

19 February 2024

Dr Kris Funston
Executive General Manager
Australian Energy Regulator
Canberra ACT 2601

By email submission: ResetCoord@aer.gov.au

Dear Dr Funston,

Basslink conversion Issues Paper

The Australian Energy Market Operator (AEMO) welcomes the opportunity to comment on the AER's Issues Paper on the Basslink Conversion Application and Electricity Transmission Determination.

AEMO has prepared this submission taking into consideration both its role as the system operator of the National Electricity Market (NEM) and as the planner of the Victorian Declared Shared Network (DSN).

Basslink Pty Ltd, a subsidiary of APA, is the owner and operator of the Basslink interconnector. Basslink Pty Ltd is proposing to convert the Basslink interconnector from a market network service to a prescribed transmission service. Meaning that Basslink Pty Ltd would shift from a Market Network Service Provider (MNSP), where it is able to earn revenue through arbitrage between the Victorian and Tasmanian regions, to a prescribed Transmission Network Service Provider (TNSP), where its revenues would be set every 5 years by the Australian Energy Regulator (AER).

Revenue allocation

Basslink Pty Ltd have proposed three revenue allocation methodologies in their proposal. While the National Electricity Rules (NER) do not detail how such an allocation across State and Commonwealth boundaries should be applied, we note that there will be considerably different outcomes for Victorian and Tasmanian consumers depending on which of the proposed approaches prevails. We also note that Basslink Pty Ltd's customer engagement had limited engagement with Victorian consumers, and we suggest that they be tasked with addressing this prior to any decision being made to ensure that consumers incurring costs associated with the investment are consulted in a proportionate manner.

We also encourage dialogue between the affected jurisdictions, as is being done for Marinus Link, to ensure consistency between approaches where possible.

Modelling inconsistencies

There are a number of inputs into the modelling undertaken as part of this application which AEMO considers warrant further consideration.

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- The completion date for VNI West from the 2022 ISP has been used, whilst the most recent in-service date for VNI West is now 2028¹
- Load forecasts were taken from the 2021 ESOO, which has since been updated twice.
- The above outdated information was included, however the updated Federal renewable energy target of 82% by 2030 was used.

Given the majority of gross benefits accumulate within the first 5 years post conversion, we consider that variations in the inputs mentioned above may have material impacts.

Further, the counterfactual of Basslink ceasing operation and disconnecting Tasmania from the mainland requires deeper consideration. AEMO expects this to have impacts on energy security and prices and consider that this should be taken into account in determining the cost allocation between Victoria and Tasmania. Alternatively, other counterfactuals could be explored given the available arrangements.

AEMO System and Process Changes

If the conversion is approved, AEMO will need to amend some systems and processes to reflect Basslink Pty Ltd's operation as a TNSP. These include, but are not limited to, metering, settlement, registration, amendments to loss models, and potential impacts to settlement residue auctions.

These processes require significant lead time to ensure they are operational when required. AEMO looks forward to continued engagement with the AER and Basslink Pty Ltd to ensure that, in the event the conversion is approved, these changes can progress in a timely manner.

If you would like to discuss anything further, please contact [REDACTED]

Yours sincerely,

[REDACTED]

Executive General Manager – Reform Delivery

¹ NEM Transmission Augmentation Information August 2023