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September 15, 2023

Attachment 8: Forecast Operating Expenditure

8.1 Introduction

As part of the building block approach to regulation, a prescribed service provider is entitled to recover the efficient operating expenditure ('opex') incurred as part of the provision of a prescribed service.[76] Basslink Pty Ltd must forecast the efficient operating costs for the whole of the regulatory period in this revenue proposal that Basslink Pty Ltd considers is required to achieve each of the operating expenditure objectives.[77] All operating expenditure is for the purposes of providing the prescribed transmission service.

This chapter discusses the process for creating the efficient opex forecast for the regulatory period. The structure is outlined below:

- **Section 8.2** discusses the regulatory requirements and economic principles that must be considered when generating a forecast.
- **Section 8.3** provides an assessment of the actual opex Basslink incurred in FY 2021/22, the year from which our forecast is based.
- **Section 8.4** describes the step changes that need to be made to the base year forecasts.
- **Section 8.5** presents the results.

Key Assumptions

Basslink will be converted to a TNSP on 1 July 2025.

No increase in the maximum capacity of the Basslink Interconnectors is being undertaken in the period 1 July 2025 to 30 June 2030.

The forecasts are based on current legislative and regulatory obligations and that those obligations will not materially change prior to 30 June 2030.

The best forecast of opex required to meet the opex objectives over the 2025-30 period will be current opex requirements, with adjustments to reflect changes in input costs, outputs delivered, productivity and step changes.

8.2 Principles of opex forecasting

To calculate our opex forecast we have employed the AER's preferred 'Base-Step-Trend' model. However, we have had to make a number of adjustments to the base year, reflecting the fact that in the base year, Basslink was not operating as a prescribed service. We discuss these adjustments in Section 8.3. The decisions on how to make these adjustments, were guided by the following regulations, precedents, and principles.

[76] National Electricity Rules, Clause 6A.5.7(a)(6)
[77] NER, clause 6A.6.6(a).

Principles and regulatory requirements

Efficiency of expenditure

The regulatory requirements and limitations for opex forecasts are set out in Clause 6A.6.6 of the Rules. It relevantly provides that the AER must accept the forecast of required opex included in a TNSP revenue proposal if the AER is satisfied that the total of the forecast opex for the regulatory control period reasonably reflects each of the following (the operating expenditure criteria) [78]:

> *(1) the efficient costs of achieving the operating expenditure objectives;*
>
> *(2) the costs that a prudent operator would require to achieve the operating expenditure objectives; and*
>
> *(3) a realistic expectation of the demand forecast and cost inputs required to achieve the operating expenditure objectives.*

These objectives can be summarised as:

- Meeting the demand for the prescribed services.
- Complying with all applicable regulatory requirements.
- To the extent there are no applicable regulatory obligations relating, quality, reliability or security of supply, maintaining the quality, reliability, and security of supply across the prescribed transmission system and, where relevant, the rest of the NEM transmission system.
- Maintaining the security of the transmission system.

In this proposal, Basslink Pty Ltd submits a number of opex step changes that we consider allow Basslink to better meet these objectives, and provide value for money in doing so.

Accuracy of forecasts

Forecasting efficient costs as accurately as possible is a key concern for both investors and consumers. Bar any changes in the underlying efficiency, when capex forecasts are higher than outturns, consumers are forced to pay more than is efficient, and when they are lower, businesses may be at risk of missing financing payments. However, forecasting the multitude of variables contained in opex over a 5-year period is not a simple task and can come at significant forecasting cost. In preparing this forecast, We considered it paramount to attain a high level of accuracy, despite certain data constraints relating to the age and nature of the Basslink business. Basslink Pty Ltd drew on all available data and consulted experts where practical.

Removing cross-subsidisation and duplication

APA is a large business providing many regulated and unregulated infrastructure services and can thus reach many efficiencies of scale with respect to operating costs. However, this also means that

[78] NER, clause 6A.6.6(c).

APA must be vigilant not to allow any duplication of costs or cross-subsidisation across its network of businesses.

APA applies a single cost allocation methodology across all businesses to make sure shared overheads are distributed according to what maximises economic efficiency. This methodology is set out in APA's Cost Allocation Method, which is attached to this proposal.

Opex forecasting during Murraylink and Directlink conversions

It is useful to consider the process followed in Murraylink and Directlink's initial revenue proposals. In these cases, it was determined that the most economically efficient amount of opex was not related to the costs of operating the actual asset in question, but rather the cost of operating an optimised ideal asset.

Murraylink initially proposed a forecast of opex that was determined using information on the actual opex costs being incurred at the time of application. However, the ACCC determined that as the RAB had been determined according to the costs of a theoretical alternative asset, the opex allowance would also be determined according to that alternative. The ACCC engaged consultants to forecast an opex cost for that alternative asset, and this cost was accepted by the ACCC.

In the Directlink decision, the AER also set the opex allowance according to the opex of the optimal alternative project. The alternative chosen was that which had the greatest net market benefit, despite that benefit being negative and the RAB being determined on the value of gross market benefits.

As discussed in **Attachment 5** – Regulatory Asset Base, Basslink considers it most appropriate to set the RAB according to the historical costs of the actual asset. Accordingly, it is most appropriate to forecast opex using the historical costs of the actual asset as a basis.

8.3 Base year forecast

To create an accurate forecast of Basslink's future opex, we draw on Basslink Pty Ltd's historical opex to calculate a basis from which to forecast. This involves calculating the efficient opex Basslink would have incurred in FY 2021/22 had Basslink been converted under the terms set out in this proposal. From this starting point, we can inflate the opex according to inflation and other considerations to forecast opex across the regulatory period.

To calculate the base year value, accounting data for FY 2021/22 is available through Basslink Pty Ltd's historical record of accounts. FY 2021/22 was chosen as the base year as this is the most recent full financial year for which audited opex reporting is available at the time of preparing this proposal. We consider it to be broadly representative of operating conditions.

While the projections are based on FY 2021/22 as a base year, we will expand our analysis to the five previous financial years. By conducting this analysis, we are able to compare the base year against past trends.

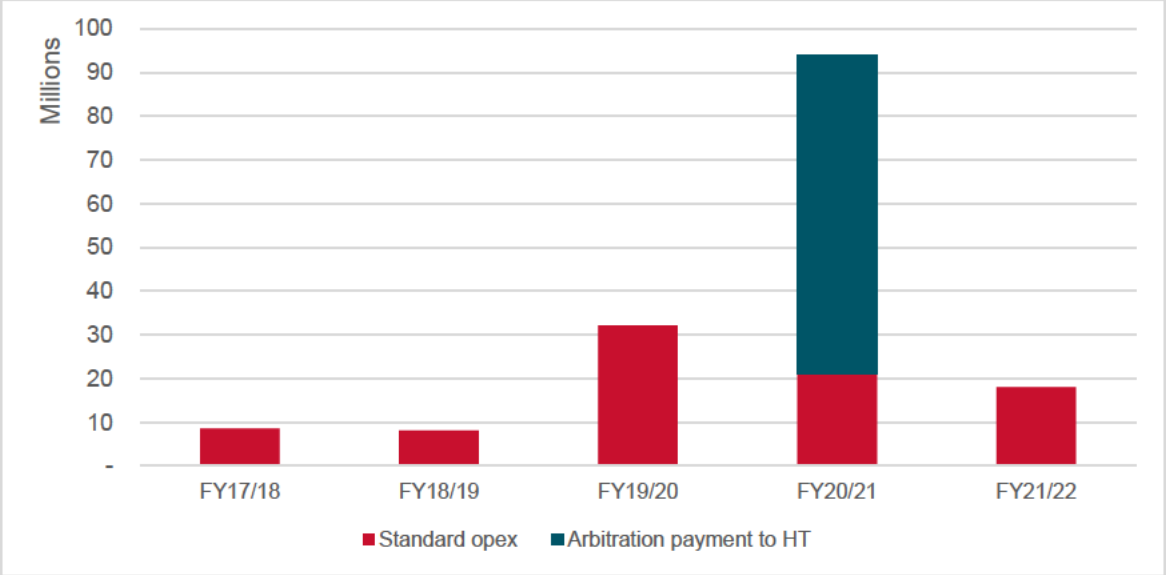
While we consider FY2021/22 to be broadly reflective of operating conditions, for some opex categories, the costs incurred in the FY 2021/22 period will not reflect what we expect the costs to be if Basslink were to become a prescribed asset. Thus, some adjustments must be made to provide an accurate basis for forecasting. We propose to remove some cost categories all together and forecast others by building up expected costs.

Overview of BPL's FY2022 opex as recorded

The base year calculation starts with Basslink Pty Ltd's records of accounts. These records include financial statements submitted to ASIC and Basslink Pty Ltd's full general ledger, for all years between its commissioning to FY 2022. These accounts provide sufficient detail to audit any particular issues according to individual costs and we consider these a reliable dataset from which we can make our forecast.

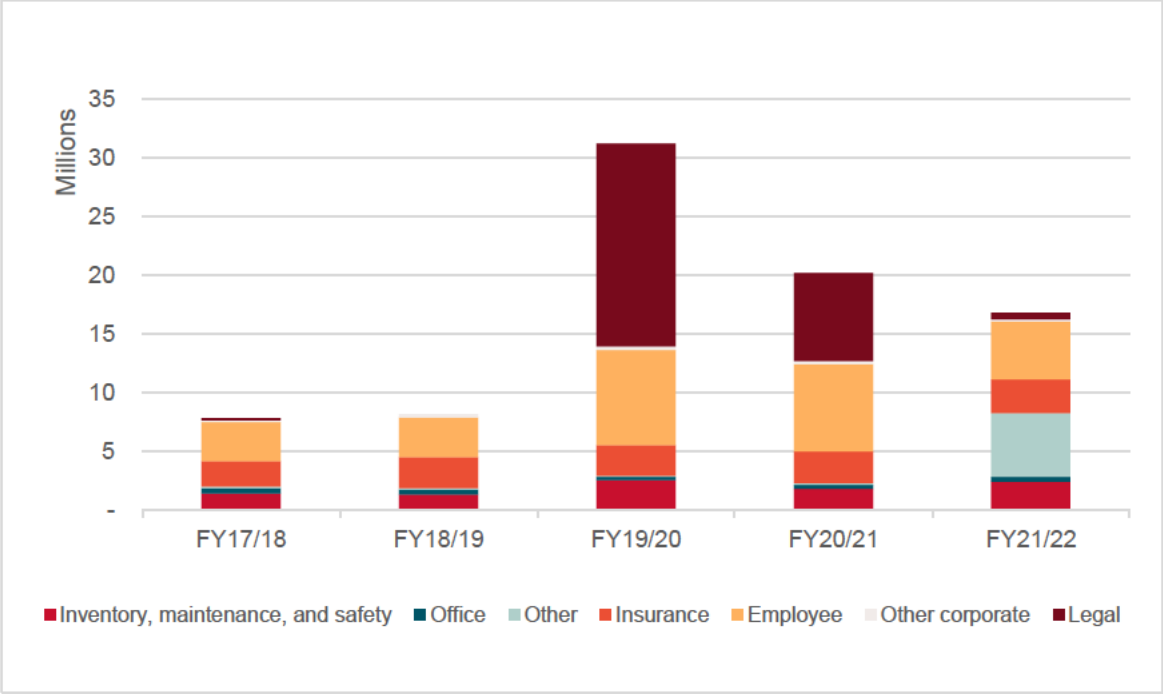
The graph below shows the total recorded opex values for Basslink in the previous 5 years. This graph shows that in in FY 2017/18 and FY2018/19, opex values were relatively low, coming in under $10 million. A significant increase was experienced in FY 2019/20—almost quadruple what was recorded over the FY 2018/19 period. In FY 2020/21, an even more significant increase was recorded, although much of that was the result of the award to Hydro Tasmania that arbitration proceedings determined Basslink Pty Ltd had to pay. The arbitration followed a dispute regarding which party should be made to pay for the 2015 cable outage. Removing this award, opex actually fell, a trend which was repeated again in FY2021/22.

Figure 8.1 Recorded Opex



When excluding the arbitration award, the opex can be further broken down, as shown in the graph below. As is clear from this graph many of the opex categories are in fact much more stable than the first graph would suggest. Almost all of the variability arises out of legal costs and, in FY2021/22, 'other' costs. The increase in legal costs was largely a result of the arbitration case with Hydro Tasmania, and the 'other' costs were primarily costs relating to Basslink Pty Ltd's receivership. As is discussed in the following sections, we remove any costs that relate to these one-time events from our base-year calculations.

Figure 8.2 Opex categories cost



Costs to be removed

In this section, we discuss how we removed the costs included in these records that will not be applicable if Basslink were to become a prescribed service. We describe why they must be removed, how we removed them, and the effect they had on the base year opex total.

One-off costs

Reason for removal

A number of costs incurred in the base year are expenditures that we expect not to incur in the future. However, one-time expenses are a common part of business operations, and removing all of these will create a likelihood that forecasts systematically predict lower values than what is realised. Instead, to create an accurate forecast, we must only remove the one-off expenses that prescribed services would not expect to incur, or those that are for a relevant reason materially different from normal business operations. In our analysis of the historical records, we have removed the costs relating to the following events:

- The arbitration with Hydro Tasmania. This includes the legal and consultant costs required to argue Basslink's case, as well as the amount awarded to Hydro Tasmania.
- The restructuring, refinancing, and administration of Basslink prior to its acquisition by APA.
- The repairs required following minor outages in 2018 and 2019.

Removal process

To identify these costs, we have gone through Basslink Pty Ltd's general ledger for the five years in question and removed the individual line items related to the above events. To identify which items related to the events, we used two resources. The first was the general ledger itself, where

comments, counterparties, and project codes aided us in identifying what each transaction was for. We also conducted this process with the assistance of Basslink Pty Ltd's longtime CFO, who was able to research, remember, or use their knowledge of the business and its accounting systems to assess whether the line items related to the events or not.

Basslink Pty Ltd's general ledger includes an option to assign each line item in to one of the following 'projects':

- Arbitration with HT and Tasmania
- 2018 minor outage
- 2019 minor outage
- Refinancing of Basslink during arbitration.
- 'Other' category covered other professional / legal fees considered not business-as-usual.

We removed all line items that included these projects. However, it was clear that the application of the project labels was inconsistent, and some relevant line items had not been labelled correctly. As such we identified which counterparties were involved with these projects and removed all related line items. Line items were also removed if their comments mentioned anything relevant to the projects.

We consider our assessment of Basslink Pty Ltd's general ledger to have determined with a high degree of certainty which line items related to the events, and which did not. The only exception is the treatment of legal fees from Basslink Pty Ltd's long-time legal advisor, DLA Piper. Before the arbitration proceedings, DLA Piper was Basslink's principal legal advisor—providing services as part of normal business operations such as providing advice on contracts, tax, and other matters. These were recorded in the general ledger as monthly invoices with no identification of the task undertaken that month. Once the arbitration started, DLA Piper took the lead role in providing advice on the case. In most circumstances, DLA Piper's fees are recorded against specified tasks and labelled with the arbitration label. These costs were removed. However, there were still monthly invoices received, that were notably higher than previous invoices. As we cannot split these invoices into arbitration and non-arbitration related portions, we have opted to take the conservative approach and remove all of these unspecified legal costs over the arbitration period.

For FY21-22, these removals sum to $6.3 million, leaving $11.8 million remaining in base-year OPEX. The total removals from this method are much lower in FY21-22 than in FY20-21 ($82 million) or FY19-20 ($20.7 million), but this is consistent with the history of the relevant legal proceedings. Most of the legal proceedings relating to the arbitration were finished by FY22, so most of the costs removed from FY22 related to the refinancing and administration of Basslink Pty Ltd.

Over the past five years we removed the following costs:

Table 8.1 – Costs removed

	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22
Costs removed	$0.3 m	-$0.2 m	$20.7 m	$82.2 m	$6.3 m

In FY 2018/19, we recorded an increase in total costs. This was due to the fact that some legal costs had been shifted from FY 2018/19 to FY 2020/21 in the accounts, leading to a net credit in Basslink's legal fees account. By removing the effects of the shift, the credits were removed, and the underlying

balance returned to a net debit. We reiterate that the values for any year other than FY22 do not affect the opex forecast and are included purely to provide context.

Basslink Telecom

The Basslink cable also includes a fibre-optic cable alongside the interconnector that connects Victoria and Tasmania's telecommunication networks. The operation and commercialisation of this telecommunication service will not become part of Basslink's prescribed service, and Basslink will continue to operate it purely on a commercial basis. As such, any opex costs relating to the telecommunications part of the business must not be included in the base-year forecast of opex for the prescribed service.

Since the telecom business was started, it operated as a separate legal entity, 'Basslink Telecom', with its own accounts. Costs including maintenance, insurance, electricity, and most employment related costs were directly allocated to Basslink Telecom and thus do not need to be removed from the base-year calculations.

However, we have reviewed the accounts and consider there are some shared or overhead opex costs that are recorded in Basslink's accounts that should be shared with Basslink Telecom. These are mainly accounts relating to staff or office costs, including:

- Staff bonuses
- Staff Workcover
- Long service leave allowance
- Staff benefits
- Fringe benefits tax provision expense
- Employee Citylink costs
- Staff amenities
- Contract employees
- Office rental.

We consider and appropriate way to split these costs is according to the proportion of total 'Salaries and Wages' incurred by BPL and the proportion incurred by Basslink Telecoms directly.

Taking an average of the period between FY 2017/18 and FY 2021/22, 93.9% of total salaries and wages costs was assigned to Basslink Pty Ltd, and the remaining 6 percent was assigned to Basslink Telecom.

Removing Basslink Telecom's 6 percent portion of these accounting codes removes the following amounts from the base-year opex.

Table 8.2 – Costs removed from base-year opex

	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22
Costs removed	$32,000	$32,000	$34,000	$75,000	$52,000

Costs to be replaced

Other cost categories may remain if Basslink were to become a regulated TNSP but will be treated materially differently, such that relying on Basslink's historical data for these categories would produce inaccurate forecasts of opex costs going forward if Basslink becomes a regulated TNSP.

We have built up these cost categories by making specific forecasts on the underlying elements of the cost categories. For each category, we discuss why the costs must be calculated separately, how we calculated them, and the effect they had on the base year opex total.

APA overheads

APA group owns and operates regulated and unregulated businesses across Australia including gas transmission and distribution assets, renewable energy generators, and the Murraylink and Directlink interconnectors. The APA's management team provide services to each asset and businesses it oversees. This includes providing tax accounting services, insurance coverage, risk management, IT and cyber security and other services. The costs for providing these services must be considered as opex for Basslink. A cost allocation methodology must thus be implemented to distribute the management and overhead costs across all of APA's businesses.

The rules and guidelines applicable to APA's businesses that set out the requirements of a cost allocation method are:

- Rule 6A.19 of the NER.
- Rule 103 of the National Gas Rules.
- The Electricity Transmission Network Service Providers Cost Allocation Guidelines (AER, 2007)

Included in this proposal for conversion is a proposal for a Cost Allocation Methodology (CAM) for Basslink in accordance with these rules. APA corporate costs will be allocated to Basslink consistent with the same principles and processes accepted by the AER in APA's most recent Cost Allocation Methodology submissions.[79]

Forecast Corporate Overheads

We have forecast corporate overheads based on the corporate overheads that Basslink incurred in FY 2022. These corporate overheads cover:

- Basslink executives (Chief Executive Officer, Chief Financial Officer)
- Tax Advisory
- Company Secretarial
- Sponsorships and donations

[79] Including:
- APA VTS, see: *APA VTS Australia*, "APA VTS – access Arrangement 2023-27 – RRIN Response Schedule 3 Appendix 2 – APA Cost Allocation Methodology – December 2021".
- Roma to Brisbane System, see: *APA*, "APA Cost Allocation Methodology," December 2020.

This is based on the regulatory principle that regulators should not dictate ownership structures to regulated businesses but customers should not fund different changes in ownership structures. Making Basslink corporate operating expenditure the basis for the forecast avoids doing this.

To avoid duplication Basslink Pty Ltd has removed the corporate cost categories identified above from the APA corporate cost allocation.

Due to its size Basslink Pty Ltd did not provide many of the necessary and commonplace corporate services that APA will bring to Basslink Pty Ltd. These include:

- Regulatory and policy management staff
- Risk management and insurance coordination
- Sophisticated IT management and Cyber Security

APA considers these services are justified, will provide long-term value to customers by allowing the Basslink asset to operate according to best practice standards and are required in order for Basslink to achieve each of the opex objectives.

Basslink has also removed corporate operating expenditure from the FY 2022 base year associated with those items from IT/OT that have a separate forecast such as opex associated with the Enterprise Resource Planning program.

According to Basslink Pty Ltd's proposed CAM, the corporate opex is allocated according to revenue. As such, Basslink's revenue was compared to the revenue of APA's other businesses. In FY22, Basslink would have represented 6.74% of APA's revenue.

The total corporate opex is $3.0m in annual operating expenditure. This is considerably lower than the amount Basslink Pty Ltd would pay to procure these services separately (ie as a standalone operator).

Insurance costs

Under the BSA, Basslink Pty Ltd was required to follow a specific insurance regime and was refunded for those insurance costs. The BSA set out that Basslink Pty Ltd was required to obtain all the insurance policies set out in the Insurance Concession Deed (ICD). The ICD specifies each type of required insurance in detail, including when it would come into effect, who would be indemnified, and the minimum limit of liability. While it was Basslink Pty Ltd's duty under the agreement to seek the best value insurance contracts given these requirements, Basslink Pty Ltd was unable to consider whether the insurance requirements provided the best value.

Under the arrangements detailed in the BOA, Basslink Pty Ltd is responsible for designing a portfolio of insurance contracts but must have that portfolio approved by the Tasmanian Government. Since the acquisition of Basslink Pty Ltd by APA and the signing of the BOA, Basslink has undergone a process of rationalising its insurance arrangements for the period between its receivership and the proposed conversion date.

One part of this rationalisation is joining APA's existing corporate insurance policies. The terms of these policies are more favourable than if Basslink Pty Ltd were standalone as APA is better able to reach economies of scale, can better manage and distribute risks, and have more negotiating power because of its relative size. The classes of insurance include workers' compensation, cyber, directors and officers, crime, motor vehicle, mobile plant and equipment, marine cargo, corporate travel, and employee benefits.

The other part of this rationalisation is bringing Basslink's insurance arrangements in line with global standards. Basslink Pty Ltd engaged a global insurance broking firm, Marsh, to assess the reasonableness of the insurance arrangements under the BSA. As a first step, Marsh conducted an estimated maximum loss assessment for Basslink. APA's and Marsh's estimation of the cost of an anchor drag that severed the cable—which is likely to be one of the most costly insurance events—would be approximately [redacted]

Further changes in insurance arrangements will follow if Basslink becomes a prescribed service. Under the BSA, Basslink Pty Ltd's insurance would also cover business interruptions and APA has maintained this feature (although has rationalised the costs). However, prescribed services continue to earn revenue during the reparation of damaged infrastructure, and thus there is no 'business interruption' that needs to be insured. Basslink Pty Ltd is liable to lose revenue under the incentive framework for failing to meet its capacity targets, but this is not considered relevant to the insurance opex for a regulated entity. As such, Basslink Pty Ltd's insurance cost is expected to fall further.

As a prescribed service under APA ownership, Basslink Pty Ltd would have to cover the following insurance classes on a stand-alone basis:

- Offshore property damage insurance
- Offshore sabotage and terrorism insurance
- Onshore property damage insurance
- Liability insurance

Offshore property damage and offshore sabotage and terrorism insurance

Basslink's offshore property damage insurance and offshore sabotage and terrorism insurance both cover damage to the undersea cable. [redacted]

Since APA's acquisition of Basslink Pty Ltd, both the premiums and deductibles have fallen. As discussed above, [redacted]

To create its forecast of offshore insurance for Basslink as a prescribed service, Marsh conducted two steps: (1) Marsh engaged insurers to determine the likely terms of the contract in FY 2025/26 and (2) indexed those values to the end of the regulatory period.

Marsh engaged with large lead insurers in London and Europe—where the market for undersea cable insurance resides—to discover what premiums the markets would require. Marsh is confident that the premiums offered in the proposal are standard for the market and present the best value for money for consumers. [redacted]

[redacted]
Marsh considers this deductible to be uncommonly high for similar assets. However, when exploring options for reducing the deductible, none represented value for money in Marsh's estimation.

Next, Marsh indexed this value according to its forecast of movements in the required premium rate and of CPI. Marsh considers the global insurance markets to be softening slowly after a prolonged period of growth in premiums. As such, it expects the offshore property insurance premium to rise modestly before plateauing. They also expect sabotage and terrorism insurance premiums to grow at a steady rate—although this will have less of an effect on prices considering the considerably lower starting premium.

Onshore property damage insurance

Basslink Pty Ltd's property insurance cost will join APA's group insurance program, which will generate significant cost savings. [redacted] The policy limit will be reduced once the indemnity for business interruption is removed, further reducing the premium.

Marsh expects a premium of $1.0 million in FY2025/26 and considers this to be prudent and efficient. Marsh's forecast of movements in onshore property premiums is similar to that of offshore premiums. It expects rates to continue to increase to FY2026/27, but by smaller amounts before stagnating and then falling in FY2029/30.

Liability insurance

Basslink's liability insurance covers legal liabilities for a number of risks including:

- Third party property damage from operations
- Bodily injury from operations
- Failure to supply electricity to third parties
- Professional indemnity
- Electromagnetic field liability

[redacted] As per the rest of the market, Marsh expect the premiums to continue to increase but by smaller amounts each year. However, the increase will be greater than any of the other insurance categories in the early years.

Stakeholder engagement

Considering insurance to be an important issue that will affect consumers materially, we took the decision to consumer groups in our quantitative analysis process. We conducted an online survey of more than 1,200 people across Victoria and Tasmania to elicit their preferences over a number of issues. In previous stakeholder engagements, we noted that the details of the insurance contracts

were difficult to comprehend in a short period of time, and thus in our surveys we simplified the choice to two main options[80]:

- Option 1: Paying less upfront insurance cover (higher risk of paying more for uncovered d s later); and
- Option 2: Paying more upfront insurance cover (lower risk of paying more for uncovered repairs later).

Of those choosing one of the main options, over two thirds chose Option 2. This was the case in both states—with Tasmania (72%) being slightly more in favour of higher insurance cover than Victoria (65%).

Results

The following table shows the result of Marsh's expected insurance premium costs for Basslink in its first regulatory period. Both Marsh and Basslink Pty Ltd consider this program to be the best value for consumers while also meeting consumers' cost reliability expectations.

[80] Two other options were presented alongside these: Option 3: A different approach, and Option 4: Don't know/Not sure.

Table 8.3 – Expected insurance premium costs

Premium category	2025/26	2026/27	2027/28	2028/29	2029/30	Total	Average
General Liability (Bushfire) & Professional Indemnity	$0.57 m	$0.59 m	$0.62 m	$0.64 m	$0.64 m	**$3.07 m**	**$0.61 m**
Offshore Cable Insurance	$5.92 m	$6.23 m	$6.41 m	$6.58 m	$6.75 m	**$31.88 m**	**$6.38 m**
Onshore Property Insurance	$1.03 m	$1.08 m	$1.11 m	$1.14 m	$1.14 m	**$5.5 m**	**$1.1 m**
Offshore Terrorism and Sabotage Insurance	$0.04 m	$0.05 m	$0.05 m	$0.05 m	$0.05 m	**$0.24 m**	**$0.05 m**
Total	**$7.55 m**	**$7.95 m**	**$8.19 m**	**$8.41 m**	**$8.58 m**	**$40.68 m**	**$8.14 m**

Forecasts

To turn the remaining FY2021/22 base year values into forecasts over the regulatory period we adjusted the base year values according to a consumer price inflation index (CPI) and a wage price inflation index (WPI). We engaged BIS Oxford Economics to create WPI forecasts for the proposed regulatory period, which are provided in the table below. BIS Oxford Economics' report describing their index calculations is attached to this proposal.

We consider the WPI forecast for the electricity, gas, water, and waste services to be the most applicable index to Basslink's business given the nature of the asset and its employees. The 'all industries' and construction indexes demonstrate that there is not a significant difference depending on which index is chosen. While the table below shows the Australia-wide values, we used specific Victorian and Tasmanian WPI forecasts in our calculations. To calculate the real WPI, CPI is subtracted from the chosen WPI figure.

Table 8.4 – Consumer price inflation index (CPI) and wage price inflation index (WPI)

Index	FY22/23	FY23/24	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30
CPI	7.1%	4.4%	3.1%	2.6%	2.5%	2.5%	2.5%	2.5%
WPI - Electricity, gas, water, and waste services	3.6%	4.1%	4.1%	3.9%	3.6%	3.4%	3.7%	3.8%
Real WPI	-4.35	-0.4%	0.9%	1.3%	1.1%	1.0%	1.2%	1.3%
Reference: WPI - All industries	3.6%	4.0%	3.8%	3.6%	3.3%	3.2%	3.5%	3.7%
Reference: WPI – Construction	3.7%	4.2%	4.1%	3.9%	3.5%	3.4%	3.7%	3.9%

The total non-insurance base-year opex was split into labour and non-labour costs according to the proportion of labour or non-labour costs in FY 2022. The proportion of labour related costs was further broken down to Victorian labour costs and Tasmanian labour costs. This was achieved by calculating the percentage of Basslink staff working from Tasmania or Victoria. The costs in real terms were then adjusted to track the forecast changes in Tasmanian and Victorian wages.

8.4 Step changes

Subsea Cable Repair Strategy

Specialised equipment is needed to repair faults on the subsea cable. This involves contracting a vessel with certain characteristics that permit cable repair. This vessel is also used for telecoms and other cables. However, there is specialised equipment that must be installed on the vessel before it can locate and repair an electricity cable.

This vessel has already been contracted and the equipment will be constructed prior to the commencement of the transmission determination period. However, in the event of a fault this vessel will need to complete the work it is undertaking, sail to Australia, install the electricity cable fault location equipment, locate and identify the nature of the cable fault, return to port and install the repair equipment return to the fault location and repair the cable. The duration of the repair will be dependent on a range of factors including:

- The location and nature of the work the repair vessel is undertaking at the time of the Basslink fault;
- The nature and ease of location of the fault on the cable;
- Weather conditions in Bass Strait;
- The ease of repair, for example the depth of the cable.

A second vessel, a response vessel, can reduce the time it takes for a repair on the sub sea cable. Due to the factors identified in the list above the timing savings from a response vessel can not be determined in advance.

The response vessel assists with quicker repairs in a number of ways, for example:

- A smaller less specialised vessel can be contract that is located in Australian waters reducing the time for it to reach location.
- The response vessel can begin cable fault location work whilst the repair vessel is coming to Australia and being fitted out in port.

This means that for a fault the response vessel increases the probability that the cable will be repaired within a given time window. Basslink Pty Ltd engaged ACIL Allen to assess the customer benefits derived from contracting for a response vessel. The report is attached at **Attachment 8.3**.

We adjusted the ACILAllen results for the annual probability of a cable fault based on international CIGRE data (1 in 10). This analysis shows that the expected customer benefits from the response vessel are greater than the estimated cost of the response vessel (7.7m pa contract cost plus $4m capital expenditure for equipment construction) until Marinus Link is commissioned.

We have included operating expenditure associated with the response vessel in the forecast operating expenditure. This continues until the publicly announced commencement date for Marinus Link of 1 January 2029. The forecast operating expenditure associated with the response vessel step change is set out in the table below.

Table 8.5 – Response vessel operating expenditure

Operating Expenditure ($M FY25)	FY 2026	FY2027	FY2028	FY2029	FY2030
Response Vessel	7.65	7.65	7.65	3.83	0

Security of Critical Infrastructure

Over the upcoming reporting period, the provisions of the Security of Critical Infrastructure (SOCI) Act will apply to APA and its subsidiary businesses. As such, we must include a portion of the shared costs that will be incurred to make APA compliant with the SOCI Act requirements. The requirements under the SOCI Act are explained in detail in **Attachment 7.5**.

The costs outlined below include both the costs included in assessing APA's compliance with the SOCI Act requirements and the costs of implementing the required changes.

Table 8.6 – Security of Critical Infrastructure compliance costs

	FY2023 ($m)	FY2024 ($m)	FY2025 ($m)	FY2026 ($m)	FY2027 ($m)	FY2028 ($m)	FY2029 ($m)	FY2030 ($m)
Cyber Security	0.11	0.20	0.31	0.38	0.38	0.38	0.38	0.38
Technology Line Security governance (SoCI)	0.08	0.13	0.18	0.20	0.20	0.20	0.20	0.20
Program Management and Material Risk	0.02	0.02	0.09	0.11	0.11	0.11	0.11	0.11
Enterprise Security Governance	0.01	0.01	0.03	0.03	0.05	0.05	0.05	0.05
Personnel Security	-	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Supply Chain Security	-	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Total	**$0.22**	**$0.42**	**0.67**	**0.78**	**0.80**	**0.80**	**0.80**	**0.80**

Potential Further Step Change for System Protection Scheme

An allowance for costs associated with a System Protection Scheme (SPS) may also need to be added, depending on the outcome of a review that is underway regarding the future operation of the SPS.

A Tasmanian SPS was developed during the construction of Basslink to protect the Tasmanian network from an outage across Basslink. Basslink often represents a significant portion of load or generation in Tasmania and thus a trip or fault across Basslink could cause significant damage and blackouts across Tasmania's grid. There are two components to the SPS that act to mitigate this risk:

- Network Control SPS (NCSPS)—which allows for loading of corridors within TasNetworks' transmission network beyond their secure ratings, and fast disconnection or run-back following a corridor credible contingency event.
- Frequency Control SPS (FCSPS)—which allows Basslink to provide more electricity to the Tasmanian grid than would ordinarily be permitted under the Tasmanian Frequency Operating Standards and provides for either generator tripping or load interruption in the event of a sudden interruption to Basslink transfers.

TasNetworks owns and operates the hardware and software required to manage the SPS system. The generator tripping and load tripping services are provided by various third parties. Under current arrangements Basslink Pty Ltd does not have clear visibility of the procurement arrangements and costs associated with those generator and load tripping services. The arrangements in relation to SPS are currently under review. We note that TasNetworks have made a proposal for expenditure associated with new Tasmanian Integrated System Protection Scheme in its 2024-2029 regulatory proposal. In the event Basslink is required to bear some or all of the SPS costs, these will need to be

added to its forecast operating expenditure for the first regulatory control period as an additional step change. These costs do not form part of the base year costs, for reasons explained above.

Basslink Pty Ltd will keep the AER and stakeholders updated on this issue.

8.5 Results

Basslink Pty Ltd's opex forecast for the 2025-30 period is presented in the table below. We consider this total forecast opex is required in order to achieve each of the operating expenditure objectives (subject to resolution of the SPS issue, discussed above).

Table 8.7 – Opex forecast ($m FY25)

Category	2025/26	2026/27	2027/28	2028/29	2029/30	Total	Average
Opex, excluding category specific forecasts	17.6	17.7	17.8	14.0	10.3	77.4	15.5
Insurance	11.0	11.6	11.9	12.3	12.5	59.3	11.9
Corporate Opex	2.9	2.9	2.9	2.9	3.0	14.6	2.9
SOCI Cyber	0.9	1.1	0.8	0.8	0.8	4.3	0.9
IT and OT	2.4	2.3	2.1	2.1	2.1	11.0	2.2
Total	**34.8**	**35.5**	**35.5**	**32.1**	**28.6**	**166.5**	**33.3**