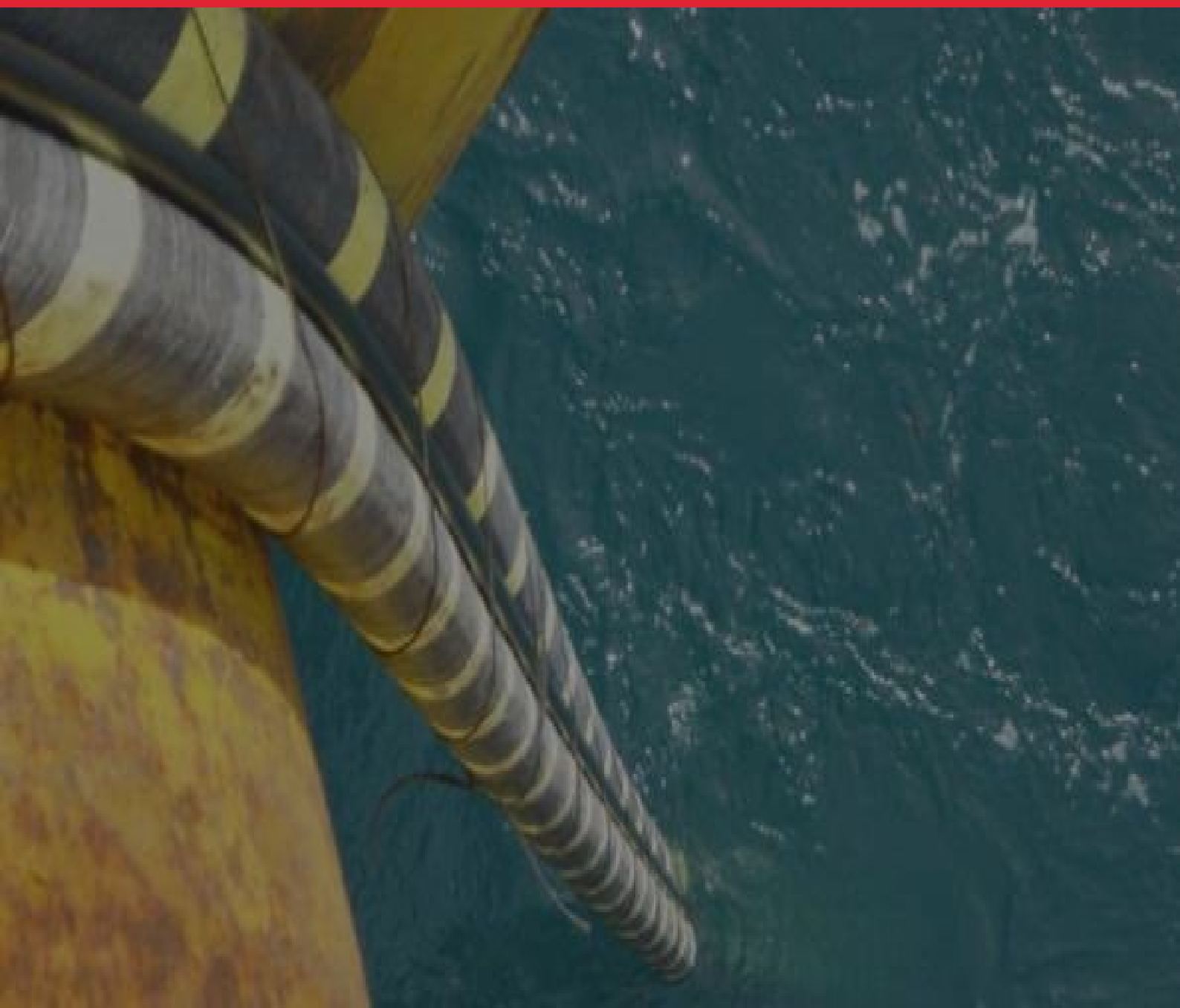
APA
Australia's energy infrastructure partner

Basslink Response

Response to AER Basslink Conversion Application Consultation Paper

20 September 2024



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Executive Summary

In October 2022, APA acquired Basslink Pty Ltd with a clear objective to support communities, businesses, and customers by providing a reliable, affordable, and low-emissions energy system. Our focus is on ensuring Basslink's long-term sustainability so it can continue delivering the reliable electricity that Tasmanian and Victorian households and businesses rely on every day.

While regulation isn't always the ideal solution, we believe that converting Basslink to a regulated asset will ensure it operates efficiently and reliably as an 'open link'— maximising the energy transfer between Victoria and Tasmania for the long-term benefit of customers. Basslink is a unique asset – it is the only asset operating under the market network service provider (MNSP) model, and it has encountered significant operational and financial issues while operating under this model. We believe that moving away from the MNSP model will, in this case, provide certainty for investment and operation of Basslink. This will help achieve benefits for the long term interest of consumers.

In September 2023, Basslink Pty Ltd applied to the Australian Energy Regulator (AER) to have Basslink regulated. The AER is currently assessing this application and has engaged ACIL Allen to model the potential benefits of regulation. We recognise the challenges inherent in modelling consumer outcomes in a future with and without conversion, given uncertainty around future market developments. The conversion assessment must take into account all relevant consumer costs and benefits and must be based on realistic scenarios for Basslink operating under regulation versus a strategically-bid counterfactual.

On August 30, 2024, the AER released its Consultation Paper[1] along with the ACIL Allen modelling results[2]. This submission responds to the results through the lens of the National Electricity Objective (NEO), focusing on the consumer impacts of regulation.

When we look holistically at all modelled scenarios, and the various benefits of regulation relevant to the AER's conversion decision, it is apparent that the ACIL Allen modelling presents a clear and compelling case that regulation is in the long-term interests consumers and enables broader market efficiency.

We note the following key considerations are relevant to the analysis of the modelling in the AER Consultation Paper:

 **Consumer benefits of converting Basslink**	The NEO is focused on the long-term interest of consumers. The modelling shows clear and compelling consumer benefits – with regulation delivering an **average price benefit to consumers of $1.6b, or $2.2b** when appropriately weighted. Focusing on net changes to consumer costs under a regulated scenario aligns with the NEO's aim to protect consumers. While the modelling shows some variability in consumer benefits, this is entirely consistent with the different outcomes possible in the Australian energy market, and is not a reason to dismiss the results.
 **Market benefits not the appropriate measure for question of conversion**	Market benefits, as modelled by ACIL Allen, do not adequately reflect the likely consumer benefits of conversion. This modelling does not capture the price impacts on customers of conversion. Since it focuses on total economic surplus (rather than just consumer welfare), a market benefit analysis effectively treats price movements as a 'wealth transfer' between customers and generators – ie lower or higher prices paid by consumers to generators are not considered a relevant 'benefit' or 'cost' . A market benefit analysis is suited to a question of whether an investment is economically efficient and how much consumers should pay. However it does not inform whether conversion would promote the long-term interests of consumers.

[1] AER, *Basslink Conversion Application Consultation Paper*
[2] ACIL Allen, *Basslink conversion Modelling and analysis of benefits*

Reliability and security are a core aspect of the NEO and a priority for stakeholders	Reliability and security — core aspects of the NEO and a priority for stakeholders — are not fully accounted for in the current modelling. Under a regulated model, Basslink is better positioned to ensure a stable and reliable energy system, which is essential for both Tasmania and Victoria's energy future.
Settlement Residue Auction proceeds must be taken into account	Settlement Residue Auction (SRA) proceeds need to be clearly presented as a benefit passed on to consumers under a regulated scenario – ie they reduce the costs of regulation to consumers. Considering these proceeds is vital for an accurate assessment of the benefits of regulation. However, the AER's consultation paper does not net these proceeds off forecast consumer costs.
Relevant scenarios	The most likely and credible scenarios must be identified for the consumer benefits assessment. The ACIL Allen modelling assumes an early completion of Marinus Link, which is not credible as it does not align with Marinus Link's current forecasts. The modelling scenarios must take into account both expected delays in Marinus Link commissioning and the potential for the project to not go ahead at all. The conversion assessment must also reflect the most likely counterfactual scenario. This is not a continuation of current contracting arrangements with Hydro Tasmania.

We remain confident that regulation is the right step forward to deliver the best outcomes for consumers, businesses, and the broader energy market.

1. The Conversion Test

Summary

- ✓ Consumer benefits and market benefits are two metrics which serve different purposes in assessing the merits of converting Basslink to a regulated asset, and the value delivered by Basslink to consumers and the market.
- ✓ The price of electricity is central to the NEO and the long-term interests of customers, and the price impacts of conversion are captured via consumer benefit modelling.
- ✓ It would be inconsistent with the NEO for consumer benefits to be ignored or given less weight in the conversion decision.

If the Basslink network services cease to be classified as market network services, then clauses 11.6.20(c)-(g) of the National Electricity Rules (**the Rules**) apply to the decision on whether to 'convert' market network services to prescribed services.[3] In these circumstances the AER has discretion to classify the Basslink services as prescribed transmission services.

Under section 16 of the National Electricity Law (**NEL**), the AER is required to exercise this discretion in a manner that will or is likely to contribute to the achievement of the National Electricity Objective (**NEO**), being:[4]

> *"to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—*
>
> *(a) price, quality, safety, reliability and security of supply of electricity; and*
> *(b) the reliability, safety and security of the national electricity system; and*
> *(c) the achievement of targets set by a participating jurisdiction—*
> *(i) for reducing Australia's greenhouse gas emissions; or*
> (ii) *that are likely to contribute to reducing Australia's greenhouse gas emissions.*"

As noted by the AER in the Consultation Paper, the assessment of whether conversion contributes to the achievement to the NEO involves a 'with or without' test that considers "*whether the benefits of conversion outweigh the costs, when compared to a future without conversion*".[5] The relevant benefits and costs are the improvements or impediments that conversion creates in respect of achieving the NEO.

[3] To the exclusion of clauses 2.5.2(c), S6A.2.1(e)(1) and (2).
[4] National Electricity Law, s 7.
[5] AER, *Basslink Conversion Application Consultation Paper*, p 4.

The AER engaged ACIL Allen to model two categories of benefits:

Market benefits	ACIL Allen noted these are: • differences in capital invested in plant and equipment; • differences in fixed and variable operating costs; • differences in the cost of fuel consumed; • differences in emission costs; • competition benefits (changes in the producer/consumer surplus caused by changes in equilibrium prices); and • option benefits where capital invested creates valuable options that would not exist in the absence of the capital invested
Consumer benefits	ACIL Allen noted these are in the form of: • differences in wholesale electricity prices; • differences in emissions costs; and • differences in system security and reliability.

ACIL Allen's modelling assumptions resulted in a very narrow view of potential **market benefits** from conversion. ACIL Allen assumed that conversion would not change Basslink's underlying service or availability, nor change the investment decision of any generator in the NEM. As such, there are no modelled market benefits flowing from reductions in capital invested in plant, fixed operating costs or option benefits. Further, ACIL Allen considered that there would be no competition benefits arising from any change in consumer-producer surplus.[6] As such, ACIL Allen's assessment of market benefits was limited to the differences in variable operating costs, the cost of fuel and emission costs.[7] ACIL Allen estimated benefits in the range of -$8 million to $210 million, depending on whether Basslink enters into a new agreement with Hydro Tasmania and the number of Marinus Link cables constructed.

ACIL Allen's modelling of **consumer benefits** provides a more complete view of the potential benefits of conversion, as it incorporates the potential impacts on the price of electricity. ACIL Allen estimated that the consumer benefits of conversion would far exceed market benefits, though the potential range of benefits was large, between -$19 million and $4.95bn.

ACIL Allen considers that market benefits should be afforded greater weight than consumer benefits, given the variability of modelled consumer benefits across the various scenarios. ACIL Allen notes that market benefits returned more consistent results across all scenarios modelled while consumer benefits were highly sensitive to projected wholesale electricity prices and the ability of Hydro Tasmania to exercise market power.[8]

In the Consultation Paper, the AER re-states ACIL Allen's approach to weighting without expressly adopting or critiquing the approach.[9] It is not clear from the Consultation Paper whether the AER intends to adopt the ACIL Allen view that consumer benefits (including potential electricity price impacts) should be down-weighted. However we are concerned that the Consultation Paper appears to uncritically adopt the ACIL Allen recommendation to give greater weight to market benefits in the conversion assessment. If the AER does follow ACIL Allen's recommendation to down-weight consumer benefits, this will likely result in a decision that does not properly take into account the long-term interests of consumers."

Basslink Pty Ltd considers that fundamental weight must be given to the consumer benefits of conversion – including the expected impact on electricity prices. The long-term interest of consumers, including with respect to the price of electricity, is a central element of the NEO. It is the price of the supply of electricity, not just the costs of generation or transmission, that is the focus of the NEO. The fact that there may be a range of modelled price outcomes is not a reason to give less weight to the consumer benefits of conversion. Any

[6] ACIL Allen, *Basslink conversion Modelling and analysis of benefits*, p 32.
[7] ACIL Allen, *Basslink conversion Modelling and analysis of benefits*, p 32.
[8] ACIL Allen, *Basslink conversion Modelling and analysis of benefits*, p 34.
[9] AER, *Basslink Conversion Application Consultation Paper*, p 24.

uncertainty as to the degree of consumer benefits should be managed through a careful assessment of the most likely scenarios and weighting of scenarios accordingly. A failure to have proper regard to the consumer benefits of conversion would be a cause for significant concern as to the appropriateness of the decision-making process.

1.1. Consumer benefits of conversion vs market benefits

The Consultation Paper refers to three categories of benefits:

- The consumer benefits of conversion of the asset from an unregulated asset to a regulated asset;
- The market benefits of conversion of the asset from an unregulated asset to a regulated asset; and
- The market benefits delivered by the existence of the asset, irrespective of its market network service provider or transmission network service provider status.

Different classes of benefit are relevant at different stages of the conversion assessment and revenue determination:

- the *consumer* benefits of *conversion* are relevant to the conversion assessment, as discussed above; and
- the *market* benefits of *Basslink* – assessed in accordance with the Regulatory Test and the 'previous regulatory approach' – are relevant to determining the initial RAB (see section 5 below).

While the Consultation Paper acknowledges that the conversion test and the Regulatory Test are different[10], there are elements of the ACIL Allen analysis and the AER's discussion of this analysis which risk conflating the two. In particular, when addressing the conversion analysis, there is discussion of both market and consumer benefits, rather than focusing on consumer benefits. Separately, in the context of the initial RAB for Basslink, there is reference to the net benefits of conversion (rather than the market benefits of Basslink).

This section seeks to clarify the relevant classes of benefits for each stage of the analysis.

1.1.1. Market benefits (of Basslink) are relevant to determining the initial RAB, but are not relevant to the conversion assessment

Market benefits delivered by an asset are relevant to determining the initial RAB for a converting interconnector such as Basslink. As discussed in section 7 the initial RAB must be determined in accordance with the 'previous regulatory approach'. Central to this previous approach is an analysis of market benefits (of the asset) in accordance with the Regulatory Test framework.[11]

However, such analysis has nothing to do with the costs and benefits of regulatory conversion. The Regulatory Test asks the question of whether the cost of the asset is exceeded by its benefit. This means that the comparison is between two states of the world: with and without the asset. The cost-benefit analysis of conversion asks whether the conversion is in the long-run interest of the consumers. As the AER points out, this is a comparison between the world with and without regulation but with the asset already existing in both states of the world. The absence of regulation could conceivably lead to the asset being eventually withdrawn from service, in which case, such a subsequent exit needs to be taken into account, but it is not an evaluation of the investment decision itself.

The cost benefit analysis of conversion asks the question of whether the combination of the commercial incentives and regulatory controls under a regulated monopoly setting would produce better outcomes for *consumers* than the incentives and market constraints in the merchant setting, given the fact that the

[10] AER, *Basslink Conversion Application Consultation Paper,* s 2.2.

[11] In previous regulatory conversion decisions, the AER used a form of RIT-T—an analysis of market outcomes with and without the asset to be regulated—as a means of establishing a ceiling on the opening Regulatory Asset Base. In essence, a RIT-T for a new regulated transmission asset tests the costs of the proposed investment against its market benefits. An investment is only allowed if its benefits exceed its costs. The same logic is applied to a transmission asset which is being converted to a regulated TSP: the compulsory revenue which would be allowed under regulation must not exceed the market benefit of having that asset in the NEM.

The purpose of RIT-T is to address concern about potential inefficient investment behaviour by a regulated monopoly. There could be two reasons why a regulated monopoly may over-invest: because it can invest in assets for which there may not be sufficient market demand without fear of not being able to recover its investment and because it can reduce its performance risks by passing the costs of excessive reliability to consumers. RIT-T seeks to mirror competitive market outcomes by ensuring that no transmission investment proceeds unless there is a demonstrable market need for it.

investment has already taken place. This is fundamentally an assessment of consumer benefits associated with conversion, as discussed above.

As the Consultation Paper makes clear, an assessment of market benefits is very different to an assessment of consumer benefits – and can lead to very different results. Market benefits effectively reflect the sum of producer and consumer surplus generated by a particular activity, whereas consumer benefits are focused on consumer impacts.

The Consultation Paper indicates a preference for the use of market benefit analysis over the consumer benefit analysis in assessing the costs and benefits of conversion[12]. However, as the AER Consultation Paper itself points out, the NEO requires conversion to be in the long-term interest of ***consumers*** and identifies price as one of the three key factors relevant to such interest (the other two being greenhouse gas emissions and other aspects such as quality of supply and the reliability, safety, and security of both electricity supply and the national electricity system). Market benefit analysis, by summing up the producer and consumer surplus, provides almost no useful information on prices to be paid by consumers. In other words, while market benefit analysis is essential to an investment decision, it is not obviously relevant to the conversion decision.

In comparing the worlds with and without regulation, the AER should focus on measures which are most likely to reflect the relevant potential effects of regulation on the long-term interest of consumers. Consumer benefits provide the most relevant information for such analysis.

1.1.2. Net benefits of conversion are not relevant to the initial RAB value

The Consultation Paper states that the net benefits of conversion may be relevant to setting the initial RAB and refers to the potential of setting the RAB at a level which does not exceed the net market benefit of conversion. The Consultation Paper notes that "We consider that the opening asset value could be adjusted to a level that would result in the conversion cost-benefit test breaking even or resulting in positive net benefits."

This conflates the questions of the net benefits of having the asset and the net benefits of having it regulated. In fact, since all scenarios modelled for the AER assume the existence of Basslink and apply the same cost assumptions to both the world with and without regulation, modelled net market benefits of regulation cannot produce any useful information about the potential RAB. Such information cannot only be derived from modelling the world with and without the asset.

As discussed further in Section 7, the relevant benefits for determining the initial RAB are the ***market*** benefits of Basslink itself. This is the only class of benefits that plays a role in the 'previous regulatory approach', which must be applied in determining Basslink's initial RAB.

AER Question 1

What are your views on the types of potential costs and benefits that conversion may provide?

Response

The relevant benefits and costs of conversion are the improvements or impediments that conversion creates in respect of achieving the NEO. We consider that fundamental weight must be given to the net consumer benefits of conversion, factoring in the impact of:

- changes in wholesale electricity prices and resulting effects on consumer retail prices;
- SRA proceeds offsetting transmission costs to consumers; and
- investment in asset reliability and resulting impacts on system reliability.

These factors are explored in more detail in Sections 2, 4 and 5.

[12] AER, *Basslink Conversion Application Consultation Paper*, piv

2. Consumer Benefits

Summary

✓ The ACIL Allen modelling shows clear and compelling net consumer benefits of regulation across ten of the twelve scenarios – with regulation delivering an average price benefit to consumers of $1.6bn, or $2.2bn when scenarios are appropriately weighted.

2.1. Comparison of the cost versus benefits of regulation to consumers

It is appropriate to make a quantitative assessment of both the additional costs that may be borne by consumers and the consumer benefits of conversion in the form of lower prices resulting from more efficient dispatch.

Two components of a consumer's bill will change as a result of regulation:

Transmission costs	Wholesale energy costs
The transmission costs borne by consumers in Victoria and Tasmania will change by the respective region's share of regulated revenue requirements, reduced by the SRA proceeds paid by AEMO to the respective co-ordinating network service provider (NSP) and increased by any negative inter-regional settlement residues paid to AEMO by the co-ordinating NSPs. While conversion will likely increase transmission costs on consumers' bills (relative to an unregulated counterfactual), it is possible that the offsetting SRA proceeds will exceed these costs, with the result that this portion of a consumer bill decreases under regulation. The gross cost of regulation net of estimated auction proceeds is the appropriate net consumer cost to consider when assessing conversion	The wholesale energy component of consumers bills will be modified by the impact of the interconnector operating as an 'open link' versus a strategically bid link. In an efficient, competitive market, the impact on spot prices will be reflected in contract prices and retailer costs, and ultimately on consumer bills.

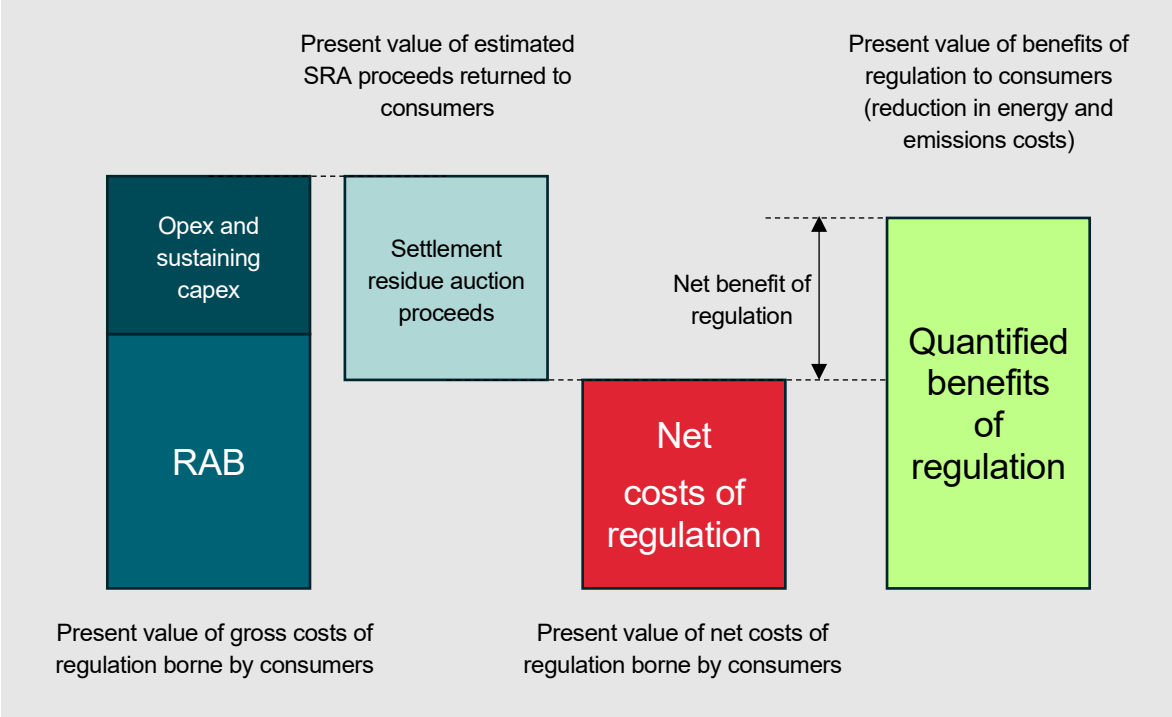
Absent an explicit carbon price, changes in emissions and emissions costs are not reflected in wholesale energy costs borne by consumers. Instead, changes in emissions (and implicit emissions costs) are borne by consumers as an externality. Given the NEO incorporates an explicit objective to promote the long-term interests of consumers with respect to reducing greenhouse gas emissions, it is appropriate to add emission cost benefits to wholesale energy cost benefits (absent a carbon price) when assessing total consumer benefit.

The difference between the total energy and emissions costs in unregulated and regulated scenarios is then the appropriate benefit against which to measure the net consumer costs. In simple cases, we are then

comparing whether price increases in the transmission portion of consumers bills are more than offset by reductions in the wholesale energy portion of consumers bills (with carbon costs accounted for outside of consumers bills absent an explicit carbon price.)

Figure 1 depicts the conceptual framework for assessing net consumer costs against benefits to determine the net consumer benefit (or cost) of regulation.

Figure 1 Conceptual framework for assessing consumer costs versus benefits of regulation



The gross cost borne by consumers under regulation is equal to the present value of the regulated asset base plus operating costs (operating expenditure and stay in business capital expenditure) across the life of the asset. As noted by the AER, Basslink has refined the proposed RAB from its initial figure of $831m to $813m as at July 2024. The present value of Basslink's proposed ongoing operating costs is $589m, yielding a gross cost of regulation of $1,402m. It is expected that further refinement of the RAB and operating expenditure will occur before Basslink Pty Ltd's revised proposal is submitted to the AER on 3 January 2025.

The expected proceeds from SRAs need to be offset against this gross cost. The ACIL Allen modelling commissioned by the AER considers eighteen scenarios, six of which model NEM price and cost outcomes with a regulated Basslink. (The six 'regulated' scenarios contemplate three configurations of Marinus Link at each of two levels of Hydro Tasmania contracting.) For the regulated scenarios, the modelled inter-regional settlement residues accrued on the interconnector resulting from flows and price differentials between Victoria and Tasmania are plotted in Figures 3.6 and 3.7 of the ACIL Allen report. On request, the AER provided the data contained in these charts. ACIL Allen modelled the years 2025 to 2040, and "spot years" in 2045 and 2050. Per the footnotes to charts 3.1, 3.2, 3.3, 3.4 and 3.5, ACIL Allen has linearly interpolated the results from 2040 to 2045, and from 2045 to 2050 to aggregate results for the period 2025-2050. Adopting this same approach and applying the same discount rate of 7% as applied by ACIL Allen, we obtain the present value of the total inter-regional settlement residues accumulated on Basslink in the six regulated scenarios as listed in Table 1.

In Section 4.2 of the Consultation Paper, the AER identifies that, over a recent 18-month period, the average ratio of the SRA proceeds to inter-regional settlement residues paid out across the six other (regulated)

directional interconnectors in the NEM was 75%. We note that the value that participants attribute to SRA units on a directional interconnector is a function of many factors, including the forecast supply-demand balance in each region, energy limitations, expectations of prices, future participant portfolios and constraints or outages which may limit transfers. Nonetheless, we consider an assumption of the type proposed by the AER to be a reasonable basis on which to estimate future SRA proceeds on a regulated Basslink. The present values of the estimated SRA proceeds under each regulated scenario using this 75% ratio of the total inter-regional settlement residues are also listed in Table 1. We note that these align with the auction proceed estimates calculated by the AER and listed in Table 4[13] of the Consultation Paper.

Table 1 - Modelled inter-regional settlement residues and estimated SRA proceeds on a regulated Basslink for the period 2025-2050

Regulated Basslink scenario	Total inter-regional settlement residues ($m real 2024, after losses)	Estimated SRA proceeds (75% of IRSRs) ($m real 2024)
No Marinus Link, Hydro Tasmania lower contract cover	$1,424	$1,068
No Marinus Link, Hydro Tasmania higher contract cover	$1,474	$1,105
Marinus Link stage 1 built in July 2029, Hydro Tasmania lower contract cover	$1,088	$816
Marinus Link stage 1 built in July 2029, Hydro Tasmania higher contract cover	$1,155	$866
Marinus Link stage 1 built in July 2029 and stage 2 built in 2036, Hydro Tasmania lower contract cover	$921	$691
Marinus Link stage 1 built in July 2029 and stage 2 built in 2036, Hydro Tasmania higher contract cover	$973	$730

The remaining 12 'unregulated' scenarios model NEM price and cost outcomes with an unregulated Basslink. Comparing energy and emissions costs between a regulated Basslink scenario and an equivalent unregulated scenario yields twelve calculations of consumer benefits. The modelled (gross) consumer benefits of regulation across the twelve comparator scenarios over the period 2025-2050 are listed in Table 3.3 of the ACIL Allen report. We note that expressing the benefits as a percentage of the estimated $85bn in total system costs to 2050 provides no insight into the merits of conversion or the impact to consumers of regulation.

To assess whether regulation is in the long-term interest of consumers with respect to price (per the NEO), for each comparator 'unregulated' scenario, we have:

- taken the gross costs of regulation (consistent across all six regulated scenarios);
- subtracted the estimated SRA proceeds for the comparable 'regulated' scenario to calculate the net cost of regulation; and
- subtracted this net cost of regulation from the gross consumer benefits, to give the net consumer benefits.

For example, comparing a 'regulated' scenario with no Marinus Link and Hydro Tasmania at a lower level of contract cover:

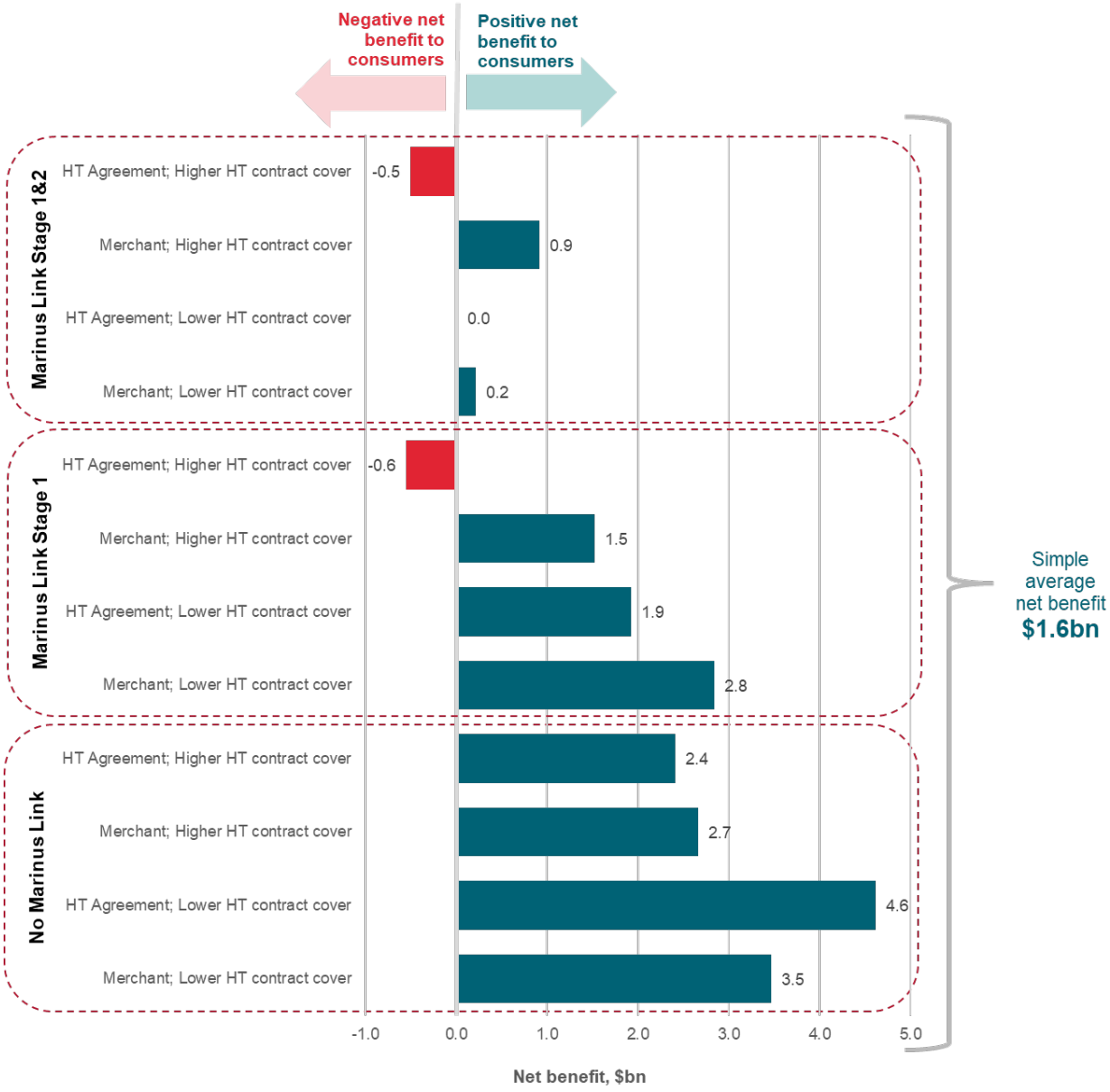
- The gross costs of regulation are $1,402m.

[13] AER, *Basslink Conversion Application Consultation paper*, p.25.

- The estimated Settlement Residue Proceeds are $1,068m, yielding a net cost of regulation of $334m.
- The gross consumer benefits of regulation are $3,805m.
- Subtracting the net cost of regulation from the gross consumer benefits yields a net consumer benefit of $3,471m.

The net consumer benefits of regulation across the twelve comparator scenarios are shown in Figure 2. All but two scenarios show the benefits outweigh the net costs of regulation, and support conversion. We consider the two scenarios which show results which don't support conversion problematic for the reasons discussed in Section 4. In particular, these scenarios assume early completion of Marinus Link and continuation of Hydro Tasmania contracting arrangements in the counterfactual, both of which we consider to be unlikely.

Figure 2 - Modelled net consumer benefits of regulation



2.2. Even "very small" changes to prices can drive very significant consumer benefit from conversion over the long term

We note the following comment in Section 4.2 of the AER Consultation Paper:

> *We note that the market modelling indicated very small changes in spot electricity prices are estimated to result from Basslink's conversion. Therefore, as these estimated auction proceeds are the result of very small changes in prices, they are highly sensitive to variations to future prices.*

The "very small" changes in annual time-weighted average spot electricity prices resulting from regulation versus a comparable unregulated scenario are depicted in Figures 3.3, 3.4 and 3.5 of the ACIL Allen report, on a scale too small to read. We attempt to provide some context for a modelled change in these annual average spot prices.

Suppose that Basslink operating as an open link lowers average annual pool prices in a region (relative to the strategically bid counterfactual) by $1/MWh:

Figure 3 – Conceptual impact of a regulated Basslink lowering average pool prices by $1/MWh

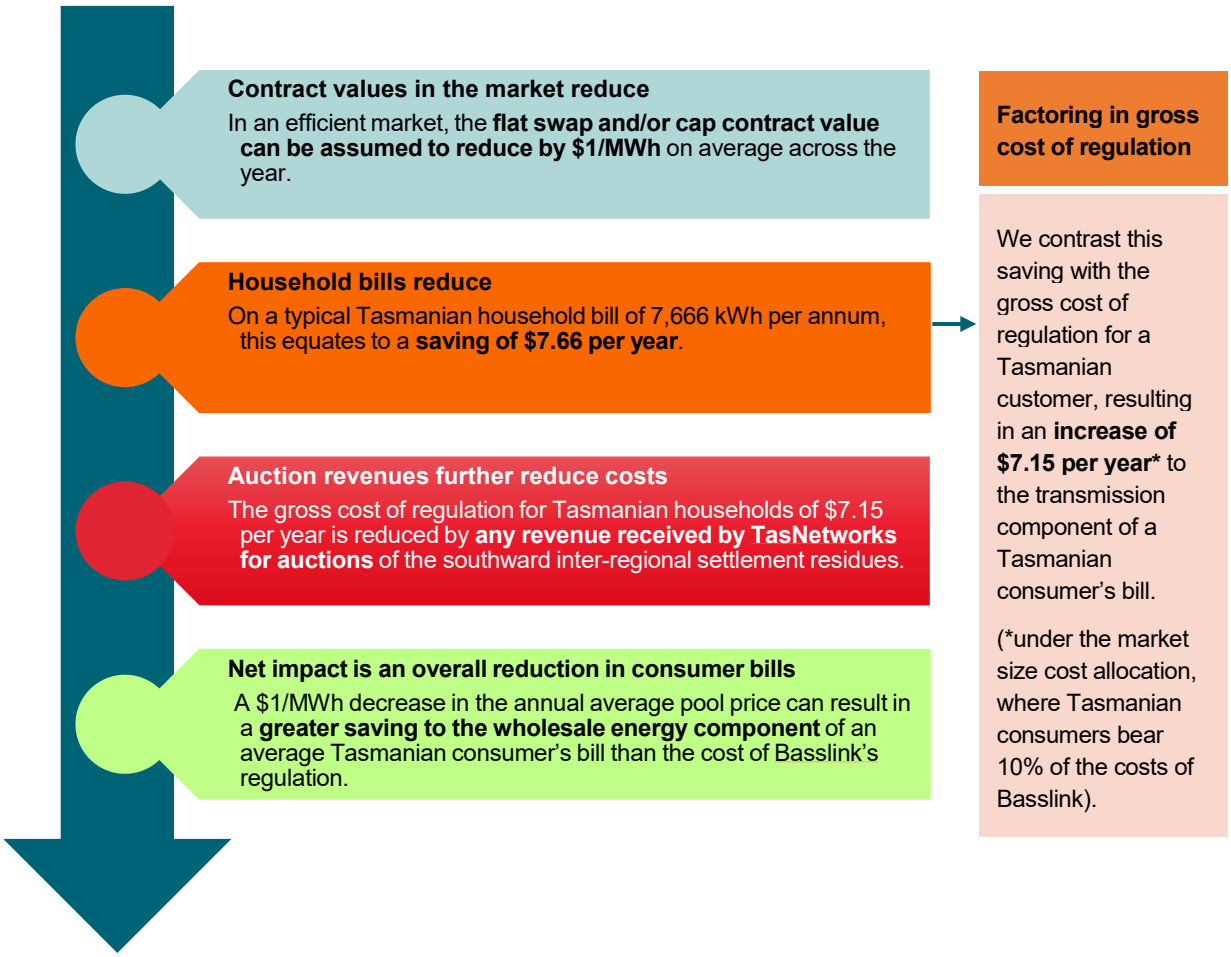


Figure 3 illustrated that "very small" changes in average annual wholesale prices (of the order of $1/MWh) can drive savings on consumers' bills of the magnitude of Basslink's costs.

2.3. Addressing the range of outcomes

The ACIL Allen modelling yields consumer benefits of regulation ranging from $4.95bn to effectively zero. ACIL Allen notes the large variability in these figures and goes on to suggest that this variability is an appropriate reason to discount consumer benefits as a category, and to "risk-adjust" the consumer benefits for uncertainty.

ACIL Allen states:

> "We consider greater weight should be placed on the assessment of NEM market benefits rather than consumer benefits because of the consistency of the results across each of the scenarios modelled. We consider less weight should be placed on the assessment of consumer benefits because the results are less consistent across the scenarios modelled, and the results are highly sensitive to the projected wholesale electricity prices and the ability of Hydro Tasmania to exercise market power."[14]

We requested a meeting with ACIL Allen to understand further the basis for this significant statement, but a meeting did not occur prior to the submission of this response.

We disagree that lesser weight should be placed on consumer benefits on the basis of variability in results. The scenarios modelled range from those where no additional interconnection is built across Bass Strait, to those with a regulated link three times the capacity of Basslink (and several multiples of its cost) constructed alongside, so divergent outcomes are expected. The purpose of a modelling exercise of this nature is to explore a range of future outcomes, and a spread of results is informative to the extent the input assumptions are realistic. Further, the same model and inputs that produced the variable results in consumer benefits also produced the more consistent market benefits. Each category of benefit provides information about the modelled future worlds, and the two categories are intrinsically linked.

ACIL Allen notes that:

> "small differences in projected prices are multiplied across large volumes of electricity consumption in some cases to generate considerable projected consumer benefits. Some of these small differences in projected prices are likely to be associated with the assumptions made and model simplifications."[15]

The ACIL Allen report does not articulate which model simplifications only affect market prices and not dispatch for market benefits modelling. In Section 2.1 we noted that "small differences in projected prices" can yield annual consumer savings of the magnitude of annual costs of Basslink regulation. We believe it is important to think about the long-term change in wholesale prices in the context of a consumer's bill, rather than as a headline $/MWh figure.

ACIL Allen also suggests that the consumer benefits should be "risk adjusted":

> "The uncertain consumer benefits should be considered in the context of the highly certain prescribed services costs consumers will be required to pay should Basslink be converted. When risk adjusting the consumer benefits for uncertainty and factoring in the likely cost of regulation, there may be no net consumer benefits from the conversion of Basslink"[16]

In the context of modelling or considering economic or financial outcomes, risk is the variance in outcomes from the mean or expected outcome. ACIL Allen considers the input assumptions to be *"median"* values, and

[14] ACIL Allen, *Basslink conversion Modelling and analysis of benefits*, pii.
[15] ACIL Allen, *Basslink conversion Modelling and analysis of benefits*, p4.
[16] ACIL Allen, *Basslink conversion Modelling and analysis of benefits*, piv.

notes, "*Therefore, we consider the results provided can be considered approximately a median-case set of results, rather than a best- or worst-case*"[17]

Consequently, absent a bias in the input assumptions and given "*approximately a median-case set of results*", **it is just as likely that the modelling understates consumer benefits as it is that it overstates them**.

We note there are a number of 'real-life' consumer benefits from regulation that the modelling does not capture through simplification. These include:

- The improved asset and system reliability resulting from a more stable and reliable income stream provided by economic regulation;
- The transfer of frequency control ancillary services (FCAS) between the mainland and Tasmania, reducing FCAS costs to consumers; and
- The impact of not converting Basslink on investment in lower cost renewable and storage options, resulting in less efficient generation investment and higher costs.

These are addressed in more detail in Section 5.

AER Question 2

If the range of outcomes across scenarios remains wide or subject to significant uncertainty, would you support a decision to convert or a decision not to convert? What is the rationale for this position?

Response

It is inevitable that a modelling exercise to explore the impact of strategic bidding on long-term price and dispatch outcomes in the NEM results in a wide range of outcomes. The decision to convert should be taken with regard to the NEO, with appropriate consideration of consumer benefits across scenarios with realistic input assumptions. We believe that when scenarios are appropriately weighted, and appropriate net benefits are calculated (after consideration of the impact of SRA proceeds on consumer costs), then the spread of modelling outcomes supports conversion.

[17] ACIL Allen, *Basslink conversion Modelling and analysis of benefits*, p31.

3. Market Benefits

Summary

- ✓ The market benefits test is an economic efficiency test and is highly sensitive to assumptions about the counterfactual.
- ✓ Market benefits are not a measure of price impacts on customers of conversion – a market benefit analysis does not capture any 'transfer' from customers to generators.
- ✓ In all scenarios where Basslink is operating as a merchant link, the market benefits support conversion.

For reasons outlined in Section 1, consumer benefits are the appropriate metric for assessing whether conversion would contribute to achievement of the NEO. Market benefits provide little relevant information for the conversion assessment. Nonetheless, in this section we address the AER's presentation of results from ACIL Allen's market benefit modelling.

3.1. The correct interpretation of the market benefit modelling

The Consultation Paper outlines the results of the market benefit modelling. This approach is an economic assessment of the costs and benefits on the conversion of Basslink – i.e. the impact on *total* economic surplus, rather than consumer outcomes. This assessment looks at the differences in investment and dispatch outcomes between a regulated Basslink and the counterfactuals.

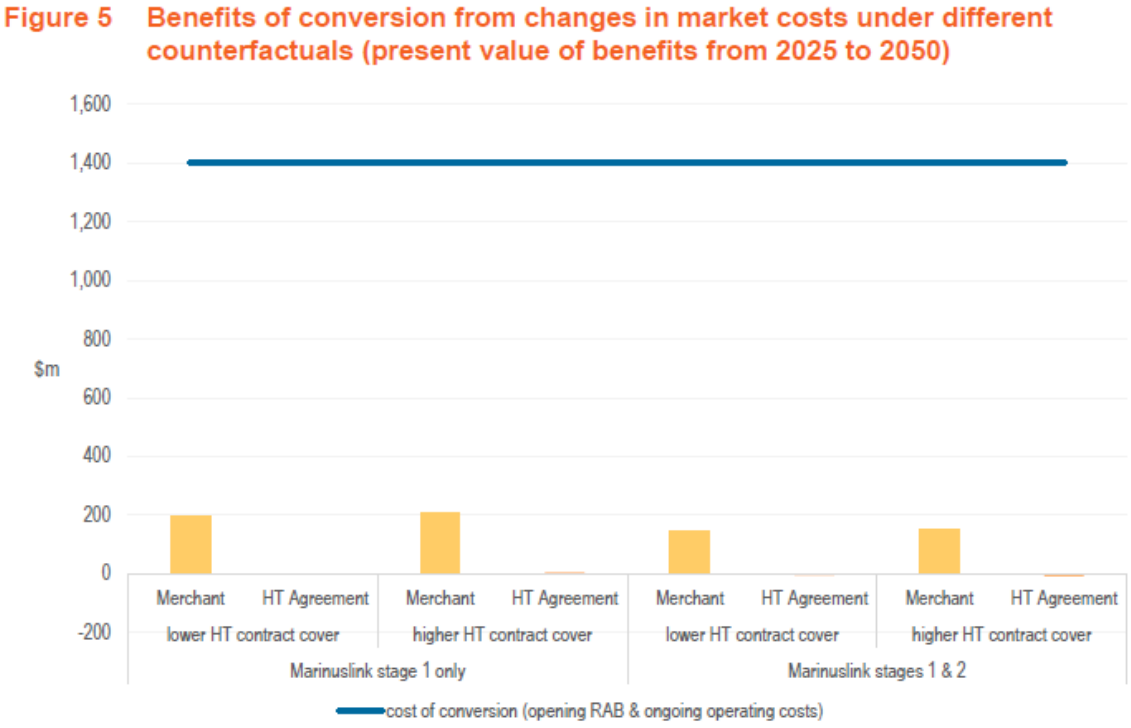
Again, we emphasise that this is not the same as the consumer benefit assessment. The costs and benefits of this approach are the economic costs and benefits, not consumer impacts. This means:

- **Focus on resource cost changes**: economic assessments account for changes in resource costs, treating them as either costs or benefits. For example, a resource cost saving, such as accessing lower-cost fuel generators, is considered a benefit, whereas the need for new investment is treated as a cost.
- **Wealth transfers are excluded**: Since wealth transfers do not affect resource costs, they are disregarded in economic assessment, focusing only on real economic impacts.
- **Emphasis on opportunity costs**: economic assessments evaluate the opportunity cost, or the value of the next best alternative. As a result, they only consider future costs and benefits, ignoring sunk costs, which have little or no opportunity cost.

In this context, the relevant economic cost of regulation is not the cost of operating Basslink charged to customers – this is a consumer impact, not a market impact. Rather, the relevant costs are the things that reduce the total (consumer and producer) surplus - including any impacts on efficient investment and dispatch. The prices that customers pay are a transfer between consumers and producers and as a result are not a cost of regulation under this assessment framework (although they are relevant when considering *consumer* benefits).

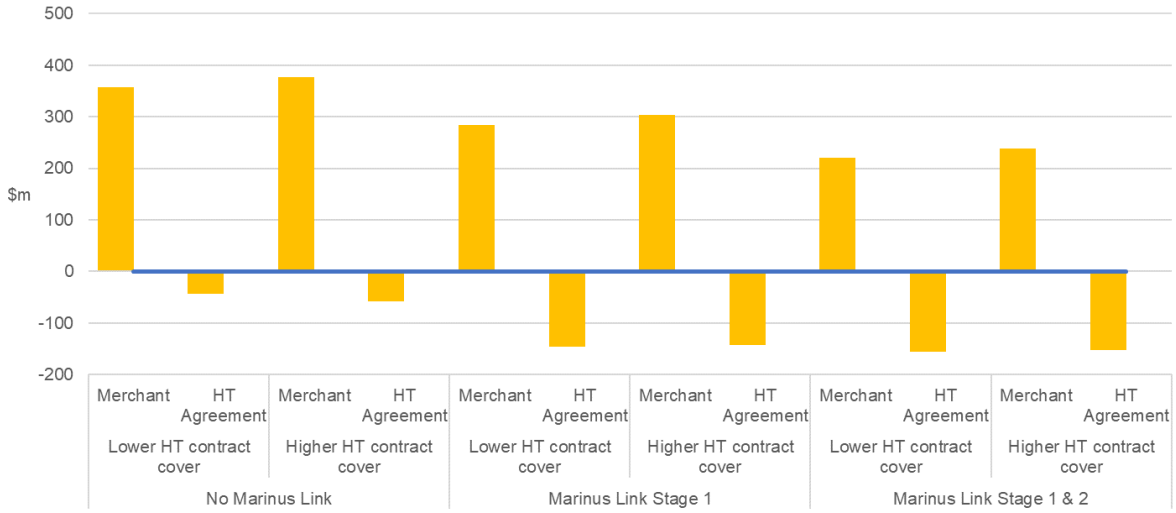
This means there is an error in the AER's presentation of the market costs and benefits. In Figure 5 of Consultation Paper (reproduced below), the AER appears to present lifetime costs to *consumers* under regulation as a *market* cost. This conflates the market and consumer impacts of conversion. The lifetime cost to consumers must be considered alongside the *consumer benefits* of conversion – they cannot be compared to the market (economic) benefits.

Figure 4 - The AER's graph of market benefits[18]



When adjusted to include a No Marinus Link scenario as modelled by ACIL Allen and correcting for the error in the understanding of economic costs in this analysis then the graph of net economic cost changes as shown below.

Figure 5 Corrected graph of market benefits



[18] AER, *Basslink Conversion Application Consultation Paper*, p 20.

3.2. Results for the Hydro Tasmania agreement counterfactual scenarios appear unrealistic

We note two observations about these results:

1. The market benefits in all counterfactual scenarios with a merchant Basslink support conversion, while the scenarios that assume Hydro Tasmania contracting produce negative results. The choice of counterfactual operating mode (Basslink operating as a merchant link, or Basslink being dispatched by Hydro Tasmania) apparently differentiates whether conversion delivers market benefits to consumers.
2. However, the negative market benefits of regulation when measured against the Hydro Tasmania contracting scenarios appear to be an artefact of an unrealistic assumption made by ACIL Allen, that Hydro Tasmania does not access any inter-regional settlement residues on a regulated Basslink.

We explore each of these issues in more detail.

When compared to scenarios with Basslink operating as a merchant link, the ACIL Allen modelling indicates material market benefits associated with conversion. This is an unsurprising result. As noted by ACIL Allen, a merchant Basslink is incentivised to trade off price differences against flow volumes, and effectively constrain flows to generate price differences between Victoria and Tasmania. This behaviour limits the dispatch of cheaper sources of generation and increased the use of more expensive generation sources.[19] Conversion removes this incentive and provides for more efficient use of generation capacity.

On the other hand, the ACIL Allen modelling produced dispatch outcomes resulting in negative market benefits for regulation when compared to the Hydro Tasmania Agreement counterfactual. That is, the market costs of dispatch with Basslink operating as an 'open link' under regulation are modelled as higher than the market costs of dispatch when Basslink is strategically bid by Hydro Tasmania.

This result is curious when viewed against the objective function of the NEM Dispatch Engine (NEMDE): the dispatch of a regulated link, operated by AEMO in such a way to minimise the dispatch cost of electricity across the NEM, can result in higher cost generation being dispatched, than if that same link was strategically bid into the market by a participant. The ACIL Allen report does not explicitly address this apparently strange result. We have attempted to draw out the key assumption which drives this outcome, considering the modelled incentives of Hydro Tasmania in each scenario.

- In scenarios where Hydro Tasmania has dispatch rights over Basslink, Hydro Tasmania's bids in the model will optimise revenue across its Tasmanian generation portfolio (for an assumed retail contracting level) and for revenues (in the form of inter-regional settlement residues) across Basslink.
- In scenarios where Basslink is regulated, Hydro Tasmania's bids in the model will optimise revenue only across its Tasmanian generation portfolio (for an assumed retail contracting level). A key assumption made by ACIL Allen[20] is that, "*it is assumed that Hydro Tasmanian does not access the Interregional Settlement Residues. If Hydro Tasmania gains some exposure to Victorian prices through acquiring some of the Interregional Settlement Residues, it gains some of the incentives discussed in section* (sic) *4.3.3*". The incentives discussed are those of the scenario where Hydro Tasmania trades Basslink.

With Hydro Tasmania's unique position in the Tasmanian generation market, we expect that there may be occasions where the optimisation of its bids across Tasmanian generation and Basslink flows, results in greater dispatch of its renewable generation portfolio (and resulting in the displacement of higher cost generation) than when its bids are optimised only across profits from its generation portfolio.

However, as noted by ACIL Allen, if Hydro Tasmania purchases SRA rights to the inter-regional settlement residues across a regulated Basslink, the incentives, generation outcomes and market benefits observed in the Hydro Tasmania contracting scenarios converge with the regulated outcomes.

We consider the curious modelling outcome to be an artefact of the unrealistic assumption that Hydro Tasmania would never purchase rights to the inter-regional settlement residues on a regulated Basslink.

[19] ACIL Allen, *Basslink conversion Modelling and analysis of benefits*, p 32.
[20] ACIL Allen, *Basslink conversion Modelling and analysis of benefits*, p 15 footnote.

3.3. Future NEM generation and short-run marginal costs

The NEM is undergoing significant transformation, and the ACIL Allen modelling attempts to capture elements of the future grid through key assumptions on new generation build and closure of existing plant. For example, the report states:[21]

> *With the decarbonisation of the electricity market, there is a lot of change that occurs in the market between 2025 and 2035, and particularly in the period between 2025 and 2030. … between 2025 and 2030:*
>
> - *Coal closure: about 11,000 MW of black and brown coal exits the market*
> - *Wind and solar capacity: around 35,700 MW of wind and solar capacity enter the market.*

The resulting electricity system is dominated by renewable capacity, with a capital-intensive but low emissions and low or zero fuel cost fleet.

Importantly, ACIL Allen has assumed that the regulation of Basslink has no impact on the investment decisions of generators, and that the capital build-out is the same in regulated and unregulated scenarios. (We note some issues with this assumption in section 5.3. Consequently, the measured market benefits represent savings in short-run marginal costs of a low short-run marginal cost fleet. It is therefore unsurprising that these modelled market benefits appear relatively small.

The market dynamics in an energy-only market with a capital intensive but low short-run cost fleet will mean that times of price volatility are required for investors to recover their long-run and capital costs. Consequently, the long-term impacts to consumers of a regulated Basslink versus an unregulated Basslink cannot be measured only in savings in short-run costs. Instead, the impact of a regulated versus unregulated Basslink on price (particularly at times of price volatility when investors look to recover their long-run costs, and prices far exceed short-run costs) must be assessed. This impact is measured by ACIL Allen in consumer benefits, rather than market benefits.

[21] ACIL Allen, *Basslink conversion Modelling and analysis of benefits*, p 9.

4. Weighting the results of ACIL Allen's consumer benefit modelling

Summary

- ✓ ACIL Allen's modelling results show that conversion delivers an average price benefit to consumers of $1.6bn, or $2.2bn when appropriately weighted.
- ✓ Modelling outcomes can only provide a balanced view if all potential scenarios are assessed and weighed accordingly – this includes scenarios where there is no Marinus Link, or a delayed completion of Marinus Link.
- ✓ The most likely counterfactual to regulation is Basslink being traded as a merchant asset.

The AER notes that the modelling of price effects (and therefore the *consumer* benefits of conversion) is sensitive to assumptions made about the future with and without conversion. This is unsurprising, given that the energy market is undergoing a major transition and there is considerable uncertainty around the pace and shape of this transition. This includes uncertainty around when major projects will be undertaken, and how market participants will respond to market developments.

The two key variables identified by ACIL Allen as impacting modelled outcomes are:

1. Whether and when Marinus Link is constructed (and if so, its capacity); and
2. Whether Basslink is traded as a merchant asset, or its capacity is contracted to Hydro Tasmania in the event that conversion does not occur (and if so, the scope and terms of this contract).

An assessment of whether conversion is in the long-term interest of consumers requires the AER to form a view on what are the most likely scenario(s) for Marinus Link development and whether, if there was no conversion, Basslink will be operated as a stand-alone merchant asset, or be contracted to another party.

Variability and sensibility in assumptions modelled for consumer benefits is not a reason to dismiss or down-weight the results. The consumer benefits of conversion are clearly relevant to the NEO, and therefore the AER's conversion assessment, and must be properly considered.

This section presents our views on the most relevant scenarios for the purposes of assessing the likely consumer benefits of conversion.

4.1. Weighting the probability of Marinus Link scenarios

Whether, and when, Marinus Link is constructed is a relevant factor in assessing the costs and benefits of the conversion Basslink. In the ACIL Allen modelling, Marinus Link is assumed to be either:

1. Not constructed, as is currently the situation (the "No Marinus Link' scenarios)
2. A single 750 MW Marinus Link cable is constructed (the 'Marinus Stage 1' scenarios).
3. Two 750 MW Marinus Link cables are constructed, the original proposal suspended in September 2023[22].

Figure 5 and Figure 6 in the AER's Consultation Paper only presents the results of the ACIL Allen modelling as it relates to Marinus Link Stage 1 and Marinus Link Stage 1&2. The 'No Marinus Link' scenario is not included in the results.

[22] The Hon. Chris Bowen MP et al., *Joint media release: Investing in the future of Tasmanian energy with Marinus Link,* https://minister.dcceew.gov.au/bowen/media-releases/joint-media-release-investing-future-tasmanian-energy-marinus-link.

We are firmly of the view that the No Marinus Link scenario needs to be given significant weight, for reasons that include:

- A No Marinus Link scenario remains a probable scenario – the project has not reached a Final Investment Decision milestone, and a key decision point has recently been delayed again.
- In August 2024, the Marinus Link Pty Ltd Board advised that the Final Investment Decision on Marinus Link is now proposed for May 2025.[23]
- The scenarios which include Marinus Link assume it is operating 18 months before the date it is now scheduled to be operational. In the modelling, the absence of Marinus Link has a significant impact on the outcome – the absence of Marinus increases the benefits of conversion. In order to capture what is now an inevitable 18 month 'delay', and the very high likelihood of further delay, the No Marinus Link scenarios should be given additional weight to capture this 'no Marinus period' in the weighted average benefits of conversion.

4.1.1. A No Marinus Link scenario remains a probable scenario, and must be weighted accordingly

All scenarios should be included to ensure a balanced, pragmatic result. In particular, significant weighting must be given to the possibility of a future with no Marinus Link.

Project Marinus has experienced the following delays and developments, that will likely impact the probability of reaching a Final Investment Decision:

Table 2 Marinus Link Final Investment Decision Timeline

Time	Update
February 2019	• Marinus Link released their initial Feasibility Report, with costs estimated to be between $1.3-1.bn (for one cable), and $1.9-3.1bn (for both cables).[24] • Commissioning of the first cable was reported to occur by the mid 2020's, and the second cable by late 2020's, with the construction phase commencing in **2021**.
August 2021	• A community update from Marinus Link pushes back the Final Investment Decision to 2023/24.[25]
September 2023	• Marinus published an update pushing their FID target date to **end of 2024.** [26] • Relevant governments also stated that a second Marinus Link cable has been suspended and consideration of its future has been postponed to a later date.[27] • This was announced after the costs of the two-cable project blew out from $3.3-3.8bn to $5.5bn. • As it currently stands, there is no funding arrangement in place for a second cable, and this is not expected to be considered until after FID of one cable. • The cost of one cable alone was updated to $3-3.3bn alone.
April 2024	• The results of a Regulatory Investment Test for Transmission (RIT-T) were released by Marinus Link.[28] • Marinus Link cost estimations increased to $4.04bn for the first stage of development, and $2.535bn for the second stage, taking total costs to approximately double initial estimations – total costs arising to $6.57bn. • Marinus Link acknowledged there is an unprecedented demand for interconnector capacity in response to carbon reduction initiatives and energy security concerns. • Rising costs were purported to be in line with other transmission projects[29]

[23] Nick Duigan, Minister for Energy and Renewables, *Marinus Link Project Update*, https://www.premier.tas.gov.au/latest-news/2024/august/marinus-link-project-update
[24] Project Marinus, *Initial Feasibility Report*, p 38.
[25] Marinus Link, *Community Update*, Community Update Marinus Link.
[26] Marinus Link, *Marinus Link advances under new deal*, Marinus Link advances under new deal Marinus Link.
[27] The Hon. Chris Bowen MP et al., *Joint media release: Investing in the future of Tasmanian energy with Marinus Link,* https://minister.dcceew.gov.au/bowen/media-releases/joint-media-release-investing-future-tasmanian-energy-marinus-link
[28] Marinus Link, *Project Marinus RIT-T Update*, p2
[29] Marinus Link, *Project Marinus RIT-T Update*, p2

Time	Update
August 2024	• The Marinus Link Pty Ltd Board advised that the Final Investment Decision on Marinus Link is now proposed for May 2025.[30] • Marinus Link Stage 1's proposed completion date is now 2030, noting that the Final Investment Decision will impact the probability of completion, and potential for delays.

This means, at minimum, there is some uncertainty as to whether the project will proceed and some weight has to be given to that scenario.

4.1.2. ACIL Allen's modelling does not reflect or appropriately weight the very likely delays in constructing Marinus Link

In scenarios where Marinus Link is constructed, the timing of Marinus Link commissioning has a material impact on the benefits of regulation. Later commissioning of Marinus Link means that the benefits of conversion are greater. There are two timing issues that need to be accounted for in the weighting of the 'No Marinus Link' scenarios:

- The expected timing of Marinus Link commissioning does not align with the ACIL Allen modelling. The modelling assumes that Marinus Link will be completed and in service by July 2029. However Marinus Link currently expects the interconnector to be fully operational no earlier than 2030.[31] AEMO have included Basslink in full service at December 2030 in the assumptions supporting the 2024 Integrated System Plan (ISP).
- There is a high likelihood that in the event Marinus Link does proceed, there will be an further delay to its operational date. This is a very real prospect, as evidenced in the significant delays being experienced by a range of large infrastructure projects in Australia, including committed projects under the 2024 ISP. As the owner and operator of Basslink, our experience tells us that given the challenges being experienced in the international HVDC interconnector market, additional delays to Marinus Link construction are likely.

With reference to AEMO's ISP publications, we note that committed and anticipated projects in the past three publications have all been delayed:[32]

Table 3 - ISP committed and anticipated project commissioning timelines

2020 ISP	2022 ISP	2024 ISP
Marinus Link Cable 1 2028/29 Cable 2 2031/32	**Marinus Link** Cable 1 July 2029 Cable 2 July 2031	**Marinus Link** Cable 1 December 2030 Cable 2 December 2032
EnergyConnect 2024/25	EnergyConnect July 2026	Energy Connect Stage 1 December 2024 Stage 2 July 2027
CWO REZ 2024/25	CWO REZ July 2025	CWO REZ August 2028
HumeLink 2025/26	HumeLink July 2026	HumeLink Northern July 2026 Southern December 2026

[30] Nick Duigan, Minister for Energy and Renewables, *Marinus Link Project Update*, https://www.premier.tas.gov.au/latest-news/2024/august/marinus-link-project-update
[31] Marinus Link, *Marinus Link secures cables: 2030 completion date locked in*, Marinus Link secures cables: 2030 completion date locked in Marinus Link .
[32] ISP, *2020 Integrated System Plan*; ISP, *2022 Integrated System Plan (ISP)*; ISP, *2024 Integrated System Plan (ISP)*.

To ensure a balanced view of potential scenarios, appropriately weighing the No Marinus Link category in the results would be one means for factoring in potential delays to a single cable or one and two cable Marinus Link scenarios. Alternatively, the modelling could include further scenarios reflecting delays to commissioning, in addition to the 'No Marinus Link' scenario.

4.1.3. It is unclear at this stage if we will have a two-cable Marinus Link in the future

Scenarios should be weighed according to their likelihood and probably – as assessed under current circumstances. While it is *possible* that the Two cable Marinus Link scenario may come to pass, at this stage the possibility is too remote to be given any material weight in the consumer benefit modelling.

The relevant Governments have stated that the second cable has been suspended and consideration of its future has been postponed until a later date. **There is no funding arrangement in place for the second cable**. In a joint media release, The Hon Chris Bowen MP, The Hon Julie Collins MP, The Hon Jeremy Rockliff MP and The Hon Guy Barnett stated:

> *"The project will be focused on one cable in the first instance, with negotiations to continue on a second cable, to be considered after FID on cable 1. AEMO ISP modelling finds the majority of the benefits from Marinus Link are realised from the first cable – close to two thirds..."*[33]

While it is possible that Marinus Link Stage 1&2 will be built, there is no clear path to its development and it should be considered a low probability at this time.

AER Question 4

In modelling possible outcomes, we have modelled a range of different scenarios encompassing the future role of Marinus Link. What are your views on the likelihood of Marinus Link being constructed, the number of Marinus Link cables that will ultimately be constructed, and the timing of any construction? What weights would you place on these different possible outcomes for Marinus Link?

Response

For the reasons articulated above, we suggest the weights as set out in Table 4 should be applied.

Table 4 Suggested weighting for Marinus Link scenarios

Scenario	No Marinus Link	Marinus Link Stage 1	Marinus Link Stage 1&2
Suggested weighting	**40%**	**50%**	**10%**
Rationale	• Final investment decision not made • Uncertainty on when and whether the project will proceed	• High possibility project will be delayed against current estimated timeframe	• There is no funding arrangement in place for the second cable • At this stage there is no clear path to its development

[33] The Hon. Chris Bowen MP et al., *Joint media release: Investing in the future of Tasmanian energy with Marinus Link,* https://minister.dcceew.gov.au/bowen/media-releases/joint-media-release-investing-future-tasmanian-energy-marinus-link

4.2. Weighting the probability of Basslink counterfactual operating modes

In a world without conversion, Basslink would have at least two business models that could be pursued. Basslink could bid the asset as a merchant interconnector (and receive revenue linked to inter-regional price differences) or it could operate it under contract with a counterparty.

While ACIL Allen has only modelled scenarios in which the capacity of Basslink is contracted to Hydro Tasmania, there is a clear third scenario in which Basslink is contracted to a different third party who would then bid Basslink as a stand-alone merchant asset or as part of a portfolio. A participant with a 'long' generation position in Victoria may see significant value in operating Basslink as part of its portfolio, and these participants would not be subject to the same restrictions that apply to Hydro Tasmania. The price that a counterparty is willing to pay Basslink is a function of the additional revenue that they can earn from their portfolio through the operation of Basslink.

This means, from a consumer perspective, there are three counterfactuals that have the potential to affect the costs and benefits of regulation. These are:

1. Merchant Trading
2. Contracted to Hydro Tasmania
3. Contracted to a third party that is not Hydro Tasmania.

While ACIL Allen has not modelled the outcomes of this third scenario, we are of the view that the outcomes in this scenario are likely to be closely aligned with those in the Merchant Trading scenarios, and should therefore be represented in the weighted outcome by attributing greater weight to the Merchant Trading scenario.

The AER should therefore assign significant weight to the Merchant Trading scenarios, for reasons that include:

- As is evidenced from the modelled results, the Merchant Trading scenario represents higher value for Basslink in the absence of regulation, and is the most likely strategy adopted by Basslink Pty Ltd if conversion does not occur;
- Additional weighting needs to be attributed to this outcome to account for the fact that the modelling is likely to understate the customer benefits of regulation as compared to this scenario; and
- Additional weighting needs to be attributed to this outcome to account for the third scenario, as outlined above.

4.2.1. Matters relevant to consideration of weighting attributed to ACIL Allen's modelling of Basslink's future revenue under counterfactuals

Merchant Trading Scenarios

We are of the view that significant weight should be attributed to these scenarios for the following reasons:

- As is evidenced by the results, this is the strategy outside of conversion which is likely to deliver the most value to Basslink Pty Ltd. We will be incentivised to seek as much revenue as possible as quickly as possible, noting the possibility that Marinus will be developed and commence operation.
- We are currently actively preparing for the possibility that it will need to trade the asset as a merchant MNSP.
- The actual revenues achievable from trading the asset are likely to be higher than those modelled by ACIL Allen. The modelling conducted by ACIL Allen is sophisticated and representative of the likely outcomes but will not fully capture the opportunities that would be presented to Basslink in five minute intervals in all market circumstances. If Basslink does trade the asset, it will have considerable resources allocated to ensuring it is able to optimise its revenue at all times. This means that the price outcomes modelled by ACIL Allen are likely to understate the price impacts that strategic trading of Basslink will have, and therefore understate the customer benefits of conversion. In order to account for this likely understatement of benefits, additional weight should be attributed to this scenario to seek to account for this in the weighted approach.

Hydro Tasmania contract

We consider that limited weight should be given to the Hydro Tasmania contracting scenarios, for reasons that include:

- While there is a contract in place with Hydro Tasmania at this time, the purpose of this agreement was to operate as a 'bridge' between the time of acquisition and conversion of Basslink into a regulated asset. This is an interim arrangement and is more appropriately viewed as part of the acquisition arrangements. Basslink Pty Ltd will not renew the existing agreement on the same terms.

- As is evidenced by the modelling, Basslink Pty Ltd will be commercially incentivised to trade the asset as a merchant asset. It is difficult to see how it can be assumed that these parties will enter into a contract when the modelling results show that this is not in either of their commercial interests to do so.

- Hydro Tasmania has also clearly indicated that this is not a likely scenario in its submission to the AER. We note in this context the limits that are likely to be imposed on Hydro Tasmania bidding of the Basslink asset (detailed further below), and these limits will restrict the commercial opportunities available to Hydro Tas, and therefore limit the commercial value of the asset to Hydro Tasmania. Those same limits do not apply to Basslink operating as a stand-alone merchant asset, nor to a third party operating the asset. This should be considered to lower the probability of Hydro Tasmania contracting with Basslink in the manner modelled.

- While the submission of the Victorian Government seeks to outline the 'benefits' of an extension of, or further contracting between Basslink Pty Ltd, and Hydro Tasmania, it does not make any case for benefit to Basslink in these arrangements. The Victorian Government pointed to the benefits that the contract provides to Hydro Tasmania and the long history of the Basslink Service Agreement[34] (the previous contract between Basslink and Hydro Tasmania).

  The history of the Basslink Services Agreement (BSA) does not support a presumption that contracting was mutually beneficial for both parties. The BSA was formed to support the construction of Basslink and was intended to cover the duration of the asset. It formed a package of arrangements that were put in place to support Tasmania's entry into the NEM (including to provide a hedge for Hydro Tasmania against price volatility) and were the outcome of a competitive process to build the interconnector. There were no provisions which allowed Basslink to exit the contract without a breach of the terms of the contract. This meant there were no alternatives to the BSA for Basslink.

  What the Victorian Government took to be a mutually beneficial arrangement was unavoidable for Basslink. Ultimately, the contractual and operating framework under the BSA and related agreements proved problematic for Basslink. Basslink entered administration in late 2021 and the BSA was terminated in early 2022. The contract that the parties were operating under was insufficient to support the ongoing operation of the business.

Both Hydro Tasmania and APA, as the owner of Basslink Pty Ltd, are of the view that a renewed contract is unlikely[35] because the difference between what Hydro Tasmania is willing to pay, and the revenue that Basslink must earn in order to enter a contract, is too great.

[34] Victorian Government, , *Response to AER Issues Paper for Basslink Conversion Application and Electricity Transmission Determination*, p3
[35] Hydro Tasmania, *Response to AER Issues Paper for Basslink Conversion Application and Electricity Transmission Determination*, p2

Restrictions on Hydro Tasmania

Under the current Network Services Agreement between Basslink and Hydro Tasmania (**NSA**), Hydro Tasmania can request that Basslink's contracted capacity be bid in a particular way. However, Hydro Tasmania's ability to request non-zero bids is tightly constrained under the Transport Bidding Protocol which forms part of the NSA.[36]

The Transport Bidding Protocol restricts Hydro Tasmania's ability to request non-zero bids to the following limited circumstances:

(a) **Negative bids for northward flows** - Hydro Tasmania may only request that Basslink submit negative bids for northward flows if Hydro Tasmania reasonably believes the following conditions will prevail:
   (i) the NEM spot price in Victoria will exceed the spot price in Tasmania;
   (ii) the NEM spot price in Tasmania will be negative; **and**
   (iii) transmission constraints affecting the Latrobe Valley connection point will be binding.

   The same restrictions apply to requests by Hydro Tasmania for Basslink to make lower ramp rate bids (being Dispatch Bids specifying a lower or minimum up and/or down Ramp Rate for future Dispatch Intervals, within the meaning of the NER).

(b) **Positive bids for southward flows** - Hydro Tasmania may only request that Basslink submit positive bids for southward flows where the following conditions are met:
   (i) there is an active, binding constraint between Latrobe Valley and Thomastown published by AEMO such that flows on Basslink are from a high- to low-priced region; **and**
   (ii) it is required to ensure compliance with the NER where a corresponding negative northward bid has been made under the Protocol (in which case the positive bid must be initiated and withdrawn at the same time as the negative bid).

The effect of these restrictions is that Basslink's capacity will almost always be bid into the NEM at zero, except in very limited circumstances where there are NEM constraints warranting a non-zero bid. Outside of these limited circumstances, Hydro Tasmania in not able to control the availability and pricing of Basslink capacity.

Third Party Contract

The AER states:

> "Other contract counterparties in the Victorian or Tasmanian regions (the regions connected by Basslink) are unlikely to have the same degree of market power as Hydro Tasmania. As such, the incentives of other counterparties will likely align with those of an uncontracted merchant Basslink – that is, to maximise revenue from interregional prices differentials."[37]

This scenario is likely to deliver consumer benefit results commensurate with that of the Merchant Trading scenario – it will either be the same, or potentially have even higher impacts on consumer benefit when considered as part of an existing long portfolio. We suggest that the possibility of this third counterfactual should be accounted for with a higher weighting being given to the Merchant Trading scenarios.

[36] Note: Under previous contractual arrangements, the relevant restrictions were specified in a Ministerial Notice issued to Hydro Tasmania under section 36 of the *Electricity Supply Industry Act 1995* (Tas). The relevant restrictions are now set out in the NSA itself. Details of the current restrictions can be found in Hydro Tasmania's media release dated 24 October 2022, available here.
[37] AER, *Basslink Conversion Application Consultation paper*, p9.

AER Question 5

In modelling possible outcomes, we have modelled a range of scenarios for the likelihood of Basslink entering into agreements with Hydro Tasmania and the level of contract cover. What are the most likely future states of the world with respect to these issues and what is the reasoning for your position?

Response

For the reasons articulated above, we suggest the weights as set out in Table 5 should be applied.

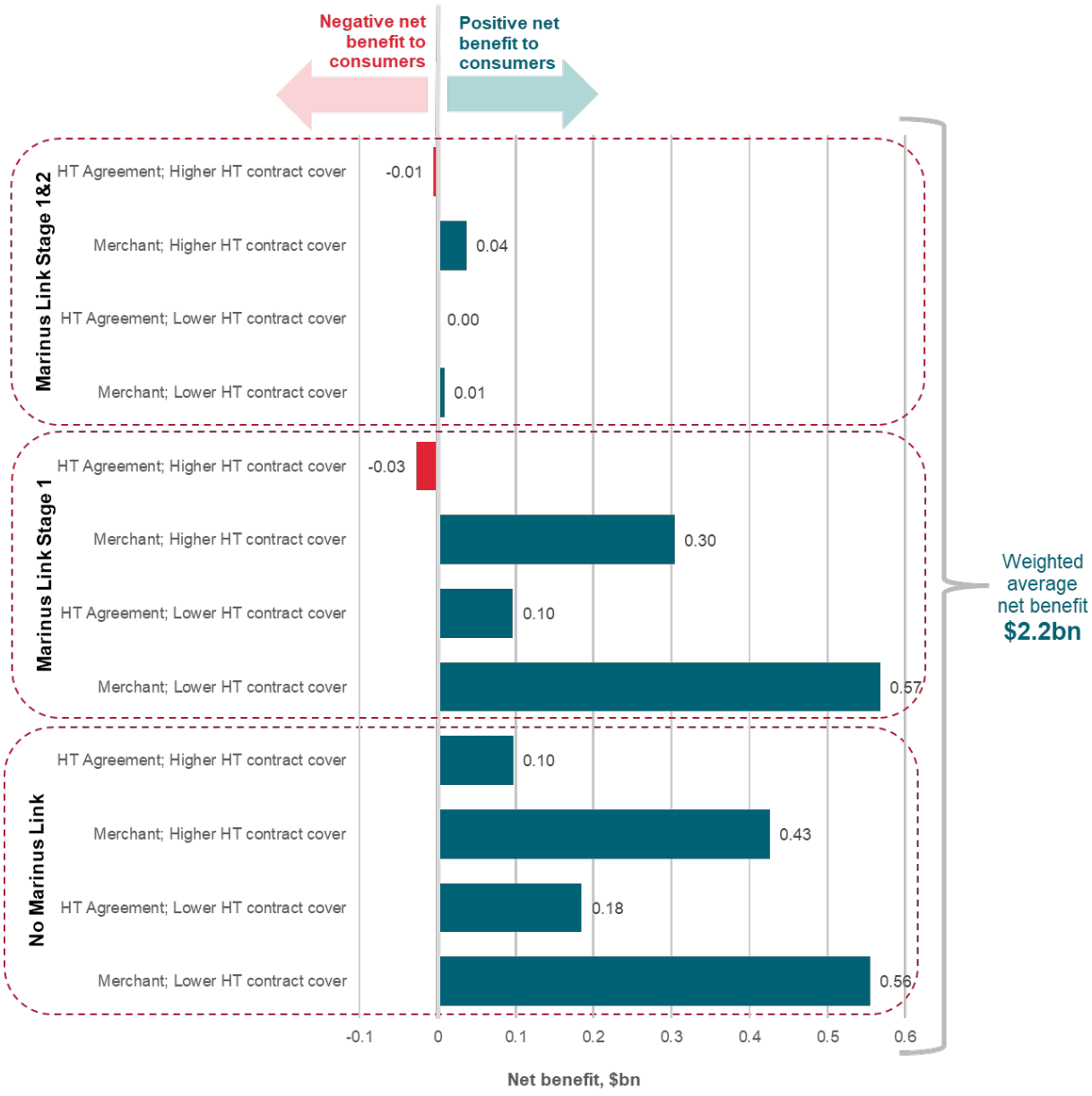
Table 5 - Suggested weighting for merchant trading and contracting scenarios

Scenario	Merchant trading	Hydro Tasmania Contract
Suggested weighting	**80%**	**20%**
Rationale	• The most likely counterfactual to regulation is Basslink being traded as a merchant asset due to higher expected net income • Third party contacts will likely reflect merchant trading, that is, a third party will seek maximise revenue from inter-regional price differences	• A renewed contract is unlikely because the difference between what Hydro Tasmania is willing to pay and the revenue that Basslink must earn in order to enter a contract is too great

4.3. An appropriately weighted assessment of consumer benefits of conversion

If the suggested scenario weightings as outlined in Section 4.1 and Section 4.2 are applied, then the weighted average net benefit of conversion to consumers is $2.2bn, as shown in Figure 6.

Figure 6 – Weighting modelling results in AER's consideration of consumer benefits



5. Consumer benefits not captured in the modelling

Summary

- ✓ A conversion decision aligned to the NEO accounts for all relevant factors, including those not adequately captured in the modelling such as impacts to reliability, FCAS costs and inefficient generation investment.
- ✓ Asset reliability and investment is likely to be different in regulated and unregulated futures. A less reliable asset may lead to a less reliable system.
- ✓ Regulation of Basslink will give stakeholders confidence that Basslink is being operated and maintained in a way that best ensures security of supply.

ACIL Allen notes the inherent limitations of any long-term market model of the NEM:

> *"Modelling the NEM over long time frames requires many assumptions about future inputs and model simplifications so that the model can produce realistic results within reasonable time frames."*[38]

In this section, we outline a number of consumer benefits from conversion, the detail of which is either simplified or omitted from the modelling.

5.1. Regulation and reliability

System reliability, or the likelihood of asset outages or fuel scarcity leading to unserved energy to consumers, is an important dimension of the NEO. In extensive stakeholder engagement sessions and surveys, consumers identified the future reliability of electricity supply, and Basslink's contribution to this, as a high priority:

- Consumers and industry stakeholders both strongly supported a high level of reliability due to concerns about the potential for electricity outages if Basslink fails.
- 84% of survey participants rated having greater reliability for the future as something they strongly support (rated 7+ out of 10). This was the top-rated item among all energy focus areas for the future, with survey respondents with a disability significantly more likely to be very or extremely concerned about the reliability of their electricity supply.
- Consumers at the workshops wanted to ensure that there were timely repairs to Basslink's subsea cable should a failure occur in the future. Tasmanian consumers particularly referenced the need to avoid a repeat of Basslink's 2015 outage.

The AER identifies three ways in which the availability of Basslink may be reduced[39]:

- (As a market network service provider), via "strategic withholding aimed at increasing price differentials between Victoria and Tasmania;
- Planned outages for maintenance;
- Unplanned outages, such as cable failure…".

The AER also states:

- "Our market modelling results do not indicate a material difference in unserved energy or system security risks between conversion and the two modelled counterfactuals", and,

[38] ACIL Allen, *Basslink conversion Modelling and analysis of benefits*, pi.
[39] AER, *Basslink Conversion Application Consultation Paper*, p28.

- "Overall, we consider that there are unlikely to be material differences in reliability benefits if Basslink is converted compared to Basslink remaining as a MNSP."[40]

There are a number of factors that lead to different reliability outcomes under regulation and the counterfactual.

In Section 5.1.1 we note the shortcomings of the modelling undertaken to answer the question of reliability impacts of conversion. We also discuss the impact of revenue uncertainty on asset investment and consequent system reliability.

We also note that in addition to factors identified by the AER, flows on Basslink can also be reduced via constraint equations imposed by AEMO to maintain system security. One such set of constraint equations relates to the operation of the Basslink Frequency Control System Protection Scheme. Differences in arrangements for this scheme under regulation and unregulated counterfactuals are discussed in Section 5.1.2.

5.1.1. Asset reliability affects system reliability

In our modern power system, unserved energy resulting from resource shortages (in asset availability or fuel) is a rare but highly impactful event on consumers. In most "futures" of the NEM, unserved energy does not occur, and yet much effort is devoted to assessing the likelihood and duration of any such shortfalls due to the impact to consumers. Generally, unserved energy is the result of several coincident circumstances, such a high consumer demand, generation, or transmission outages and renewable or fuel resource shortages.

To produce estimates of the likelihood of unserved energy in the annual Electricity Statement of Opportunities (ESOO), AEMO carries out millions of Monte Carlo simulations of the future operation of the grid. In contrast, each ACIL Allen modelling run uses a single set of assumptions on parameters such as consumer demand, generation outages and renewable resource availability, and ACIL Allen sets these to be a "median value"[41].

> "*Market modelling of the NEM over long periods requires simplification of many assumptions including selecting specific predetermined inputs for parameters which are either inherently uncertain or exhibit stochastic characteristics. … we have taken reasonable steps to estimate a central or median value for the inputs.*"

While these "median" assumptions may be fit for purpose for producing a "median" estimate of the impacts of conversion on market prices or costs, they do not inform any assessment of reliability impacts, which (in a power system with reliability standards of the NEM) occur relatively rarely.

Instead, an attempt to model and quantify the effect of conversion on system reliability would necessitate:

- A stochastic model of the impact of changes in asset management plans on asset reliability; and
- A stochastic model of the impact of this change in asset reliability on system reliability.

One likely impact of conversion will be to provide greater certainty around longer term revenue and cost recovery. Absent conversion, there is likely to be much greater revenue uncertainty for Basslink, with this revenue not linked to expenditure on asset or system reliability. Revenue uncertainty can impact asset management plans, and therefore asset and system reliability, in the following ways:

- Asset management budgets for operating and capital expenditure for a merchant asset in a reduced revenue environment will be reduced. Expenditure will be allocated for projects that meet a legal or contractual obligation (such as maintenance for improvement of health, safety and environmental impacts, or meeting minimum NEM performance standards). All other expenditure, including that for the purpose of maintaining reliability, will have to be justified on a case-by-case basis, with the view that the investment will generate sufficient additional income to recover the cost and returns on capital in the remaining life of the asset.
- The impact of such cost-constrained operation may not be immediately observed, but rather will result in a steady deterioration in reliability of the asset, with increasing faults and longer repairs

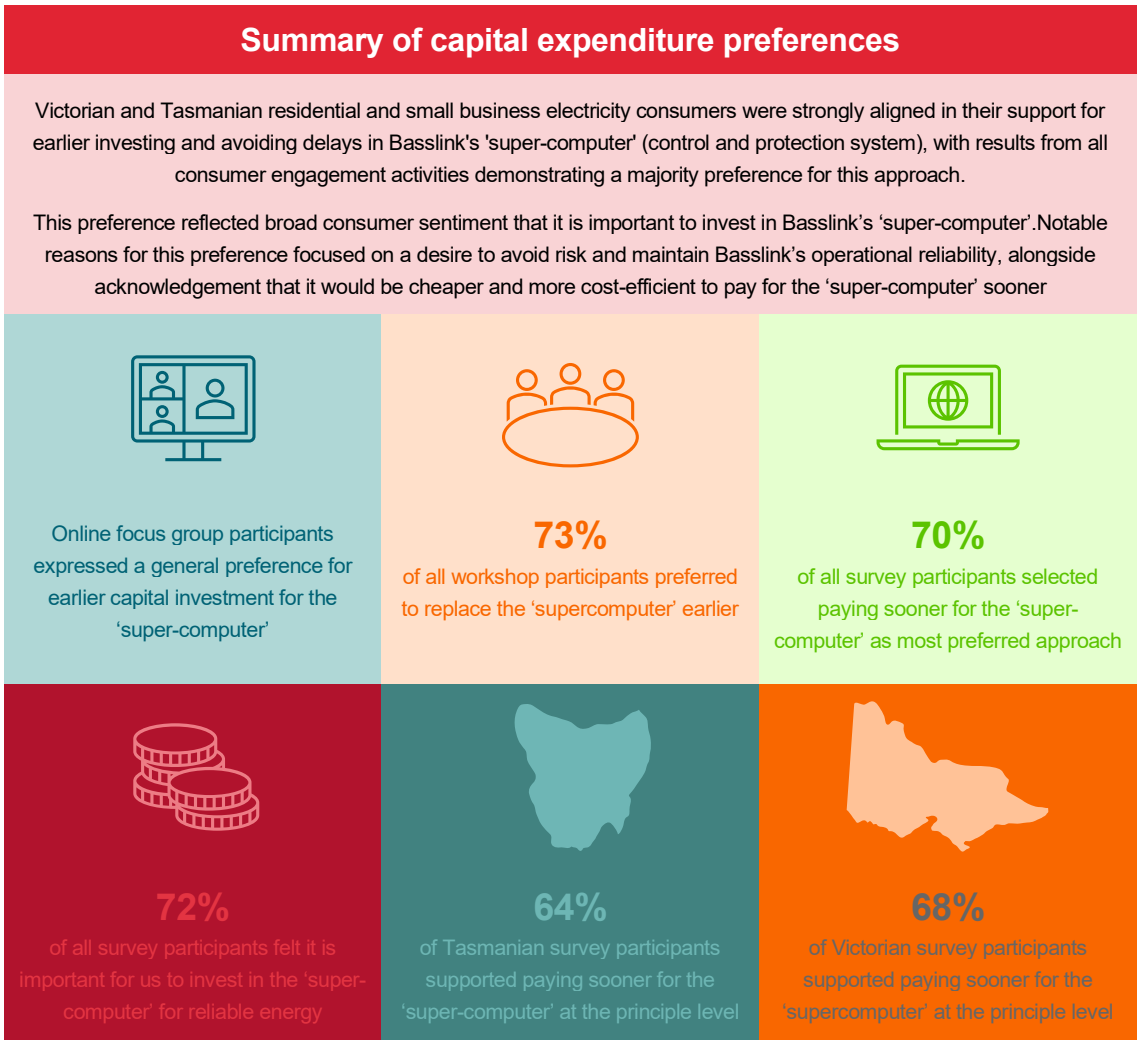
[40] AER, *Basslink Conversion Application Consultation* Paper, p28.
[41] ACIL Allen, *Basslink conversion Modelling and analysis of benefits*, p31.

times. Ultimately, this leads to an increased likelihood that Basslink will be partially or fully unavailable at times when it is needed to prevent unserved energy.

The AER observes[42] that, "The commissioning of Marinus Link appears the most significant variable affecting the results". Figure 2 of the Consultation Report shows a significant decline in Basslink revenues once Marinus Link stage 1 enters (assumed to be July 2029), with further deterioration in revenues following the entry of the second Marinus Link cable (assumed to be in July 2036). This figure also shows that modelled revenues drop below expected operating costs, yet Basslink is assumed to continue operating with the same level of reliability as in the regulated case.

This decline (and potential volatility) in revenues will at least lead to the optimisation of capital spent on aging and failing significant items. For example, the control and protection system is a significant item of capital (of the order of $40m) that is due for a mid-life refit in 2032. In an unregulated scenario, with constrained revenues unlikely to recover the cost of this capital, replacement or upgrades to this equipment are unlikely. This contrasts with the views of stakeholders, over 70% of whom, when engaged and asked their preferences on deployment of capital on this, preferred to replace the control system (the "super-computer") earlier. Figure 7 provides a summary of key findings set out in the Basslink Consumer Engagement Report [43].

Figure 7 - Stakeholder preferences on capital investment for reliability



[42] AER, *Basslink Conversion Application Consultation Report*, p21.
[43] SECNewgate Australia, *Basslink Consumer Engagement Report, Basslink engagement report*

5.1.2. Basslink Frequency Control System Protection Scheme

The Basslink Frequency Control System Protection Scheme (FCSPS) is a protection scheme which ensures that a trip of Basslink does not result in an insecure islanded Tasmanian system. Specifically,

- if Basslink trips when flowing south, the scheme will trip sufficient Tasmanian load blocks; and
- If Basslink trips when flowing north, the scheme will trip sufficient Tasmanian generating units;

such that the resulting Tasmanian system remains within the Tasmanian Frequency Operating Standard (TFOS). If the FCSPS is not operating, or insufficient load or generation is armed in the scheme, then AEMO limits the flows on Basslink to be no more than 144 MW north or south to comply with the TFOS.

Participation in the scheme by Tasmanian loads and generators has been previously secured via commercial contracts between participants with incentives to facilitate unconstrained flow on Basslink. Absent these incentives, such as in the merchant trading counterfactual, load and generation participation is not certain, with the result that capacity on Basslink may be wound back to 144 MW. In the context of a constrained revenue environment following the entry of Marinus Link, it is unlikely that significant commercial outlay to secure these services would be warranted.

If load or generation participation in the FCSPS cannot be secured, then the resulting reduction in capacity (from 596 MW northward flow to 144 MW northward flow, and from 478 MW southward flow to 144 MW southward flow) may lead to system reliability impacts at times of high demand in Victoria, or at times of extended renewable resource shortages (such as droughts) in Tasmania.

On the other hand, if Basslink is regulated, there is a well-defined regulatory framework for the procurement of these services as non-market Network Support and Control Ancillary Services (NSCAS). AEMO assesses system requirements and shortfalls of such services annually, with obligations on the TNSP to address identified NSCAS needs[44]:

> *AEMO is required to assess NSCAS needs in the National Electricity Market for the upcoming five-year period. When AEMO identifies a NSCAS gap, the National Electricity Rules give transmission network service providers the primary responsibility for having arrangements in place to address the gap.*

Consequently, available Basslink capacity and resulting system reliability will be worse with an unregulated Basslink with insufficient revenue to secure FCSPS participation.

AER Question 6

To what degree do you consider that reliability and/or security of supply risks may be different if Basslink is converted, relative to Basslink operating as a MNSP?

Response

Regulation provides a stable and reliable income stream that will allow us to focus on safety and reliability of the asset. Without this revenue stability our spending on maintenance and operations would depend on whether we can recover those costs.

In some cases, the impact of investment or expenditure decisions will be felt immediately, such as in procurement of FCSPS. In others, like preventative maintenance, the effects take time to surface. However, over time, reduced revenue can lead to more frequent faults and longer repair times.

[44] AEMO, *Network support and control ancillary services procedures and guidelines,* AEMO | Network support and control ancillary services procedures and guidelines

5.2. Provision and cost of Frequency Control Ancillary Services (FCAS)

The AEMO power system Dispatch Procedure[45] for the NEM includes specific reference to the unique characteristics of the Basslink interconnector and its impact on NEM dispatch. Section 5.2 of this document outlines the impact of the Basslink 'No-go Zone', which is the technological restriction on Basslink operation that within the range of approximately -50MW to +50MW (that is, flow north or south of magnitude less than 50 MW), continuous operation can only be maintained at 0 MW.

Further, the document outlines that Basslink's Frequency Control Transfer Capability can only be utilised when Basslink is operating outside the No-go Zone (that is, at levels above 50 MW in either direction), and that this FCAS transfer capability allows "*the FCAS requirement for the Tasmanian region to be met in part by scheduling additional FCAS on the mainland, if it is economical to do so*". FCAS transfer capability is also limited by the "headroom" to full capacity or the No-go Zone on Basslink energy flows, and relies on the operation of the Basslink frequency controller[46].

If Basslink is operating as a regulated link, AEMO will co-optimise dispatch of energy and frequency control services across the mainland and Tasmania to minimise dispatch costs and resulting prices across energy and market frequency control services.

As a market network service provider, Basslink receives no revenue for the provision of FCAS transfers between the mainland and Tasmania and hence has no incentive to facilitate FCAS transfers. If Basslink is operated as an unregulated link, NEMDE must account for Basslink's transfer bids when scheduling flows. For example, whenever NEMDE solves for an energy price difference between Victoria and Tasmania that is less than Basslink's lowest bid band, no transfers will occur on Basslink, and consequently Basslink cannot provide FCAS transfer capability.

We note that, during the three month period from July to September 2022, when Basslink operated as a merchant link with non-zero bid bands, the percentage of dispatch intervals with flows in the No-go Zone exceeded 20%. In contrast, in 2024 to date, when Basslink has been bid into the market at $0 and otherwise operating as it would under regulation, the percentage of dispatch intervals with flows in the No-go Zone is 2%. The increase in zero-flow periods that will result in a merchant scenario will increase the cost of Tasmanian and mainland frequency control services.

Operating as a merchant market network service provider, Basslink will, at times, be commercially incentivised to turn off its frequency controller, unless it assists to increase flow or price separation. As well as resulting in the requirement to locally procure FCAS and increase FCAS prices, this would impact Tasmanian network flows controlled via the TasNetworks Network Control System Protection Scheme, and impact generation and energy prices.

We note that the ACIL Allen modelling dramatically simplifies the NEMDE model to produce energy price outputs and does not capture these effects in frequency control services.

5.3. Investment in renewable generation in Tasmania

The AEMO Integrated System Plan assessment of the NEM's renewable energy zones (REZs) identifies that the wind resource in all three Tasmanian onshore REZs is superior to that in any other onshore REZ NEM-wide.[47]

Qualitatively, the appetite for investment in renewable energy in Tasmania, particularly wind and pumped hydro, will be adversely affected if Basslink is not converted. Developers will need to account for the revenue incentives for a market network service provider to constrain flow into Victoria, depressing Tasmanian prices at

[45] AEMO, *Dispatch procedure*, https://www.aemo.com.au/-/media/files/electricity/nem/security_and_reliability/power_system_ops/procedures/so_op_3705-dispatch.pdf.
[46] AEMO, *NEM Event – Direction to Basslink – 11 April 2013*, https://aemo.com.au/-/media/files/electricity/nem/market_notices_and_events/market_event_reports/2013/nem_event_direction_to_basslink_11_april_13.pdf. Note: This document further describes situations where Basslink can transfer FCAS.
[47] AEMO, *Appendix 3. Renewable energy zones*, a3-renewable-energy-zones.pdf (aemo.com.au).

times of high renewable generation, relative to a scenario of a regulated 'open' link. Stifling wind development in Tasmania will have two effects on long-term investments in the NEM and resulting consumer impacts:

- Alternative wind projects developed in other regions will be higher up the cost curve per MWh as a result of the poorer capacity factor; and
- Further concentration of wind projects built in Victoria and South Australia will result in a higher correlation of generation, with greater requirements for storage or greater risk of economic spill.

Both factors result in less efficient investment and an increase in long-run costs to be recovered from consumers.

The benefits of conversion in supporting efficient generation investment are not captured in the ACIL Allen modelling.

AER Question 3

What degree of significance should we place on outcomes from market modelling when considering possible benefits of conversion? What other inputs should feature in our decision making?

Response

Market modelling can and has provided important information to inform the AER's conversion decision, however, all models have limitations. Factors which cannot be adequately modelled, yet have an impact on the long-term interest of consumers, should also be considered in the conversion decision. Investment in asset reliability and subsequent impacts on system reliability, and increases in frequency control ancillary service costs are two such factors which cannot be modelled using a comparatively simple long-term market model of the NEM.

Further, the high-level assumption made in the modelling, that generation investment decisions are not impacted by the decision to convert Basslink, simplify the dynamics of a small market with concentrated generation ownership, like Tasmania. The chilling effect on Tasmanian investment that would result from a decision not to convert Basslink will result in investment in more costly and less efficient renewable generation options elsewhere.

Basslink is a unique asset – it is the only asset operating under the market network service provider (MNSP) model, and it has encountered significant operational and financial issues while operating under this model. We believe that moving away from the MNSP model will, in this case, provide certainty for investment and operation of Basslink. This will help achieve benefits in the long-term interest of consumers.

6. Stakeholder Engagement

Summary

- ✓ Since submitting our conversion application and revenue proposal, we have continued to engage with stakeholders, providing ongoing updates on the AER's review process and the day-to-day operation and management of Basslink.
- ✓ Our engagement efforts have focused on key issues such as the system protection scheme and how the SRA proceeds would be distributed under a regulated Basslink.
- ✓ More recently, we have worked to clarify the ACIL Allen modelling and engaged with stakeholders on the key issues highlighted in the Consultation Paper.
- ✓ We remain fully committed to meeting our co-designed engagement objectives established at the start of the Basslink regulatory process.

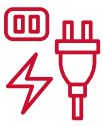
6.1. Our engagement process

We have continued our stakeholder engagement recognising that Basslink plays a critical role in the energy supply chain and that operations have a broad impact on consumers and the energy transition. We understand the importance of supporting the delivery of affordable and reliable energy to Tasmanian and Victorian consumers, as well as the important role Basslink plays in the energy transition through the supply of renewable energy to the NEM.

Our objectives for engagement were co-designed with the Basslink Regulatory Reference Group (RRG). Our objectives for stakeholder engagement during the regulatory process are to deliver outcomes that:

'Brings the outside in' by directly responding to the needs and preferences of our customers.

Provides sustainable returns.



Delivers a reliable supply of electricity to Tasmanian and Victorian consumers.

Directly contributes to the green energy transition in Australia.

In undertaking our stakeholder engagement program, we are committed to fully consulting with stakeholders to understand their views and ensure their preferences are reflected in our plans.

Basslink established a RRG in November 2022 to support the development of the Proposal. The RRG is an independent advisory group comprised of a cross-section of stakeholders representing residential, small business and large energy users in Tasmania and Victoria. The current RRG members include:

- Gavin Dufty, St Vincent's de Paul Society Victoria
- Leigh Darcy, Tasmanian Minerals, Manufacturing and Energy Council
- Chris Griffin, Northern Tasmania Development Corporation
- Robert Mallett, Tasmanian Small Business Council
- John Pauley, Council of the Ageing Tasmania
- Dean Lombard, Energesis
- Darren McCubbin, Gippsland Climate Change Network

The RRG input has been instrumental in helping to improve our understanding of the needs and expectations of different consumer segments in Tasmania and Victoria. Since the lodgement of the conversion application and revenue proposal for Basslink, we have continued to engage with the RRG as well as conducting individual stakeholder meetings.

6.2. What we heard and how we have responded

We conducted several meetings with members of our Basslink RRG and other stakeholders to discuss the ACIL Allen modelling and our initial submission to the Consultation Paper. This initial submission was lodged with the AER on 12 September 2024, and is at **Attachment 1** to this submission. Stakeholders are continuing to review the materials released by the AER, as well as the concepts outlined in this submission.

While most stakeholders absorbed the information without providing a definitive opinion on the accuracy or representation of the modelling, several stakeholders raised questions to better understand the complex issues presented in the ACIL Allen modelling. Stakeholders suggested that alternative assumptions be considered in future modelling. Stakeholders also sought to understand how reliability outcomes were reflected in ACIL Allen modelling with some expressing concern around the impact on reliability if Basslink is not converted to a regulated asset.

Table 6 contains a summary of the feedback received.

Table 6: Stakeholder feedback

What we heard	How we responded
Understanding of how Basslink would operate on a regulated versus unregulated basis and a demonstration of value to customers (reliability and emissions value), including how: • the shareholder benefits on a regulated versus unregulated basis • the consumer benefit changes (reduced or increased)	We have assessed additional benefits of regulation not captured by the ACIL Allen modelling. This assessment highlights the value Basslink provides in terms of customer reliability and security of supply. The value to customers can differ based on the incentives Basslink would encounter in a regulated versus unregulated environment, meaning reliability outcomes are likely to vary. Please refer to Section 5.1 for further explanation on how reliability outcomes might vary.
One stakeholder expressed concerns about reliability if Basslink is not converted to a regulated asset, citing historic outages on Basslink as the basis for their concern.	As discussed in Section 5.1, there are likely to be differences in reliability depending on whether Basslink is regulated or not. Regulation of Basslink will give stakeholders confidence that Basslink is being operated in a way that best ensures security of supply. If Basslink is unregulated, spending on maintenance and operations, and participation in protection schemes, will depend on whether Basslink can commercially justify the costs.
Request to see how the modelling would look with different/bigger range of assumptions.	We understand the ACIL Allen modelling is based on a single set of "median" inputs for demand, generator outages and renewable resource availability. Similarly, the modelling adopts inputs from the ISP with fixed dates for transmission build-out, generation retirement and some new generation build. We encourage the AER to consider more than one static "median" operating scenario and consider consumer benefits that may accrue from regulation in periods of drought or excess renewable resources, high or low demands, and from the possibility of delays to transmission and generation build-out.
The average of customer benefit/disbenefit is not a useful metric as it doesn't account for the likelihood of each scenario.	Modelling outcomes can only provide a balanced view if all potential scenarios are assessed and weighed accordingly. For Marinus Link, our suggested weightings account for the likelihood of each scenario, which are: • No Marinus Link – 40% • Marinus Link Stage 1 – 50% • Marinus Link Stage 1&2 – 10% The most likely counterfactual to regulation is Basslink being traded as a merchant asset due to higher expected net income. Therefore, our suggested weightings are: • Merchant trading – 80% • Hydro Tasmania contract – 20% For further information on suggested weightings, please refer to Section 4.

What we heard	How we responded
Whilst there is agreement ignoring the 'No Marinus Link' options is not helpful, adjusting the Marinus Link Stage 1 and Marinus Link Stage 1&2 options to account for a more likely completion date would be more useful than discounting them because of the unrealistic commencement assumption.	We agree that the treatment of Marinus Link options in the modelling could be improved using more realistic assumptions. Please refer to section 4 for more detail. In addition to more realistic timing, consideration still needs to be given to the potential for additional delays, given delays being experienced by other transmission construction projects across the NEM.
Why does Basslink need to jump through "conversion hoops", but Marinus Link does not.	We understand that Marinus Link can, and has, applied directly to be a regulated link. It does not need to justify whether regulated or unregulated status delivers more net benefits to consumers.
Information was sought on what the actual capacity utilised by Hydro Tasmania was, notwithstanding 100% of capacity was being contracted by them.	Historically, when contracted to Hydro Tasmania, Basslink's capacity has been bid into the market at $0, and it has effectively operated as an "open link". In this sense it has been "fully utilised" by Hydro Tasmania, although flows are not at maximum capacity in either direction 100% of the time. We note that these historical arrangements are not the arrangements that have been modelled by ACIL Allen.
Further explanation of the distribution off inter-regional settlement residues (IRSRs) and Settlement Residue Auction proceeds in a regulated and unregulated environment was sought.	Under current contracted MNSP arrangements, Basslink receives payments from AEMO for IRSRs resulting from the link operating as an "open link" (that is, bid in at $0). The IRSRs are then "on-sold" to Hydro Tasmania. In return, Hydro Tasmania pays Basslink a contract/facility fee. To receive the equivalent IRSR revenue if Basslink is regulated, Hydro Tasmania would need to bid for and win the rights to all SRA units on both directional interconnectors (for flows from Victoria to Tasmania and for flows from Tasmania to Victoria). Hydro Tasmania would pay AEMO the successful bid prices for these units and receive the IRSRs. AEMO then passes the successful SRA bid revenue to the Tasmanian or Victorian NSP (i.e. TasNetworks or AEMO) for redistribution to customers. Treatment of SRA proceeds, and their inclusion in the assessment of the benefits of conversion, is an important issue, please refer to section 2.1 for more detail.
An explanation of how consumer prices may vary when accounting for costs to access inter-regional settlement residues between a regulated scenario, and a scenario where Basslink is contracted with Hydro Tasmania was sought.	In an unregulated contracting scenario, contractual terms, including any facility fee, would be negotiated between Basslink and Hydro Tasmania. Typically, terms would be set for the duration of the contract (subject to bilateral negotiations and other contractual terms). These terms would remain confidential. In a regulated scenario, the rights to access inter-regional settlement residues are auctioned by AEMO. AEMO publishes the aggregate amount paid for the

What we heard	How we responded
	auction rights for each quarter (subsequently returned to consumers as an offset to transmission costs), but amounts paid and rights secured by each participant are confidential.
One stakeholder was concerned with the complexity that a merchant Basslink would cause for setting wholesale price allowances in the retail tariffs.	Two components of a consumer's bill will change as a result of regulation: • Transmission costs; and • Wholesale energy costs Further information can be found in Section 2. APA recently made a submission to the Office of the Tasmanian Economic Regulator on its review of the approach to regulating retail electricity prices[48]. This submission outlined the possible impacts on wholesale electricity and network charges for the following scenarios: • Basslink as a regulated TNSP • Basslink operates as an "unhedged" MNSP. • Basslink contracts with a third party other than Hydro Tasmania. • Basslink contracts with Hydro Tasmania.

6.3. Timeline of stakeholder engagement

Our stakeholder engagement program ran from November 2022 to September 2023, and was designed to support the development of the regulatory proposal. Throughout the program, we held regular meetings with the RRG to seek advice at each stage of the engagement process, and to inform key elements of the proposal as they were being developed.

Since September 2023, we have continued with several RRG meetings and individual stakeholder discussions, focusing on the following key issues:

- General updates on the operation of Basslink, and cost forecast updates
- The AER Issues Paper on Basslink and the submissions made by stakeholders
- System protection scheme (SPS) and the implications for Basslink
- SRAs and how its proceeds would flow to customers if Basslink is regulated
- The AER Consultation Paper and ACIL Allen modelling

[48] APA, *Submission to the Office of the Tasmanian Economic Regulator, Review of the Approach to Regulating Retail Electricity Prices* | APA submission to OTTER

Conversion application and revenue proposal submitted to AER
September 2023

RRG meeting #7
November 2023
- General update on Basslink
- AER Basslink issues paper
- Future stakeholder engagement

Meeting with AEMO
January 2024
- Basslink regulatory conversion update

RRG meeting #8
January 2024
- Market benefits modelling – scenarios, methodology and outcomes

RRG meeting #9
March 2024
- Issues paper submissions
- Regional market benefits

Meeting with Tasmanian Government - ReCFIT
July 2024
- System protection scheme

RRG meeting #10
July 2024
- System protection scheme
- Issues paper submissions
- Capital expenditure
- Updates to Basslink timelines

Meeting with HydroTAS
July 2024
- System protection scheme

Meeting with Marinus Link
July 2024
- System protection scheme

RRG meeting #11
July 2024
- Deep dive into system protection scheme and settlement residue auctions

Meeting with AEMO
July 2024
- Basslink regulatory conversion update

Meeting with Victoria - DEECA
August 2024
- Settlement residue proceeds and merchant Basslink counterfactual

Meeting with TasNetworks
August 2024
- System protection scheme

2 meetings with Marinus Link
August 2024
- System protection scheme

2 Meetings with AEMO
August 2024
- System protection scheme
- Basslink regulatory conversion update

AER consultation paper
August 2024

Meeting with Marinus Link
September 2024
- AER Consultation paper and ACIL Allen modelling

Meeting with HydroTas
September 2024
- AER Consultation paper and ACIL Allen modelling

RRG meetings #12
September 2024
- Early submission to the AER's consultation paper and ACIL Allen modelling

Meeting with Tasmanian Government - ReCFIT
September 2024
- AER Consultation paper and ACIL Allen modelling

Meeting with Aurora
September 2024
- AER Consultation paper and ACIL Allen modelling

Meeting with Chamber of Commerce and Industry
September 2024
- AER Consultation paper and ACIL Allen modelling

Meeting with Victoria - DEECA
September 2024
- System Protection Scheme
- AER Consultation paper and ACIL Allen modelling

Meeting with AEMO
September 2024
- Basslink regulatory conversion update

7. Initial Regulatory Asset Base

Summary

- ✓ Approaches previously applied by the AER and ACCC in regulatory determinations provide precedent for determining the value of an initial RAB.
- ✓ Applying the previous approaches involves applying particular methodologies rather than a range of values.
- ✓ A RAB that allows for recovery of efficient cost is consistent with the NEO.

The initial Regulatory Asset Base (RAB) is the depreciated value of existing assets at the commencement of the Regulatory Control Period.

In the Consultation Paper (Section 2.5 and 3.1) the AER outlines proposed approach to valuing Basslink's asset base in the event of conversion. In our view, the AER's proposed approach departs from the previous regulatory approaches set out in the National Electricity Rules. This section addresses comments made by the AER in the Consultation Paper regarding methods for determining the initial RAB value and interactions with the conversion assessment.

7.1. The previous regulatory approach

If the AER decision is to convert Basslink's network services to prescribed transmission services, the AER is required to determine the value of the RAB by applying the 'previous regulatory approach' to the circumstances of the Basslink transmission system.[49]

The previous regulatory approach is defined as "*the methodologies, objectives and principles for determination of a regulatory asset base"* applied in the previous regulatory determinations, being the decisions by the ACCC and AER respectively in respect of Murraylink[50] and Directlink.[51] In the event of any inconsistency between the two determinations, the latter prevails.[52] These transitional provisions were introduced by the AEMC in November 2006 to preserve the ACCC and AER's previous treatment of conversion and regulatory environment in which the original investment in Basslink was made.[53]

In the Murraylink decision, the ACCC concluded that the correct approach to the calculation of the RAB for an existing transmission service was to adopt the Regulatory Test.

Methodologies applied in the previous regulatory determinations

In both previous regulatory determinations, the Regulatory Test method was applied to identify the asset configuration that would maximise the net market benefit. The objective of applying the Regulatory Test was to ensure that, in the event of conversion, consumers only pay for the cost of an optimally configured and efficiently costed asset.

[49] National Electricity Rules, cl 11.6.20(e) and (f).
[50] ACCC, *Murraylink Transmission Company Application for Conversion and Maximum Allowable Revenue*.
[51] AER, *Directlink Joint Ventures' Application for Conversion and Revenue Cap*.
[52] National Electricity Rules, cl 11.6.20(f).
[53] AEMC, *Rule Determination: National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006 No. 18*, cl 8.2.6.

In the Directlink draft determination, the Regulatory Test was articulated as follows:

> "*The regulatory test has two limbs: one relating to augmentations to meet service (reliability) standards and the other relating to new interconnectors or augmentation options. The test in each case is different. [In all cases other than augmentations] the test is satisfied by the project that maximises the NPV of market benefit, having regard to alternative projects and market development scenarios.*"[54]

Where the asset has already been constructed, as was the case with Directlink, and is the case for Basslink, the Regulatory Test is to be undertaken as if it had not been constructed.[55] The AER in the Directlink determination considered that application of the Regulatory Test involved four steps:[56]

1. identifying reasonable alternative projects;
2. estimating the costs and benefits of each project, with the relevant benefits being the total net benefits to all those who produce, distribute and consume electricity in the NEM taking into account:[57] electricity demand; the value of energy to consumers; the efficient operating costs of competitively supplying energy to meet forecast demand from existing, committed and modelled projects; capital costs of existing, committed and modelled projects; cost of providing ancillary services to meet forecast demand; capital and operating costs of other regulated and market projects;
3. identifying the project that maximises the NPV of market benefits; and
4. setting the RAB to the efficient cost of construction for the project that maximises the NPV of market benefits.

In the Murraylink determination, application of the Regulatory Test led to identification of an optimal project configuration. This was used as the basis for setting the initial RAB in that determination.[58]

However, in the Directlink determination, the Regulatory Test did not identify any project that led to a positive net market benefit. Therefore, a further methodology needed to be applied to determine an appropriate initial RAB value.

Methodology where no project maximised net market benefit: optimised deprival value

Both previous regulatory determinations contemplated a scenario in which the cost of the interconnector and its alternatives exceed their respective gross market benefits under most credible scenarios – i.e. where there is no project that passes the Regulatory Test. Different approaches to dealing with this situation were taken in the Murraylink and Directlink determinations:

- in the Murraylink determination, the ACCC considered that the application for a revenue cap would be unsuccessful in this situation;[59]
- in the Directlink determination, the AER decided that conversion could proceed, but that the optimised deprival value (ODV) method would be applied to set the initial RAB – resulting in a value that is the greater of the asset's value to consumers and its disposal value.[60]

As this is an area of inconsistency between the Murraylink and Directlink determinations, the National Electricity Rules (NER) requires that the Directlink approach be followed.[61]

The AER in the Directlink determination decided that ODV was the appropriate methodology in circumstances where no project passed the Regulatory Test, having regard to the principles outlined above. The AER considered the possibility of setting the RAB at zero but concluded that this would be inappropriate as it would be inconsistent with the intention of the conversion provisions of the National Electricity Code.

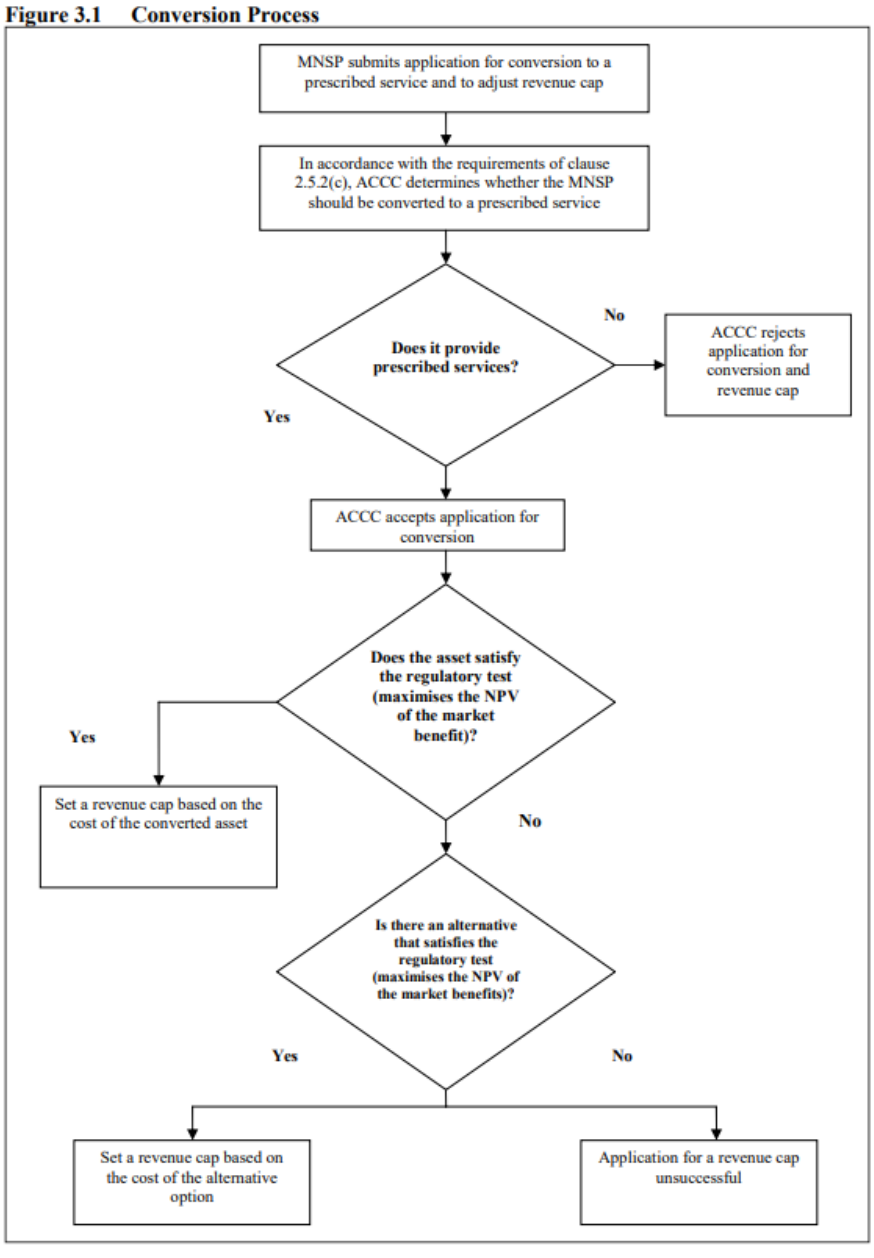
[54] AER, *Draft Decision: Directlink Transmission Determination 2020-2025*, p31. Note: the AER's assessment of Directlink under the regulatory test is set out in the draft decision and is not repeated in the final decision.
[55] AER, *Draft Decision: Directlink Transmission Determination 2020-2025*, pp31-32.
[56] AER, *Draft Decision: Directlink Transmission Determination 2020-2025*, p31.
[57] ACCC, *Regulatory Test for New Interconnectors and Network Augmentations,* p21.
[58] ACCC, *Murraylink Transmission Company Application for Conversion and Maximum Allowable Revenue*, p114.
[59] ACCC, *Murraylink Transmission Company Application for Conversion and Maximum Allowable Revenue*, p45.
[60] AER, *Draft Decision: Directlink Transmission Determination 2020-2025*, pp127 – 133.
[61] National Electricity Rules, cl 11.6.20(f).

The AER considered it was required to provide certainty and maintain an environment conducive to efficient investment, while achieving consistency in the outcomes of regulatory processes.[62] Having regard to these principles, the AER considered the ODV method was the appropriate methodology, and that it would provide an outcome broadly consistent with the regulatory test framework.

Overview of the previous regulatory approach

The previous regulatory approach for setting the initial RAB, and its relationship with the conversion decision, was summarised by the ACCC in the below flow chart from the Murraylink determination. As noted above, the final step in this process (represented by the bottom-right box) was modified in the Directlink determination – instead of denying the revenue cap application where no project satisfied the Regulatory Test, in the Directlink determination the 'economic value' limb of the ODV methodology was applied.

Figure 8 – Regulatory approach from Murraylink determination.[63]



[62] AER, *Draft Decision: Directlink Transmission Determination 2020-2025*, p 127-128.
[63] ACCC,(2003) *Murraylink Transmission Company Application for Conversion and Maximum Allowable Revenue,* p 46.

The ultimate outcome of the previous regulatory approach, as originally applied in the Murraylink determination and modified in the Directlink determination is:

(a) where an optimal asset configuration that satisfies the regulatory test can be identified, the RAB is set equal to the efficient cost of constructing that asset – this was the outcome in the Murraylink determination, applying the regulatory test;

(b) where no asset configuration that satisfies the regulatory test (i.e. no configuration that can deliver market benefits exceeding its cost) can be identified, the ODV method is to be applied, specifically the 'economic value' limb which involves identifying the greater of the disposal value of the asset and its value to users - this was the case in the Directlink determination.[64]

In effect, under the previous regulatory approach, the RAB is equal to the lesser of the efficient cost of the optimal project and its value to users as reflected in gross market benefits.

The Consultation Paper (Sections 2.5 and 3.1) outlines the AER's proposed approach to valuing Basslink's asset base in the event of conversion. In our view, the AER's proposed approach departs from the previous regulatory approach in two key aspects:

(a) in referring to a range of potential valuation methods, the Consultation Paper does not adhere to the methodologies actually applied in the previous regulatory determinations; and

(b) the AER refers to a potential 'adjustment' to the RAB in order to produce particular outcomes on the conversion test - a step that was not contemplated in either of the previous regulatory determinations, and which has no basis in precedent or principle.[65]

Each of these matters is discussed below.

7.1.1. Applying the previous regulatory approach involves particular methodologies, not just a range of values

The Consultation Paper states that the 'principles and objectives' in the Murraylink and Directlink determinations result in a range of possible values for the RAB where the top of this range is the lesser of the asset's depreciated actual cost, the efficient cost of an optimised asset, and the benefit of the asset to customers and the lower bound is the scrap value of the asset.

The AER then refers to the Murraylink and Directlink determinations as adopting "the top of this range" for two reasons:[66]

(a) doing so facilitates efficient investment in the long-term interests of consumers; and

(b) the rules at the time of those previous determinations required the AER to consider the ODV method.

Basslink considers that the AER summary does not accurately reflect the previous regulatory approach from either the Murraylink or Directlink determinations. The 'previous regulatory approach' does not permit a value within a range. The 'previous regulatory approach' refers specifically to the methodologies adopted in the previous determinations, along with the relevant objectives and principles.[67]

In the Directlink determination, the AER referred to upper and lower bounds as 'useful limits' but did not consider the bounds themselves to be determinative of the RAB. The concept of 'scrap value' is referred to briefly in the Directlink determination as one of those 'useful limits', but it does not form part of the ***methodology*** ultimately applied to determine the RAB value.

The AER in Directlink relied on clearly specified methodologies - namely the Regulatory Test and ODV methods – to determine the RAB value. The result of applying these methodologies was that:

[64] AER, *Draft Decision: Directlink Transmission Determination 2020-2025*, p 127-128.
[65] AER, *Basslink Conversion Application Consultation Paper*, p 11.
[66] AER, *Basslink Conversion Application Consultation Paper*, p 15.
[67] National Electricity Rules, cl 11.6.20(a).

(a) where an optimally configured asset will deliver net market benefit (i.e. where it delivers market benefit exceeding its cost), the RAB should be equal to the efficient cost of that optimally configured asset; and

(b) where an optimally configured asset will not deliver net market benefit (i.e. where its market benefit is less than its cost), the RAB should reflect its economic value – i.e. the greater of its disposal value or its value to users.

The AER did not refer to this as reflecting the top of a permissible range. It was not an input into a range at all. Instead, it was identified as the appropriate methodology for determining the initial RAB for a converted asset.

The AER is bound by the methodology applied by the AER in Directlink and the ACCC in Murraylink as well as the principles and objectives – the definition of 'previous regulatory approach' under the NER requires it. The previous regulatory approach does involve adjustment of the RAB to achieve a particular outcome on the conversion assessment.

7.1.2. The previous regulatory approach does not involve adjustment of the RAB to achieve a particular outcome on the conversion assessment

The Consultation Paper notes that the opening value of Basslink's asset base is a key determinant of the cost of conversion and will therefore influence the outcome of the conversion cost-benefit test.

The AER then states that it may take the net benefits of conversion into account when determining Basslink's opening asset value. The AER considers that:[68]

> "…*the opening asset value could be adjusted to a level that would result in the conversion cost-benefit test breaking even or resulting in positive net benefits.*"

It is not clear whether the AER is referring to an adjustment that is made *so as to result* in a break-even or net benefit outcome: i.e. that achieving that result would be the reason for the adjustment. If so, Basslink questions this as an adjustment of this type is not contemplated anywhere in the Murraylink or Directlink determinations. In each of those determinations, the question of conversion was addressed first, before independently considering the appropriate RAB value and revenue cap. No adjustments were made to asset values to influence the outcome of the conversion assessment.

As discussed above, both of the previous regulatory determinations contemplated a scenario in which the gross market benefits of an optimally configured *asset* (not the benefits of *conversion*) were less than its efficient cost. In this scenario, the previous regulatory approach provided that either the application for a revenue cap would not be successful (the Murraylink approach) or the RAB would be set equal to gross market benefits net of lifetime operating costs (the Directlink approach). Neither determination provided for an adjustment to the RAB value to drive a particular outcome from the conversion test.

7.2. Setting the RAB to reflect the net benefits of conversion would be inconsistent with the NEO

We have explained above why setting the initial RAB with reference to the net benefits of conversion would be inconsistent with the NER requirements.

We also consider that this would be inconsistent with the NEO.

We consider that to promote the NEO, the initial RAB for Basslink should reflect either its efficient cost or the value it provides to the market. This is the approach that is required under the previous regulatory approach. It reflects the cost and/or value of Basslink, not the value or cost of *conversion*.

[68] AER, *Basslink Conversion Application Consultation Paper*, p 20.

In particular, the revenue and pricing principles contemplate that a regulated network service provider should be provided with a reasonable opportunity to recover "at least the efficient costs the operator incurs in providing direct control network services".[69]

The differences in, or the sum of, costs and benefits of conversion are not the benefits that a regulated Basslink would provide to consumers of electricity. What does not form part of the consideration of conversion is any benefits that are common to regulation and the counterfactuals. This is because these benefits are produced for consumers regardless of the outcome of the conversion question.

A regulated Basslink should earn the revenue necessary to efficiently continue to provide the services that produce the total market benefits. This is reflective of the total benefits that the regulated Basslink provides, not merely the incremental net benefits that regulating the asset provides.

Using the net incremental benefits of regulation in the setting of the initial RAB will set revenue too low to ensure the ongoing efficient operation of Basslink at a level sufficient to provide the benefits that have been identified. It effectively ignores that value that Basslink provides, and the efficient costs that would be incurred to operate and maintain Basslink, in either state of the world.

[69] National Electricity Rules, section 7A.

Table of Questions and Answers

#	Question	Summary Response
1	What are your views on the types of potential costs and benefits that conversion may provide?	The relevant benefits and costs of conversion are the improvements or impediments that conversion creates in respect of achieving the NEO. We consider that fundamental weight must be given to the net consumer benefits of conversion, factoring in the impact of: • changes in wholesale electricity prices and resulting effects on consumer retail prices; • SRA proceeds offsetting transmission costs to consumers; and • investment in asset reliability and resulting impacts on system reliability. These factors are explored in more detail in sections 2, 4 and 5.
2	If the range of outcomes across scenarios remains wide or subject to significant uncertainty, would you support a decision to convert or a decision not to convert? What is the rationale for this position?	It is inevitable that a modelling exercise to explore the impact of strategic bidding on long-term price and dispatch outcomes in the NEM results in a wide range of outcomes. The decision to convert should be taken with regard to the NEO, with appropriate consideration of consumer benefits across scenarios with realistic input assumptions. We believe that when scenarios are appropriately weighted, and appropriate net benefits are calculated (after consideration of the impact of SRA proceeds on consumer costs), then the spread of modelling outcomes supports conversion.
3	What degree of significance should we place on outcomes from market modelling when considering possible benefits of conversion? What other inputs should feature in our decision making?	Market modelling can and has provided important information to inform the AER's conversion decision, however, all models have limitations. Factors which cannot be adequately modelled, yet have an impact on the long-term interest of consumers, should also be considered in the conversion decision. Investment in asset reliability and subsequent impacts on system reliability, and increases in frequency control ancillary service costs are two such factors which cannot be modelled using a comparatively simple long-term market model of the NEM. Further, the high-level assumption made in the modelling, that generation investment decisions are not impacted by the decision to convert Basslink, simplify the dynamics of a small market with concentrated generation ownership, like Tasmania. The chilling effect on Tasmanian investment that would result from a decision not to convert Basslink will result in investment in more costly and less efficient renewable generation options elsewhere. Basslink is a unique asset – it is the only asset operating under the market network service provider (MNSP) model, and it has encountered significant operational and financial issues while operating under this model. We believe that moving away from the MNSP model will, in this case, provide certainty for investment and operation of Basslink. This will help achieve benefits in the long-term interest of consumers.

#	Question	Summary Response
4	In modelling possible outcomes, we have modelled a range of different scenarios encompassing the future role of Marinus Link. What are your views on the likelihood of Marinus Link being constructed, the number of Marinus Link cables that will ultimately be constructed, and the timing of any construction? What weights would you place on these different possible outcomes for Marinus Link?	For the reasons articulated in Section 4, we suggest the weights as set out in Table 4 should be applied.
5	In modelling possible outcomes, we have modelled a range of scenarios for the likelihood of Basslink entering into agreements with Hydro Tasmania and the level of contract cover. What are the most likely future states of the world with respect to these issues and what is the reasoning for your position?	For the reasons articulated in Section 4, we suggest the weights as set out in Table 5 should be applied.
6	To what degree do you consider that reliability and/or security of supply risks may be different if Basslink is converted, relative to Basslink operating as a MNSP?	Regulation provides a stable and reliable income stream that will allow us to focus on safety and reliability of the asset. Without this revenue stability our spending on maintenance and operations would depend on whether we can recover those costs. In some cases, the impact of investment or expenditure decisions will be felt immediately, such as in procurement of FCSPS. In others, like preventative maintenance, the effects take time to surface. However, over time, reduced revenue can lead to more frequent faults and longer repair times.
7	Are there any additional, material factors that we should consider in the analysis?	As stated in Section 4.1, we are firmly of the view that the No Marinus Link scenarios need to be given significant weight in the assessment of conversion benefits. A No Marinus Link scenario remains a probable scenario – the project has not reached a Final Investment Decision milestone, and we believe all scenarios should be included to ensure a balanced, pragmatic result. SRA proceeds need to be clearly presented as a benefit passed on to consumers in a regulated world – that is, they reduce the costs of regulation to consumers beyond the 'headline' gross costs contained in the Basslink Revenue Proposal. Consideration of these proceeds is critical for an accurate assessment of the benefits of regulation.