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Dr Kris Funston
Executive General Manager
Australian Energy Regulator

Wednesday, 21 February 2024

Re: Issues Paper for the Basslink interconnector conversion application and revenue determination

Dear Kris

Thank you for this opportunity to comment on the AER's issues paper for Basslink.

Conversion

The AER is clear, and correct, that the conversion question is a with and without question – with Basslink being regulated, or Basslink operating as a merchant interconnector. That is the costs and benefits of Basslink with regulation compared to the costs and benefits of Basslink if it remains unregulated (the counterfactual). We note in this respect the following in responses to the Issues Paper:

- When considering Basslink Pty Ltd's proposal and the AER's determination on conversion it is important that stakeholders understand that the question is always - how does this compare to the counterfactual? As noted in our submission, the Basslink Interconnector has not previously operated as a merchant interconnector but has historically operated as an 'open link', which it would only continue to do if it is converted to a regulated interconnector.

- We support the AER in relation to seeking to quantify the counterfactual to Basslink regulation. High-quality modelling of the market implications of operating Basslink on a commercial basis across a large range of credible scenarios will be helpful to both the AER and stakeholders informing themselves. We note in this respect that history does not provide a guide to the outcomes, as Basslink has always operated as an open link. The AER's modelling will need to consider the security of supply implications of Basslink operating as a merchant interconnector.

- We are confident that this modelling will clearly emphasise that there are significant costs to consumers associated with the operation of Basslink as a merchant interconnector. These will not necessarily be costs that flow to Basslink in the form of revenue. We look forward to working with the AER in better understanding the full costs to consumers of the loss of Basslink as an open link.

- Further, we think this analysis will make clear that the regulated revenue should not be considered as a 'cost of regulation'. The Issues Paper does appear to characterise regulated revenue as the 'cost of regulation'. This analysis will reinforce there are costs associated with Basslink not being regulated – the costs of regulation are the transfer of risk to customers and the loss on flexibility and innovation in service offerings. Why these costs are less material for Basslink are set out in our proposal.

Benefits of Conversion

Basslink Pty Ltd's proposal demonstrated that, due to the peculiarities of the electricity market, customers long term interests are best served by making Basslink a Transmission Network Service Provider rather than a Market Networks Service Provider. These are:

- Better alignment of customer and business interests
- Reliability of Supply
- Certainty of costs and revenues for Basslink and customers
- Greater transparency and an opportunity for customers to influence cost outcomes

For Basslink Pty Ltd greater certainty of cost recovery allows Basslink to focus on asset management and service reliability.

Stakeholder Engagement

Part of APA's vision is to demonstrate integrity in our dealings with all our stakeholders. Basslink Pty Ltd is of the view that consulting on matters, beyond informing stakeholders, that are already mandated in the National Electricity Rules, such as determining the regulated asset base (RAB), or where we have already made a commitment to undertake a particular course of action, such as the application for conversion is not consistent with our vision and incongruous with best practice stakeholder engagement practices.

We ensured that stakeholders were informed on the approaches we took with regards to both the calculation of the RAB and the relevant factors for consideration of the costs and benefits of conversion.

Basslink Pty Ltd established an independent stakeholder advisory group, the Regulatory Reference Group. Basslink Pty Ltd surveyed members of this group in relation to the quality of our engagement with them. The Regulatory Reference Group rated Basslink Pty Ltd highly on both clearly explaining the purpose of the engagement and how their feedback will be used and by providing clarity about the issues the group was able to influence.

<u>Regulatory Asset Base</u>

In relation to our approach to stakeholder engagement on the value of the initial RAB, the required approach to calculating the initial RAB is quite specific and clearly articulated in the National Electricity Rules[1]. The initial RAB for Basslink is required to be set by applying the previous regulatory approach adopted for Directlink and Murraylink. In the event of an inconsistency between these approaches the approach adopted in the decision of the AER regarding Directlink prevails over the approach adopted by ACCC for Murraylink.

Market Benefits

The release of the Inputs, Assumptions and Scenarios Report by AEMO and changes to the proposed project for Marinus Link occurred immediately prior to the submission of 15 September 2023 for the Basslink conversion proposal. This meant that there was limited time for Basslink to model updated market benefits

[1] NER 11.6.20

to fully reflect this information prior to our submission. At the time of submission Basslink was clear that we would obtain additional analysis from EY to support the regulatory test.

Consistent with the requirements of the regulatory test, EY have modelled a number of additional sensitivities to identify the factors that are key to understanding the benefits of a regulated Basslink to customers. EY's analysis shows that under all sensitivities there is a large positive net benefit to customers. Note that the present value of the long term cost to customers of operating Basslink is about $1.4bn.

The sensitivities modelled by EY were variations of AEMO's 2022 Integrated System Plan (ISP) scenarios to capture potential changes in the market that Basslink considers may have materially impacted the consideration of market benefits.

Table 1 categorises the additional modelling by scenario, provides market benefits to Basslink in each sensitivity and also the net benefit to customers (the information that informs the maximum value of the RAB) noting that long term costs don't vary across scenarios. The gross benefits for the additional sensitivities, like the original modelling provided, are against the counter factual of no Basslink from 1 July 2025.

Table 1: Additional modelling results for Regulatory Test

Name	Description	Gross Benefits ($bn)	Net Benefits ($bn)
Step Change Scenario			
Pumped Hydro Energy Storage delay	Snowy 2.0 and Borumba delayed 3 years	$4.0	$2.6
Transmission delay	Transmission timing from Progressive Change (several projects delayed 3-7 years)	$4.0	$2.6
Transmission acceleration	Transmission timing from Hydrogen Superpower (several projects brought forward 1-4 years)	$3.8	$2.4
Gradual federal 82%	Gradual, non-linear trajectory to achieve the federal 2030 target	$3.5	$2.1
No federal 82%	No explicit federal 2030 renewable target	$3.4	$2.0
All policy delay	State and federal targets delayed 3 years	$3.2	$1.8
Without Marinus Link and without TRET	Marinus Link is not installed and TRET is not enforced	$4.4	$3.0
Progressive Change			
2023 IASR Tasmanian industrial load	Tasmanian industrial load based on 2023 IASR (lower demand)	$5.0	$3.6

As the above table demonstrates Basslink provides significant benefits to customers under a wide range of sensitivities, all of which are considerably in excess of the proposed regulatory asset base of $830m.

If there are any questions please contact [redacted].

Sincerely

[redacted]

Beth Griggs
General Manager
Economic Regulatory & External Policy
APA