

9 February 2024

Australian Energy Regulator
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To whom it may concern,

Basslink Conversion and 1 July 2025 to 30 June 2030 Revenue Determination

TasNetworks welcomes the opportunity to contribute to the AER's assessment of the regulatory treatment of Basslink, including the conversion test and regulatory determination for the 1 July 2025 to 30 June 2030 period. TasNetworks is the Transmission Network Service Provider (TNSP) in Tasmania and expects to be the Coordinating Network Service Provider should Basslink be converted and with the progression of Marinus Link.

TasNetworks acknowledges the complexity of the conversion and revenue determination processes, particularly the need to substantiate the benefits of regulation, the determination of the regulatory asset base (RAB), and while incorporating the expected progression of Marinus Link. Relatedly, there is ambiguity with respect to the cost allocation of interconnectors that is highly relevant with respect to cost implications for Tasmanian customers.

Basslink has historically provided and continues to provide a considerable role in the National Electricity Market, providing significant energy security benefits and enabling an efficient transfer of electricity between Tasmania and Victoria. However, TasNetworks is concerned with respect to cost impacts realised by Tasmanian electricity customers associated with a regulated classification of Basslink.

Should Basslink be converted to a regulated asset, it will result in increased network charges for Tasmanian and Victorian customers. Network costs will be both significant and tangible whereas benefits of regulation may not be as apparent – particularly with how Basslink has operated to date, essentially as a regulated interconnector but without network costs being borne by customers.

We agree with the AER's discussion and framing of key questions to be considered through the conversion process, including whether the benefits of regulation outweigh the costs to consumers¹. Similarly, we agree that the opening RAB value should promote efficient use of existing infrastructure (in particular, as the AER has highlighted with respect to the Directlink decision², it would not promote efficient use of the existing infrastructure to set an asset value of zero – recognising that the asset exists and provides benefits to market participants).

¹ Issues Paper – Basslink Conversion Application and Electricity Transmission Determination – 1 July 2025 to 30 June 2030, November 2023, pages 4 and 12-15.

² *ibid*, page 21

TasNetworks accepts that a regulated classification for Basslink would be expected to better align investment signals with the long-term interests of consumers and would facilitate efficient electricity transfers between Tasmania and Victoria (avoiding, for instance, bidding behaviour that sought to constrain transmission capacity, especially at peak times). However, such benefits would need to demonstrably exceed network costs for customers to pay.

Should it be demonstrated that Basslink provides forward-looking benefits in the long-term interests of consumers, we consider that the market-size, 10/90 cost allocation outcome to Tasmania/Victoria, respectively, is the appropriate and most equitable allocation of costs. We also note APA's interpretation of stakeholder support for this cost allocation. However, greater clarity in the National Electricity Rules with respect to the allocation of interconnector costs (i.e. the mechanism to deliver such an outcome) would be welcomed and TasNetworks acknowledges a rule change proposal has been made on this to the Australian Energy Market Commission.

TasNetworks has undertaken indicative customer price impact analysis with respect to a regulatory classification of Basslink and based on APA's proposal. Due to Tasmania's relatively small customer base, a small percentage increase in cost allocation to Tasmania could have significant price impact to Tasmanian customers. A cost allocation above 10 per cent would start to have concerning impacts for Tasmanian businesses and households. TasNetworks strongly encourages the AER to consider customer price impacts when determining cost allocation between Tasmania and Victoria.

Please contact [REDACTED] to discuss this submission.

Yours sincerely

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