

always
powering
ahead

apa

September 15, 2023

Attachment 3: Stakeholder Engagement

3.1 Customer and stakeholder engagement

Basslink Pty Ltd has approached this stakeholder engagement with the understanding that we play a critical role in the energy supply chain and our operations have a broad impact on consumers and the energy transition. We understand the importance of supporting the delivery of affordable and reliable energy to Tasmanian and Victorian consumers, as well as the important role Basslink plays in the energy transition through the supply of renewable energy to the National Electricity Market.

Basslink Pty Ltd’s objectives for engagement for the Basslink regulatory proposal were co-designed with the stakeholder Regulatory Reference Group for Basslink. Basslink Pty Ltd’s objectives for stakeholder engagement during the regulatory process are to deliver a Proposal that:

- **‘Brings the outside in’** by directly responding to the needs and preferences of our customers.
- **Provides sustainable returns.**
- **Delivers a reliable supply of electricity** to Tasmanian and Victorian consumers.
- **Directly contributes to the green energy transition** in Australia.

In undertaking our stakeholder engagement program, we were committed to fully consulting with consumers to understand their views and ensure their preferences were reflected in our Proposal.

Our engagement principles



Early engagement



Be inclusive



Be honest and act with integrity



Be responsive



Be community minded

Engagement was central to the development of this Proposal

Basslink Pty Ltd established a RRG in November 2022 to support the development of the Proposal. The RRG serves as an independent advisory group comprised of a cross-section of stakeholders representing residential, small business and large energy users in Tasmania and Victoria. The RRG members include:



St Vincent de Paul Society
good works

Gavin Dufty, St Vincent's
de Paul Society Victoria



TMEC
Tasmanian Minerals, Manufacturing
& Energy Council

Leigh Darcy, Tasmanian
Minerals, Manufacturing
and Energy Council



NTDC
NORTHERN TASMANIA
DEVELOPMENT CORPORATION LTD

Karina Dambergs,
Chris Griffin
Northern Tasmania
Development Corporation



Tasmanian Small
Business Council
Uniting Small Business

Robert Mallett,
Tasmanian Small
Business Council



COTA
TASMANIA

John Pauley, Council of
the Ageing Tasmania

The RRG's objective is to work collaboratively with Basslink Pty Ltd under a principle of co-design on the development and implementation of Basslink Pty Ltd's regulatory engagement plan for Basslink, including the scope, timing, themes and engagement methodology. The RRG's input was instrumental in helping to improve Basslink Pty Ltd's understanding of the needs and expectations of different consumer segments. RRG input was used to continually refine the engagement materials and methodology Basslink Pty Ltd used in consulting with consumers, industry and government stakeholders.

We sincerely thank the RRG for their commitment, active participation and thoughtful insights, feedback and challenge throughout Basslink engagement activities. The engagement outcomes have enriched our understanding and has led to meaningful outcomes as discussed below.

Engagement methods were deep, broad and targeted

We used deep, broad and targeted engagement methods in the development of our regulatory proposal, with APA senior staff steering the engagement program and attending all engagement activities including our CEO Adam Watson presenting to the consumer workshops.



Deep
engagement
methods

- ✓ **RRG engagement** through ongoing and regular meetings, with six meetings held over December 2022 to September 2023. RRG members also attended the two consumer workshops held.
- ✓ **Two online focus groups** with 7 Victorian and 8 Tasmanian residents and SMEs to test understanding of key elements of the regulatory proposal and seek indicative reactions to the proposed regulation of Basslink ahead of the consumer workshops.
- ✓ **Two 4-hour consumer workshops** held in Launceston and Melbourne with 93 residential and SME end-use consumers to undertake a deep-dive exploration of their preferences on key focus areas relating to the regulatory proposal. These workshops involved an extensive program of informing, discussion, and reflection. The workshops included a mix of presentations from key APA staff and their consultants, table breakout discussions, online polls, and open floor Q&As.



Broad
engagement
methods

- ✓ **Online quantitative survey** of 1,240 electricity consumers from Victoria and Tasmania to test and validate the outcomes from the consumer workshops and build breadth of understanding of general consumer preferences regarding key elements of the regulatory proposal and key trade-offs around issues like affordability, reliability and risk.
- ✓ **Newsletter article** for the Tasmanian Minerals, Manufacturing and Energy Council outlining our plans for Basslink and to seek industry feedback.








Targeted
engagement
methods

- ✓ **Presentations and meetings** on key elements of the regulatory proposal held with:
 - Members of the Bell Bay Advanced Manufacturing Zone in Tasmania.
 - Victorian Chamber of Commerce and Industry.
 - Energy Users Association of Australia.
 - Australian Industry Group.
 - Tasmanian Government – Renewables, Climate and Future Industries Tasmania
 - Victorian Government - Department of Energy, Environment and Climate Action

Timeline of stakeholder engagement

Our stakeholder engagement program to support the development of the Proposal ran from November 2022 to September 2023. Regular meetings were held with the RRG throughout the program to provide advice on each step of engagement and as key elements of the proposal were being formulated.

	Activity	Issues for discussion
	Establishment of the RRG	<ul style="list-style-type: none"> ☒ Confirmation of participants and Terms of Reference
	RRG Co-creation workshop	<ul style="list-style-type: none"> ☒ Our plans for Basslink ☒ Overview of proposed engagement ☒ Core issues and priorities for engagement, including mapping of key stakeholders and issues
	RRG Meeting #1	<ul style="list-style-type: none"> ☒ Regulatory conversion process ☒ Overview of insurance issues ☒ Opening RAB ☒ Engagement timeline ☒ Overview of consumer workshops.
	RRG Meeting #2	<ul style="list-style-type: none"> ☒ Insurance options for Basslink ☒ Cost sharing between Tasmania and Victoria ☒ Materials for consumer workshops
	Presentation to Bell Bay Advanced Manufacturing Zone	<ul style="list-style-type: none"> ☒ Introduction to APA and Basslink ☒ Plans for regulatory conversion ☒ Opportunities for engagement
	Online focus groups with Victorian and Tasmanian participants	<ul style="list-style-type: none"> ☒ Regulatory conversion ☒ Preferences on options for capital expenditure, insurance, and cost sharing
	RRG Meeting #3	<ul style="list-style-type: none"> ☒ Forecast capital expenditure ☒ Forecast operating expenditure ☒ Consumer workshop questions

Melbourne consumer workshop

- Overview of Basslink and the regulatory process
- Capital expenditure options, focussing on the control and protection system and reliability/affordability trade-offs
- Insurance options, focussing on price/risk trade-offs
- Options for sharing Basslink's costs between Tasmania and Victoria, focussing on the costs, benefits and impacts of options.

Launceston consumer workshop

- Overview of Basslink and the regulatory process
- Capital expenditure options, focussing on the control and protection system and reliability/affordability trade-offs
- Insurance options, focussing on price/risk trade-offs
- Options for sharing Basslink's costs between Tasmania and Victoria, focussing on the costs, benefits and impacts of options.



Article in the Tasmanian Minerals, Manufacturing & Energy Council's fortnightly newsletter

- Introduction to APA and plans for Basslink
- Invitation to engage with Basslink Pty Ltd/APA n the development of the regulatory proposal

RRG Meeting #4

- Outcomes of the consumer workshops held in Melbourne and Launceston
- Quantitative survey question line
- Stakeholder engagement plans






Meetings with:

- **Victorian Chamber of Commerce and Industry**
- **Energy Users Association of Australia**
- **Australian Industry Group**

- Regulatory conversion
- Stakeholder engagement to date and the outcomes of the consumer workshops including the preferences for capital expenditure, insurance and cost sharing between Tasmania and Victoria
- Initial forecasts of key elements of the regulatory proposal

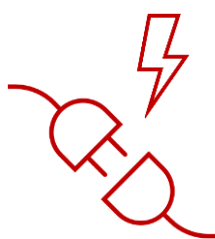
Meeting with Tasmanian Government – Renewables – Renewables, Climate and Future Industries Tasmania

- Overview of stakeholder engagement, including consumer workshop and quantitative survey outcomes
- Overview of Basslink Pty Ltd's Proposal

	<p>Online quantitative survey of 1,240 Victorian and Tasmanian consumers</p>	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Level of energy literacy <input checked="" type="checkbox"/> Level of concern on energy issues <input checked="" type="checkbox"/> Views on energy preferences, including issues relating to affordability, transparency, reliability, and future energy needs <input checked="" type="checkbox"/> Overall knowledge and sentiment towards Basslink <input checked="" type="checkbox"/> Preferences on options for capital expenditure, insurance and cost sharing between Tasmania and Victoria
	<p>RRG Meeting #5</p>	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Outcomes from stakeholder meetings <input checked="" type="checkbox"/> Results from the quantitative survey <input checked="" type="checkbox"/> Overview of Basslink Pty Ltd's Proposal
	<p>Meeting with Victorian Department of Energy, Environment and Climate Action</p>	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Overview of stakeholder engagement, including consumer workshop and quantitative survey outcomes <input checked="" type="checkbox"/> Overview of Basslink Pty Ltd's Proposal
	<p>RRG Meeting #6</p>	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Update on Basslink Pty Ltd's Proposal <input checked="" type="checkbox"/> Further stakeholder engagement on Basslink

What we heard and how we have responded

We have focussed our stakeholder engagement on five priority issues based on issues identified by the RRG as key for Basslink’s stakeholders and consumers. We have also considered issues where stakeholders and consumers can have the greatest impact on the regulatory proposal, where their opinion would genuinely influence and guide our Proposal.



Reliability

What we heard

Consumers and industry stakeholders both strongly supported a high level of reliability due to concerns about the potential for electricity outages if Basslink fails.

84% of survey participants rated having greater reliability for the future as something they strongly support (rated at least a 7 out of 10).

Consumers at the workshops wanted to ensure that there were timely repairs to Basslink’s subsea cable should a failure occur in the future. Tasmanian consumers particularly referenced the need to avoid a repeat of Basslink’s 2015 damaging outage doesn’t occur again.

How we have responded

We have clearly heard customers preference for a strong and reliable Basslink and is focussed on maintaining high levels of reliability to ensure Basslink can continue to meet the energy needs of Tasmanian and Victorian consumers.

In addition to the timely replacement of the control and protection system, we have proposed two key investments to further strengthen Basslink’s reliability in response to stakeholder and consumer feedback:

- \$7.0m in capital expenditure to enable Basslink to operate at higher temperatures when customer demand for electricity is high.
- \$7.65m annual expenditure on emergency preparedness to reduce repair times in the event of a major incident.



Affordability

What we heard

Our engagement with consumers and stakeholders on capital expenditure focussed on the replacement of Basslink’s control and protection system due to the significant replacement cost system. In particular, views were sought on whether the system should be replaced in the upcoming 2025 to 2030 revenue period or the following revenue period post 2030.

There was strong support from consumers for replacing the control and protection system in the 2025 to 2030 revenue period, with 73% of all workshop participants and 70% of all survey participants supporting the earlier investment.

The main reasons cited by consumers for supporting earlier investment were based on an aversion to risk, with concerns around the risks of outages and the associated impacts on consumers. The potential for cost savings from earlier investment were also noted by survey participants.

VCCI also indicated support for the earlier replacement of the control and protection system to avoid the risk of an outage

How we responded

We are conscious of consumer and stakeholder concerns around energy affordability and cost of living and is focussed on keeping Basslink’s prices as low as possible while maintaining a high level of reliability to reduce wholesale electricity costs for customers. Consistent with consumer concerns around energy affordability, We are proposing to adopt the lowest initial Regulatory Asset Base forecast, which is based on the Depreciated Actual Cost method.

Our Proposal, if approved by the AER, would result in a relatively low bill impact of \$11 a year for the average Victorian residential customer and \$8 a year for the average Tasmanian residential customer. These bill impacts are based on the adoption of a market size approach to sharing the costs of Basslink between Victorian and Tasmanian energy consumers, which was the preference from our consumer engagement as it was considered the fairest approach. This approach results in the most comparable bill impacts between Victorian and Tasmanian consumers of the alternative cost sharing approaches we considered and engaged on.

Basslink’s cost are expected to have minor real cost declines year on year for the revenue period. Ensuring that the capacity of Basslink is available to the market will help minimise electricity prices in Tasmania and Victoria.



Insurance

What we heard

Our engagement with consumers and stakeholders on insurance focussed on whether APA should adopt a low insurance premium with higher risks should an insurance event occur, or a high insurance premium with lower risks should an insurance event occur.

Consumers indicated mixed views on insurance, with 72% of all workshop participants preferring the low insurance premium option and 55% of all survey participants preferring the high insurance premium option.

The preferences of workshop participants towards the low insurance premium option were largely driven by Launceston participants, with 81% preferring this option (compared to 60% in Melbourne). Many Launceston participants preferred the low premium option as they thought the risk of damage was low and this option would be cheaper overall.

In contrast, survey participants preferred the high insurance premium option as they considered it would help to manage reliability risks and would provide greater certainty about costs.

Industry stakeholders did not indicate an insurance preference.

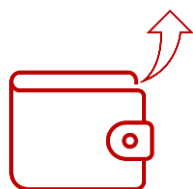
How we have responded

There was not a clear and consistent view from consumers on their preferences and level of risk on insurance. This may reflect the complex choices involved in this issue and differences in how consumers considered the risks of damage to Basslink. Consumers are also likely to have differences in their tolerance for risk.

On balance after carefully considering this feedback, we have decided to adopt insurance arrangements that preference a lower level of risk to customers in the long term but includes a higher level of premium.

This approach will help to meet consumer preferences for a 'no surprises' approach because the alternative could lead to an unexpected increase in costs, should repairs be required.

We understand there are also high levels of concern around energy affordability. However, we note the bill differences between the high and low premium approaches are relatively low and a high premium approach will also help to avoid bill shock for consumers should damage occur.



Capital
Expenditure

What we heard

Our engagement with consumers and stakeholders on capital expenditure focussed on the replacement of Basslink's control and protection system due to the significant cost of the replacement system. In particular, views were sought on whether the system should be replaced in the upcoming 2025 to 2030 revenue period or the following revenue period post 2030.

There was strong support from consumers for replacing the control and protection system in the 2025 to 2030 revenue period, with 73% of all workshop participants and 70% of all survey participants supporting the earlier investment.

The main reasons cited by consumers for supporting earlier investment were based on an aversion to risk, with concerns around the risks of outages and the associated impacts on consumers. The potential for cost savings from earlier investment were also noted by survey participants.

VCCI also indicated support for the earlier replacement of the control and protection system to avoid the risk of an outage.

How we have responded

We recognise the strong and consistent preference for the earlier replacement of the control and protection system from consumers and stakeholders. We also note this preference is consistent with the high importance placed on reliability.

We have adopted the preference of consumers and stakeholders and included the replacement of the control and protection system in the capital expenditure plans of our Proposal for 2025 to 2030.



What we heard

Our engagement with consumers and stakeholders on cost sharing focussed on how Basslink’s costs should be shared between Tasmanian and Victorian consumers. Three cost sharing options that are allowed under the National Electricity Rules were discussed, including options based on the geographic split of Basslink’s assets, energy flows between Tasmania and Victoria, and the market size of Tasmania and Victoria based on the number of electricity connections in each State.

Consumers indicated a preference for the market size approach to cost sharing, with 75% of all workshop participants and 44% of all survey participants selecting this option.

Participants across both the workshops and the survey selected the market size option as it was considered the fairest. Tasmanian participants were especially supportive of this option and also noted it was fairer as Tasmanians are more likely to have lower incomes than Victorians.

Victorian survey respondents demonstrated a very slight preference for the energy flows approach, with 36% supporting this option. However, this was very closely followed by a preference for the market size approach at 31%. Additionally, Victorian workshop participants displayed a preference for the market size approach at 53% - when considering these different pillars of evidence it is clear there is strong support for the market size approach across the Victorian population.

An industry stakeholder noted a preference for either the market size or energy flow options, with another stakeholder noting costs should be allocated based on who benefits from Basslink.

How we have responded

We note consumers expressed a consistent preference for the market size approach to sharing the costs of Basslink, largely as it was considered the fairest approach.

We note this approach results in the most comparable bill impacts for Victorian and Tasmanian consumers.

Although we understand a market size approach to sharing the costs of an interconnector has not previously been applied by the AER, we have adopted the market size approach in our regulatory proposal due to the clear preference expressed by consumers.

We intend to undertake further stakeholder consultation on the market size approach over the coming months as the AER assesses our proposal.

Further detail on our engagement process for the development of our proposal can be found in **Attachment 3.1** - Engagement Summary report and **Attachment 3.2** – Consumer Engagement consolidated report.

Independent consumer perspective

As part of the engagement process, we engaged Elisabeth Ross Consulting Pty Ltd, to assist the RRG in drafting an independent report to the AER. **Attachment 3.3** contains the RRG’s views on how Basslink Pty Ltd engaged with its customers and how it has met the requirements of the AER’s Better Resets Handbook.

The RRG considers that Basslink Pty Ltd has met the requirements of the AER’s Better Resets Handbook and has also provided suggestions on how engagement can be broadened and deepened for the 2025-30 revenue proposal and beyond. Our response to the suggestions made by the RRG are below:

For the 2025-30 revenue proposal

Continue to engage with the RRG, including on complex topics

The RRG would like to build on the progress made so far during the preparation of the 2025-30 regulatory proposal and has expressed a keen desire to engage further leading up to the revised proposal.

Our commitment – *Basslink Pty Ltd agrees and is committed to ongoing engagement with the RRG as the AER assesses the regulatory proposal.*

Clearly articulate the risks being transferred to end-use customers

The RRG would like to see a clearer articulation of the risks associated with Basslink and how they are proposed to be allocated between the end use customer and Basslink Pty Ltd.

Our commitment – *Basslink Pty Ltd acknowledges the comments made by the RRG. In response, we have included a plain English representation of the change in risk in our overview document. Basslink Pty Ltd will also continue to work on this leading up to the revised proposal and will continue to engage with the RRG on this issue.*

Increase accountability to end-use customers and other stakeholders

The RRG has recommended that Basslink Pty Ltd make itself accountable to end-use customers by looping back to engagement participants on how their input has helped shape this proposal.

Our commitment – *Basslink Pty Ltd has prepared a fact sheet and overview document summarising the engagement outcomes and how customer and stakeholder feedback has helped shape this proposal. These documents will be shared with engagement participants.*

Beyond the 2025-30 revenue proposal

Customer engagement as BAU

The RRG recommends that Basslink Pty Ltd consider establishing an ongoing consumer reference group to build consumer capability and partner with consumers on an on-going basis.

Our commitment – *Basslink Pty Ltd is reinvigorating its customer and stakeholder engagement framework, of which, a key element will be, re-establishing its stakeholder advisory panel in early 2024.*

Ongoing accountability to end-use customers

The RRG recommends that Basslink Pty Ltd clearly identify and track the commitments made to customers in its regulatory proposal.

Our commitment – *Basslink Pty Ltd will establish annual forums to provide updates on how Basslink Pty Ltd is performing against its customer commitments. This will also include updates on our website.*