
APA's 2025-30 Revenue Proposal for Basslink

**Basslink Regulatory
Reference Group**

**An independent report to the
Australian Energy Regulator**

August 2023

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Acknowledgement of Country

In the spirit of reconciliation, the independent members of the Basslink Regulatory Reference Group acknowledge the traditional custodians of Country across Australia - in particular those within the area that Basslink operates on - and their continuing connection to land, sea and community. We pay our respects to elders past and present.

1. Introduction and summary

The purpose of this report is to provide an independent consumer perspective of the engagement process APA Group (APA) has undertaken to inform its 2025-30 draft revenue proposal for the Basslink interconnector, which connects the Tasmanian and Victorian electricity markets.

The Australian Energy Regulator (AER) will assess APA's revenue proposal at the same time it assesses APA's application to convert Basslink from a merchant interconnector to a regulated interconnector. Crucially for Tasmanian and Victorian consumers, this means that the revenues earned via Basslink will shift from being market-based, to the costs associated with operating and maintaining the interconnector being recovered from the electricity consumers that it serves. Therefore engagement with these customers is essential to ensuring APA's regulatory proposal reflects the views and preferences of these communities.

The Independent Regulatory Reference Group

APA set up a Regulatory Reference Group (RRG) in November 2022. The RRG comprised APA staff members and five independent members (the "Independent RRG"):¹

- Gavin Dufty, St Vincent de Paul Society Victoria
- Leigh Darcy, Tasmanian Minerals, Manufacturing & Energy Council
- Karina Damberg, Northern Tasmanian Development Corporation
- Robert Mallett, Tasmanian Small Business Council
- John Pauley, Council of the Ageing Tasmania

The role of the Independent RRG has been to advise APA on who the key stakeholders are, the best methods for engaging with stakeholders, and to act as representatives of our own organisation's constituents.

The RRG was established to work collegiately, codesigning and executing the regulatory engagement program, as well as challenge APA in developing its regulatory proposal. The terms of reference for the RRG is appended to this report.

This report reflects the Independent RRG's views of how APA has engaged with its customers and whether it has met the requirements of the AER's Better Resets Handbook.²

¹ Andrew Richards from the Major Energy Users Association of Australia was appointed to the RRG but was not an active participant.

² Elisabeth Ross Consulting Pty Ltd was engaged by APA to assist the Independent RRG in drafting this report. However, the views expressed in this report are those of the Independent RRG.

Context

Basslink is a 370km electricity interconnector connecting George Town, Tasmania, with Loy Yang, Victoria. It is currently the only interconnector between Tasmania and Victoria. A second interconnector, Marinus Link, is currently being planned.

APA acquired Basslink in 2022. Currently a merchant interconnector that earns market-based revenues, APA is applying to the AER to have Basslink converted to a regulated interconnector. The existing contracts with Hydro Tasmania and the State of Tasmania that currently underpin Basslink's revenues will be in place until 30 June 2025 at which point, if approved by the AER, Basslink will begin earning regulated revenues. In effect, this transfers the revenue risk from APA to end-use electricity customers in Tasmania and Victoria.

As a newly regulated asset, the AER will need to make several critical decisions that will significantly impact end-use customers and lock in additional costs for them over the life of the asset. Of most significance, the AER will need to:

- Set an initial value for the regulatory asset base (RAB) for Basslink. APA's ongoing return on and of capital will be based on the initial RAB and will have one of the largest impacts on APA's total revenue requirements – and therefore costs to be recovered from customers.
- Establish how costs are to be shared between Tasmanian and Victorian end-use customers. We note there is no defined rule for how costs should be apportioned between the two jurisdictions.

Given the significant impact on both Tasmanian and Victorian end-use customers, it is critical that they are consulted and their views given appropriate weight.

Summary of views on engagement

We have used the AER's Better Resets Handbook to frame our assessment of the quality of APA's engagement. The table below provides a summary of our assessment.

Overall, we consider that APA has met the Better Resets Handbook requirements. The staff at APA have engaged openly and collegially across all levels of the organisation. The process has been a positive one and provides a good foundation for APA to continue to grow its capabilities in customer engagement. The appointment of SEC Newgate as an external facilitator was beneficial, providing confidence that consumers' views have been identified and heard in developing the proposal.

There are several outstanding issues with respect to the draft proposal that we recommend further engagement in coming months on before APA's revised proposal is submitted to the AER. These are detailed in chapter 4. In that chapter we also provide

suggestions for how APA can continue to evolve and mature its engagement beyond this first revenue proposal.

We also provide comment on two areas of the overarching regulatory framework that we consider should be revisited. While outside of the scope of APA’s revenue proposal for Basslink, we consider that:

- greater guidance could be provided to network businesses on the allocation of risk between themselves and their customers, and
- consideration should be given to whether the current approach of allocating all network costs to end-use customers remains fit for purpose or whether some costs should be allocated to generators, which also benefit from the network.

Table 1: Summary of views on engagement

BRH requirement	Independent RRG comments
Nature of engagement	APA have been open and transparent in their engagement, treating the independent RRG as partners in developing and implementing their engagement program. APA’s approach to engagement has evolved as their relationship with the RRG has matured and they have seen the value that a reference group can add.
Breadth and depth of engagement	APA set clear expectations from the start about the level of participation and influence that both the Independent RRG and end-use customers could have on the proposal. The APA has responded to challenge from the RRG to deepen their engagement with us on more complex topics. Engagement with end-use customers was targeted on three clearly defined issues, with good use of multiple channels of engagement.
Clearly evidenced impact	APA have adopted positions that clearly take into account consumer views and preferences obtained via direct engagement with end-use residential and small business customers. We support the engagement process that APA has undertaken to develop its proposal and consider that the proposal reflects consumer views of the issues they were consulted on.

The remainder of this report provides an overview of APA’s engagement, further details of our assessment of the engagement process and next steps for APA’s future engagement.

2. APA's approach to engagement

APA used two methods for eliciting customer views:

1. Establishing the RRG, which included 5 customer representatives across a range of interest groups (the independent members of the RRG).
2. Engaging with a cross-section of residential and small business end-users via online workshops, in person workshops and an online survey.

Engagement with other stakeholders, including major energy users and government, broadened significantly following feedback from the RRG. However, the Independent RRG was not involved in these one-on-one meetings and therefore the quality of engagement with these stakeholders is not addressed in this report.

Engagement with the RRG

APA's engagement for its regulatory revenue proposal began with the formation of its RRG in November 2022.

A co-creation workshop was held in December 2022 with the RRG, which set the scene for upcoming engagement. This included establishing the issues, priorities, customers and stakeholders that would be targeted throughout the engagement program.

The independent members advised APA on selecting the key issues for engaging on with end-use customers. In selecting core issues for discussion, the RRG considered both the elements of the proposal that customers had the most ability to influence, and those that were likely to have the biggest impact on APA's proposed revenue allowance.

Five RRG meetings were held between January 2022 and June 2023. These meetings provided opportunities for the RRG to provide feedback on and challenge the development of APA's proposal, as well as to have an ongoing role in shaping and adjusting the engagement program. The meetings also provided an opportunity for the RRG to ask questions and for APA to provide additional support and information where required to allow the independent members to engage effectively.

The meetings were well run and covered a broad range of topics. Minutes were provided for each meeting, which helped track how APA was taking into account the RRG's feedback.

Engagement with end-users

APA engaged directly with residential and small business end-users on three core issues, chosen by the Independent RRG:

1. Capital expenditure, with a focus on when Basslink should replace its “super-computer”.
2. The appropriate approach to insurance cover for Basslink and the trade-off between paying higher insurance costs to lower the risk of high repair costs.
3. How recovery of Basslink’s revenue allowance should be shared between Tasmanian and Victorian electricity consumers.

There were three phases to APA’s engagement with end-users.

The **content clarification phase** was held in March 2023. It comprised two, 90-minute online focus groups conducted via Zoom. The first was held with 7 Victorian-based participants, the second with 8 Tasmanian-based participants.

The objectives of this phase were:

- to test consumers’ understanding and the clarity of the draft information about APA and Basslink, the AER and regulatory process, APA’s plans for Basslink and the three key issues identified above, and
- to gain an early indicative sense of consumer reactions and what questions they have regarding the Basslink regulatory proposal.

The **reflection phase**, held in late March and early April, involved two, 4 hour in-person workshops. In Melbourne, 45 participants attended and in Launceston there were 48 participants. The RRG were consulted in the development of materials for the workshop, and independent members observed both workshops.

The objectives of this phase were:

- to genuinely engage with and inform Victorian and Tasmanian electricity consumers on APA’s Basslink regulatory proposal with a focus on the issues they could inform and influence, and
- to obtain feedback and a depth of understanding of consumers’ preferences on APA’s Basslink regulatory proposal and the options in the three focus areas, including reasonings for their preferences, concerns and other considerations.

The final, **validating phase** concluded engagement with end-users. This phase involved an online qualitative survey of 1,240 Victorian and Tasmanian electricity consumers. The RRG had the opportunity to provide feedback on the questionnaire.

The objectives of this phase were:

- to explore the broader energy context for Victorian and Tasmanian consumers, including their energy literacy, concerns and energy related focus areas for the future, and
- to build breadth of understanding of Victorian and Tasmanian consumers' awareness of Basslink and determine levels of support for three focus areas and related options of APA's Basslink regulatory proposal.

3. Assessment of the engagement process and support for the draft proposal

Our assessment has been guided by the framework set out in the AER's Better Resets Handbook. This requires consideration of:

- *the nature of engagement* – its sincerity, how consumers have been equipped to engage and whether they have been treated as partners, and how accountable APA has been in delivering on its engagement program
- *the breadth and depth of engagement* – whether APA has engaged with a wide range of customers on an appropriate breadth of issues and to an appropriate depth, and the extent to which consumers have influenced the proposal
- *clearly evidenced impact* – the extent to which the proposal reflects consumer preferences and desired outcomes.

Our views are based on our experiences being involved in the engagement process outlined in chapter 2 and how APA has reflected its consumer engagement in a draft version of its draft proposal. We note that we have not seen the final version of the draft proposal submitted to the AER. However, based on our experience working with APA to date, we have confidence that consumer views have been faithfully captured.

Overall, we consider that APA has met the expectations of the Better Resets Handbook. APA has engaged genuinely and collegially with the independent members of the RRG. Staff have been open and willing to answer questions in a transparent way throughout the process.

APA's confidence in and approach to engaging with the Independent RRG has evolved over time. While initially there were some topics that APA were hesitant to discuss, they became more comfortable engaging on complex and sensitive topics as the relationship between APA staff and the RRG matured and trust was established. The quality of engagement has increased as APA has seen the value of having the reference group and how it has led to both improved engagement and a better-quality proposal.

APA has built a solid foundation on which to evolve and mature its engagement process. While we consider the Better Resets Handbook expectations were met, we have identified several areas where APA can continue to refine and improve its approach. Our proposed next steps for APA are set out in chapter 4.

Nature of engagement

Sincerity

The engagement program was well structured and thoughtfully defined. Having a clear focus from the start on the objectives of the engagement and how it would contribute to APA's proposal set APA up well for success. The independent RRG co-designed the engagement plan, which was then faithfully executed, with some refinements to iteratively improve the program informed by the RRG.

Having senior executives involved in the consumer engagement program was critical, demonstrating from the top that APA was there to listen to consumers. This leadership translated into all levels of staff being open to engage with the independent members of the RRG. Staff were open to questions and equally forthcoming in their responses.

Consumers as partners

The independent members of the RRG have been treated as partners throughout the engagement process. APA worked with the RRG from the start to co-design the engagement program. The RRG together shaped the nature of the engagement, exploring and refining the issues that were brought to consumers for consultation and how that consultation occurred. We consider this has resulted in a fuller, richer conversation with consumers in both Tasmania and Victoria, improving the outcomes APA have achieved.

Every time APA asked the independent RRG for input, APA immediately modified their approach in response to the RRG's feedback. Examples of where this occurred include:

- Adopting recommendations on how best to present material to end-use customers, such as simplifying concepts. This included substantially revising the approach between the Victorian and Tasmanian workshops to reflect RRG feedback.
- Modifying the approach to the quantitative survey to ensure APA would be able to distinguish between Victorian and Tasmanian customers and have a statistically significant result for both jurisdictions.

Having an external facilitator was also beneficial, particularly in the end-use customer engagement. SEC Newgate assisted in ensuring consumer views were sought, heard, and responded to. This approach has provided us with confidence that consumer views have helped to inform and shape the proposal.

Equipping customers

APA have consistently provided the information that the independent members have asked for to help us challenge APA on core issues. APA have also done an excellent job educating the RRG about Basslink and why they purchased it. This provided important foundational knowledge to inform the key objectives and elements of the draft revenue proposal.

The subject matter experts that presented on various topics during RRG meetings and public workshops have been excellent. Their presentations and responses to questions were pitched to match the level of understanding of the audience. This helped ensure both independent RRG members and participants in the public workshops had a good understanding of the issues in order to provide feedback to APA. It has also helped build consumer understanding and capacity to engage with complex topics.

Engaging with electricity consumers on complex regulatory and investment issues is never easy, and there will always be a diverse range of understanding in the room. We would encourage APA not to shy away from engaging on complex issues, particularly with the RRG who have a higher level of understanding of the issues than the average end-use customer.

Further, while some workshop participants found the information presented easy to understand, others struggled with the quantum and complexity of the information.³ This is an area where APA could continue to refine its approach to equip as many customers as possible to engage effectively with the material and the questions being asked of them.

Accountability

APA has consistently delivered on its commitments to the RRG. APA has faithfully adopted recommendations about their approach to engagement. In addition to engagement with end-use customers, APA also engaged with a much wider range of stakeholders than they had initially intended following advice from the RRG, and reported back to us on their revised stakeholder engagement plan.

Minutes were taken at every RRG meeting and distributed to members. This provides a clear record of the issues and suggestions raised by the RRG. APA also clearly articulated how they had responded to our feedback at every meeting.

The next step for APA is to make itself accountable to its customers by looping back to those involved in the engagement process and informing them of how their input has shaped APA's proposal. We also recommend that APA be transparent about the commitments it is making to its customers in its revenue proposal and clearly track how it is meeting those commitments.

³ Reference to SEC Newgate, Basslink Consumer Engagement Report

Breadth and depth

Accessible, clear and transparent engagement

APA's engagement has been accessible, clear and transparent throughout the engagement process. As noted above, APA staff have made themselves available to answer questions from the Independent RRG, and have been open and honest in their engagement with us. For example, APA provided us with transparent cost breakdowns in respect of executive remuneration for Basslink as part of the discussion on their proposed operating expenditure.

The engagement plan was clearly articulated at the start of the process, with input from the RRG. The objectives of each phase of engagement, and the issues and topics to be explored, have also been clear. APA also set up expectations from the start about the level of participation and influence that the Independent RRG would have in developing and executing the engagement plan and on the proposal itself.

The information and materials provided to the Independent RRG have been timely, well-structured, comprehensive and understandable. This has enabled us to consider the issues, formulate our views and respond in an informed way.

There are two areas where transparency could be improved:

- While APA has been very transparent about the impact on residential and small business customers, there has been less transparency about the costs that major energy users will face. This is an area that the RRG would like to discuss further with APA, given that major energy users will fund approximately 60% of APA's revenue requirement.
- The level of contingent liability that was embedded in the purchase price for Basslink. This is important because it will provide greater transparency about the value that APA placed on the asset itself.

Consultation on desired outcomes and then inputs

Throughout the engagement process, APA has demonstrated a good understanding of issues that are important to its customers, particularly in Tasmania. APA are aware of the importance of maintaining a reliable service and the economic damage that would result from any shutdowns of Basslink.

Consumer preferences around reliability and resilience were reinforced through discussions with end-users about APA's approach to insurance. This discussion provided an opportunity for end-users to explain their perspectives with respect to risks, costs and reliability.

While not directly related to the revenue proposal itself, since APA began operating Basslink they have also changed several internal business practices to invest more in

local businesses and communities. We consider this change in practice demonstrates a clear understanding of issues that are important to the communities in which APA operates as well as respect for its customers.

Multiple channels of engagement

APA sought to engage with a cross-section of its end-users using a variety of channels. While much of the more detailed engagement has been with the independent members of the RRG, APA engaged with both residential and small business end-use customers across both Victoria and Tasmania on the three key issues set out in chapter 2 via online focus groups, in-person workshops and a quantitative survey.

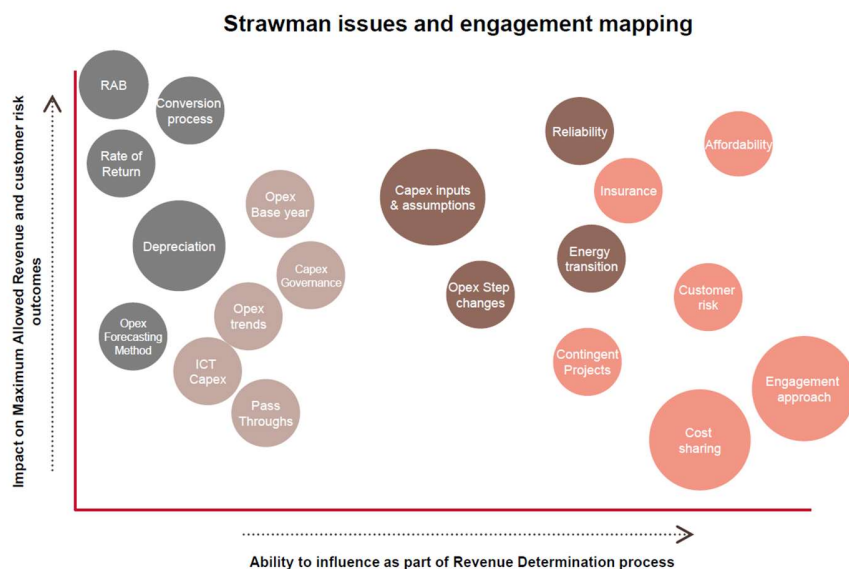
A representative cross-section of the community was engaged across each of these channels, including First Nation communities, culturally and/or linguistically diverse (CALD) communities and people living with a disability.

Consumers’ influence on the proposal

At the first co-design workshop, APA and the RRG agreed on the issues that consumers could directly and meaningfully influence. The diagram below was developed to assist in this process.

The issues that consumers are most able to influence are ones that have a relatively small impact on APA’s total revenue requirement. However, the independent RRG supports the process that was followed to determine the issues on which to engage with end-use consumers, noting that the three issues were recommended by the RRG.

Figure 1: Mapping consumer influence and impact



Clearly evidenced impact

Proposals linked to consumer preferences

APA presented the draft proposal to the RRG at the final meeting in June 2023. At that time they highlighted the issues that were raised by the RRG in the first co-creation workshop and clearly explained how these issues influenced APA's engagement approach and subsequently their proposal.

Overall, the Independent RRG has confidence that end-use consumer views sought by APA on cost-sharing, insurance and replacing the super-computer have been well informed and have been reflected in the proposal. APA has proposed a cost sharing approach of 90% to Victorian customers and 10% to Tasmanian customers based on the preferences of most customers that participated in the engagement. In respect of insurance and accelerated investment in the super-computer, while APA did not adopt the approach preferred by most customers in full, they did modify their position as a result of engagement. We are therefore satisfied that APA's final position on these issues place appropriate weight on consumer views.

In respect of the RAB, APA have proposed a valuation approach that will result in the lowest RAB compared to the other standard valuation approaches available. This demonstrates an awareness of consumer concerns about affordability. However, to the extent that the RAB is greater than the purchase price, APA will need to explain to customers clearly and transparently why this is the case.

Independent consumer support for the proposal

Overall, the Independent RRG considers that APA's engagement program has been commendable. While there is always room for improvement, APA have sought consumer views in an open and transparent way, and these views have been faithfully represented in APA's draft proposal. Consequently, we support the engagement process that APA has undertaken to develop its proposal, and we consider that the proposal reflects consumer views on the issues they were consulted on.

We have not undertaken a comprehensive review of the building block elements that together form APA's overall revenue proposal, and leave it to the AER to assess whether the proposed expenditure is prudent and efficient.

4. Next Steps

APA has built a solid foundation on which to grow its capabilities in consumer engagement. This chapter provides suggestions on the next steps APA could take to further deepen and broaden its engagement both for the 2025-30 revenue proposal and beyond. It also raises several issues more broadly with respect to cost allocation and risk under the current regulatory framework, which we understand are not within APA's remit to address.

For the 2025-30 revenue proposal

Continue to engage with the RRG, including on complex topics

Over the last few months, the Independent RRG have developed a good understanding of the key issues to be addressed by APA in its revenue proposal. The breadth and depth of topics we have discussed has increased over time as the RRG's knowledge and understanding of Basslink has developed and our relationship with APA staff has strengthened. We would like to build on this progress and engage further on a range of topics, including on more complex issues.

There are several topics in particular that we consider warrant further discussion prior to Basslink submitting its revised proposal to the AER. These include:

- The value of the RAB. The Independent RRG would like to have a better understanding of how APA valued Basslink and how this compares to the value that APA is proposing for its initial RAB.
- What the outturn costs will be under APA's revenue proposal and cost allocation for all Victorian and Tasmanian electricity users, including major energy users.
- How the Basslink Special Protection Scheme will be sourced, funded and contracted going forward.

Clearly articulate the risks being transferred to end-use customers

To date, end-use customers have not faced any financial risks associated with Basslink's operation because Basslink's revenues have been based on commercial and operational decisions made by the owner of Basslink. Consequently, the risks of those decisions were also borne by owner of Basslink. However, with Basslink becoming a regulated asset, revenue risks will now be shifted to consumers.

The Independent RRG considers there needs to be a balance between the risks that are imposed on consumers and those that APA continues to bear. To better understand this issue we would like to see a clearer articulation of the risks associated with Basslink and how APA proposes to allocate these between itself and its end-use customers.

Increase accountability to end-use customers and other stakeholders

As discussed in chapter 3, APA has demonstrated accountability to the RRG throughout the engagement process. APA has consistently delivered on its commitments to us. The next step is for APA to make itself accountable to its end-use customers.

For example, APA could loop back to the customers that attended the initial focus groups and workshops to inform them of how their input has helped to shape the draft revenue proposal that APA submits to the AER. APA could also keep them informed of the outcomes of the AER's assessment process.

Similarly, APA could conduct a similar process for the other stakeholders that it engaged with.

Beyond the 2025-30 revenue proposal

Customer engagement as BAU

We recommend that APA consider establishing an ongoing consumer reference group to continue to build consumer capability and partner with consumers on an ongoing, business as usual basis. This could include, for example, meeting with the reference group two or three times a year to discuss how APA is tracking against its customer commitments and provide a mechanism to seek consumer input on key decisions.

Ongoing accountability to end-use customers

We recommend that APA clearly identify the commitments that it makes to its customers in the revenue proposal and transparently track and report on those commitments publicly. This could be, for example, via an online dashboard.

Comments on the regulatory framework

Guidance on risk sharing between network businesses and their customers

While the Better Resets Handbook provides a useful guide for network businesses in engaging with consumers to develop their regulatory proposals, one area we consider could benefit from further guidance is in the transfer of risk from network owners to consumers where possible. This is an issue that cuts across all network businesses, which have incentives to transfer risk to consumers. However, particularly in the current environment with high electricity prices and, more generally high cost of living, we would like to see network businesses step up and take on a greater proportion of risk.

Generators paying their fair share

Under the current regulatory framework only end-use customers are liable for network use of system charges. Generators do not face any of the costs of investing in, operating or maintaining the grid, even while they benefit from it. In the case of Basslink, we note that generators in both Tasmania and Victoria benefit from being able to send generation to an adjacent jurisdiction.

The Independent RRG consider that further thought is required on how network costs are recovered and who they are recovered from to ensure the framework remains fit-for-purpose, particularly in light of the significant amount of transmission that is required to be built over coming years.