Combined Proposal 2024-2029

Attachment 8
Operating expenditure

Outline: This attachment to TasNetworks' Combined Proposal provides information about TasNetworks' past operating expenditure and forecast operating expenditure requirements, including an explanation of how TasNetworks' forecasts of operating expenditure for standard control services and prescribed transmission services have been developed for the 2024-2029 regulatory control period, and how we have incorporated customer and stakeholder feedback into those forecasts.

TasNetworks | Powering a Bright Future

Note

This attachment forms part of TasNetworks' Combined Proposal for the 2024-2029 regulatory control period and should be read in conjunction with the other parts of the proposal. TasNetworks' Combined Proposal is made up of the documents and attachments listed below, as well as the supporting documents that are listed in Attachment 23.

Document	Description
	Combined Proposal overview
Attachment 1	Customer and stakeholder engagement summary
Attachment 2	Annual revenue requirement
Attachment 3	Regulatory asset base
Attachment 4	Rate of return
Attachment 5	Regulatory depreciation
Attachment 6	Capital expenditure
Attachment 7	Contingent projects
Attachment 8	**Operating expenditure**
Attachment 9	Corporate income tax
Attachment 10	Efficiency benefit sharing scheme
Attachment 11	Capital expenditure sharing scheme
Attachment 12	Service target performance incentive scheme
Attachment 13	Demand management incentives and allowance
Attachment 14	Customer service incentive scheme
Attachment 15	Classification of services
Attachment 16	Control mechanisms
Attachment 17	Pass through events
Attachment 18	Alternative control services
Attachment 19	Negotiated services framework and criteria
Attachment 20	Distribution connection pricing policy
Attachment 21	Tariff structure statement
Attachment 22	Tariff structure explanatory statement
Attachment 23	List of supporting documents
Attachment 24	Glossary

Tables in this attachment may not add due to rounding.

Contents

8 Operating expenditure

8.1 Introduction

Operating expenditure (**opex**) refers to operating, maintenance and other non-capital expenses.

Forecast opex is one of the building blocks used by the Australian Energy Regulator (**AER**) to determine the revenue allowances for regulated electricity network service providers (**NSP**). The AER is required to determine a separate opex allowance for each of TasNetworks' transmission and distribution networks for each five year regulatory control period. Overall, the AER is required to assess whether our forecast opex reasonably reflects the operating expenditure criteria. This attachment explains the forecasting methodology and why TasNetworks is satisfied the opex forecast reasonably reflects the operating expenditure criteria to prudently and efficiently achieve the operating expenditure objectives.[1]

8.2 Rule requirements

Clauses 6.5.6(a) and 6A.6.6 of the National Electricity Rules (**NER**) requires TasNetworks' Combined Proposal to include the total forecast operating expenditure (**opex**) for the 2024-2029 regulatory control period that TasNetworks considers is required to achieve the following opex objectives:

- meeting or managing the expected demand for standard control services or prescribed transmission services
- complying with the regulatory obligations or requirements associated with the provision of standard control services or prescribed transmission services
- maintaining the quality, reliability and security of supply of standard control services or prescribed transmission services
- maintaining the reliability and security of the distribution or transmission system
- maintaining the safety of the distribution or transmission system.

The AER is required to accept an NSP's forecast of total opex if it is satisfied that the opex proposed reasonably reflects:

- the efficient costs of achieving the opex objectives
- the costs that a prudent operator would require to achieve the opex objectives
- is based on realistic expectations of demand and the cost inputs required to achieve the opex objectives.

These assessment criteria are known as the opex criteria and are set out in clauses 6.5.6(c) and 6A.6.6(c) of the NER.

In deciding whether TasNetworks' forecasts of opex for the 2024-2029 regulatory control period reasonably reflect the opex criteria, clauses 6.5.6(e) and 6A.6.6(e) of the NER require the AER to have regard to factors including but not limited to:

- the most recent annual benchmarking report published and the benchmark opex that would be incurred by an efficient distribution network service provider (**DNSP**) or transmission network service provider (**TNSP**) over the 2024-2029 regulatory control period
- TasNetworks' actual opex during previous regulatory control periods (including the current 2019-2024 regulatory control period)
- the extent to which the opex forecast includes expenditure to address the concerns of electricity consumers identified by TasNetworks during its engagement with them
- the relative prices of operating and capital inputs
- the substitution possibilities between opex and capital expenditure (**capex**)
- whether the opex forecast is consistent with any incentive scheme(s) applying to TasNetworks, including the Efficiency Benefit Sharing Scheme (**EBSS**), Service Target Performance Incentive Scheme (**STPIS**), Demand Management Incentive Scheme (**DMIS**) and Demand Management Innovation Allowance Mechanism (**DMIAM**)
- whether the opex forecast includes amounts relating to projects that should more appropriately be treated as contingent projects under clauses 6.6A.1(b) or 6A.8.1(b) of the NER

1 National Electricity Rules, clauses 6.5.6 and 6A.6.6

- the most recent Integrated System Plan (**ISP**) and any submissions made by Australian Energy Market Operator (**AEMO**), in accordance with the NER, on the forecast of the TNSP's required operating expenditure
- the extent to which TasNetworks has considered, and made provision for, efficient and prudent non-network alternatives
- any relevant final project assessment report published as part of a regulatory investment test for distribution or transmission.

TasNetworks' forecasts of opex for its distribution and transmission networks have been prepared in accordance with the AER's Expenditure Forecast Assessment Guidelines.

8.3 Opex proposal

TasNetworks has adopted the 'base-step-trend' approach to forecast opex for the 2024-2029 regulatory control period, consistent with the AER's standard approach.

Table 1 sets out TasNetworks' transmission and distribution opex forecasts.

Table 1. TasNetworks' forecast opex ($ million, 2023-24)

	Transmission	Distribution
Base year opex (2021-22)	**36.6**	**104.3**
Base year adjustments	0.0	0.0
Remove category specific forecasts	0.0	(10.7)
2021-22 to 2023-24 increment	0.4	(2.1)
Base opex (2023-24)	**37.0**	**91.5**
Base opex (2024-2029)	185.0	457.7
Debt raising costs	4.2	5.5
Other category specific forecasts	0.0	51.9
Total base trend (2024-2029)	**189.2**	**515.1**
Output growth	0.1	3.7
Price growth	0.6	3.2
Productivity (efficiency) factor	(2.7)	(4.0)
Total rate of change (2024-2029)	**(2.0)**	**2.9**
Cybersecurity	15.4	3.9
Insurance	6.7	19.1
Total step changes (2024-2029)	**22.1**	**23.0**
Total (base trend + rate of change + step changes)	**209.3**	**541.0**

8.3.1 Base-step-trend approach

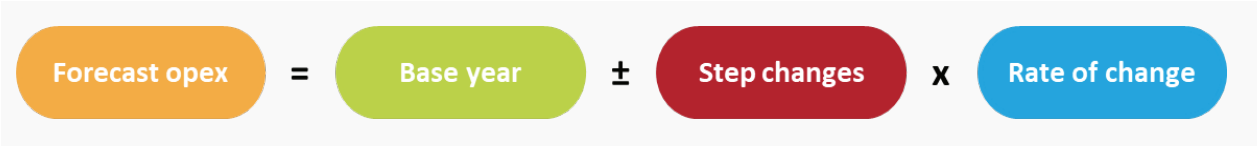
The opex forecasts have been developed in accordance with the AER's 'base-step-trend' method, consistent with the approach set out in the AER's Expenditure Forecast Assessment Guidelines and in our Expenditure Forecast Methodology previously submitted to the AER.[2] This involves forecasting opex at a total level based on revealed costs, rather than forecasts of individual opex projects. This approach is appropriate because opex is largely recurrent and stable at a total level.

The base-step-trend is a three-step process which involves:

- **Base:** using actual opex in a recent year as a starting point (revealed opex)
- **Step:** adjusting the base level of efficient opex for costs not compensated by base opex (e.g., costs associated with changes to regulatory obligations and forecast material increases in existing costs)
- **Trend:** forecasting a rate of change for growth in input prices, outputs and productivity.

2 TasNetworks, 2024-2029 Expenditure Forecasting Methodology, June 2022

Figure 1: The 'base-step-trend' methodology



In proposing the base-step-trend approach TasNetworks notes the operation of the EBSS in the 2019-2024 regulatory control period. The EBSS provides TasNetworks with incentives to reduce opex in every year of a regulatory control period, which means the actual level of opex in a year does provide a good estimate of the efficient costs required to operate a safe and reliable network and meet relevant regulatory obligations.

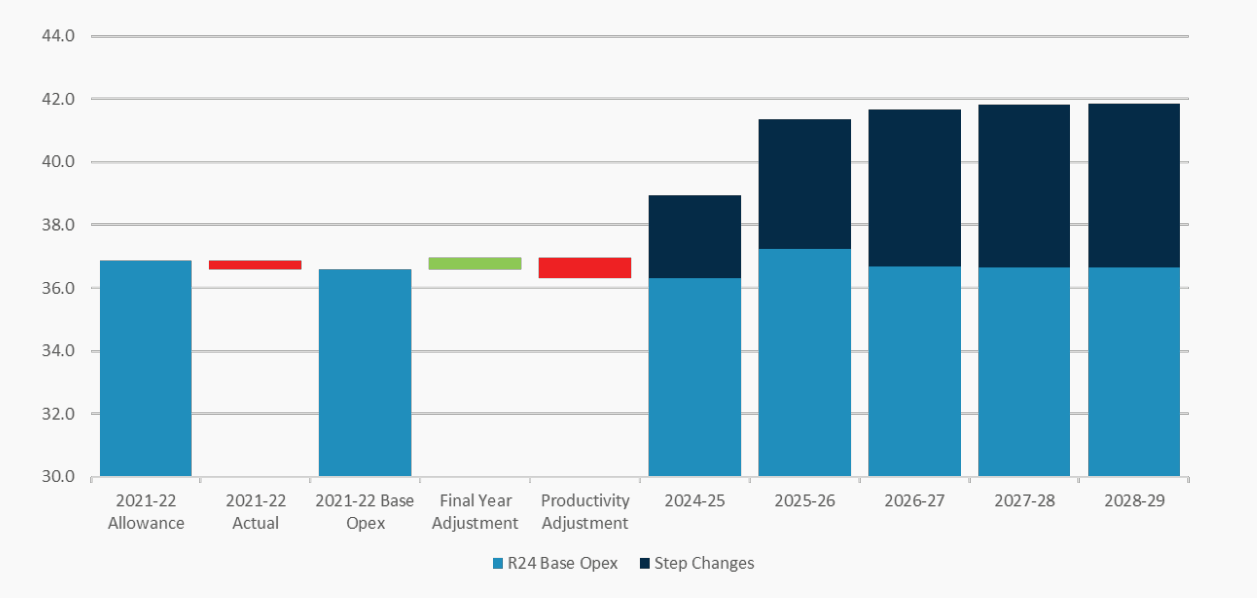
8.3.2 Transmission opex proposal

In applying the base-step-trend approach to forecast transmission opex for the 2024-2029 regulatory control period, TasNetworks' proposes:

- actual opex in 2021-22 as the base from which to forecast [$36.6 million ($2023-24)]
- adding $0.4 million to reflect the change in opex between 2021-22 and 2023-24
- applying a rate of change comprising of:
  - output growth ($0.1 million)
  - real price growth ($0.6 million)
  - productivity growth (-$2.7 million) or 3 per cent in 2024-25 and 0.5 per cent per annum from 2025-26 to 2028-29
- adding two step changes totalling $22.1 million ($2023-24) for:
  - increased insurance premiums ($6.7 million)
  - cyber security costs to comply with new critical infrastructure legislation ($15.4 million)
- adding $4.2 million of debt raising costs to arrive at total forecast opex of $209.3 million over the 2024-2029 regulatory control period ($2023-24).

The transmission base-step-trend outcomes for the 2024-2029 regulatory control period is summarised in Figure 2.

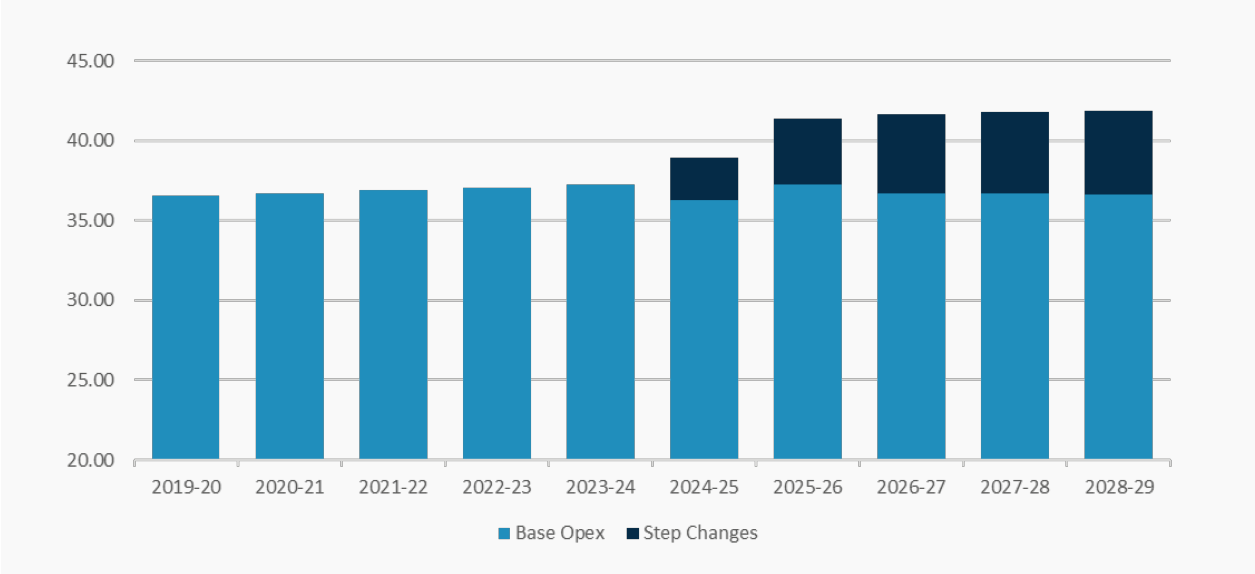
Figure 2. Transmission opex forecast ($ million, 2023-24)



The total transmission opex estimate for the 2024-2029 regulatory control period is $28.4 million ($2023-24) higher than estimated opex for the current 2019-2024 regulatory control period. The higher opex forecast is driven by opex to meet higher forecast cybersecurity and insurance costs (which are proposed as step changes, see section 8.5). These increases are partially offset by productivity savings associated with TasNetworks' transformation program.

Figure 3 compares TasNetworks' transmission opex forecast to previous opex allowances approved by the AER.

Figure 3. Transmission – historical and forecast opex ($ million, 2023-24)



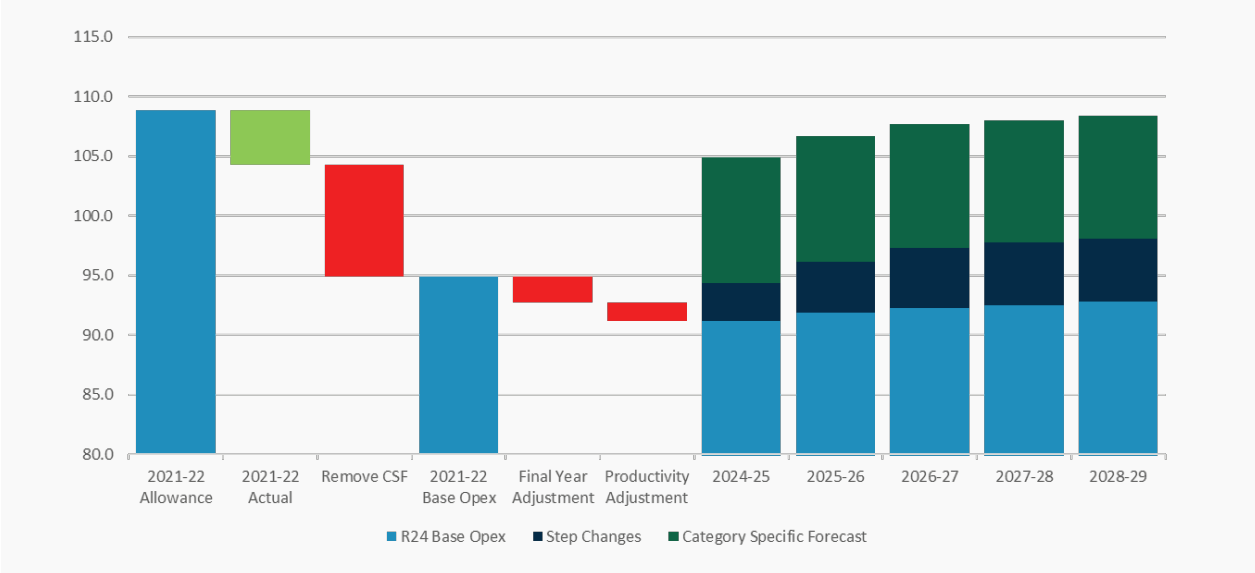
8.3.3 Distribution opex proposal

In applying the base-step-trend approach to forecast distribution opex for the 2024-2029 regulatory control period, TasNetworks' proposes:

- actual opex in 2021-22 as the base from which to forecast [$104.3 million ($2023-24)]
- removing $2.1 million to reflect the change in opex between 2021-22 and 2023-24
- applying a rate of change comprising of:
  - output growth ($3.7 million)
  - real price growth ($3.2 million)
  - productivity growth (-$4.0 million) or 3 per cent in 2024-25 and 0.5 per cent per annum from 2025-26 to 2028-29
- adding two step changes totalling $23.0 million ($2023-24) for:
  - increased insurance premiums ($19.1 million)
  - cyber security costs to comply with new critical infrastructure legislation ($3.9 million)
- adding $5.5 million of debt raising costs to arrive at total forecast opex of $541.0 million over the 2024-2029 regulatory control period ($2023-24).

The distribution base-step-trend outcomes for the 2024-2029 regulatory control period is summarised in Figure 4.

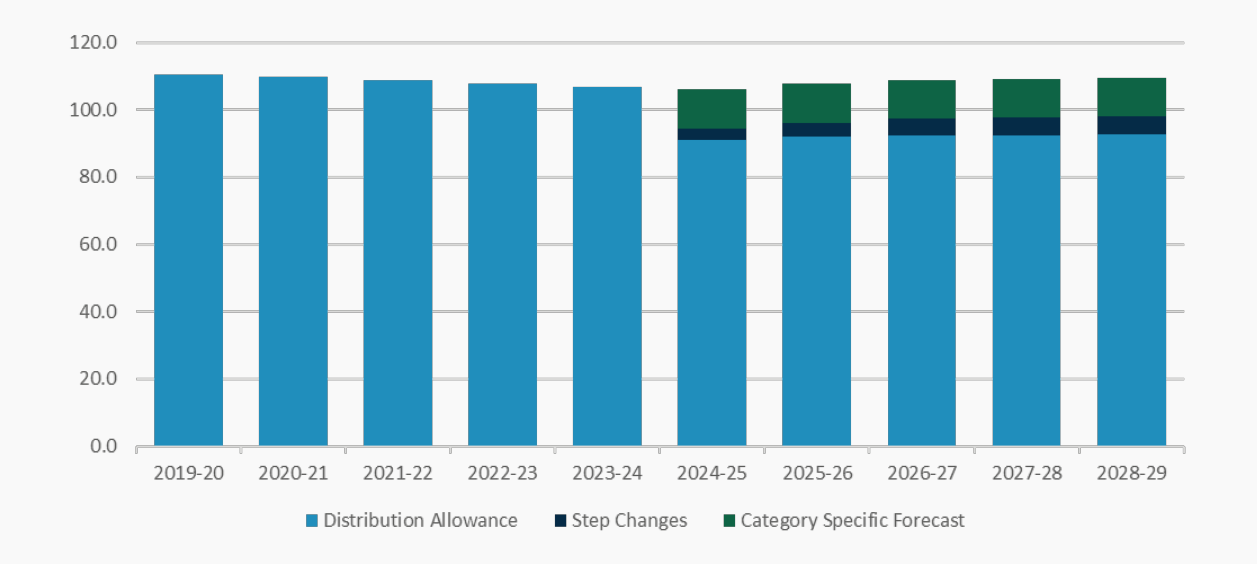
Figure 4. Distribution opex forecast ($ million, 2023-24)



The distribution opex estimate for the 2024-2029 regulatory control period is $26 million ($2023-24) change in than estimated opex in the 2019-2024 regulatory control period. The higher opex forecast is driven by opex to meet higher forecast cyber security and insurance costs (which are proposed as step changes, see section 8.5). These increases are offset by productivity savings associated with TasNetworks' transformation program.

Figure 5 compares the distribution opex forecast to previous opex allowances.

Figure 5. Distribution – historical and forecast opex ($ million, 2023-24)



8.4 Base opex

TasNetworks considers actual opex in 2021-22 to be an appropriate base for forecasting opex in the 2024-2029 regulatory control period as it:

- is the most recent completed financial year at the time of submitting the Combined Proposal
- represents a reasonable and efficient level of expenditure based on historic benchmarking outcomes
- is not impacted by one-off transformation costs expected to be incurred in 2022-23.

8.4.1 Efficiency of base year opex

TasNetworks considers the 2021-22 actual opex provides a good estimate of the efficient costs required to operate safe and reliable transmission and distribution networks and meet relevant regulatory obligations. In making this assessment TasNetworks notes:

- actual opex outcomes over time
- the results of the AER's benchmarking analysis
- the application of the EBSS in the 2019-2024 regulatory control period which is providing a continuous incentive to reduce opex, including an incentive to reduce opex in 2021-22.

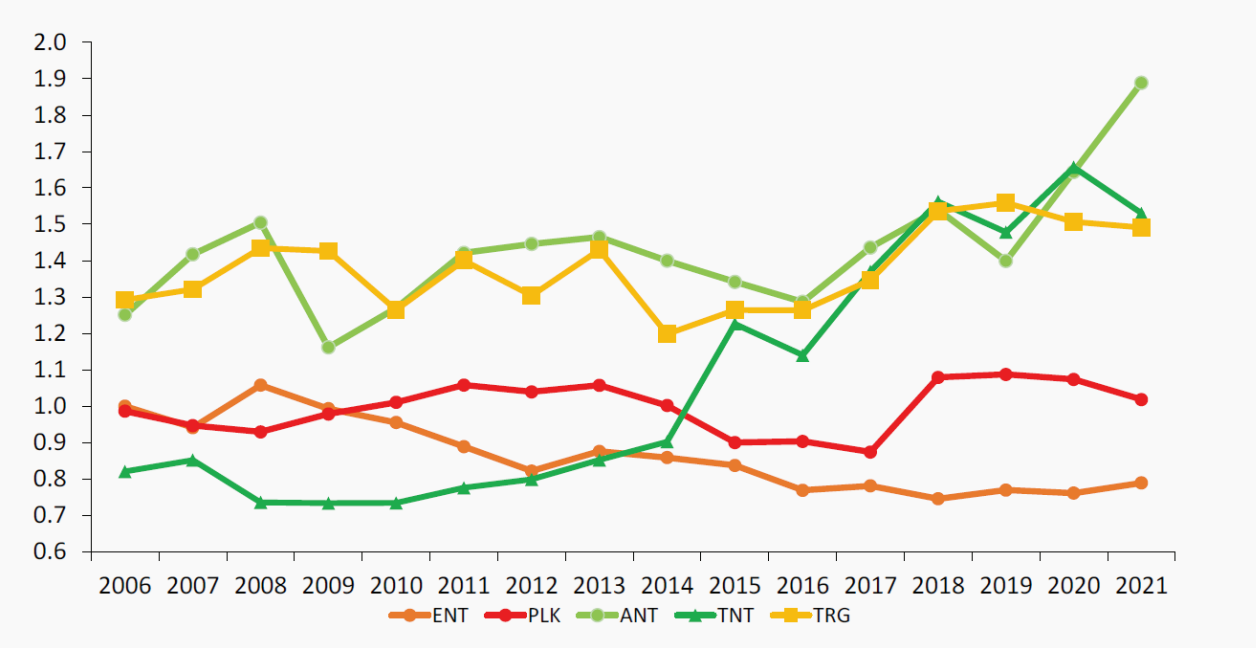
Stakeholders raised no concerns with the choice or efficiency of 2021-22 as the base year.

8.4.1.1 Transmission network – base year efficiency

As illustrated for the EBSS outcomes in Attachment 10 Efficiency Benefit Sharing Scheme, TasNetworks' transmission opex in the 2019-2024 regulatory control period has been consistent with the opex allowance set by the AER.

In terms of opex benchmarking, the primary technique relied on by the AER is multilateral partial factor productivity (**MPFP**), referred to as Opex MPFP. Figure 6, taken from the AER's 2022 annual benchmarking report for TNSPs, shows TasNetworks has been among the highest ranking TNSPs in terms of opex efficiency since 2015.

Figure 6. Electricity transmission opex MPFP index (2006 – 2021)



Source: AER, Annual Benchmarking Report – Electricity transmission network service providers, November 2022, p. 26.

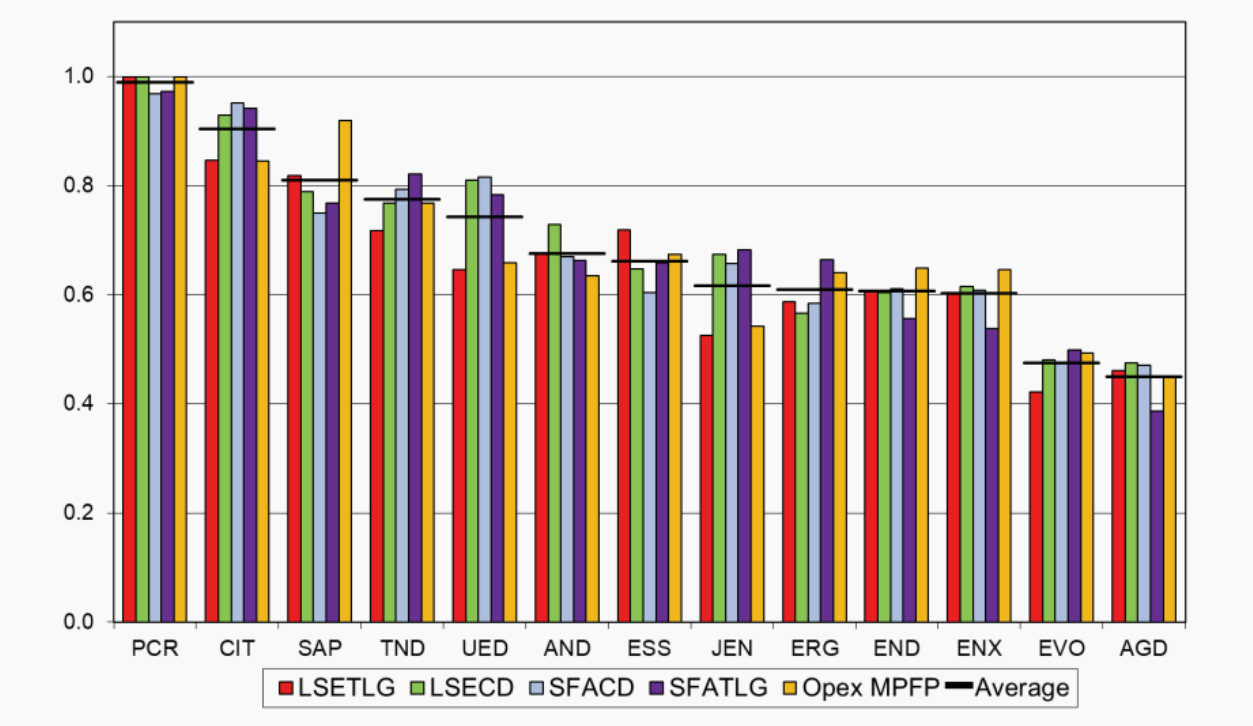
Given the above considerations and the application of the EBSS, TasNetworks has used 2021-22 transmission opex as the starting point for forecasting transmission opex in the 2024-2029 regulatory control period.

8.4.1.2 Distribution network base year efficiency

The AER's distribution benchmarking analysis can be more heavily relied upon to assess base year efficiency due to the larger sample size of distribution businesses in the National Electricity Market (**NEM**) compared to transmission businesses.

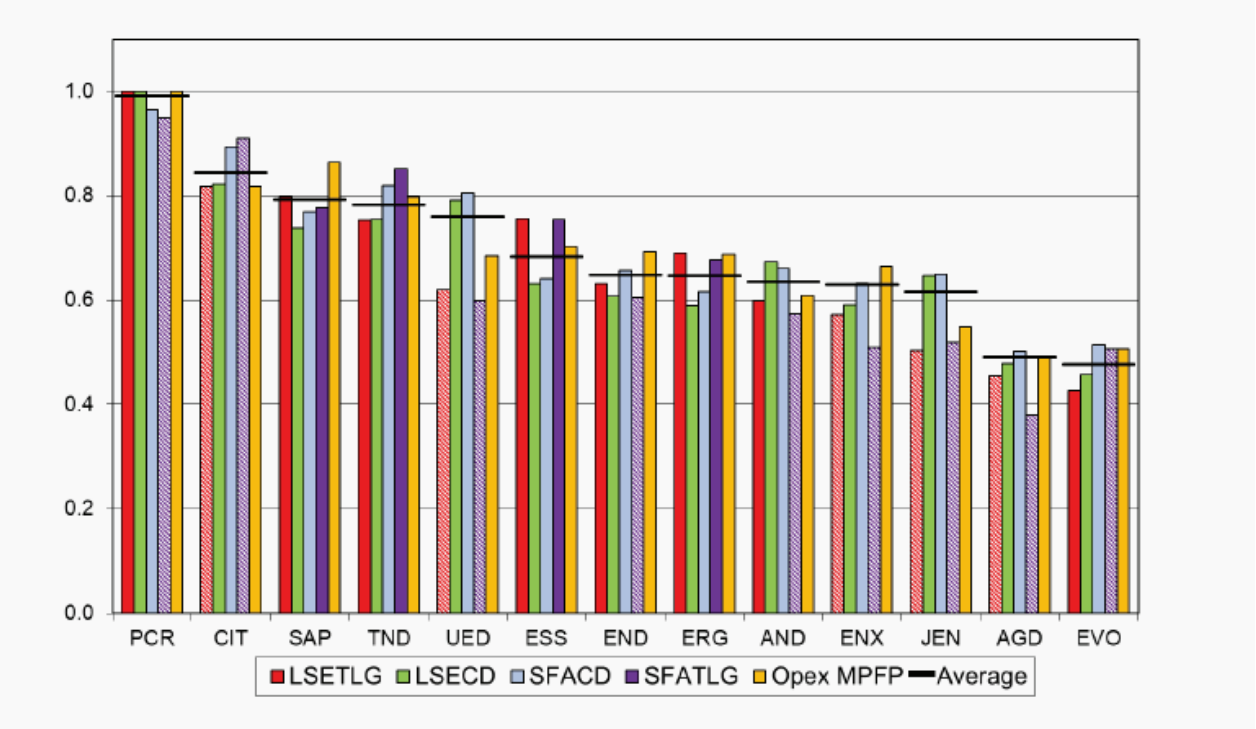
Figures 7 and 8, taken from the AER's 2022 Annual Benchmarking Report for DNSPs, show TasNetworks is ranked fourth in terms of efficiency among all regulated DNSPs when using the AER's four econometric models and opex MPFP over the period 2006-2021 and 2012-2021.

Figure 7. Opex efficiency scores and MPFP rankings (2006-2021)



Source: AER, Annual Benchmarking Report – Electricity distribution network service providers, November 2022, p. 34.

Figure 8. Opex efficiency scores and MPFP rankings (2012–2021)



Source: AER, Annual Benchmarking Report – Electricity distribution network service providers, November 2022, p. 35.

Given the AER benchmarking analysis and the application of the EBSS TasNetworks has used 2021-22 distribution opex as the starting point for forecasting distribution opex in the 2024-2029 regulatory control period.

8.4.2 Adjustments to base year opex

8.4.2.1 Adjustments to transmission base year opex

TasNetworks has not made any adjustments to the 2021-22 transmission base year opex for non-recurrent or one-off expenditure items.

Table 2. Transmission opex base year adjustments ($ million, 2023-24)

	2021-22
Transmission opex for 2021-22	36.6
Less	
Non-recurrent / one-off expenditures	0.0
Category specific forecasts	0.0
Other cost items	0.0
Proposed base year opex	**36.6**

8.4.2.2 Adjustments to distribution base year opex

Distribution base opex is adjusted by -$9.42 million ($2023-24) to reflect removal of:

- Guaranteed Service Level (**GSL**) payments – $3.52 million
- the Electrical Safety Inspection (**ESI**) levy – $5.09 million
- the NEM levy – $0.81 million.

The GSL allowance forms part of the service incentive arrangements for our distribution services. The ESI and NEM levy are Tasmanian Government charges passed through to distribution customers. TasNetworks is proposing to adjust annually the difference between forecast and actual levies as part of the standard control services revenue formula and pricing adjustments. This is consistent with the treatment of these costs in the 2019-2024 regulatory control period.

There were no non-recurrent or one off expenditure items in the 2021-22 base year that require a base year adjustment.

Table 3. Efficient base year distribution opex ($ million, 2023-24)

	2021-22
Distribution opex for 2021-22	104.3
Less	
Non-recurrent / one-off expenditures	0.0
Category specific forecasts	9.4
Other cost items	0.0
Proposed base year opex	**94.9**

8.5 Step changes

TasNetworks is proposing two transmission and two distribution step changes for the 2024-2029 regulatory control period representing:

- opex associated with meeting new cyber security / security of critical infrastructure obligations
- forecast increases of insurance premiums that are not captured in the base opex or the forecast rate of change.

Table 4 shows TasNetworks' transmission step changes and Table 5 distribution step changes.

Table 4. Forecast transmission opex step changes ($ million, 2023-24)

Step change	2024-25	2025-26	2026-27	2027-28	2028-29
Insurance	$0.97	$1.22	$1.43	$1.52	$1.53
Cyber security / security of critical infrastructure	$1.66	$2.93	$3.55	$3.64	$3.67
Total transmission step changes	**$2.63**	**$4.14**	**$4.98**	**$5.16**	**$5.20**

Table 5. Forecast distribution opex step changes ($ million, 2023-24)

Step change	2024-25	2025-26	2026-27	2027-28	2028-29
Insurance	$2.79	$3.49	$4.11	$4.34	$4.39
Cyber security / security of critical infrastructure	$0.42	$0.73	$0.89	$0.91	$0.92
Total distribution step changes	**$3.20**	**$4.22**	**$4.99**	**$5.25**	**$5.30**

The following sections set out the reasons for the step changes, including how the cost estimates have been developed.

8.5.1 Insurance

TasNetworks proposes a transmission step change of $6.7 million ($2023-24) and distribution step change of $19.1 million ($2023-24) for insurance. The proposed step changes are based on cost forecasts provided by Lockton Companies Australia Pty Limited (**Lockton**). The cost forecasts provided by Lockton relate to the full spectrum of TasNetworks' insurance program.

TasNetworks, like other NSPs, has experienced significant increases in insurance premiums in recent years due to continued extreme fire and flooding events and cyber security threats. Lockton expects this trend to continue in the 2024-2029 regulatory control period across all risk classes given the prevailing insurance market conditions. For example, due to the more frequent and more severe bushfires globally in recent years bushfire liability insurer capacity continues to shrink, insurer pricing continues to increase and the placement of insurance is more time consuming and complex to procure in the traditional insurance market.

Lockton's analysis for TasNetworks is confidential as it is based on sensitive information relating to TasNetworks' insurance coverage.

TasNetworks has calculated the step change as the difference between the cost forecasts prepared by Lockton and the insurance cost in the base year (2021-22).

8.5.2 Cyber security / security of critical infrastructure

TasNetworks proposes a transmission step change of $15.4 million ($2023-24) and distribution step change of $3.9 million ($2023-24).

The proposed step change will enable TasNetworks to uplift its cyber security maturity to implement the Australian Energy Sector Cyber Security Framework (**AESCSF**) to achieve Security Profile 3 (**SP3**) maturity within the 2024-2029 regulatory control period. This cyber security maturity uplift will allow TasNetworks to comply with the enhanced cyber security obligations stated in the *Security of Critical Infrastructure Act 2018*.

The AESCSF is a cyber security framework developed by AEMO in conjunction with industry and government stakeholders that enables energy sector participants to assess, evaluate, prioritise and improve cyber security capability and maturity. Given the elevated and increasing cyber threat landscape, TasNetworks considers it prudent as a TNSP and DNSP to uplift its cyber security and achieve SP3 maturity.

In developing this step change, TasNetworks engaged PwC to assist its analysis of the cyber security uplift requirement, including assessing the proposed expenditure against industry benchmarks and best practices. PwC's analysis is confidential as it is based on sensitive information relating to TasNetworks' cyber security maturity.

The allocation of expenditure between the transmission and distribution networks relates to where investments are required.

8.5.3 Metering data

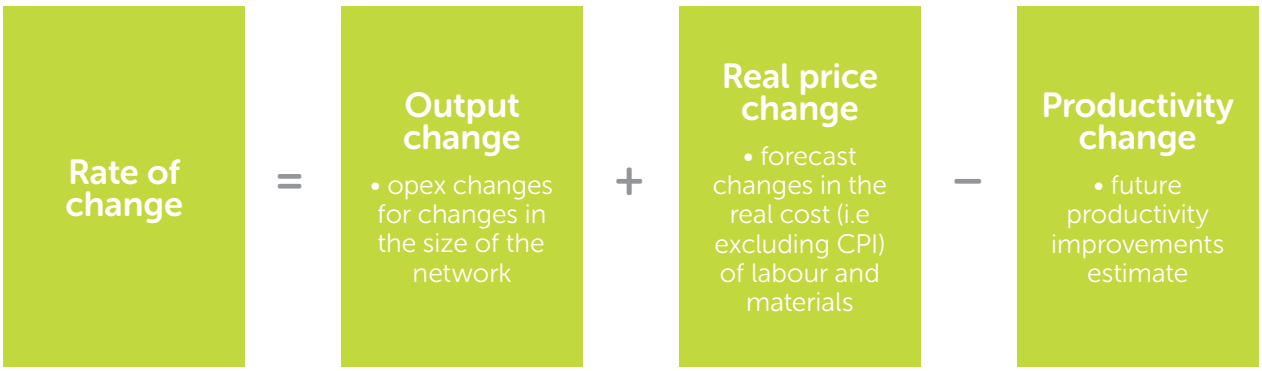
The Australian Energy Market Commission (**AEMC**) has initiated its Review of the Regulatory Framework for Metering Services that a number of industry reforms rely on consistent access to, and exchange of, power quality data from smart meters. The AEMC has indicated reforms are required since current arrangements for negotiating and utilising smart meter data are inefficient and are not in the long-term interests of customers. The detail of these reforms are still being developed but indications are that there will be a greater expectation that DNSPs will access, analyse and interpret advanced meter data. This will benefit customers in a number of ways, not least through improved safety outcomes through neutral integrity detection and resolution. The cost implication of these changes are uncertain and TasNetworks will continue to monitor and assess the implications for forecast opex and a potential step change as the review progresses.

8.6 Rate of change

The final step in the base-step-trend approach is to trend the efficient starting point, or base opex, forward to account for the forecast growth in prices, output and productivity. This is referred to as the rate of change.

TasNetworks proposes to apply the AER's standard approach to forecasting the rate of change in the 2024-2029 regulatory control period. The AER's standard approach is summarised in Figure 9.

Figure 9. Forecast rate of change method



TasNetworks proposes to adopt the AER's preferred forecasting approach to estimate each rate of change element.

Table 6 shows both TasNetworks' transmission and distribution rate of change estimates.

Table 6. Forecast rate of change, (per cent)

	2024-25	2025-26	2026-27	2027-28	2028-29
Transmission proposal					
Output growth	0.36	0.38	0.37	0.24	0.11
Price growth	0.93	0.86	0.42	0.20	0.36
Less productivity growth	3.00	0.50	0.50	0.50	0.50
Overall transmission proposal	**(1.75)**	**0.74**	**0.30**	**(0.06)**	**(0.04)**
Distribution proposal					
Output growth	0.57	0.57	0.56	0.56	0.55
Price growth	0.78	0.72	0.36	0.16	0.30
Less productivity growth	3.00	0.50	0.50	0.50	0.50
Overall distribution proposal	**(1.68)**	**0.79**	**0.42**	**0.22**	**0.35**

8.6.1 Output change

In its most recent determinations, the AER has applied econometric models to estimate the relationship between business growth and opex, noting that different models apply to transmission and distribution.

TasNetworks has forecast transmission output change by calculating the weighted average of output growth rates using the output weights from the AER's opex MPFP benchmarking model. The four outputs used in the AER's benchmarking model are:

- Energy throughput – the forecast growth in energy delivered for the Tasmanian network plus net imports
- Ratcheted maximum demand – non-coincident historical maximum demand for each individual connection point measured in megawatts (**MW**)
- Customer numbers – the number of active connections
- Circuit length – total transmission line circuit length measured in kilometres (**km**).

Using this methodology TasNetworks forecasts transmission average annual output growth of 0.29 per cent. Table 7 shows the impact on transmission opex for the 2024-2029 regulatory control period.

Table 7. Transmission growth factor ($ million, 2023-24)

	2024-25	2025-26	2026-27	2027-28	2028-29
Transmission growth factor (%)	0.36	0.38	0.37	0.24	0.11
Impact ($ million)	0.03	0.04	0.04	0.02	0.01

For the distribution network, the growth factor is determined by ratcheted maximum demand; customer numbers and circuit length.

TasNetworks forecasts distribution average annual output growth of 0.56 per cent. Table 8 shows the impact on transmission opex for the 2024-2029 regulatory control period.

Table 8. Distribution growth factor ($ million, 2023-24)

	2024-25	2025-26	2026-27	2027-28	2028-29
Distribution growth factor (%)	0.57	0.57	0.56	0.56	0.55
Impact ($ million)	0.75	0.74	0.74	0.73	0.72

8.6.2 Real price change

TasNetworks forecasts average annual real price growth of 0.55 per cent for transmission and 0.46 per cent for distribution which increases our transmission opex by $0.6 million ($2023-24) and distribution opex forecast by $3.2 million ($2023-24).

The real price growth forecast is a weighted average of forecast labour price growth and non-labour price growth.

To forecast labour price growth, TasNetworks commissioned BIS Oxford Economics and added legislated superannuation guarantee increases for 2024-25 and 2025-26. Tables 9 and 10 detail the forecast average annual change in labour costs for each year of the 2024–2029 regulatory control period.

Table 9. Transmission forecast real price growth – labour

	2024-25	2025-26	2026-27	2027-28	2028-29
Labour price growth forecast (%) **Source: BIS Oxford economics**	0.82	0.72	0.60	0.28	0.51
Superannuation guarantee charge (%)	0.50	0.50	0.00	0.00	0.00
Total weighted forecast labour price growth (%)	0.93	0.86	0.42	0.20	0.36

Table 10. Distribution forecast real price growth – labour

	2024-25	2025-26	2026-27	2027-28	2028-29
Labour price growth forecast (%) **Source: BIS Oxford economics**	0.82	0.72	0.60	0.28	0.51
Superannuation guarantee charge (%)	0.50	0.50	0.00	0.00	0.00
Total weighted forecast labour price growth (%)	0.78	0.72	0.36	0.16	0..30

TasNetworks has applied a forecast non-labour real price growth rate of zero percent to the opex forecasts. The weighted forecast labour growth for opex is based on input price weights of 70.4/29.6 per cent labour/non-labour for transmission and 59.2/40.8 per cent labour/non-labour for distribution.

8.6.3 Productivity change – transmission

TasNetworks has included forecast productivity growth of three per cent in 2024-25 and 0.5 per cent per year in each remaining year of the 2024-2029 regulatory control period.

The three per cent productivity in 2024-25 represents forecasted opex reductions from TasNetworks' transformation program being implemented across 2022-23 and 2023-24. The 0.5 per cent annual productivity growth rate reflects productivity improvements expected to be achieved in the 2024-2029 regulatory control period after the implementation of the transformation program.

This results in average annual productivity savings of one per cent. This is higher than the transmission industry average over the long term of 0.6 per cent.

Table 11 shows the forecast transmission productivity savings and Table 12 shows the forecast productivity savings for distribution.

Table 11. Transmission productivity improvements

	2024-25	2025-26	2026-27	2027-28	2028-29
Annual transmission cost savings (%)	3.00%	0.50%	0.50%	0.50%	0.50%

Table 12. Distribution productivity improvements

	2024-25	2025-26	2026-27	2027-28	2028-29
Annual distribution cost savings (%)	3.00%	0.50%	0.50%	0.50%	0.50%

8.7 Category specific forecasts

Category specific forecast items are subject to a separate forecast (i.e., not base-step-trend) on the grounds that base year expenditure does not reflect recurrent costs.

TasNetworks has included only one expenditure item in our transmission opex forecast outside of the base-step-trend approach: debt raising costs of $4.22 million ($2023-24).

Debt raising costs are costs incurred each time TasNetworks raises or refinances debt. These costs include underwriting fees, legal fees, company credit rating fees and other transaction costs. Debt raising costs are forecast using a benchmarking approach rather than TasNetworks' actual costs in a single year to provide consistency with the forecast of cost of debt in the rate of return.

Table 13. Transmission category specific forecasts ($million, 2023-24)

Expenditure item	2024-25	2025-26	2026-27	2027-28	2028-29
Transmission debt raising costs	$0.85	$0.85	$0.85	$0.84	$0.83

In relation to distribution services, TasNetworks has developed separate forecasts for GSL, NEM levy, ESI levy and distribution debt raising costs.

The GSL allowance forms part of the service incentive arrangements for our distribution services. The ESI and NEM levy are Tasmanian Government charges passed through to distribution customers. TasNetworks is proposing to adjust annually the difference between forecast and actual levies as part of the standard control services revenue formula and pricing adjustments. This is consistent with the treatment of these costs in the 2019-2024 regulatory control period.

Table 14. Distribution category specific forecasts ($million, 2023-24)

Expenditure item	2024-25	2025-26	2026-27	2027-28	2028-29
GSL	$3.97	$3.97	$3.97	$3.97	$3.97
ESI Levy	$5.09	$5.09	$5.09	$5.09	$5.09
NEM Levy	$1.47	$1.47	$1.36	$1.17	$1.17
Distribution debt raising costs	$1.08	$1.09	$1.11	$1.11	$1.10
Total 'other' distribution operating expenditure	**$11.61**	**$11.62**	**$11.53**	**$11.33**	**$11.33**

TasNetworks | Powering a Bright Future