16 February 2024

Australian Energy Regulator (AER)

Submitted via email: ResetCoord@aer.gov.au

Dear AER,

Basslink Conversion Application and Electricity Transmission Determination

Hydro Tasmania welcomes the opportunity to respond to the Australian Energy Regulator (AER) and wishes to comment on two matters raised in the Issues Paper for the *Basslink Conversion Application and Electricity Transmission Determination*.

These relate to (1) the characterisation of the network services agreement between Basslink's owner and Hydro Tasmania and the treatment of its continuation as a possible counterfactual and, (2) the third step change presented in the issues paper which relates to system protection scheme (SPS) costs.

Our comments on the relevant questions are included in Attachment A. If you wish to discuss any aspect of this submission, please contact [redacted].

Yours sincerely,

[redacted]

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ATTACHMENT A – Hydro Tasmania's response to consultation questions

Question 4 - What is the likely or most realistic counterfactual that should be considered to assess Basslink's proposed conversion?

We note that the second counterfactual listed at section 4.4.1 of the issues paper is that *"Basslink contracts capacity to Hydro Tasmania. Hydro Tasmania would then control flows on Basslink and earn revenues from electricity price differentials between Victoria and Tasmania (again either by participating in spot markets and/or by buying and selling electricity contracts)."*

As explained in APA's Basslink Transmission Proposal dated 15 September 2023 (page 77), the services agreement does not give Hydro Tasmania the right to control or bid for[1] Basslink or its capacity such that it can 'control flows on Basslink':

> *For most of its life to date[2], Basslink Pty Ltd has been under a service agreement with Hydro Tasmania which requires it to dispatch the full capacity of the interconnector, in almost all cases, at a price of zero[3]. In the NEM, bidding at zero means that a generator or a MNSP is willing to accept any (non-negative) price, and effectively will provide its full capacity regardless of the market outcome.*

As a result of the above factors, Basslink has (with the exception of a short period in 2022 when Basslink was under administration) operated in a manner designed to make its full capacity available to the market whenever such physical capacity is technically possible and is needed. This operation as an 'open link' interconnector reflects the manner in which a TNSP would have operated over the same period.

We also note the term of the current services agreement between Basslink Pty Ltd and Hydro Tasmania is until the earlier of the date Basslink is converted to a TNSP and 30 June 2025. If conversion does not occur the agreement may be extended, but any such extension will be subject to agreement being reached by both parties (and therefore also subject to any relevant approvals the parties determine are necessary). Accordingly, we confirm this cannot be considered a certain counterfactual.

Question 33 - What are your views on Basslink's proposed step changes?

We note the third step change proposed by Basslink Pty Ltd is to address SPS costs and that there is reference to a proposal by TasNetworks in respect of the SPS.

The SPS comprises of two schemes:

- Network control SPS (NCSPS) and the

[1] Except in some limited circumstances in which Basslink may be permitted to bid at a price other than zero.

[2] Except for a short period of time between February 2022 and October 2022 when Basslink Pty Ltd was subject to external administration and was operating as a 'pure' merchant interconnector.

[3] Except in some limited circumstances as noted in footnote 1.

- Frequency control SPS (FCSPS).

Each of these schemes comprises SPS assets and the need for ongoing provision of generator tripping and load interruption services.

The NCSPS permits the loading of transmission line corridors beyond their secure ratings and requires fast de-loading following a corridor credible contingency event to return transmission line loadings to within secure operating limits. It is an alternative to augmenting several Tasmanian transmission corridors and we consider it appropriate that TasNetworks maintains this scheme.

The FCSPS permits Basslink flows above those that would ordinarily enable compliance with the Tasmanian Frequency Operating Standard and requires either rapid generation tripping or rapid load interruption following sudden cessation of Basslink flows. We understand AEMO relies on the FCSPS to meet its frequency control obligations.

Large customers participate in the FCSPS scheme by providing load tripping services to TasNetworks and Hydro Tasmania participates by providing generation tripping services to TasNetworks. As the SPS system is owned and operated by TasNetworks it is open for anyone to procure or offer provision of loads or generating units for tripping in the FCSPS[4].

If there was no load or generation available for tripping under the FCSPS then Basslink would effectively be limited to 144 MW import and 200MW export to ensure compliance with frequency operating standards.

These limits have rarely been applied in practice because Hydro Tasmania has historically (and at its own cost) procured sufficient FCSPS tripping services from large loads in Tasmania and provided generation for tripping to support full flows across the interconnector in both directions. Hydro Tasmania is under no obligation to procure or provide these services, however it has done so historically because it has had a commercial incentive to do so in the context of the services agreements with the consequence that the whole market has benefited from Basslink being made fully available.

In a regulated environment, and particularly in an environment where Marinus Link will increase interconnection (and potentially also rely on the FCSPS) Hydro Tasmania's commercial incentives will be different. We therefore consider that it is appropriate for the AER, AEMO and other relevant stakeholders to consider and ensure an appropriate framework and agreements are in place for the procurement of FCSPS tripping in the context of APA's application for regulation. Given the benefits of the FCSPS scheme are realised by consumers across the NEM, including Tasmanian and Victorian regions, through enabling higher interconnector flows on both import and export the costs of the scheme should be recovered from consumers across regions broadly in-line with the benefits they receive.

[4] Subject to agreement with TasNetworks about scheme participation terms.