

APA

Australia's energy
infrastructure partner

Basslink Transmission

Response to the draft conversion decision

January 2025



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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 transmission system.

Since acquiring Basslink, APA has been clear about its intention to convert Basslink from a Market Network Service Provider (**MNSP**) to a regulated Transmission Network Service Provider (**TNSP**). The conversion of Basslink to a TNSP offers a more stable and affordable energy future for customers, delivering tangible benefits such as better reliability, energy security, and lower costs compared to the counterfactuals to conversion.

The 'Draft decision: Basslink Conversion' (**Draft Decision**), released by the Australian Energy Regulator (**AER**) on 17 December 2024, did not approve the application due to perceived uncertainties in the National Electricity Market (**NEM**) and concerns about the irreversibility of conversion. While these issues warrant consideration, the decision does not appear to give sufficient weight to the significant risks of not converting Basslink and the advantages a regulated asset would bring.

Conversion aligns with the National Electricity Objective (**NEO**), which prioritises customer welfare and, in these circumstances, consideration of price stability and affordability. APA is of the view that conversion provides a clear path to better outcomes for customers by reducing price volatility and ensuring reliability, and the modelling conducted by the AER's consultants support this view.

APA is of the view that the AER's Draft Decision does not appropriately consider the following key issues:

- **Insufficient weight on consumer benefits:** Does not provide sufficient weight to the consumer benefits that have been modelled by ACIL Allen, instead focusing only on market efficiency, with price impacts for consumers being treated as non-material. Price transfers from consumers to producers are only considered to be of significance to the extent they change consumption decisions. This means there is no real weight placed on consumer benefits and broader customer price impacts are ignored.
- **Lack of consideration for alternative counterfactuals:** Insufficient weight has been applied to the counterfactuals other than entering into a contract with Hydro Tasmania. Without conversion, it is extremely likely that the Basslink interconnector will be used for merchant trading either by APA or a non-Tasmanian generator which poses substantial risks, including underutilisation of the asset and revenue-driven outcomes that work against customer affordability.
- **Limited acknowledgement of potential Marinus Link delays:** Places insufficient weight on the likelihood Marinus Link is further delayed. Marinus Link appears to be facing significant cost blowouts and timeline uncertainties, with capital costs per megawatt for Basslink substantially lower than Marinus Link (\$1.5 million per megawatt versus \$5.4 million per megawatt for Marinus Link 1)¹.
- **Inconsistent treatment of Basslink's role in the energy market:** Does not take into account the fact that all of the analysis of the utility of Marinus Link, including the RIT-T that supports Marinus Link, is predicated on Basslink operating as an open link – i.e. a regulated link. Basslink serves as a crucial complement to the planned Marinus Link project. Conversion ensures this critical infrastructure is fully utilised with consistent application of regulatory arrangements.
- **High threshold for conversion:** A higher and unclear threshold has been applied for conversion, which departs from regulatory precedent. For over two decades, the National Electricity Rules (**NER**) and its predecessor, the National Electricity Code, have provided a clear framework for converting MNSPs to TNSPs, recognising sunk investments and maintaining the same threshold for conversion. By deviating from this established framework, the AER risks undermining future efficient investment and customer confidence in the regulatory process.
- **A decision not to convert is also irreversible:** Significant weight is placed on the irreversible nature of conversion while there is no acknowledgement that a decision not to convert is also irreversible and reliant on APA submitting another conversion application. The costs of leaving Basslink unregulated should be given appropriate weight, as they are potentially more significant than the costs of conversion.

¹ See Figure 3-1.

Feedback from APA's RRG on the Draft Decision

Following the release of the AER's Draft Decision, we continued our commitment to engagement with our stakeholders by holding meetings of the Basslink Regulatory Reference Group (**RRG**) as well as individual stakeholder meetings. Six key themes emerged from this engagement:

- **Affordability** – Discussions reflected stakeholders desire for transparency and careful consideration of consumer impacts in regulatory and operational decisions regarding Basslink.
- **Reliability and security** – Discussions reflected stakeholder concerns about the implications of Basslink operating as a commercial asset, with a preference for a regulated framework that ensures sustainable management and long-term reliability. Discussion also acknowledged that the reliability and security benefits are of greater importance for Tasmanian customers than they are for Victorian customers.
- **Counterfactuals to regulation** – Discussions highlighted the diverse and complex considerations stakeholders have identified regarding Basslink's future, emphasising the importance of balancing regulatory stability, market competition, and long-term asset management.
- **Risks and benefits** – Overall, stakeholders called for greater transparency, clearer articulation of risks and benefits, and a focus on enhancing regulatory certainty to support investment and informed decision-making.
- **Marinus Link** – Stakeholders called for careful consideration of cost implications, competitive dynamics, and long-term consumer benefits in decisions regarding Basslink and Marinus Link.
- **The engagement process** – Stakeholders raised several points of interest and provided valuable feedback on the engagement process. The discussion on Basslink's proposed submission was positively received, with stakeholders appreciative of the engagement process

Conversion of Basslink offers the best balance between customer outcomes and business risks, providing certainty and measurable benefits in affordability, energy security, and reliability. The risks of non-conversion, including reduced reliability and market inefficiencies, far outweigh the concerns raised in the Draft Decision.

We strongly urge the AER to reconsider its position and support this critical step towards a more customer-focused, reliable, and affordable energy future.

1. Introduction



1.1 About this document

This response to the draft conversion decision (**Response**) is being made by Basslink Pty Ltd, which is the company that owns the Basslink interconnector. Throughout this Response we will use the term Basslink when referring to both the interconnector and the company submitting this Response.

Basslink's original Proposal (**Proposal**) submitted to the AER in September 2023 contained information to allow the AER to also make a revenue determination for the period 1 July 2025 through to 30 June 2030. However, the AER has indicated it will only make a revenue determination for Basslink if the conversion application is successful. To gain a full picture of Basslink's conversion proposal and proposed 2025–30 plans, this Response should be read in conjunction with the Proposal.

There is limited guidance for developing a conversion application within the NER². The NER do not prescribe what a conversion application must look like, nor what factors the AER, as decision maker, must consider when making such a decision.

For over two decades, the National Electricity Rules (**NER**) and its predecessor, the National Electricity Code, have provided a clear framework for converting MNSPs to TNSPs, recognising sunk investments and maintaining the same threshold for conversion. The two previous conversion decisions on Murraylink and Directlink focused on the technical capability of the interconnector to provide Prescribed Transmission Services as the test of conversion and used the revenue setting process to protect the interests of consumers.

This Response addresses matters raised in the Draft Decision and clearly articulates the benefits that a regulated Basslink will bring to customers. It also encourages the AER to consider the certainties Basslink affords customers in an era where infrastructure projects across the world are competing for scarce resources – seeing projects delivered much later and at a much higher cost than anticipated. In this respect, a regulated Basslink brings certainty to customer prices and outcomes that far outweighs the AER's uncertainty concerns raised in the Draft Decision.

This document is structured as follows:

- Section 2 summarises the stakeholder engagement undertaken since the Proposal was lodged and how this has influenced our Response.
- Section 3 outlines the benefits to customers of converting Basslink to a regulated asset.
- Section 4 explains why we believe the AER has misapplied the conversion test.
- Section 5 points out that inadequate consideration been given to the alternative counterfactuals, other than a contract with Hydro Tasmania.
- Section 7 describes how the AER should better manage modelling uncertainties.
- Section 8 addresses concerns related to asset stranding.

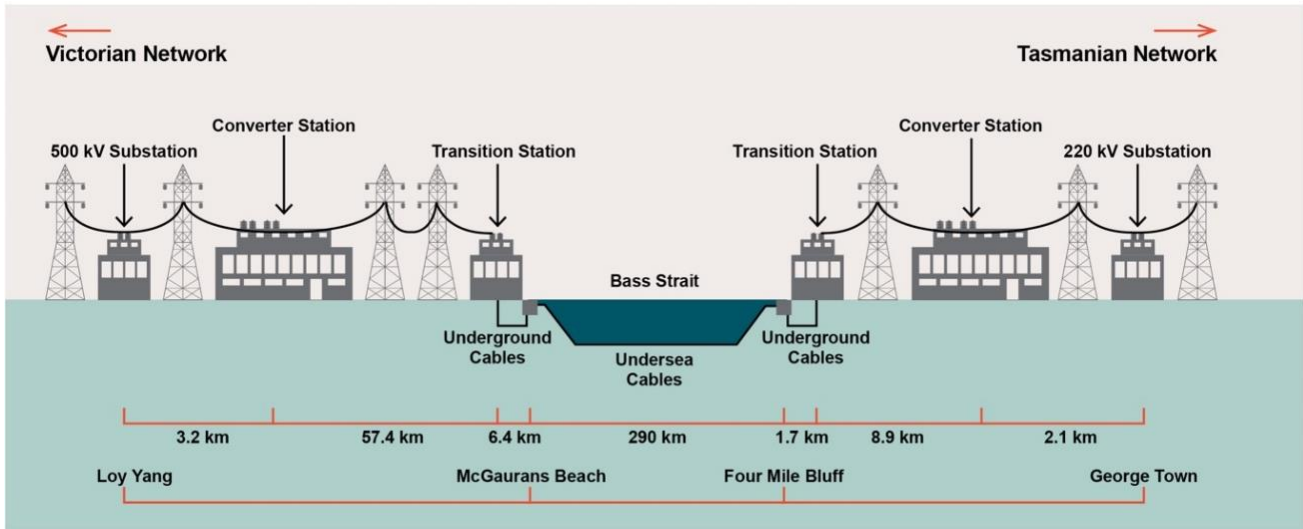
1.2 About Basslink

In October 2022, APA acquired Basslink which owns and operates the 370km long high voltage direct current (HVDC) electricity interconnector between Victoria and Tasmania. The Basslink acquisition is consistent with our strategy to play a leading role in the energy transition.

Basslink starts at the Loy Yang switchyard in Gippsland (Southeast Victoria) and travels by a 61 km high-voltage overhead transmission line until it is submerged. From there it travels for 290km under Bass Strait at around 1.5 metres below the sea floor. It resurfaces again near George Town (Northern Tasmania) and travels another 11km via a high-voltage overhead transmission line to the George Town substation.

² Australian Energy Market Commission, National Electricity Rules Version 45, as of 14 July 2011.

Figure 1-1 – Assets that make up Basslink



Basslink is currently the sole electricity interconnector between Tasmania and Victoria. Basslink plays a critical role in enhancing security of supply on both sides of Bass Strait.

Basslink was originally developed to serve the following three main purposes:

- Provide electricity security for Tasmania in years of low rainfall
- Provide Victoria and Tasmania with access to a cheaper, more stable, electricity supply
- Provide generators across the NEM with additional revenue through access to customers in both Tasmania and the mainland.

Figure 1-2 – Map of Basslink



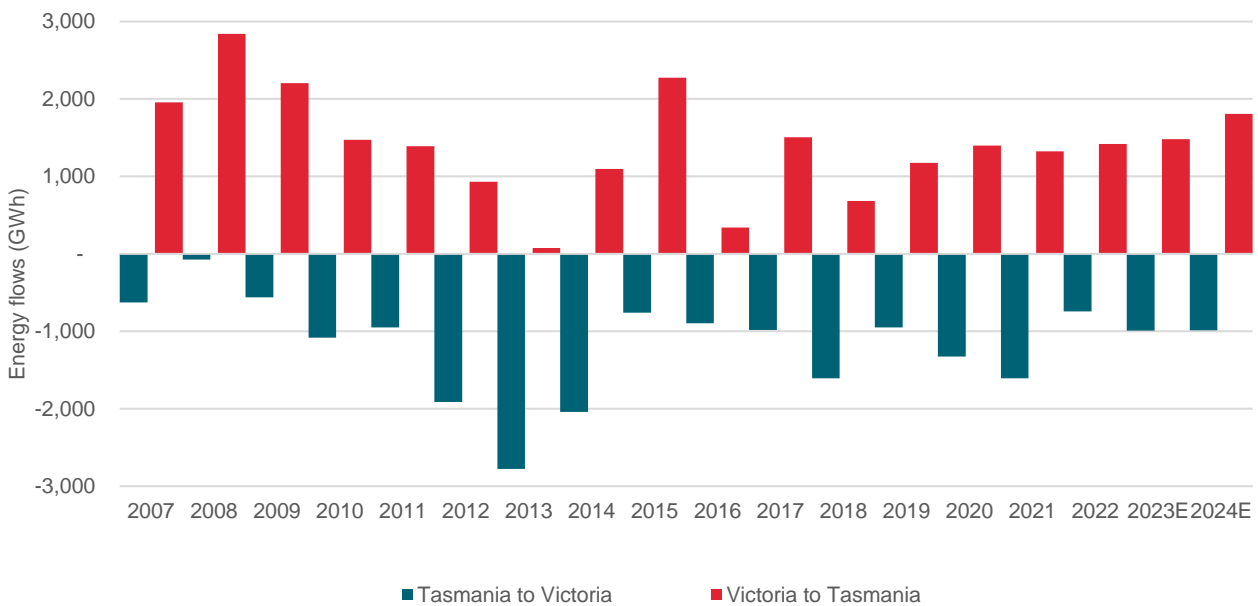
1.2.1 Basslink benefits both Victorian and Tasmanian customers

Whilst the benefits of Basslink might be assumed to be heavily weighted to Tasmanian customers, Victorian customers also benefit considerably from access to cheap renewable energy generated in Tasmania. Across the life of the asset, 55 percent of the energy flows have helped keep the lights on in Tasmania, and 45 percent of the flows have provided Victorian consumers with lower cost renewable energy from Tasmania.

The total energy transported across Basslink each year has averaged ~2,500 GWh over the life of the asset. As illustrated in the figure below, the dominant direction of the flow has varied each year according to market and weather conditions. In general:

- Flows from Victoria to Tasmania are higher in summer due to excess low-cost solar generation being produced in Victoria, and reduced water availability in Tasmania, and
- Flows from Tasmania to Victoria are higher in winter due to higher rainfall and more hydroelectricity being produced in Tasmania and less solar generation being produced in Victoria.

Figure 1-3 – Annual energy flows across Basslink³



1.2.2 Like Marinus Link, Basslink also supports the NEM’s transformation

There are at least three ways in which Basslink will support the NEM’s transformation:



Facilitates renewable energy exports

Both Victorian and Tasmania benefit from excess renewable energy that can be transported at a high capacity between Tasmania and mainland Australia (and on to the rest of the NEM from Tasmania), attracting investment and innovation.



Renewable energy is not wasted

Tasmania at times receives more rain than its dam capacity allows. Any reduction in the optimal operation of the interconnection between Tasmania and Victoria would see that renewable energy wasted because water would otherwise need to be spilled from the dam, rather than being used to generate energy.



Tasmanian renewable energy helps with firming

Tasmania’s water storage can act as long-term energy storage that can ‘firm-up’ intermittent renewable generators such as wind and solar in the NEM. This better enables renewable energy technologies to displace ‘firm’ thermal technologies such as coal and gas.

³ 2023 and 2024 data are estimated using the average of 2022–23 and 2023–24 financial year flows.

1.3 Why Basslink is seeking conversion to a TNSP

Basslink began operations in 2006 as a MNSP. The AER has limited oversight and plays no role in setting the revenues of MNSPs, like it does for TNSPs.

For most of its life, Basslink had a commercial service contract in place with Hydro Tasmania, the Basslink Services Agreement (**BSA**). The BSA was terminated in 2022. A Network Services Agreement (**NSA**) with Hydro Tasmania was created after APA bought the asset.

The NSA extended Hydro Tasmania's role in providing Basslink's market services through to 30 June 2025. Whilst the NSA provides Basslink with a stream of revenue, the amount is insufficient to sustain long term on-going operations as it was only negotiated as a bridge for the period before conversion to a TNSP was achieved.

The transitional provisions in the NER⁴ were specifically designed to allow for the conversion of Basslink to a TNSP. The revenues of TNSPs are regulated by the AER under Chapter 6A of the NER. Basslink remains the last MNSP interconnector in the NEM – all other interconnectors have been successfully converted to TNSPs.

Whilst Basslink is currently termed a MNSP, it has historically operated as an 'open link' between Victoria and Tasmania in a manner akin to that of a TNSP. This was due to a range of underlying agreements between Basslink and Hydro Tasmania, and the operation of other regulatory obligations specific to Hydro Tasmania which were effectively replicated in the current NSA between Basslink and Hydro Tasmania.

The NSA expires on 30 June 2025, and this is the driver for this conversion application. Conversion will deliver better customer outcomes across most of the modelled counterfactuals, and the Draft Decision has placed insufficient weight on the other counterfactuals to a contract with Hydro Tasmania.

1.4 Overview of the AER's Draft Decision

The AER's Draft Decision was to reject the conversion application because of two main elements:

- Uncertainty over potential outcomes in the National Electricity Market and
- The irreversibility of a decision to convert Basslink to a TNSP.

"The high degree of uncertainty associated with achieving modest benefits when compared against the significance and irreversibility of the decision is a key reason for the draft decision not to accept Basslink's application to convert the interconnector."⁵

The AER outlined it would need to be satisfied of two contingent factors for it to be convinced of the merits of conversion, namely:

1. There will be no further contractual agreement between Basslink and Hydro Tasmania, and
2. The development of Marinus Link does not go ahead or is delayed.

⁴ Clause 11.6.20 Basslink transitional provisions, National Electricity Rules, v.222

⁵ AER, 'Draft Decision - Application for Basslink's network service to be classified as a prescribed transmission service' (referred to as the Draft Decision in all remaining footnotes), December 2024, p.3

2. Stakeholder engagement



Summary

- Basslink has continued to engage with stakeholders since the AER’s Draft Decision and remains committed to the co-designed engagement objectives established at the start of the regulatory process.
- Our recent engagement has focused on the issues raised in the AER’s Draft Decision and how Basslink should respond to those issues in its response.
- Energy affordability, transparency, and the long-term reliability of Basslink should it remain an MNSP were the key issues raised by stakeholders during our engagement.
- Potential impacts on wholesale prices in both Tasmania and Victoria were of particular concern.

2.1 Our engagement process

Basslink has approached this stakeholder engagement with the understanding that we play a critical role in the energy supply chain and our 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.

Basslink’s objectives for engagement for the revenue proposal were co-designed with the stakeholder RRG. Our objectives for stakeholder engagement during the regulatory process are to deliver a revenue proposal 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 were committed to fully consulting with consumers to understand their views and ensure their preferences were reflected in our Proposal.

Basslink established a RRG in November 2022 to support the development of the Proposal. The RRG has served as an independent advisory group and comprised a cross-section of stakeholders representing residential, small business and large energy users in Tasmania and Victoria. The RRG’s input has been instrumental in helping to improve our understanding of the needs and expectations of different consumer segments 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 Corporation⁶
- Robert Mallett, Tasmanian Small Business Council
- John Pauley, Council of the Ageing Tasmania
- Dean Lombard, Energesis
- Darren McCubbin, Gippsland Climate Change Network

Since the lodgement of the conversion application and revenue proposal for Basslink, we have continued engagement with the RRG across eight meetings, as well as conducting individual stakeholder meetings with TasNetworks, Aurora, Hydro Tasmania, Victorian Chamber of Commerce and Industry and representatives from both the Victorian and Tasmanian Government.

2.2 What we heard and how we have responded

Our stakeholder engagement was initially themed into five key priorities identified by the RRG as being key for Basslink’s stakeholders and consumers:



Reliability



Affordability



Capital expenditure



Insurance



Cost sharing

Following submission of the Proposal document, several individual stakeholder and RRG meetings were held to:

- Discuss the ACIL Allen benefits modelling included in the AER’s 30 August 2024 Consultation Paper.
- Provide updates on changes to the opening Regulatory Asset Base (**RAB**), proposed projects and expenditures.
- Explain Settlement Residue Auctions (**SRAs**) and the estimated benefits.
- Discuss options for allocating System Protection Scheme costs.
- Discuss Basslink’s proposed responses to the AER’s August 2024 Consultation Paper.
- Provide updates on proposed changes to cost sharing





The feedback from these sessions by key priority together with how we responded can be found in Appendix A.

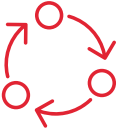
Following the release of the AER’s Draft Decision we held two further RRG meetings as well as individual stakeholder meetings to discuss the key elements of the AER’s Draft Decision and share and seek feedback on our proposed response to the AER’s draft decision.

Six key themes emerged from this engagement – affordability, reliability and security, counterfactuals to regulation, risks and benefits, Marinus Link and the engagement process. A summary of what we heard in these meetings and how we have responded is shown in the following table.

⁶ Karina Damberg left the Northern Tasmania Development Corporation in late June 2023. Chris Griffin attended the September 2023 RRG meeting.

Table 2-1: Summary of the two most recent RRG meetings by theme and our response

Theme	What we heard	How we have responded
1. Affordability		
 Customer prices	<p>Discussions reflected stakeholders desire for transparency, equity and careful consideration of consumer impacts in regulatory and operational decisions regarding Basslink.</p> <p>Stakeholders raised important questions about the potential impacts on consumers if Basslink is traded in the spot market. They sought clarity on increased wholesale prices and how the overall impact would vary depending on customer type, noting that the specific effects would depend on the nature of the customer.</p> <p>Conversely, concerns were expressed about transmission cost impacts if Basslink was regulated, particularly for direct connected customers, who shoulder a significant portion of Tasmanian transmission costs.</p> <p>One stakeholder emphasised the need for greater transparency about the potential for substantial increases in transmission charges for direct connected customers, especially for these customers on both the Tasmanian and Victorian sides, should Basslink become a regulated asset.</p>	<p>We have clarified the risks and benefits to Victorian and Tasmanian customers, including in relation to prices and ancillary services, in Table 3-1 of this Response document.</p> <p>We have reiterated the need to consider consumer benefits in section 5 of this Response document.</p>
 Ancillary services	<p>One stakeholder highlighted the growing importance of the ancillary services market and requested further information on how the decision might impact this market. It was noted that the modelling undertaken by ACIL Allen did not include ancillary services market impacts.</p>	
 Marinus Link interaction	<p>One stakeholder also raised concerns about competitive neutrality between the privately owned Basslink and the government-owned Marinus Link. They noted the regulator's strong support for Marinus Link's regulation, which transfers (its increasing) costs to consumers, while Basslink is expected to operate as a market asset with a more predictable cost structure.</p> <p>Stakeholders expressed concern over the uncertainty surrounding Marinus Link's final costs and questioned the fairness of the regulatory approach, given the competition between the two assets if Basslink is not converted to a TNSP.</p>	<p>We discuss the comparative costs of Marinus Link in section 3.3 and the project's uncertainty and how it enhances the case for conversion in section 7.2 of this Response document.</p>
2. Reliability and security		
 Reliability and security	<p>Discussions reflected stakeholder concerns about the implications of Basslink operating as a commercial asset, with a preference for a regulated framework that ensures sustainable management and long-term reliability. Discussion also acknowledged that the reliability and security benefits are of far greater importance for Tasmanian customers than they are for Victorian customers.</p> <p>Stakeholders expressed concerns about the potential management of Basslink as a commercial asset, particularly if short-term profit maximisation is prioritised over long-term investment and maintenance. One stakeholder highlighted past issues with Basslink under a profit-maximising approach, drawing parallels to challenges observed in the NEM when private sector providers focus on short-term returns without undertaking adequate reinvestment or maintenance. They questioned the AER's assumption that the asset would be managed in the same manner whether it operates as a regulated or commercial asset, emphasising that a commercial approach would need to prioritise shareholder returns.</p> <p>Another stakeholder noted that in a competitive environment, it is unrealistic to assume Basslink would not focus on maximising short-term returns, especially when a competitor offering a "free service" is entering the market. They explained that private infrastructure assets in Australia are typically operated with a short-term profit focus when unregulated. In contrast, regulation provides a guaranteed long-term return over the asset's lifespan, promoting more stable and responsible management practices.</p>	<p>We have clarified the risks and benefits to Victorian and Tasmanian customers in Table 3-1 of this Response document.</p> <p>We have highlighted that insufficient weight has been applied to the counterfactuals other than a contract with Hydro Tasmania in section 6 of this Response document.</p>

Theme	What we heard	How we have responded
<p>3. Counterfactuals to regulation</p>		
 <p>Modelling concerns</p>	<p>Discussions highlighted the diverse and complex considerations stakeholders have identified regarding Basslink’s future, emphasising the importance of balancing regulatory stability, market competition, and long-term asset management.</p> <p>One stakeholder suggested the AER might be considering a risk-return matrix for Basslink, where regulation represents the lowest-risk option due to its guaranteed return with limited price risk. The second lowest-risk option would involve a fixed-price contract with Hydro Tasmania or another party, while the riskiest option would be trading the asset. They suggested that the AER might interpret Basslink’s preference for regulation as an indication of risk aversion, favouring a less risky counterfactual.</p> <p>The importance of determining the appropriate counterfactual was highlighted, noting that Basslink has consistently conveyed that continuing a contract with Hydro Tasmania may not be the correct comparison and emphasised the low likelihood of recontracting once the Marinus Link becomes operational, suggesting that this counterfactual is not viable.</p> <p>Concerns were also raised regarding the findings of the ACIL Allen modelling, which indicate that APA is most likely to trade the asset rather than pursue a contract with Hydro Tasmania. One stakeholder noted that private benefits appear to be greater under a trading model, while public benefits are maximised when the asset is regulated. They questioned the assumption that Basslink would enter a contract with Hydro Tasmania, given the commercial advantages of trading and the AER’s perceived lack of commercial understanding beyond the regulatory framework.</p> <p>Several stakeholders questioned why Hydro Tasmania would pay Basslink to trade across Bass Strait when Marinus Link, once operational, would enable similar activities at no cost. One stakeholder also inquired whether Hydro Tasmania’s recent agreement to take 100 percent of the output from a 288MW solar farm in Northern Tasmania had been factored into decisions, given its potential impact on Hydro Tasmania’s operations across Bass Strait.</p> <p>Another key concern was the assumption that Basslink would not seek to maximise short-term returns in an unregulated market, especially when competing with a free service offered by Marinus Link. Some stakeholders see regulation as providing a guaranteed long-term return that promotes better management over the asset’s lifecycle, making it a more stable and sustainable option.</p> <p>The potential duration of any future contract with Hydro Tasmania was also discussed. One stakeholder suggested that Hydro Tasmania may agree to a short-term contract extending up to two years beyond the delayed implementation date of the Marinus Link. The length of such contracts was identified as an important factor to weigh against the benefits of regulating the asset, which would secure returns over its entire lifespan.</p> <p>Another stakeholder likened the situation to a “game of contractual chicken,” expressing uncertainty as to whether the delay in producing a final decision would merely clarify Basslink’s merchant status. They also noted the absence of a public forum in this process, which they found unusual.</p> <p>Finally, concerns were raised about the implications of the Draft Decision, which, if confirmed, would make Basslink the only unregulated interconnection. Stakeholders observed that all other previously unregulated links have since converted to regulated status and that the AER has significantly changed how it is assessing Basslink’s conversion compared to the past. They viewed the scenario of a government-owned link competing directly with a private link as highly unusual and reflective of unrealistic expectations from the AER, both in terms of counterfactual assumptions and analytical approach.</p>	<p>We have clarified the risks and benefits to Victorian and Tasmanian customers in Table 3-1 of this Response document.</p> <p>We have highlighted that insufficient weight has been applied to the counterfactuals other than a contract with Hydro Tasmania in section 6 of this Response document.</p> <p>We have suggested the AER weights the scenarios to help address modelling uncertainties. in section 7 and present a range of results based on stakeholder feedback in Figure 7-3 and Figure 7-4.</p> <p>We discuss the comparative costs of Marinus Link in section 3.3 and the project’s uncertainty and how it enhances the case for conversion in section 7.2.</p>

Theme	What we heard	How we have responded
4. Risks and benefits		
 <p>Risks and benefits</p>	<p>Overall, stakeholders called for greater transparency, clearer articulation of risks and benefits, and a focus on enhancing regulatory certainty to support investment and decision-making.</p> <p>One stakeholder observed that the risks associated with Basslink are more significant for Tasmania than for Victoria and that the AER's decision making has cautiously avoided intervening in commercial contracts or between government entities.</p> <p>Another stakeholder expressed interest in understanding the role and perspective of the Victorian government in the decision-making process. They noted that the AER has yet to demonstrate that the conversion of Basslink would negatively impact consumer interests.</p> <p>A stakeholder remarked that as a regulated link, the benefits of Basslink are more likely to flow to consumers rather than being captured solely by Basslink or its trading operator. This led them to express surprise at the AER's draft decision, particularly in the context of the NEO.</p> <p>Stakeholders emphasised the need for greater clarity around the likelihood of different scenarios and how they affect net benefits. One stakeholder noted that while the benefits of regulation are evident, the AER's decision likely hinges on its evaluation of the overall balance between benefits, costs, and risks. They suggested that the AER is seeking more detailed, granular analysis from Basslink to better understand how risks influence the net benefit calculation.</p> <p>Concerns were also raised about the potential implications of Basslink not becoming a regulated asset. Stakeholders highlighted that this outcome could influence the investment decisions of other potential generators, increasing their perceived risks. Some viewed the AER's consideration of non-conversion risks as not particularly significant compared to the risks following conversion.</p> <p>Another stakeholder stressed the importance of balancing benefits and risks with clarity about uncertainty. They noted that while there are fixed costs associated with conversion, these costs must be weighed against the additional transmission costs of regulation. Even with clear benefits, uncertainty about how these benefits interact with costs can undermine confidence in the overall decision.</p> <p>The draft decision raised broader concerns about regulatory certainty. One stakeholder found the AER's draft decision unusual and warned it could create uncertainty about future regulatory decisions, particularly as the NEM evolves with more interconnections to support renewable energy. They suggested that the AER should focus on enhancing regulatory certainty to encourage investment in this transitioning market.</p> <p>One stakeholder also noted the potential benefits of distinguishing more clearly between the types and scale of benefits for Tasmanian and Victorian customers. They suggested that there may be a stronger case for Tasmania's benefits than there is for Victoria.</p>	<p>We have clarified the risks and benefits to Victorian and Tasmanian customers in Table 3-1 of this Response document.</p> <p>We have summarised stakeholder responses to the AER's August 2024 Consultation Paper in Appendix B.</p> <p>We have suggested the AER also considers the consumer benefits in section 5 of this Response document.</p> <p>We have highlighted that insufficient weight has been applied to the counterfactuals other than a contract with Hydro Tasmania in section 6 of this Response document.</p>
5. Marinus Link		
 <p>Marinus Link interaction</p>	<p>Stakeholders called for careful consideration of cost implications, competitive dynamics, and long-term consumer benefits in decisions regarding Basslink and Marinus Link.</p> <p>Stakeholders expressed concerns about the cost and operational dynamics between Basslink and Marinus Link, emphasising potential risks to consumers. One stakeholder highlighted the uncertainty surrounding the final costs of Marinus Link and questioned how the AER could assess Basslink's alignment with the NEO in a different manner to how it considered Marinus Link.</p> <p>Concerns were raised about market risks posed by Marinus Link, with stakeholders suggesting that these risks could discourage or minimise long-term investment in Basslink's reliability as discussed above.</p>	<p>We discuss the comparative costs of Marinus Link in section 3.3 and the project's uncertainty and how it enhances the case for conversion in section 7.2 of this Response document.</p>

Theme	What we heard	How we have responded
	<p>A key issue raised was the cost disparity between the two links. One stakeholder pointed out that the capital cost of a single cable for Marinus Link, including the North West Transmission Development, is estimated to be four to five times higher than the Regulatory Asset Base (RAB) proposed for Basslink, while offering only a 50 per cent increase in transmission capacity. This disparity raised concerns about consumers bearing the financial burden of the more expensive option without clear price benefits.</p> <p>It was also noted that trading Basslink to maximise revenues, potentially at the expense of delivering consumer benefits, was a more realistic counterfactual than the one adopted by the AER in its draft decision. They emphasised the importance of ensuring both Basslink and Marinus Link are operated for the benefit of consumers, with a regulatory decision that prioritises long-term reliability and fairness.</p>	

6. Engagement process



Engagement

Stakeholders raised several points of interest and provided valuable feedback on the engagement process. The discussion on Basslink’s proposed submission was positively received, with stakeholders appreciative of the engagement process. They noted the following benefits:

- The session provided space for a robust discussion where diverse views were openly shared and explored.
- The complexity of the issue was addressed with clarity, allowing participants to better understand the situation.
- Stakeholders appreciated the willingness of facilitators to listen and answer questions, fostering a constructive dialogue.
- The richness and depth of the conversation were valued as a key aspect of the engagement.

One stakeholder recommended that minutes from this and previous discussions be shared more broadly. They encouraged Basslink to maintain ongoing engagement, highlighting that this approach builds strong foundations and will be essential for capacity building over the course of the project.

A summary of the RRG meetings since the Proposal was lodged can be found in Appendix A.

The detailed minutes of the RRG meetings can be found in the confidential Attachment 1.

2.3 Stakeholder submissions to the AER’s Consultation Paper

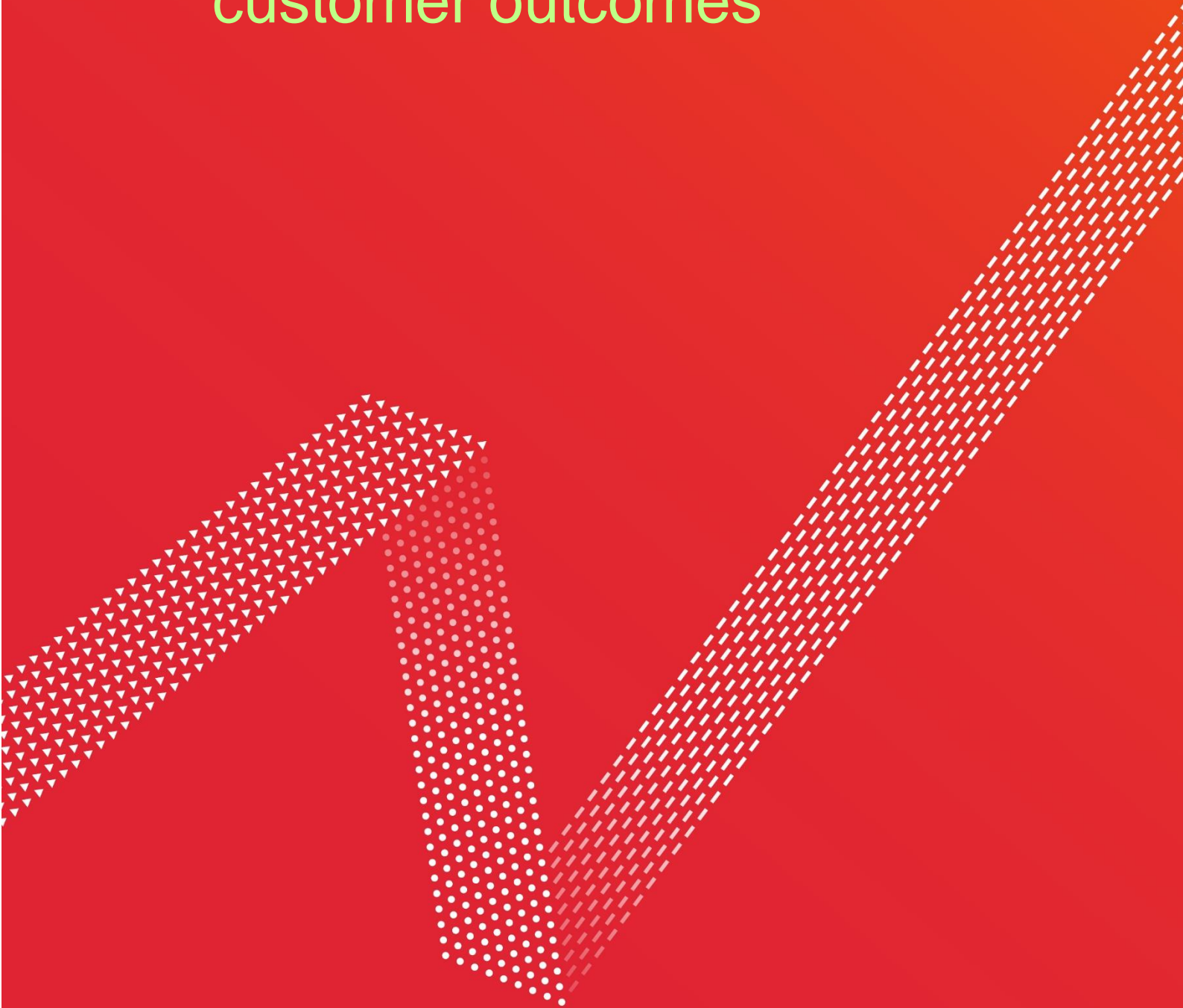
Stakeholders were invited to make submissions on the AER’s August 2024 Consultation Paper. The table below shows the eight submissions that were received.

Five supported Basslink’s conversion to a TNSP, one was conditionally supportive, only if the benefits of conversion outweighed the costs, and two were against conversion, mainly due to the belief that Hydro Tasmania and Basslink will establish a new agreement and so the benefits of conversion would not necessarily outweigh the costs.

Not Supportive	Conditionally supportive	Supportive
<ul style="list-style-type: none"> – Justice and Equity Centre – DEECA 	<ul style="list-style-type: none"> – Tasmanian Minerals, Manufacturing and Energy Council 	<ul style="list-style-type: none"> – Tas Networks – Hydro Tasmania – ReCFIT – Mr J Pauley – Committee For Melbourne

A summary of the key points raised in the submissions that are relevant to the conversion application and how these submissions shaped our response are contained in Appendix B.

3. Conversion will
deliver better
customer outcomes



Summary

- The AER’s assessment of APA’s Basslink regulatory proposal highlights that consumer benefits are far greater under regulation, compared to the no-regulation scenarios.
- As a regulated asset, Basslink will operate as an ‘open link’, to the benefit of all consumers.
- Basslink’s capacity and costs are relatively small and known compared to the much higher costs and uncertainty of Marinus Link.
- Converting Basslink to a regulated asset will ensure that consumers have a say in the costs they pay for Basslink and its associated reliability outcomes.
- Insufficient weight has been placed on the alternative counterfactuals to Basslink signing a contract with Hydro Tasmania, with the AER’s own analysis showing that merchant trading is likely to increase wholesale prices in both Victoria and Tasmania, and therefore customer bills.

3.1 Conversion provides better customer outcomes

Whilst conversion offers Basslink a relatively low stable return over the life of the asset, the associated benefits it will bring consumers far outweigh any perceived uncertainties or risk when compared to the appropriately weighted counterfactuals – see section 7. The consumer benefits of a regulated Basslink are relatively certain and this certainty has a value to customers in relation to energy security, affordability and reliability, for example:

- Basslink’s capacity is substantial, and its costs are relatively small and known compared to the much higher costs and uncertainty of Marinus Link.
- It remains uncertain whether Marinus Link will proceed, when it will be delivered, the final capacity it will offer and at what cost. Marinus Link 1 has not yet reached a Final Investment Decision (**FID**) and even if a decision is made to proceed with Marinus Link 1, it is possible Marinus Link 2 may never be built.
- Customers will have a say and clarity in relation to the costs they will pay for a regulated Basslink and its associated reliability outcomes.
- Conversion provides the AER with regulatory oversight of all electricity interconnectors and the opportunity to ensure they cohesively operate for the benefit and long-term interests of consumers across the NEM.

This contrasts markedly with the customer outcomes and economic inefficiency that will result if Basslink operates as a true MNSP – a credible scenario if conversion is unsuccessful, and one that has not been appropriately considered in the Draft Decision. In this circumstance:

- Due to the risk of lower future revenues, short-term revenue maximisation will drive investment and operating decisions to the detriment of customers meaning the asset will not be fully utilised and reliability outcomes may steadily deteriorate if investment in the asset for the longer-term becomes uneconomic.
- The operating and capital costs and all other aspects of Basslink’s ongoing operation will not be visible to the market.
- Customers will pay considerably more for the equivalent capacity of Marinus Link.
- Wholesale prices, when Basslink is used, will be greater than they would be under regulation.

The uncertainties raised by the AER in the Draft Decision, as to the most likely alternative scenario and whether Marinus Link will be built and at what capacity, are unable to be fully answered ahead of the AER making a conversion decision for Basslink. There is no evidence or definitive answers that can be provided by Basslink (or anyone else) within the required timeline.

It is also worth highlighting that a conversion application can only be initiated by the asset owner. Should the AER decide not to convert Basslink at this time, it cannot elect to reverse its decision down the track should outcomes prove contrary to expectations. This is further addressed in section 4.2.

Before explaining all the benefits that a regulated Basslink delivers customers, it is important to understand how the asset interplays with Marinus Link and how the alternative counterfactual to a Hydro Tasmania contract – market trading of Basslink – will impact customer prices.

3.2 Market trading impacts on customer prices

The counterfactual of Basslink being traded on the market has not been given appropriate weight in the Draft Decision. Further discussion on the likelihood of this counterfactual can be found in section 6.

Market trading will generally deliver worse customer outcomes for customers than a regulated Basslink, one of which will be higher electricity bills due to increased wholesale prices.

Wholesale electricity prices are higher in the absence of conversion because an unregulated Basslink must earn revenue through transfer margins – that is, buying energy in one region and selling into another region after adding a margin over the cost of the purchased and transferred energy. If Basslink is regulated, it will be available at full continuous capacity in both directions without any margin over the cost of the transferred energy.⁷

While this is true for consumers overall, the impacts will vary by customer type, their connection level and usage. For example, large direct connected customers in Tasmania who may have hedged much of their use through long-term contracts with Hydro Tasmania to minimise exposure to wholesale price risks will still face higher electricity prices under conversion through increased transmission prices. This is an outcome outside APAs control and is the result of the unique circumstances under which Basslink currently operates through the agreement with Hydro Tasmania and that entity's agreements with the Tasmanian government.

The ACIL Allen modelling concluded that the estimated consumer price effects of an unregulated Basslink may be considered small relative to total market costs. Even so, they are still material with consumer benefits, ranging from a potential present value reduction in just one scenario of \$0.225 billion to multiple scenarios showing present value increases of up to \$3.6 billion. The cost of a regulated Basslink is also small when compared to total market costs which makes even small changes in consumer prices relevant to the conversion decision.

3.3 Basslink is significantly cheaper and a complement to Marinus Link

3.3.1 Basslink provides better value than Marinus Link

Basslink has been operating since April 2006 with a design life of 40 years. It offers 500MW of capacity at an estimated construction cost of \$988m (nominal)⁸. The associated RAB put forward for Basslink was \$754.5 million⁹.

In 2017 Marinus Link was proposed to operate alongside Basslink, allowing Tasmania to export more renewable electricity. Marinus Link was seen as a complement to Basslink to help manage the risk of relying on a single link across Bass Strait. Just as Marinus Link will provide redundancy in the event Basslink is out of service, Basslink will provide redundancy in the event Marinus Link is out of service.

Since its inception, the timeline for Marinus Link has altered, the proposed costs have grown considerably and the question of if, and when, a second link will be required (and whether it can be afforded) remain open. A FID is now expected in May 2025. A FID is a key milestone in the delivery of any project. Prior to a FID, any project should be regarded as uncertain, with an expectation that the project may not pass beyond that milestone.

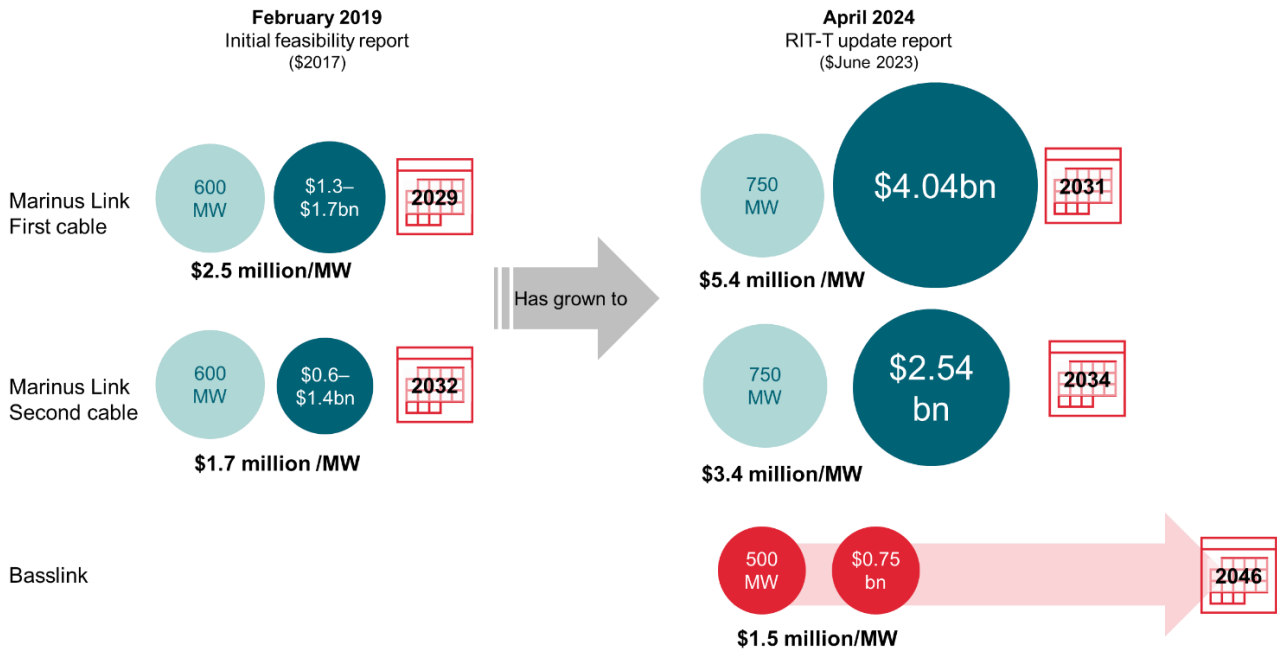
Every delay and increase in Marinus Link costs reiterates the value of Basslink to customers, especially given how cheap the capital cost of the Basslink is in relative terms – the figure below outlines that each MW of Basslink capacity only costs customers \$1.5 million compared to an estimated \$5.4 million per MW for Marinus Link 1 and \$3.4 million per MW for Marinus Link 2.

⁷ AER, [Basslink Conversion Application Consultation Paper](#), August 2024, p.22

⁸ This is an estimate because APA was not the owner of Basslink at the time of construction.

⁹ This amount includes changes from confirmed costs and stakeholder feedback that reduced the initial RAB of \$831 million put forward in the Proposal by \$76.4 million. These changes have been shared with the AER.

Figure 3-1: The relative size of capital costs customers will pay for Marinus Link compared to Basslink¹⁰



The annual forecast return on capital that customers are expected to pay for Marinus Link 1 (after allowing for expected concessional government finance) from 2030–31 to 2034–35 is \$175 million (\$ 2023)¹¹. This means the capital cost of Marinus Link 1 alone is 70 percent more than the total forecast average annual revenue requirement proposed for Basslink¹² (\$103 million). Marinus Link customers will pay even more once regulatory depreciation and operating costs are included and if further cost increases are encountered.

Due to the high capital costs associated with Marinus Link 1 and 2, the above facts make it clear that, on economics alone, consumer interests would be best served by ensuring Basslink is utilised as much as possible. This will ensure consumers, particularly those in Victoria and Tasmania pay no more than they should for their electricity.

This view is supported by ReCFIT and Mr J Pauley:

“It is one thing for Tasmanian customers to face the State’s share of regulated Marinus Link costs and the bill impacts from the associated North West Transmission Developments (and for Victorian customers their share of Marinus Link costs) for the benefits of increasing interconnection by 750MW (in the case of Marinus 1), but an entirely different proposition for that same quantum of costs to effectively deliver only a net increase of around 250MW in interconnection should Marinus Link undermine the sustainable business case for an MNSP Basslink.”¹³

“The AER should also give consideration to how a market-based link can exist alongside a regulated link and the impact of this on the optimal return to infrastructure under-pinning the NEM. In this regard the AER should give careful consideration to the relative benefits flowing from the second Marinus Link cable and its impact on the underlying value of Basslink.”¹⁴

If governments and the AER want to serve the long-term interests of consumers in line with the NEO, then converting Basslink to a TNSP and making full use of Basslink’s capacity will ensure customers receive the greatest benefit from this much lower cost asset. It will also ensure Basslink operates on a level playing field with Marinus Link, which has the advantage of being regulated from its inception.

¹⁰ Marinus Link, 'Initial Feasibility Report', February 2019, p.9 and Marinus Link, 'Project Marinus RIT-T update', April 2024, p.2 (noting the costs in the RIT-T update include the North West Transmission Developments)

¹¹ Marinus Link, 'Revenue Proposal Stage 1–Part B (Construction costs)', November 2024, p.79

¹² Forecast over the 2025–26 to 2029–30 period

¹³ ReCFIT, 'Submission on Basslink Conversion Consultation Paper', September 2024, p.4–5

¹⁴ Mr J Pauley, 'Submission on Basslink Conversion Consultation Paper', September 2024 p.7

3.3.2 Marinus Link delays increase the value of Basslink to customers

Basslink’s value to customers increases with each delay to the commissioning of Marinus Link 1 and Marinus Link 2 (as shown in the figure above). Given the significant price rises and delays impacting large infrastructure projects across the world, further delays to Marinus Link (and the renewable energy projects reliant on its existence) is possible.






















Again, in the face of this uncertainty, the savings and the associated price certainty of a regulated Basslink does have a value to customers.
















3.4 How the regulatory framework will benefit customers

The following table summarises all the customer outcomes under conversion to a TNSP and the alternative counterfactual to a Hydro Tasmania contract –where Basslink operates as a merchant link.



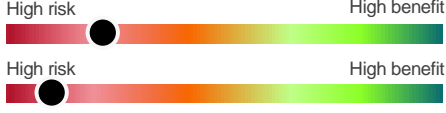


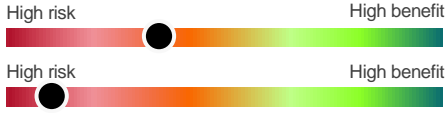

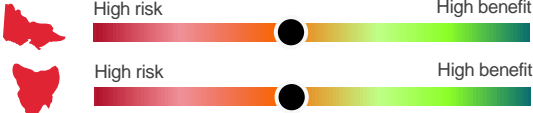







The relative risks and benefits for consumers in each state under each outcome is also shown. This highlights that whilst Tasmanians will receive greater benefits and risk reduction from conversion than Victorians, the beneficial outcomes of conversion to both states are significant when compared to the risks and uncertainties of what could eventuate under market trading.











Table 3-1: Customer outcomes under conversion and the most likely counterfactual

Outcome and impact by state	Customer outcomes if Basslink is converted to a TNSP and becomes regulated	Customer outcomes if Basslink operates as an unregulated merchant link
 <p>Asset utilisation</p>	<ul style="list-style-type: none"> Basslink will operate as an ‘open link’, always offered at full capacity. This results in least cost dispatch given free transfer of electricity between the regions within asset and market constraints. <div style="display: flex; justify-content: space-between;"> <div style="text-align: center;">  High risk High benefit  </div> <div style="text-align: center;">  High risk High benefit  </div> </div>	<ul style="list-style-type: none"> Flows are reduced compared to history and what would occur under regulation, as a new (non-zero) cost is associated with transfers across the link. <div style="display: flex; justify-content: space-between;"> <div style="text-align: center;"> High risk High benefit  </div> <div style="text-align: center;"> High risk High benefit  </div> </div>
 <p>Stakeholder influence</p>	<ul style="list-style-type: none"> Basslink’s reliability, expenditure plans, and associated revenues will be discussed, reviewed and challenged by stakeholders. <div style="display: flex; justify-content: space-between;"> <div style="text-align: center;">  High risk High benefit  </div> <div style="text-align: center;">  High risk High benefit  </div> </div>	<ul style="list-style-type: none"> Stakeholders will have limited input into how much is invested, how the asset is operated and maintained or its overall reliability outcomes. <div style="display: flex; justify-content: space-between;"> <div style="text-align: center;"> High risk High benefit  </div> <div style="text-align: center;"> High risk High benefit  </div> </div>
 <p>Reliability and security</p>	<ul style="list-style-type: none"> Customers have greater certainty of the interconnector’s availability and reliability through the application of AER incentive and service performance schemes. Basslink is the largest source of back-up electricity supply for Tasmania (energy security) ahead of Marinus Link coming online, but after Marinus Link 1 is built, both assets will serve as N-1 back-up supply for each other, enhancing reliability for both states and energy security for Tasmania. Reliability was highlighted by customers and stakeholders as a core priority. <div style="display: flex; justify-content: space-between;"> <div style="text-align: center;">  High risk High benefit  </div> <div style="text-align: center;">  High risk High benefit  </div> </div>	<ul style="list-style-type: none"> Reliability outcomes may steadily deteriorate if investment in the asset for the longer-term becomes uneconomic. This may result in Basslink being unable to be relied upon to provide N-1 back-up for Marinus Link and could lead to energy security issues for Tasmania. <div style="display: flex; justify-content: space-between;"> <div style="text-align: center;"> High risk High benefit  </div> <div style="text-align: center;"> High risk High benefit  </div> </div>

Outcome and impact by state	Customer outcomes if Basslink is converted to a TNSP and becomes regulated	Customer outcomes if Basslink operates as an unregulated merchant link
 <p>Long-term interests of consumers</p>	<ul style="list-style-type: none"> The application of incentive and performance schemes will ensure customers pay no more for Basslink than they should, and that any asset investment meets the National Electricity Objective (NEO).  	<ul style="list-style-type: none"> The interests of consumers will play a lesser role in decision making – maximising the operator’s revenue, particularly ahead of Marinus Link 1 coming online, will be paramount.  
 <p>Transparency of costs</p>	<ul style="list-style-type: none"> Improved visibility of costs in the electricity supply chain. Revenues and cost sharing will be regulated by the AER, providing transparency of how much is being paid and by whom¹⁵  	<ul style="list-style-type: none"> Basslink’s operating and capital expenditure will not be visible.  
 <p>Customer prices</p>	<ul style="list-style-type: none"> Wholesale prices in both states will be comparable to the current circumstance as an open link allows each state to take advantage of cheaper wholesale prices when they exist on the other side of the link. Basslink’s costs will be included in the transmission costs customers pay, noting these are not all new costs as customers are already paying for the equivalent Hydro Tasmania contract portion. Regulation will change who pays for these costs from the current situation – currently only Hydro Tasmania knows how much each state (Victoria versus Tasmania) is paying for the asset. Customer prices should only increase by the difference between Basslink’s revenue requirement and the value of the current Hydro Tasmania contract, but they may be higher if Hydro Tasmania does not reduce its revenue by the contract amount or seeks to recover the equivalent revenue through other services it provides Tasmanians. Price impacts will vary depending on the type of customer, their usage and level of connection. For example, some direct connected customers may see larger increases in transmission charges without offsetting reductions in energy costs.  	<ul style="list-style-type: none"> Ahead of Marinus Link 1 potentially coming online, the need to maximise revenue will lead to increases in the average wholesale electricity price in both states compared to the current circumstance, with a potentially greater effect in Tasmania. If Marinus Link is built, and once it is commissioned, the wholesale electricity prices in both states will be higher when Basslink is used than they would otherwise have been. Any increase in wholesale prices will eventually flow through to customers’ bills in some form or other.  

¹⁵ Noting that cost-sharing will be undertaken as part of the revenue determination if conversion is accepted by the AER

Outcome and impact by state	Customer outcomes if Basslink is converted to a TNSP and becomes regulated	Customer outcomes if Basslink operates as an unregulated merchant link
 Renewable energy	<ul style="list-style-type: none"> Both Victoria and Tasmania benefit from full access to cheap, renewable energy ahead of potential Marinus Link commissioning. 	<ul style="list-style-type: none"> Both states may lose full access to cheap, renewable energy until Marinus Link, if it is built, is commissioned. 
 Asset sustainability (longevity)	<ul style="list-style-type: none"> Revenues will be sufficient to maintain the safety and reliability of the asset to the level expected by stakeholders and provide an appropriate investor return over the life of the asset. 	<ul style="list-style-type: none"> Investment in high cost and long-life assets to maintain reliability may become uneconomic. 
 Investment risks	<ul style="list-style-type: none"> Asset stranding risk sits with consumers Marinus Link is intended to be additional to Basslink, not a replacement and stranding risk is reduced with every delay to Marinus Link.– see section 8.1 Asset stranding concerns. 	<ul style="list-style-type: none"> Asset stranding risk sits with Basslink. Asset stranding risk is reduced with every delay to Marinus Link. 
 AER oversight	<ul style="list-style-type: none"> The AER has regulatory control and oversight of the asset over its lifetime. The AER has regulatory control of all interconnectors. 	<ul style="list-style-type: none"> The AER has no oversight on how much is spent on operating and maintaining Basslink. The AER is unable to initiate conversion of the asset in the future, should outcomes prove contrary to expectations – noting the likelihood of re-application diminishes as Marinus Link commissioning gets closer and the costs incurred in establishing MNSP capability grows. 
 Marinus Link interaction	<ul style="list-style-type: none"> Basslink and Marinus Link (if it is built) are placed on a level playing field, ensuring both assets are maintained and operated for the long-term interest of consumers. Basslink's value increases with every delay to Marinus Link. Basslink delivers lower prices for customers for the equivalent capacity beyond Marinus Link 1 (and before the full capacity of Marinus Link 2 is required). If Marinus Link 2 does not proceed, the value provided by Basslink is further enhanced. 	<ul style="list-style-type: none"> Customers lose access to the full capacity of a 'cheap' asset before it is potentially displaced by Marinus Link at a much higher cost to customers. The cost to customers increases with every delay to Marinus Link. Customers will pay much more for Marinus Link than for the equivalent capacity of Basslink. If Marinus Link does not proceed, customers will pay more for Basslink than they would have if it had been converted to a TNSP. 

Outcome and impact by state	Customer outcomes if Basslink is converted to a TNSP and becomes regulated	Customer outcomes if Basslink operates as an unregulated merchant link
 <p>Competition impacts</p>	<ul style="list-style-type: none"> Enhanced competition in the generation and retail markets with open access to settlement residue auctions.  	<ul style="list-style-type: none"> Basslink may operate as a barrier between the Victorian and Tasmanian generation and retail markets.  
 <p>Frequency control ancillary services (FCAS)</p>	<ul style="list-style-type: none"> AEMO will co-optimize dispatch of energy and frequency control services across the mainland and Tasmania to minimize dispatch costs and resulting prices across energy and market frequency control services.  	<ul style="list-style-type: none"> Basslink receives no revenue for the provision of FCAS transfers between the mainland and Tasmania, so there is no incentive to facilitate such transfers. An increase in zero-flow periods will increase the cost of Tasmanian and mainland frequency control services. Commercial incentives will see the frequency controller turned off unless it assists to increase flow or price separation. This will require Tasmania to locally procure FCAS and increase FCAS prices, impacting Tasmanian network flows controlled via the TasNetworks Network Control System Protection Scheme, generation and energy prices.  

4. The conversion test



Summary

- The Draft Decision applies a significantly higher threshold for conversion when compared to the previous decisions of the Australian Competition and Consumer Commission (ACCC) and AER for Murraylink and Directlink respectively.
- The NER contains transitional provisions for the conversion of Basslink to a TNSP. Those provisions were intended to preserve the conditions for conversion that had existed previously.
- A conversion application can only be initiated by a MNSP. This means the AER is unable to initiate a decision to convert Basslink in the future, should it choose not to regulate Basslink now.

4.1 The AER has applied a different conversion test than in the past

The AER have stated¹⁶

“...we would need to be satisfied that a number of contingent scenarios would occur in order for the market benefits of conversion to be significant. In particular, we would need to be satisfied that there would be no further contractual agreement between Basslink and Hydro Tasmania, and that the development of Marinus Link is limited to a single cable and/or delayed.”

This is an incredibly strict test, a test that requires the proponent to demonstrate no identified scenario in which a detriment could occur. Unfortunately, neither Basslink or any other party can provide the evidence or definitive answers that the AER requests prior to a final decision and if the test were applied more broadly would result in very little future investment in transmission networks across the NEM.

This approach differs to how conversion tests have applied in the past.

4.1.1 The AER’s ‘new’ conversion test sets a significantly higher threshold

Specific rules for the regulatory conversion of MNSPs have existed in the NER and its predecessor the National Electricity Code for more than two decades. The conversion test has not materially changed during that time – the test that applies to Basslink’s application is essentially the same as the test that applied to the conversion of Murraylink and Directlink under the Code.

Under the Code, the test for conversion was as follows:¹⁷

If an existing network service ceases to be classified as a market network service it may at the discretion of the Regulator or Jurisdictional Regulator (whichever is relevant) be determined to be a prescribed service or prescribed distribution service in which case the revenue cap or price cap of the relevant Network Service Provider may be adjusted in accordance with chapter 6 to include to an appropriate extent the relevant network elements which provided those network services.

The Basslink transitional provision, which adopted key elements of the Code test for conversion, was intended to preserve the conditions for conversion that had existed under the Code.¹⁸ This was in recognition of the fact that significant sunk investment was made in Basslink under the Code framework.

Despite this clear intent, and despite the conversion test not materially changing, the AER has adopted a radically different approach in the Draft Decision to that adopted for Directlink and Murraylink. The Draft Decision sets a significantly higher threshold for conversion, compared to the two prior decisions of the AER and the ACCC.

¹⁶ AER, ‘Draft Decision’, December 2024, p.2

¹⁷ National Electricity Code, cl 2.5.2(c)

¹⁸ AEMC, ‘Rule Determination: National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006 No. 18’, 16 November 2006, p.78 and 128–129

It is worth highlighting that new interconnectors, like Marinus Link, are no longer built as MNSPs but as TNSPs. This means they must demonstrate their project has value to consumers, not that they have value as a regulated entity. As presented in section 3.3, Basslink represents extremely good value to customers when compared to Marinus Link.

4.1.2 How the conversion test was applied under the Code

In the two previous decisions on conversion under the Code, the AER and ACCC set a lower threshold for conversion. In both cases, the regulator simply assessed whether the relevant services fell within the definition of a prescribed services. It was noted that setting a higher threshold would be inconsistent with the intent of the MNSP conversion framework.

In the Murraylink decision, the ACCC referred to the intent of the National Electrical and Communications Association Working Group in developing the conversion framework. As noted by the ACCC, the original intent was to encourage entrepreneurial investment in infrastructure to provide market network services (including merchant interconnectors) by providing a 'right' or 'option' for an MNSP to apply for conversion. In setting a relatively low threshold for conversion in the Murraylink decision (i.e. simply requiring that the services satisfy the prescribed service criteria), the ACCC noted that a higher threshold would be inconsistent with the apparent intention of the NECA Working Group.¹⁹

The same approach was adopted by the AER in its decision on conversion of Directlink. The AER stated in its draft decision for Directlink:²⁰

While the Murraylink decision is not binding on the AER, the AER considers that the approach set out in the Murraylink decision is useful for informing its consideration of the general principles for conversion. Further, [Directlink Joint Venture]'s application and supporting submissions were based on the framework set out in the Murraylink decision.

The AER considers too that the history and intent of the conversion provision (discussed above) remain relevant to the consideration of conversion applications. When Directlink and other entrepreneurial interconnectors were built, MNSPs were encouraged despite being considered somewhat experimental—as acknowledged in the NECA working group's review of arrangements for including MNSPs in the NEM. One means of encouraging these market based investments was to include the conversion provision to ensure market design risks did not inefficiently inhibit investment. Given the early encouragement offered to MNSPs and the implied assurance presented by the conversion provision, a decision now to set a relatively higher threshold for a conversion application may be inconsistent with the intention of the code's MNSP and conversion provisions.

Accordingly, in determining whether a market network service is a prescribed service, the AER considers that a broad interpretation of the NECA working group's intention should be applied. It is, therefore, appropriate for the AER to adopt the approach developed for the Murraylink decision—that is, to assess whether the network service is a prescribed service as defined in the code.

The Directlink decision was made during the period of transition from the Code to the National Electricity Law and the NER. Although the decision was made under the Code, the AER noted and referred to the objective of the new National Electricity Law (i.e. the original NEO). The AER noted that the new objective appeared to be consistent with, and informed by, the previous Code objectives.²¹ There was no suggestion that introduction of the new objective in the National Electricity Law should alter the approach to the conversion test. On the contrary, the AER considered that the focus of the new objective on economic efficiency supported consistency in application of the conversion test:²²

¹⁹ ACCC, 'Decision: Murraylink Transmission Company Application for Conversion and Maximum Allowed Revenue', 1 October 2003, p.15

²⁰ AER, 'Directlink Joint Venture Application for Conversion and Revenue Cap: Draft Decision', 8 November 2005, p.18

²¹ *Ibid*, p.20

²² *Ibid*, p.20

When considering the allocative efficiency implications of a conversion decision, it may be relevant in the short term to focus on marginal costs and ignore sunk costs. Because a converting asset is a sunk asset, disallowing a conversion application would not create a loss to electricity consumers. However, a consideration of dynamic efficiency prompts deliberation of how disallowing conversion would affect investment incentives in the future. Investment is susceptible to uncertainty, which may deter future investments in the long term. If, therefore, the conversion provision of the code is strictly implemented in the absence of these considerations—that is, if a high threshold is set for conversion—then it may be to the detriment of the long term interests of electricity consumers.

In adopting a radically different approach to the conversion test for Basslink, the AER has failed to have regard to the effect of its decision on future efficient investment. This is a further departure from the approach adopted in the Murraylink and Directlink decisions.

4.1.3 The intent of the Basslink transitional provision in the NER

The Basslink transitional provision was introduced at the same time as the framework for economic regulation for TNSPs (Chapter 6A of the NER). This provision was intended to preserve the conditions for conversion that had existed under the Code, noting concerns expressed by the Tasmanian Government in relation to sovereign risk arising from changes to the conversion framework after sunk investments had been made.

In its submissions to the AEMC rule change process, the Tasmanian Government noted that:

‘... the conditions for conversion of entrepreneurial investments to regulated investments were in effect established by the NECA in its arrangements for including MNSPs in the NEM.’²³

The Tasmanian Government further noted the intent of the Ministerial Council on Energy (**MCE**), in its report to the Council of Australian Governments on reform of energy markets, that any Code changes ‘recognise and protect the rights of existing investors in market transmission services’.²⁴ The primary concern of the Tasmanian Government was to ensure that the conditions for conversion that underpinned entrepreneurial investment in Basslink (including the option to convert and rules around the determination of regulated revenue) were effectively preserved through transitional arrangements. The Tasmanian Government considered that, absent appropriate transitional arrangements:²⁵

Future private investment in transmission services in the NEM – particularly in entrepreneurial interconnectors – would be seriously undermined by the realisation of sovereign risk...

In its rule determination, the AEMC agreed with the Tasmanian Government and accepted the need for transitional arrangements. The AEMC stated:²⁶

Basslink is the largest single MNSP in the NEM and, as a consequence of the Murraylink and Directlink conversions, is also now the sole remaining MNSP. The Tasmanian Government submitted that to apply the new Revenue Rule conversion provisions to Basslink would be inconsistent with the stated policy intent of the MCE. In particular, the MCE stated in its 2003 report to the Council of Australian Governments that ‘code changes would recognise and protect the rights of existing investors in market transmission services.’

The Commission is cognisant of the incentive benefits of affording investors in market transmission services rights and treatments that are consistent with those in existence at the time of committing to the investment. In light of this, and given Basslink’s status as the sole remaining MNSP established under the existing NER, the Commission has accepted the need for a transitional provision.

²³ Tasmanian Government, ‘Re: Draft National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006: Supplementary Submission’, 11 September 2006, p.3

²⁴ Ministerial Council on Energy, ‘Report to the Council of Australian Governments: Reform of Energy Markets’, 11 December 2003, p.11

²⁵ Tasmanian Government, ‘Re: Draft National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006: Supplementary Submission’, 11 September 2006, p.3

²⁶ AEMC, ‘Rule Determination: National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006 No. 18’, 16 November 2006, p.129

The Tasmanian Government proposed a transitional provision requiring the AER to apply the methodologies, objectives and principles contained in the Murraylink and Directlink determinations to any future application by Basslink to convert its status. This proposal was accepted by the AEMC and is now reflected in cl 11.6.20 of the NER.

4.1.4 The proper interpretation and application of the Basslink transitional provision

The history, context and intent of the Basslink transitional provision, as outlined above, are highly relevant to its proper interpretation. This was acknowledged by the AER in applying the equivalent Code provision to Directlink, noting that the Code itself provided no express guidance on how the AER should exercise its discretion.²⁷ In its decision for Directlink, the AER acknowledged that aligning its approach with the original intent of the conversion framework was important for promoting efficient future investment in the long-term interests of consumers.²⁸

APA also notes that the Basslink transitional provision is potentially obscure or ambiguous. There is clearly the potential for different interpretations of the conversion test, as can be seen in the vastly different approach taken by the AER in the Draft Decision compared to the two previous conversion decisions. This means that the proper interpretation may be guided by relevant 'rule extrinsic material', including the AEMC rule determination and stakeholder submissions that informed that determination.²⁹

As discussed in section 5, the proper interpretation must be guided by the NEO.³⁰ The AER acknowledges the role of the NEO in the Draft Decision. However, the AER's consideration of the NEO appears to be narrowly and incorrectly focused on any effect of conversion on productive and allocative efficiency (particularly any changes in electricity consumption or production costs)³¹. In contrast to the AER's decision on conversion of Directlink, the Draft Decision appears to ignore the likely effect of its decision on dynamic efficiency. The AER also appears to discount the importance of any impact on consumers that is not demonstrably linked to an allocative or productive efficiency impact, rather than recognising that when faced with two outcomes that are essentially equivalent from a productive/allocative efficiency standpoint, it must consider which outcome is better for consumers.

APA considers that the approach to the conversion test should acknowledge and align with the history and intent of the conversion framework. Such an approach would align with the two previous regulatory decisions on conversion and, for reasons outlined by the AER in the Directlink decision, would promote dynamic efficiency and the NEO.

It is clearly appropriate for the AER to have regard to the expected economic costs and benefits of conversion in the context of the NEO. However, the modelling of expected costs and benefits should not obscure the intent of the conversion framework, nor should it be used to establish a materially higher threshold for conversion than applied by the AER and ACCC to Directlink and Murraylink respectively.

4.2 A decision not to convert is irreversible for the AER

It is important to note that the option to make a conversion application can only be initiated by a MNSP. This means the AER is unable to initiate a decision to convert Basslink in the future, should events occur differently to their expectations. Whilst the AER has expressed concerns as to the irreversibility of a decision to convert, it should be equally concerned with the irreversibility of a decision to not convert whilst the opportunity is provided.

This means the costs and risks of conversion and non-conversion must be given the same weight and the likelihood and size of those costs should be a key factor in the decision. We do not believe the AER has appropriately balanced these considerations in its decision-making framework.

²⁷ AER, 'Directlink Joint Venture Application for Conversion and Revenue Cap: Draft Decision', 8 November 2005, p.18.

²⁸ *Ibid*, p.20.

²⁹ NEL Schedule 2, cl 8.

³⁰ NEL Schedule 2, cl 7.

³¹ AER, 'Draft Decision', December 2024, p.4–7.

4.2.1 Likelihood of a future conversion application

It cannot be assumed that APA will submit another conversion application in the future.

If the conversion application is not successful, APA has already informed the market that it is making plans to trade the asset³². If the Marinus Link FID is to proceed, APA will be under significant pressure to recover the value of its investment prior to the commissioning of the first cable. This is more likely to be achieved by trading Basslink than any of the alternative approaches – see section 6.

To make a second conversion application Basslink would need to be satisfied it has a reasonable probability of success. The AER has outlined for a successful conversion application for Basslink they need to be satisfied:

- There will be no future contract between Basslink and Hydro Tasmania, and
- The development of Marinus Link doesn't go ahead or is delayed

However, the evidence to satisfy these scenarios, also make a conversion application less attractive to Basslink.

For the AER to be satisfied that there will be no future contract with Hydro Tasmania, Basslink will either have to demonstrate that it is successfully trading Basslink on a long-term sustainable basis or enter into a long-term contract with a third-party. If either of these do occur the incentive for Basslink's to apply to become a TNSP is reduced, and even constrained in the case of the contract. Since the publication of the Draft Decision, several mainland third parties with large generation portfolios have contacted APA and expressed an interest in potentially contracting – see section 6.1.2

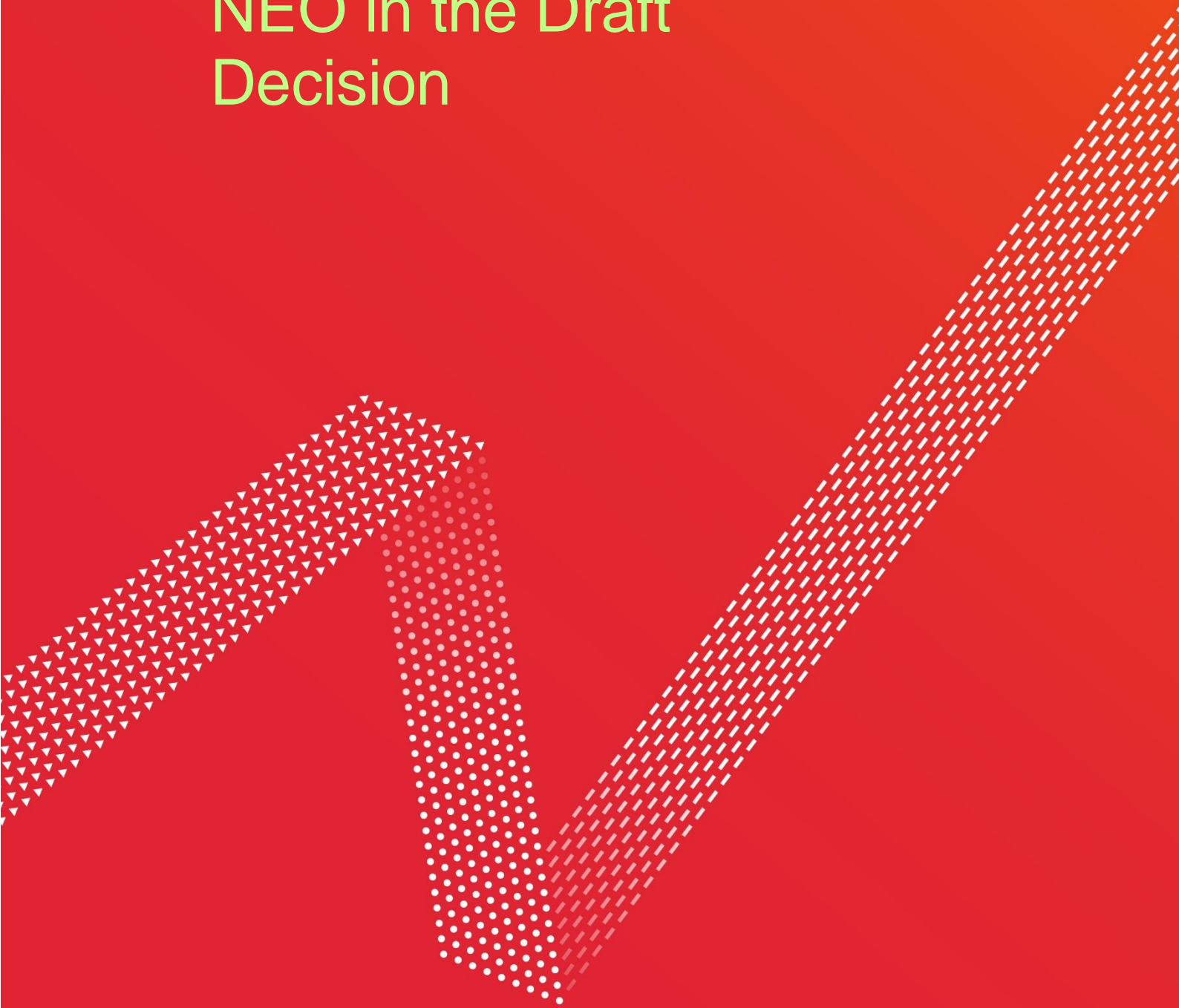
If Marinus Link were to delay construction or abandon the project altogether this removes, or delays, the threat to Basslink of a potential substantial reduction in future revenue from trading. This increases the value proposition to continue trading either independently or under contract with a third party.

Finally, a conversion application takes considerable time and expense – the current application commenced external engagement in January 2023 and the cost of the current application is estimated at about \$3.6 million. If the AER's final decision is rejection, despite the strong evidence in favour of conversion, it would be extremely difficult to convince APA's management and the Board of the merits of a future conversion application under the AER's decision making

Given the potential downside risks to customers from a decision to not convert Basslink to a regulated TNSP, we ask the AER to carefully reconsider its reliance on a future conversion application by Basslink.

³² APA, [ASX release 'AER releases draft decision on Basslink regulation proposal'](#), 17 December 2024

5. The AER's approach to the NEO in the Draft Decision



Summary

- When making its conversion decision, the AER must give weight to consumer benefits, as well as market benefits.
- Both consumer benefits and market benefits support conversion.

5.1 Interpretation of the NEO in the Draft Decision

In the Draft Decision, the AER indicates that its assessment of the NEO has been focused on whether conversion would promote economic efficiency. In particular, the AER’s consideration appears to be narrowly focused on any impact of conversion on *productive* or *allocative* efficiency.

The AER appears to ignore the potential impact of its decision-making on *dynamic* efficiency. As discussed above, the AER’s approach to the conversion test radically departs from previous approach of the AER and ACCC in the Directlink and Murraylink decisions and is starkly at odds with the original intent of the MNSP conversion framework. However, there is no discussion in the Draft Decision of how this change in regulatory approach could impact future efficient investment in energy infrastructure.

The AER says that changes in the prices paid by consumers are “less informative” to its NEO consideration, if those price changes do not materially shift consumption and drive efficiency improvements. The Draft Decision states:³³

The price changes of conversion are an important consideration, although they are less informative in determining whether the conversion of Basslink will result in efficiency benefits in accordance with the NEO. This is because these price changes largely represent changes in payments between producers, transporters and consumers of electricity. Further, price changes are likely to be small in the context of the overall electricity system and demand for electricity is relatively price inelastic in the short term. Accordingly, we would not expect the price changes to materially shift consumption and drive efficiency improvements.

The AER appears to be interpreting the NEO as only directing attention to consumer price impacts where these have an effect on consumption decisions and the allocation of resources i.e. allocative efficiency. Under the AER’s interpretation, regulation should not be concerned with consumers paying higher prices if this simply represents a transfer of surplus from consumers to producers of electricity – this implies that an increase in producer profits at the expense of consumers should not be of concern to regulators in a market with inelastic demand. In short, the AER appears to be interpreting the NEO as simply requiring maximisation of *total* economic surplus rather than *consumer* welfare.

This interpretation of the NEO appears to underpin the entire framework for assessment of the Basslink conversion application. With its narrow focus on productive and allocative efficiency impacts of conversion, the AER gives greatest weight to the modelling of “market benefits” (limited to changes in production costs and emissions). The AER appears to give limited weight to the evidence of potentially significant benefits to consumers from conversion – benefits that are positive in almost all scenarios and over \$3 billion in the most likely scenarios.

We believe the AER’s interpretation and application of the NEO in the Draft Decision is incorrect. In applying the NEO, the AER must also give fundamental weight to the long-term interests of *consumers*, by balancing consumer and economic welfare, or, as it relates to the conversion decision, weight must be given to both consumer and market benefits.

However, it was also recognised that there may be a range of ‘economically efficient’ outcomes or decisions, and that in such circumstances the decision-maker is required to consider which of those outcomes would best advance the long-term interests of consumers. In doing so, decision-makers are compelled to consider the various consumer outcomes referred to in the NEO – including the expected impact on electricity prices, reliability, security of supply and (following the 2023 amendments) the achievement of emissions reduction targets

³³ AER, ‘[Draft Decision](#)’, December 2024, p 6.

5.1.1 Need to give proper consideration to customer benefits

In applying the NEO in its final decision, the AER cannot restrict its consideration to only those consumer impacts that affect market efficiency.

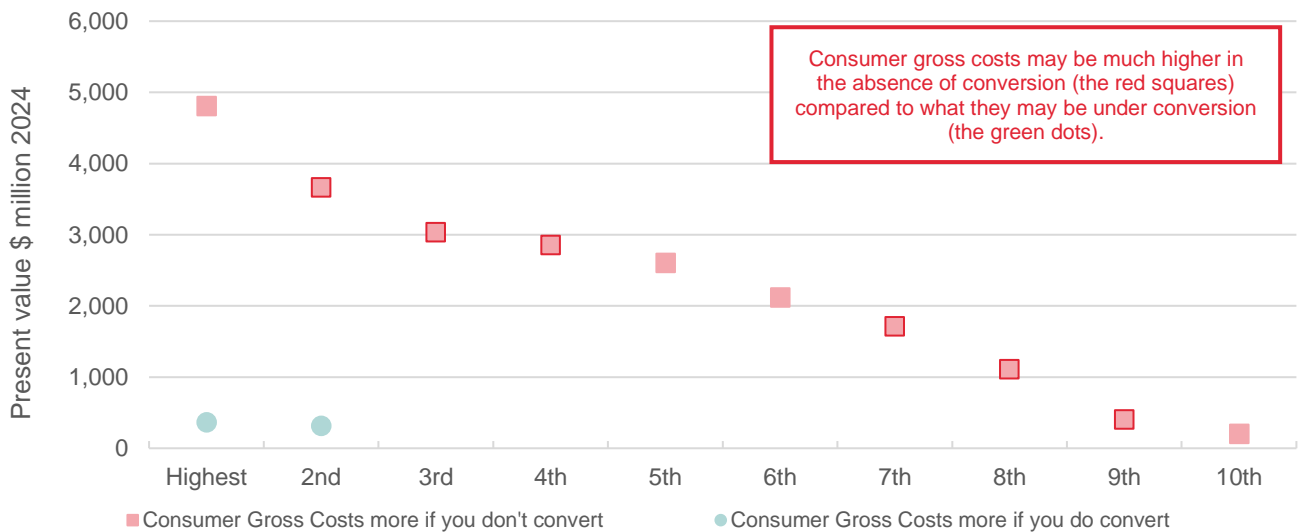
Particularly where the impact of conversion on productive and allocative efficiency is neutral or relatively modest, the AER must also consider broader consumer impacts of its decision on conversion, including the potentially significant consumer benefits indicated by the ACIL Allen modelling.

5.2 Market Benefits and Consumer Benefits both support conversion

The AER’s Draft Decision has focused on a comparison of the scenario benefits to the estimated cost consumers will face from regulating Basslink, rather than the potential costs consumers may face under the range of scenarios. A focus on both the costs and benefits of all scenarios provides a more fulsome analysis to help guide a decision aimed at protecting consumers from any additional costs, rather than just the costs of regulation.

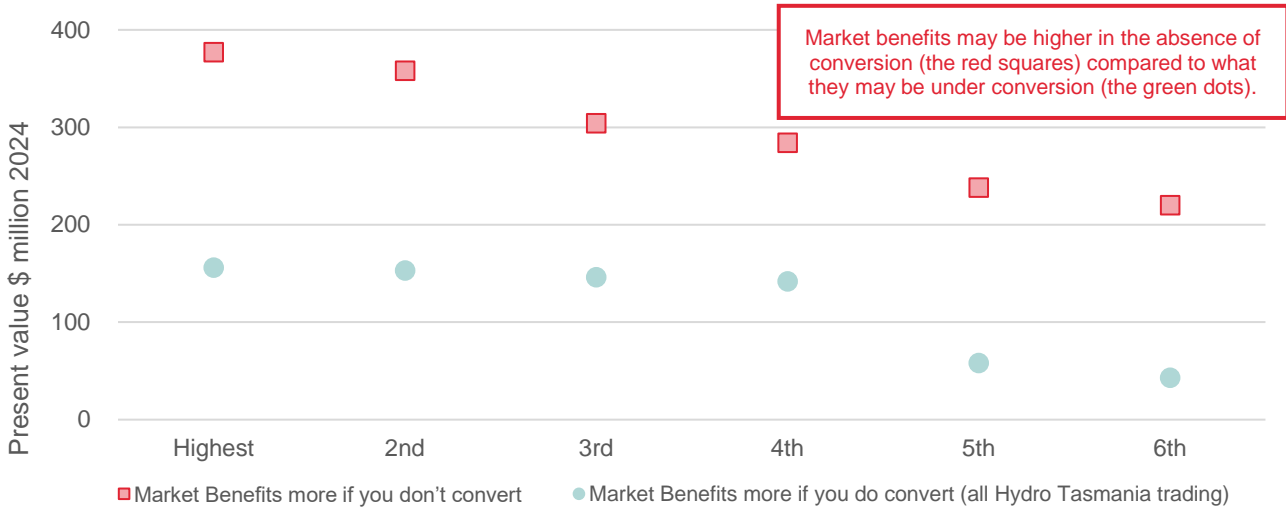
To appropriately consider both the costs of conversion and non-conversion, we have organised the associated present value of the costs from the ACIL Allen consumer and market benefits modelling for each of the 12 scenarios from largest to smallest in the graphs shown in the figures below. Some of the Hydro Tasmania contract scenarios appear to indicate that consumer gross costs will be higher under conversion (the green dots) – this is due to modelling assumptions around trading efficiency under Hydro Tasmania contracting Basslink and the merchant trading scenarios and while theoretically possible, seem unlikely to occur.

Figure 5-1: ACIL Allen modelled consumer gross costs ordered from highest to lowest³⁴



³⁴ Consumer gross cost compares the estimated lifetime increase in wholesale market costs (Table 3.3 in the ACIL Allen report) and estimated SRA proceeds to the estimated lifetime regulated transmission cost of \$1.211 billion. The estimated regulated transmission cost is based on the revised \$754.5 million RAB value shared with stakeholders and the AER since the Proposal was lodged, so is lower than the \$1.402 billion in the ACIL Allen report. Where wholesale costs are greater than transmission costs, customers will pay more without conversion than they would have if Basslink were converted to a TNSP. Where wholesale costs are lower than transmission costs, customers will pay more with conversion than they would without conversion.

Figure 5-2: ACIL Allen modelled market (economic) cost ordered from highest to lowest³⁵



The results demonstrate that in most scenarios (16 of the total 24 scenarios) costs will be higher in the absence of conversion (the red squares) than they will under conversion and the costs of not converting (the red squares) are significantly greater than the costs that would eventuate if Basslink is converted (the green dots).

Considering the above and section 5.1, we strongly urge the AER to give greater weight to consumer benefits in its decision making.

5.2.1 Certain transmission costs are valuable to customers

The AER’s Consultation Paper highlighted that the ACIL Allen modelled consumer price effects of merchant operation, as a proportion of total consumer costs, range from -0.1 per cent to 1.68 percent ³⁶. While these headline percentages sound small, the cost of regulating Basslink is similarly small in percentage terms. Context for the relative size of costs was highlighted by Mr J Pauley:

“The counterfactual to [market costs being small] is that it is highly unlikely that the costs of conversion will have a significant impact on total market costs. This finding is supported by the proposed consumer charges identified by APA in their submission...”³⁷

A more useful comparison is to consider the possible impacts on consumer bills across transmission and wholesale cost components. Actual impacts will vary by customer type, connection level and usage, but wholesale price impacts will ultimately be felt by consumers in the wholesale price component of their bills. The approximate per annum change to the transmission component of a residential customer’s bill resulting from Basslink’s regulation is about a two dollar increase for a Victorian customer, and a three dollar decrease for a Tasmanian customer.

If Basslink is not regulated, then these transmission costs/(savings) will not be borne by consumers – instead, consumers will bear the costs of increases in wholesale prices resulting from bidding Basslink in a manner designed to optimise financial outcomes (optimised bidding). This optimised bidding need only lift wholesale prices by an annual average of \$1/MWh in Victoria and Tasmania, before residential customers are paying more through increases in the wholesale cost components of their bill, than they would have in transmission costs under regulation. If optimised bidding results in a lift in wholesale prices of more than \$1/MWh, then residential customers are worse off. In a simplistic model, a \$5/MWh increase in wholesale prices under merchant operation results in a customer bill impact at least 10 times as great as transmission costs under regulation; a \$10/MWh increase in wholesale prices results in a customer bill impact over 20 times as great as transmission costs under regulation.

³⁵ Based on data in Figures 3.13 and 3.14 of the ACIL Allen report.
³⁶ AER, ‘Basslink Conversion Application Consultation Paper’, August 2024, p.21
³⁷ Mr J Pauley, ‘Submission on Basslink Conversion Consultation Paper’, September 2024, p.3

Basslink’s capacity (596 MW northward and 478 MW southward) is a considerable share of the Victorian and Tasmanian markets. Based on historical price impacts from outages or exits of similarly sized generators in the NEM, it is not unreasonable to assume that optimised bidding could lift prices by an order of magnitude more than \$1/MWh under certain market conditions.

The ACIL Allen modelling provided one wholesale price trace for each scenario: that is, one outlook for demand, generator availability and renewable resource and water availability. While this one outlook provides guidance on the relativity of the benefits of regulation versus merchant operation, it does not attempt to capture the spectrum of market outcomes that may result from optimised bidding of Basslink. For this reason, we believe it is important for the AER to carefully consider the range of possible impacts on wholesale prices against the small but certain transmission cost of regulation and balance the consideration of customers’ interests accordingly.

5.2.2 The uncertainty of consumer impacts has been given precedence over other modelling uncertainties

The AER also raises significant concern as to the high uncertainty of wholesale price savings for customers under Basslink’s conversion. This concern was queried by Mr J Pauley given the benefits were significantly positive and not skewed towards the low end:

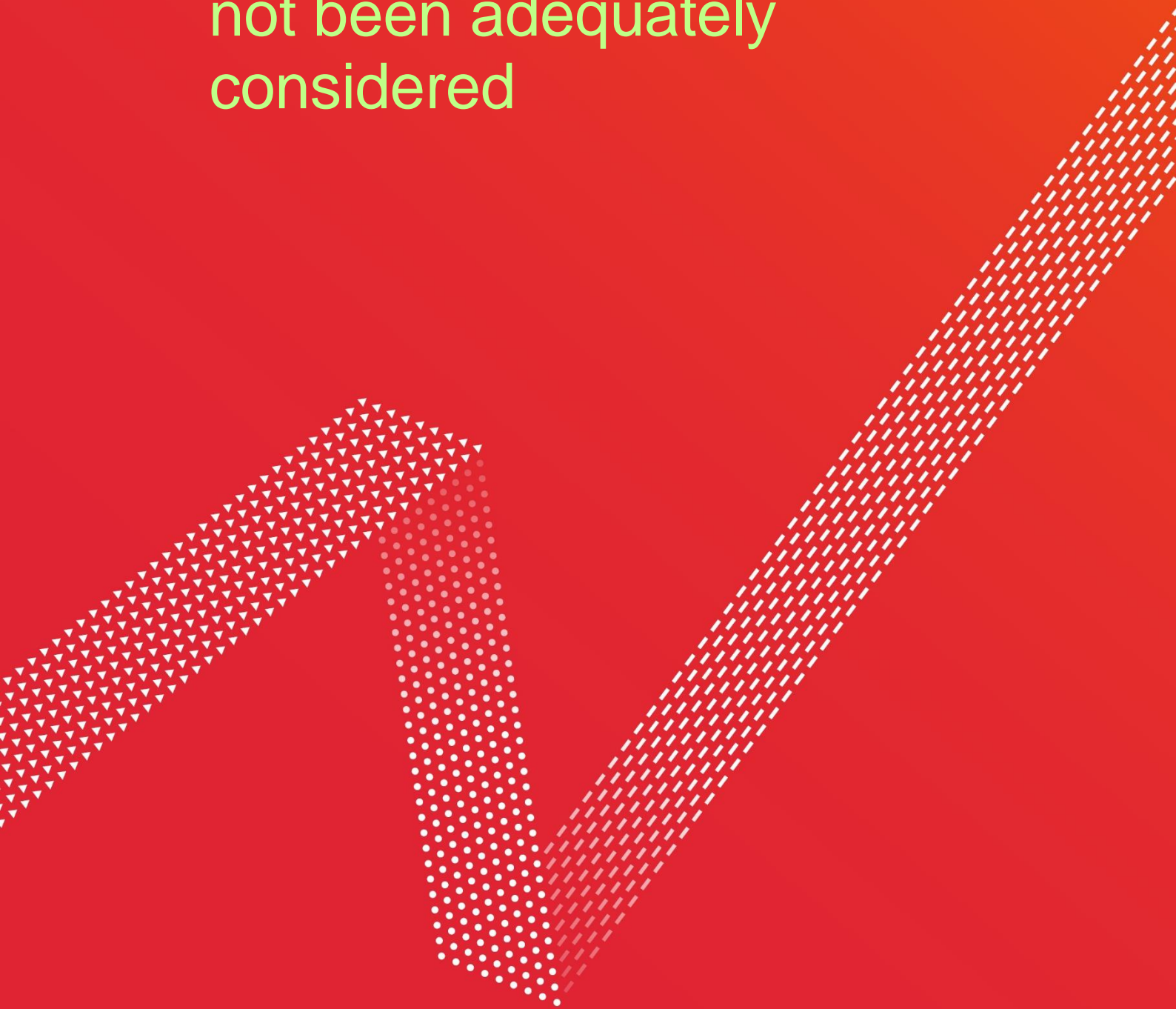
“... It would seem that the use of the words “highly uncertain” by ACIL Allen relate to the wide range in consumer benefits across the scenarios modelled. While there is a significant range ... it indicates that the outcome will likely be significantly positive, unless of course the distribution of results are substantially skewed towards the lower number.”³⁸

We believe that regulatory decision making needs to apply a consistent framework across interconnector decisions if it is to provide regulatory certainty for investors. It seems perverse that the RIT-T for the much more expensive Marinus Link asset, operating as an interconnector between the same two markets, can be approved under different criteria that avoids the challenges of modelling ‘uncertain’ wholesale prices. We address the issue of uncertainty more fully in section 7.

Once again, we reiterate the need for the AER to also consider the long-term implications for customers as an additional lens through which to assess the long-term interests of consumers, particularly as the conversion decision is irreversible, unless APA submits another conversion application in the future – see section 4.2.

³⁸ Mr J Pauley, ‘[Submission on Basslink Conversion Consultation Paper](#)’, September 2024, p.3

6. Alternative counterfactuals have not been adequately considered



Summary

- The Draft Decision has not adequately considered the range of counterfactuals.
- It cannot be assumed that a contract between Basslink and Hydro Tasmania will eventuate.
- The AER’s ACIL Allen modelling demonstrates that merchant trading provides the largest return, and this is the most likely counterfactual in the near-term.
- APA’s December 2024 Australian Stock Exchange (**ASX**) release stated the business would progress its plans to trade Basslink as an unhedged MNSP, plans which are well underway. Since that time, multiple mainland participants have expressed an interest in acquiring the capacity with the purpose of trading the asset.

6.1 Alternative counterfactuals to a Hydro Tasmania contract

One of the key considerations influencing the Draft Decision is whether the most likely counterfactual is Basslink being traded or operated under a contract with Hydro Tasmania. The AER is seeking certainty that Basslink would not sign a long-term contract with Hydro Tasmania at any point in the future.

As outlined in Figure 7-2, five stakeholders consider merchant trading to be the most likely counterfactual, including APA Group and Hydro Tasmania, the two parties best placed to comment on the likelihood of such a scenario. ReCFIT also questioned the likelihood of a contract between Hydro Tasmania and Basslink of the nature modelled by ACIL Allen being approved, given competition concerns:

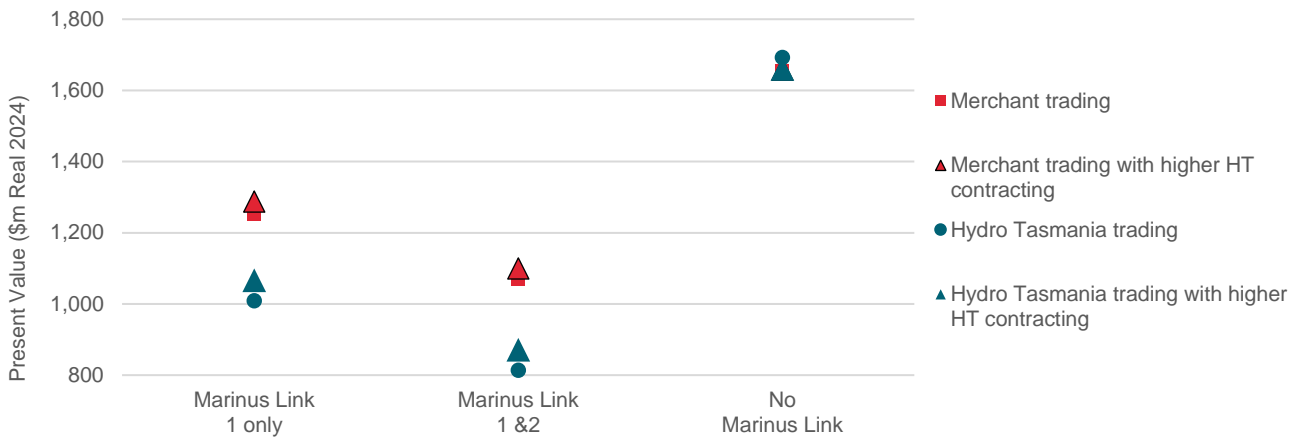
“... the AER must have regard to the fact if a proposed new enduring arrangement was to be considered and submitted to the ACCC for authorisation that would necessarily involve the exercise of discretion by the ACCC following consideration of any prospective forward-looking expected benefits and detriments of the proposed agreement.”³⁹

6.1.1 ACIL Allen modelling indicates merchant trading will deliver the highest returns across most scenarios

The ACIL Allen modelling supports the commercial case for APA trading the asset in preference to contracting with Hydro Tasmania. Figure 6-1 shows the net present value of the inter-regional revenues accrued on Basslink in the modelled merchant and Hydro Tasmania contracting cases. It is reasonable to assume that the inter-regional revenues Hydro Tasmania would earn trading the asset provide a cap on what Hydro Tasmania would pay for such a contract. Merchant trading revenues are substantially higher than this cap in scenarios with Marinus Link; in scenarios without Marinus Link the revenues are comparable. In the absence of certainty on Marinus Link, merchant trading is likely to deliver a greater return to Basslink.

³⁹ ReCFIT, ‘[Submission on Basslink Conversion Consultation Paper](#)’, September 2024, p.4

Figure 6-1: Present value of Basslink revenues for merchant and Hydro Tasmania trading scenarios



While a useful comparison tool, an economic model of dispatch cannot capture the full complexity of market outcomes in all market circumstances. As a result, the modelling likely understates the revenues that can be achieved from strategically trading the asset, and hence likely understating the customer benefits of conversion.

6.1.2 A further counterfactual does exist – another third-party trades the asset

A further option does exist in the range of counterfactuals – where Basslink contracts the trading rights to another third-party participant. This option was contemplated by ACIL Allen but was not modelled because the incentives for a mainland-based entity were not considered to be materially different from Basslink actively trading on its own behalf.

This should be considered a highly credible scenario, given multiple mainland participants have expressed an interest in trading or contracting on the asset since the Draft Decision was published. APA is actively engaging with these mainland participants.

6.2 A contract with Hydro Tasmania cannot be assumed

Basslink and Hydro Tasmania have not engaged in discussions regarding a new contract. Should conversion be unsuccessful, APA expects to actively trade the asset as an MNSP from 1 July 2025, per our ASX announcement⁴⁰ issued following the release of the AER’s Draft Decision.

As an ASX listed entity, APA’s securityholders and financiers expect APA to pursue a strategy for Basslink that maximises its value, focusing on the long-term net income generated by the asset. Given the ongoing operating costs for Basslink are largely fixed, net income is determined by the revenue the asset can generate.

In the longer-term, Basslink may continue to trade the asset itself, or consider entering into a contract if such an agreement strikes an appropriate balance between revenue and risk to deliver value for our shareholders in the long-term.

We consider it necessary the AER give consideration to the following factors reducing the likelihood a long-term contract with Hydro Tasmania:

1. The circumstances which resulted in past agreements between Basslink and Hydro Tasmania no longer apply.

Past contracting between Hydro Tasmania and Basslink has been under the Basslink Services Agreement (BSA) and the Network Services Agreement (NSA). As outlined by ReCFIT⁴¹,

⁴⁰ <https://www.apa.com.au/news/asx-and-media-releases/aer-releases-draft-decision-on-basslink-regulation-proposal>

⁴¹ ReCFIT, ‘Submission on Basslink Conversion Consultation Paper’, September 2024, p.3-4

“The BSA was effectively a financing transaction that enabled National Grid to make a positive investment decision to build Basslink. The BSA was the vehicle through which National Grid (as the project proponent) could demonstrate a sustainable revenue path to convince debt providers and itself to make the investment in progressing the link....”

Turning to the contemporary situation, there is no equivalent FID to be taken. APA acquired the asset from the previous owner when Basslink Pty Ltd (BPL) was in administration and receivership. There was a short-term contract agreed to by Hydro Tasmania and BPL, which effectively provides a bridge to the regulatory process. That transaction is not and was not intended to be enduring.”

From 1 July 2025, the asset is unencumbered by the requirements of construction financing or charting a path out of administration, the circumstances which gave rise to past contracts. Effectively, Basslink is presented with the first opportunity since commissioning of the asset to trade as an MNSP, and to contract trading rights with parties other than Hydro Tasmania.

2. Any long-term contract would need to represent the best risk-adjusted return for Basslink

Basslink is the sole provider of transmission services between Victoria and Tasmania, an inherently valuable position, and the flows between Victoria and Tasmania are valuable to a range of participants other than Hydro Tasmania. Basslink and Hydro Tasmania would only be counterparties to a future contract to the extent that this contract represented the best risk-adjusted return for Basslink out of a range of available options.

Competition concerns have previously been raised in relation to the bidding of Basslink⁴², including anti-competitive detriments in Tasmania if the interconnector was to be bid at non-zero prices⁴³. Consequently, potential limitations imposed on actively trading the asset would impact the value Hydro Tasmania could ascribe to Basslink trading rights. On the other hand, other participants would be able to actively bid the asset to optimise financial outcomes, and such participants with an existing mainland portfolio would bid Basslink in a manner designed to complement that portfolio. The value that a third-party would ascribe to the Basslink trading rights is also a function of the additional revenue that they could earn from that portfolio through the operation of Basslink.

This again makes clear that APA selling the Basslink capacity to a third party, who would then trade that capacity in a manner designed to optimise financial outcomes, must be considered a very credible counterfactual in the AER’s analysis.

It cannot be assumed that Hydro Tasmania will offer a contract that sufficiently compensates Basslink. This view is supported by several stakeholders including TasNetworks and Hydro Tasmania:

“... a continuation of the HT agreement is based on commercial decisions by HT and APA Group and is not guaranteed. Relying on this counterfactual could provide an unrealistic assessment of the benefits of conversion should it not eventuate.

TasNetworks notes that this approach is consistent with public statements from HT and APA Group, the parties best placed to comment on the probability of a continuation of the HT agreement.”⁴⁴

“Although Hydro Tasmania has previously acknowledged that if conversion does not occur it is possible the agreement may be extended, there is no certainty that the parties would seek an extension or reach agreement on its terms.”⁴⁵

6.3 Efforts to establish a dedicated trading function are well underway

In the absence of conversion, the commissioning date for Marinus Link sets a timeline for APA to recover a large portion of the value of its investment, providing a strong incentive to maximise Basslink revenues over that period – whether that is by trading the asset itself, or contracting with a third-party.

⁴² ACCC, Tasmania Derogations and Vesting Contract – Final Determinations, 14, November 2001, p16

⁴³ *Ibid*, p30

⁴⁴ TasNetworks, ‘Submission on Basslink Conversion Consultation Paper’, September 2024 p.2

⁴⁵ Hydro Tasmania, ‘Submission on Basslink Conversion Consultation Paper’, September 2024 p.2

As outlined in section 6.2, Basslink and Hydro Tasmania have not engaged in discussions regarding a new contract. APA's statement to the ASX in relation to its intentions is set out below:

*"APA is seeking to regulate Basslink in line with its commitment to the Tasmanian Government. If today's draft decision by the AER is confirmed as final, APA will seek to maximise the value of the asset, in the best interest of APA's investors, by progressing our plans to trade Basslink capacity in the spot market, in line with market rules, once the Hydro Tasmania contract expires on 30 June 2025. We will be able to leverage the existing systems and capabilities in place across APA."*⁴⁶

Given the decision timeline and the existing processes for bidding Basslink, this remains the most likely outcome. To support this, we have engaged a market trading expert and are currently recruiting experienced traders to establish trading operations.

We strongly encourage the AER to reconsider the Draft Decision's assumption of a contract between Basslink and Hydro Tasmania as a "default" counterfactual. This view is also supported by Hydro Tasmania:

*"... the unhedged merchant Basslink scenario is the most appropriate counterfactual for the AER to use in assessing the benefits of conversion."*⁴⁷

⁴⁶ APA, [ASX release 'AER releases draft decision on Basslink regulation proposal'](#), 17 December 2024

⁴⁷ Hydro Tasmania, ['Submission on Basslink Conversion Consultation Paper'](#), September 2024 p.2

7. Addressing uncertainty



Summary

- Modelling is inherently uncertain, and there is considerable uncertainty over the likelihood of all future scenarios, especially those involving Marinus Link.
- If all the scenarios and modelling uncertainties were considered to have equal weighting, the ACIL Allen modelling demonstrates consumer price outcomes in favour of regulating Basslink.
- Any further delays to Marinus Link strengthen the case for regulating Basslink.

7.1 Modelled uncertainty

Much of the Draft Decision hinges on the uncertainty of the modelled results, for example⁴⁸:

There is considerable uncertainty over the likelihood of these future scenarios and associated outcomes.

Because the benefits of conversion are uncertain, it is unclear whether the market benefits or benefit to consumers of lower wholesale prices would balance this reallocation of risk.

We have considered the inherent uncertainty as to the likelihood of modelled outcomes and the relatively modest modelled benefits alongside the significance and irreversibility of a decision to convert.

Uncertainty exists in all AER decisions and as highlighted by ReCFIT in its submission to the AER's August 2024 Consultation Paper:

"...any decision by the AER to approve Basslink's conversion to a regulated interconnector is a once-off decision... That decision will necessarily be made under considerable uncertainty about the future of the NEM - the AER cannot divine the future. Modelling provides important insights into possible futures and is a useful analytical tool..."

Almost certainly, time will prove any modelling assumptions made today to be incorrect."⁴⁹

The risk associated with true uncertainty is symmetric – meaning outcomes are equally likely to occur in either direction. Some inputs from the ACIL Allen modelling falls into this category. For example, estimated wholesale prices in the absence of conversion could be just as likely to increase as to decrease. If all ACIL Allen modelling uncertainties were symmetrical and each scenario equally probable, then the actual outcome is as likely to be above the simple average of \$1.6 billion⁵⁰ as it is below, and uncertainty would not be a deciding factor as it neither increases nor decreases the cost of conversion.

However, not all the risks associated with modelled inputs and assumptions are symmetrical. The modelling relied on the Australian Energy Market Operator's (AEMO's) Step Change scenario and assumptions from the 2022 Integrated System Plan (ISP), which included the government-legislated targets and plans for renewable generation development and associated dispatchable capacity. This ISP has since been replaced by the 2024 ISP which contains many assumptions that face asymmetrical uncertainty. For instance, global skills and equipment shortages are more likely to delay the commissioning dates of ISP projects, including Marinus Link, rather than accelerate them.

⁴⁸ AER, 'Draft Decision', December 2024, p.2, 7, 11

⁴⁹ ReCFIT, 'Submission on Basslink Conversion Consultation Paper', September 2024, p.6

⁵⁰ For more details, see APA, 'Second submission on Basslink Conversion Consultation Paper', September 2024, p.12

7.1.1 Asymmetrical uncertainty

The analysis of the costs of not converting Basslink shown in section 5 and the large, modelled ACIL Allen consumer benefits indicates the scale of uncertainties that would need to underlie ACIL Allen’s modelling. When considered holistically, these asymmetrical factors could easily offset or outweigh the AER’s concerns about uncertainties in wholesale prices and SRAs and further increase consumer price outcomes in favour of the conversion of Basslink. This view is supported by ReCFIT:

“... given the scale differences between the modelled net costs of Basslink to customers under regulation and the modelled benefits (as highlighted above), even with a conservative factor applied to the modelled customer benefits to account for uncertainty, the modelling presents a solid case to support Basslink’s regulation...”⁵¹

In assessing the relative market and consumer benefits, the AER has focused heavily on the uncertainty conversion will have on wholesale price reductions and settlement residue auctions whilst overlooking the interplay of other equally uncertain modelling inputs. These overlooked factors could have a much greater negative impact on consumer outcomes in the absence of conversion, given their asymmetrical nature.

Key risks to consumers include higher wholesale prices, driven by discrepancies between the 2024 and 2022 ISP assumptions, ongoing delays to the Marinus Link project and the likelihood of further delays or reduced capacity, as well as the inability for the AER to reverse a conversion decision if outcomes differ from expectations. These risks highlight the need to weigh the relative costs and benefits of each scenario carefully.

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. Modelling is just one input to the conversion decision and, given the uncertainty surrounding all aspects of the energy transition, should not be the deciding source informing the AER’s decision making.

Judgement is required to account for modelling limitations, the potential qualitative customer outcomes under conversion and the likelihood of the various counterfactuals This view is supported by several stakeholders:

“Hydro Tasmania encourages the AER to make qualitative assessments of the benefits of conversion to recognise the limitations and uncertainties of modelling. This would be consistent with the approach taken by the ACCC in considering the Murraylink conversion. The ACCC accepted the qualitative public benefit argument put by Murraylink as to why discretion should be exercised to allow conversion.”⁵²

“...modelling provides useful insights into potential futures, but can only be used as one source of input into what ultimately is a judgement exercise confronting the AER.

In coming to any judgement on the conversion question, weight also needs to be given by the AER to what is known, relative to what might be assumed.”⁵³

7.2 Marinus Link uncertainty enhances the case for conversion

The assumptions around when Marinus Link will be delivered, and its final capacity is particularly important to the Basslink conversion decision because any delays or reduction in expected capacity increase the magnitude of conversion benefits to consumers beyond what was modelled by ACIL Allen. They also increase the costs consumers will face if Basslink is not converted – as discussed in section 5.

In the Draft Decision, the AER appreciates that delays to Marinus Link and its final capacity will heavily influence price outcomes:

⁵¹ ReCFIT, ‘[Submission on Basslink Conversion Consultation Paper](#)’, September 2024, p.6

⁵² Hydro Tasmania, ‘[Submission on Basslink Conversion Consultation Paper](#)’, September 2024, p.2

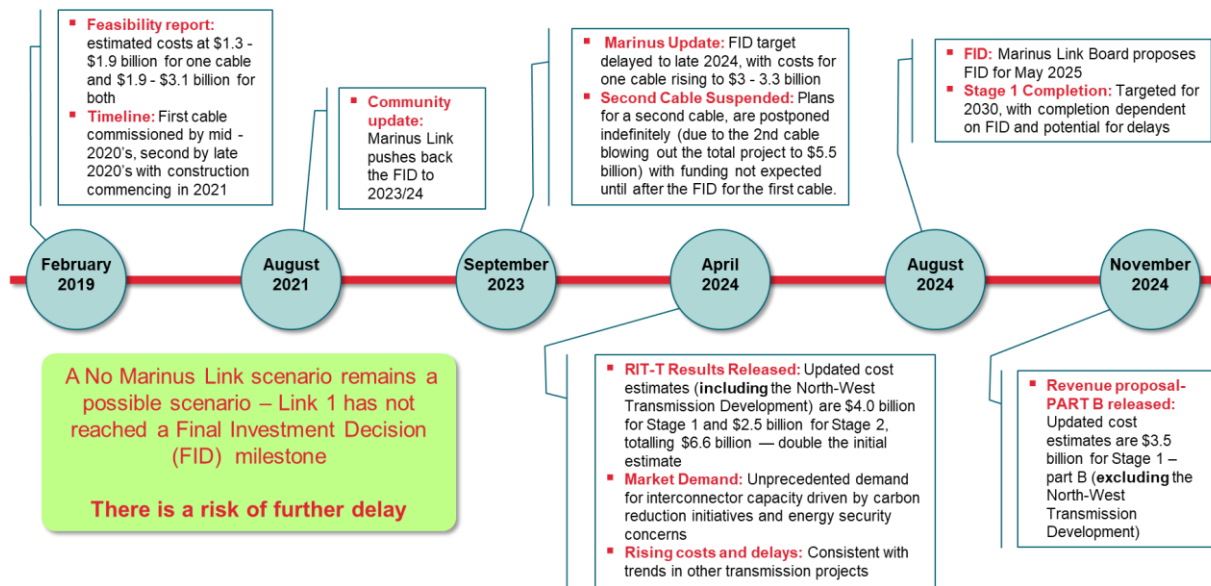
⁵³ ReCFIT, ‘[Submission on Basslink Conversion Consultation Paper](#)’, September 2024, p.6

“The commissioning of Marinus Link appears the most significant variable affecting the results.”⁵⁴

“Greater wholesale price impacts from conversion are estimated when there is less available capacity from Marinus Link.”⁵⁵

Like many large ISP committed and anticipated projects, the project has been plagued by significant cost increases and delays⁵⁶. The diagram below summarises the delays and cost variations experienced by Marinus Link to date.

Figure 7-1: Changes and delays to project Marinus Link



The ACIL Allen modelling was based on an optimised timeline rather than a likely timeline, with the first cable commissioned in 2029 and the second cable in 2036. This is inconsistent with the timing outlined in the latest ISP and by Marinus Link which indicate completion of the first cable in 2030.

In addition, the possibility that a second Marinus Link cable may not be built is growing.

“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...”⁵⁷

The likelihood the project will be delivered later than expected is greater than the potential the project is delivered on time or outperforms its expected timetable. The best way to manage this asymmetric uncertainty is discussed below.

7.3 Weighting scenarios will better account for uncertainty

The uncertainty of future modelled outcomes is best addressed by weighting scenarios – assigning greater weight to those considered more likely to occur and less weight to those considered less likely. Rather than producing a single definitive weighting, the AER should consider a range of relevant weightings to better understand the expected impacts of various likely outcomes. This approach would offer a more complete picture of whether the outcomes align with the long-term interests of consumers.

⁵⁴ AER, 'Basslink Conversion Application Consultation Paper', August 2024, p.21

⁵⁵ AER, 'Draft Decision', December 2024, p.19

⁵⁶ EnergyConnect now due a year later (July 2027), CWO REZ now expected three years later (August 2028), HumeLink now due 6 months later (December 2026) and Marinus Link 1 due a year later (2030).

⁵⁷ The Hon. Chris Bowen MP et al, 'Joint media release: Investing in the future of Tasmanian energy with Marinus Link', 3 September 2023

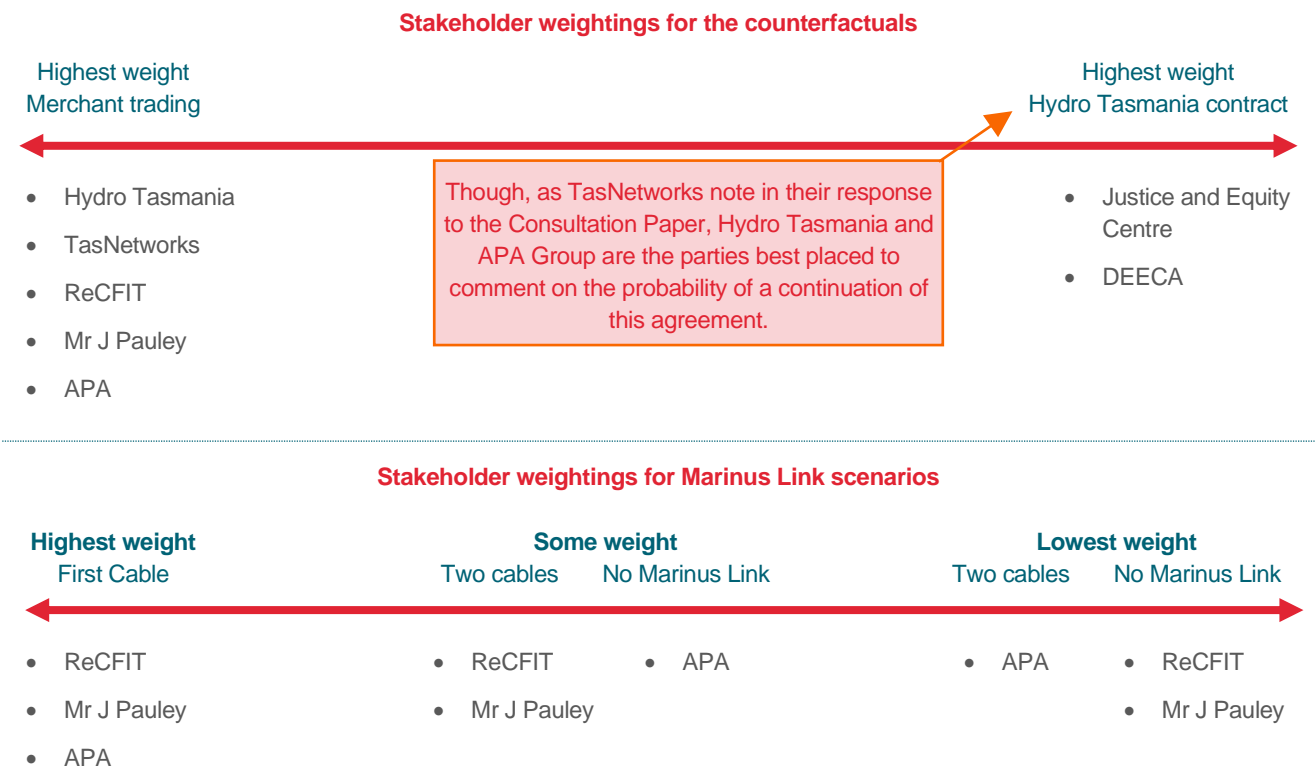
The AER’s August 2024 ‘Basslink Conversion Application Consultation Paper’, specifically sought stakeholder input on the appropriate weightings for different potential Marinus Link outcomes and the likelihood of alternative counterfactuals. These weightings are important to the conversion decision as many other uncertainties (both symmetrical and asymmetrical) apply across all scenarios. This was acknowledged in ReCFIT’s submission:

“... it [is] appropriate that, through the Consultation Paper, the AER seeks input from stakeholders on the modelling outputs and on the weight that it might be given by the AER in informing the conversion question prior to the AER making its draft determination.”⁵⁸

However, while the Draft Decision notes that different weights were applied, the tables presented show only the maximum and minimum ranges of certain scenarios. This presentation masks the true results by effectively giving equal weight to both extremes. To address this, we reiterate the importance of weighting scenarios, so the results can be appropriately considered.

Stakeholder submissions to the Consultation Paper, provide important insights into how scenarios should be weighted to reflect likely outcomes. We present the results of stakeholders’ scenario weightings below.

Figure 7-2: Stakeholder feedback on weightings for the most appropriate counterfactual and Marinus Link outcomes



From this feedback, it is apparent that:

- Most stakeholders see merchant trading as the most likely counterfactual. Two stakeholders, neither of whom can be considered best placed to comment on the likelihood of such an agreement, consider a Hydro Tasmania contract most likely.
- Stakeholders who provided feedback on the likelihood of Marinus Link scenarios were generally aligned in their views – one cable was seen as the most likely project outcome with lesser weight applied to both the two cables and the no Marinus Link scenarios, recognising there was some division as to whether the two cables or no Marinus Link scenarios should be given more or less of this weight.

⁵⁸ ReCFIT, ‘Submission on Basslink Conversion Consultation Paper’, September 2024, p.6

With this stakeholder feedback in mind, a range of weighted outcomes for both consumer and market benefits are presented in the charts below. These charts include the estimated ACIL Allen proceeds from SRAs.

Varying weights are applied to consider the likelihood of a merchant trading versus Hydro Tasmania trading counterfactual and the likelihood of a one cable Marinus Link, a two cable Marinus Link and no Marinus Link. Based on the stakeholder feedback above and clear statements from Basslink and Hydro Tasmania that a contract is not being pursued, scenarios that are considered less likely to occur are greyed out.

Figure 7-3: Consumer benefit outcomes for various counterfactual and Marinus Link weightings⁵⁹

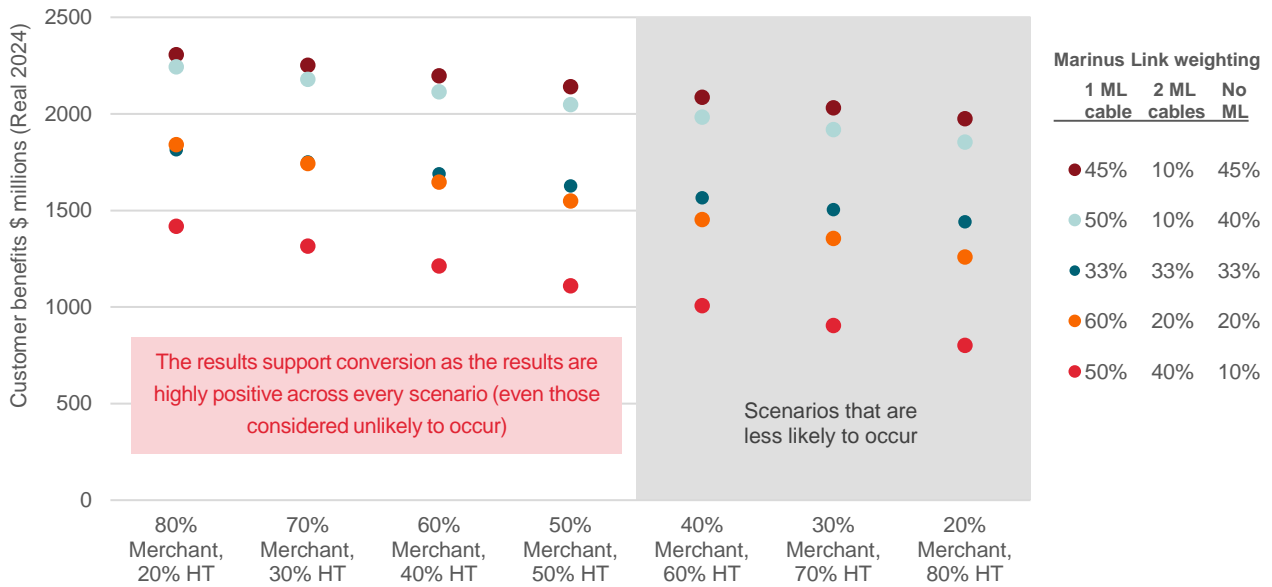
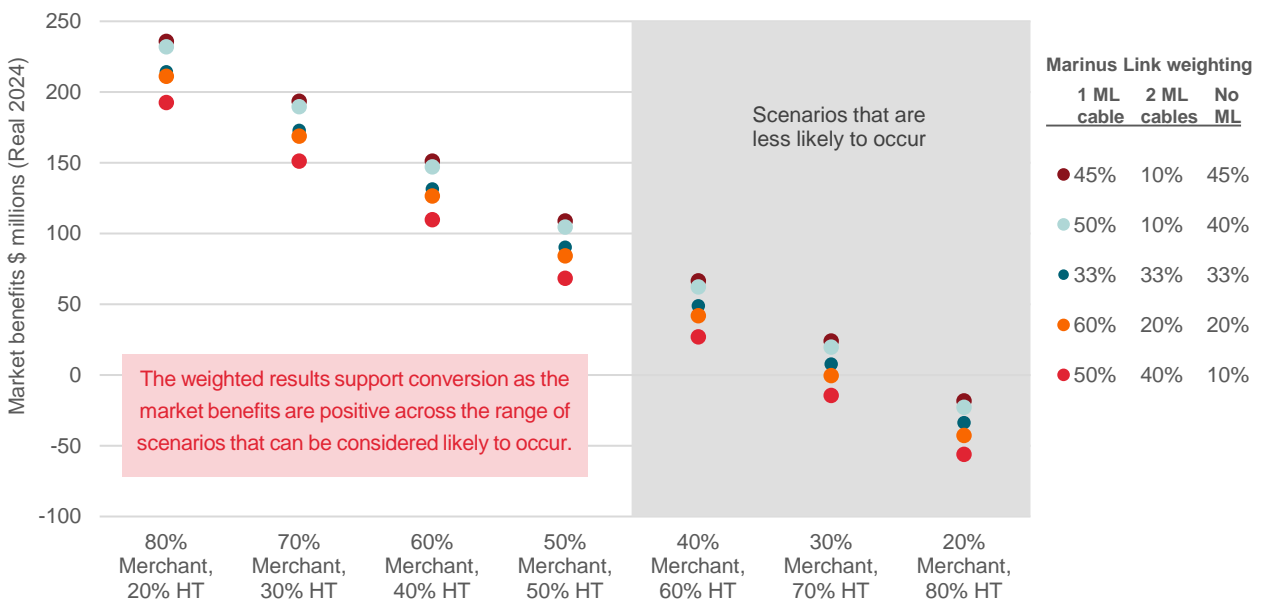


Figure 7-4: Market benefit outcomes for various counterfactual and Marinus Link weightings



⁵⁹ Includes the ACIL Allen estimated proceeds from SRAs.

The charts indicate that:

- Even if the counterfactuals and three Marinus Link scenarios are equally weighted, regulation will deliver net consumer benefits of \$1.6 billion and market benefits of \$90 million – a result that is consistent with the NEO.
- The benefits only grow as the likelihood of a merchant trading counterfactual is extended beyond a 50 percent likelihood or the probability of a no Marinus Link scenario grows from an equal weighting.
- The weighted modelling results support conversion as the consumer and market benefits are positive across the range of outcomes that are considered to be realistic.

For negative outcomes to arise, the Hydro Tasmania trading counterfactual must be considered to be about four times more likely to occur than the merchant trading counterfactual. Negative benefits can also arise where the Hydro Tasmania trading counterfactual is highly weighted and there is a combined 80 percent likelihood of Marinus Link having either one or two cables. Both outcomes are considered to be incredibly unlikely.

8. Asset stranding concerns



Summary

- Asset stranding risk only occurs if customers bear asset losses under regulation that would have been borne by Basslink, had it not been converted.
- Basslink is unlikely to face potential asset stranding ahead of Marinus Link 2 commissioning.
- Forecast cashflows indicate asset stranding is unlikely to occur as the value of the proposed RAB is expected to be recovered ahead of Marinus Link 2 coming online in all three of the ACIL Allen merchant trading scenarios.
- Expected delays and reduction in the capacity of Marinus Link further reduce the risk of asset stranding.

8.1 Asset stranding concerns

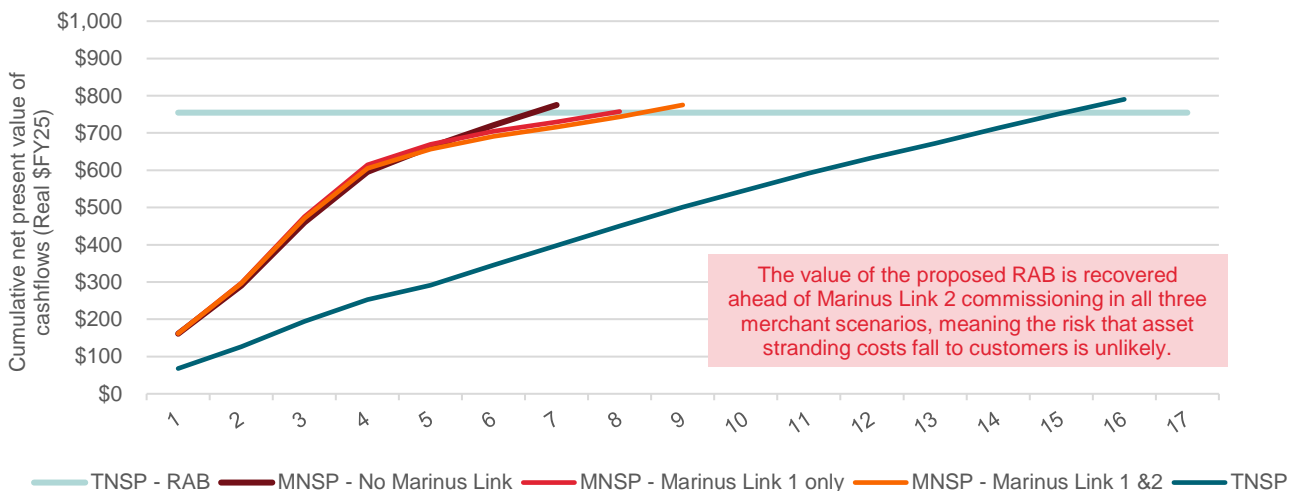
The Draft Decision raised concerns in relation to the reallocation of a potential asset stranding risk from investors to customers under conversion of Basslink to a TNSP. Asset stranding risk can only occur if the asset losses that would have been borne by investors in Basslink operating as a MNSP are instead incurred by customers under the scenario where Basslink operates as a TNSP.

Stranding is a risk to the investment after it has been made and has zero value in economic efficiency assessments. This means asset stranding is only relevant if price impacts are important to the decision.

The value of this risk is likely to be very small for consumers on the conversion of Basslink. This is because the RAB replaces the cost of the investment in the recovery of value consideration, this removes the prospect of consumers reimbursing investors if the investor paid too much for the asset⁶⁰.

The ACIL Allen modelled revenues indicate a very short recovery period for the value of Basslink if the asset is traded. This means the outstanding value of the investment that investors are seeking to recover to avoid stranding reduces very quickly.⁶¹

Figure 8-1: Cumulative net present value of regulated cashflows compared to relevant merchant trading scenarios⁶²



As outlined in section 7.2, the asymmetrical uncertainty surrounding the timing and capacity of Marinus Link further lowers the risk of asset stranding and, as such, enhances the case for conversion.

⁶⁰ Even if this wasn't applicable, the price paid by Basslink and the value of the RAB are so close that any gain or loss would be immaterial.

⁶¹ Stranding costs for consumers under regulation are limited to those costs that the investor would not have recovered in the counterfactual. Any payment for outstanding RAB that is higher than the counterfactual investor stranded value is compensating the investor for value that they would have recovered from consumers in the absence of regulation.

⁶² Based on ACIL Allen modelling revenues averaged to financial years (understating revenues given this excludes half of the higher revenues in 2025) and Basslink's proposed 2025–30 revenues with 2029–30 revenue carried forward to 2046, less forecast expenses.

Appendix



Appendix A – Summary of RRG feedback on topics relevant to conversion

The table below summarises the feedback from RRG meetings that have taken place since the Proposal was lodged with the AER by key priority. Given the Draft Decision and this Response only addresses the question of conversion, the capital expenditure, insurance and cost sharing priorities have been excluded from the feedback table.

It is worth noting that from these discussions, it became apparent that reliability and security were paramount to stakeholders, so we have amended the Reliability priority to now be Reliability and Security. Given their instrumental role in the Draft Decision, we have also included the stakeholder discussions related to ‘benefits modelling’ and ‘SRAs’.

Table A-1 – Summary of RRG feedback and our response

What we heard	How we have responded
Reliability and security	
<ul style="list-style-type: none"> Stakeholders wanted to understand how reliability outcomes were reflected in the ACIL Allen benefits modelling, with one stakeholder expressing concern around the impact on reliability if Basslink is not converted to a regulated asset citing historic outages on Basslink as the basis for their concern. 	<ul style="list-style-type: none"> In our response to the AER’s ‘Basslink Conversion Application Consultation Paper’ we highlighted that reliability outcomes will be better if Basslink is regulated: <ul style="list-style-type: none"> Under regulation, stakeholders have confidence the asset is managed to meet the National Electricity Objective. In an unregulated environment, expenditure will only occur if it makes economic sense. We have clarified the risks and benefits to Victorian and Tasmanian customers in Table 3-1 of this Response document.
<ul style="list-style-type: none"> Information was sought on what the actual capacity utilised by Hydro Tasmania was, notwithstanding 100% of capacity was being contracted by them. 	<ul style="list-style-type: none"> We explained that 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 made it clear that these historical arrangements are not what was modelled by ACIL Allen.
Affordability	
<ul style="list-style-type: none"> Stakeholders wanted clarity on the differences in how Basslink receives a return and interacts with generators as a regulated link compared to a merchant link. 	<ul style="list-style-type: none"> We explained that AEMO would dispatch energy under a regulated link, so there would be no direct charge to a generator for using Basslink – the costs would be part of transmission charges for Victorian and Tasmanian customers. If Basslink remains a merchant link, whoever uses the link will have to pay for it under one of two models, either: <ul style="list-style-type: none"> A party contracts directly with Basslink, or It is operated as trading vessel to maximise revenue through price differentials – under this model the price consumers pay would be greater than what Basslink receives. We have clarified the risks and benefits to Victorian and Tasmanian customers in Table 3-1 of this Response document. We have highlighted that insufficient weight has been applied to the counterfactuals other than a contract with Hydro Tasmania in section 6 of this Response document.

What we heard

- A stakeholder queried whether there is a stranding risk if Basslink becomes regulated, once Marinus Link is operable.

How we have responded

- We outlined there are still uncertainties around Marinus (timing and capacity) and the fact we can only model what we know. Our Basslink modelling shows that the benefits to the market and consumers from regulation are positive.
- We have clarified the risks and benefits to Victorian and Tasmanian customers in Table 3-1 of this Response document.
- We discuss Marinus Link uncertainty and how it enhances the case for conversion in section 7.2 of this Response document.

Benefits modelling

- Stakeholders wanted to see modelling that proves whether the benefits of Basslink becoming regulated outweighs the costs of being regulated, but also how this compares to the counterfactual of Basslink becoming a merchant asset. The associated changes in consumer benefits also needs to be made clear.
- Stakeholders understood that whilst costs are important, it is vital that all the benefits, including indirect benefits, are considered. For example:
 - Whilst Victoria benefits from renewable energy, Tasmania gains access to a market for their renewable generation.
 - The benefits to other jurisdictions should also be considered.

- We explained that our initial modelling of market benefits was based on a with and without Basslink, but that the AER's ACIL Allen modelling would attempt to measure the market benefits of Basslink with and without regulation.
- We also made it clear that the counterfactual will look different to the past, given the expiry of the Hydro Tasmania contract.
- In our response to the AER's 'Basslink Conversion Application Consultation Paper':
 - We outlined the additional benefits of regulation not captured in the ACIL Allen modelling. We made it clear that including these factors will increase the value and reliability outcomes for customers in a regulated environment compared to an unregulated one.
 - We made it clear that the treatment of SRA proceeds and their inclusion in the assessment of the benefits of conversion is important.
- We have clarified the risks and benefits to Victorian and Tasmanian customers in Table 3-1 of this Response document.
- We have reiterated the need to consider consumer welfare (and prices) in section 5 of this Response document.

- Stakeholders thought an extension of the agreement with Hydro Tasmania should also be modelled, given Hydro Tasmania raised it as an option in their submission to the AER's Issues Paper, though there were concerns the cost to Tasmanians would increase under this scenario.

- We outlined that APA does not view contracting with Hydro Tasmania as an option for Basslink.
- We have highlighted that insufficient weight has been applied to the counterfactuals other than a contract with Hydro Tasmania in section 6 of this Response document.

- Stakeholders thought the ACIL Allen modelling should consider alternative assumptions and a bigger range of factors.

- In our response to the AER's 'Basslink Conversion Application Consultation Paper', we highlighted that the ACIL Allen modelling relied on:
 - A single set of "median" inputs for demand, generator outages and renewable resource availability, and
 - AEMO's 2022 ISP dates for transmission build-out, generation retirement and some new generation build
 We encouraged the AER to consider more than one static "median" operating scenario and to consider the 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.
- We suggest the AER also considers the costs to customers in the absence of conversion in section 5 of this Response document and that they weight the scenarios to help address modelling uncertainties in section 7.

What we heard	How we have responded
<ul style="list-style-type: none"> Stakeholders did not see the average of customer benefit/ disbenefit used in the ACIL Allen modelling as a useful metric, as it does not properly account for the likelihood of each scenario. 	<ul style="list-style-type: none"> In our response to the AER's 'Basslink Conversion Application Consultation Paper' we outlined that modelled outcomes can only provide a balanced view if all potential scenarios are assessed and weighed accordingly. We suggested some weightings for the Marinus Link scenarios and the counterfactuals to regulation which, if included, indicate the net benefit to consumers of regulating Basslink is \$2.2 billion (compared to the \$1.6 billion put forward in the ACIL Allen modelling). We suggest weighting the scenarios to help address modelling uncertainties in section 7 of this Response document and present a range of results based on stakeholder feedback.
<ul style="list-style-type: none"> Stakeholders did not think that ignoring the 'No Marinus Link' options in the ACIL Allen modelling was helpful. Stakeholders thought the ACIL Allen modelling for 'Marinus Link Stage 1' and 'Marinus Link Stage 1&2' options needed to be adjusted to account for more realistic completion dates rather than relying on unrealistic commencement dates and discounting. 	<ul style="list-style-type: none"> In our response to the AER's 'Basslink Conversion Application Consultation Paper' we encouraged the AER to include all scenarios, including a 'No Marinus Link', given a Final Investment Decision is not expected until May 2025 and the delays experienced by the project to date. We also suggested improvements to the assumptions and treatment of Marinus Link options in the modelling including the use of more realistic completion dates and the potential for additional delays, based on the experience of other recent transmission construction projects across the NEM. We discuss Marinus Link uncertainty and how it enhances the case for conversion and suggest the AER weights the scenarios to help address modelling uncertainties in section 7 of this Response document.
<ul style="list-style-type: none"> Stakeholders wanted to know why Basslink is needing to jump through "conversion hoops", but Marinus Link does not. 	<ul style="list-style-type: none"> We explained that Marinus Link can, and has, applied directly to be a regulated link. As a result, it does not need to justify whether regulated or unregulated status delivers more net benefits to consumers. We present the risks and benefits to Victorian and Tasmanian customers in Table 3-1 of this Response document, outline how much cheaper Basslink is compared to Marinus Link in section 3.3 and suggest the AER weights the scenarios to help address modelling uncertainties in section 7.
<ul style="list-style-type: none"> Stakeholders were interested to know the capacity utilised by Hydro Tasmania, notwithstanding 100% of capacity is contracted to them. 	<ul style="list-style-type: none"> We explained that under the contract with Hydro Tasmania, Basslink's capacity has been bid into the market at \$0, so it has effectively operated as an 'open link' and been 'fully utilised' in one sense by Hydro Tasmania. When actual flows are considered, these have not been at maximum capacity in either direction 100% of the time. We made it clear that these historical arrangements are not what has been modelled by ACIL Allen. We present the risks and benefits to Victorian and Tasmanian customers in Table 3-1 of this Response document and highlight that insufficient weight has been applied to the counterfactuals other than entering into a contract with Hydro Tasmania in section 6 of this Response document.

What we heard

- One stakeholder was concerned that if Basslink were to become a merchant asset, rather than a regulated asset, it would make wholesale price modelling more complex for retailers.

How we have responded

- Two components of a consumer's bill will change because of regulation:
 - Transmission costs, and
 - Wholesale energy costs.
- APA outlined the possible impacts on wholesale electricity and network charges in a recent submission to the Office of the Tasmanian Economic Regulator⁶³.
- We discuss outcomes in section 5 of this Response document. We also present Figure 5-1 and Figure 5-2 to help clarify the costs to customers by scenario. We also note that customer impacts will vary by usage, connection level and customer type.

Settlement Residue Auctions (SRAs)

- Stakeholders wanted clarification as to how SRAs differ from transmission use of system charges.

- We confirmed that SRAs are a financial tool to help market participants manage price difference between the location of their generation and customer portfolios. They effectively allow a retailer to "pick up" a generator in Victoria and place it in Tasmania (or vice versa).
- We present the risks and benefits to Victorian and Tasmanian customers in Table 3-1 of this Response document.

- Further explanation of the distribution of Inter-Regional settlement residues (**IRSRs**) and SRA proceeds in a regulated and unregulated environment was sought.

- We explained that under current contracted MNSP arrangements, Basslink receives payments from AEMO for IRSRs in return for 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 would then pass the successful SRA bid revenue to the Tasmanian or Victorian NSP (i.e. TasNetworks or AEMO) for redistribution to customers.
- In our response to the AER's 'Basslink Conversion Application Consultation Paper' we made it clear that the treatment of SRA proceeds, and their inclusion in the assessment of the benefits of conversion is an important consideration.
- We present the risks and benefits to Victorian and Tasmanian customers in Table 3-1 of this Response document. We also note that customer impacts will vary by usage, connection level and customer type.

⁶³ APA, *Submission to the Office of the Tasmanian Economic Regulator, Review of the Approach to Regulating Retail Electricity Prices*, [APA submission to OTTER](#)

What we heard	How we have responded
<ul style="list-style-type: none"> – Stakeholders wanted to understand consumer price impacts of IRSRs in a regulated scenario, compared to Basslink contracting directly with Hydro Tasmania. 	<ul style="list-style-type: none"> – We outlined that in a regulated scenario, AEMO publishes the aggregate amount paid for the auction rights for each quarter (subsequently returned to consumers as an offset to transmission costs), but the amounts paid, and the rights secured by each participant are confidential. In an unregulated contracting scenario, the contractual terms, including any facility fee, would be negotiated between Basslink and Hydro Tasmania under a confidential agreement. – We present the risks and benefits to Victorian and Tasmanian customers in Table 3-1 of this Response document. We suggest the AER weights the scenarios to help address modelling uncertainties, like SRAs, in section 7 and present a range of results based on stakeholder feedback in Figure 7-3 and Figure 7-4.
<ul style="list-style-type: none"> – Stakeholders wanted clarification that SRAs are part of the positive argument that supports Basslink becoming regulated. 	<ul style="list-style-type: none"> – We explained that SRAs form part of the economic calculation, so they should be included in the market benefit test. Currently these costs cannot be ascertained from Tasmanian wholesale charges, whereas SRAs would make the costs more transparent. – We present the risks and benefits to Victorian and Tasmanian customers in Table 3-1 of this Response document. – We suggest the AER weights the scenarios to help address modelling uncertainties, like SRAs, in section 7 and present a range of results based on stakeholder feedback in Figure 7-3 and Figure 7-4.

Appendix B – Summary of submissions to the AER’s Consultation Paper

Table A-2: Summary of stakeholder submissions to the AER’s Consultation Paper and how this has shaped our Response

Stakeholder	Key points raised	How this has shaped our Response
Justice and Equity Centre	<ul style="list-style-type: none"> – Do not support conversion as don’t conder the consumer benefits outweigh the significant costs and risks to consumers – Asset stranding risk was foreseeable at both at the time of construction and purchase of the asset. It is not appropriate for energy consumers to assume this risk of asset stranding. – Note the performance record of Basslink indicates substantial additional risk; there may be issues with its performance in the future. – The bar for conversion should be high given the impacts of conversion are uncertain and the informational disadvantages of consumers and the AER relative to APA. – Agree with Vic Govt that Hydro Tasmania and Basslink have an interest in continuing an agreement – think the merchant scenarios should be removed from the analysis. <p><u>Model weightings and assumptions</u></p> <ul style="list-style-type: none"> – Believe the merchant scenarios should be removed from the analysis as Hydro Tasmania and Basslink have an interest in continuing an agreement. 	<ul style="list-style-type: none"> – The risk of asset stranding is unlikely, particularly if Marinus Link 2 is never built– see section 8.1 Asset stranding concerns. – We highlight that insufficient weight has been applied to the counterfactuals other than a contract with Hydro Tasmania in section 6.
Department of Energy, Environment and Climate Action, Victorian State Government	<ul style="list-style-type: none"> – Do not support the conversion of Basslink to a TNSP. – See conversion as increasing costs to consumers. – When compared to the Hydro Tasmania Agreement counterfactual, it is likely there will be a net cost to regulation. – Modelling the costs and benefits of conversion is an extremely difficult task – question whether all the inherent complexities can be modelled. <p><u>Model weightings and assumptions</u></p> <ul style="list-style-type: none"> – Believe the 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. – Significant weight should not be placed on the modelling. – The timing for Marinus link is not aligned to AEMO’s 2024 Integrated System Plan. Note there is no firm decision yet on whether Stage 2 will proceed. – 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. 	<ul style="list-style-type: none"> – We have clarified the risks and benefits to Victorian and Tasmanian customers in Table 3-1. – We suggest weighting the scenarios to help address modelling uncertainties in section 7 and present a range of results based on stakeholder feedback. – To help clarify the costs and benefits by scenario we have included: Figure 5-1, Figure 5-2, Figure 7-3 and Figure 7-4.

Stakeholder	Key points raised	How this has shaped our Response
TasNetworks	<ul style="list-style-type: none"> – Don't consider the modelling is presented in a manner that clearly articulates if the benefits of conversion outweigh the costs. – Although the modelling presents strong evidence that there are likely gross consumer benefits from conversion, it is not clear if these are net benefits given the uncertainty in the modelling. – The market benefits appear relatively stable across the different Marinus Link and Hydro Tasmania contract cover scenarios but are presented as reductions in economic cost. As such it is not clear if these benefits are including (i.e. are net benefits) or excluding (i.e. gross benefits) the cost of conversion. – The market benefits modelling is expectedly low because it assumes Basslink will continue operating in the long term even if it is not regulated. However, it is uncertain whether Basslink will remain commercially viable following the establishment of Marinus Link. – The conversion test should consider the benefits of converting Basslink rather than the benefits of the asset, but it should also consider the material impacts if this means the asset ceases to operate in the market as this deliver a worse outcome for Tasmanian customers than conversion. – The AER should conduct further analysis on the expected reduction in costs to customers stemming from settlement residues and, whilst these reduce the cost to customers, they are not a market benefit so should not be considered when comparing market benefits to market costs. – It is not clear from the AER's report if they consider the new prescribed transmission costs as an additional cost to the market or simply a transfer of costs to customers. – The AER should consider the timing of any proposed conversion and its relation to the annual pricing process. <p><u>Model weightings and assumptions</u></p> <ul style="list-style-type: none"> – The counterfactual to conversion should be Basslink operating as a merchant link rather than a market interconnector traded by Hydro Tasmania. – Relying on a continuation of the Hydro Tasmanian agreement could provide an unrealistic assessment of the benefits of conversion. This approach is consistent with public statements from Hydro Tasmania and APA Group, the parties best placed to comment on the probability of a continuation of the agreement. – Given Basslink may not remain commercially viable following Marinus Link, suggest the AER include an alternative counterfactual in the modelling where Basslink ceases operation after the introduction of the first Marinus Link cable. – The AER should conduct further analysis on the expected reduction in costs to customers stemming from settlement residues and, whilst these reduce the cost to customers, they are not a market benefit so should not be considered when comparing market benefits to market costs. 	<ul style="list-style-type: none"> – We have clarified the risks and benefits to Victorian and Tasmanian customers in Table 3-1. – We highlight that insufficient weight has been applied to the counterfactuals other than a contract with Hydro Tasmania in section 6. – We suggest weighting the scenarios to help address modelling uncertainties in section 7 and present a range of results based on stakeholder feedback in Figure 7-3 and Figure 7-4. – To help clarify the costs and benefits by scenario we have included: Figure 5-1, Figure 5-2, Figure 7-3 and Figure 7-4.
Tasmanian Minerals, Manufacturing & Energy Council	<ul style="list-style-type: none"> – The additional costs are clear, but the benefits of conversion have not been made clear. – Support conversion if it can be shown that customers, including direct connected customers are not worse off. The true cost impact on transmission charges to direct connected customers remains unclear. – The market modelling excludes the costs for the special protection scheme interruptability load tripping. – Consumers need to be not worse off than how the link is currently operated. 	<ul style="list-style-type: none"> – We have clarified the risks and benefits to Victorian and Tasmanian customers in Table 3-1 and recognise that different customers will face different bill impacts.

Stakeholder	Key points raised	How this has shaped our Response
Hydro Tasmania	<ul style="list-style-type: none"> – Converting Basslink to a TNSP would best achieve the NEO as it will maximise its availability and accessibility to the market, promoting efficient dispatch of and investment in variable renewable energy and ensure the equitable allocation of Basslink’s costs to consumers. – Conversion to a TNSP would align Basslink’s arrangements with those of all other interconnectors in the NEM. – Encourage the AER to make qualitative assessments of the benefits of conversion to appropriately recognise the limitations and uncertainties of modelling. This would be consistent with the approach taken by the ACCC in considering the Murraylink conversion. – Benefits of conversion include: <ul style="list-style-type: none"> • Efficient generation dispatch and interconnector utilisation. • Continued operation under Marinus Link – Basslink withdrawing from the market because of Marinus Link would be a perverse and inefficient outcome. • Equity in cost recovery. • Confidence for variable renewable energy investors to develop energy projects in Tasmania and Victoria. • A more secure and reliable asset given the superior funding base, regulatory oversight of its operational performance and the operation of targeted financial incentives. • Consistency in rule application, settlement processes, and dispatch and bidding mechanisms across all NEM interconnectors, increasing efficiency for entities that operate in multiple regions and regulatory bodies such as AEMO. – The merchant model does not provide the certainty needed to ensure the efficient, reliable and durable operation of a vital transmission asset as the owner is incentivised to maximise profit which provides no certainty of when capacity would be available. <ul style="list-style-type: none"> • This can materially reduce system reliability, as evidenced during the market events that took place in June 2022. • Although past behaviour is not indicative of future behaviour, the example demonstrates the risk of market disruption under a merchant scenario is real and requires due consideration. – Conversion provides the AER an opportunity to assume oversight over the arrangements for the Frequency Control System Protection Scheme⁶⁴ and the procurement of large quantities of Tasmanian load and generation for tripping and provide the market with greater certainty of its continuation. – If tripping is not procured there would be a reduction in either or both of Basslink’s import and export capacity. For this reason, ACIL Allen’s assumption that Basslink’s full capacity is maintained across all scenarios is unreasonable. <p><u>Model weightings and assumptions</u></p> <ul style="list-style-type: none"> – A future services agreement between Basslink and Hydro Tasmania for the full interconnector capacity for the next 25 years is unrealistic and an unreasonable counterfactual to regulation. – The unhedged merchant Basslink scenario is the most appropriate counterfactual for the AER to use in assessing the benefits of conversion. 	<ul style="list-style-type: none"> – We have clarified the risks and benefits to Victorian and Tasmanian customers in Table 3-1. – We suggest weighting the scenarios to help address modelling uncertainties in section 7 and present a range of results based on stakeholder feedback in Figure 7-3 and Figure 7-4. – We highlight that insufficient weight has been applied to the counterfactuals other than a contract with Hydro Tasmania in section 6.

⁶⁴ Frequency control is a subcomponent of the System Protection Scheme – a TasNetworks owned and operated protection scheme comprising hardware, software and a high-speed redundant communications network to remotely trip connected assets. Credible trips allow Basslink to import or export at a higher level under Tasmanian frequency operating standards.

Stakeholder	Key points raised	How this has shaped our Response
Renewables Climate and Future Industries Tasmania (ReCFIT)	<ul style="list-style-type: none"> – Basslink’s regulation is in the best interest of Tasmania, and the NEM more widely. – Conversion will bring surety to the sustainable and open flow of electricity between Tasmania and Victoria, which is an essential element of the national energy transition, and particularly important for energy security in Tasmania ahead of Marinus Link. – Regulation provides an open, transparent process for driving those outcomes, and enables all interested parties to provide input on important regulatory considerations. – Support efficient and effective investment and operation of Basslink through to its original design life of 40 years (until 2046), and potentially beyond. Regulation provides a robust framework for considering future investments that could extend Basslink’s operation post 2046. – The broad conclusion from the ACIL Allen modelling is that there is a robust case for Basslink’s regulation from the perspective of modelled customer benefits and assumed customer costs. – The no Marinus Link counterfactual was modelled by ACIL Allen, but not given as much prominence in the Consultation Paper as the single and dual Marinus link counterfactuals. – The concern around the price effects of conversion being highly sensitive to wholesale price levels is recognised but given the scale differences between the modelled net costs of Basslink to customers under regulation and the modelled benefits, even with a conservative factor applied to the modelled customer benefits to account for uncertainty, the modelling presents a solid case to support Basslink’s regulation. – The assumed Basslink and Hydro Tas counterfactual may be useful to gain analytical insights into the potential market outcomes of such a situation, but it is an assumption that needs to be questioned in the weighting. <ul style="list-style-type: none"> • The current agreement provides a bridge to regulation and is not and was not intended to be enduring. • The legal feasibility of a long-term enduring arrangement between Hydro Tasmania and Basslink from a competition law perspective is questionable. Such an arrangement requires the ACCC to be satisfied that the forward-looking benefits outweigh the detriments. – The different incentives facing a merchant Basslink relative to regulation will impact the reliability and available capacity. – The interests of customers in either jurisdiction are not well served by a situation where flows can be curtailed to drive up price differences between the jurisdictions – this will be the outcome of Basslink continuing to operate as a MNSP. – A conversion decision is a one-off decision that will be made under considerable uncertainty. Whilst modelling provides important insights into possible futures and is a useful analytical tool, it is one input into what is ultimately a judgement exercise. In coming to any judgement on the conversion question, weight also needs to be given by the AER to what is known, relative to what might be assumed. – Undoubtedly, time will prove any modelling assumptions made today to be incorrect. Whatever decision is made in relation to Basslink’s conversion, the counterfactuals to that decision will never actually be experienced. That said, the source of input appears to land in favour of Basslink’s conversion. – Basslink is important to Tasmania, but it is increasingly important to the NEM, and particularly the Victorian region. This reality (as opposed to modelling) is a key consideration in thinking about Basslink’s future, either as a regulated interconnector or as an MNSP. In Tasmania’s view, it reinforces the case for regulation over and above the ACIL Allen modelling, which in the broad, supports the same proposition. 	<ul style="list-style-type: none"> – We have clarified the risks and benefits to Victorian and Tasmanian customers in Table 3-1. – We highlight that the AER’s conversion decision is irreversible unless the MNSP makes another conversion application in section 4.2. – We highlight the importance of customer prices in the conversion decision in section 5. – We highlight that insufficient weight has been applied to the counterfactuals other than a contract with Hydro Tasmania in section 6. – We discuss Marinus Link uncertainty and how it enhances the case for conversion in section 7.2. – We suggest weighting the scenarios to help address modelling uncertainties in section 7 and present a range of results based on stakeholder feedback. – To help clarify the costs and benefits by scenario we have included: Figure 5-1, Figure 5-2, Figure 7-3 and Figure 7-4.

Stakeholder	Key points raised	How this has shaped our Response
	<p><u>Model weightings and assumptions</u></p> <ul style="list-style-type: none"> – It is appropriate for the AER to seek stakeholder input on the modelling outputs and the weights to be given in informing the conversion question. – A 'central case' would be a focus on Marinus 1, with some weight given to the Marinus 1 and 2 scenario and some weight to the possibility of no-Marinus. – A long-term enduring arrangement between Basslink and Hydro Tasmania is not a realistic base-case scenario - a heavy discount should be applied to this as a counterfactual. – The modelling mistakenly excludes a counterfactual of Basslink ceasing operations post the commissioning of Marinus Link 1 and even more so Marinus Link 2. – The stay-in-business costs considered Figures 1 and 2 do not include the costs of System Protection Scheme services, which will need to be funded by a merchant Basslink, and therefore understate stay-in-business costs. – Both the modelled market benefits and modelled customer benefits of conversion will be different if the assumption that Basslink remains fully available at its current full capability until 2050 does not hold – and Tasmania argues that this a distinct possibility if conversion is not approved. – The assumption that Basslink's technical performance would be consistent across all counterfactuals needs to be reconsidered. 	
<p>Mr J Pauley</p>	<ul style="list-style-type: none"> – Regulation can be seen as an insurance policy to ensure Basslink maximises its contribution to the NEM. <ul style="list-style-type: none"> • As a regulated link, with a regulated income stream, it is likely that Basslink will have improved reliability and security of supply. • As a market link, market conditions could result in cost pressures which impact reliability and the ability to deliver a secure supply of electricity. – The conversion of Basslink cannot be considered in isolation of the AER's assessment and decision that Marinus Link be a regulated link. <ul style="list-style-type: none"> • It is unclear how the AER sees wholesale price impacts as uncertain when these savings have informed the Marinus Link decision and the cost estimates are in a similar range to those put forward by APA in its submission. • While the consumer benefits of Marinus Link 2 are lower than for the first Marinus Link cable, they are still positive, leading to the conclusion that Basslink provides even higher, and perhaps more likely, wholesale cost savings than Marinus Link provides. • A decision not to regulate Basslink would raise questions around the validity of the current decision relating to Marinus Link. It would also highlight the need for the AER to demonstrate that a regulated Marinus Link operating alongside a market based Basslink delivers the best outcome for consumers. • The data provided by ACIL Allen on the distribution of modelling results appear to align with the modelling carried out for Marinus Link and show a higher likelihood of a positive consumer benefit than a net consumer cost from regulation. • The price effects of conversion under different counterfactuals (Figure 6) indicate market benefits which offset the present value of Basslink's proposed ongoing operating costs (Table 2) – this outcome aligns with the AER's Marinus Link RIT-T conclusion. – The AER should be guided by its previous decision processes in relation to the conversion of other mainland interconnectors to TNSPs and its RIT-T assessment approach for new interconnectors. 	<ul style="list-style-type: none"> – We have clarified the risks and benefits to Victorian and Tasmanian customers in Table 3-1. – We discuss Basslink's interlinkage with Marinus Link in section 3.33.3. – We discuss Marinus Link uncertainty and how it enhances the case for conversion in section 7.2. – We highlight the importance of customer prices in the conversion decision in section 5. – We highlight that insufficient weight has been applied to the counterfactuals other than a contract with Hydro Tasmania in section 6.

Stakeholder	Key points raised	How this has shaped our Response
	<ul style="list-style-type: none"> – The transmission charges of a converted Basslink will be equivalent to the customer charges from Marinus Link. – It is highly unlikely that the costs of conversion will have a significant impact on total market costs. This is supported by the proposed consumer charges put forward by APA in their submission, and which will be even lower inter-regional market settlement returns are included. – Given the Hydro Tasmania counterfactuals are unlikely, it is more likely conversion will deliver market benefits at the higher end of the range estimated by ACIL Allen. – The variable as to whether there is an agreement between Basslink and Hydro Tasmania appears relatively less significant and more varied than other modelled variables. – While the range of price outcomes is significant and much larger than the Hydro Tasmania scenarios, it indicates that the outcome will likely be significantly positive, unless of course the distribution of results are substantially skewed towards the lower number. – The modelling indicates the results for both market and consumer benefits vary across a wide range. In such cases the AER should consider the distribution of such results. While the results show significant benefits at one end of the range, at the other end the benefits assessed, while negative, are quite small. – ACIL Allen appear to have placed considerable weight upon some of the scenarios which result in negative outcomes for consumers and negative market benefits relative to other scenarios which appear, based upon their modelling, to deliver substantial consumer and market benefits. <p><u>Model weightings and assumptions</u></p> <ul style="list-style-type: none"> – APA has clearly indicated that a contract with Hydro Tasmania cannot be presumed. This means the very low and perhaps negative modelled scenarios can be considered a highly unlikely outcome. – The most likely outcome appears to be a positive benefit for the NEM as a whole and for Tasmanian consumers in particular. Whilst there are scenarios which deliver lower, and perhaps negative outcomes, the evidence presented indicates these scenarios are less likely to result than those that have been estimated to deliver positive benefits. – It is more likely conversion will deliver market benefits at the higher end of the range estimated by ACIL Allen and greater consideration should be given to those scenarios. – The consumer costs associated with regulation of Basslink will be offset by highly uncertain, but potentially significant, inter-regional settlement revenue. – Consideration must be given to the likelihood of the various scenarios. Each scenario is not equally likely. – The underlying scenarios and assumptions adopted must also be considered and weighting placed upon the likelihood of alternative parameters. – A high weight should be placed on the first Marinus Link cable being constructed within a timeframe leading up to 2031 or 2032. – Significantly lower weight should be placed on the second Marinus Link cable being constructed. 	<ul style="list-style-type: none"> – We suggest weighting the scenarios to help address modelling uncertainties in section 7 and present a range of results based on stakeholder feedback. – To help clarify the costs and benefits by scenario we have included: Figure 5-1, Figure 5-2, Figure 7-3 and Figure 7-4.

Stakeholder	Key points raised	How this has shaped our Response
Victorian Chamber of Commerce and Committee for Melbourne	<ul style="list-style-type: none"> - Support conversion of Basslink to a TNSP. - Making Basslink a regulated asset will support the efficient investment in, operation and use of the Basslink interconnector, and ensure that it remains a reliable and secure transmitter of affordable electricity for Victorian businesses over the long term. - Concerned about the implications of Basslink not being a regulated asset and the negative impact this could have on prices as well as management of the asset. These factors will ultimately affect energy security, reliability and affordability. 	<ul style="list-style-type: none"> - We have clarified the risks and benefits to Victorian and Tasmanian customers in Table 3-1. - We discuss outcomes in section 3.2 and as part of Table 3-1 in this Response document. We also discuss consumer and market benefits in 5 and present Figure 5-1 and Figure 5-2 to help clarify the costs to customers by scenario. We also note that customer impacts will vary by usage, connection level and customer type. We also note that customer impacts will vary by usage, connection level and customer type.

Glossary



Glossary

Term	Meaning
ACCC	Australian Competition and Consumer Commission
ACIL Allen	The report (and accompanying data and modelling) produced by ACIL Allen for the AER titled ' <u>Basslink conversion - Modelling and analysis of benefits</u> ' and dated 18 July 2024 that underlies the Consultation Paper .
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASX	Australian Stock Exchange
Basslink	The Basslink Interconnector
Basslink Pty Ltd	The company that owns Basslink
BSA	Basslink Services Agreement – the previous contract with Hydro Tasmania under which Basslink received revenue. The BSA was terminated in 2022 and replaced with the NSA .
Consultation Paper	The AER's 'August 2024 Basslink Conversion Application – Consultation Paper' largely framed around the ACIL Allen modelling and associated report.
Draft Decision	The AER's 'Draft decision: Application for Basslink's network service to be classified as a prescribed transmission service' published in December 2024.
FID	Final Investment Decision
FCAS	Frequency Control Ancillary Services – balance generation supply and demand in real-time within the NEM .
FY	Financial year beginning on 1st July and ending the following 30th June – so FY30 covers the financial year from 1 July 2029 through to 30 June 2030.
GWh	Gigawatt hours
IRSRs	Inter-Regional Settlement Residues – market participants bid and secure rights to IRSRs via AEMO SRAs . AEMO auctions settlement residues in 12 equal tranches and as each tranche is auctioned off, participants build a portfolio of rights to IRSRs which inform their behaviour in the market.
ISP	AEMO 's Integrated System Plan that is updated every two years
MCE	Ministerial Council on Energy
MNSP	Market Network Service Provider
MW	Megawatt
MWh	Megawatt hours
NEM	National Electricity Market
NEO	The National Electricity Objective as stated in the National Electricity Law
NER	The National Electricity Rules
NSA	Network Services Agreement – the contract with Hydro Tasmania under which Basslink currently receives its revenue, which expires on 30 June 2025.
Proposal	Basslink's Revenue Proposal submitted to the AER on 15 September 2023 – included information for both the conversion application and a revenue determination
RAB	Regulatory Asset Base

Term	Meaning
ReCFIT	Renewables Climate and Future Industries Tasmania
Response	This response to the draft conversion decision submitted in response to the AER's draft decision: Basslink conversion
RRG	Regulatory Reference Group – a dedicated team of diverse stakeholders recruited to guide the development of Basslink's Revenue Proposal
SRAs	Settlement Residue Auctions – Payments made by market participants to AEMO to access the interregional settlement residues, the amounts of which are returned to customers.
TNSP	Transmission Network Service Provider