# **Final Decision**

Directlink Electricity Transmission Determination 2025 to 2030 (1 July 2025 to 30 June 2030)

Attachment 6 Operating expenditure

**April 2025** 



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Version	Date	Pages	
1	30 April 2025	14	

# List of attachments

This attachment forms part of the Australian Energy Regulator's (AER's) final decision on the transmission determination that will apply to Directlink for the 2025–30 period. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. Where an attachment has not been prepared, our draft decision reasons form part of this final decision. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Maximum allowed revenue

Attachment 2 - Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 - Capital expenditure

#### Attachment 6 – Operating expenditure

Attachment 7 - Corporate income tax

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# 6 Operating expenditure

Operating expenditure (opex) refers to the operating, maintenance and other non-capital expenses incurred in the provision of network services. Forecast opex for prescribed transmission services is one of the building blocks we use to determine a service provider's annual total revenue requirement.

This attachment outlines our assessment of Directlink's proposed total opex forecast for the 2025–30 regulatory control period (2025–30 period).

## 6.1 Final decision

Our final decision is to accept Directlink's revised proposal total opex forecast of \$34.2 million<sup>1</sup> (\$2024-25)<sup>2</sup>, including debt raising costs, for the 2025–30 period, as it is not materially different to our alternative estimate of total forecast opex of \$33.4 million (–2.3% lower). Therefore, we consider that Directlink's revised proposal total opex forecast reasonably reflects the opex criteria, having regard to the opex factors.<sup>3</sup>

Directlink's final decision total opex forecast is:

- \$0.7 million or 2.0% higher than our draft decision<sup>4</sup>
- \$5.1 million or 17.5% higher than the opex forecast we approved in our final decision for the 2020–25 regulatory control period
- \$2.3 million or 7.3% higher than Directlink's actual (and estimated) opex in the 2020–25 regulatory control period
- \$5.3 million or 13.4% lower than Directlink's initial proposal.

Figure 6.1 compares our alternative estimate of opex to Directlink's revised proposal for the next regulatory control period. It also shows the forecasts we approved for the last two regulatory control periods and Directlink's actual and estimated opex over these periods.

<sup>&</sup>lt;sup>1</sup> Directlink, *Attachment 09 – Forecast Opex model*, December 2024

<sup>&</sup>lt;sup>2</sup> All dollar amounts in this attachment reflect \$2024–25 terms, unless otherwise indicated

<sup>&</sup>lt;sup>3</sup> The legal framework for our decision is set out in section 6.3 Assessment approach.

<sup>&</sup>lt;sup>4</sup> AER, *Draft Decision Attachment 6 – Operating expenditure – Directlink – 2025-30 Transmission revenue proposal*, September 2024, pg. 1.



#### Figure 6.1 Historical and forecast opex (\$2024–25)



Table 6.1 sets out Directlink's revised proposal opex, our alternative estimate for the final decision and the differences between these forecasts.

	Revised Proposal	Alternative estimate	Difference (\$)	Difference (%)
Based on reported opex	31.7	31.7	_	-0.1
Efficiency adjustment	_	_	_	-
Base year non-recurrent efficiency gains	-	-	-	-
SOCI Adjustment	0.7	0.7	-	-
Total base year adjustments	0.7	0.7	-	-
2022-23 to 2024-25 increment	0.4	0.4	_	-
Remove category specific forecasts	-5.3	-5.3	-	-
Trend: Output growth	-	_	-	-
Trend: Price growth	0.7	0.7	-0.0	-0.0

# Table 6.1Comparison of Directlink's revised proposal and our alternative estimateof forecast opex (\$million, 2024–25)

	Revised Proposal	Alternative estimate	Difference (\$)	Difference (%)
Trend: Productivity growth	-0.5	-0.5	0.0	0.0
Total trend	0.2	0.2	-0.0	-0.0
Apprenticeship program	0.4	_	-0.4	-1.3
Transmission determination	0.3	_	-0.3	-0.8
Total step changes	0.7	-	-0.7	-2.1
Category specific forecasts	5.3	5.3	_	_
Total opex, excluding debt raising costs	33.7	32.9	-0.8	-2.3
Debt raising costs	0.5	0.5	_	_
Total opex (including DRC)	34.2	33.4	-0.8	-2.3

Source: Directlink, Attachment 09 - Forecast Opex model, December 2024; AER analysis.

Note: Numbers may not add up to total due to rounding. Differences of '0.0' and '-0.0' represent small variances and '-' represents zero.

Our slightly lower alternative estimate of total opex for Directlink is due to the:

- removal of Directlink's proposed trainee step change (-\$0.4 million)
- removal of Directlink's proposed transmission costs step change (-\$0.3 million).

### 6.2 Directlink's revised proposal

Directlink's revised proposal applied a "base-step-trend" approach to forecast opex for the 2025–30 regulatory control period, consistent with our standard approach.

In applying our base step trend approach to forecast opex, Directlink<sup>5</sup>:

- used reported opex in 2022–23 as the base from which to forecast (\$6.3 million or \$31.7 million over the next regulatory control period)
- adjusted its total base year forecast opex by adding \$0.7 million for costs required to comply with revised obligations under the Security of Critical Infrastructure (SoCI) Act
- subtracted \$5.3 million of category specific costs to account for the removal of opex categories forecast separately from its base opex
- added an estimate of the difference between the base year opex and the opex it will incur in the final year of the current regulatory period, increasing opex by \$0.4 million
- applied its overall rate of change forecast to its final year adjusted opex estimate, increasing opex by \$0.2 million. This reflected price growth of \$0.7 million, productivity growth of -\$0.5 million, but no amount for output growth
- added two step changes totalling \$0.7 million for
  - trainee costs (\$0.4 million)
  - transmission determination (\$0.3 million)

<sup>&</sup>lt;sup>5</sup> Directlink, Attachment 09 - Forecast Opex model, December 2024

- added one category specific forecast for insurance premium costs (\$5.3 million)
- added \$0.5 million of debt raising costs to arrive at a total opex forecast of \$34.2 million over the 2025–30 regulatory control period.

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Total Opex, excluding debt raising costs	6.5	6.7	6.7	6.9	6.9	33.7
Debt raising costs	0.1	0.1	0.1	0.1	0.1	0.5
Total Opex, including debt raising costs	6.6	6.8	6.8	7.0	7.0	34.2

#### Table 6.2Directlink's proposed opex for the 2025–30 period (\$million, 2024–25)

Source: Directlink, *Attachment 09 - Forecast Opex model*, December 2024; AER analysis. Note: Numbers may not add up to total due to rounding.

Figure 6.2 shows the different components that make up Directlink's revised proposal opex forecast for the 2025–30 regulatory control period.



#### Figure 6.2 Directlink's revised proposed opex (\$million, 2024–25)

Source: Directlink, *Attachment 09 - Forecast Opex model*, December 2024, AER analysis. Note: Numbers may not add up to total due to rounding.

#### 6.2.1 Stakeholder views

We received one submission on Directlink's revised proposal which discussed opex issues, from the Energy Users Association of Australia (EUAA).

At a high level, the EUAA submitted that<sup>6</sup>:

<sup>&</sup>lt;sup>6</sup> EUAA, Submission on Directlink's revised proposal and draft submission 2025-30, January 2025.

- Directlink's consumer engagement was of a high standard
- it does not think the additional information provided by Directlink justifies its trainee step change, as it considers these costs are standard business activities
- it supported Directlink's acceptance of the AER's draft decision to exclude Directlink's recovery of its end of life costs in its 2025–30 opex forecast.

We have taken the EUAA's submission into account in arriving at this final decision.

## 6.3 Assessment approach

Our role is to decide whether to accept a business's total opex forecast. We are to form a view about whether a business's forecast of total opex 'reasonably reflects the opex criteria'.<sup>7</sup> In doing so, we must have regard to the opex factors specified in the National Electricity Rules (NER).<sup>8</sup>

The *Expenditure forecast assessment guideline* (the Guideline), together with an explanatory statement, sets out our assessment approach in detail.<sup>9</sup> While the Guideline provides for greater regulatory predictability, transparency and consistency, it is not mandatory. However, if we make a decision that is not in accordance with the Guideline, we must state the reasons for departing from the Guideline.<sup>10</sup>

Our approach is to assess the business's forecast opex over the regulatory control period at a total level, rather than to assess individual opex projects. To do so, we develop an alternative estimate of total opex using a 'top-down' forecasting method, known as the 'base-step-trend' approach.<sup>11</sup> We compare our alternative estimate with the business's total opex forecast to form a view on the reasonableness of the business's proposal. If we are satisfied the business's forecast reasonably reflects the opex criteria, we must accept the forecast.<sup>12</sup> If we are not satisfied, we must reject the business's forecast<sup>13</sup> and substitute it with our alternative estimate that we are satisfied reasonably reflects the opex criteria.<sup>14</sup>

In making this decision, we take into account the reasons for the difference between our alternative estimate and the business's proposal, and the materiality of the difference. Further, we take into consideration interrelationships between opex and the other building block components of our decision.<sup>15</sup>

Figure 6.3 summarises the 'base-step-trend' forecasting approach.

<sup>&</sup>lt;sup>7</sup> NER, cl. 6A.6.6(c).

<sup>&</sup>lt;sup>8</sup> NER, cl. 6A.6.6(e).

<sup>&</sup>lt;sup>9</sup> AER, Expenditure forecast assessment guideline – electricity transmission, October 2024,; AER, Expenditure forecast assessment guideline – explanatory statement, November 2013; AER; Expenditure forecast assessment guideline – Final decision and explanatory statement, October 2024.

<sup>&</sup>lt;sup>10</sup> NER, cl. 6A.2.3(c).

<sup>&</sup>lt;sup>11</sup> A 'top-down' approach forecasts total opex at an aggregate level, rather than forecasting individual projects or categories to build a total opex forecast from the 'bottom up.'

<sup>&</sup>lt;sup>12</sup> NER, cl. 6A.6.6(c).

<sup>&</sup>lt;sup>13</sup> NER, cl. 6A.6.6(d).

<sup>&</sup>lt;sup>14</sup> NER, cl. 6A.14.1(3)(ii).

<sup>&</sup>lt;sup>15</sup> We are required to consider these interrelationships under s. 16(1)(c) of the NEL.



#### 6.3.1 Interrelationships

In assessing Directlink's total forecast opex, we also take into account other components of its proposal that could interrelate with our opex decision. The matters we considered in this regard included:

 the EBSS carryover—the level of opex used as the starting point to forecast opex (the final year of the current regulatory control period) should be the same as the level of opex used to forecast the EBSS carryover. This consistency ensures that the business is rewarded (or penalised) for any efficiency gains (or losses) it makes in the final year the same as it would for gains or losses made in other years

- the operation of the EBSS in the 2020–25 regulatory control period, which provided Directlink an incentive to reduce opex in the base year
- the impact of cost drivers that affect both forecast opex and forecast capital expenditure (capex). For instance, forecast labour price growth affects forecast capex and our forecast price growth used to estimate the rate of change in opex
- the approach to assessing the rate of return, to ensure there is consistency between our determination of debt raising costs and the rate of return building block
- the outcomes of Directlink's engagement with consumers and stakeholders in developing its proposal and any feedback we have had.

## 6.4 Reasons for final decision

Our final decision is to accept Directlink's revised proposal total opex forecast of \$34.2 million, including debt raising costs, for the 2025-30 period, as it is not materially different to our alternative estimate of total forecast opex of \$33.4 million (-2.2% lower). Therefore, we consider that Directlink's revised proposal total opex forecast reasonably reflects the opex criteria, having regard to the opex factors. <sup>16</sup>

Table 6.1sets out Directlink's revised proposal (the basis for our final decision), our alternative estimate, and the difference between our alternative estimate and the revised proposal.

#### 6.4.1 Base opex

This section provides our view on the prudent and efficient level of base opex that we consider Directlink would need for the safe and reliable provision of electricity services over the 2025–30 regulatory control period.

#### 6.4.1.1 Proposed base year

Consistent with our draft decision and Directlink's revised proposal, we consider it is reasonable for Directlink to use 2022–23 as the base year for its base opex amount of \$31.7 million (over 5 years). This is because it reflects audited actual opex for a recent year, which we consider is reasonably representative of the nature of base opex costs that are required for the next regulatory control period.<sup>17</sup>

#### 6.4.1.2 Efficiency of Directlink's base opex

As outlined in our draft decision, we are satisfied that Directlink's base opex is unlikely to be materially inefficient.<sup>18</sup>

<sup>&</sup>lt;sup>16</sup> The legal framework for our decision is set out in section 6.3 Assessment approach.

<sup>&</sup>lt;sup>17</sup> AER, Draft Decision Attachment 6 – Operating expenditure – Directlink – 2025-30 Transmission revenue proposal, September 2024, pp. 8 - 9.

<sup>&</sup>lt;sup>18</sup> AER, Draft Decision Attachment 6 – Operating expenditure – Directlink – 2025-30 Transmission revenue proposal, September 2024, pp. 8 - 9.

#### 6.4.1.3 Adjustments to base year opex

Directlink proposed a total adjustment to its base opex of \$0.13 million or \$0.7 million over the forecast period. This adjustment relates to Directlink's compliance with the SoCI Act. We accepted this adjustment in our draft decision.<sup>19</sup>

We have included \$0.4 million for the final year increment in our alternative estimate, which is the same as Directlink's proposed amount.<sup>20</sup>

#### 6.4.2 Rate of change

Having determined an efficient starting point, or base opex, we trend it forward to account for the forecast growth in prices, output and productivity. We refer to this as the rate of change.<sup>21</sup>

Directlink has accepted the AER's rate of change positions set out in our draft decision, which it has reflected in its revised proposal, updating for more recent inflation figures.<sup>22</sup>

- The rate of change in Directlink's revised proposal contributed \$0.2 million to Directlink's total opex forecast of \$34.2 million. This equates to opex increasing 0.2% on average each year.
- The changes in our alternative rate of change estimate are due to a slightly lower price growth forecast, which reflects the latest inflation data and updated WPI forecasts from our consultant, Deloitte Access Economics.
- Consistent with our draft decision, we have maintained an output growth forecast of 0% (given Directlink is an interconnector) and a productivity growth forecast of 0.6% in our alternative estimate.

We compare both forecasts in Table 6.3.

	2025-26	2026-27	2027-28	2028-29	2029-30
Directlink's proposal					
Price growth	1.1	1.8	2.4	3.1	4.0
Output growth	-	-	-	-	-
Productivity growth	0.6	0.6	0.6	0.6	0.6
Rate of change	0.5	0.1	-0.0	0.1	0.3
AER alternative estimate					
Price growth	1.0	0.7	0.6	0.7	0.9
Output growth	-	-	-	-	-
Productivity growth	0.6	0.6	0.6	0.6	0.6
Rate of change	0.4	0.0	0.0	0.1	0.3

#### Table 6.3Forecast annual rate of change in opex (%)

<sup>&</sup>lt;sup>19</sup> AER, Draft Decision Attachment 6 – Operating expenditure – Directlink – 2025-30 Transmission revenue proposal, September 2024, pg. 10.

<sup>&</sup>lt;sup>20</sup> Directlink, *Attachment 09 - Forecast Opex model*, December 2024

<sup>&</sup>lt;sup>21</sup> AER, *Expenditure forecast assessment guideline for electricity transmission*, November 2013, pp. 23–24.

<sup>&</sup>lt;sup>22</sup> Directlink, Attachment 09 - Forecast Opex model, December 2024

	2025-26	2026-27	2027-28	2028-29	2029-30
Difference	-0.2	-0.0	0.0	0.0	0.0

Source: Directlink, Attachment 09 - Forecast Opex model, December 2024, AER analysis.

Note: The rate of change = (1 + price growth) × (1 + output growth) × (1 – productivity growth) – 1. Numbers may not add up to totals due to rounding. Amounts of '0.0' and '–0.0' represent small non-zero values and '–' represents zero.

#### 6.4.3 Step changes

In developing our alternative estimate for the final decision, we include prudent and efficient step changes for cost drivers such as new regulatory obligations or efficient capex / opex trade-offs. As we explain in the Guideline, we will generally include a step change if the efficient base opex and the rate of change in opex of an efficient service provider does not already include the proposed cost for such items and they are required to meet the opex objectives.<sup>23</sup>

Directlink has included two step changes in its revised proposal (trainee costs and its transmission determination costs). We have not included either of these step changes in our alternative estimate for its final decision opex forecast.

#### 6.4.3.1 Trainee costs step change

Directlink included a step change of \$0.4 million over the 2025–30 regulatory control period in its revised proposal, to hire and train a qualified electrician.

We have not included this step change in our alternative estimate as we do not consider it represents prudent and efficient expenditure.

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Directlink's revised proposal	-	0.1	0.1	0.1	0.1	0.4
AER alternative	-	-	-	-	-	-
Difference	-	-0.1	-0.1	-0.1	-0.1	-0.4

#### Table 6.4 Directlink's trainee costs step change (\$million, 2024–25)

Source: Directlink, Attachment 09 - Forecast Opex model, December 2024, AER analysis.

Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '-0.0' represent small non-zero amounts and '-' represents zero.

#### **Draft decision**

Directlink originally included this step change in its initial proposal, as an 'apprenticeship program step change' and at a higher amount of \$0.9 million over the 2025-30 period. We did not accept that step change in our draft decision as we considered that<sup>24</sup>:

<sup>&</sup>lt;sup>23</sup> AER, *Expenditure forecast assessment guideline for electricity transmission*, November 2013, p. 24.

<sup>&</sup>lt;sup>24</sup> AER, Draft Decision Attachment 6 – Operating expenditure – Directlink – 2025-30 Transmission revenue proposal, September 2024, pp. 14 - 16.

- workforce planning issues are a part of usual business activities and therefore do not require a step change
- it seemed likely that some of the APA Group's apprenticeship program costs were already included in Directlink's base operating expenditure, either through direct charges or overheads, and
- we did not consider that the apprenticeship program costs met the step change criteria as outlined in our Better Resets Handbook.

#### **Revised proposal**

In its revised proposal, Directlink provided additional information to help address the AER's concerns in relation to this step change. Namely, Directlink emphasised its need for these costs for a new employee as:<sup>25</sup>

- electricians at Directlink have a rare skillset that needs to be trained up over 4 years. This is due to the specialized high voltage connector expertise that is required to operate the asset
- Directlink cannot continue to rely on its use of contractors and overtime to fill this labour gap, given the increasing demand and limited supply of skilled trade employees
- maintenance work on Directlink is expected to increase as it nears the end of its economic life, and contractor rates are also expected to rise in the future with the energy transition
- the costs of this new employee will eventually translate to an economic benefit and savings, which Directlink will recognise in the form of a negative step change in the next regulatory period
- given Directlink's small size, a new full time employee is a sizable expense that cannot be categorized as business-as-usual and is not already covered in its base year.

Directlink also undertook an options analysis to examine the Net Present Value (NPV) of various avenues to address its labour shortage (including 'do nothing'), with the option of hiring a trainee in the 2025–30 regulatory period having the highest NPV.

#### Conclusion

We recognise Directlink's need to maintain a sufficient level of skilled resourcing, and the complexity of onboarding suitably qualified individuals for such work given Directlink's small size and the specialised nature of its operations. Nevertheless, we remain of the view that a prudent business should be addressing workforce planning issues on an ongoing, business-as-usual basis, and that such costs do not meet the criteria required for a step change to costs already accounted for in base opex. This is further supported by the EUAA in its submission on Directlink's revised proposal.<sup>26</sup>

The additional information provided by Directlink in its revised proposal largely relates to its need for an additional trainee resource, which we do not dispute is likely to reflect a prudent approach to managing the current and future resourcing issues identified. However, we do

<sup>&</sup>lt;sup>25</sup> Directlink, *Revised Proposal Document*, December 2024, pp. 28 – 32.

<sup>&</sup>lt;sup>26</sup> EUAA, Submission on Directlink's revised proposal and draft submission 2025-30, January 2025.

not consider Directlink's revised proposal provides persuasive evidence that demonstrates this additional expenditure justifies a step change to base opex. We accept that Directlink's relatively small size compared to other networks means that the cost of a new employee is more significant than it might be in the context of a larger network, but nonetheless consider that it could have met this business need, without relying on a step change, with more prudency (i.e. if it had started to plan for it sooner).

We also note Directlink's proposal to include a negative step change in its regulatory proposal for the 2030–35 regulatory period to remove these costs once it has started to realise the economic benefits from its new employee. However, we consider this provides further evidence that a step change is not required in the 2025–30 period. Our opex assessment framework reflects that opex is largely recurrent in nature, and is intended to provide a consistent 'top-down' forecast without the need for specific minor adjustments up and down from period to period. The framework already provides Directlink sufficient incentive to incur the efficient costs of hiring a trainee if this provides an economic benefit (e.g. contractor cost savings) in future periods.

We have therefore excluded this step change from our alternative estimate of total forecast opex, as we are not satisfied this step change is required in the 2025–30 period.

#### 6.4.3.2 Transmission costs step change

In its initial proposal, Directlink proposed \$0.3 million for capital expenditure associated with the 2030–35 regulatory reset.<sup>27</sup> These costs were not included in our capex draft decision.<sup>28</sup>

In its revised proposal, Directlink included a \$0.3 million opex step change for transmission determination costs for the 2030–35 period. The proposed costs relate to obtaining independent legal and engineering advice.<sup>29</sup> Directlink submitted that these forecast costs are not included in the 2022–23 opex base year, and are based on historic costs from previous regulatory determination processes.<sup>30</sup>

Our decision is to not include a step change for transmission determination costs in our alternative estimate of forecast opex, for the reasons outlined below.

able 6.5 Directlink's trans 25)	mission o	determina	tion costs	s step cha	nge (\$mill	ion, 2024-

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Directlink's revised proposal	-	-	-	0.15	0.15	0.30
AER alternative	-	-	-	-	-	-
Difference	-	-	-	-0.15	-0.15	-0.30

Source: Directlink, Attachment 09 - Forecast Opex model, December 2024, AER analysis.

<sup>&</sup>lt;sup>27</sup> Directlink, *Proposal - Attachment 04 – Capital expenditure*, January 2024, pp. 12–13.

<sup>&</sup>lt;sup>28</sup> AER, Draft decision Attachment 5 – Capital expenditure – Directlink – 2025–30 Transmission revenue proposal, September 2024, p. 7.

<sup>&</sup>lt;sup>29</sup> Directlink, *Revised Proposal Document*, December 2024, p. 33.

<sup>&</sup>lt;sup>30</sup> Directlink, *Revised Proposal Document*, December 2024, p. 33.

Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '-0.0' represent small non-zero amounts and '-' represents zero.

For the 2020–25 period Directlink proposed a similar item of expenditure. In the 2020–25 draft decision we did not include the costs as either opex or capex. In that decision we explained:<sup>31</sup>

...we may add (or subtract) step changes for any costs that are not captured in base opex or the rate of change that are required for forecast opex to meet the opex criteria. In the absence of a change to regulatory obligations or a legitimate capex/opex trade-off opportunity, we would accept a step change under limited circumstances.

A similar item described as an access arrangement allowance was proposed for the Victorian Transmission Systems' (VTS) 2022–2027 period, as a category specific forecast. In our draft decision, and previous decisions we stated:<sup>32</sup>

... that costs associated with the preparation of an access arrangement are a business-as-usual expense that a prudent network business will consider and manage within its existing base opex forecast. Importantly, such costs are fundamentally directly related to a business' regulatory obligations to submit a proposal for the subsequent access arrangement period.

We accept that revenue determination costs are non-recurrent on a year-on-year basis, and therefore may not be reflected in the particular base year chosen. However, they are costs that are typically borne within a regulatory period. This means that although there may be volatility in the cost of certain individual opex activities from year to year, total opex is generally stable over time. We therefore consider providing a step change for such opex items may upwardly bias the total opex forecast, particularly as we cannot readily identify any declining or non-recurrent costs that may offset such costs in a given year.

We note that the 2022–23 base year opex of \$6.3 million is consistent with the 2020–25 annual average opex of \$6.4 million.

Consistent with our earlier decisions, as evidenced by the draft decisions for 2020–25 Directlink and 2022–27 VTS, we have not included the proposed transmission determination step change costs in our alternative estimate of total forecast opex.

#### 6.4.4 Category specific forecasts

Directlink's initial proposal included three category specific forecasts, which were not forecast using the base-step-trend approach. These were for end of life costs, insurance premiums and debt raising costs. We did not include the category specific forecast for Directlink's end of life costs in our draft decision, but we did include the category specific forecasts for its insurance premiums and debt raising costs. We did include the category specific forecasts for its

<sup>&</sup>lt;sup>31</sup> AER, *Directlink 2020–25 – Draft decision – Attachment 6 – Operating expenditure*, October 2019, p. 16.

<sup>&</sup>lt;sup>32</sup> AER, Draft decision – APA VTS 2023–27 Access arrangement – Attachment 6 – Operating expenditure, June 2022, p. 32.

#### 6.4.4.1 End of life costs

Directlink's initial proposal included a category specific forecast of \$4.7 million over the 2025–30 period to set aside funds for its expected future end of life costs.<sup>33</sup> Our draft decision did not include this amount in our alternative estimate due to the uncertainty around the need, quantum and timing of these costs, and the lack of evidence to justify their inclusion as prudent and efficient costs for the 2025–30 period.<sup>34</sup>

Directlink accepted the AER's draft decision to not include these costs in its revised proposal.<sup>35</sup> This was also supported by the EUAA in its submission on Directlink's revised proposal.<sup>36</sup>

#### 6.4.4.2 Insurance premium costs

Directlink proposed a category specific forecast of \$5.3 million over the 2025–30 regulatory control period for its insurance premium costs. Our draft decision accepted this amount and included it in our alternative estimate.<sup>37</sup> This amount remains unchanged in Directlink's revised proposal and our final decision.

#### 6.4.4.3 Debt raising costs

We have included debt raising costs of \$0.5 million in our alternative estimate, which is the same as Directlink's revised proposal.

#### Table 6.6Debt raising costs (\$million, 2023–24)

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Directlink's revised proposal	0.1	0.1	0.1	0.1	0.1	0.5
AER alternative estimate	0.1	0.1	0.1	0.1	0.1	0.5
Difference	-	-	-	-	-	-

Source: Directlink, Attachment 09d - Forecast Opex model, 24 January 2024, AER analysis.

Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '-0.0' represent small non-zero amounts and '-' represents zero.

Debt raising costs are transaction costs incurred each time a business raises or refinances debt. Our preferred approach is to forecast debt raising costs using a benchmarking approach rather than a service provider's actual costs in a single year. This provides consistency with the forecast of the cost of debt in the rate of return building block.

We used our standard approach to forecast debt raising costs, which is discussed further in Attachment 3 to the final decision.

<sup>&</sup>lt;sup>33</sup> Directlink, *Attachment 05 - Operating Expenditure*, January 2024, pp. 16.

<sup>&</sup>lt;sup>34</sup> AER, Draft Decision Attachment 6 – Operating expenditure – Directlink – 2025-30 Transmission revenue proposal, September 2024, pp. 18 - 19.

<sup>&</sup>lt;sup>35</sup> Directlink, *Revised proposal*, December 2024, p. 34.

<sup>&</sup>lt;sup>36</sup> EUAA, Submission on Directlink's revised proposal and draft submission 2025-30, January 2025.

<sup>&</sup>lt;sup>37</sup> AER, Draft Decision Attachment 6 – Operating expenditure – Directlink – 2025-30 Transmission revenue proposal, September 2024, pp. 19 - 20.

# **Shortened forms**

Term	Definition
AER	Australian Energy Regulator
capex	capital expenditure
DAE	Deloitte Access Economics
Directlink	Directlink Joint Venture
EBSS	efficiency benefit sharing scheme
NEL	national electricity law
NEO	national electricity objective
NER	National Electricity Rules
NSP	network service provider
opex	operating expenditure
RBA	Reserve Bank of Australia
RIN	regulatory information notice
SoCI	Security of Critical Infrastructure