



Hon Lily D'Ambrosio MP

Minister for Climate Action  
Minister for Energy and Resources  
Minister for the State Electricity Commission

8 Nicholson Street  
East Melbourne, Victoria 3002  
Telephone: 03 9637 9504

MBR-240900780

Clare Savage  
Chair  
Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601  
[ResetCoord@aer.gov.au](mailto:ResetCoord@aer.gov.au)

Dear Clare Savage

**Re: Consultation Paper - Basslink Conversion Application - AER reference: 23007165**

Thank you for the opportunity to make a submission to the AER's Consultation Paper (the paper) on the proposed regulatory conversion of Basslink Pty Ltd (Basslink).

The paper highlights the complexities involved in modelling the costs and benefits of converting Basslink from a market network service provider (MNSP) to a transmission network service provider (TNSP). This includes the difficulties in modelling the dynamics of the electricity market and the commercial arrangements between Basslink and Hydro Tasmania. Both of which have significant monopoly power.

Further to our submission in February 2024, the Victorian Government wishes to reiterate its opposition to the conversion of Basslink. The modelling results from ACIL Allen cast further doubt regarding the benefits of conversion, and our view remains unchanged. It is not evident that the conversion of Basslink to a TNSP will provide any benefits for consumers. Rather conversion will only increase costs.

Our views to the paper are discussed in more detail below.

***Cost to consumers***

Victorian and Tasmanian electricity consumers currently pay nothing in terms of prescribed service costs for Basslink. Conversion will result in Basslink's costs being shifted to Victorian and Tasmanian consumers, recovered via Transmission Use of System (TUOS) charges.

The paper estimates the total costs of conversion to be \$1.402 billion.<sup>1</sup> This is a significant cost which under conversion would be allocated directly to consumers. As noted in our previous submission, we consider that any additional cost increases without clear and corresponding benefits would be inconsistent with the long-term interests of electricity consumers in the NEM and conflicts with the National Electricity Objective. The ACIL Allen modelling fails to establish clear net benefits for consumers which outweigh the costs of conversion.

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<sup>1</sup> Under APA's proposal (which includes an opening RAB of \$813 and a 90:10 cost allocation split between Victorian and Tasmanian electricity customers) the additional cost of conversion for the average Victorian residential customer is estimated to be \$11 per year and \$35 per year for small business customers. For Tasmania, the additional cost for the average residential customer is estimated to be \$8 per year and \$15 per year for small business customers.

## **Counterfactuals**

The paper describes 2 counterfactuals that were modelled by ACIL Allen as alternative scenarios to conversion. One where Basslink remains an unhedged MNSP (referred to as the 'Merchant' counterfactual), and another where Basslink remains a MNSP and contracts its capacity with Hydro Tasmania (referred to as the 'HT Agreement' counterfactual).

Further to our previous submission, we believe this Merchant counterfactual is not plausible in the long term, due to the overriding compelling case for both parties to sign another hedge agreement. It is therefore more appropriate to compare costs and benefits under the HT Agreement counterfactual.

## **Consequence of regulation**

When compared to the HT Agreement counterfactual, it is likely there will be a net cost to regulation for the following reasons:

1. Hydro Tasmania would have to compete via Settlement Residue Auctions (SRAs) for the rights to Inter Regional Settlement Residues (IRSRs). These auctions are conducted by AEMO, and other market participants can bid for the IRSRs. There is a risk that Hydro Tasmania will be out bid by speculators, resulting in Hydro Tasmania losing revenue derived from arbitrage between the Tasmanian and Victorian Regional Reference Prices (RRPs) during periods of price separation. As a consequence, Hydro Tasmania would lose the incentive to operate the link in manner that is optimal for consumers.
2. Hydro Tasmania could attempt to use its status as the largest monopoly generator in Tasmania to drive up the Tasmanian RRP to match the Victorian RRP (price matching). However, price matching is very difficult and problematic and attempts to price match risk draining Hydro Tasmania's network of dams. This would result in the link not being fully optimised and could drive up wholesale electricity prices.
3. Hydro Tasmania would lose the ability to sell hedging products to retailers.

## **Limitations of modelling**

Modelling the costs and benefits of conversion is an extremely difficult task and we question whether all of the inherent complexities can be modelled. This is for the following reasons:

- Hydro Tasmania's assets include a complicated network of dams and hydro electric power stations. These are subject to drought and a range of environmental restrictions that complicate their operation. Inflows across key storages and the corresponding generation system risks are extremely problematic to forecast with deterministic models. This highlights the difficulty for a third party to model the future operation of these assets.
- A further complication is the modelling of counter price flows. These are energy flows from higher to lower price regions in the NEM. Counter price flows are difficult to anticipate and can occur due to various constraints across the NEM. Currently, Basslink passes on the cost of counter price flows to Hydro Tasmania, who is consequently incentivised to operate its assets in a manner that minimises their cost. If Basslink were converted to a TNSP, then these additional costs would be passed onto consumers. Hydro Tasmania would lose the incentive to operate its generation assets in a way that minimises counter price flows. The effect of this is extremely difficult to model.

We also question the following aspects of ACIL Allen's modelling:

- In the modelled scenario in which neither stage of Marinus Link proceeds, ACIL Allen has assumed an additional ~1.7GW of new renewable generation capacity will be built in Tasmania by 2030. Even if this is part of a legislated target and reflected in the ISP, it is not realistic. This represents a substantial increase in Tasmania's net generation capacity with no corresponding increase in domestic load and no new interconnector capacity. In addition to undermining the current modelling exercise, this over-estimate will only serve to inflate the perceived value of any interconnector. It will result in an inflated Regulated Asset Base (RAB) for Basslink, if and when this calculation is undertaken in future.

- The timing for Marinus link is not aligned to AEMO's 2024 Integrated System Plan (ISP). ACIL Allen assume that Marinus Link Stage 1 will be constructed in July 2029, followed by Stage 2 in July 2036. In contrast, the 2024 ISP, anticipates Stage 1 will not come online until at least July 2030 and will not be at full capacity until at least December 2030. The ISP shows Stage 2 coming online in 2032 while Marinus Link Pty Ltd's website estimates 2033.<sup>2</sup> I would also note there is no firm decision yet on whether Stage 2 will proceed

## Conclusion

In summary:

- The shifting of significant costs from Hydro Tasmania to end-use customers via TUOS charges would need to be justified by significant additional benefits otherwise it is in conflict with the NEO. According to ACIL Allen, those benefits have not been adequately demonstrated by their modelling.
- The HT Agreement scenario is the appropriate counterfactual and we would expect a net cost to consumers from conversion with respect to this counterfactual.
- The modelling task undertaken by ACIL Allen was a very difficult one. We don't believe it is possible to fully model all of the complexities involved. Significant weight should not be placed on the modelling.
- ACIL Allen's modelling assumptions regarding the future build out of new generation in Tasmania are overly optimistic. This is especially true for scenarios in which one or both stages of Marinus link do not proceed.
- Assumptions around construction dates for Marinus Link need to be corrected.

If you would like to discuss these matters further, please contact Ben Ferguson, Executive Director, Energy Transition and Strategy Division at the Department of Energy, Environment and Climate Action on [ben.ferguson@deeca.vic.gov.au](mailto:ben.ferguson@deeca.vic.gov.au) or 0431 849 398.

Yours sincerely



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<sup>2</sup> Refer to May 2024 update from MLPL: <https://marinuslink.com.au/eis-ees-updates/marinus-link-information-update-1-timing-of-stage-2/>