19 February 2024

Australian Energy Regulator

By email: ResetCoord@aer.gov.au

Dear Sir/Madam,

Basslink Determination

Aurora Energy welcomes the opportunity to provide feedback on the Basslink Conversion Application and Electricity Transmission Determination Issues Paper (Issues Paper). Aurora Energy is a customer-centric Government owned energy retailer providing energy services to the vast majority of Tasmania's electricity customers.

Aurora Energy wishes to make the following comments in relation to the Issues Paper.

Regulatory Asset Base (RAB) and Proposed Total Revenue

Aurora Energy notes that Basslink has proposed estimating the opening RAB value as the lower of:

- Basslink's depreciated actual cost ($831 million)
- depreciated optimised replacement cost ($1.04 billion), and
- gross market benefits ($2.271 billion to $3.359 billion, less long-term operating costs.

Under this approach, Basslink has estimated that its depreciated actual cost would be the lowest result in RAB value of $831 million which, upon consideration of its total operating expenditure of $182.7 million (nominal) and capital expenditure of $74.1 million ($2024-25), will allow it to recover $561.1 million in revenue ($ nominal, smoothed) from consumers over the 2025-30 period.

Whilst acknowledging Basslink has sought stakeholder feedback on this approach, Aurora Energy has concerns with both the proposed RAB valuation and total revenue figure, based on the following factors:

- the RAB valuation ($831 million) is higher than the amount paid for the asset ($773 million).
- the proposed revenue figure is significantly higher than the previous owners of the asset were able to recover as a Market Network Service Provider (MNSP) which does

not reflect the decrease in commercial risk in changing to a Transmission Network Service Provider (TNSP); and

- the potential change in market outcomes when Project Marinus comes online, resulting in a lower value of the asset.

Aurora Energy contends that the commercial risks of operating as a TNSP are significantly lower than as a MNSP and, as such, it is hard to make a compelling case for Basslink's proposed revenue figure. This is noting the proposed figure is significantly higher than:

a) what was negotiated under the previous agreement with Hydro Tasmania; and

b) higher than what private market participants were prepared to pay under the new ownership.

Aurora Energy suggests that the AER should further consider both the commercial risks involved in providing the service and the revenue recovered by the previous owners of the asset when assessing both the RAB and total revenue figures.

Aurora Energy also has some concern to the market benefits that have been ascribed to Basslink in the proposal. Aurora Energy considers that the high value market benefits attributed to Basslink are primarily attributable to the future value of Tasmanian generation to support the decarbonisation of the National Electricity Market (NEM) in mainland Australia. Aurora Energy suggests that the AER scrutinise the key assumptions in the market benefits particularly given the challenges in ascribing value to renewable generation without a carbon pricing regime as well the impacts of the Federal Government's recently expanded Capacity Investment Scheme (CIS). An expanded CIS may reduce the market benefits given the higher levels of variable and dispatchable renewable generation that will be made available to mainland jurisdictions.

In addition to the issues around commercial risk, Aurora Energy contends the proposed increase in revenue could be considered at odds with the expected market outcomes that Project Marinus will produce, which is likely to result in the narrowing of the spread between Tasmanian and Victorian spot price outcomes. This factor creates the potential for the asset to have a diminished value for private market operators.

Cost Recovery/Allocation

Aurora Energy notes that the operation of the Basslink interconnector as a TNSP will result in a new cost to Tasmanian customers. This is due to the fact the current costs of Basslink are paid by Hydro Tasmania by way of the Basslink Services Agreement (BSA) and are not currently passed through directly to Tasmanian customers in forward contract prices made available by Hydro Tasmania.

In this context it should be noted that Hydro Tasmania's setting of forward contract prices in Tasmania is set by way of regulation under the Wholesale Contract Regulated Instrument (WCRI). The outputs of the WCRI are direct inputs into the Wholesale Energy Price in the Standing Offer determination of retail costs for small customers in Tasmania. Importantly, the

WCRI is set with reference to Victorian forward contract prices as the primary input and provides no allowance for recovery of costs associated with the BSA.

Further, the primary market beneficiary of a regulated Basslink will be the State of Victoria, who will receive greater access to dispatchable renewable generation by way of Tasmanian hydro generation. This will help to improve energy security, support decarbonisation of Victorian energy supply (and by interconnection other mainland states) and keep downward pressure on prices in Victoria. From a Tasmanian consumer perspective, there is a marginal benefit in Basslink becoming a TNSP.

Based on the above, Aurora Energy supports the model for cost recovery that results in the lowest cost impact to Tasmanian consumers, which is the "market size" approach supported by Basslink.

However, given this will be a new cost with marginal benefit to Tasmanian consumers, Aurora Energy contends that any valuation of the RAB and resultant total revenue should be contingent on the market size allocation of costs recovery/allocation.

Yours sincerely

Oliver Cousland
Company Secretary/General Counsel