

Public Forum: Basslink Determination 2025-30

AER Board Member – Jim Cox – Forum Chair

22 November 2023

Acknowledgement of country

Jim Cox

AER Board Member

AER welcome and introductions

Jim Cox

AER Board Member

Agenda

Topic	Speaker	Duration
Welcome / Acknowledgement of Country	Jim Cox, AER Board member	5 mins
APA presentation	Beth Griggs, General Manager, Economic regulation and external policy, APA Group	15 mins
Overview of Issues Paper	Kris Funston, Executive General Manager Network Expenditure	15 mins
Discussion / Questions	Kris Funston, Executive General Manager Network Expenditure	35 mins
Closing remarks, next steps – submissions 16 February 2024	Jim Cox, AER Board member	5 mins

always
powering
ahead

apa

Basslink – conversion and revenue determination application

November 2023

The background features several large, white, abstract geometric shapes. On the left, there is a shape resembling a house or a trapezoid with a pointed top. To its right, a large, white, diagonal arrow-like shape points towards the top right corner. The overall composition is minimalist and modern.

A critical energy infrastructure asset for Tasmania and Victoria



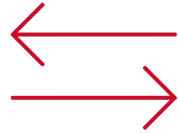
April 2006
Commencement of operation



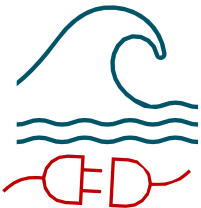
40 years
design life



\$988M
construction cost¹



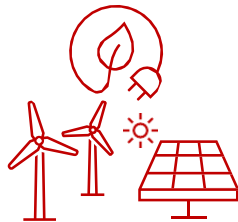
Critical asset
sole interconnector between Victoria and Tasmania



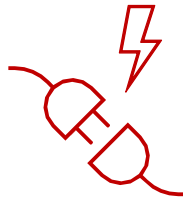
370km
cable linking Victoria and Tasmania



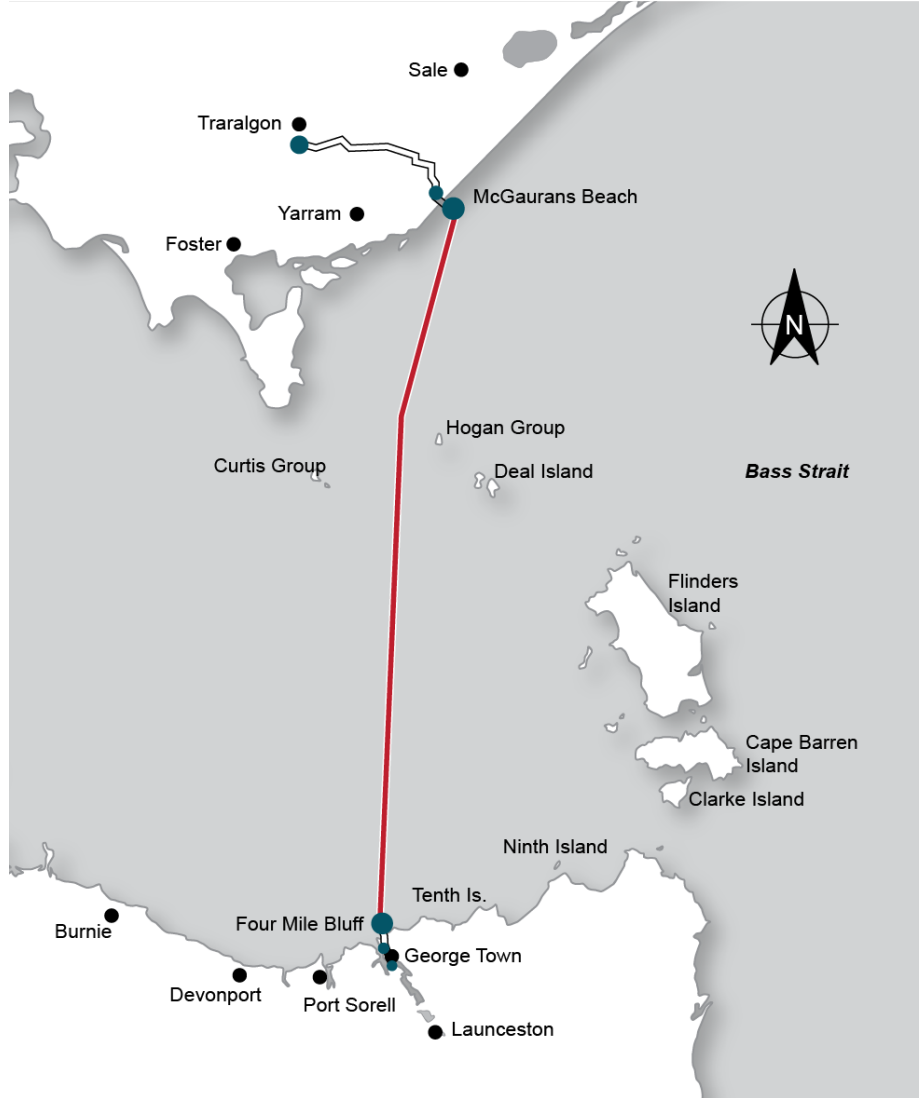
~500MW
(in FY25 pending operational improvements)



~2,600GWh
on average flowing across Basslink annually²



>99%
availability over the past 5 years³



¹ Nominal
² Calendar year 2020
³ Energy Availability excluding 2018 fault during maintenance period caused by an external contractor

Converting Basslink to a regulated asset is in the public interest



Basslink is currently the only MNSP in the NEM

- MNSPs rely on price differences between reference nodes, or contractual arrangements to earn revenue
- These price differences may be more pronounced if MNSPs are capacity constrained
- MNSPs do not have incentive or services performance schemes



Basslink has operated in the past in a manner more consistent with a regulated asset²

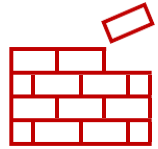
- If Basslink is converted to a TNSP, any incentive for it to be constrained will be removed, ensuring Basslink is available to transport as much renewable energy as possible

The ACCC noted¹:
[The] Commission is aware that the operation of a market network service may detract from the public benefits that could otherwise be expected. The Commission recognises that the incentive placed on the proponents of a market network service may be to preserve price differentials between regions. Interested parties claim that MNSPs will have an incentive to either construct a link of smaller than socially optimal capacity and/or restrict flows between the regions. As such the expected public benefits that could arise from the introduction of market network services may not be fully realised. An MNSP may bid its capacity into the NEM at high prices, though such strategies will be constrained by the bid prices of competing generators and interconnectors.

¹ <https://www.accc.gov.au/system/files/public-registers/documents/D01%2B43022.pdf>

² Historically, Hydro Tasmania has been required to bid Basslink in accordance with a 2014 Ministerial Notice issued under the *Electricity Supply Industry Act 1995* (Tas)

Basslink revenue determination application



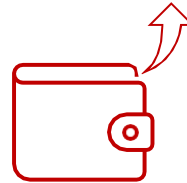
Regulated Asset Base

- **\$831M** proposed opening RAB, significantly below alternative estimates



Operating Expenditure

- **\$33.8M** annual operating expenditure on average
- includes 'new' activities necessary for responsible operation – cyber security (SOC1), HSE and updated approach to risk and insurance
- Acknowledges higher level of corporate costs – backing out 'difference'



Capital Expenditure

- **\$74.1M** total capital expenditure
- Includes replacement of control and protection system at **\$44.2M**



Market Benefits

- Long term benefits exceeds costs
- Net market benefits under credible market scenarios are significantly higher than proposed RAB



Regulatory conversion benefits outweigh costs



Better alignment of consumer and business interests



Reliability and security of energy supply



Supports the transition to a renewable energy future

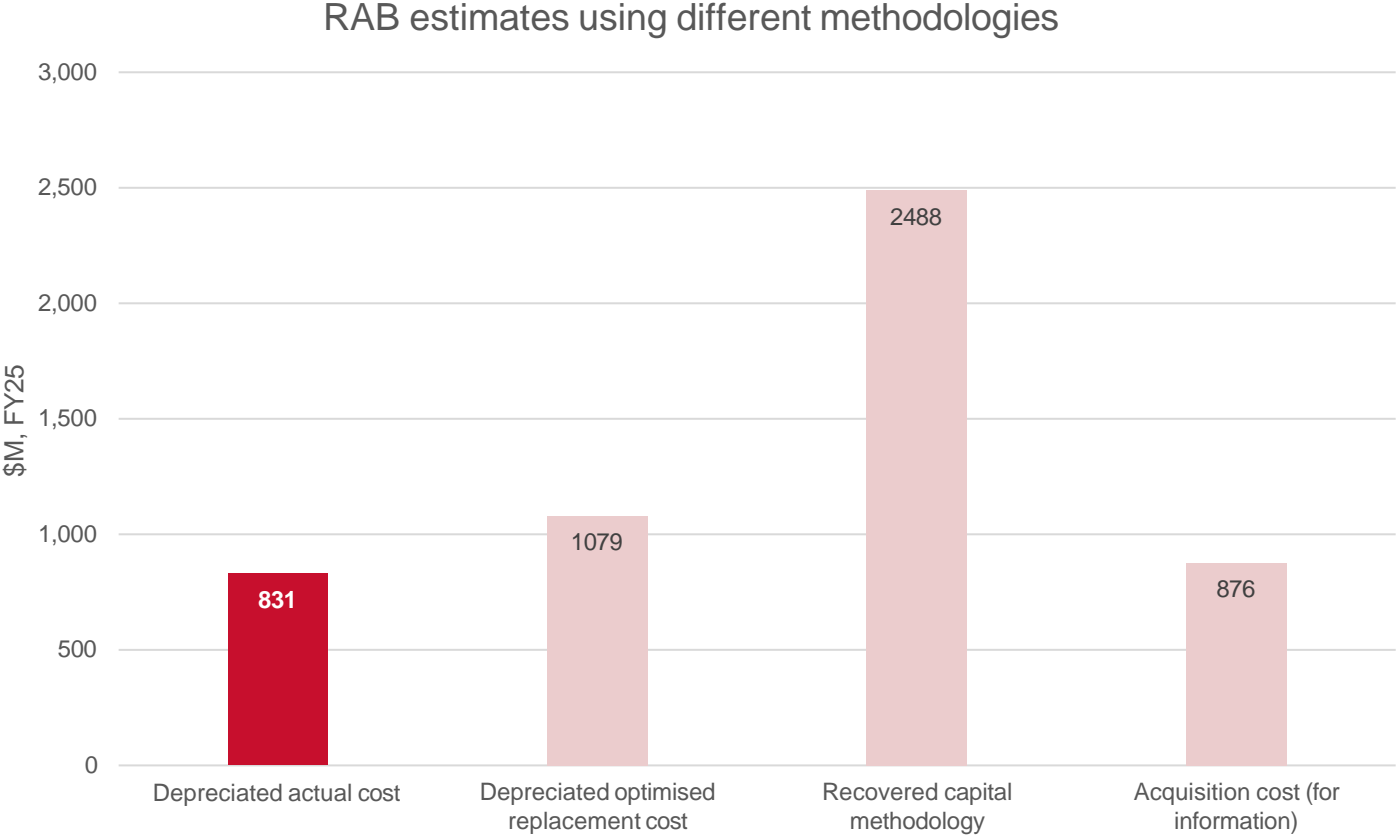


Certainty of costs and revenues and how they impact consumer bills

Benefits of the regulatory proposal

Note – all dollars are presented as \$FY25

Regulated Asset Base (RAB)



- Proposed opening RAB based on **depreciated actual cost** methodology
- Delivers lowest RAB value
- This helps lower the cost of Basslink to consumers over the long term

Cost sharing

Geographic

Based on the value of interconnector assets located in each region

55% Revenue split 45%

	Tasmania	Victoria
Residential	\$35	\$7
Business	\$68	\$21



Energy Flows

Based on energy flows across Basslink

50% Revenue split 50%

	Tasmania	Victoria
Residential	\$39	\$6
Business	\$76	\$19



Market Size

Based on the number of connections in each jurisdiction

10% Revenue split 90%

	Tasmania	Victoria
Residential	\$8	\$11
Business	\$15	\$35

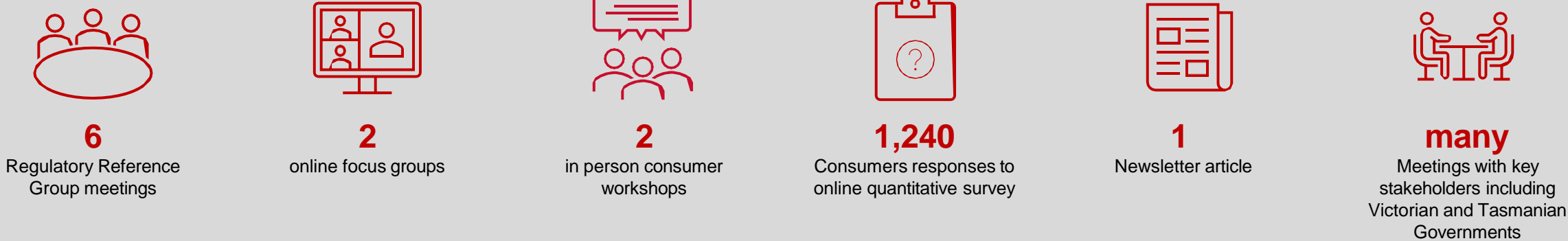


Proposed method

- We do not have a commercial preference for any particular method
- We undertook extensive public consultation to understand support for the different methods
- On balance, stakeholders preferred the Market Size method
- Bill impacts do not include settlement residue auction outcomes

APA Regulatory Stakeholder Engagement

Engagement methods were broad, deep and targeted



Five priority issues



“Both companies had friendly, respectful representatives who made an effort to engage with normal, everyday community members to better understand their knowledge or lack of and feelings about the different issues.”
– Launceston workshop participant

“This was informative as well as enabling. I learned a lot about a subject about which I had only a smattering of previous information. The group sessions were friendly, and participants shared their thoughts and knowledge articulating with confidence.”
– Launceston workshop participant

“Great to have APA people and a moderator on each table, and that the CEO made the effort to speak.”
– Melbourne workshop participant

Thank you

“The SEC Newgate and APA representatives we had on our table were very informative and I felt gave each of us a rather fair chance to converse the topics.”
– Launceston workshop participant

“Made everyone feel (it was) a safe environment for everyone to ask questions and say what they wanted without fear. The way everyone got on from the outset. The positive outlook from APA about what the asset can deliver in the future” – RRG participant, December 2022

“Considering I didn't have a lot of knowledge on the topic prior to the evening, I found all of the information easy to follow and interesting and the speakers engaging..”
– Melbourne workshop participant



Launceston consumer workshop

AER Issues Paper: Areas of focus

Kris Funston

Executive General Manager

Network Expenditure

Conversion to a regulated TNSP

- Whether Basslink should be converted is a ‘with or without regulation’ question, that is, whether the benefits of regulation outweigh the costs to consumers compared to a future *without* conversion.
- The ‘with or without’ regulation question requires us to consider the following:
 1. What would happen if Basslink continued to operate as a Market Network Service Provider (MNSP)? And
 2. What would the benefits be of Basslink operating as a prescribed Transmission Network Service Provider (TNSP)?
- In assessing the MNSP and TNSP options we must have regard to the National Electricity Objectives specifically:
 - Efficiency, price, reliability, security of supply and greenhouse gas emissions.
- Our Issues Paper seeks stakeholder input as to whether conversion is in the long-term interests of consumers, including stakeholder views on the alternatives to regulation.

Determining opening RAB value

- Determining the opening Regulatory Asset Base (RAB) value will be an important element of our final decision to convert.
- In determining the opening RAB value, we must apply the objectives, principles and methodologies from Murraylink (2003) and Directlink (2006) decisions.
- While the Regulatory Test was the methodology used to determine the opening RAB value for Directlink, there were also further principles and objectives adopted that guided how the Regulatory Test method was implemented.
- Basslink have proposed using the depreciated actual cost of Basslink to set the RAB, consistent with the Murraylink and Directlink decisions.

Revenue allocation

- Under clause 6A.29.1(b) of the National Electricity Rules, revenue allocation (referred to as cost allocation in Basslink's proposal) is to be allocated between jurisdictions on the basis of 'use'.
- As 'use' is not defined, it is possible for multiple operations of 'use' to be considered consistent with the Rules.
- Methodologies considered in Basslink's proposal include:

Methodology	Proportion of revenue allocated – Tasmania	Proportion of revenue allocated – Victoria
Geographic	45%	55%
Energy Flows	50%	50%
Market Size	10%	90%

- While the three approaches are acceptable under the Rules, we note there may be divergent views on revenue allocation between Tasmanian and Victorian consumers and seeking stakeholder input on this issue.

Consumer engagement

- Consumer engagement has been meaningful and frequent with the independent Regulatory Reference Group (RRG) noting Basslink have been open and transparent.
- Consumer engagement to date has focused on aspects of the proposal where consumer preferences can influence outcomes, including revenue allocation and the proposed replacement of Basslink's control and protection system.
- The Issues Paper highlights aspects of the regulatory proposal that may benefit from further consultation, including:
 - consumer preferences concerning the question of conversion
 - the methodologies, principles and objectives to determine the opening RAB value; and
 - revenue allocation between Victorian and Tasmanian consumers.
- We are mindful that consumer engagement covers both Tasmanian and Victorian perspectives.

Revenue proposal – areas of focus

- Areas of focus capital expenditure (capex):
 - Timing of proposed capex
 - Proposed capex for new assets, including the fit out of the repair vessel
 - Historical trend in replacement capex
 - Justification of asset improvement expenditure
- Areas of focus for operating expenditure (opex)
 - Three step changes: second response vessel, allocation of APA group shared costs for complying with the *Security of Critical Infrastructure Act* and potential costs associated with the System Protection Scheme.
 - Allocation of APA Group corporate overheads
- Application of incentive schemes and cost pass throughs


Discussion and Questions

Kris Funston

Executive General Manager

Network Expenditure

Next steps

Milestone	Date
Basslink submit revenue proposal and pricing methodology	15 September 2023
Basslink submit further information in support of conversion	15 September 2023
AER Issues Paper, submissions open	10 November 2023
AER Public Forum	22 November 2023
 Submissions close	16 February 2024
AER draft decision	14 June 2024
Basslink submit revised revenue proposal	16 August 2024
AER final decision on conversion application and revenue proposal	15 December 2024

Submission details

- We invite interested parties to make submissions on the Issues Paper by **5pm AEDT, 16 February 2024**.
- We will contact stakeholders in January 2024 as a reminder, prior to submissions closing on 16 February 2024.
- **We encourage early submissions, where possible, to inform the next phase of consultation.**
- Submissions should be emailed to ResetCoord@aer.gov.au.

