



# Revenue Proposal Stage 1– Part B (Construction costs)

For submission to the Australian Energy Regulator

November 2024



## Responsibilities

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# Executive Summary

## Why Marinus Link?

Marinus Link is an underground and undersea electricity and data cable that will create additional transmission capacity between Tasmania and Victoria. The cable will run approximately 255km undersea from North West Tasmania to Waratah Bay in Victoria, and a further approximately 90km underground to the Latrobe Valley. Converter stations at each end will convert the electricity from high voltage direct current (**HVDC**) to high voltage alternating current (**HVAC**), for use in the Tasmanian and Victorian transmission networks.

The total interconnection capacity will be 1500 MW, to be delivered in two 750 MW stages. The first stage is expected to be commissioned in 2030, while the second stage is not expected to be required before 2034. The timing of the second stage will be kept under review, as explained in further detail shortly.

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 (**NWTD**) component of Project Marinus will be owned and operated by TasNetworks.

As coal-fired generation retires, Australia needs access to affordable, 'on-demand' electricity and the ability to store energy for long periods. Project Marinus has a key role to play in providing this capability at the lowest cost to electricity consumers by leveraging Tasmania's natural advantage in wind resources and energy storage. As such, Project Marinus is expected to reduce the total net costs of meeting customers' future energy needs across the National Electricity Market (**NEM**), so customers will be substantially better off with Project Marinus.<sup>1</sup>

The case for Project Marinus was initially confirmed by AEMO in its 2020 Integrated System Plan (**ISP**), published in July 2020, subject to meeting a number of pre-conditions or 'decision rules'.<sup>2</sup> AEMO reconfirmed the need for Marinus Link in its 2022 ISP, concluding that the optimal timing for the first stage is 2029-30 under

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<sup>1</sup> In April 2024, MLPL estimated that the net economic benefits from Marinus Link were approximately \$1.74 billion. [https://www.marinuslink.com.au/wp-content/uploads/2024/04/AER-letter\\_RIT-T-update\\_16-April-2024.pdf](https://www.marinuslink.com.au/wp-content/uploads/2024/04/AER-letter_RIT-T-update_16-April-2024.pdf)

<sup>2</sup> AEMO, [2020 Integrated System Plan \(ISP\)](#), July 2020 page 15.

the Step Change scenario.<sup>3</sup> AEMO's latest 2024 ISP continues to classify Project Marinus as an actionable ISP project, with the case strengthened by AEMO's decision to remove the previous pre-conditions. AEMO's analysis indicated that the optimal timing for the second stage varies depending on which of its three scenarios is assumed to eventuate.

At the time of preparing this Revenue Proposal, the first stage of Marinus Link is required as soon as practicable, while the second stage is expected to proceed but its timing is uncertain. As explained in further detail below, MLPL expects the optimal timing for the second stage to continue to be refined in future ISPs. MLPL will continue to work closely with AEMO so that our project plans remain consistent.

### **Regulatory Investment Test for Transmission**

The Regulatory Investment Test for Transmission (**RIT-T**) is a cost-benefit analysis, which is overseen by the Australian Energy Regulator (**AER**). The RIT-T assesses the economic and technical impact of, and preferred timing for, all major network investments in the NEM. The RIT-T process ensures regulated transmission investment decisions are in the long term interests of customers.

The National Electricity Rules (**Rules**) require the RIT-T to be applied prior to the commencement of project construction. The Rules also include provisions that require the RIT-T to be reapplied if there has been a material change in circumstances which, in the reasonable opinion of the RIT-T proponent, means that the preferred option identified in the RIT-T is no longer preferred.

Following the conclusion of the RIT-T for Project Marinus in June 2021, the electricity sector in Australia has continued to experience unprecedented change as we transition to a net zero economy. This transition includes the accelerated closure of coal plants and a growing need for renewable generation and energy storage projects. Internationally, the emergence of an inflationary environment and concerns regarding energy security have increased the costs of delivering major transmission projects.

Given the extent of these changes, MLPL and TasNetworks decided proactively to assess whether the RIT-T for Project Marinus should be reapplied. To assist with this task, Ernst & Young were engaged to undertake market modelling using the latest data, including AEMO's 2023 Inputs, Assumptions and Scenarios Report (**IASR**). Our RIT-T update report was published in April 2024.<sup>4</sup>

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<sup>3</sup> AEMO, [2022 \(ISP\)](#), June 2022, page 73. AEMO's references to Marinus Link are references to Project Marinus. AEMO removed the decision rules, which related to the Tasmanian Renewable Energy Target (TRET) and cost allocation, noting that these are no longer required because TRET was legislated in November 2020 and cost allocation risks are instead recognised as a key project risk.

<sup>4</sup> [https://www.marinuslink.com.au/wp-content/uploads/2024/04/AER-letter\\_RIT-T-update\\_16-April-2024.pdf](https://www.marinuslink.com.au/wp-content/uploads/2024/04/AER-letter_RIT-T-update_16-April-2024.pdf)

The report's conclusion is that Project Marinus should continue to proceed as planned, although the timing of the second stage remains uncertain, as noted in AEMO's 2024 ISP. In relation to the Rules requirements, the key finding from that report is that the preferred option remains unchanged and, therefore, the RIT-T should not be reapplied.

### **This Revenue Proposal**

This Revenue Proposal Stage 1 – Part B (Construction costs) (**Revenue Proposal**) is the second Revenue Proposal in relation to Marinus Link. In December 2023, the AER published its final decision in relation to Marinus Link's first Revenue Proposal, which related to 'early works'. In that decision, the AER approved MLPL's proposed expenditure in relation to targeted activities that enable MLPL to prepare the necessary groundwork for project construction, including preparing our best estimate of the project costs. The activities relating to 'early works' include:

- Landholder and community engagement programs, including Traditional Owners, 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.

Customers have benefitted significantly from the early works phase, as this phase has enabled us to improve our understanding of the project scope and risks. This Revenue Proposal is the next stage of the revenue-setting process, which builds on the insights gained through the early works process. The principal task in this Revenue Proposal is for MLPL to explain its forecast expenditure requirements to construct the first stage of Marinus Link and to undertake the necessary works in readiness for the second stage. The costs of delivering the second stage will be addressed through a contingent project application (**CPA**), which will be triggered when its optimal timing has been settled with AEMO in a future ISP.

The vast majority of the forecast expenditure presented in this Revenue Proposal has been or will be subject to competitive tender, which should provide confidence to all stakeholders that our forecast expenditure is prudent and efficient. The design of the competitive tender processes has been focused on producing the best outcome for customers in terms of price and service by:



- Establishing works packages that encourage participation in each tender process and maximise competitive tension between prospective service providers; and
- Providing extensive information to tenderers so that risks can be identified, allocated, mitigated and priced efficiently.

Competitive tenders have recently been completed and contracts executed for two major elements of the project, being the design and manufacture of the converter station equipment and the manufacture and installation of land and submarine cables. A third package of work – referred to as Balance of Works – will also be subject to competitive tender but will not be concluded until May 2025. MLPL will update its forecast expenditure to reflect the outcome of the tender processes in its revised Revenue Proposal, which is expected to be submitted in July 2025.

In preparing the expenditure forecasts in this Revenue Proposal, we have had regard to the Rules requirements; the AER's Better Resets Handbook<sup>5</sup>; and the AER's expenditure forecast assessment guidelines for electricity transmission.<sup>6</sup> In addition, MLPL's Board has conducted an extensive review of management's forecasts, including through the engagement of external advisors, to ensure that the bottom-up forecasting approach adopted by management has been combined with a 'top-down' discipline to produce forecasts that are prudent and efficient. MLPL has also engaged Aurecon to conduct an independent assessment of the forecast expenditure, which includes a consideration of benchmarking analysis, and will be published as part of this Revenue Proposal.

### **Consumer and stakeholder engagement**

The development of this Revenue Proposal has been supported by extensive engagement with electricity consumers and other stakeholders. The Consumer Advisory Panel (**CAP**) has been a key forum for consumer engagement on MLPL's Revenue Proposals. The CAP comprises members that represent different categories of energy consumers across a broad geographical base, with a particular focus on Victoria and Tasmania. 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 those elements where consumer feedback has the greatest impact;

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<sup>5</sup> AER, Better Resets Handbook Towards Consumer Centric Network Proposals, July 2024.

<sup>6</sup> AER, Expenditure Forecast Assessment Guideline for Electricity Transmission, October 2024.

- 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 representatives about the project and the revenue-setting process and understand their capacity to participate in a CAP. This culminated in a workshop with consumer representatives which formed the basis of Marinus Link's Consumer Engagement Plan.

We have continued to engage with the CAP throughout the early works phase of the project, in relation to project milestones; emerging issues and challenges; and matters relating to economic regulation and pricing. The CAP has also been involved in the procurement process through the appointment of an independent observer to provide advice to the CAP on MLPL's procurement process. We have continued to work closely with the CAP on a range of matters relevant to this Revenue Proposal, and we are grateful for the CAP's input, which is reflected in this submission.

In addition to our engagement with the CAP, we have engaged more broadly with consumers and stakeholders, including through the update to the RIT-T and consumer benefits modelling.<sup>7</sup> We have also worked closely with TasNetworks to ensure that issues relating to Project Marinus could be canvassed in a way that was most helpful to consumers and stakeholders. MLPL appreciates the feedback we have received throughout the project, which has been reflected in this Revenue Proposal.

MLPL looks forward to continuing to work with the CAP, our customers and stakeholders as Marinus Link progresses through the AER's revenue determination process.

### **Regulatory process and timelines**

In accordance with the AER's Commencement and Process Paper:

- MLPL's first regulatory period will apply from 1 July 2025 to 30 June 2030.
- The scope of this Revenue Proposal is limited to the works required to deliver the first project stage and the necessary works in readiness for the second stage.
- The AER's Draft Decision will be completed in two steps, with an initial Draft Decision only focusing on those cost components (cable systems and converter station equipment) where the competitive

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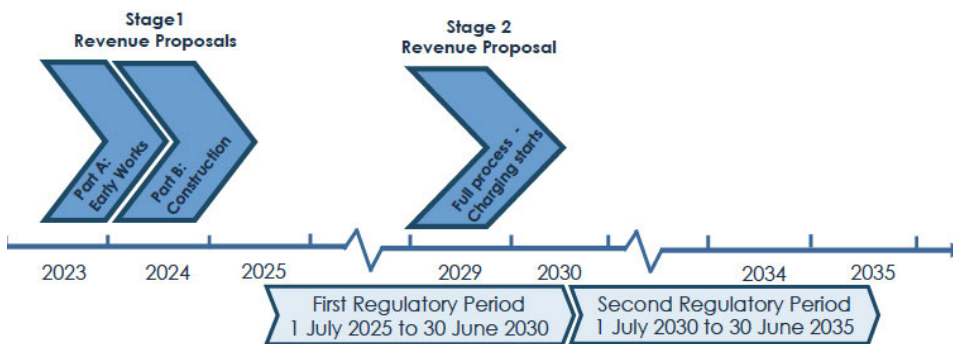
<sup>7</sup> <https://www.marinuslink.com.au/rit-t-process/>

tender processes have been completed. This will be followed by a supplementary Draft Decision which will consider the remaining costs once all tenders have been completed.

- As already noted, the second project stage will be treated as a Contingent Project, which may be triggered during MLPL’s first regulatory control period.

Figure 1 below shows the timelines for the Stage 1 and Stage 2 revenue determinations. The Stage 1 determination comprises Part A (Early works) and Part B (Construction costs). Figure 1 also shows the proposed duration of the first and second regulatory periods, the latter being indicative only as the AER is not required to determine the duration of the second regulatory period as part of the current process.

**Figure 1: MLPL’s regulatory period and revenue determination timelines**



The AER’s revenue setting process for MLPL differs from the standard regulatory approach, as MLPL is a new transmission company, referred to as an ‘Intending TNSP’, that is not currently subject to regulation under Chapter 6A of the Rules. In addition, this Revenue Proposal is much narrower in scope than a standard process for an existing TNSP because services from Marinius Link will not commence until the second regulatory period. For that reason:

- MLPL will not be recovering any revenue from customers and, therefore, transmission prices for Marinius Link will not be set for the first regulatory period;
- This Revenue Proposal does not include any operating expenditure or depreciation allowance, as the assets will not be commissioned during the first regulatory period; and
- The AER’s incentive schemes that ordinarily apply to encourage operating expenditure efficiencies and service performance improvements cannot be applied during the first regulatory period, as services will not commence until the second regulatory period.

## Forecast capital expenditure

In preparing our forecast expenditure for this Revenue Proposal, we have adopted the following expenditure categories:

- **HVDC cable system** – this expenditure comprises the competitively tendered costs for the manufacture and installation of the submarine cables, land cables and landfall horizontal direct drilling (HDD). The contract for the provision of this scope of work has been awarded to Prysmian Powerlink, and our forecasts reflect the contractual terms and conditions that were settled on 1 August 2024.
- **Converter station equipment** – this expenditure comprises the competitively tendered costs for the converter stations, including HVDC equipment and design. The contract for the provision of this scope of work has been awarded to Hitachi Energy, and our forecasts reflect the contractual terms and conditions that were settled on 1 May 2024.
- **Balance of Works** – this expenditure relates to:
  - detailed design, construction and installation of the balance of plant forming part of the converter stations, being the main converter interface transformers and the main converter valves, including supports; and
  - the land cable civil works (including trenching works, HDD works and joint bays) and access roads.

As already noted, the competitive tender process for the Balance of Works is expected to be concluded in May 2025. Therefore, the forecast expenditure for this category of expenditure will be updated in our revised Revenue Proposal, which is expected to be submitted in July 2025.

- **Support activities** – these support activities are essential to the timely and efficient delivery of Marinus Link. These support activities will be provided by a mix of external service providers and in-house resources, consistent with the approach adopted in relation to ‘early works’. The expenditure relates to land and easement acquisition, project delivery services, environmental impact monitoring, stakeholder engagement, community benefits program, biodiversity offsets, and corporate costs.

MLPL intends to undertake the support activities with the assistance of an integrated delivery partner. MLPL will update its support activity costs in the revised Revenue Proposal, which will reflect the latest available information, including any implications arising from the Balance of Works tender outcomes.

- **Risk allowance** – this expenditure allowance has been estimated in accordance with the AER’s guidance to account for the asymmetric risks that are beyond MLPL’s control and cannot be passed

onto our contractors or insurers.<sup>8</sup> Depending on the outcome of the Balance of Works tender, MLPL may need to update its estimated risk allowance if, for example, there is a change in the assumed allocation of risks between MLPL and the service provider. Any change will be highlighted and fully explained in our revised Revenue Proposal.

MLPL's forecast expenditure is supported by independent expert opinions and reviews, each of which has assisted MLPL in preparing forecasts that are prudent and efficient in accordance with the Rules requirements, as set out below:

- An independent expert report prepared by Lockton, which addresses MLPL's insurance costs (Attachment 5);
- An independent expert report prepared by Chatham Financial on the principles and strategy that should guide MLPL's approach to hedging foreign exchange and commodity market risk (Attachment 6);
- An independent report on the risk allowance prepared by external consultants, E3 advisory, in accordance with the AER's guidance note<sup>9</sup> (Attachment 7);
- An independent report from Oxford Economics on the forecast escalation rates for MLPL's labour and the price indices that have been included in the executed contracts for converter station equipment and HVDC cable systems (Attachment 8); and
- An independent expert report from Aurecon that assesses the reasonableness of our forecasting methodology and resulting forecasts (Attachment 9).

As already noted, MLPL's Board has also conducted an extensive review of management's forecasts, which applies a 'top-down' discipline to the bottom-up forecasts prepared by management.

Table 1 below shows the forecast capital expenditure to the end of this regulatory period, which covers the costs of constructing the first stage of Marinus Link and undertaking the necessary works in readiness for the second stage.

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<sup>8</sup> AER, Regulation of actionable ISP projects, Guidance Note, March 2021, section 2.6.

<sup>9</sup> AER, Regulation of actionable ISP projects, Guidance Note, March 2021, section 2.6.

Table 1: Proposed construction expenditure (\$m real 2023)<sup>10</sup>

Category	Pre-period <sup>11</sup>	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Converter Station Design and Equipment Supply	143.1	98.0	372.8	10.1	57.0	56.2	737.2
HVDC Cable System – Submarine and Land Cables	52.4	99.8	106.4	132.7	365.6	138.1	895.0
Balance of Works*							
Support activities*							
Risk Allowance*							
<b>Total expenditure</b>	<b>204.8</b>	<b>444.1</b>	<b>1,069.7</b>	<b>870.7</b>	<b>657.7</b>	<b>287.2</b>	<b>3,534.3</b>

\* This cost information is commercially sensitive and has been redacted for the purposes of this Revenue Proposal.

In this Revenue Proposal, the support activities for our construction activities are assumed to commence on 1 July 2025, i.e., shortly after Final Investment Decision (FID). This definition is consistent with the approach adopted in MLPL’s Revenue Proposal Stage 1 – Part A (Early works), in which FID delineated between ‘early works’ and ‘construction’ expenditure, i.e., expenditure pre- and post-FID, respectively. FID is now expected to occur in May 2025, shortly after the expected conclusion of the Balance of Works tender.

### Indicative revenues and prices, and concessional finance

Table 2 shows the return on capital for the 2025-30 regulatory period as MLPL’s ‘notional maximum allowed revenue’. This description reflects the fact that a TNSP would usually be able to recover the return on capital prior to project commissioning. For MLPL, however, this revenue will not be recoverable and will be rolled into the regulatory asset base (RAB) for recovery once the project is commissioned. MLPL also expects to obtain concessional finance, which means that a reduced amount of revenue will be recovered from customers. The concessional finance arrangements have not yet been finalised.

<sup>10</sup> The expenditure forecasts exclude final milestone payments and commissioning costs, which will occur during the financial year commencing 1 July 2030. The milestone payments and commissioning costs are estimated to be \$105 million.

<sup>11</sup> These costs include pre-construction expenditure incurred prior to 1 July 2025, which was explicitly excluded from ‘early works’ in MLPL’s Revenue Proposal Stage 1 – Part A (Early works).

**Table 2: Notional maximum allowed revenue 1 July 2025 to 30 June 2030 (\$ nominal)**

	2025-26	2026-27	2027-28	2028-29	2029-30
Notional maximum allowed revenue \$m - non-concessional	36.5	86.0	157.9	226.8	284.7

The process for implementing a concessional finance agreement and passing the benefits onto customers through lower transmission revenues is set out in the Rules<sup>12</sup>, following a rule change introduced by the AEMC in March 2024.<sup>13</sup> In broad terms, the implementation steps are as follows:

- a copy of the concessional finance agreement must be provided to the AER within 40 business days of the agreement being entered into;
- within 40 business days of the agreement being provided to the AER, the AER must make a concessional finance adjustment to MLPL’s maximum allowed revenue in accordance with the terms of that agreement (unless the adjustment is conditional on one or more events); and
- if the amount of the concessional benefit varies each year, MLPL is required to notify the AER of the calculation prior to the start of each regulatory year with sufficient time to allow the adjustment to be implemented.

In MLPL’s case, we are continuing to work through the details of the concessional arrangements with the Clean Energy Finance Corporation (CEFC) and a concessional finance agreement has not been entered into. For that reason, the regulatory process outlined above has not commenced and the amount of the concessional benefit presented in this Revenue Proposal is indicative only and may be subject to change.

As MLPL will not recover any revenue from customers during the first regulatory control period, the impact of the concessional benefit will not be apparent until 2030-31. Nevertheless, we recognise that consumers and stakeholders want to understand the indicative revenues and network charges in Tasmania and Victoria that would arise once Marinius Link is commissioned. Table 3 provides that information, noting that it is indicative only.

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<sup>12</sup> Clause 6A.3.3.

<sup>13</sup> AEMC, National Electricity Amendment (Sharing concessional finance benefits with consumers) Rule 2024 No. 7.

Table 3: Indicative revenues from 2030 onwards (\$m real 2023)<sup>14</sup>

Category	2030-31	2031-32	2032-33	2033-34	2034-35
<b>Non-concessional revenue</b>	287.9	291.8	295.9	300.0	304.1
<b>Concessional revenue</b>	175.7	168.2	169.5	177.4	184.3

With the assistance of TasNetworks and AEMO, who are responsible for transmission pricing in Tasmania and Victoria respectively, we have estimated the impact that MLPL’s concessional 2031-32 MAR<sup>15</sup> would have on transmission charges for residential and small business electricity customers in Tasmania and Victoria, compared to today’s transmission charges.<sup>16</sup> All data is expressed in June 2023 prices and excludes GST<sup>17</sup>:

- an increase of approximately \$47 in transmission charges for a typical residential customer in Tasmania; and
- an increase of approximately \$20 in transmission charges for a typical residential customer in Victoria.

In terms of total net market benefits, the latest estimates indicate that Marinius Link will deliver benefits of \$1.48 billion after allowing for the total project costs. These benefits arise because Marinius Link is expected to deliver savings in the wholesale energy component of the electricity supply chain, which will feed through to lower electricity bills. FTI Consulting estimates that the first cable is expected to reduce the wholesale energy portion of customers’ power bills by approximately \$93 per annum for Tasmanian residential customers and \$53 per annum for Victorian residential customers.<sup>18</sup>

While the costs of the North West Transmission Developments will be updated by TasNetworks in the coming months, MLPL considers that average net savings to typical residential customers in both Victoria and Tasmania will fall in the range \$25 – \$36 per customer per annum.<sup>19</sup> These estimates exclude the broader

<sup>14</sup> This revenue estimate includes an estimate of the consumer benefits from the concessional finance arrangements (which are not yet settled), which is expected to reduce MLPL’s revenue requirements.

<sup>15</sup> The 2031-32 MAR has been used because all construction expenditure is forecast to have been incurred prior to the start of this year and Marinius Link is expected to be operational.

<sup>16</sup> This analysis excludes the price impact of the North West Transmission Developments, which are being progressed by TasNetworks.

<sup>17</sup> For Tasmanian customers, the data have been obtained from TasNetworks. For Victorian customers, information from the 2024-25 Victorian Default Offer Report has been used for the annual bill and usage.

<sup>18</sup> For further information, please refer to the [FTI Consulting report](#).

<sup>19</sup> This estimate is the net benefit to customers after allowing for network costs, including an estimate for the NWTDs.



benefits from Marinus Link associated with economic and employment growth, including multiplier effects, as detailed in EY's study in October 2023.<sup>20</sup>

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<sup>20</sup> [EY, The economic contribution of Project Marinus, October 2023.](#)

# 1. Introduction and background

## 1.1 Purpose

MLPL is submitting this Revenue Proposal to the AER, in accordance with clause 6A.9.3(b) of the Rules and the AER's Commencement and Process Paper. This submission follows the AER's decision in relation to MLPL's early works expenditure, which was published in December 2023. In preparing this Revenue Proposal, we have had regard to the Rules requirements; the AER's Better Resets Handbook<sup>21</sup>; and the AER's expenditure forecast assessment guidelines for electricity transmission.<sup>22</sup>

As explained in this Revenue Proposal, Marinus Link is an infrastructure project of national significance which is expected to deliver substantial 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. In this context, this Revenue Proposal is a major step towards delivering this important project.

## 1.2 Revenue determination process

As a newly formed transmission company that intends to provide prescribed transmission services, MLPL is classified as an Intending TNSP. In December 2022, the 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 in the regulatory framework by setting out specific arrangements for how the AER should conduct a revenue determination for an Intending TNSP. The first step in the process is the submission of an Application by the Intending TNSP to the AER, which includes, amongst other things, a 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

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<sup>21</sup> AER, Better Resets Handbook Towards Consumer Centric Network Proposals, July 2024.

<sup>22</sup> AER, Expenditure Forecast Assessment Guideline for Electricity Transmission, October 2024.

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 from the AER 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 subsequently amended its Commencement and Process Paper<sup>23</sup>, which sets out the following revenue determination process:

- Stage 1 has two parts, Part A (Early works) and Part B (Construction costs). 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 RAB. The duration of the first regulatory period will be five years, from 1 July 2025 to 30 June 2030.

MLPL will not recover any revenue from electricity consumers during this regulatory period, as transmission services are not expected to commence before 1 July 2030, i.e., not until the second regulatory period. In addition, some ‘building block’ components, such as MLPL’s operating expenditure allowance, do not need to be determined during Stage 1.

- Stage 2 will be a standard revenue determination process which will establish the maximum allowed revenue (**MAR**) that MLPL is able to earn when services commence. The second regulatory period will commence on 1 July 2030 and, at this stage, is expected to apply for five years.

The revenue determination process for this Revenue Proposal is complicated because the tender processes for cable system and converter station equipment have been completed, but other tender processes are ongoing. The AER’s regulatory timetable addresses this issue by completing the Draft Decision in two stages, as shown in Table 4 below.

**Table 4: Key milestones for Part B (Construction costs)**

Milestone	Proposed timing – no later than
Marinus Link to submit Stage 1, Part B (Construction costs) Revenue Proposal	29 November 2024
AER issues paper and stakeholder consultation	7 March 2025

<sup>23</sup> AER, Marinus Link, Updated Commencement and Process Paper, November 2024. It should be noted that the AER previously updated the Commencement and Process Paper in March 2024.

Milestone	Proposed timing – no later than
AER draft decision (limited to cable system and converter station equipment)	16 May 2025
Marinus Link to submit revised Revenue Proposal	15 July 2025
AER’s supplementary draft decision (all expenditure items)	10 October 2025
AER final decision on Part B (Construction costs) Revenue Proposal	19 December 2025* or 6 February 2026

\* The timeframe may be extended if MLPL’s revised Revenue Proposal increases the previously assessed expenditure by 15% or if MLPL’s revised Revenue Proposal is submitted more than two weeks later (as a result of a delay in the Balance of Works tender).

As the revenue determination process described above will only cover the construction phase of the project, its scope is substantially narrower than the standard determination process. Specifically, the AER’s revenue determination for this Revenue Proposal will:

- provide an allowance for MLPL’s construction costs for the first cable and the necessary works to enable the second cable to be delivered prudently and efficiently;
- determine whether the early works and construction costs for the second cable should be treated as a contingent project;
- establish the arrangements, including the applicable cost of capital, for determining MLPL’s opening RAB at the commencement of the first regulatory period, being 1 July 2025, and rolling it forward to the end of the first regulatory period;
- determine which, if any, incentive schemes should apply to early works expenditure and construction costs; and
- determine the nominated pass-through events that should apply during the construction phase of the project.

### 1.3 What is Marinus Link?

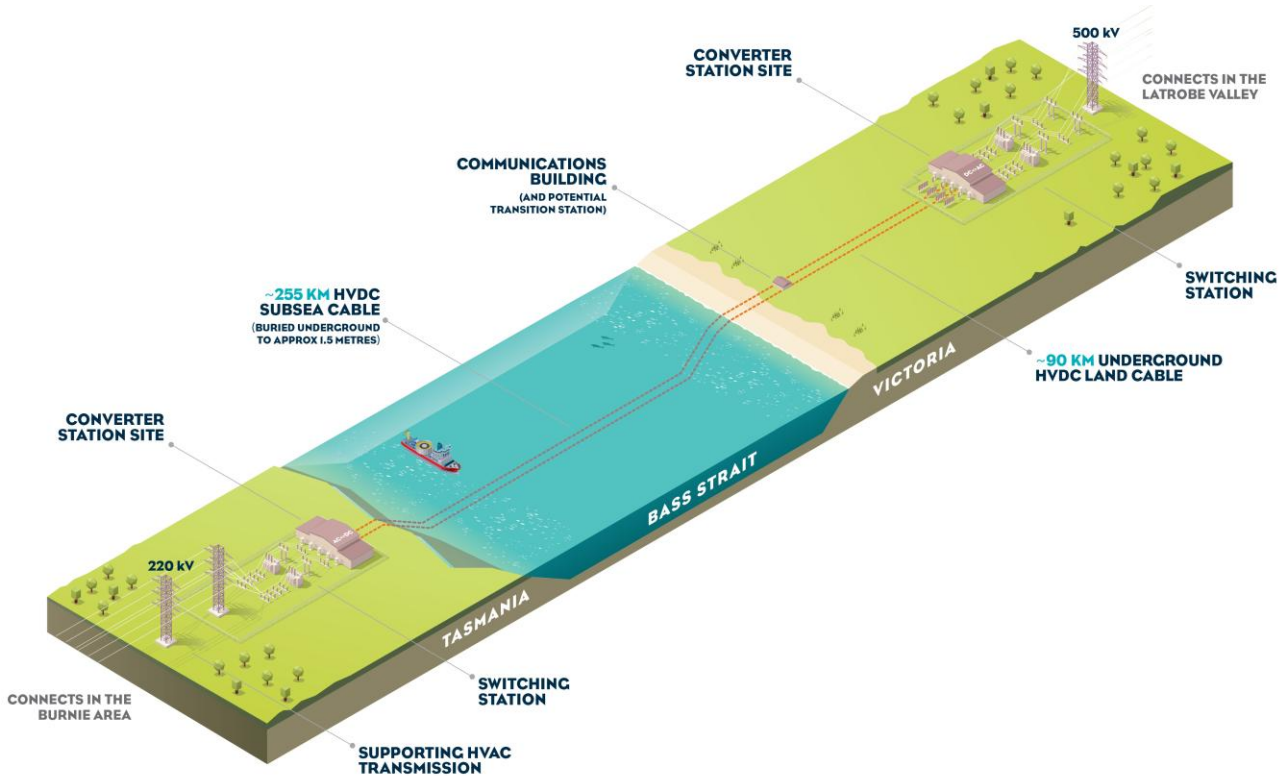
Marinus Link involves approximately 255 kilometres of undersea HVDC cable and approximately 90 kilometres of underground HVDC cable in Victoria, as shown in the map below.

Figure 2: Location of Marinus Link project key assets



Figure 3 provides a schematic overview of Marinus Link, which will provide total interconnection capacity of 1500 MW, through two 750 MW cables.

**Figure 3: Marinus Link overview**



As coal-fired generation retires, Australia needs access to affordable, ‘on-demand’ electricity and the ability to store energy for long periods. Marinus Link can help meet this need for NEM customers. In particular, Tasmania’s existing hydro capacity, along with wind resources and energy storage capability, is able to provide a reliable source of low-cost, on-demand, clean energy. Marinus Link will enable this capability to be shared across the NEM and thereby avoid the need for higher cost alternative solutions.

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 subject to new ownership arrangements from 23 March 2024 comprising the Federal Government (49%), the Victorian Government (33.3%) and the Tasmanian Government (17.7%). This new ownership arrangement replaced the prior arrangements whereby MLPL was a wholly owned subsidiary of Tasmanian Networks Pty Ltd (**TasNetworks**).
- The NWTG component of Project Marinus will be owned and operated by TasNetworks.

The current timeframes for progressing Marinus Link indicate that the first 750 MW stage will be operational in late 2030, and the second 750 MW stage is not expected to be required before 2034.

## 1.4 Actionable ISP Status

The status of Marinus Link as an actionable ISP project is important in understanding why it is prudent and efficient for Marinus Link to proceed. In this section, we provide a brief summary of AEMO's independent assessment of the economic case for Marinus Link during successive ISPs from 2020 onwards.

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 assessed that:<sup>24</sup>

“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.”<sup>25</sup>

AEMO reconfirmed Marinus Link as an actionable project in its 2022 ISP, removing the decision rules. AEMO's 2022 ISP, which was subject to extensive stakeholder consultation, assessed that the need for Marinus Link had strengthened since its 2020 ISP:<sup>26</sup>

“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  $\pm$ 30% (cable 1) and \$1.40 billion  $\pm$ 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.”

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<sup>24</sup> AEMO, 2020 Integrated System Plan, July 2020, page 82.

<sup>25</sup> 'Decision rules' are conditions that must be met in order for a multi-staged actionable ISP project to proceed to the next stage.

<sup>26</sup> 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.

In relation to actionable ISP projects more generally, AEMO's 2022 ISP explained that these projects are needed urgently, and pressed for earlier delivery if possible:<sup>27</sup>

"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 June 2024, AEMO published its 2024 ISP which again reconfirmed that the project remains actionable without decision rules. AEMO's direction that Marinus Link continues to be an actionable ISP project provides strong support for progressing this project.

## 1.5 Government support and concessional finance

Project Marinus has received significant government support since the feasibility phase of the project commenced in 2017. Information on grants and government support is contained in our Revenue Proposal Stage 1 - Part A (Early works) and reflected in the AER's determination for early works, which was published in December 2023. To summarise, MLPL's RAB has been reduced by the value of the funding received so that the costs to be recovered from customers through network charges are lower than would otherwise be the case.

MLPL is also expecting to receive concessional finance, which will further reduce the network revenues that are recovered from electricity consumers. The revenue and pricing information presented in this Revenue Proposal reflect a working assumption regarding the benefits of concessional finance. It should be noted, however, that this estimate may be subject to change when the concessional finance arrangements for Marinus Link are settled.

## 1.6 Confidentiality

MLPL is claiming confidentiality in relation to information that is commercially sensitive. Information has been redacted.

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<sup>27</sup> AEMO, 2022 Integrated System Plan June 2022, page 18.



## 1.7 Structure of this Revenue Proposal

The remainder of this Revenue Proposal is structured as follows:

- Chapter 2 describes our approach to stakeholder and community engagement, which has been ongoing since 2017 and will continue to be an important focus for MLPL.
- Chapter 3 sets out the scope of works required to deliver the first cable and in readiness for the second cable.
- Chapter 4 provides an overview of our procurement strategy, which is designed to maximise competitive tension between prospective service providers to achieve the best outcome for customers.
- Chapter 5 provides a forecast of our construction expenditure, which reflects the scope of work described in Chapter 3 and the outcomes to date from the procurement process described in Chapter 4.
- Chapter 6 presents our estimate of the allowed rate of return, applying the AER's 2022 Rate of Return Instrument (**RORI**).
- Chapter 7 sets out our proposed approach to establishing the opening RAB as at 1 July 2025 and rolling it forward during the regulatory period. It also provides our updated forecasts of early works costs, which will be reflected in the opening RAB.
- Chapter 8 sets out our proposed application of the AER's incentive schemes and explains why the Capital Expenditure Sharing Scheme (**CESS**) should be adjusted from its standard form, given MLPL's particular circumstances.
- Chapter 9 sets out our proposed approach to pass through events, which enables us to recover the prudent and efficient costs of specified events that are beyond our control.
- Chapter 10 sets out indicative annual revenues and prices in relation to Marinus Link, noting that actual revenue will not be recovered until the second regulatory period, commencing 1 July 2030.
- Chapter 11 sets out the contingent project provisions that apply to the construction of the second cable, together with the relevant trigger event provisions.
- Chapter 12 sets out our concluding comments and proposed next steps.

- The appendix shows which AER decisions under clause 6A.14.1 of the 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 includes the following supporting documents, which provide additional information in relation to each expenditure category to explain the basis of the forecasts, including why MLPL considers the forecast to be prudent and efficient:

- **Attachment 1 – Converter station design and equipment supply.** This scope of work covers the provision of the converter station equipment, which has been competitively procured. MLPL executed the contract with Hitachi Energy on 1 May 2024 following the completion of the tender process and subsequent final negotiations regarding the contract terms and conditions.
- **Attachment 2 – HVDC cable system – submarine and land cables.** This scope of work includes the design, supply and installation of the HVDC submarine and land cables, including the earthing system and fibre optical telecommunication cables required for the cable monitoring systems and communication between the converter stations. It also includes landfall HDD. MLPL executed the contract with Prysmian Powerlink on 1 August 2024, following the completion of the tender process and subsequent final negotiations regarding the contract terms and conditions.
- **Attachment 3 – Balance of Works.** This scope of work covers the detailed design, construction and installation of the balance of plant forming part of the converter stations, being the main converter interface transformers and the main converter valves, including supports; and the land cable civil works (including trenching works, HDD works and joint bays) and access roads. The competitive tender process for the Balance of Works scope of work is expected to be concluded in May 2025. Therefore, the forecast expenditure for this category of expenditure in this Revenue Proposal is an estimate supported by an independent expert, Tracey Brunstrom & Hammond (**TBH**), which MLPL will update in its revised Revenue Proposal, expected to be submitted in July 2025.
- **Attachment 4 – Support activities.** These costs relate to activities that are necessary to support the prudent and efficient construction of the project. The forecast expenditure includes a mix of MLPL's internal costs and external service providers to support the project, with the objective of optimising the resource commitments to achieve the best outcome for customers. Depending on the Balance of Works tender and negotiation process, MLPL's forecast expenditure for support activities may need to be updated in MLPL's revised Revenue Proposal if there is a change to the scope of work assumed in this Revenue Proposal.

- **Attachment 5 – Insurance costs.** This attachment is an independent expert report prepared by Lockton, which explains the suite of insurances that is required to support a project of Marinus Link’s scale and nature.
- **Attachment 6 – Hedging costs.** This attachment is an independent expert report prepared by Chatham Financial on the hedging principles and strategy that should guide MLPL’s approach to reducing the project’s exposure to the volatility and unpredictability of foreign exchange and commodity markets for the benefit of customers.
- **Attachment 7 – Risk allowance.** A report on the estimated risk allowance has been prepared by E3 Advisory, which has been prepared in accordance with the AER’s guidance note<sup>28</sup>.
- **Attachment 8 – Labour and contract escalation rates.** A report from Oxford Economics estimating the escalation rates for MLPL’s labour costs and the price indices that have been adopted in the executed contracts for converter station equipment and HVDC cable systems.
- **Attachment 9 – Aurecon report.** A report from Aurecon that assesses the reasonableness of our forecasting methodology and resulting forecasts. In conducting its review, Aurecon has had access to additional background materials and MLPL’s subject matter experts, in addition to applying their own expertise and benchmarks to assess the prudence and efficiency of our proposed expenditure.

The following additional attachments also form part of this Revenue Proposal:

- **Attachment 10 – Capital Expenditure Sharing Scheme.** This attachment sets out MLPL’s proposal for how this incentive scheme should be applied to MLPL’s capital expenditure.
- **Attachment 11 – Directors’ Certification.** This attachment provides the Directors’ certification that the assumptions that underpin the expenditure forecasts in this Revenue Proposal are reasonable.
- **Attachment 12 – Nominated averaging periods.** This attachment provides details of MLPL’s nominated averaging periods for the 2025-30 regulatory control period in accordance with the 2022 RORI.

In addition to the above attachments, MLPL will provide financial information to the AER in excel files.

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<sup>28</sup> AER, Regulation of actionable ISP projects, Guidance Note, March 2021, section 2.6.

## 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.
- MLPL established a Consumer Advisory Panel (**CAP**) to capture the views of consumers and other stakeholders throughout the project, and particularly during the procurement phase.
- For this Revenue Proposal, eight sessions have been conducted with the CAP covering a range of topics to ensure ongoing engagement with the CAP during the development of this Revenue Proposal.
- This Revenue Proposal reflects the feedback received from the CAP and MLPL's broader engagement so far. The key themes from this feedback are explained in this chapter and reflected in the remainder of this Revenue Proposal.

### 2.1 Ongoing engagement from project commencement

Marinus Link will contribute to a significant transformation of the power system, and together with the transition to renewable energy, is a complete revolution of Australia's energy system. It connects Tasmania's hydro storage capacity and superior wind resources with the rest of Australia to sell Tasmania's excess energy when it is not needed in Tasmania. Tasmania will also benefit from enhanced access to the rest of the Australian market. 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 social license 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 (**ARENA**).

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 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 RIT-T process in 2018. 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;
- Project Assessment Conclusions Report, July 2021; and
- RIT-T update report, March 2024.<sup>29</sup>

MLPL engaged extensively with customers and other stakeholders at each stage of the RIT-T process. Each report listed above provided a summary of the stakeholder feedback that had been received during the preceding stage 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 project in each ISP, including AEMO’s 2024 ISP, as already noted in section 1.4.

The principal question to be addressed for this Revenue Proposal is whether the forecast expenditure for constructing the first cable and undertaking the necessary works in readiness for the second cable is prudent and efficient. While this is principally a technical question for the AER and its consultants to address, we have

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<sup>29</sup> The purpose of this report was to form an opinion as to whether the preferred option remains unchanged or not, given the new information that has become available since the publication of the PACR in June 2021. The RIT-T update confirms that the preferred option remains unchanged.

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

We recognise 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 our social license.

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 timely 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 comprises a number of phases, which are aligned with the project stages and key milestones. 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 landholders 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 5 below provides an overview of the extensive engagement that has taken place from the early phases of the project to the current phase, being Phase 3.

Table 5: Overview of engagement and key activities

Phase	Description	Key activities
<p><b>Phase 1</b> Mid-2018 to late 2019</p>	<p>The first formal phase of engagement took place over 18 months from July 2018 to December 2019.</p> <p>The objectives of this phase of engagement were to raise awareness about the project and support the Feasibility Study, Business Case Assessment and RIT-T processes.</p>	<ul style="list-style-type: none"> <li>• Meetings</li> <li>• Workshops</li> <li>• Information sessions</li> <li>• Regular print and digital communications</li> </ul>
<p><b>Phase 2</b> Early 2020 to early 2022</p>	<p>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.</p> <p>In November 2020, MLPL began engaging with Gippsland landowners in Victoria to introduce Marinus Link and consult in relation to the proposed route.</p> <p>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.</p> <p>From September 2021, the engagement focus shifted to raising awareness about the upcoming Commonwealth and Victorian environmental planning and assessment referrals.</p> <p>Engagement activities were undertaken virtually, until easing of restrictions allowed a return to face-to-face engagement in late 2021.</p>	<ul style="list-style-type: none"> <li>• Key stakeholder briefings</li> <li>• Pop-up community information stands and drop-in sessions</li> <li>• Stall at Farm World Exhibition</li> <li>• Launch of an interactive map where community members could provide feedback</li> <li>• Face-to-face meetings with landowners</li> <li>• Regular print and digital communications</li> <li>• Online meetings with Gippsland organisations</li> <li>• Presentations to community, environmental and industry groups</li> <li>• Community webinars</li> <li>• Establishment of the Gippsland Stakeholder Liaison Group</li> </ul>

Phase	Description	Key activities
<p><b>Phase 3</b></p> <p>February 2022 – to date</p>	<p>MLPL engaged broadly across both Tasmania and Victoria to support the design and approvals phase.</p> <p>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.</p> <p>An Aboriginal Advisory Group was established to facilitate ongoing conversations with and between Traditional Owners. This has provided valuable opportunities for cultural exchange, understanding and capacity building.</p> <p>The key focus of this phase of engagement has included:</p> <ul style="list-style-type: none"> <li>• Project status, timeline, government funding and impact</li> <li>• Addressing landowner concerns including compensation</li> <li>• Land use and route alignment options</li> <li>• Jobs and skill creation and opportunity</li> <li>• First Peoples careers, support and pathways</li> <li>• Cultural heritage impacts</li> <li>• Environmental impacts including environmental surveys, native wildlife and habitat</li> <li>• Location and noise impact from converter stations</li> <li>• Technical details on the cables</li> <li>• Impact on renewable energy</li> </ul>	<ul style="list-style-type: none"> <li>• Establishment of an Aboriginal Advisory Group</li> <li>• Establishment of a Consumer Advisory Panel</li> <li>• Establishment of First Peoples Advisory Group</li> <li>• Targeted engagement with Traditional Owners and groups</li> <li>• Ongoing engagement with local, state and federal governments</li> <li>• Ongoing key stakeholder briefings</li> <li>• Ongoing meetings with landowners</li> <li>• Regular Gippsland Stakeholder Liaison Group meetings</li> <li>• Presentations to key stakeholder groups</li> <li>• Attending meetings of established community organisations</li> <li>• Participation in local community events and markets</li> <li>• Participation in career and job expos</li> <li>• Pop-up community information stands and drop-in sessions</li> <li>• Council briefings</li> <li>• Community webinars</li> <li>• Regular print and digital communications</li> </ul>

Three broad key themes have been identified through this engagement process, which are briefly summarised below.

- **Economic development**

Stakeholder engagement indicated that the community expected capacity development within the region to ensure the project workforce can be sourced locally. There was a broad consensus that a community benefit sharing scheme, which provides support to local initiatives, groups or sporting clubs, would help those communities most impacted by the project.



- **Landholder impacts**

Private property owners 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.

- **Environmental impacts**

The broader community indicated interest in understanding impacts to vegetation, animal habitat and the marine environment from both the construction and operation of Marinus Link.

During the 'early works' phase of the project, we have continued to work with the affected communities to address these concerns. As noted in Table 5, our current engagement phase commenced in 2022. It involves extensive engagement with landholders, stakeholders and communities across the project's geographic footprint to respond to these issues and to outline how they have been addressed. Community and stakeholder engagement will be ongoing throughout the project, including through the construction and delivery phases of the project.

## 2.3 Consumer Advisory Panel

### 2.3.1 Approach

The CAP provides a key forum for engaging electricity consumers in the development of our Revenue Proposals. 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 our 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 us to ensure that consumers' views and preferences are reflected in our 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 Marinus Link's Consumer Engagement Plan.

The CAP was formally convened in April 2022 through an expression of interest process. CAP members participated in an initial Roundtable Series which provided them with the information needed to meaningfully participate in the process. The Roundtable Series covered:

- The Marinus Link business case;
- Marinus Link’s role in the future electricity market;
- How the project will be constructed;
- The question of who pays for Marinus Link; and
- Landholder 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. Our engagement approach focused on examining specific issues in depth; understanding the challenges and opportunities arising from the project; sharing views and opinions; and striving to reach a shared conclusion. These workshops are summarised in Table 6 below.

**Table 6: CAP deliberative workshops – relevant to both early works and construction costs**

Topic	Engagement scope	IAP2 level	Date
<b>Workshop #1 (in person)</b> <ul style="list-style-type: none"> <li>• CAP foundations</li> <li>• Cost allocation</li> <li>• Procurement strategy</li> <li>• Risk allocation</li> </ul>	Marinus Link cost allocation	Consult	30 July 2022
	Tendering and procurement process	Involve	
	Hedging approach and risk allocation	Consult	
<b>Workshop #2 (online)</b> <ul style="list-style-type: none"> <li>• Procurement strategy</li> <li>• Tender evaluation</li> </ul>	Tendering and procurement process	Involve	17 August 2022

Topic	Engagement scope	IAP2 level	Date
<b>Workshop #3 (online, combined workshop with Gippsland Stakeholder Liaison Group)</b> <ul style="list-style-type: none"> <li>Sustainability framework priorities</li> </ul>	Sustainability approach	Involve	14 September 2022
<b>Workshop #4 (in person)</b> <ul style="list-style-type: none"> <li>Role of an independent procurement evaluator</li> <li>Sustainability framework commitments and willingness to pay</li> <li>CAP in 2023</li> </ul>	Tendering and procurement process	Collaborate	5 December 2022
	Sustainability approach	Involve	
	CAP in 2023	Collaborate	
<b>Workshop #5 (online)</b> <ul style="list-style-type: none"> <li>Proposed environmental impacts and mitigations</li> </ul>	Environmental impacts and proposed mitigations	Consult	30 March 2023
<b>Workshop #6 (in person)</b> <ul style="list-style-type: none"> <li>Revenue Proposal Part A</li> </ul>	Early Works	Consult	18 May 2023
	Input assumptions, escalations	Consult	
<b>Workshop #7 (online)</b> <ul style="list-style-type: none"> <li>Lessons learned</li> </ul>	Engagement approach	Collaborate	August 2023

MLPL has also undertaken 9 sessions with the CAP to inform the development of the Revenue Proposal, as shown in the table below.

Table 7: Topics, scope and timetable for consultation on the Revenue Proposal - Part B (Construction costs)

Topic	Engagement scope	IAP2 level	Date (w/c)
<b>Session #1</b> <ul style="list-style-type: none"> <li>Procurement strategy and tender evaluation</li> </ul>	Tender evaluation update from independent representative	Involve	23 Oct 2023
<b>Session #2</b> <ul style="list-style-type: none"> <li>Social license</li> </ul>	Community benefit sharing program costs	Consult	30 Oct 2023
<b>Session #3</b> <ul style="list-style-type: none"> <li>Price impact</li> </ul>	Updated costs, benefits and price impacts	Inform	13 Nov 2023
<b>Session #4</b> <ul style="list-style-type: none"> <li>Incentive schemes</li> </ul>	Application of the incentive schemes to construction costs and RIT-T update	Consult	27 Nov 2023
<b>Session #5</b> <ul style="list-style-type: none"> <li>CAP's independent review and broader consultation</li> </ul>	Discuss CAP's review and advice on broader consultation.	Collaborate	11 Dec 2023
<b>Session #6</b> <ul style="list-style-type: none"> <li>Timeframes update (online)</li> </ul>	Update on Revenue Proposal timeframes	Inform	22 Jan 2024
<b>Session #7 – Infrastructure Sustainability Council (ISC) rating</b>	Overview of the sustainability framework objectives, priorities and focus areas as well as the ISC rating scheme proposed structure and costs	Consult	5 Feb 2024
<b>Session #8</b> <ul style="list-style-type: none"> <li>RIT-T update</li> </ul>	Feedback session	Consult	12 Feb 2024

Topic	Engagement scope	IAP2 level	Date (w/c)
<b>Session #9 (hybrid - Melbourne)</b> <ul style="list-style-type: none"> <li>Draft Revenue Proposal</li> </ul>	Review of draft Revenue Proposal	Consult	22 April 2024

### 2.3.2 Feedback themes received

The purpose of this section is to describe the themes that have emerged during our engagement so far and explain how they have influenced our approach to the project and the preparation of this Revenue Proposal. This commentary is not intended to express any views on the effectiveness of our engagement with the CAP, noting that the CAP will prepare its own report on our engagement approach that will be submitted to the AER shortly after the submission of our Revenue Proposal.

#### Stakeholder engagement

CAP members have continuously stressed the importance of 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 representative of the broader customer base. The CAP recognises that there are costs associated with securing community support for this project, as well as reputational risk of not undertaking it successfully.

Early workshops with the CAP explored matters such as Traditional Owner engagement, landholder engagement and community benefit sharing. The CAP considered consumers’ willingness to pay for community benefit sharing and other initiatives.

#### Procurement strategy and local content

The approach to procurement has been a key focus area for the CAP. Our procurement strategy changed during the project and the CAP has been supportive of the changes made, which have been driven by market conditions and feedback from prospective service providers.

The CAP has been eager to understand how international suppliers will work with Australian partners to employ and support local suppliers. The CAP strongly supports Australian industry participation in the delivery of Marinus Link. CAP members, however, are concerned about potential negative impacts arising from the project, particularly in relation to local housing shortages and markets in which local businesses operate. The CAP considers that these negative impacts should be carefully managed and avoided. The CAP suggested that these matters could be considered as part of the Australian industry participation criteria and in awarding project contracts.

Through two workshops, CAP members had the opportunity to work with MLPL to shape the CAP's involvement in the procurement process. Marinus Link appointed an independent CAP observer who participated in procurement processes and reported back to the CAP.

### **Cost allocation**

Though outside the scope of this Revenue Proposal, a recurring theme for the CAP has been the need for fair cost allocation for the project. MLPL has worked closely with the CAP on this issue throughout the project.

On 8 December 2023, a Rule change request to address the cost allocation issue was lodged by The Honourable Chris Bowen MP, Minister for Climate Change and Energy, The Honourable Lily D'Ambrosio MP, Minister for Energy and Resources and The Honourable Nick Duigan MLC, Minister for Energy and Renewables. The Rule change request explained there is no precedent, rule, or framework for determining the allocation of costs for the portion of the assets located in Commonwealth waters, such as Marinus Link's undersea cables.

On 17 June 2024, the Australian Energy Market Commission (**AEMC**) published a draft determination and more preferable draft rule that would allow jurisdictions to agree on the cost allocation for new regulated interconnectors and provide a pathway for an interconnector cost allocation agreement to be implemented. MLPL will continue to monitor the progress of the Rule change request through the AEMC's consultation process.

As MLPL will not recover any revenue from electricity consumers until the second regulatory period, this Revenue Proposal is not dependent on the resolution of this cost allocation issue. Nevertheless, this Revenue Proposal provides indicative information on the price impact of Marinus Link for electricity consumers in Tasmania and Victoria.

### **Infrastructure Sustainability Rating Scheme**

During session #7, MLPL explained to the CAP that it proposed to undertake the Infrastructure Sustainability Rating Scheme for the design and construction components of the project. It was noted that there are considerable steps that MLPL can take during the design phase to minimise emissions and other impacts during operation. In response to information presented, the CAP recommended that MLPL adopts the Silver rating with an option to upgrade to the Gold rating in the future.

In light of the CAP's feedback, MLPL intends to target a Silver rating for design and construction, in accordance with the Infrastructure Sustainability Rating Scheme.

## Incentive mechanisms

In a workshop with the CAP on 23 April 2024, MLPL explained the purpose and design of the Capital Expenditure Sharing Scheme (**CESS**), which is an incentive scheme that applies to capital expenditure. MLPL sought the CAP's views on how the CESS should apply to MLPL, having regard to the following broad range of options:

- A. Default scheme: 30% bonus/penalty rate/
- B. Pre-CESS sharing arrangement: Approximately a 9% bonus/penalty rate.<sup>30</sup>
- C. No bonus or penalty: Set the CESS bonus rate to zero.
- D. Modified CESS: Bonus/penalty between 0% and 30%.

The CAP did not express a unanimous position on whether the CESS should be modified or, if so, the preferred option. One member indicated that the default scheme should apply, as it provided a level of insurance for consumers in relation to cost overruns. One member indicated that it should not apply as there are sufficient safeguards in place to protect consumers, and the application of the CESS would not affect MLPL's efficiency performance. Other members were undecided, with some members indicating that it was not possible to reach a firm view one way or another, and other members accepting that a change should be made but uncertain regarding the extent.

MLPL has had regard to the CAP's views in proposing our preferred approach to applying the CESS, which is explained in Chapter 8 and Attachment 10 of the Revenue Proposal.

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<sup>30</sup> The magnitude of the incentive rate depends on the timing of the overspend or underspend. The average rate is approximately 9%, but the rate would be lower if the overspend occurs at the end of the period, which is likely if there is a project delay. In our discussions with the CAP, MLPL indicated that it could be as low as 6%.

### 3. Scope of work: Stage 1 construction and readiness for Stage 2

**Key Points:**

- This Revenue Proposal is focused on the costs of constructing the first stage and undertaking the necessary works in readiness for the second stage. The purpose of this chapter is to provide a high-level summary of the required project scope, focusing on the:
  - Cable system; and
  - Converters systems.
- The procurement strategy for the competitively tendered work packages is discussed in Chapter 4 and the expenditure forecasts are presented in Chapter 5.
- Attachments 1 - 9 of this Revenue Proposal provide further detailed information on the scope of work, our expenditure forecasts and independent expert reports to demonstrate the prudence and efficiency of our proposed expenditure.

#### 3.1 Overview of the project scope

As noted in section 1.3, the Marinus Link project is a 1500 MW (2 x 750 MW) capacity undersea and underground HVDC electricity connection between Tasmania and Victoria. The project will be delivered in two 750 MW stages (Stage 1 and Stage 2) and will consist of:

- Approximately 255 km of 320 kV submarine HVDC cable across Bass Strait and approximately 90 km of 320 kV underground HVDC cable in Victoria.
- Two 320 kV converter stations proposed to be located at Heybridge in North-West Tasmania and Hazelwood in the Gippsland region of eastern Victoria.

These assets will be delivered by competitively sourced service providers. Our procurement strategy is discussed in Chapter 4 and the resulting capital expenditure in Chapter 5.

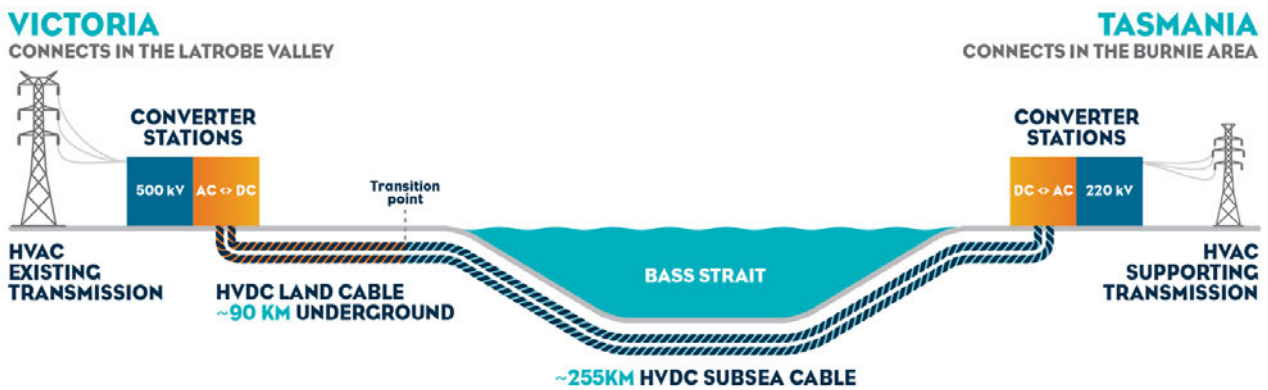
A switching station will also be required in Tasmania, which will be constructed, owned and operated by TasNetworks. The switching station costs are outside the scope of this Revenue Proposal and these costs are not included in this Revenue Proposal.



In addition to the construction activities described above, support activities are also required which are not directly related to the construction of the assets. These support activities are essential to the successful completion of the project including, for example, consumer engagement and social license activities; project and program management; and corporate services. The support activities are provided by a mix of external service providers and in-house resources.

Figure 4 below provides an overview of the project.

**Figure 4: How Marinus Link connects the Tasmanian and Victorian transmission networks**



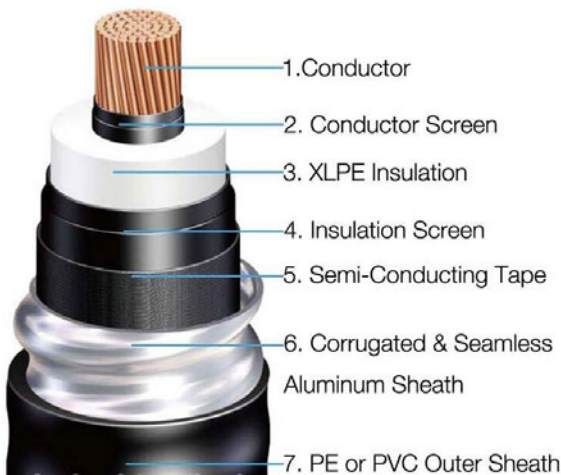
Together, the project scope for Marinus Link consists of:

- Two point-to-point symmetrical monopoles that adopt Voltage Source Converter (**VSC**) Modular Multilevel Converter (**MMC**) technology between Tasmania and Victoria. Each interconnector is operated at 750 MW continuous capacity and a nominal voltage of  $\pm 320$  kV.
- Each point-to-point symmetrical monopole will consist of:
  - A grid connection to TasNetworks' existing 220 kV AC grid via a new 220 kV AC GIS substation and new 220 kV lines to be installed by others.
  - A converter station located in Heybridge, Tasmania.
  - An HVDC submarine cable system using cross linked polyethylene (XLPE) cable technology of approximately 255 km across Bass Strait between end terminations in the Heybridge converter station in Tasmania and a transition joint in Waratah Bay, Victoria, located approximately 200 m inland from the sand dunes.
  - An HVDC land cable system using XLPE cable technology of approximately 90 km through Gippsland in Victoria between end terminations in the Hazelwood converter station and the transition joint located at Waratah Bay.

- A fibre optical telecommunication submarine cable system along the route of the HVDC submarine cable system.
- A fibre optical telecommunication land cable system along the route of the HVDC land cable system.
- A converter station located in Hazelwood, Victoria.
- A grid connection to AusNet's existing 500 kV Hazelwood terminal station.

The structure of HVDC subsea cables includes a central conductor surrounded by an insulation, armouring and external sheath. Additional elements such as semi-conducting tape and insulation screens are used to interface between the various layers, as shown in Figure 5.

**Figure 5: Components of an HVDC cable**



The Eastern symmetrical monopole is defined as Marinus Link Stage 1. The Western symmetrical monopole will be commissioned during Stage 2. The approximate spacing distance between the HVDC submarine cable system and HVDC land cable system for Stage 1 and Stage 2 are expected to be as follows:

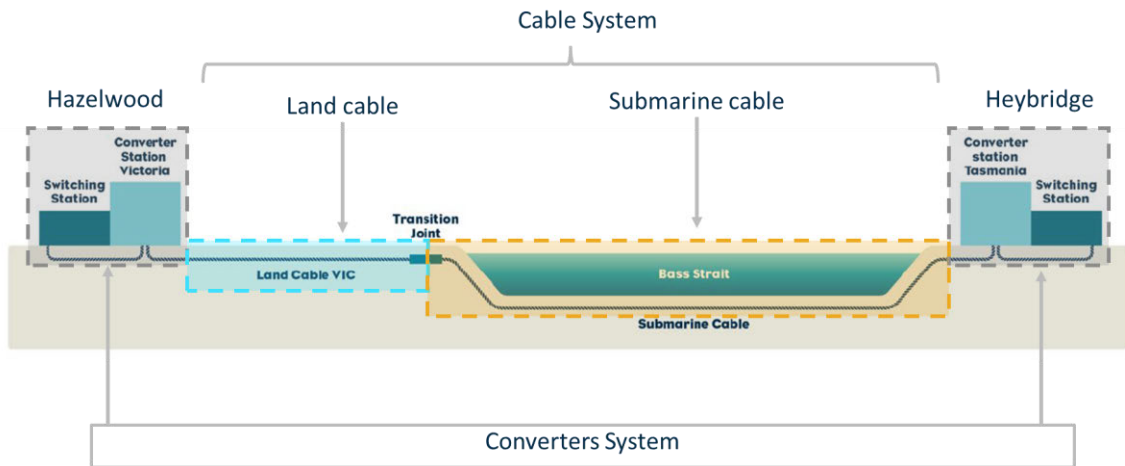
- HVDC Submarine Cable System – approximately 2 km apart.
- HVDC Land Cable System – approximately 5 m apart.

The converter stations will include electrical design, building and civil works design and installation.

## 3.2 Stage 1 scope of works – HVDC cable systems

Stage 1 construction works consist of the cable system and the converters system, as shown in Figure 6 below.

**Figure 6: Stage 1 cable system and converters system**



The cable system consists of the submarine cable and the Victorian land cable. It also includes Landfall HDD, which is a construction method that uses a horizontal drill to create a bore hole for the cable under the ground, instead of a trench.

In relation to the Stage 1 cable system construction works, Stages 1 and 2 are fully independent installations with the following exceptions:

- Spare parts storage facilities are to be common across both symmetrical monopoles.
- The Stage 1 fibre optical telecommunication submarine and land cable system will be used by Stage 2 as a redundant communication pathway between the converter stations at both ends.
- The Stage 2 fibre optical telecommunication submarine and land cable system will be used by Stage 1 as a redundant communication pathway between the converter stations at both ends.

Key assumptions and requirements underpinning the definition of Stage 1 cable system works are as follows:

- Construction activities, maintenance, switching operations or any other activities undertaken during construction, operation, or decommissioning performed on either Stage 1 or Stage 2 must not require an outage of the other stage or result in an unplanned outage.

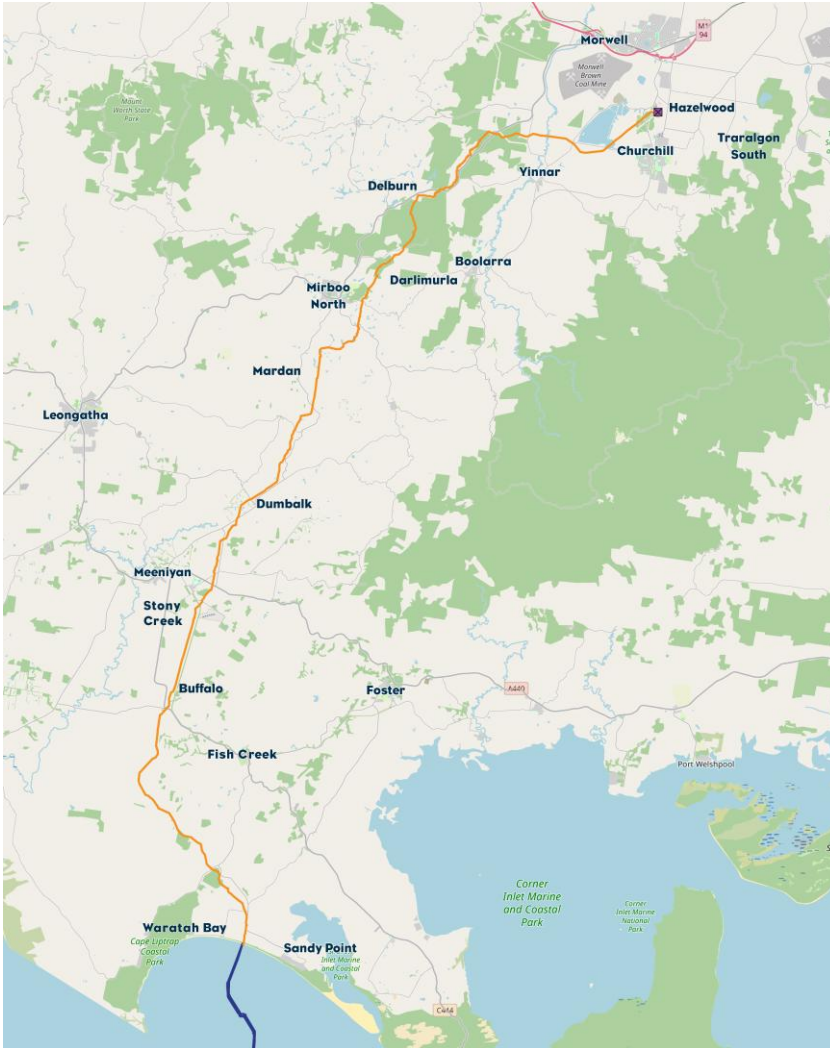
- The design and installation of the fibre optical cable must assume bundled laying with the power cables of the HVDC submarine cable.
- The fibre optical cable and power cable must be installed in separate conduits for the majority of the land installation.
- The transition from submarine to land installation must be facilitated by horizontal direct drilling (HDD).
- There will be 3 HDPE pipes installed via HDD for each Stage (2 for the HVDC cables plus 1 spare). The conduits for Stage 2 will be installed during Stage 1 construction works.
- Cable joint bays for Stage 1 only will be constructed during Stage 1 works.

The scope of Stage 1 cable system works includes the following:

- All studies, engineering work, design activities, calculations, drafting of documents, notes, reports and drawings to ensure the safe construction and reliable operation of the Stage 1 HVDC submarine cable system and HVDC land cable system and containment system of Stage 2.
- Site surveys, route preparations and civil works associated with the cable containment system and civil infrastructure for both Stage 1 and 2, including landfalls at both Heybridge, Tasmania and Waratah Bay, Victoria (i.e. two identical trenches in parallel, capable of achieving a 750 MW rating per stage).
- Manufacturing and supply of power cables, earthing system and fibre optical telecommunication cables used for the cable monitoring systems and communication between converter stations.
- Activities such as design, manufacturing, factory testing, supply, transport, logistics, mounting and installation, site testing, commissioning, all cables, accessories, tools, equipment, spare parts, cable monitoring devices, components, systems and sub-systems constituting the Stage 1 HVDC submarine cable system and Stage 1 HVDC land cable system to ensure the safe and reliable operation of Stage 1.
- Training of the owner's personnel in fault finding and use of equipment, jointing and installation procedures, cable design and maintenance requirements.

Figure 7 shows the proposed route for the Victorian land cable.

**Figure 7: Proposed land route in Victoria**



The scope of land cable works in Victoria includes:

- Detailed civil design.
- Construction permits.
- Construction of temporary access roads, fencing and construction roads.
- Trench excavation and removal of excess material.
- Topsoil stripping and stacking.

- Installation of ducts, including jointing and sealing of individual pipe sections as required.
- Establishment of laydown areas, temporary storage areas and work sites.
- Provision of all temporary required auxiliary services such as power connection, fresh water, sewage, and telecommunication links.
- Installation of HDD ducts along the cable route at approximately 56 sites.
- Re-excavation (if required), cutting and clearing of ducts.
- Construction and installation of joint bays and inspection bays at approximately 78 sites.
- Backfill and reinstatement of the land cable route with specific backfill material, native soil and topsoil as required, and site tidy up.
- Recovery of all equipment, reinstatement and repair of public roads.
- Packaging, supply of cable reels, transport to and delivery on site of the material including obtaining all authorisations.
- Reloading and returning of empty cable reels to the cable factory.

### 3.3 Stage 1 scope of works – Converters system

The indicative layout of the Tasmanian converter station is shown in Figure 8 below.

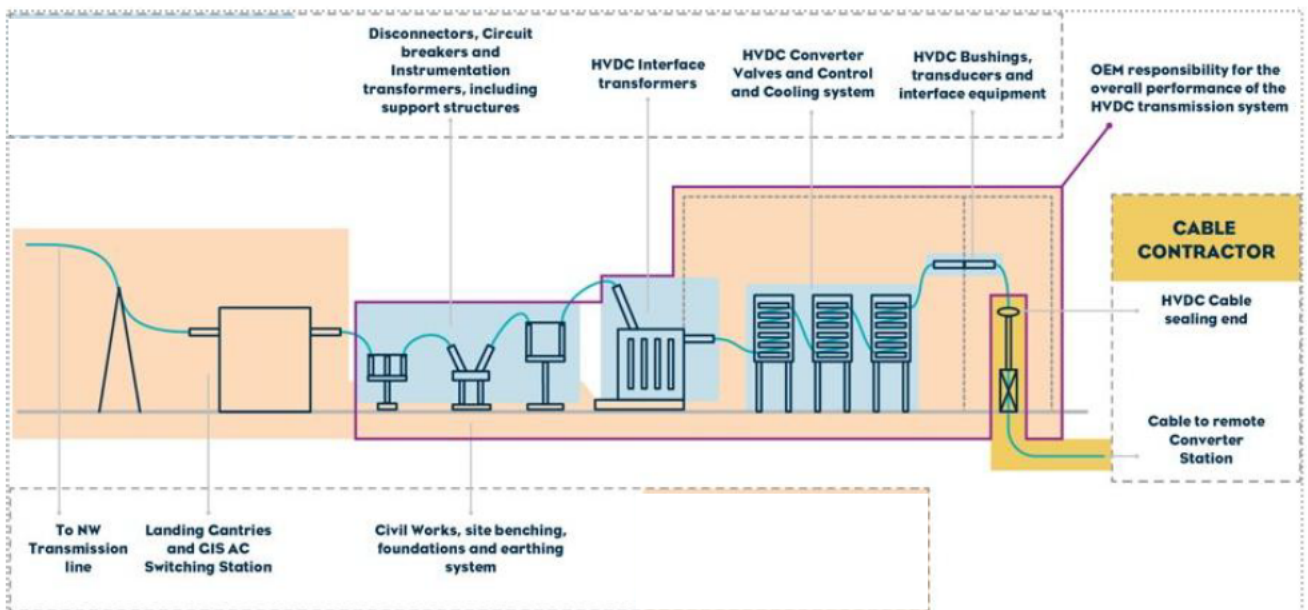
**Figure 8: Indicative layout of Heybridge converter station**



Key assumptions and requirements underpinning the definition of Stage 1 converters system works are as follows:

- Stages 1 and 2 will be designed, planned, manufactured, constructed and commissioned in such a way to ensure that the operation of the two stages is fully independent, with no common point of failure.
- The fibre optical telecommunication submarine and land cable system of Stage 1 can be used by Stage 2 as a redundant communication pathway between the converter stations at both ends.
- The installation of Stage 1 and Stage 2 is arranged to share a common site compound at each end.
- Activities (other than commissioning) undertaken on Stage 2 must not require a planned outage or cause an unplanned outage of Stage 1.
- Earthworks and site benching will be performed for the whole footprint of Stage 1 and Stage 2 during Stage 1 works. Stage 2 areas will be properly covered to avoid any erosion and any other environment or safety risk.

Figure 9: Cross section of typical converter station



The converters system scope of works includes the following:

- All electrical, civil, structural, and building design works and associated studies to allow for the safe and reliable construction and operation of the Stage 1 converter stations.
- All power system studies and equipment studies.

- Design and engineering of the converter station primary and switchyard equipment.
- Design, engineering and dimensioning of components.
- Design of sub-systems (e.g. SCADA system, auxiliary power supply system, fire detection and protection system, etc.).
- All design, manufacturing, factory testing, supply, transport, instruction, installation supervision of supplied equipment, commissioning, defects resolution, and interface management.
- Building permits.
- Site preparation and establishment including fencing and site security.
- Below ground civil works, including foundations for buildings and outdoor equipment.
- Buildings and structures.
- Drainage and environmental protection works.
- Equipment installation and site wiring, including pre-commissioning.
- HVAC, fire protection, and security systems.
- Design of civil infrastructure and mechanical systems.
- Civil and structural engineering.
- Mechanical and steel construction.
- Technical building services.
- Infrastructure, outdoor area with auxiliary equipment within the converter area.
- Indoor and outdoor spares storage.
- Installation of the main converter interface transformers and main converter valves.
- Specification of requirements and plans for operation and maintenance.
- Training, documentation and presentation.
- Configuration and testing of the control and protection and SCADA system.



- Factory acceptance tests of the control and protection system.
- Electrical installation supervision.
- Installation and connection of equipment, devices, installations, infrastructure, subsystems, and components.
- Commissioning and trial operation of the converters including all subsystems.
- Establishment and documentation of all interfaces with the Stage 1 HVDC cable system, and the AC transmission grids in Tasmania and Victoria.
- Performance of on-site acceptance tests.
- Landscaping, road finishing and clean-up.

### 3.4 How will the work be delivered?

The scope of work described in this chapter has provided a high-level description of the construction work required to deliver Stage 1, which has been explained in terms of:

- HVDC cable systems; and
- Converters system.

It does not follow, however, that two service providers should be appointed – one for HVDC cable systems and one for converters system. Instead, the procurement strategy should be designed to:

- Establish works packages that encourage participation in each tender process and maximise competitive tension between prospective service providers; and
- Provide extensive information to tenderers so that risks can be identified, allocated, mitigated and priced efficiently.

As explained in the next chapter, MLPL's procurement strategy is to conduct tenders for three works packages as this approach is considered most likely to achieve the most prudent and efficient outcome for customers in terms of cost, service performance and risk.

For the purpose of this Revenue Proposal, MLPL has assumed that it will manage the delivery of the project in-house, which will require active management of the contracts, delivery of the contracted works and

resolution of any interface issues. An alternative approach would be to outsource these project management activities to a third party including, for example, by appointing a delivery partner. MLPL intends to keep the current in-house project delivery assumption under review as further information is obtained from the completion of the remaining competitive tender, which is scheduled for May 2025. If MLPL changes its preferred delivery model, a full explanation of the rationale for the change and the cost impact will be provided in our revised Revenue Proposal.

## 4. Procurement strategy

### Key Points:

- MLPL has developed a robust procurement strategy to ensure that the scope of works described in Chapter 3 is delivered prudently and efficiently.
- The market conditions are especially challenging, as the international demand for HVDC projects has increased markedly. These challenging market conditions are factored into our procurement strategy.
- The central component of the procurement strategy is a competitive tender process for the cables, converter station equipment and Balance of Works. The overarching objective of our procurement strategy is to deliver the best outcome for consumers by maximising the competitive tension between prospective service providers.
- The design and execution of the procurement strategy in terms of work packaging and contractual models has been informed by feedback from detailed consideration of the market for different services and feedback from prospective service providers.
- MLPL has fully documented the outcome of the tender processes for converter station equipment and cables, which culminated in the execution of contracts in May and August 2024, respectively. In both cases, the decisions were supported by a Final Evaluation and Recommendation Report, which was endorsed by MLPL's Steering Committee in accordance with the Probity and Evaluation Plan.
- The Balance of Works tender process has commenced and is expected to be completed in May 2025.

### 4.1 Strategy development

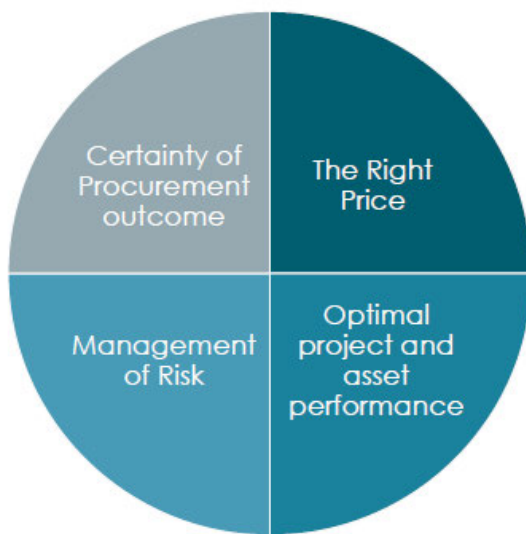
With the assistance of our external advisers, we have engaged in a rigorous and thorough assessment of relevant considerations in developing the procurement strategy. This included market testing and analysis with potential suppliers, insurance due diligence, site due diligence and risk assessment. The key external advisers who have been engaged in the development of this strategy include:

- Herbert Smith Freehills (Legal and Procurement advice);
- Jacobs (Australia) Pty Ltd, including its key subcontractor Elia Grid International (Engineering and specialist HVDC procurement advice) and previously Mott Macdonald;

- Coffey Services Australia (Environmental advice);
- Lockton Australia (Insurance advice); and
- Probity advisor, O'Connor Marsden & Associates.

In preparing the procurement strategy, we have sought to achieve an optimal life cycle cost for project delivery by considering the factors depicted in Figure 10 below. This conception of total life cycle costs is consistent with the Rules requirements that our capital expenditure must be prudent and efficient.

**Figure 10: Factors in securing lowest total life cycle costs**



Having regard to the high-level considerations identified in Figure 10 above, the development of the procurement strategy for Marinius Link included the following:

- Marinius Link's technical and capacity requirements, and the potential options for addressing them;
- Constraints procurement, including timing requirements, resourcing and budget;
- Complex power system integration challenges and the bespoke nature of the design;
- Regulatory requirements, including the need to ensure that the expenditure is prudent and efficient;
- Project risks and preferred risk allocation, during project delivery and operations;
- Market capacity and capability considerations, including:

- competition within the relevant market;
  - cable manufacturing capacity;
  - track record of prospective service providers;
  - metal price volatility;
  - fuel price volatility;
  - vessel availability;
  - competing projects and the challenge of obtaining and retaining resources;
  - strategic pricing;
  - supplier credit risk (for cable supply/install); and
  - supply chain capacity.
- Land access arrangements and site conditions; and
  - Marine conditions and options for project delivery at sea.

In summary, Marinus Link is a highly complex and challenging project that must be managed through an effective procurement strategy. Further details on our approach is set out in the remainder of this chapter, with additional information provided in Attachments 2 and 3 in relation to the converter station equipment and cable tender processes.

## 4.2 Challenging market conditions

The demand for HVDC installations has increased substantially over the last decade and has coincided in large part with Europe's shift towards renewable energy. This has led to challenging market conditions, as major original equipment manufacturers (**OEMs**) are experiencing very high demand.

As a consequence of a change in relative negotiating positions, OEMs are exhibiting behaviours such as:

- **Quality of bids and offers:** the quality and completeness of bids, both non-binding and binding, has steadily deteriorated with less details provided upfront, missing information, more deviations from formatting and content requirements imposed by procurement processes and less responsiveness from OEMs to engage with project owners and respond to questions.

- **Preferred supplier:** OEMs are reluctant to participate in traditional competitive tenders, preferring instead to invest resources only if exclusivity is guaranteed.
- **Standardisation:** OEMs prefer to offer a standard product rather than a custom-built installation.
- **Core scope:** OEMs are retreating from taking the position of EPC contractor and refocusing instead on design and supply of components.
- **Commercial terms:** OEMs are reluctant to take on risks associated with price, interfaces, liabilities, and liquidated damages and push for less favourable terms and conditions when viewed from the perspective of the project owner.
- **Constraints:** the availability of engineering and project resources and the supply of certain components (e.g., transformers) has become a clear bottleneck.
- **Project Timelines:** OEMs are pushing for shorter procurement timelines, if they are willing to participate at all, and seek longer implementation timelines to account for the scarcity of resources, reduce timeline risks, and prefer to secure orders sooner.
- **Focus on Notice-to-Proceed / Capacity Reservation Agreements:** OEMs will require an early commitment of funds upfront via a formal notice to proceed or capacity reservation agreements to reduce risk exposure to projects that might terminate for one reason or another and avoid any situation where OEMs need to pre-finance goods, services or components.

These behaviours and the associated market conditions need to be considered in developing a procurement strategy, which is summarised in the next section. In particular, while market conditions are less favourable to MLPL than may typically be the case, it is possible to develop a procurement strategy that mitigates the impact of these conditions as far as practicable.

## 4.3 Procurement strategy

Our procurement strategy is explained in further detail below. The strategy has been developed having regard to the considerations described in the previous two sections, with the objective of delivering the lowest life cycle costs on behalf of consumers.

### 4.3.1 Work packaging

In order to achieve the lowest cost outcome for electricity consumers, it is essential to package the work to maximise competitive tension between service providers, having regard to the matters described in the previous section.

In developing the work packages, we have divided the project into three principal elements:

- Cable system – submarine and underground;
- Converter station equipment; and
- Balance of Works, which includes the converter station building works and land civil works.

The identification of these three packages has been driven by market capability and appetite, the need to provide for local content opportunities and our desire for pricing transparency. The proposed packaging split has been tested with the pre-qualified suppliers and is designed to maximise competitive tension between prospective service providers. In designing the tenders, MLPL retained a discretion to combine packages to optimise risk allocation and price at any time prior to awarding a contract, so that we maintained agility to respond to new information or changing circumstances.

Further detailed information on the rationale for the packaging decisions are set out in Attachments 1 and 2 to this Revenue Proposal. To explain the packaging decisions as succinctly and clearly as possible, Attachment 1 focuses on converter station equipment and Attachment 2 discusses the cable system. Both documents also refer to Balance of Works as the remaining works package, which is the subject of Attachment 3. The Balance of Works tender will not be completed until May 2025, whereas the converter station equipment and cable system tenders are now concluded with contracts executed in May and August 2024, respectively.

### 4.3.2 Contractual models

We assessed nine different contractual models for their suitability, given the scope of work and our packaging approach. Of these nine contracting models, we conducted a more detailed review of three models, as being the most suitable for MLPL's circumstances:

- **Engineer, Procure, Construct (EPC)**

Under this model, the contractor is engaged to design, build and deliver the asset. Functionality requirements are determined by the owner. The contractor is responsible for satisfying the technical and cost brief generally with minimal client input.

- **Design and Construct (D&C)**

Under this model, a single head contractor is engaged to manage the detailed design and construction of the works.

- **Incentivised Target Cost (ITC)**

This model includes a combination of fixed price and reimbursable cost items. A target cost is developed based on shared risk allocations between the contractor and client. The target cost will include a lump sum component and reimbursable cost component.

Following detailed analysis and expert advice, MLPL has concluded that an EPC contract form is preferred for converter station equipment and cable system work packages. MLPL is considering the appropriate contractual arrangements for the BOW tender, given the particular risks involved and the feedback from prospective service providers. At this stage, MLPL considers that an incentivised target cost arrangement, which provides incentives to the service provider to deliver the project efficiently, may be the optimal contracting approach for this works package.

### 4.3.3 Interface Agreement

The effective management of interface risks requires contractual and governance arrangements to ensure that the service providers work together to deliver the best outcome for customers. In this regard, MLPL has set out its minimum requirements<sup>31</sup> in relation to interface management between its contractors, which requires each party to develop an interface management plan which:

- includes a framework and process detailing how interfaces will be managed, comprising the identification, agreement, prioritisation, monitoring, reporting, resolution and close-out of interfaces;
- details how interface registers will be updated to ensure effective and efficient close-out of existing interfaces and treatment of new interfaces; and
- details procedures, meetings and coordination channels required to manage the interfaces in accordance with MLPL's requirements and interface registers.

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<sup>31</sup> Marinus Link, Interface Management, DAS 4B1, April 2024.



MLPL considers that these contractual arrangements will promote prudent and efficient outcomes by ensuring that the interfaces between the contractors and MLPL are actively managed.

#### 4.3.4 Risk allocation and insurance

Following the completion of the tender process, MLPL undertakes an extensive negotiation with the preferred supplier or suppliers in order to finalise the outstanding issues. One of the matters that is central to these negotiations is the efficient management and allocation of risk, so that the total costs to electricity customers is minimised. For residual risks that cannot be efficiently allocated to service providers, MLPL will consider whether it would be prudent and efficient to procure insurance or manage these risks in-house.

#### 4.3.5 Hedging strategy

Hedging uses derivative products to reduce exposure to the volatility and unpredictability of foreign exchange and commodity markets, by providing a fixed exchange rate or commodity price for a future cash flow.

The use of hedging can provide several benefits to MLPL, including:

- Mitigating the risk of adverse foreign exchange and commodity movements that may affect performance and profitability.
- Enhancing planning and forecasting by reducing uncertainty and aligning budget / forecast costs with realised costs.
- Improving cash flow management by ensuring the project has sufficient funds in the required currencies to meet future obligations.
- Increasing competitiveness and attractiveness by offering more certainty and transparency to stakeholders.

In order to develop a prudent and efficient hedging strategy, it is essential to undertake quantitative analysis to examine the sensitivity of the project construction costs to changes in various commodity prices and currencies. This analysis will reflect the terms of the executed contracts for converter station equipment and cables system, which include adjustments for the various commodities and foreign exchange, including:

- LME Copper, LME Aluminium, LME Lead, and Bunker Fuel; and
- Euro, US dollar, and Swedish Krona.

In order to hedge the risk exposure prudently and efficiently, alternative options and instruments need to be assessed noting that some strategies may not fully de-risk the project but may achieve the best outcome for customers.

Given the specialist nature of this task, MLPL has obtained advice from Chatham Financial, a leader in financial risk management, to advise on the hedging principles and strategy that should guide MLPL’s approach to managing foreign exchange and commodity risk. In accordance with that advice, MLPL’s hedging strategy will be executed in two stages delineated by the expected date of the Notice to Proceed (**NTP**), which is the contractual commitment to proceed with the converter station equipment and cable systems works. The two stages of MLPL’s hedging strategy, therefore, relate to the pre- and post-NTP periods.

As MLPL is currently in the pre-NTP period, hedging has already been undertaken in relation to foreign exchange risk by executing an outright foreign exchange forward and some commodity risks, in accordance with advice received from Chatham Financial. This approach has the benefit of locking in a known amount in Australian dollars which is required at the time of the NTP to fund the supply costs, without incurring upfront hedging costs. Further work will be undertaken before executing MLPL’s post-NTP hedging strategy, closer to the date of the NTP. Attachment 6 sets out the advice from Chatham Financial, which provides further background information.

## 4.4 Planned procurement timetable

Table 8 below sets out the planned timeline for the execution of the procurement strategy. A number of the steps in the timetable have already been completed, as shown in the ‘estimated timing’ column. The key decision points in the process are shaded for ease of reference. To ensure that MLPL delivers the best outcome for consumers, the procurement timetable is subject to ongoing refinement and development.

**Table 8: Timetable for executing the procurement strategy**

Activity	Estimated timing (Calendar Year)
Preparation of tender pre-qualification documents cables and converter stations	Q3 2021
Board approval of tender pre-qualification cables and converter documentation	Early Q4 2021
Pre-qualification process cables and converter stations	Late Q4 2021
Steering Committee approval of proposed applicants to participate in the Request for Tender (RFT) process	Q4 2021
Preparation of cable and converter equipment RFT documents	Q4 2021 to Q4 2022

Activity	Estimated timing (Calendar Year)
MLPL Board approval of Tender Readiness Decision Gate	Q3 2022
Submarine and land cable RFT issued	Q4 2022
Converter systems equipment RFT issued	Q1 2023
Board and State/Commonwealth approvals of proposed successful cable and converter tenderers	Q4 2023
All cable and converter systems equipment contracts ready for award	Q1 2024
Contract signing for converter systems equipment and cable contracts	Q2 2024 (completed May and August 2024)
Prequalification process for Balance of Works tender	Q1 2024
Preparation of Balance of Works RFT documents	Q3 2024
Balance of Works RFT issued	Q4 2024
Board approval of Balance of Works contract award	Q2 2025
Final Investment Decision	Q2 2025
Contract signing for Balance of Works contract	Q3 2025

## 5. Forecast capital expenditure

### Key Points:

- Our forecast capital expenditure relates to the costs of constructing the first cable and undertaking the necessary works in readiness for the second cable. It also includes pre-construction costs incurred prior to 1 July 2025, which were excluded from our Revenue Proposal for early works.
- At the time of preparing this Revenue Proposal, the competitive tender processes for cable system and converter station equipment have been completed and contracts executed. The tender processes for Balance of Works have not been completed and our cost estimates are commercially sensitive. For that reason, this chapter does not provide a detailed breakdown of our forecast capital expenditure.
- Further detailed information on our forecast expenditure is provided in Attachments 1 to 9 of this Revenue Proposal, including explanations as to why our forecasts for each expenditure category satisfy the prudence and efficiency requirements in the Rules.

### 5.1 Capital expenditure forecasting methodology

In preparing the expenditure forecasts in this Revenue Proposal, we have had regard to the Rules requirements; the AER's Better Resets Handbook<sup>32</sup>; and the AER's expenditure forecast assessment guidelines for electricity transmission.<sup>33</sup> MLPL's Board has conducted an extensive review of management's forecasts, including through the engagement of external advisors, to ensure that the bottom-up forecasting approach adopted by management has been combined with a 'top-down' discipline to produce forecasts that are prudent and efficient. MLPL has also engaged Aurecon to conduct an independent assessment of the forecast expenditure, which includes a consideration of benchmarking analysis, and is published as part of this Revenue Proposal.

MLPL's capital expenditure forecasting methodology varies across the project cost categories as follows:

- **Converter Station Design and Equipment Supply**

The forecast for this expenditure category reflects the outcome of the competitive tender process as explained in the previous chapter, which culminated in the executed contract with Hitachi Energy on

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<sup>32</sup> AER, Better Resets Handbook Towards Consumer Centric Network Proposals, July 2024.

<sup>33</sup> AER, Expenditure Forecast Assessment Guideline for Electricity Transmission, October 2024.

1 May 2024. The scope of works was developed during the early works phase of the project and refined through our engagement with prospective service providers. Aurecon has reviewed the scope of works as part of its review of our expenditure forecasts, having regard to industry benchmarks and their own expertise.

To estimate the forecast changes in contract costs over the duration of the regulatory period, MLPL has applied the relevant indices specified in the contract. MLPL has adopted the forecast price indices as advised by Oxford Economics, as presented in Attachment 8.

- **HVDC Cable System – Submarine and Land Cables**

MLPL's forecasting approach for this expenditure category is aligned with the converter station equipment approach described above, noting that the contract for these works was executed with Prysmian Powerlink on 1 August 2024. This contract also contains price indices that will drive the contract payments over time. As noted above, we have relied on Oxford Economics to forecast the future movement in these price indices, as set out in Attachment 8. Aurecon's review of our forecast expenditure is provided in Attachment 9.

- **Balance of Works**

The forecast for this works category has been developed by independent consultants TBH, and reviewed by Aurecon. Each of those experts has applied industry benchmarks and experience from other projects in preparing and reviewing the forecasts. As already explained, this forecast will be updated through the competitive tender process.

- **Support Activities**

MLPL has developed this component of the forecast on a 'bottom up' basis, having regard to the scope of work to be completed, the project schedule and expert input from MLPL's service providers. The unique nature of the project and MLPL's particular circumstances, as a single project TNSP, make it challenging to establish benchmarks for the various sub-categories that comprise the support activities. Aurecon has undertaken benchmarking where possible to assess the reasonableness of the forecasts.

The labour costs have been established with reference to existing pay rates and benchmark estimates for new roles, escalated in accordance with the labour price indices forecast by Oxford Economics. Oxford Economics forecasts are provided in Attachment 8.

- **Risk Allowance**

An estimate of the risk allowance has been prepared by external consultants, E3 Advisory, in accordance with the AER's guidance note<sup>34</sup>. As explained by E3 Advisory, the risk allowance will be updated when the Balance of Works tender has been finalised, and MLPL's residual risks are better understood.

- **Inclusion of costs in readiness for Stage 2**

MLPL has included the costs of civil works and HDD in preparation for Stage 2 as part of the Stage 1 works. Ordinarily, the economic case for bringing forward works in a staged project would be substantiated by undertaking options analysis that would consider:

- The cost savings in present value terms in undertaking the work during Stage 1, rather than Stage 2; and
- The risk that Stage 2 will not proceed, in which case the enabling costs could have been avoided.

Evidently, if the probability of Stage 2 proceeding were 100%, then any cost saving in present value terms achieved by bringing forward the civil works would be efficient. As the probability of Stage 2 proceeding is not 100%, however, there is a trade-off between the benefit of bringing forward expenditure and the risk that the second cable does not proceed.

In MLPL's case, we have taken the view that the only credible option is to complete the enabling civil works during Stage 1 because of the significant disruption to landholders and the negative impact on the project's social license if the civil works were staged. Specifically, landholders and stakeholders would find it unacceptable if MLPL re-mobilised the civil works and HDD contractors within 2 or 3 years of completing Stage 1, leading to a repeat of the earlier disruption costs.

MLPL's view is that it would only be reasonable to expose landholders to the risk of repeated disruption if there were a very low probability of Stage 2 proceeding, which is not the case for Marinus Link. As the 2024 ISP has concluded that the second cable is likely to proceed, MLPL's position is that the staging of the civil works is not a credible option.

Furthermore, MLPL considers that there is significant option value in undertaking expenditure during Stage 1 to preserve the option of proceeding with Stage 2. MLPL's RIT-T update paper, published in

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<sup>34</sup> AER, Regulation of actionable ISP projects, Guidance Note, March 2021, section 2.6.

April 2024 explained that the following credible modelling sensitivities could substantially increase the net benefits from Stage 2:<sup>35</sup>

- Replacing the hydrogen load trajectory in the Step Change scenario with a more conservative forecast would add more than \$1 billion to the total gross economic benefit; and
- A commitment to a 750MW Tasmanian Pumped Hydro Energy Storage project in 2032-33 would increase the total gross economic benefit by approximately \$680 million.

These observations reinforce MLPL’s view that the inclusion of the enabling works for Stage 2 in the construction costs for Stage 1 is prudent and efficient.

MLPL considers that the above forecasting methodology, combined with MLPL’s Board’s extensive review of the forecasts prepared by management, has produced capital expenditure forecasts that are prudent and efficient, in accordance with the Rules requirements.

## 5.2 Capital expenditure forecasts

Table 9 below provides a summary of our capital expenditure forecasts for the construction activities to 30 June 2030.

**Table 9: Forecast construction expenditure (\$m real 2023)<sup>36</sup>**

Category	Pre-period <sup>37</sup>	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Converter Station Design and Equipment Supply	143.1	98.0	372.8	10.1	57.0	56.2	737.2
HVDC Cable System – Submarine and Land Cables	52.4	99.8	106.4	132.7	365.6	138.1	895.0
Balance of Works*							
Support Activities*							

<sup>35</sup> [MLPL’s RIT-T Update, April 2024](#), page 5.

<sup>36</sup> The expenditure forecasts exclude final milestone payments and commissioning costs, which will occur during the financial year commencing 1 July 2030. The milestone payments and commissioning costs are estimated to be \$105 million.

<sup>37</sup> Includes pre-construction expenditure incurred prior to 1 July 2025.

Category	Pre-period <sup>37</sup>	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Risk Allowance*							
<b>Total expenditure</b>	<b>204.8</b>	<b>444.1</b>	<b>1,069.7</b>	<b>870.7</b>	<b>657.7</b>	<b>287.2</b>	<b>3,534.3</b>

\* This cost information is commercially sensitive and has been redacted for the purposes of this Revenue Proposal.

In preparing the forecast capital expenditure, MLPL has focused on satisfying the capital expenditure criteria in clause 6A.6.7(c) of the Rules which requires our forecast expenditure to be prudent and efficient, as explained in the previous section. MLPL has provided detailed information to explain why our forecasts satisfy these requirements in the following attachments:

- Attachment 1 – Converter station design and equipment supply;
- Attachment 2 – HVDC Cable system – submarine and land cables;
- Attachment 3 – Balance of works;
- Attachment 4 – Support activities;
- Attachment 5 – Insurance<sup>38</sup>;
- Attachment 6 – Hedging<sup>39</sup>;
- Attachment 7 – Risk allowance; and
- Attachment 8 – Labour and contract escalation rates.

As already noted, Aurecon has provided a detailed review of the reasonableness of our forecasting methodology and resulting forecasts, which is provided in Attachment 9. MLPL considers that Aurecon’s report, together with the detailed information presented in Attachments 1-8, demonstrate that our forecast expenditure is prudent and efficient.

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<sup>38</sup> This cost has been included in the ‘support activities’ category in Table 9. An independent expert report has been provided in a separate attachment to explain the expenditure forecast.

<sup>39</sup> An independent expert report has been provided in Attachment 6 to explain the hedging principles and strategy, as advised by Chatham Financial.



## 5.3 Key assumptions

In preparing our forecast capital expenditure, MLPL has made the following assumptions:

- Project Marinus continues to remain on AEMO's optimal development path;
- MLPL's final investment decision will take place by 31 May 2025;
- Any changes made to the ownership structure or composition of MLPL will 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 costs;
- There are no changes to the project design or timeframes as a result of factors beyond MLPL's control;
- Managing project delivery will be undertaken by MLPL and an integrated third party service provider;
- There are no changes required by service providers or prospective service providers that require rework of the technical designs and specifications or environmental impact assessments;
- The pre-requisites to achieve the final investment decision by May 2025, including but not limited to, land access options; environmental approvals; and tender responses, are expected to be satisfied;
- The AER accepts MLPL's proposal that pass-through provisions should apply as specified in this Revenue Proposal;
- The availability of service providers, plant or materials are not adversely affected by matters beyond MLPL's control;
- Project construction is not adversely affected by unforeseen factors or events;
- MLPL materially completes its early works activities by 31 May 2025;
- Stakeholders, including State and Federal governments and AEMO, continue to support the urgent delivery of Project Marinus; and
- There are no material changes to the MLPL's processes and timelines for the Balance of Works tender and MLPL successfully secures a Balance of Works contractor through a commercial process.

If any of the above assumptions are not satisfied, our expenditure forecasts may be subject to change.

## 5.4 Status of MLPL's forecast expenditure

As explained in the previous chapter, MLPL has completed the competitive tender processes for cable systems and converter station equipment, while the Balance of Works tender will not be completed until May 2025. The forecast expenditure for the Balance of Works is therefore an estimate, supported by an independent expert assessment by consulting firm, TBH. MLPL will update the forecast expenditure for the Balance of Works as part of its revised Revenue Proposal to reflect the outcome of the competitive tender and subsequent negotiation with the selected party or parties.

It is also noted that there are linkages between the Balance of Works tender outcome, the risk allowance and MLPL's support activities. As explained by E3 Advisory in Attachment 7 of this Revenue Proposal, the risk allowance will be updated when the Balance of Works tender has been finalised and MLPL's residual risks are better understood. In accordance with the AER's Commencement and Process Paper, MLPL will provide updated estimates for the support activities, Balance of Works and risk allowance in its revised Revenue Proposal.

## 6. Allowed rate of return and inflation forecast

### Key Points:

- This chapter sets out MLPL's estimate of its allowed rate of return by applying the AER's 2022 Rate of Return Instrument (RORI), consistent with the AER's Determination for early works and the Rules requirements.
- The allowed rate of return is required to calculate MLPL's RAB during the first regulatory period.

### 6.1 Application of the 2022 RORI

For MLPL's first regulatory period, an allowed rate of return is required for the purpose of capitalising the return on capital so that this capitalised amount can be included in MLPL's RAB. MLPL's allowed rate of return will be determined in accordance with the AER's 2022 RORI.

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

$$k_t = (1-G) \times k_e + k_{td} \times G$$

where:

$k_t$  is the rate of return in regulatory year  $t$ ;

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

$k_{td}$  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.

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).

For this Revenue Proposal, we have calculated placeholder annual rates of return for future years by applying the relevant interest rates and parameters. Table 10 below shows the relevant parameters and placeholder interest rates for the first year of the regulatory period, i.e., 2025-26.

**Table 10: AER rate of return 2024 update**

Parameters	Placeholder value
Indicative risk free rate (calculated over 2 to 29 February 2024)	4.19%
Equity beta	0.60
Market risk premium	6.2%
Indicative return on equity (using the risk-free rate calculated over 2 to 29 February 2024)	7.91%
Indicative cost of debt annual update, (calculated over 3 to 31 January 2024)	5.91%
Indicative cost of debt trailing average	3.46%
Gearing ratio	60%
Gamma	0.57
<b>Indicative rate of return (nominal vanilla)</b>	<b>5.24%</b>

The indicative cost of debt trailing average is derived by applying the cost of debt annual update to the calculation. MLPL’s cost of debt trailing average is subject to a ten year transition period with the first year of the transition period being 2021-22 in accordance with the AER’s determination for early works. The full ten year trailing average will occur in 2030-31.

Table 11 below shows the indicative rate of return (or weighted average cost of capital) for each year of the regulatory period. The rates are placeholders at this stage and will be updated throughout the regulatory period with actual rates calculated in accordance with the agreed averaging periods for the risk free rate and cost of debt, as explained in the next section.

**Table 11: Indicative rate of return during the first regulatory period 1 July 2025 to 30 June 2030**

	2025-26	2026-27	2027-28	2028-29	2029-30
Indicative rate of return (nominal vanilla)	5.24%	5.47%	5.70%	5.92%	6.15%

## 6.2 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.

## 6.3 Inflation forecast

Our forecast inflation is used to calculate real and nominal dollar values. Our approach to estimating inflation reflects the AER’s preferred methodology, which is to apply a linear glide-path from the RBA’s published short term forecasts of inflation to the mid-point of the inflation target band (2.5%) in year 5. The annual inflation data is set out in Table 12 below. In this instance, we have adopted the RBA’s forecasts for two years, published in its August 2024 Statement on Monetary Policy, followed by a glide-path to year 5.<sup>40</sup>

**Table 12: Annual inflation forecasts**

	June 2023-24 (actual)	June 2024-25 (forecast)	June 2025-26 (forecast)	June 2026-27 (forecast)	June 2027-28 (forecast)	June 2028-29 (forecast)	June 2029-30 (forecast)
Inflation forecast	3.81%	2.80%	3.20%	2.97%	2.73%	2.50%	2.50%

In relation to nominal data presented in this Revenue Proposal for the second regulatory period, we have adopted the mid-point of the RBA’s inflation target band, which is 2.5%.

## 6.4 Concessional finance

In March 2024, the AEMC finalised a Rule change that addresses the process for passing the benefits of concessional finance onto customers through lower transmission revenues.<sup>41</sup> In broad terms, the implementation steps are as follows:<sup>42</sup>

- A copy of the concessional finance agreement must be provided to the AER within 40 business days of the agreement being entered into;

<sup>40</sup> The RBA publishes its inflation forecasts every 3 months, and therefore the data presented here will be updated during the AER’s determination process.

<sup>41</sup> AEMC, National Electricity Amendment (Sharing concessional finance benefits with consumers) Rule 2024 No. 7.

<sup>42</sup> Clause 6A.3.3.

- Within 40 business days of the agreement being provided to the AER, the AER must make a concessional finance adjustment to MLPL's maximum allowed revenue in accordance with the terms of that agreement (unless the adjustment is conditional on one or more events); and
- If the amount of the concessional benefit varies each year, MLPL is required to notify the AER of the calculation prior to the start of each regulatory year with sufficient time to allow the adjustment to be implemented.

In MLPL's case, we are continuing to work through the details of the concessional benefit with the CEFC and a concessional finance agreement has not been entered into. For that reason, the regulatory process outlined above has not commenced and the amount of the concessional benefit presented in this Revenue Proposal is therefore indicative and may be subject to change.

While the details and timing of MLPL's financing arrangements are not yet settled, it is worth noting that depending on the terms of the agreement it may impact:

- MLPL's opening RAB as at 1 July 2025;
- MLPL's opening RAB as at 1 July 2030; and
- MLPL's return on capital in the second regulatory period, commencing 1 July 2030.

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

The revenue and pricing information presented in Chapter 10 of this Revenue Proposal reflect a working assumption regarding concessional finance. It should be noted, however, that these estimates are indicative only, as the concessional finance arrangements have not been settled.

## 7. Regulatory asset base

### Key Points:

- In contrast to other TNSPs, some of MLPL's capital 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 RAB as at 1 July 2025, i.e., at the commencement of MLPL's first regulatory period.
- This chapter sets out our updated regulatory asset base as at 1 July 2025 and the forecast regulatory asset base for each year of the first regulatory period. The approach adopted is consistent with the AER's determination for early works and MLPL's allowed rate of return.

### 7.1 Issues to be addressed

The RAB is a key input in determining a TNSP's maximum allowed 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<sup>43</sup> 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.<sup>44</sup> The AER's determination for our early works expenditure addressed this issue, noting that the annual return on capital will be capitalised and included in the RAB.

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<sup>43</sup> National Electricity Rules, S6A.2.1(c).

<sup>44</sup> National Electricity Rules, S6A.2.1(d)(2).

This chapter provides the following information in relation to the RAB:

- Our updated forecast of the opening asset base as at 1 July 2025, which is set out in section 7.2; and
- Our roll forward of the RAB over the first regulatory period, being 1 July 2025 to 30 June 2030.

The approach outlined below is consistent with the AER's determination for our early works expenditure. The capitalisation of the return on capital is also consistent with the AER's early works determination and the allowed rate of return presented in Chapter 6. MLPL will provide a spreadsheet model to accompany this Revenue Proposal, which details the calculations presented in this Chapter.

## 7.2 Regulatory asset base as at 1 July 2025

The table below presents our latest estimate of MLPL's opening RAB as at 1 July 2025. The estimate reflects the AER's findings on the opening RAB in its determination for our early works expenditure, adjusted for:

- MLPL's updated actual and forecast capital expenditure for early works;
- MLPL's pre-construction expenditure during 2023-24 and 2024-25, which was specifically excluded from our Revenue Proposal for early works;
- MLPL's construction expenditure for the period up to 30 June 2025, i.e. before the commencement of the first regulatory period;
- Adjustments relating to the allowed rate of return to account for the return on forecast construction expenditure prior to 30 June 2025, including pre-construction expenditure; and
- Equity raising costs calculated in accordance with the standard approach adopted in revenue determinations and MLPL's particular circumstances.<sup>45</sup>

The table below sets out this information, combining the second and third items as a single line item. As explained in section 8.3, we have not included any CESS bonus or penalty in this calculation as we consider it preferable to apply any bonus or penalty when MLPL commences revenue recovery from customers in the 2030-35 regulatory period.

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<sup>45</sup> Specifically, the equity raising costs are calculated in 2023-24 (the first year in which construction expenditure occurs) and takes account of the capitalisation of the notional allowed revenue as MLPL will not recover revenue until the second regulatory period.



Table 13: MLPL's opening RAB as at 1 July 2025 (\$ nominal)

	1 July 2025
Forecast early works closing RAB as at 30 June 2025 \$m (as per the AER's determination Part A – (Early works))	146.7
Adjustment for updated actual and forecast early works expenditure to 30 June 2025 \$m	30.4
Adjustment for forecast pre-construction expenditure up to 30 June 2025 \$m	215.1
Adjustment for equity raising costs on construction and pre-construction expenditure \$m <sup>46</sup>	52.4
Adjustment for the allowed rate of return to account for the return on forecast construction expenditure prior to 30 June 2025, including pre-construction expenditure \$m	8.6
<b>Forecast opening RAB as at 1 July 2025 \$m</b>	<b>453.1</b>

The data shown above does not account for the benefit of concessional finance. While the details of these arrangements have not been settled, we estimate that the benefit to customers would result in a lower opening RAB as at 1 July 2025, which we forecast to be \$401.9m.

### 7.3 Regulatory asset base from 1 July 2025 to 30 June 2030

The tables below present our forecast of the opening and closing RAB for each year of the regulatory period on a non-concessional and concessional financing basis. As explained in our Revenue Proposal for early works, the return on capital amount (shown as the MAR in the table below) is capitalised. This approach is consistent with the AER's approach in its determination for early works.

Table 14: MLPL's RAB from 1 July 2025 to 30 June 2030 – non-concessional basis (\$ nominal)

	2025-26	2026-27	2027-28	2028-29	2029-30
Opening RAB \$m	453.1	971.8	2,256.9	3,416.7	4,420.0
Expenditure (Construction costs) \$m	482.2	1,199.1	1,001.9	776.5	346.6

<sup>46</sup> Equity raising costs included in the 1 July 2025 Opening RAB have been calculated based on the forecast pre-construction and construction expenditure to the end of the first regulatory period and included in the year that the expenditure commences, i.e. 2023-24.

	2025-26	2026-27	2027-28	2028-29	2029-30
Allowed rate of return %	5.24%	5.47%	5.70%	5.92%	6.15%
Allowed return on Opening RAB \$m <sup>47</sup>	23.7	53.1	128.5	202.4	271.8
Allowed return on annual expenditure \$m <sup>48</sup>	12.5	32.3	28.1	22.7	10.5
Debt raising costs \$m <sup>49</sup>	0.2	0.5	1.2	1.8	2.4
Maximum allowed revenue \$m <sup>50</sup>	36.5	86.0	157.9	226.8	284.7
Closing RAB \$m <sup>51</sup>	971.8	2,256.9	3,416.7	4,420.0	5,051.3

The RAB roll forward calculation will be updated with actual expenditure, inflation and the allowed rates of return during the first regulatory period to establish the actual closing RAB as at 30 June 2030.

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<sup>47</sup> Calculated as Allowed rate of return x Opening RAB.

<sup>48</sup> Calculated as Allowed rate of return<sup>0.5</sup> x Annual expenditure.

<sup>49</sup> Debt raising costs of 0.089% per annum have been adopted consistent with the AER's determination for Part A (Early works).

<sup>50</sup> Calculated as Allowed return on Opening RAB + Allowed return on annual expenditure + Debt raising costs.

<sup>51</sup> Calculated as Opening RAB + Expenditure (Construction costs) + Maximum allowed revenue.

## 8. Incentive mechanisms

**Key Points:**

- In accordance with the Rules requirements, 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 acknowledged this point in its Commencement and Process Paper for MLPL.
- Of the remaining incentive schemes, the CESS is the only scheme that could be applied during the construction phase of the project. MLPL's assessment, however, is that the CESS should not be applied in its standard form, which would involve a 30/70 sharing with customers of any difference between MLPL's actual capital expenditure and the AER's allowance.
- In this chapter, we explain why a much reduced sharing arrangement of 5/95 is appropriate in MLPL's circumstances. As explained in Chapter 2, we have also had regard to the CAP's views in developing our preferred approach. A detailed explanation of the rationale for our proposed approach is provided in Attachment 10.
- In applying the CESS, MLPL proposes that it applies from 1 July 2021 to 30 June 2030, which covers both early works and construction expenditure. The calculation of any bonus or penalty amount would be undertaken during the revenue determination process for the 2030-35 regulatory period, which is the first regulatory period when MLPL recovers revenue from customers.

The AER has developed incentive schemes over a number of years to drive improvements across all aspects of a TNSP's performance. Typically, these schemes are described at a high level in the Rules, and the AER is given the task of developing detailed guidelines to define their application and the circumstances in which they can be varied.

This chapter briefly explains each incentive scheme and discusses whether it should apply to MLPL in the first regulatory period, having regard to MLPL's particular circumstances.

## 8.1 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 financial 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.<sup>52</sup> 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.

## 8.2 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.<sup>53</sup> The absence of historical data also means that MLPL's operating expenditure allowance for the second regulatory period, commencing on 1 July 2030, 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 the AER's revenue determination process, which will commence with the submission

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<sup>52</sup> 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).

<sup>53</sup> 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).

of MLPL's Revenue Proposal in January 2029. As part of the AER's review process at that time, the application of the EBSS for the second regulatory period will be settled by the AER.

## 8.3 Capital Expenditure Sharing Scheme

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 imposes financial penalties or bonuses on a TNSP, depending on whether its actual capital expenditure is higher or lower than the AER's allowance. Similar to the EBSS, consumers benefit from capital expenditure savings because the RAB and future prices are lower as a result of the savings. The TNSP obtains a bonus in its maximum allowed revenue, which is effectively its share of the savings in capital expenditure.

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 revenue proposals. In doing so, the AER explained that it will consider, among other things, each company's capital expenditure proposal and the degree of forecasting risk.<sup>54</sup>

The AER subsequently finalised its review of the CESS in April 2023, taking account of 12 submissions from stakeholders.<sup>55</sup> 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 the CESS should be applied:<sup>56</sup>

- benefits to consumers from the exemption;
- the size of the project;
- the degree of capital expenditure forecasting risk; and
- stakeholder views.

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<sup>54</sup> AER, Incentive review, Draft Capital Expenditure Incentive Guideline for Electricity Network Service Providers, December 2022, page 7.

<sup>55</sup> AER, Incentive review, Final Capital Expenditure Incentive Guideline for Electricity Network Service Providers, April 2023, page 22.

<sup>56</sup> Ibid, page 7.

We interpret the AER's position as being entirely open to the full range of possible approaches, having regard to the above factors and given the overarching objective of promoting the best outcome for customers in accordance with the National Electricity Objective (**NEO**).

In August 2024, the AER made a decision in relation to the application of the CESS to Transgrid's HumeLink project. In that decision, the AER rejected Transgrid's proposal not to apply the CESS to HumeLink, and instead concluded that the CESS should be modified as follows:<sup>57</sup>

- A 30% sharing ratio will apply to capex overspends and underspends up to 10% of the net present value of forecast capex.
- If an overspend or underspend exceeds 10%, the sharing ratio is set to the average level of the financing cost or benefit, assuming no shift in the timing of the capex.
- The modified CESS will apply to all expenditure undertaken in Stage 1 and Stage 2 of HumeLink in the 2023–28 regulatory control period.
- Biodiversity offset costs will be excluded from the CESS altogether, as these costs are considered to be highly uncertain in nature and outside Transgrid's control.
- Any deferrals between regulatory periods will be included in the calculation of the CESS rewards or penalties.

In MLPL's case, the majority of our capital expenditure requirements for Marinus Link will be subject to competitive tender processes, which have been designed to deliver the project as efficiently as possible. As already explained in this Revenue Proposal, contracts have already been executed in relation to converter station equipment and cables, with the remaining Balance of Works tender to be completed in May 2025. MLPL's view is that the Balance of Works tender contract should be an incentivised target cost arrangement, which provides incentives for the service provider to achieve efficiency savings compared to the target cost, i.e., in a similarly designed incentive scheme to the CESS.

MLPL's view is that its particular circumstances warrant a CESS that applies a much lower powered incentive than the standard 30/70 sharing with customers, i.e., where the TNSP is exposed to 30% of any under- or over-spend. A key reason for a lower powered incentive scheme, where the sharing is less than 30%, is that MLPL's control over the total project costs is comparatively limited because most of the project activities are outsourced. As a result, differences between the actual and forecast capital expenditure are likely to be driven by factors beyond MLPL's control, rather than MLPL's cost efficiency. As a consequence, MLPL (and

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<sup>57</sup> AER, Transgrid's HumeLink Stage 2 Delivery Contingent Project Application, August 2024, page ix.

customers) will be exposed to windfall gains or losses as a result of applying the CESS, as the scheme will reward or penalise differences that are unrelated to efficiency performance. In contrast to HumeLink, MLPL has unique circumstances and a different financing structure<sup>58</sup> that warrant a much lower powered incentive scheme.

It follows that a lower powered incentive scheme is preferable which encourages management to focus on cost performance without introducing the risk of disproportionate bonuses or penalties that are unrelated to efficiency performance. The challenge is to set an incentive rate which is appropriate, having regard to MLPL's particular circumstances. In considering how an appropriate incentive rate might be determined, MLPL has estimated the potential impact of the CESS on MLPL's maximum allowed revenue (**MAR**) in the 2030-35 regulatory period, i.e., when the CESS bonus or penalty for the construction period will be paid out.

On the assumption that the difference between the actual and allowed capital expenditure may be up to +/- 15% of the total capital expenditure, employing a 5% incentive rate implies a maximum indicative bonus or penalty of +/- \$28.5 million, which is approximately \$5.7 million per annum or approximately 3% of MLPL's indicative concessional MAR. This potential exposure is aligned with other incentive schemes, such as the Service Target Performance Incentive Scheme.<sup>59</sup>

MLPL recognises that a 5% incentive rate is less than the average financing costs (or benefits) that would arise in the absence of a CESS scheme. In its decision for HumeLink, the AER adopted an incentive rate of 9.25%, which is the average financing costs, for any cost difference above 10%. MLPL's notes that the CESS is sufficiently flexible to allow any incentive rate to apply – from 0% to the default rate of 30% - and there is no reason to regard the incentive rate as having a floor of 9.25%. Instead, MLPL's position is that the incentive rate should be set having regard to the factors set out in the AER's incentive guideline.

As explained in Chapter 2, we also sought the views of the CAP on the following broad range of options;

- A. Default scheme: 30% bonus/penalty rate.
- B. Pre-CESS sharing arrangement: Approx. 9% bonus/penalty rate.<sup>60</sup>

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<sup>58</sup> MLPL expects to obtain concessional finance which will secure a higher level of gearing than the AER's benchmark. As a consequence, the impact on equity holders of a CESS penalty is magnified. For further discussion of this issue and the differences between Marinus Link and HumeLink, please refer to Attachment 10.

<sup>59</sup> Clause 6A.7.4(b)(3) states that the maximum revenue increment or decrement must fall within a range that is between 1% and 5% of the maximum allowed revenue for the relevant regulatory year.

<sup>60</sup> The magnitude of the incentive rate depends on the timing of the overspend or underspend. The average rate is approximately 9%, but the rate would be lower if the overspend occurs at the end of the period, which is likely if there is a project delay. In our discussions with the CAP, MLPL indicated that it could be as low as 6%.

- C. No bonus or penalty: Set the CESS bonus rate to zero.
- D. Modified CESS: Bonus/penalty between 0% and 30%.

As explained in Chapter 2, the CAP did not express a unanimous position on whether the CESS should be modified or, if so, the preferred option. One member indicated that the default scheme should apply, while another member indicated that it should not apply as there are sufficient safeguards in place to protect consumers, and the application of the CESS would not affect MLPL's efficiency performance. Other members were undecided. MLPL therefore considers that a 5% incentive rate is consistent with the range of views expressed by the CAP.

MLPL also notes that the AEMC has recently made a Rule determination which examined the linkages between the ex post review and the application of CESS penalties to actionable ISP projects, such as Marinus Link. While this matter is to be considered in further detail by the AER in its Incentive Guidelines, which will be updated in September 2025, the AEMC's determination suggests that it may not be appropriate to apply a financial penalty for projects such as Marinus Link that are subject to an ex post review. Given the AEMC's observations, MLPL considers that a 5% bonus or penalty CESS is an appropriate compromise at the present time, noting that:

- The potential impact on MLPL's MAR would be comparable to other incentive schemes;
- MLPL's CAP expressed mixed views on whether a CESS should apply or whether it was unnecessary to apply a further financial incentive beyond the ex post review;
- Our proposal is symmetrical, providing a bonus and penalty regime. We regard this approach as preferable to a bonus-only scheme, which is a reasonable inference from the AEMC's comments regarding the application of CESS penalties to actionable ISP projects that are subject to ex post reviews;
- While MLPL's scope for driving efficiency improvements may be limited, given the extent of outsourcing, the proposed financial incentive is likely to drive efficient performance in contract management and project governance;
- The potential for windfall gains or losses for customers and MLPL as a result of forecasting errors is ameliorated by a lower powered incentive scheme; and
- MLPL will face a very significant incentive to manage expenditure prudently and efficiently, given the risk of an adverse ex post review in the event of a cost overrun.



In applying the CESS, MLPL proposes that it applies from 1 July 2021 to 30 June 2030, which covers both early works and construction expenditure. The calculation of any bonus or penalty amount would be undertaken during the revenue determination process for the 2030-35 regulatory period, which is the first regulatory period when MLPL recovers revenue from customers. In this Revenue Proposal, therefore, we have not calculated a CESS bonus or penalty for the early works period, noting that any bonus or penalty calculated now would not affect MLPL's revenue as it would be given effect through an adjustment to notional MAR and rolled into the RAB.

Further detailed information explaining the reasons for our position on the CESS is provided in Attachment 10 to this Revenue Proposal.

## 8.4 Small-scale Incentive Scheme (SSIS)

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

## 8.5 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.

## 9. Pass through events

### Key Points:

- The existing pass through provisions in the Rules are intended to keep network charges as low as possible by ensuring that they do not include cost allowances for events that are uncertain and beyond the network company's control.
- Marinus Link's circumstances are different to a standard TNSP because in the first regulatory period, being 2025-30, it will not provide transmission services or recover revenue from customers. Nevertheless, the AER's determination for Part A (Early works) confirmed that it is appropriate for pass through provisions to apply to Marinus Link.
- The purpose of this chapter is to nominate the pass through provisions that should apply during the construction phase of the project. Our approach is intended to be aligned with current regulatory practice by:
  - proposing nominated pass through provisions that have been accepted by the AER in recent transmission revenue determinations; and
  - including additional pass through provisions that address specific risks associated with large infrastructure projects, such as Marinus Link. These additional pass through provisions are closely aligned with those accepted by the AER in recent determinations under the NSW framework.

### 9.1 Overview of MLPL's proposed approach

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 seek to recover the efficient costs associated with a particular event, but only if that event occurs. The use of pass through provisions is intended to keep 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; and
- an inertia shortfall event.

The Rules also allow each TNSP 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.

In addition to proposing the nominated pass through events set out above, MLPL is also proposing the following additional nominated pass through events for this Revenue Proposal:

- Unavoidable contract variations event;
- Contractor force majeure event;
- Contractor insolvency event; and
- Biodiversity event.

In relation to the first two proposed pass through events, MLPL notes that the AER accepted similar provisions in relation to Transgrid's Waratah Super Battery (**WSB**) project.<sup>61</sup> While the AER's decision in relation to these events was made under the New South Wales framework in accordance with the Electricity Infrastructure Investment Act 2020, this aspect of the NSW framework is closely aligned with the National Electricity Rules. MLPL therefore considers that the AER's rationale for accepting the pass through provisions in relation to the WSB project<sup>62</sup> applies equally to Marinus Link.

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<sup>61</sup> AER Draft decision, Transgrid Waratah Super Battery (non-contestable) 1 July 2024 to 30 June 2029, September 2023. We have referenced the draft decision because the AER's reasoning on this issue is provided in that document, rather than the AER's final decision.

<sup>62</sup> Ibid, chapter 12, September 2023. The AER's reasoning relates to the uncertainty and potential cost impact of these events.

In relation to the remaining two proposed events in relation to contractor insolvency and biodiversity costs, MLPL considers it appropriate to propose these cost pass through provisions as the risk of occurrence is uninsurable and beyond MLPL's control, while the cost consequences may be significant.

In summary, MLPL's position is that each of the proposed nominated pass through events are warranted, noting that the AER is required to have regard to the 'nominated pass through event considerations', as defined in Chapter 10 of the Rules.

In relation to the operation of the pass through provisions for the first regulatory control period, MLPL proposes that the materiality threshold references the notional maximum allowed revenue for the 2025-30 regulatory period, consistent with the AER's final decision on MLPL's Revenue Proposal – Part A (Early works), as noted below:<sup>63</sup>

“We accept the additional pass through events as proposed by Marinus Link and will set materiality threshold for cost pass throughs based on Marinus Link's calculation of the maximum allowed revenue for each regulatory year. Approved cost pass throughs will be recovered by adding them to the RAB until Marinus Link commences providing prescribed services.”

MLPL proposes that the AER adopts the same approach to this Revenue Proposal, so that the pass through provisions are able to apply, even though MLPL will not recover any regulated revenues until the second regulatory period.<sup>64</sup> The only exception to this approach relates to the pass through provisions for unavoidable contract variations, where MLPL has defined materiality as \$30 million in order to be consistent with the AER's determination for Transgrid's WSB project.

## 9.2 Nominated pass through provisions

This section sets out the proposed drafting for MLPL's nominated pass through provisions for project construction, which will commence following FID (expected 31 May 2025). Pass through provisions have already been approved by the AER in relation to early works and this proposal does not affect the AER's decision in relation to the early works period.

MLPL's proposed nominated pass through provisions for the construction period are:

- Insurance coverage event;

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<sup>63</sup> AER Determination, Marinus Link Stage 1, Part A (Early works), December 2023, page v.

<sup>64</sup> Further details are provided in section 9.3.

- Terrorism event;
- Natural disaster event;
- Insurer credit risk event;
- Unavoidable contract variations event;
- Contractor force majeure event;
- Contractor insolvency event; and
- Biodiversity event.

The proposed drafting for each pass through event is set out below.

## 9.2.1 Insurance coverage event

The proposed drafting for the insurance coverage event is set out below, and is closely aligned with the drafting recently approved by the AER<sup>65</sup>, with changes to reflect MLPL's specific circumstances.

An insurance coverage event occurs if:

1. MLPL:

- a. makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy or set of insurance policies; or
- b. would have been able to make a claim or claims under a relevant insurance policy or set of insurance policies but for changed circumstances; and

2. MLPL incurs costs:

- a. beyond a relevant policy limit for that policy or set of insurance policies; or
- b. that are unrecoverable under that policy or set of insurance policies due to changed circumstances; and

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<sup>65</sup> AER, Final decision, ElectraNet transmission determination 1 July 2023 to 30 June 2028, Attachment 13 – Cost pass through events, April 2023, Table 13-1.

- c. The costs referred to in paragraph 2 above materially increase the costs to MLPL constructing or commissioning Marinus Link.

For the purposes of this insurance coverage event:

'changed circumstances' means movements in the relevant insurance market, including liability insurance, that are beyond the control of MLPL, where those movements mean that it is no longer possible for MLPL to take out an insurance policy or set of insurance policies at all or on reasonable commercial terms that include some or all of the costs referred to in paragraph 2 above within the scope of that insurance policy or set of insurance policies.

'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had:

- i. the limit not been exhausted; or
- ii. those costs not been unrecoverable due to changed circumstances.

A relevant insurance policy or set of insurance policies is an insurance policy or set of insurance policies held during the regulatory control period or prior to the commencement of the regulatory control period; and

MLPL will be deemed to have made a claim on a relevant insurance policy or set of insurance policies if the claim is made by a related party of MLPL in relation to any aspect of MLPL's network or business; and

MLPL will be deemed to have been able to make a claim on a relevant insurance policy or set of insurance policies if, but for changed circumstances, the claim could have been made by a related party of MLPL in relation to any aspect of MLPL's network or business.

Note: For the avoidance of doubt, in assessing an insurance coverage event through application under rule 6A.7.3(j), the AER will have regard to:

- i. the relevant insurance policy or set of insurance policies for the event;
- ii. the level of insurance that an efficient and prudent TNSP would obtain, or would have sought to obtain, in respect of the event;
- iii. any information provided by MLPL to the AER about MLPL's actions and processes; and

- iv. any guidance published by the AER on matters the AER will likely have regard to in assessing any insurance coverage event that occurs.

## 9.2.2 Terrorism event

The proposed drafting for the terrorism event is set out below, and is closely aligned with the drafting recently approved by the AER<sup>66</sup>, with changes to refer to MLPL and its specific circumstances.

Terrorism event means an act (including, but not limited to, the use of force or violence or the threat of force or violence) of any person or group of persons (whether acting alone or on behalf of or in connection with any organisation or government), which:

1. from its nature or context is done for, or in connection with, political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear); and
2. changes the costs to MLPL in constructing or commissioning Marinus Link.

Note: In assessing a terrorism event pass through application, the AER will have regard to, amongst other things:

- i. whether MLPL has insurance against the event;
- ii. the level of insurance that an efficient and prudent TNSP would obtain in respect of the event; and
- iii. whether a declaration has been made by a relevant government authority that a terrorism event has occurred.

## 9.2.3 Natural disaster event

The proposed drafting for the natural disaster event is set out below, and is closely aligned with the drafting recently approved by the AER<sup>67</sup>, with changes to refer to MLPL.

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<sup>66</sup> AER, Final decision, ElectraNet transmission determination 1 July 2023 to 30 June 2028, Attachment 13 – Cost pass through events, April 2023, Table 13-1.

<sup>67</sup> AER, Final decision, ElectraNet transmission determination 1 July 2023 to 30 June 2028, Attachment 13 – Cost pass through events, April 2023, Table 13-1.

Natural disaster event means any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the 2025–30 regulatory control period that changes the costs to MLPL in constructing or commissioning Marinus Link, provided the cyclone, fire, flood, earthquake or other event was:

- (a) a consequence of an act or omission that was necessary for the service provider to comply with a regulatory obligation or requirement or with an applicable regulatory instrument; or
- (b) not a consequence of any other act or omission of the service provider.

Note: In assessing a natural disaster event pass through application, the AER will have regard to, amongst other things:

- i. whether MLPL has insurance against the event;
- ii. the level of insurance that an efficient and prudent TNSP would obtain in respect of the event.

## 9.2.4 Insurer credit risk event

The proposed drafting for the insurer credit risk event is set out below, and is closely aligned with the drafting recently approved by the AER<sup>68</sup>, with changes to refer to MLPL.

An insurer credit risk event occurs if an insurer of MLPL becomes insolvent and, as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, MLPL:

- (a) is subject to a higher or lower claim limit or a higher or lower deductible than would have otherwise applied under the insolvent insurer's policy; or
- (b) incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer.

Note: In assessing an insurer credit risk event pass through application, the AER will have regard to, amongst other things:

- i. MLPL's attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer's track record, size, credit rating and reputation; and

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<sup>68</sup> AER, Final decision, ElectraNet transmission determination 1 July 2023 to 30 June 2028, Attachment 13 – Cost pass through events, April 2023, Table 13-1.



- ii. in the event that a claim would have been covered by the insolvent insurer's policy, whether MLPL had reasonable opportunity to insure the risk with a different provider.

## 9.2.5 Unavoidable contract variations event

The proposed drafting for the unavoidable contract variations event, as set out below, builds on the AER's adjustment mechanism for Transgrid's WSB project,<sup>69</sup> which is closely aligned with the pass through concept in the National Electricity Rules. MLPL has amended the approved provisions for WSB to better align the definition with other nominated pass through events and MLPL's particular circumstances.

An unavoidable contract variations event occurs if there is a contract variation that has a material impact (positive or negative) on MLPL's costs of constructing or commissioning Marinus Link, as a result of a change in the project design or proposed route. The cost of the unavoidable contract variations event may include, but is not limited to, the increase or decrease in the prudent and efficient costs of any civil or building works, environmental and planning approvals; and any plant, equipment, materials and labour costs; and delay costs.

For the purposes of the unavoidable contract variations event, a material impact on MLPL's costs is an amount that is not less than \$30 million.

Note: In assessing an unavoidable contract variations event pass through application, the AER will have regard to, amongst other things:

- i. MLPL's attempts to mitigate and prevent the event from occurring;
- ii. the prudence and efficiency of the contract amounts claimed by MLPL, including whether it accords with the terms and conditions of the relevant contract;
- iii. the prudence and efficiency of any actual or forecast costs to be incurred by MLPL as a result of the event.

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<sup>69</sup> AER Draft decision, Transgrid Waratah Super Battery (non-contestable) 1 July 2024 to 30 June 2029, Appendix C: Adjustment mechanisms, September 2023.

## 9.2.6 Contractor force majeure event

The proposed drafting for the contractor force majeure event is set out below and reflects the AER's adjustment mechanism for Transgrid's WSB project, with minor changes to better reflect the other nominated pass through events:<sup>70</sup>

A contractor force majeure event is the material change in construction costs incurred by MLPL due to a force majeure event impacting the construction contractor. The contractor force majeure event includes the additional prudent and efficient construction costs incurred by MLPL, as a result of an unforeseen force majeure event impacting the contractor, where:

- (i) the costs are not covered by an existing insurance policy or other pass through event, and
- (ii) the force majeure event is declared in accordance with the terms of the relevant contract.

Note: In assessing a contractor force majeure event pass through application, the AER will have regard to, amongst other things:

- i. whether the event is covered by insurance;
- ii. the prudence and efficiency of the contract amounts claimed by MLPL, including whether it accords with the terms and conditions of the relevant contract; and
- iii. the prudence and efficiency of any actual or forecast costs to be incurred by MLPL as a result of the event.

## 9.2.7 Contractor insolvency event

MLPL notes that a contractor insolvency event has not previously been adopted by the AER and was not proposed by Transgrid in relation to the WSB project. Nevertheless, MLPL considers that the inclusion of this event is appropriate, given the potential cost consequences of such an event which would be beyond MLPL's control. MLPL's proposed drafting is set out below.

A contractor insolvency event occurs if a contractor is declared insolvent and as a result of that insolvency there is a material increase in MLPL's costs of constructing or commissioning Marinus Link. The cost may

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<sup>70</sup> AER Draft decision, Transgrid Waratah Super Battery (non-contestable) 1 July 2024 to 30 June 2029, Appendix C: Adjustment mechanisms, September 2023.

include, but is not limited to, those arising from project delays; renegotiation of new contract terms; appointing an alternative contractor; and any increase in the costs of completing the project.

For the avoidance of doubt, this pass through event does not allow MLPL to recover payments to a contractor to avoid or mitigate the risk of insolvency.

Note: In assessing a contractor insolvency event pass through application, the AER will have regard to, amongst other things:

- i. Any action or omission on the part of MLPL that may have resulted in costs that are not prudent and efficient; and
- ii. the prudence and efficiency of the costs claimed by MLPL.

## 9.2.8 Biodiversity event

MLPL notes that a biodiversity event has not previously been adopted by the AER and was not proposed by Transgrid in relation to the WSB project. Nevertheless, MLPL considers that the inclusion of this event is appropriate, as the event would be beyond MLPL's control and may be material in terms of its cost impact. MLPL's proposed drafting is set out below.

A biodiversity event occurs if there is a change in MLPL's biodiversity obligations in relation to Marinus Link which results in a cost impact (positive or negative) to achieve compliance, where a change in MLPL's biodiversity obligations means:

- (a) A new legislative or regulatory requirement from those that applied at the date of MLPL's Revenue Proposal.
- (b) A decision by a planning authority which requires additional measures be taken to avoid and minimise biodiversity impacts (or to refuse an application based on those impacts), or increase or decrease the credit obligations identified by MLPL at the time of its Revenue Proposal.

The cost impact is the net effect of the incremental changes in MLPL's biodiversity obligations in relation to Marinus Link, noting that a combination of positive and negative incremental changes may arise. For the avoidance of doubt, the cost impact includes Marinus Link's prudent and efficient internal costs in responding to the change in MLPL's biodiversity obligations in addition to the direct costs of meeting those changed obligations.

Note: In assessing a biodiversity event, the AER will have regard to, amongst other things:

- The compliance options facing MLPL, having regard to the constraints imposed by the project timeframes; and
- The time value of money to address any timing differences between the incremental allowance provided by the AER and incremental costs (or savings) incurred as a result of the change in obligations.

## 9.3 Materiality threshold and cost recovery

### Materiality Threshold

The Rules require that positive pass throughs meet a materiality threshold greater than 1% of MAR in a regulatory year. As explained in this Revenue Proposal, during the first regulatory period, being 2025-30, MLPL will not have a MAR because it will not recover any revenue from electricity consumers during this period. This is because transmission services will only commence from 1 July 2030, i.e., the start of the second regulatory period.

Our Revenue Proposal for Part A (Early works) explained how this issue could be addressed. In particular, we proposed to include a proxy MAR for each year of the regulatory period for the purposes of identifying a materiality threshold. The AER accepted this proposed approach in its determination for Part A (Early works) on the basis that it is in line with the approach adopted by other TNSPs, including Directlink and Murraylink.

Consistent with the AER's determination for Part A (Early works), we propose to adopt the same approach to determine the materiality threshold in this Revenue Proposal. For the avoidance of doubt, MLPL proposes that the notional MAR adopted for this purpose is the non-concessional MAR, as shown in Table 2, rather than the concessional MAR. As already noted, the only exception is in relation to the unavoidable contract variations event, where we have proposed a \$30 million threshold to reflect the AER's approved pass through provision for the WSB project.

### Cost Recovery

As already noted, Marinus Link will not commence revenue recovery until 1 July 2030, the start of the second regulatory period. This means that during the first regulatory period, should a cost pass through event occur, there would be no revenue to adjust in order to recover the cost impact of the event.

In its determination for Part A (Early works), the AER decided to address this issue by adding any adjustment for cost pass throughs to the approved capital expenditure for the relevant year. This in turn would be capitalised in MLPL's RAB and would remain in the RAB until the full revenue and pricing determination is

made for the second regulatory period. Marinus Link would then be able to recover the costs through its MAR.

The AER determined that this approach is appropriate because it is consistent with the process established for intending TNSPs to recover costs incurred before assets are commissioned (i.e., all efficient costs are capitalised and earn a rate of return until Marinus Link commences the supply of prescribed services).

MLPL proposes that the same cost recovery approach is applied in the 2025-30 regulatory period, such that where the AER determines that:

- a positive change event has occurred, the approved pass through amount will be added to the RAB, and
- a negative change event has occurred, the negative pass through amount will be deducted from the RAB.

Where positive change event and negative change event are defined in the Rules.

## 10. Indicative annual revenues and prices from 1 July 2030

### Key Points:

- This Revenue Proposal sets out the forecast construction expenditure required to commission the first cable and ensure readiness for the second cable. For the purpose of this Revenue Proposal, it is assumed that the cable construction will be completed by 30 June 2030, but will not be operational until the second regulatory period, commencing on 1 July 2030.
- While MLPL will not recover revenue during this regulatory period, our customers and stakeholders want to understand MLPL's indicative revenue requirements and the impact on network charges when services commence. The principal purpose of this chapter, therefore, is to provide this indicative information.
- Based on indicative concessional finance information, MLPL estimates that its annual average revenue requirement over the 2030-35 regulatory period will be \$175.0 million (\$ real 2023). However, this estimate is indicative as a concessional finance agreement has not been entered into.
- In relation to network charges, we estimate that our 2031-32 revenue requirement would add approximately \$47 to a typical residential customer's annual electricity bill in Tasmania, and approximately \$20 in Victoria compared to today's transmission charges, expressed in June 2023 prices and excludes GST. These increases in network charges are more than offset by the expected savings in generation costs.

### 10.1 Notional maximum allowed revenues during the 2025-30 regulatory period

In accordance with the Rules, the MAR is the sum of the revenue building blocks – namely the return on capital, return of capital (depreciation), operating expenditure, incentive payments, and corporate tax allowance. The MAR is calculated in accordance with the standard post-tax building block approach outlined in the Rules using the PTRM. The MAR is the maximum revenue that can be recovered from transmission customers through network charges.

As already explained, MLPL will not recover any revenue until services from Marinus Link commence in the second regulatory period. During the first regulatory period, however, MLPL will accrue a return on its regulatory asset base, i.e., the return on capital component of the building block approach. Table 15 below

shows the return on capital that will be accrued during the first regulatory period, which can be regarded as MLPL’s notional maximum allowed revenue, although it will not start to be recovered from customers until the second regulatory period, commencing on 1 July 2030. As explained in section 8.3, we have not included any CESS bonus or penalty in this calculation as we consider it preferable to apply any bonus or penalty when MLPL commences revenue recovery from customers.

MLPL expects to obtain concessional finance, which means that a reduced amount of revenue will be recovered from customers. The concessional finance arrangements have not yet been finalised. The data below shows the notional MAR on a non-concessional basis. We explain the indicative impact of concessional finance on MLPL’s MAR during the 2030-35 regulatory period in the next section.

**Table 15: Notional maximum allowed revenue 1 July 2025 to 30 June 2030 (\$ nominal)**

	2025-26	2026-27	2027-28	2028-29	2029-30
Notional maximum allowed revenue \$m - non-concessional	36.5	86.0	157.9	226.8	284.7

## 10.2 Estimated maximum allowed revenues during the 2030-35 regulatory period

While MLPL will not recover revenue from customers until the second regulatory period, our customers and stakeholders are interested to understand MLPL’s indicative revenue requirements and the impact on network charges when services commence. Table 16 sets out that indicative information, noting the following caveats:

- the operating expenditure allowance is a high-level indicative estimate;
- the return on capital adopts our estimate of concessional financing, which may change when the arrangements are settled;
- the return on capital employs the closing RAB as at 30 June 2030, noting that the actual RAB may be materially different;
- the return of capital reflects assumed asset lives which may be different to those that actually apply during the 2030-35 regulatory period;
- it reflects an estimate of the benefits of concessional finance, noting that these arrangements have not been settled; and

- the MAR is the smoothed amount, i.e. after applying X factors.

Table 17 sets out the maximum allowed revenue on a non-concessional basis. The table also presents the smoothed revenue requirement in real and nominal terms, as requested by the CAP. This is the revenue that would be recovered if MLPL did not benefit from concessional finance.

**Table 16: MLPL’s indicative revenue to be recovered from customers (concessional basis)<sup>71</sup>**

Category	2030-31	2031-32	2032-33	2033-34	2034-35
<b>Smoothed MAR (\$m real 2023)</b>	175.7	168.2	169.5	177.4	184.3
<b>Smoothed MAR (\$m nominal)</b>	220.5	216.3	223.5	239.6	255.2

**Table 17: MLPL’s revenue requirements before adjusting for concessional finance<sup>72</sup>**

Category	2030-31	2031-32	2032-33	2033-34	2034-35
<b>Smoothed MAR (\$m real 2023)</b>	287.9	291.8	295.9	300.0	304.1
<b>Smoothed MAR (\$m nominal)</b>	361.1	375.3	390.0	405.3	421.2

The difference between the Table 16 and Table 17 is the indicative estimated customer benefits from concessional finance for the period 2030-2035, which is presented in Table 18 below.

**Table 18: Indicative estimated customer benefits from concessional finance 2030-2035**

Category	2030-31	2031-32	2032-33	2033-34	2034-35
<b>Smoothed MAR (\$m real 2023)</b>	112.2	123.6	126.4	122.6	119.8
<b>Smoothed MAR (\$m nominal)</b>	140.6	159.0	166.5	165.7	166.0

<sup>71</sup> This is the indicative revenue to be recovered from customers, which incorporates an estimate of the customer benefits of concessional finance (which are not yet settled).

<sup>72</sup> This revenue requirement will not be recovered from customers, as it does not include the benefits of concessional finance. It is shown here for comparative purposes only.



## 10.3 Indicative prices from 1 July 2030

MLPL's concessional MAR, including the benefit of concessional finance, will be recovered from customers in Tasmania and Victoria in accordance with the Pricing Methodology that will be approved by the AER in its Stage 2 determination, i.e. for the 2030-35 regulatory period. At this stage, we have assumed that MLPL's MAR will be recovered 27.6% from Tasmanian customers and 72.4% from Victorian customers.

At a high-level, the price impact of MLPL on average transmission charges in Tasmania and Victoria can be estimated by:

- calculating the annual MAR for each region, including an estimated benefit of concessional finance;<sup>73</sup>
- further allocate the MAR in each region between major industrial customers, small business customers and residential customers in those regions;
- estimate the transmission proportion of an indicative customer bill; and
- estimate the resulting increase in the transmission proportion of an indicative customer bill as a result of the addition of MLPL's MAR.

MLPL obtained assistance from TasNetworks and AEMO to undertake the above calculation, as those parties are responsible for transmission pricing in Tasmania and Victoria, respectively. Based on the above approach, we have estimated the impact that MLPL's 2031-32 MAR<sup>74</sup> would have on transmission charges for residential and small business electricity customers in Tasmania and Victoria compared to today's transmission charges.

<sup>75</sup> All data is expressed in June 2023 prices and excludes GST<sup>76</sup>:

- an increase of approximately \$47 in transmission charges for a typical residential customer in Tasmania; and
- an increase of approximately \$20 in transmission charges for a residential customer in Victoria.

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<sup>73</sup> As explained in section 6.4, this information is indicative because a concessional finance agreement has not yet been entered into.

<sup>74</sup> The 2031-32 MAR has been used because all construction expenditure is forecast to have been incurred prior to the start of this year and Marinius Link is expected to be operational.

<sup>75</sup> This analysis excludes the price impact of the North West Transmission Developments, which are being progressed by TasNetworks.

<sup>76</sup> For Tasmanian customers, the data have been obtained from TasNetworks. For Victorian customers, information from the 2024-25 Victorian Default Offer Report has been used for the annual bill and usage.

In terms of total net market benefits, the latest estimates indicate that Marinius Link will deliver benefits of \$1.48 billion after allowing for the total project costs. These benefits arise because Marinius Link is expected to deliver savings in the wholesale energy component of the electricity supply chain, which will feed through to lower electricity bills. FTI Consulting estimates that the first cable is expected to reduce the wholesale energy portion of customers' power bills by approximately \$93 per annum for Tasmanian residential customers and \$53 per annum for Victorian residential customers.<sup>77</sup>

While the costs of the North West Transmission Developments will be updated by TasNetworks in the coming months, MLPL considers that average net savings to typical residential customers in both Victoria and Tasmania will fall in the range \$25 – \$36 per customer per annum.<sup>78</sup> These estimates exclude the broader benefits from Marinius Link associated with economic and employment growth, including multiplier effects, as detailed in EY's study in October 2023.<sup>79</sup>

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<sup>77</sup> For further information, please refer to the [FTI Consulting report](#).

<sup>78</sup> This estimate is the net benefit to customers after allowing for network costs, including an estimate for the NWTDs.

<sup>79</sup> [EY, The economic contribution of Project Marinius, October 2023](#).

# 11. Contingent project provisions

**Key Points:**

- The Rules provide for the inclusion of a 'contingent project' in the AER's revenue determination, together with defined triggers. If the defined trigger events occur during the regulatory period, the Rules allow the AER to provide an additional capital expenditure allowance for that project.
- In this Revenue Proposal, MLPL is proposing that the second stage for Marinius Link is classified as a contingent project. This approach is appropriate given the uncertainty regarding the timing of the second stage and the costs of delivering it.

## 11.1 What is a contingent project?

A project that is uncertain to proceed in a regulatory period may be classified as a 'contingent project'. The purpose of classifying a project as a contingent project is that a capital expenditure allowance can be provided by the AER when the timing and costs of the project are more certain, rather than being required to make an estimate at the time of a revenue determination.

When the timing and costs of a contingent project become more certain, the TNSP is able to lodge a contingent project application which commences a review process by the AER to determine a capital expenditure allowance for that project. The AER's review culminates in an amendment to the existing revenue determination to accommodate the forecasts costs of delivery of the project.

The Rules provide two options for a TNSP to propose a contingent project and lodge a contingent project application:

1. As part of a Revenue Proposal,<sup>80</sup> in which the TNSP nominates a trigger event for a project that is reasonably required to be undertaken in the regulatory period;<sup>81</sup> or
2. If a project is an actionable ISP project<sup>82</sup>.

As explained in section 1.4, Marinius Link is an actionable ISP project that will provide total interconnection capacity of 1500 MW delivered in two 750 MW stages. Ordinarily, as an actionable ISP project a capital expenditure allowance for Marinius Link would be provided through one or more contingent project

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<sup>80</sup> Clause 6A.8.A1(a).

<sup>81</sup> Clause 6A.8.1(b)(1).

<sup>82</sup> Clause 6A.8.A1(b).

applications in accordance with the second option outlined above. As MLPL is an Intending TNSP, however, there is no existing revenue determination that can be reopened to include a capital expenditure allowance for Marinius Link. For that reason, the AER's Commencement and Process Paper has set out a regulatory process for establishing a revenue determination for Stage 1 of Marinius Link. This approach, which MLPL supports, raises a question regarding the appropriate approach for providing a capital expenditure allowance for Stage 2.

Given MLPL's particular circumstances, we consider that it is appropriate to treat Stage 2 as a contingent project which can be triggered during the first regulatory control period if pre-defined trigger events occur, i.e., in accordance with the first option described earlier.<sup>83</sup> The advantage of this approach is that it assists stakeholders in understanding the circumstances in which a contingent project application would be lodged by MLPL. The proposed definition of the trigger event is provided in the next section. In contrast, we note that:

- relying on Marinius Link's actionable ISP status would not provide clarity regarding the likely timing of MLPL's contingent project application to the AER; and
- addressing Stage 2 by providing an ex ante capital expenditure allowance in the 2030-35 regulatory period (i.e., similar to the Stage 1 approach), would not provide sufficient flexibility regarding the project timing.

## 11.2 Project definition and proposed triggers

MLPL proposes that the construction of the second 750 MW cable and associated works is classified as a contingent project, with the early works costs being addressed through a contingent project application. MLPL considers that AEMO's 2024 ISP provides compelling evidence that early works may need to commence during the 2025-30 regulatory period. At the time of preparing this Revenue Proposal, the estimated costs of delivering the second stage in 2034 is approximately \$2.2 billion, expressed in 2023 prices. This cost exceeds the threshold amount for a contingent project as specified in the Rules.<sup>84</sup>

The proposed triggers for the contingent project are:

- AEMO's 2026 ISP or 2028 ISP confirms that early works in relation to the second cable should proceed as soon as practicable;

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<sup>83</sup> Clause 6A.8.A1(a).

<sup>84</sup> Contingent projects are required to exceed a threshold of the greater of \$30 million or 5% of the maximum allowed revenue for the first year of the regulatory control period, which is approximately \$2 million.

- MLPL updates the RIT-T analysis to confirm that the second cable should proceed; and
- MLPL completes the feedback loop for the second cable in accordance with 5.16A(b) of the Rules.

If these triggers are satisfied MLPL intends to lodge a contingent project application in relation to early works for the second stage of Marinus Link, followed by a second contingent project application relating to the construction costs. MLPL considers that this approach promotes the long-term interests of consumers, in accordance with the NEO, as it improves the accuracy of the expenditure forecasts and ensures that any impediments to the successful delivery of the project are identified and actively managed at an early stage.

MLPL also notes that early works for Stage 2 is reasonably likely to be required, given the timings indicated in the 2024 ISP which indicate that Stage 2 may be needed as early as 2034. If the project were required in 2034, early works would need to commence during the 2025-30 regulatory period.

## 12. Concluding comments and next steps

This Revenue Proposal explains MLPL's approach to delivering Stage 1 of Marinus Link, which is to construct the first stage and to undertake the necessary works in readiness for the second stage. As explained in this Revenue Proposal, some elements of MLPL's construction expenditure will be updated during the AER's determination process as new information becomes available from MLPL's competitive procurement process. MLPL will work closely with the AER and stakeholders to provide timely updates to our forecast construction expenditure.

The Revenue Proposal also establishes key elements of the regulatory framework that will apply to MLPL during the first regulatory period including:

- the arrangements, including the applicable cost of capital, for determining MLPL's RAB at the commencement of the first regulatory period, being 1 July 2025, and 'rolling forward' the RAB during the regulatory period;
- whether incentive schemes should apply to construction expenditure; and
- the approach to nominated pass-through events.

The AER's determination in relation to this Revenue Proposal will conclude the AER's stage 1 determination for MLPL. As explained in this Revenue Proposal, MLPL will not recover any revenue from electricity consumers during this period. This is because Marinus Link is not expected to be commissioned until after 1 July 2030 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, which will require MLPL to submit its Revenue Proposal by 31 January 2029.

# 13. Glossary

Acronym/Term	Definition
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
BOW	Balance of Works
CAP	Consumer Advisory Panel
CESS	Capital Expenditure Sharing Scheme
CPA	Contingent Project Application
FID	Final Investment Decision
HDD	Horizontal Directional Drilling
HVAC	High Voltage Alternating Current
HVDC	High Voltage Direct Current
ISP	Integrated System Plan
LME	London Metal Exchange
MAR	Maximum Allowed Revenue
MLPL	Marinus Link Pty Ltd
MW	Megawatt
NEM	National Electricity Market
NWTD	North West Transmission Developments
ODP	Optimal Development Path
OEM	Original Equipment Manufacturer
RAB	Regulatory Asset Base
RBA	Reserve Bank of Australia
RFM	Roll Forward Model
RIT-T	Regulatory Investment Test for Transmission
RORI	Rate of Return Instrument
SCADA	Supervisory Control and Data Acquisition
TNSP	Transmission Network Service Provider
TRET	Tasmanian Renewable Energy Target

# 14. Appendix: Rules checklist

Our application for a revenue determination identified those elements of an AER decision under clause 6A.14.1 of the National Electricity Rules that would be addressed under the Revenue Proposal (Construction costs). Table 19 below provides cross-references to this Revenue Proposal to indicate where the relevant information is provided.<sup>85</sup> A red cross indicates there is not a requirement for MLPL to comply with the rules in this revenue proposal, and thus there is no cross reference in this proposal.

**Table 19: Rules compliance**

Clause 6A.14.1 - Contents of decisions	Stage 1	
	Applicable in Part B?	Cross reference
A draft decision under rule 6A.12 or a final decision under rule 6A.13 is a decision by the AER:		
(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

<sup>85</sup> Marinus Link, Intending TNSP application for a revenue determination, section 3.5, 31 March 2023.



Clause 6A.14.1 - Contents of decisions	Stage 1	
	Applicable in Part B?	Cross reference
<p>(2) in which the AER either:</p> <ul style="list-style-type: none"> <li>(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;</li> <li>(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 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;</li> </ul>	<p style="text-align: center;">✓</p> <p style="text-align: center;">✓</p>	<p style="text-align: center;">Chapter 5, plus Attachments 1 - 9.</p>
<p>(3) in which the AER either:</p> <ul style="list-style-type: none"> <li>(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;</li> <li>(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;</li> </ul>	<p style="text-align: center;">✗</p> <p style="text-align: center;">✗</p>	
<p>(4) in which the AER determines:</p> <ul style="list-style-type: none"> <li>(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;</li> <li>(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;</li> <li>(iii) the trigger events in relation to each contingent project (in which case the decision must clearly specify those trigger events); and</li> <li>(iv) if the AER determines that such a proposed contingent project is not a contingent project for the purposes of the revenue</li> </ul>	<p style="text-align: center;">✓</p> <p style="text-align: center;">✓</p> <p style="text-align: center;">✓</p> <p style="text-align: center;">✓</p>	<p style="text-align: center;">Section 11.2</p> <p style="text-align: center;">Section 11.2</p> <p style="text-align: center;">Section 11.2</p> <p style="text-align: center;">N/A</p>

Clause 6A.14.1 - Contents of decisions	Stage 1	
	Applicable in Part B?	Cross reference
determination, its reasons for that conclusion, having regard to the requirements of clause 6A.8.1(b).		
(5) [Deleted]	N/A	N/A
(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;	✓	Chapter 8
(5B) on the allowed rate of return for each regulatory year of the regulatory control period;	✓	Chapter 6
(5C) on the allowed imputation credits for each regulatory year of the regulatory control period;	✓	Chapter 6
(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;	✓	Chapter 7
(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.	✗	
(6) [Deleted]	-	-
(7) [Deleted]	-	-
(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.	✓	Chapter 9