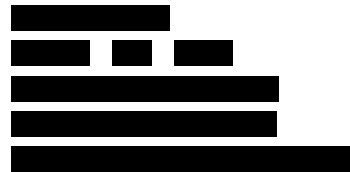


15 February 2024



Cleaner.  
Smarter.  
Diverse.

Dr Kris Funston  
Executive General Manager  
Australian Energy Regulator  
GPO Box 1313  
Canberra ACT 2601



Website: [www.tmec.com.au](http://www.tmec.com.au)

Via email: [ResetCoord@aer.gov.au](mailto:ResetCoord@aer.gov.au)

Dear Dr Funston,

**Re: Basslink Transmission Determination 2025-30**

The Tasmanian Minerals, Manufacturing and Energy Council (TMEC) welcomes the opportunity to provide this submission in relation to the conversion and revenue proposal for Basslink. TMEC would like to firstly acknowledge the engagement APA Basslink has conducted over the recent period in preparation for this proposal. Noting TMEC had a representative on the Basslink Regulatory Reference Group (RRG). The RRG has provided a separate report that details how the engagement was in line with the better resets' handbook. As such this submission will focus on the concerns and items that TMEC believe the AER needs to consider in making this important decision. TMEC has identified eight specific responses it is requesting from the AER to better indicate how the consumers interests are best represented by the AER's determination (whichever way it decides).

**About TMEC**

TMEC's membership base represents an important wealth creating sector within the Tasmanian economy. The combined minerals and manufacturing sector employs 18,484 people and contributed \$2.795B in exports in the 22/23 FY. Most of our members are based in regional areas of Tasmania and therefore provide critical employment opportunities away from public funded employers.

The sector TMEC's members account for consume more than 60 percent of the state's electricity generation and has capacity to offer system protection capabilities.

**Whether to convert Basslink or Not?**

Basslink is currently a Market Network Service Provider (MNSP) and proposing to become a Transmission Network Service Provider (TNSP) whereby its revenue is determined by the AER and that revenue is collected from consumers. The challenge in this regard is who are the consumers? Under the current and former arrangements between Basslink and Hydro Tasmania, it is believed that Hydro Tasmania are the consumer so pay for the use of Basslink. How that cost of use and at what cost is not known how that gets passed onto Hydro Tasmania customers. However, it must work as it is not seen currently in transmission charges to end use consumers. Is it in the wholesale electricity price from Hydro Tasmania? If it was, how will a reduction in wholesale charges be realised to consumers, to net off the additional charges?

While TMEC understands the AER need to ensure this asset conforms to the rules of being a regulated asset, a question remains as to how the current cost recovery model will (Hydro Tasmania and how it apportions the cost recovery to consumers) be unwound and not remain an embedded cost.

To a consumer, if regulation occurs the function Basslink provides of transferring energy on the NEM does not change other than an increased cost on the bill.

The test of whether the benefits of regulation outweigh the costs to consumers compared to a future without regulation clearly does not pass the test when direct connected transmission consumers will only see an increase in transmission charges, irrespective of what cost sharing model is adopted.

The AER issues paper states:

*“The efficiency gains to be realised were Basslink regulated will come at a cost to consumers. Basslink has proposed over \$100 million per annum in additional transmission charges. The question here is whether the efficiencies to be realised outweigh these additional charges.”*

A concern is what are the efficiencies, and it is difficult for TMEC to make fair representation on this statement not knowing what efficiencies are to be realised. Yet they expect to be receiving the greater than \$100M per year of guaranteed revenue.

Although a modest increase to a Tasmanian household consumer of approximately \$8 per year depending on which cost recovery model is approved, this is still an increase for a service that currently exists and will exist into the future irrespective of if it was converted or not. Regulation does not increase the flows across Basslink so the current operation status of neutral energy transferred are unlikely to change within this reset time. Energy neutrality is assumed based on the fact no new renewable projects for Tasmania have been approved, so no more generation to export in the current period to 2030 is possible.

With respect to the proposed cost sharing model, the 10:90 cost share model seems reasonable from a Tasmanian consumer viewpoint, yet concerns are how does this place a precedence for future planned links. The fact that most of the asset is in Commonwealth waters and the link is for the benefit of all NEM consumers, why is the cost not more broadly shared across the NEM?

TMEC encourages the AER to seriously review the business case for conversion. The AER must take into account that the service is currently viable under the current arrangements and consumers are not being charged extra. It is worth noting that if it remained an MNSP, other generators and consumers could have access to the link as well as Hydro Tasmania.

Of note is Basslink only ever spoke about converting to a TNSP. Communicating it was the basis for purchasing the asset was to regulate. Interesting nothing provided in the submission to show benefits of staying a MNSP.

Basslink’s proposal states:

*“That conversion would promote the NEO as prescribed transmission services would result in more efficient use of the Basslink interconnector, improved reliability, support system security, contribute to achieving greenhouse emissions targets and have potential price benefits for consumers.”*

TMEC has a concern that the words ‘have a potential price benefit for consumers’ are used without explaining what these could be and the likelihood of achieving them. It is also worth noting that other than the cable failure in 2015, Basslink has operated reliably, provided system security and contributed to achieving greenhouse emission targets in the National Electricity Market (NEM) while operating in its current form as a MNSP.

With respect of the RAB being \$831M, TMEC understands how the RAB was determined and is pleased that Basslink has proposed a RAB being the lowest of the alternatives. This does not mean that \$831M is the correct amount, noting it is an existing asset that has been depreciated over its years of being in operation. The AER is encouraged to review this value noting it is above the purchase price of \$773M.

Regarding proposed capital spending, TMEC understands through its RRG representation that the need to invest capital is not questioned. Basslink have done a very good job explaining the need and the benefits. What is not clear from the submission is what has the capital cost been benchmarked against and the AER is encouraged to seek benchmarking from other subsea cable installations.

Currently a Special Protection Scheme (SPS) is in place to enable Basslink to import at capacity by having tripping loads made available by the Major Industrials in Tasmania. How will this service be contracted and funded in a future regulated link? The proposal remains silent on this, yet it is understood that the service is still required. Will this be a cost consumers will be funding and as such may put at risk the accuracy of the greater than \$100M revenue Basslink is requesting approval for.

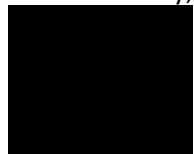
In closing TMEC and its members which represents more than 60 percent of the electricity consumed in Tasmania call on the AER to provide responses to the following questions in its determination. TMEC understands providing evidence of the how consumer interests are central may incur additional time before deciding and we recommend delaying the decision until the evidence can be provided as a prudent position.

1. TMEC is seeking specific confirmation in the event a Regulated Asset becomes the preferred option, the AER validate the removal of the historical cost recovery model currently used by Hydro Tasmania to fund the operation of Basslink,
  - a. Will occur, and
  - b. Identify specifically where consumers will see the reduction.
2. TMEC is seeking evidence, in the form of financial modelling from the AER what the impact on consumers are under the existing MNSP versus a Regulated Asset.
3. TMEC is requesting AER list the specific efficiencies as part of its determination process.
4. TMEC is questioning whether the cost allocation proposed from Basslink is valid. It appears to be based on a small data set compared to all consumers.
5. TMEC is requesting the cost to direct connected consumers is summed up and listed in its determination under the Regulated Asset option.
6. TMEC believes the RAB should be questioned. It should be benchmarked and justified why it is this value, particularly given the proposed RAB is \$58M more than what was paid for Basslink, which arguably reflects a market based fair value.
7. TMEC is requesting the AER include in its determination a demonstration of the benefits of conversion over an extended time frame – at least out to ten years to see what effects occur by anticipated further interconnection between Victoria and Tasmania.
8. TMEC is requesting the AER provide specific response to how the Special Protection System financials will occur as a Regulated Asset and where the cost for consumers is borne and how that compares with its cost under the current MNSP?

TMEC appreciates the opportunity to provide in relation to the conversion and revenue proposal for Basslink.

Please do not hesitate to contact me should you require further clarification.

Yours sincerely,



**Ray Mostogl**  
**Chief Executive Officer**