APA

Australia's energy infrastructure partner

Regulated Asset Base

Update to Basslink Pty Ltd proposal

October 2024

Contents

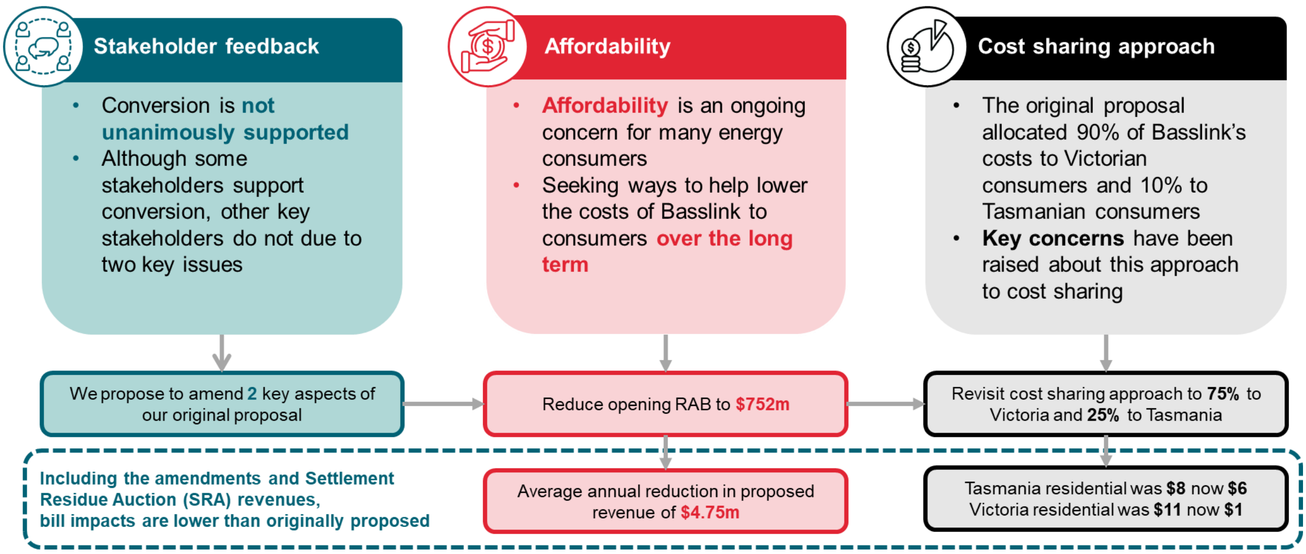
1. Overview

In September 2023, Basslink Pty Ltd applied to the Australian Energy Regulator (AER) to have Basslink regulated. The AER is currently assessing the application and the accompanying revenue proposal[1].

One of the most important elements behind the building blocks revenue model is the Regulatory Asset Base (RAB). The RAB consists of the adjusted total value of all regulated assets and is used in determining the allowance for depreciation and for a return on capital invested. The real value of the assets is adjusted in the RAB to meet core regulatory and economic principles.

The value of the RAB is required to be forecast to the commencement of the regulated revenue period (1 July 2025). Basslink Pty Ltd proposed the Depreciated Actual Cost method to calculate the initial RAB as this represents the best value option for consumers and meets the relevant regulatory tests.

Basslink Pty Ltd recognises affordability is an issue of significant interest to stakeholders. Given the RAB is a key driver of regulated revenue, and as a result of the stakeholder engagement process and feedback, Basslink Pty Ltd are proposing two key changes to the revenue proposal:



This document sets out our proposed amendments to asset lives that feed into the calculation of the opening RAB.

2. Rule requirements

Please refer to Attachment 5 to Basslink Pty Ltd original revenue proposal for further detail on the Rules requirements.

[1] https://www.aer.gov.au/industry/registers/determinations/basslink-determination-2025-30/proposal

3. Stakeholder Engagement

Since lodging the revenue proposal, Basslink Pty Ltd continued its engagement, which included discussing the appropriate method for allocating revenue between Victoria and Tasmania, with stakeholders including:

- Governments
- Basslink Regulatory Reference Group
- Representatives of Consumers; and
- The Australian Energy Regulator.

As a result of further engagement, as well as the submissions made by stakeholders to the AER's Basslink Issues paper, Basslink Pty Ltd proposes to address affordability concerns by updating asset lives.

This proposed amendment was discussed with the Basslink Regulatory Reference Group. Concerns were initially raised as to whether a reduced opening RAB would have implications for future repairs and maintenance. However, after it was explained that there was no impact on forward expenditure as the change was about bringing forward depreciation ahead of Basslink becoming regulated, the proposed reductions were broadly accepted as a welcome step to alleviate affordability concerns.

4. Revised RAB

Basslink Pty Ltd proposes two adjustments to the regulated asset lives initially proposed to the AER. The 'Converter transformer' asset class life has been reduced from 25 to 21 years and the 'Overhead lines' asset class from 55 to 40 years. These asset classes are updated in the table below, blank cells represent no change from the initial proposal.

These adjustments have resulted in a new opening RAB value of $752.8 million for Basslink. This is $78 million lower than the opening RAB value of $831 million proposed in the initial revenue proposal. The RAB reduction from the initial proposal is due to the additional depreciation of these two asset classes ahead of Basslink becoming regulated.

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

All else being equal, the revised asset lives will deliver an average annual reduction in revenue of around $4.75 million when compared to the initial revenue proposal.