



Directlink Joint Venture

Overview of
Revised Revenue Proposal
2025 to 2030

December 2024



Energy
Infrastructure
Investments

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Acknowledgement of Country

At Directlink, we acknowledge the Traditional Owners and Custodians of **Bundjalung** country on which our asset is operated and maintained.

We acknowledge their connections to land, sea and community.

We pay our respects to their Elders, past and present, and commit to ensuring Directlink operates in a fair and ethical manner that respects First Nations peoples' rights and interests.



About this document

On 31 January 2024, Directlink submitted its Revenue Proposal for the 1 July 2025 to 30 June 2030 (2025–30) regulatory period to the Australian Energy Regulator (AER).

The AER published its Draft Decision on 27 September 2024. This document has been prepared for customers and stakeholders to provide an overview of our Revised Revenue Proposal.

We welcome customers and other stakeholders' views on this Revised Revenue Proposal. Please share your views with us by emailing yoursay@apa.com.au

The AER will make its final determination in April 2025.



About Directlink

About Directlink

Directlink is an interconnector running between Mullumbimby and Terranora in NSW. Although Directlink is the smallest regulated asset in the National Electricity Market, it plays an important role in facilitating the transfer of energy between Queensland and New South Wales.



Interconnector

Operates like a two-way highway for electricity to be sent between QLD and NSW



180MW

Delivery of capacity to both NSW and QLD



63 km

of transmission lines consisting of 3 parallel high voltage direct current transmission lines



2

Converter stations at Bungalora and Mullumbimby



December 2000

Directlink was commissioned in 2000 using leading edge technology for the time. It is due to reach the end of its economic life in 2042



3 Owners

MM Midstream Investments Pty Ltd (49.9%)
Osaka Gas Energy Oceania Pty Ltd (30.2%)
APA Group Limited (19.9%)



~\$26M

Approximate proposed annual revenue



0.10%

of NSW customers' total electricity bills comprise of Directlink costs



Summary of the AER's Draft Decision

Summary of the AER's Draft Decision

Our 2025–30 Revenue Proposal plan on a page summarises how we proposed to deliver on the priority issues highlighted by stakeholders and the AER's Draft Decision on each delivery element.

	Proposal	Draft Decision
 <p>Improving safety and protection</p> <p>To help protect against the increasing risk of break-ins and loss and damage of key assets, we propose to improve security to deter break-ins and improve 24/7 site monitoring. To improve safety, support systems will be installed in high-risk landslip areas.</p>	\$5.0M	\$5.0M Directlink accepts the Draft Decision
 <p>Asset monitoring</p> <p>To ensure Directlink continues to operate reliably, general upkeep and maintenance of existing asset management systems is required. A feasibility study will also be undertaken to determine if a master controller should be installed to improve monitoring and reliability performance.</p>	\$1.4M	\$1.3M Directlink accepts the Draft Decision
 <p>Continuing major maintenance</p> <p>To ensure ongoing safety and compliance of Directlink, we propose to undertake key asset replacements and upgrades including circuit breaker replacement, fire system upgrades, cooling system maintenance, and replacement of major structural components.</p>	\$8.6M	\$6.5M Directlink accepts the Draft Decision
 <p>Refreshed spares strategy</p> <p>To help protect supply chain vulnerabilities and ensure the ongoing safe and reliable operation of Directlink, we are updating our spares strategy. Key electrical components have an increasingly long lead time post COVID and some components risk becoming obsolete with limited notice from the manufacturer.</p>	\$12.5M	\$0M Further evidence provided as part of the Revised Proposal
 <p>Complete Insulated – Gate Bipolar Transistors (IGBT) upgrade</p> <p>The IGBT upgrade commenced in 2022 and is due to be completed during 2025/26. The total investment is \$25.6M and will ensure this critical infrastructure is operational and there are sufficient spares available for the longer term. This upgrade reduces the risk of prolonged outages.</p>	\$6.0M	\$6.0M Directlink accepts the Draft Decision
 <p>Planning for end-of-life</p> <p>An allowance for end-of-life costs is proposed to cover costs associated with the removal of equipment and rehabilitation of land for decommissioning of Directlink in the longer term. This ensures current consumers, rather than future consumers, pay for the asset.</p>	\$4.7M	\$0M Directlink accepts the Draft Decision

Our engagement

Our Engagement

Our engagement process

Directlink has approached this stakeholder engagement with the understanding that, although Directlink is the smallest transmission network in the NEM, it plays an important role in supporting NSW and QLD customers.

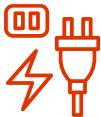
Our objectives for stakeholder engagement during the regulatory process are to deliver a revenue proposal that:



'Brings the outside in' by directly responding to the needs and preferences of our customers and other key stakeholders.



Provides sustainable returns for shareholders and investors.



Delivers a reliable supply of electricity between New South Wales and Queensland.



Supports the energy transition in New South Wales and Queensland.

Stakeholder interactions

We established a series of meetings where we invited many stakeholders to participate and share their views and preferences on Directlink and how it should operate in the future. Stakeholder input was instrumental in helping to improve our understanding of the needs and expectations of different consumer segments.

We asked our stakeholders to:

- Provide independent feedback and challenge Directlink on the degree to which its Revenue Proposal addresses the needs and preferences of customers.
- Co-design the engagement program, including scope, timing, themes and engagement activities.
- Input into the development of the Revenue Proposal and challenge key components including operating expenditure and capital expenditure.
- Assist in improving Directlink's understanding of the needs and expectations of different customer segments, including vulnerable groups.
- Provide feedback on key points of difference between the AER's draft decision and the proposed Revised Revenue Proposal.

Prior to the submission of our Revenue Proposal in January 2024, we conducted a co-creation workshop, four stakeholder meetings and seven individual stakeholder meetings. This included several meetings with representatives of AEMO to better understand the role Directlink plays in the NEM. Following the AER's release of its Draft Decision, we reconnected with our stakeholders to discuss the overall outcomes of the Draft Decision focussing on key issues for the Revised Revenue Proposal.

What we heard and how we responded

Directlink accepts most of the AER's Draft Decision. As a result, we focused our engagement on the key issues arising from the AER's Draft Decision and our proposed response and next steps.

Meeting focus	What we heard	How we responded
<p>Overview of the Draft Decision</p>	<ul style="list-style-type: none"> Stakeholders were interested to understand the criticality of Directlink in securing reliable power for customers in QLD and NSW, especially given new projects planned as part of the energy transition. 	<ul style="list-style-type: none"> Directlink is operated by the Australian Energy Market Operator (AEMO) and plays an important role in lowering costs for customers by helping to reduce wholesale market volatility by moving energy to where it is needed. It also assists in stabilising the electricity grid when renewable energy is intermittent. A detailed market benefits test will be undertaken for any required Regulatory Investment Test – Transmission (RIT-T).
<p>Trainee program</p>	<ul style="list-style-type: none"> Stakeholders were keen to understand why the AER did not accept the step change. Most stakeholders support the inclusion of this step change, especially when it was clarified that: <ul style="list-style-type: none"> The step change is for one person. As a trainee they will immediately help reduce the reliance on contractors. The savings in contractor costs will be greater in subsequent periods than would otherwise be the case. One stakeholder did not support the step change as they consider workforce planning part of usual business and the amount doesn't meet the materiality threshold, though they would welcome a negative step change in the future. Stakeholders were concerned that without appropriate wording in the employment contract, the person may leave once they get their qualifications. 	<ul style="list-style-type: none"> Directlink explained the AER did not see the step change meeting the requirements of the Better Resets Handbook. Directlink clarified that the previous use of the term 'apprentice' was misleading as the intention is to hire a qualified electrician as a trainee and teach them the relevant competencies to work on the asset. Directlink has bolstered its justification for this step change in the Revised Proposal with more information provided so the AER can better assess if the step change is prudent and efficient. Directlink will seek a trainee who already lives in the region and investigate the use of appropriate wording in the employment contract to increase the likelihood of staff retention. \$0.4 million is included in operating expenditure over the 2025–30 period.

Meeting focus	What we heard	How we responded
<p>Spares management</p>	<ul style="list-style-type: none"> ▪ Stakeholders wanted clarity as to the difference between the two types – obsolescence spares and long lead time spares. ▪ Stakeholders were interested to understand how operating equipment manufacturers share information about production cessation and why spares can't be sourced from elsewhere in the industry. ▪ One stakeholder was keen to highlight that: <ul style="list-style-type: none"> – Spares are not a one-off cost and are critical to assets with electronics. – Some operators buy all the associated spares at the beginning of an asset's life to avoid obsolescence risk. – Accelerated depreciation is appropriate where assets do become obsolete. – Directlink should be commended for its efficient approach of replacing the power electronics on just one of the three HVDC systems and using the released components as spares for the other two systems. ▪ Stakeholders wanted to know why the spend was not accepted by the AER. <ul style="list-style-type: none"> – One stakeholder was relieved when the situation was explained as they considered it likely the AER would accept the spend in their Final Determination. – Stakeholders appreciated the honest response to this query as “transparency builds trust with consumers”. ▪ Stakeholders were keen to understand how resilient Directlink is to severe weather events and whether there was a risk spares would be wasted by a large-scale event. ▪ Stakeholders were interested to know what would happen if the spares were miscalculated and ran out earlier than expected. 	<ul style="list-style-type: none"> ▪ Directlink explained that: <ul style="list-style-type: none"> – Obsolescence spares are items we will be unable to buy in the future. – Long lead time spares are to ensure sufficient inventory is on hand to cover expected failures over the lead time to this inventory. ▪ Directlink explained that not a lot of notice is necessarily given when production ceases, nor is there much opportunity to negotiate on the quantity of spares. In a past example, Directlink was given a matter of months' notice with existing stock to be split 50:50 with another network. ▪ As an early high-voltage direct current asset, Directlink's equipment is bespoke and quite different to the modular nature of modern equivalent networks. Much of the equipment has become obsolete and whilst some common equipment remains, the associated technology has changed so much that replacements are not necessarily simple. The use of similar items that require re-engineering is considered as an option and adopted where this provides a more beneficial outcome. ▪ Directlink acknowledged that the analysis took a lot longer than expected and we were unable to complete it in time for the AER to consider for the Draft Decision. The completed model will support our Revised Proposal and will be shared early with the AER. ▪ Directlink is more resilient to severe weather events than alternating current transmission networks and, whilst severe weather remains a risk, it is well-managed. ▪ Directlink explained that if spares run out earlier than planned, it would likely require Directlink to submit a RIT-T. If this shows negative market benefits, then a bigger conversation on the asset's future will be required. ▪ There is also potential for some of the spares to remain unused at the end of the asset's life. To balance the risks of over-buying and running out, the modelling used conservative failure rates. ▪ \$12.8 million is included for the program.

Meeting focus	What we heard	How we responded
<p>End-of-life costs</p>	<ul style="list-style-type: none"> Given Directlink will cease to operate at some point in the future, stakeholders understood the stranding risk differs to other networks who are facing declining customer numbers over time. Whilst it was generally agreed that benefiting consumers should pay for the costs, a mechanism that appropriately balances the interests and cost impositions of current and future customers should be considered and likely developed. Stakeholders agreed there was a need for a deeper discussion on the issues and options. It was suggested that early and wide discussions work best so that all stakeholders are brought along on the journey and the discussions are well established and understood before any Rule change is submitted. 	<ul style="list-style-type: none"> Directlink will take the suggestions on board and look to arrange a series of dedicated forums with a wide range of stakeholders. Directlink agrees sufficient deep engagement is required. No spend is included for these costs in the 2025–30 regulatory period.
<p>Other matters</p>	<ul style="list-style-type: none"> One stakeholder pointed out that the risks of asset stranding and stranded spares ahead of Directlink’s planned cessation date sits with customers. Some stakeholders are keen to see more information about the necessity for Directlink’s capacity in the market through to 2042. It was queried what would happen if the market benefit test required for the Spares Management program is negative. 	<ul style="list-style-type: none"> Directlink highlighted that the assets, including spares, are depreciated over the remaining economic life. The spares are to ensure, as best we can, that the asset lasts to 2042 at the lowest efficient cost. Directlink outlined that market benefit analyses are costly, but one is required for major expenditure as part of a RIT-T. This will provide an opportunity to determine the relative market benefits of the asset. Directlink indicated a broader stakeholder conversation would be needed to determine an end-of-life decision for the asset.

Stakeholder feedback on APA’s engagement

Overall, all stakeholders rated the following attributes of the session as either good or excellent:

- Quality of the engagement session.
- Clarity on the purpose of the session and how feedback would be used.
- Quality of facilitation
- Everyone having an opportunity to participate.
- APA being genuinely interested in stakeholder opinions.

Stakeholders appreciated the materials being distributed in advance and information clearly presented and explained.

Overall, the engagement process was considered convenient and the unique regulatory issues facing Directlink were seen as interesting. Suggested improvements including avoiding the use of acronyms, showing estimated bill impacts of options and providing clearer information on the criticality of Directlink to customers and the costs of potential early failure. Directlink will attempt to deliver on these aspects in its next regulatory proposal.

Our proposed revenue

Our proposed revenue

The Revenue that Directlink needs to maintain a reliable transmission link between Queensland and New South Wales for the 2025–30 period is set out below. Adjusting for the impact of inflation, the required revenue is above the maximum allowed revenue for the current period 2020–25.



\$46.6M



Return on capital

Directlink has used the AER's Rate of Return Instrument 2022 to calculate the Rate of Return. Based on the available data, the estimated nominal Weighted Average Cost of Capital (WACC) for the financial year 2025–26 is 6.01%.



\$32.5M



Regulatory depreciation

Regulatory depreciation (Return of capital) recovers the outstanding cost of previous investments that Directlink has made to ensure ongoing reliable operation.



\$34.2M



Operating expenditure

Directlink's operating activities are focused on delivering safety, security and reliability for the interconnector. We have adopted the AER's preferred method for forecasting operating expenditure the "Base, Step Trend" method.



\$1.5M



Revenue adjustments

Revenue adjustments account for penalties and rewards earned through incentive arrangements.



\$2.6M



Net tax allowance

Taxation is calculated based on forecast revenue, operating expenditure, tax depreciation and tax rates.

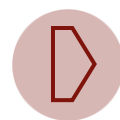


\$117.4M



Smoothed maximum allowed revenue (2025–30)

The smoothed revenue is a forecast of the revenue expected to be earned by Directlink for the period, and as the name suggests, its purpose is to smooth revenue year on year.



\$88.1M

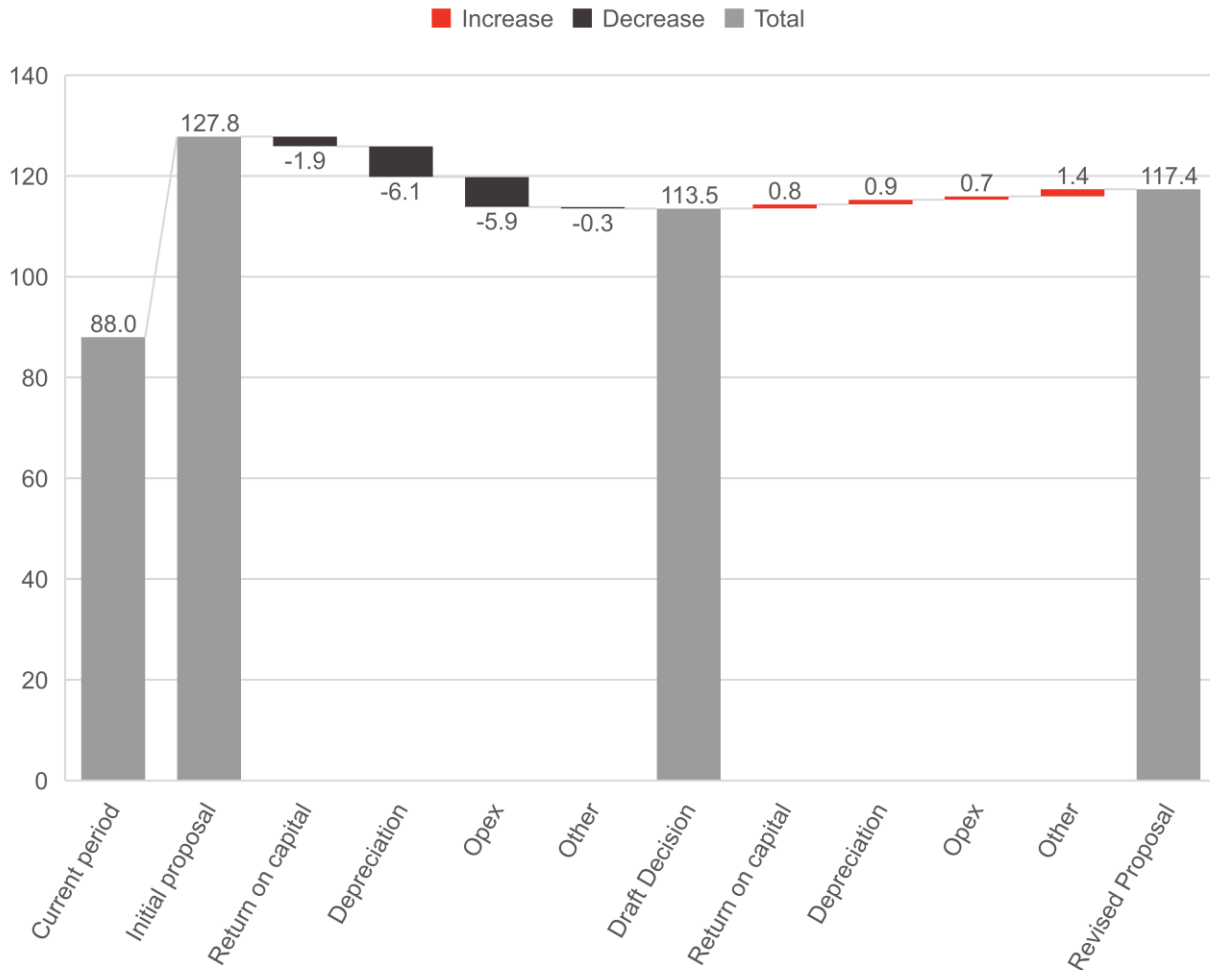


Maximum allowed revenue (2020–25)


The maximum allowed revenue proposed for the 2025–30 regulatory period is 33% above the maximum allowed revenue for the current 2025–25 regulatory period.

Compared to the Draft Decision, revenue for the 2025–30 period is proposed to increase by \$3.9 million.


Drivers of changes in revenue between 2020–25, the draft decision for 2025–30 and the revised proposal




Impacts of our Proposal




~\$25.6M
Average annual smoothed revenue proposed for the 2025 to 2030 period (before the impact of inflation)



7.92%
Annual average change in revenue (before the impact of inflation)



0.10%
of NSW customers' total electricity bills



\$0.96
Increase in the annual electricity bill for a typical residential customer by 2029–30 (assuming the AER's 2023–24 Default Market Offer for Ausgrid)

Risks and benefits of our Proposal

Risks and benefits of our revised proposal

How do customers benefit from our proposal?



Reliability	Security	Spares Strategy
<p>Our Revised Proposal contains a \$26.5 million investment program designed to maintain the reliability of Directlink in an economically responsible way. This will ensure Directlink continues to transfer electricity where and when it is needed and to provide voltage support for customers in:</p> <ul style="list-style-type: none"> Northern NSW, specifically Lismore and Armidale regions Queensland, especially during shoulder seasons 	<p>Our Revised Proposal will invest \$3 million in system security by safeguarding critical infrastructure against threats in line with obligations under the Security of Critical Infrastructure framework. We have done this in an efficient and proportionate way which will enhance ongoing security for customers.</p>	<p>Our approach to spares management required careful consideration given it is a critical issue and risk for the next regulatory period and beyond. As a result, work on the spares strategy continued through to the AER's Draft Determination</p> <p>Following a review of 288 asset components, 68 are deemed critical for the ongoing safe and reliable operation of Directlink. Our Revised Proposal will invest \$12.8 million.</p>

What are the risks for customers?



Emerging and future challenges	Affordability	Planning for end-of-life
<p>Several emerging and future challenges were highlighted during the stakeholder engagement program.</p> <p>Our proposal seeks to address these challenges. The pace of how quickly these challenges might impact Directlink may be slower or faster than anticipated. This means customers, may be exposed to a decline in reliability or pay more than is forecast for future Directlink services.</p>	<p>We know cost of living pressures are significant for many customers in QLD and NSW, and recognise the increases proposed for 2025 to 2030 are substantial in revenue terms.</p> <p>In recognition of these cost pressures, we have elected to defer or cancel a number of projects, for example:</p> <ul style="list-style-type: none"> Reactor cooling replacement Master controller Solar panels and batteries Proactive rectification of potential future landslip sites Re-use and reconditioning of items as part of the spares strategy. 	<p>Directlink will reach the end of its economic life and be fully depreciated in 2041–42. The AER did not approve \$4.7 million proposed to be set aside to cover the cost of restoration and rectification works at the end of the life of Directlink.</p> <p>Directlink accepts the AER's Draft Decision, however the issue for planning for end-of-life remains unresolved and further discussion with customers and stakeholders will be required to determine possible next steps.</p>

Glossary



Glossary

AC	Alternating current
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Capex	Capital Expenditure
CESS	Capital Expenditure Sharing Scheme
DC	Direct Current
EBSS	Efficiency Benefits Sharing Scheme
ISP	Integrated System Plan
MW	Megawatt
NEM	National Electricity Market
NSW	New South Wales
Opex	Operating Expenditure
QLD	Queensland
RIT-T	Regulatory Investment Test – Transmission
STPIS	Service Target Performance Incentive Scheme





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