy and execution[22]	2.4	4.6	8.8	3.1	18.9
Program and project management	4.5	8.2	10.4	4.7	27.8
Corporate costs and support	6.6	13.9	21.0	8.7	50.2

[21] Excludes land purchases at Heybridge and Mardan Farm, which are included in MLPL's regulatory asset base as at 1 July 2021.

[22] Excludes pre-payments that may be required to secure manufacturing capacity. Any physical preparatory works associated with pre-construction will be treated as construction costs and included in our Revenue Proposal - Part B (Construction costs).

Category	2021-22	2022-23	2023-24	6 months to 31 Dec 2024	Total
Sub-total	**40.1**	**54.2**	**73.3**	**28.9**	**196.5**
Less Grant funding	-9.4	-27.2	-19.4	-11.6	-67.6
Net expenditure	**30.7**	**27.1**	**53.9**	**17.2**	**128.9**

Note: Numbers may not sum exactly due to rounding.

The table shows that our total proposed expenditure for early works activities over this period is $196.5 million, expressed in nominal terms, which reduces to $128.9 million net of grant funding.[23] These costs include the land purchase at Hazelwood, but excludes land purchases at Heybridge and Mardan Farm which were incurred prior to 1 July 2021. The latter costs are included in MLPL's regulatory asset base as at 1 July 2021.

[23] Excludes pre-payments that may be required to secure manufacturing capacity. It should be noted that any physical preparatory works associated with pre-construction will be treated as construction costs and included in our Revenue Proposal - Part B (Construction costs).

4 Opening regulatory asset base and allowed rate of return

Key Points:

- In contrast to other TNSPs, MLPL's early works expenditure will occur prior to the commencement of MLPL's first regulatory period. To enable cost recovery, this expenditure will need to be included in MLPL's opening regulatory asset base as at 1 July 2025, i.e., at the commencement of MLPL's first regulatory period.
- We propose that early works expenditure will be capitalised and 'rolled forward' to 1 July 2025 by applying TasNetworks' allowed rate of return. This allowed rate of return will be updated by the AER and can be readily applied for the purposes of establishing MLPL's opening regulatory asset base as at 1 July 2025.
- For the avoidance of doubt, construction expenditure forecast to be incurred between 1 January 2025 to 30 June 2025 will also need to be included in the opening regulatory asset base as at 1 July 2025. However, this expenditure is outside the scope of this Revenue Proposal, which is focused on early works expenditure.
- From 1 July 2025 onwards, MLPL will be subject to a revenue determination under Chapter 6A of the Rules and, therefore, an allowed rate of return for MLPL should apply. From this date, therefore, we propose that the AER should apply an allowed rate of return for MLPL, which is estimated in accordance with the AER's 2022 Rate of Return Instrument.
- MLPL will work with the AER to ensure that the benefits of concessional finance are passed onto electricity consumers in accordance with the intentions of the providers of that finance.

4.1 Issues to be addressed

The regulatory asset base (**RAB**) is a key input in determining a TNSP's maximum revenue as it drives the return on investment and the return of investment or depreciation. For existing TNSPs, the opening RAB at the start of a regulatory period is calculated using the AER's Roll Forward Model (**RFM**). The RFM commences with the opening asset value at the start of the previous regulatory control period, which is rolled forward by:

- Adding actual or forecast capital expenditure (where actual data is not available) for each year of the previous regulatory control period, net of asset disposals;
- Deducting depreciation on a straight line basis; and

- Adjusting for actual and forecast inflation.

In contrast to existing TNSPs, MLPL does not have an asset value specified in the Rules[24] for inclusion in the opening RAB. In these circumstances, the AER is required to establish an opening RAB that reflects the prudent and efficient value of the assets required to provide prescribed transmission services.[25]

An important aspect of the AER's determination for this Revenue Proposal – Part A (Early works) is its review of the prudency and efficiency of our proposed expenditure for early works activities. Having established the prudent and efficient early works expenditure for each year prior to 1 July 2025, the AER must then capitalise and 'roll forward' the expenditure to establish the opening RAB as at 1 July 2025.

Nevertheless, as MLPL's proposed expenditure for early works activities covers the period from 1 July 2021 to 31 December 2024, this expenditure will need to be reflected in MLPL's opening RAB as at 1 July 2025. While outside the scope of this Revenue Proposal, any expenditure relating to the construction of the project from 1 January 2025 to 30 June 2025 will also need to be included in this opening RAB.

We note that clause 6A.9.4(a) of the Rules provides for capitalisation of a return on capital (calculated using the allowed rate of return) in respect of any period in a regulatory control period prior to the date on which prescribed transmission services are first provided. The AEMC explained the rationale for this provision in the following terms:[26]

> "Our final rule clarifies that an [intending] TNSP can recover a return on capital to reflect capital financing costs incurred prior to the provision of prescribed transmission services. This provides [intending] TNSPs with a reasonable opportunity to recover its efficient costs, in accordance with the NEL revenue and pricing principles."

In order to give effect to the AEMC's Rule change, we must determine the allowed rate of return that should apply for the period prior to the commencement of the first regulatory period. For the avoidance of doubt, the purpose of this allowed rate of return is to capitalise MLPL's early works expenditure to determine the opening RAB as at 1 July 2025. We address this issue in the next section.

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[24] National Electricity Rules, S6A.2.1(c).

[25] National Electricity Rules, S6A.2.1(d)(2).

[26] AEMC, Rule Determination National Electricity Amendment (Establishing Revenue Determinations For Intending TNSPs) Rule, 22 December 2022, page 16.

4.2 Allowed rate of return for the capitalisation of early works expenditure

In considering the allowed rate of return that should apply for the period 1 July 2021 to 1 July 2025 for the purposes of calculating MLPL's opening RAB, we note that:

- A final investment decision on whether to proceed with Marinus Link will not be made until December 2024; and
- MLPL is currently a wholly owned subsidiary of TasNetworks.

Given these circumstances, it is arguable that TasNetworks' allowed rate of return should apply for the purposes of determining MLPL's opening RAB as at 1 July 2025, as expenditure prior to this date is essentially underwritten by TasNetworks.

We also note that the AER will determine an allowed rate of return for TasNetworks as part of its revenue determination process. TasNetworks' allowed rate of return is updated annually to reflect its trailing average cost of debt in accordance with the AER's Rate of Return Instrument. As such, the application of TasNetworks' rate of return for the purpose of calculating MLPL's opening RAB as at 1 July 2025 would not involve the AER in any additional work.

Given the above observations, MLPL proposes that TasNetworks' allowed rate of return for its transmission business, for each year covering the period 1 July 2021 to 31 December 2024 should be adopted for the purpose of determining MLPL's opening RAB as at 1 July 2025. We note that TasNetworks' allowed rate of return is 5.11% for 2021-22, 4.99% for 2022-23 and 5.00% for 2023-24. The applicable rate of return for 2024-25 will be updated by the AER to reflect the agreed averaging period and the updated trailing average cost of debt.

4.3 Regulatory asset base as at 1 July 2025

Table 9 below shows the calculation of MLPL's opening RAB as at 1 July 2025, which reflects our proposed early works expenditure capitalised at TasNetworks' allowed rate of return. The opening RAB as at 1 July 2025 is the cumulative impact of the land purchases at Heybridge and Mardan Farm prior to 1 July 2021, and the expenditure for early works activities and allowed return in each year from 1 July 2021 to 30 June 2025.

As explained in section 3.3, for each land acquisition, MLPL obtained independent expert advice regarding the market value. As such, MLPL is confident that the decision to procure the land and the costs of the acquisitions are prudent and efficient, having regard to their market value and their strategic importance to the project.

Table 9: MLPL's opening RAB as at 1 July 2025 ($ nominal)[27]

	2021-22	2022-23	2023-24	2024-25
Opening RAB $m	5.0	38.4	68.1	126.7
Expenditure (Early works) net of grant funding $m	30.7	27.1	53.9	17.2
Equity raising costs $m	1.6	-	-	-
Allowed rate of return %	5.11%	4.99%	5.00%	5.00%
Allowed return on Opening RAB $m[28]	0.3	1.9	3.4	6.3
Allowed return on annual expenditure and equity raising costs $m[29]	0.8	0.7	1.3	0.6
Debt raising costs $m	0.0	0.0	0.0	0.1
Maximum allowed revenue $m[30]	**1.1**	**2.6**	**4.8**	**7.0**
Closing RAB $m[31]	**38.4**	**68.1**	**126.7**	**151.0**

Note: Numbers may not sum exactly due to rounding.

It should be noted that:

- the maximum allowed revenue for each year is included in the closing RAB for that year, which means that it will not be recovered from electricity consumers until services commence. As explained in section 6, the maximum allowed revenue is relevant to the operation of the pass through provisions in the National Electricity Rules;
- benchmark debt and equity raising costs, based on parameters in TasNetworks 2019-24 revenue determination, are included in the RAB calculations. This approach is consistent with standard regulatory practice, noting that these costs are included in the RAB because no revenue will be recovered relating to these benchmark allowances until prescribed services commence in 2029;

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27 Excludes pre-payments that may be required to secure manufacturing capacity. It should be noted that any physical preparatory works associated with pre-construction will be treated as construction costs and included in our Revenue Proposal - Part B (Construction costs).

28 Calculated as Allowed rate of return x Opening RAB.

29 Calculated as Allowed rate of return$^{\wedge 0.5}$ x Expenditure (Early works) net of grant funding plus equity raising costs for 2021-22, 2022-23 and 2023-24, and Allowed rate of return$^{\wedge 0.75}$ x Expenditure (Early works) net of grant funding plus equity raising costs for 2024-25.

30 Calculated as Allowed return on Opening RAB + Allowed return on annual expenditure plus equity raising costs + Debt raising costs.

31 Calculated as Opening RAB + Expenditure (Early works) net of grant funding + Equity raising costs + Maximum allowed revenue.

- the opening RAB calculation as at 1 July 2025 does not make any adjustment for depreciation because Marinus Link is not expected to be commissioned until January 2029 and, therefore, depreciation will not commence until 2029; and

- Table 9 does not include any forecast prudent and efficient construction expenditure incurred prior to 1 July 2025, as this Revenue Proposal is focused on early works expenditure. The opening RAB as at 1 July 2025 will be amended through our Revenue Proposal – Part B (Construction costs) to include any prudent and efficient construction expenditure forecast to be incurred prior to 1 July 2025.

4.4 Regulatory asset base 1 July 2025 to 30 June 2028

A Revenue Proposal would ordinarily provide a forecast of the opening and closing RAB for each year of the regulatory period. This calculation would show the annual forecast capital expenditure, straight-line depreciation and inflation adjustment.

In this Revenue Proposal – Part A (Early works), however, the forecast opening and closing RAB during the first regulatory period is not presented because the capital expenditure during this period relates to project construction, rather than early works. The forecast opening and closing RAB during the first regulatory period will therefore be presented in our Revenue Proposal – Part B (Construction costs).

4.5 Allowed rate of return from 1 July 2025

The opening and closing RAB for each year of MLPL's first regulatory period will also require the construction expenditure to be capitalised and rolled forward, similar to the proposed approach for early works expenditure described in section 4.3. The details of this approach, including the forecast construction expenditure will be addressed in our Revenue Proposal – Part B (Construction costs). At this stage, however, it may be helpful to the AER and stakeholders to comment on our proposed approach to MLPL's allowed rate of return from 1 July 2025 onwards.

As explained in section 4.2, we propose to apply TasNetworks' allowed rate of return for the purpose of determining MLPL's opening RAB as at 1 July 2025. In contrast, we propose to apply the AER's 2022 Rate of Return Instrument to MLPL's particular circumstances from 1 July 2025 onwards. This approach recognises that:

- From 1 July 2025, MLPL will be subject to a revenue determination following a final investment decision to proceed with the project; and

- Prior to the final investment decision being made, it is uncertain whether the project will proceed. In these circumstances, it is reasonable to adopt an approach that applies TasNetworks' allowed rate of return to establish MLPL's opening RAB as at 1 July 2025.

The remainder of this section explains that MLPL's allowed rate of return will be determined in accordance with the AER's 2022 Rate of Return Instrument (**RORI**). For completeness, MLPL also supports a value of imputation credits, known as gamma, of 0.57 in accordance with the RORI. However, MLPL will not be earning any revenue during the first regulatory period and, therefore, it is unnecessary to apply gamma to determine the regulatory tax allowance (which will be zero).

The AER's 2022 RORI defines the allowed rate of return as follows:

kt = (1-*G*) x ke + *ktd* x *G*

where:

kt is the rate of return in regulatory year t;

ke is the allowed return on equity for the regulatory period and is calculated in accordance with clause 4 of the instrument;

ktd is the allowed return on debt for the regulatory year t, and is calculated in accordance with clause 9 of the instrument; and

G is the gearing ratio and is set at a value of 0.6.

MLPL's allowed rate of return will be updated in our Revenue Proposal - Part B (Construction costs). For the purpose of this Revenue Proposal, we set out the following placeholder parameters for MLPL's allowed rate of return, which are consistent with the explanatory statement that the AER published alongside the RORI.

Table 10: Rate of return placeholder parameter values

Parameters	Placeholder value
Risk free rate	3.60%
Equity beta	0.6
Market risk premium	6.2%
Return on equity	7.32%
Return on debt, using on- the-day rate	6.52%
Gearing ratio	60%
Gamma	0.57
Corporate Tax rate	30%
Nominal vanilla WACC	**6.84%**

4.6 Averaging period

The 2022 RORI requires the risk free rate and cost of debt to be estimated with reference to an averaging period. We will provide details of the averaging period on a confidential basis as part of our Revenue Proposal – Part B (Construction costs). This averaging period will be employed to calculate MLPL's allowed rate of return for the first regulatory period, which commences on 1 July 2025.

4.7 Concessional finance

As noted in section 1.5, the AEMC is currently considering Rules to ensure that the benefits of concessional finance are passed on to customers. While the details and timing of MLPL's financing arrangements are not yet settled, the weighted average cost of capital that is applied will reflect the Rules provisions, including those relating to the treatment of concessional finance. For the avoidance of doubt, depending on the scope and timing of the concessional finance it may impact:

- MLPL's opening RAB as at 1 July 2025, if concessional finance applies to early works expenditure;
- MLPL's opening RAB as at 1 July 2028, if concessional finance applies to construction expenditure; and
- MLPL's return on capital in the second regulatory period, commencing 1 July 2028, if concessional finance applies for that regulatory period.

MLPL will work with the AER to ensure that the benefits of concessional finance are passed onto electricity consumers in accordance with the intentions of the providers of that finance.

5 Incentive mechanisms

Key Points:

- The AER has developed a suite of incentive mechanisms that are designed to encourage TNSPs to improve their cost and service performance over time. MLPL supports incentive regulation and the application of the AER's incentive mechanisms.
- As MLPL will not be providing transmission services during the first regulatory control period, incentive schemes relating to service performance and operating expenditure efficiencies cannot apply. The AER also noted this point in its Commencement and Process Paper.
- Of the remaining incentive schemes, the capital expenditure efficiency sharing scheme is the only scheme that could be applied in principle. MLPL's assessment, however, is that this scheme is unlikely to promote more efficient outcomes in relation to early works expenditure. For this reason, MLPL is proposing that this scheme does not apply in the first regulatory control period. We note, however, that the CAP supports the application of the CESS and that the AER should assess the pros and cons of applying the scheme having regard to MLPL's particular circumstances.

The AER has developed incentive schemes that may be applied in its revenue determinations for TNSPs. These incentive schemes have been developed over a number of years to drive improvements across all aspects of a TNSP's performance. In this chapter, we briefly explain each incentive scheme and discuss whether it should apply to MLPL in the first regulatory period, having regard to MLPL's particular circumstances.

5.1 Service target performance incentive scheme (STPIS)

The STPIS plays an important role in counter-balancing the incentives to minimise operating and capital expenditure that are provided by other aspects of the regulatory framework. Broadly speaking, the STPIS provides incentives to improve network performance by setting targets for various parameters based on recent historical performance.

While network performance is an important aspect of the service Marinus Link will provide, the STPIS (or some variation of it) cannot be applied because services will not commence until MLPL's second regulatory period.[32] For that reason, the STPIS should not apply to MLPL for the first regulatory period. Having said that, future network performance is a key consideration in MLPL's tender process to select preferred contractors and service providers. Further information on how MLPL has given consideration to this issue will be provided in our Revenue Proposal – Part B (Construction costs).

5.2 Efficiency benefit sharing scheme (EBSS)

The EBSS provides continuous incentives for TNSPs to pursue operating expenditure efficiencies during the regulatory period. In doing so, the EBSS seeks to mirror the incentives provided by competitive markets where companies benefit from cost savings in the short term and consumers benefit from lower prices thereafter.

By providing incentives to achieve operating expenditure efficiencies, the EBSS also plays an important role in the AER's 'base, step, trend' approach to forecasting operating expenditure. This forecasting approach relies on the EBSS to ensure that the most recent actual operating expenditure provides a reasonable basis from which to project the TNSP's future operating expenditure requirements.

For the first regulatory period, Marinus Link will not be operational and, therefore, the EBSS should not apply.[33] The absence of historical data also means that MLPL's operating expenditure allowance for the second regulatory period, commencing on 1 July 2028, will need to be developed afresh, rather than projecting from actual expenditure in a base year. The assessment of MLPL's operating expenditure allowance for the second regulatory period is a matter to be considered in Stage 2 of this Revenue Proposal, which will be submitted in January 2027. The application of the EBSS during the second regulatory period will also be considered during the AER's review process.

5.3 Capital expenditure sharing scheme (CESS)

The CESS is analogous to the EBSS, as it provides financial incentives to achieve capital expenditure savings compared to the AER's allowance. This scheme provides financial penalties or bonuses to apply to TNSPs,

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[32] The AER's Commencement and Process Paper, Attachment A, states that the STPIS will not be included in the AER's decision for Part A (Early works) or Part B (Construction costs).

[33] The AER's Commencement and Process Paper, Attachment A, states that the EBSS will not be included in the AER's decision for Part A (Early works) or Part B (Construction costs).

depending on whether actual capital expenditure is higher or lower than the AER's allowance. Similar to the EBSS, consumers benefit from capital expenditure savings because the regulatory asset base and future prices are lower than would otherwise be the case.

The AER published its Draft Decision on its review of the CESS in December 2022. In its Draft Decision, the AER commented that it intended to assess whether or not to apply the CESS to large transmission projects in its consideration of contingent project and regulatory reset proposals. In doing so, the AER explained that it will take into account, among other things, each company's capital expenditure proposal and the degree of forecasting risk.[34]

The AER subsequently finalised its review of the CESS in April 2023, taking account of 12 submissions from stakeholders.[35] In its Final Decision, the AER confirmed its earlier view that it should retain the flexibility to decide whether, or how, the CESS should be applied to large transmission projects. The AER set out the following factors that it would consider in deciding whether and how to apply the CESS should be applied:

- Benefits to consumers from the exemption;
- The size of the project;
- The degree of capital expenditure forecasting risk; and
- Stakeholder views.

In MLPL's case, we will be working hard through procurement and joint planning processes to ensure that Project Marinus is delivered as efficiently as possible. Furthermore, we are seeking consumer and regulatory input by inviting representations on behalf of the CAP and the AER in our tender evaluation process. In our view, therefore, we are already focused on delivering the best outcome for consumers without the application of the CESS.

Furthermore, if MLPL were to respond to the incentives provided by the CESS, it may be counter-productive in terms of delivering the lowest cost outcome for consumers. This is because it would encourage MLPL to secure fixed priced contracts to avoid the negative exposure of cost overruns, rather than taking on more risk on behalf of consumers. Ultimately, this may result in higher costs for consumers, rather than lower costs. We will discuss this issue in further detail in our Revenue Proposal - Part B (Construction costs).

In relation to early works expenditure, which is the subject of this Revenue Proposal, it is also doubtful whether applying the CESS will deliver a better outcome for consumers. In making this assessment, we note that early works expenditure is subject to forecasting error, particularly in relation to scope. As a result, MLPL may be

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[34] AER, Incentive review, Draft Capital Expenditure Incentive Guideline for Electricity Network Service Providers, December 2022, page 7.

[35] AER, Incentive review, Final Capital Expenditure Incentive Guideline for Electricity Network Service Providers, April 2023, page 22.

financially advantaged or disadvantaged as a result of factors that are beyond the company's control. Furthermore, it is important to recognise that it may be in consumers' long term interests for MLPL to exceed the AER's allowance for early works if a strong case for increased expenditure emerges. In these circumstances, the application of the CESS would be counter-productive in the sense that it would actively discourage any increase in expenditure.

As explained in section 2.3.3, we consulted with the CAP on our views in relation to the CESS. While the CAP understood the rationale for not applying the CESS, their preference is to apply the incentive mechanism to MLPL's early works expenditure to ensure that MLPL faces strong incentives to minimise its expenditure. We note that the AER's review of the CESS set out a number of factors that the AER would consider in deciding whether the CESS should apply. One of these factors is stakeholder views.

For the reasons set out above, we do not support the application of the CESS in relation to early works or construction expenditure. In relation to construction expenditure, this matter will be formally addressed in our Revenue Proposal - Part B (Construction costs). Given the feedback from the CAP, MLPL invites the AER to make an assessment of the pros and cons of applying the CESS in MLPL's particular circumstances, having regard to the factors identified by the AER in its review of the CESS including the stakeholder views.

5.4 Small-scale incentive scheme (SSIS)

The SSIS has not yet been applied to TNSPs and we are not proposing the application of such a scheme in this Revenue Proposal.

5.5 Demand management innovation allowance mechanism (DMIAM)

The DMIAM provides funding for research and development in demand management projects that have the potential to reduce long-term network costs. As MLPL will not provide prescribed transmission services during the first regulatory control period, there is no purpose in applying the DMIAM.

6 Pass through events

Key Points:

- The existing pass through provisions in the Rules reflect regulatory best practice by keeping network charges as low as possible. This outcome is achieved by ensuring that network charges do not include any allowance for events that may or may not arise.
- MLPL's circumstances are different to a standard TNSP because the AER's determination for this Revenue Proposal – Part A (Early works) will cover a period prior to the commencement of the first regulatory period. In addition, our Revenue Proposal – Part B (Construction costs) will cover a period where MLPL will not provide transmission services. For these reasons, it is unclear whether the existing Rules provisions relating to pass through events would apply to MLPL.
- MLPL proposes that the AER clarifies the treatment of the pass through provisions in its determinations for Part A (Early works) and Part B (Construction costs).

6.1 Overview of pass through events

The Rules include cost pass through provisions that enable a TNSP to recover (or pass back to customers) materially higher (or lower) costs in providing prescribed transmission services if a 'pass through event' occurs. The purpose of the pass through provisions is to enable each TNSP to recover the efficient costs associated with a particular event, but only if that event occurs. The use of pass through provisions is regarded as good regulatory practice because it keeps transmission charges as low as possible because consumers avoid paying transmission charges that include a risk allowance for events that may not occur.

Clause 6A.7.3(a1) of the Rules provides for the following cost pass through events:

- A regulatory change event;
- A service standard event;
- A tax change event;
- An insurance event;
- An inertia shortfall event; and
- A fault level shortfall event.

In addition to these pass through events, the Rules allow each transmission business to nominate additional pass through events in its revenue proposal. In recent determinations, TNSPs have nominated the following events:

- Insurance coverage event;
- Terrorism event;
- Natural disaster event; and
- Insurer credit risk event.

6.2 Applying the pass through provisions to MLPL

A threshold question for this Revenue Proposal is whether the existing cost pass through provisions apply to MLPL, given its particular circumstances. To address this issue, we discuss the relevant Rules provisions, which are set out below.

Clause 6A.7.3(a) states that:

> "If a *positive change event* occurs, a *Transmission Network Service Provider* may seek the approval of the AER to pass through to Transmission Network Users a *positive pass through amount*."

The Rules define a *positive change event* as:

> "For a *Transmission Network Service Provider*, a *pass through event*[36] which entails the Transmission Network Service Provider incurring *materially* higher costs in providing *prescribed transmission services* than it would have incurred but for that event, but does not include a *contingent project* or an associated *trigger event*."

The Rules define *materially* as:

> "For the purposes of the application of clause 6A.7.3, an event (other than a *network support event*) results in a *Transmission Network Service Provider* incurring materially higher or materially lower costs if the change in costs (as opposed to the revenue impact) that the *Transmission Network Service Provider* has incurred and is likely to incur in any *regulatory year* of a *regulatory control period*, as a

[36] Pass through event is defined as the events specified in clause 6A.7.3(a1). We note that this clause refers to pass through events as being for a particular determination.

> result of that event, exceeds 1% of the *maximum allowed revenue* for the *Transmission Network Service Provider* for that *regulatory year*."

In applying these provisions to MLPL, we note that this Revenue Proposal – Part A (Early works) and the AER's determination relates to expenditure incurred prior to the commencement of the first regulatory period. We also note that MLPL will not provide prescribed transmission services or recommence revenue recovery until 2029. As such, it is unclear how the materiality provisions would apply in relation to early works activities. Similar issues would arise in relation to our Revenue Proposal – Part B (Construction costs), as the definition of 'positive change event' refers to the TNSP incurring materially higher costs in providing prescribed transmission services. For MLPL, however, the provision of prescribed transmission services will not commence until the second regulatory period, after construction costs have been completed.

MLPL notes that clause 6A.9.3(e) of the National Electricity Rules enables the AER to clarify how arrangements such as the pass through provisions should apply to Intending TNSPs, such as MLPL. In particular, this provision states that:

> "In connection with the initial transmission determination for proposed prescribed transmission services and where applicable, any other transmission determination that includes a period before the date on which prescribed transmission services are first provided, this Chapter applies to an Intending TNSP and the AER subject to:
>
> (1) any modifications specified in the applicable commencement and process paper; and
>
> (2) clause 6A.9.4."

While the Commencement and Process paper did not address the application of the pass through provisions, it is open to the AER to amend that paper to clarify this issue. MLPL notes that this amendment could be given effect through the AER's determination for Part A (Early works). To give effect to the materiality provisions in the pass through arrangements, this Revenue Proposal sets out the maximum allowed revenue for each year, as explained in section 4.3 of this Revenue Proposal.

MLPL notes that the AER's clarification regarding the application of the pass through provisions will promote the long term interests of customers in accordance with the NEO by giving effect to the risk allocation arrangements in Chapter 6A. These arrangements deliver the lowest cost outcome for customers by enabling TNSPs to exclude the potential costs of high impact, low probability events in their building block allowances. MLPL looks forward to working with the AER to ensure that the existing pass through provisions can apply to MLPL.

On the assumption that the application issue can be resolved, MLPL proposes that the nominated pass through provisions most recently applied by the AER in ElectraNet's revenue determination should apply for Part A (Early works), being:[37]

- Insurance coverage event;
- Terrorism event;
- Natural disaster event; and
- Insurer credit risk event.

[37] AER, Final Decision, ElectraNet's Transmission Determination 1 July 2023 to 30 June 2028, April 2023, Attachment 13, Table 13-1.

7 Concluding comments and next steps

This Revenue Proposal explains MLPL's proposed expenditure for early works activities and establishes key elements of the regulatory framework that will apply to MLPL including:

- The arrangements, including the applicable cost of capital, for determining MLPL's opening regulatory asset base at the commencement of the first regulatory period, being 1 July 2025;
- Whether incentive schemes should apply to early works expenditure; and
- The approach to nominated pass-through events.

The AER's determination for this Revenue Proposal Stage 1 – Part A (Early Works) will provide an allowance for our early works expenditure and decide the framework issues described above. For MLPL, the next steps will be to submit a Revenue Proposal for Stage 1- Part B (Construction costs) in February 2024. The completion of the Stage 1 revenue determination will enable MLPL to make a final investment decision on whether to proceed with Marinus Link.

While the conclusion of the Stage 1 revenue determination process will culminate in the first regulatory period from 1 July 2025 to 30 June 2028, MLPL will not recover any revenue from electricity consumers during this period. This is because Marinus Link is not expected to be commissioned until January 2029 i.e., during the second regulatory period. MLPL's annual revenue requirement for the second regulatory period will be determined in Stage 2 of the revenue determination process. At this stage, it is expected that MLPL would submit its Revenue Proposal for Stage 2 by 31 January 2027.

Appendix 1: Information checklist

The AER's Commencement and Process Paper set out the decisions to be made under rule 6A.14 of the NER by Stage/Part. In the table below, we show which sections of this Revenue Proposal provides the information that the AER requires to make a decision in accordance with its Commencement and Process Paper for Part A – Early works.[38]

A compliance checklist against the relevant requirements in Chapter 6A of the Rules is provided in Spreadsheet 1 – Rules compliance, which is submitted as a separate file.

Table 11: Information checklist

Clause 6A.14.1 - Contents of decisions	Stage 1	
	Part A	Cross reference
(1) on the Transmission Network Service Provider's current Revenue Proposal in which the AER either approves or refuses to approve;		
(i) the total revenue cap for the provider for the regulatory control period;	✗	
(ii) the maximum allowed revenue for the provider for each regulatory year of the regulatory control period;	✗	
(iii) the values that are to be attributed to the performance incentive scheme parameters for any service target performance incentive scheme that is to apply to the provider in respect of the regulatory control period;	✗	
(iv) the values that are to be attributed to the efficiency benefit sharing scheme parameters for any efficiency benefit sharing scheme that is to apply to the provider in respect of the regulatory control period; and	✗	
(v) the commencement and length of the regulatory control period that has been proposed by the provider, as set out in the Revenue Proposal, setting out the reasons for the decision;	✓	Section 1.2.
(2) in which the AER either:		
(i) acting in accordance with clause 6A.6.7(c), accepts the total of the forecast capital expenditure for the regulatory control period that is included in the current Revenue Proposal;	✓	Section 3.7, plus Attachments 1 and 2.
(ii) acting in accordance with clause 6A.6.7(d), does not accept the total of the forecast capital expenditure for the regulatory control period that is included in the current Revenue Proposal, in which	✓	Section 3.7, plus Attachments 1 and 2.

[38] AER, Marinus Link Decision: Transmission Determination Commencement and Process Paper, Attachment A, June 2023.

Clause 6A.14.1 - Contents of decisions	Stage 1	
	Part A	Cross reference
case the AER must set out its reasons for that decision and an estimate of the total of the Transmission Network Service Provider's required capital expenditure for the regulatory control period that the AER is satisfied reasonably reflects the capital expenditure criteria, taking into account the capital expenditure factors;		
(3) in which the AER either: (i) acting in accordance with clause 6A.6.6(c) or clause 6A.6.6(c1), accepts the total of the forecast operating expenditure for the regulatory control period that is included in the current Revenue Proposal; (ii) acting in accordance with clause 6A.6.6(d), does not accept the total of the forecast operating expenditure for the regulatory control period that is included in the current Revenue Proposal, in which case the AER must set out its reasons for that decision and an estimate of the total of the Transmission Network Service Provider's required operating expenditure for the regulatory control period that the AER is satisfied reasonably reflects the operating expenditure criteria, taking into account the operating expenditure factors;	✗ ✗	
(4) in which the AER determines: (i) whether each of the proposed contingent projects (if any) described in the current Revenue Proposal are contingent projects for the purposes of the revenue determination in which case the decision must clearly identify each of those contingent projects; (ii) the capital expenditure that it is satisfied reasonably reflects the capital expenditure criteria, taking into account the capital expenditure factors, in the context of each contingent project as described in the current Revenue Proposal; (iii) the trigger events in relation to each contingent project (in which case the decision must clearly specify those trigger events); and (iv) if the AER determines that such a proposed contingent project is not a contingent project for the purposes of the revenue determination, its reasons for that conclusion, having regard to the requirements of clause 6A.8.1(b).	✗ ✗ ✗ ✗	
(5A) in which the AER determines how any applicable capital expenditure sharing scheme, small-scale incentive scheme or demand management innovation allowance mechanism is to apply to the Transmission Network Service Provider;	✓	Section 5.
(5B) on the allowed rate of return for each regulatory year of the regulatory control period;	✓	Sections 4.2, 4.3 and 4.5.
(5C) on the allowed imputation credits for each regulatory year of the regulatory control period;	✓	Section 4.5.

Clause 6A.14.1 - Contents of decisions	Stage 1	
	Part A	Cross reference
(5D) on the regulatory asset base as at the commencement of the regulatory control period in accordance with clause 6A.6.1 and Schedule 6A.2;	✓	Section 4.3.
(5E) on whether depreciation for establishing the regulatory asset base as at the commencement of the following regulatory control period is to be based on actual or forecast capital expenditure; Note: See clause S6A.2.2B.	✗	
(8) on the Transmission Network Service Provider's current proposed pricing methodology, in which the AER either approves or refuses to approve that methodology and sets out reasons for its decision	✗	
(9) on the additional pass through events that are to apply for the regulatory control period in accordance with clause 6A.6.9.	✓	Section 6.