

# APA

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# Pricing Methodology

Update to Basslink Pty Ltd proposal

October 2024



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## 1. Overview

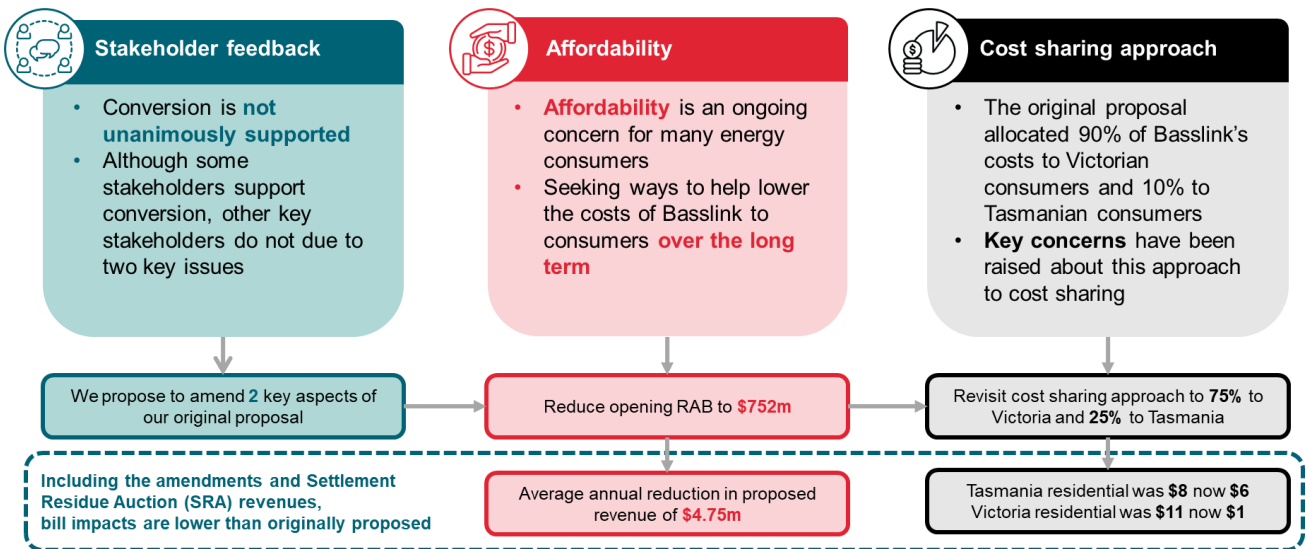
In September 2023, Basslink Pty Ltd applied to the Australian Energy Regulator (AER) to have Basslink regulated. The AER is currently assessing the application and the accompanying revenue proposal<sup>1</sup>.

In relation to pricing, Basslink Pty Ltd needs to determine an amount of revenue attributable to use of its transmission system in each of Victoria and Tasmania.

Basslink Pty Ltd recognises that the allocation of Basslink revenue between Tasmanian and Victorian consumers is an issue of significant interest to stakeholders. In preparing the revenue proposal, Basslink Pty Ltd considered a number of possible methods for determining this allocation and undertook consultation with stakeholders.

The National Electricity Rules (the Rules) require that the maximum allowed revenue allocation for a transmission network service provider (TNSP) that isn't a co-ordinating TNSP, like Basslink Pty Ltd, is based on "use". Basslink Pty Ltd notes that this requirement appears to permit a wide range of methodologies for the allocation. While Basslink Pty Ltd's role is to propose a methodology that accords with the Rules, and the AER's role is to make a determination as to whether that methodology accords with the Rules, Basslink Pty Ltd is very cognisant that there is a high level of stakeholder interest in the allocation methodology. This level of interest was clear throughout our stakeholder engagement process.

As a result of the stakeholder engagement process and feedback, we are proposing two key changes to the revenue proposal:



This document sets out our proposed amendments to the cost sharing methodology.

<sup>1</sup> <https://www.aer.gov.au/industry/registers/determinations/basslink-determination-2025-30/proposal>

## 2. Rule requirements

Once the AER determines the revenue Basslink Pty Ltd can recover, it must determine Basslink's Pricing Methodology. This means that the AER will determine the recipient and amount of Basslink's invoices for its transmission services and in what proportion.

As part of its revenue proposal, Basslink Pty Ltd is required to propose a pricing methodology setting out how the revenue is to be recovered for the AER's consideration. No methodology will alter the total amount of revenue that Basslink is allowed to collect. Therefore, Basslink Pty Ltd does not have a commercial preference for any particular method for recovering the revenue. The only requirement for the method put forward, is that it be consistent with the Rules (and therefore capable of acceptance by the AER) and it is supported by stakeholders.

The Rules sets out some restrictions for the AER on its decision on the Pricing Methodology:

- The Rules are very restrictive on who Basslink can invoice. As an interconnector with no directly connected customers there are only two potential recipients of Basslink's invoices. They are the Co-ordinating Network Service Providers for Victoria and Tasmania – i.e. AEMO and TasNetworks.
- The Co-ordinating Network Service Providers will then recover the cost of Basslink from their customers consistent with their AER approved pricing methodology.
- Given the recovery is from the Co-ordinating Network Service Provider in each state the pricing methodology will determine the split of Basslink costs between customers in Victoria and Tasmania.

The other main restriction imposed by the Rules goes to the nature of the methodology that the AER must set. The methodology has to satisfy the requirement that the allocation is based on 'use'.

There is no requirement for a specific methodology to be used in allocating Basslink's revenue. While the definition of 'use' is broad, it does rule out certain approaches - revenue can't be arbitrary or unrelated to consumption of electricity. However, the requirement is not so narrow as to only permit an allocation based on KWh electricity flows.

Please refer to [Attachment 4](#) to Basslink Pty Ltd original revenue proposal for further detail on the Rules requirements.

### 3. Stakeholder Engagement

Basslink Pty Ltd undertook a large amount of stakeholder engagement specifically on the revenue split between Tasmania and Victoria. Three different methods for allocating the cost of Basslink between Victorian and Tasmanian customers were considered in consultation.<sup>2</sup>

We described them as the Geographic Method, Energy Flows and Market Size.

- **Geographic Method**

This is the approach that the AER adopted for Murraylink and Directlink. The revenue split is based on the value of the interconnector assets located in each region. Because there is more underground and overhead cable in Victoria than in Tasmania this results in 55% of Basslink’s cost being allocated to Victoria and 45% to Tasmania.

- **Energy Flows**

This approach is based on energy flows across Basslink. The average across the 5 years until 2021-2022 results in revenue being allocated 50% to Victoria and 50% to Tasmania.

- **Market Size**

This approach is based on the number of connections in each jurisdiction. Given the significantly greater number of connections between the number of customers in Victoria and Tasmania this results in revenue being allocated 90% to Victoria and 10% to Tasmania.

Stakeholders generally preferred the Market Size approach to revenue allocation. This preference was very strong in Tasmania. The workshop in Melbourne had a preference for the Market Size over the Energy Flows, but there was a mild preference for Energy Flows over the Market Size in the Victoria responses to the quantitative survey.

On the balance of results from the workshops and quantitative survey the preference expressed was to favour the Market Size approach. Therefore, Basslink Pty Ltd proposed a pricing method based on Market Size in its original revenue proposal, but noted it would be subject to further consultation.

Since lodging the revenue proposal, Basslink Pty Ltd continued its engagement, which included discussing the appropriate method for allocating revenue between Victoria and Tasmania, with stakeholders including:

- Governments
- Basslink Regulatory Reference Group
- Representatives of Consumers; and
- The Australian Energy Regulator.

As a result of further engagement, as well as the submissions made by stakeholders to the AER’s Basslink Issues paper, Basslink Pty Ltd proposes to amend the approach to cost sharing.

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<sup>2</sup> SEC Newgate Basslink Consumer Engagement Report : Consolidated findings from workshops and survey, pp37-42

## 4. Revised cost sharing methodology

Attachment 4 to Basslink Pty Ltd original revenue proposal provides further detail on each of the cost sharing methods explored and consulted on, which are:

- **Geographic** resulting in 55% of costs allocated to Tasmania and 45% to Victoria.
- **Energy Flows** resulting in 50% of costs allocated to Tasmania and 50% to Victoria.
- **Market Size** resulting in 10% of costs allocated to Tasmania and 10% to Victoria.




As discussed above, the Market Size method was proposed by Basslink Pty Ltd as the cost sharing method, but some concerns have been raised with this proposed approach.




To address stakeholder concerns, a revised cost sharing methodology is proposed which relies on two ‘use’ metrics – Market Size and Energy Flows – instead of just Market Size. Market Size and Energy Flows were the two most preferred cost allocation methods of customers who participated in the Basslink engagement. We have weighted the two ‘use’ metrics based on consumer preferences, as outlined in the diagram on the following page. The full engagement report can be found at Attachment 3.2 to the original revenue proposal.

The outcomes of the original and updated cost sharing methodology are shown below:

Cost sharing method	Tasmania share of costs	Victorian share of costs
<b>Original method – Market Size</b>	10%	90%
<b>Updated method – Blend of Market Size and Energy Flows</b>	25%	75%

The calculations behind the proposed 25% to Tasmania and 75% to Victoria cost sharing approach are shown in the following diagram.

	Market Size	Energy Flows
 <p><b>% of participants who preferred each 'use' method<sup>3</sup></b></p>	<b>44%</b>	<b>30%</b>
 <p><b>% of participants who preferred either 'use' method</b></p>	$44\% + 30\%$ <b>= 74%</b>	
 <p><b>Weighting applied to each 'use' method</b></p>	$44 / 74$ <b>= 0.6</b>	$30 / 74$ <b>= 0.4</b>

	Tasmania	Victoria
 <p><b>Share of costs based on Market Size<sup>4</sup></b></p>	<b>9%</b>	<b>91%</b>
 <p><b>Share of costs based on Energy Flows</b></p>	<b>50%</b>	<b>50%</b>
 <p><b>Share of costs using blended Market Size and Energy Flows</b> <b>(using weightings calculated above)</b></p>	$(9\% \times 0.6) + (50\% \times 0.4)$ <b>= 25%</b>	$(91\% \times 0.6) + (50\% \times 0.4)$ <b>= 75%</b>

<sup>3</sup> SEC Newgate Basslink Consumer Engagement Report : Consolidated findings from workshops and survey, p41

<sup>4</sup> The actual proportion of connections is 9% in Tasmania and 91% in Victoria

## 5. Bill Component

It is difficult to assess the impact of Basslink becoming a TNSP, as opposed to its current cost impacts on Victorian and Tasmanian consumers. Under the current arrangements, Basslink charges Hydro Tasmania for services. It is assumed that Hydro Tasmania then recovers the cost of Basslink’s services through the price it sets for electricity generation, which it sells to the National Electricity Market (NEM).

There is no publicly available information, or information available to Basslink Pty Ltd, that indicates how Basslink’s costs are recovered by Hydro Tasmania and in particular how much is recovered from Tasmania or Victorian consumers. Further, how Hydro Tasmania reflects the reduction in charges to it is a matter for it and its owner, the Government of Tasmania.

Below is the estimate of the component of Basslink Pty Ltd’s revenue for a typical customers electricity bill under Basslink Pty Ltd’s original revenue proposal, noting that there is no ability to assess how this differs from what consumers currently pay.

### Original revenue proposal bill component in Tasmania and Victoria (\$p.a.)

State	Victoria	Tasmania
<b>Residential Bill Component</b>	11	8
<b>Small Business Bill Component</b>	35	15

The table below shows the updated estimate for the component of Basslink Pty Ltd’s revenue for a typical customer’s electricity bill which has been updated for:

- A revised approach to cost sharing based on 25% to Tasmania and 75% to Victoria
- A reduced regulated asset base reflecting a reduction in from \$831 million to \$752 million, and
- The inclusion of potential settlement residual auction revenues based on the values estimated by ACIL Allen<sup>5</sup>

### Updated revenue proposal bill component in Tasmania and Victoria (\$p.a.)

State	Victoria	Tasmania
<b>Residential Bill Component</b>	1	6
<b>Small Business Bill Component</b>	20	11

The diagram on the following page provides estimated bill components for the original cost sharing approach of 90% to Victoria and 10% to Tasmania compared to the updated approach of 75% to Victoria and 25% to Tasmania. Key points to note are:

- Bill changes are the average annual change in a typical bill for average residential and average small business customer
- The original bill changes are as proposed to the AER in our original revenue proposal<sup>6</sup>
- All updated bill changes include the proposed reduction to the regulated asset base as well as an estimate for potential settlement residue auction revenues, and
- Two estimates of settlement residue auction revenues are included – the first based on historic data and the second based on ACIL Allen<sup>7</sup> – providing a range of possible outcomes.

<sup>5</sup> [ACIL Allen Basslink Conversion - Modelling and analysis of benefits](#)

<sup>6</sup> <https://www.aer.gov.au/industry/registers/determinations/basslink-determination-2025-30/proposal>

<sup>7</sup> [ACIL Allen Basslink Conversion - Modelling and analysis of benefits](#)



## Bill component in Tasmania and Victoria based on cost sharing scenarios and Settlement Reside Auction (SRA) revenues

### 10 / 90 without SRAs



Residential customers

\$8	Original	\$11
\$7	Updated	\$10



Small business customers

\$15	Original	\$35
\$14	Updated	\$32

### 10 / 90 with SRAs (historic)



Residential customers

\$8	Original	\$11
-\$23	Updated	\$5



Small business customers

\$15	Original	\$35
-\$46	Updated	\$16

### 10 / 90 with SRAs (ACIL Allen)



Residential customers

\$8	Original	\$11
-\$5	Updated	\$3



Small business customers

\$15	Original	\$35
-\$9	Updated	\$26

### 25 / 75 without SRAs



Residential customers

\$8	Original	\$11
\$18	Updated	\$8



Small business customers

\$15	Original	\$35
\$34	Updated	\$25

### 25 / 75 with SRAs (historic)



Residential customers

\$8	Original	\$11
-\$13	Updated	\$3



Small business customers

\$15	Original	\$35
-\$26	Updated	\$11

### 25 / 75 with SRAs (ACIL Allen)



Residential customers

\$8	Original	\$11
\$6	Updated	\$1



Small business customers

\$15	Original	\$35
\$11	Updated	\$20