

**Australian Energy Regulator**  
**Basslink Conversion Application**  
**Draft Decision**

**Comments from**

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## **Background**

As a member of the Basslink Regulatory Review Group (RRG) I seek to make the following submission in relation to the draft decision of the AER in relation to the Conversion of the Basslink undersea cable connection Tasmania to the NEM.

These comments are made in my volunteer capacity and it is disappointing that the AER chose to release its draft decision immediately prior to the Christmas/New year period and closed the consultation period on the 31 January 2025. This tight timeframe over the holiday period has severely impacted the time available to a volunteer consumer representative, such as myself, to respond to the draft decision.

I would request, on behalf of all volunteer consumers who seek to have involvement in AER processes, that better consideration of timing be undertaken when seeking comment upon issues which have the potential to impact on consumer energy prices.

These comments should be considered in addition to my earlier comments on the AER consultation paper on the conversion of Basslink. I note that in relation to those comments I have been referenced as a private citizen on the AER website, whereas my comments have been made from the perspective of a member of the Basslink Regulatory Review Group. These comments also reflect my position as a member of that Group.

## **The Draft Decision**

I note that the draft decision of the AER is *“not to accept Basslink’s application to convert its market network service to a prescribed transmission service”*. I further note that it appears this draft decision by the AER *“is finely balanced, the uncertainty of benefits in different future scenarios compared to the certainty of cost and risk transfer to consumers means that converting Basslink to a prescribed transmission service is unlikely to support the NEO at this time”*.

Furthermore, the AER has stated that *“Assessing the merits of conversion requires a comparison of outcomes between different states of the world: one with conversion and the other without conversion.”* These future states relate to the future of the *“agreement between Basslink and Hydro Tasmania, and that the development of Marinus Link is limited to a single cable and/or delayed.”*

The AER have also noted that *“while consumers are certain to pay increased transmission charges, wholesale price reductions as well as offsets to transmission charges from the proceeds of settlement residue auctions are much more uncertain.”*

And finally, it appears that the AER have concluded that *“conversion is unlikely to materially affect reliability or other non-price aspects of the quality of electricity services.”*

After considering these points, and a number of others, the AER has come to a finely balanced decision where *“the high degree of uncertainty associated with achieving 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.”*

## **Comments on the Draft Decision**

### **1) Competitive Neutrality**

One issue which the AER seems to have ignored in its assessment is that of competitive neutrality between a transmission asset owned by a private corporation and that of a transmission asset owned by a government business enterprise.

Basslink will be directly competing against the government owned Marinus Link.

On the one hand the AER is making decisions based on the uncertainty of benefits and known costs in relation to Basslink as a reason for not supporting regulation. However, it has supported the regulation of Marinus Link, even though there is uncertainty around **both** the benefits and the costs of that link.

Since the initial decision was made by the AER in relation to Marinus Link its costs have blown out to the extent that while initially it was proposed the full 1500 MW capacity could be delivered in the \$3.2 to \$3.5 billion price range, we now see a single cable of 750 MW estimated to cost nearly \$4 billion.

On a cost per MW basis Marinus Link is now expected to cost 4 to 5 times the RAB being sought by APA and offers only a 50% increase in capacity. How much further the Marinus Link cost will increase is highly uncertain.

For the AER to suggest that the privately owned Basslink has uncertainties associated with its operation which preclude regulation raises real issues of competitive neutrality when the AER currently supports the regulation of a government owned cable which will **certainly** impose even higher costs on consumers by way of regulated transmission charges while offering **no** reduced uncertainty as to the benefits consumers may receive from that cable.

It seems the AER is seeking APA take all the market risk associated with Basslink, while at the same time transferring all the risk of the higher cost Marinus Link to consumers. Under the principles of competitive neutrality a government owned inter-connector operating in the same market as Basslink should be subject to the same regulatory arrangements and vice versa.

On page 8 of the Draft Decision the AER have concluded that:

*“If Basslink is converted it would operate as a fully available interconnector. Flows across the interconnector would be determined by the Australian Energy Market Operator (AEMO) central dispatch without economic constraint from Basslink. In this circumstance we expect flows across the Basslink interconnector to be maximised.*

*If Basslink is not converted it would remain as a MNSP. Basslink would earn revenue from price differentials between Tasmania and Victoria. In doing so, we expect that Basslink may have an incentive to constrain flows over the interconnector at times”*

In making these statements relating to the utilisation of Basslink under alternative scenarios it is clear that consumers are more likely to benefit from the maximised use of the cable in the interests of the NEM as determined by the market operator, than where the owner of the cable seeks to restrict its availability to maximise its private revenue flows from trading activities.

In reaching its Draft Decision I consider the AER has ignored the issues of competitive neutrality and is providing a market advantage to a higher cost government owned asset.

## **2) Continuation of the Hydro Tasmania Network Services Agreement**

As noted above, and in my previous comments on the AER consultation paper, I have been a member of the Regulatory Review Group (RRG) established by APA to provide input into its conversion application since that group was initially established. The RRG has throughout the process considered the current agreement between APA and Hydro Tasmania.

As the process has evolved APA have frequently confirmed that it is highly likely this agreement will not be continued should the AER not support the conversion of Basslink.

It would appear that the AER has continually discounted this position put by APA in both its consultation paper and now in its draft decision.

When assessing the analysis undertaken by ACIL Allen it is clear that merchant trading offers APA a superior benefit than continuing the arrangement with Hydro Tasmania. It is extremely unclear to me, given this clear benefit to APA from merchant trading under all scenarios, why the AER is placing such weight on the continuation of the Hydro Tasmania agreement. I do not consider that the AER has substantiated its stance on this critical issue underlying its draft decision.

APA have stated repeatedly they do not see continuing that agreement as their preferred pathway forward and the ACIL Allen modelling confirms merchant trading to be the superior option for APA where conversion is not granted.

I would suggest, therefore, that there is overwhelming evidence to dismiss the continuation of the Hydro Tasmania agreement as a viable or preferred scenario.

The rejection of that scenario from the analysis then leads to the conclusion that conversion is the best pathway forward.

### **3) *Reliability and Security of Basslink***

As a regulated link APA will be required to make the required investments to ensure the longevity of Basslink. Under these circumstances Tasmania can, with a high degree of certainty, be assured that interconnection capacity through to the mid 2040s will increase from the current 500 MW to at least 1250 MW, Basslink plus a single cable Marinus Link.

With this certainty around transmission capacity across Bass Strait the investment environment related to further renewable investment in Tasmania's superior renewable resources will be significantly improved. This will benefit both the NEM and the Tasmanian economy.

However, based on the draft decision proposed by the AER, the incentive will be for APA to maximise the value from Basslink in the period between now and when Marinus Link is commissioned, sometime in the early 2030s. Once Marinus Link is operational there will be limited value left in Basslink and it is highly likely it will become a stranded asset.

In this scenario there is a very limited incentive for APA to invest in the longevity of Basslink. As the AER would be well aware, the application of discounted cash flow techniques maximise the value of near term benefits and significantly reduce the contribution of benefits occurring more than 10 to 15 years into the future.

Given the likely uncompetitive position Basslink will face as an unregulated link against Marinus Link which will be funded by energy consumers in Tasmania and Victoria it is clear that APA will both seek to maximise returns in the short term and minimise further investment in both the short to medium term to reduce the costs it faces from holding a stranded asset.

The increased potential for Basslink to become a stranded asset as an unregulated link will increase the pressure to bring forward the second Marinus Link cable. As Marinus Link is a regulated asset this will further increase energy costs for consumers in Tasmania and Victoria.

One of the key reasons for adopting a regulated asset approach to long term infrastructure such as transmission cables is to maximise their life and to also ensure consumer benefits associated with reliability and security are maximised.

I consider that the AER have not applied sufficient weight to this risk in their analysis in reaching their conclusion that “*conversion is unlikely to materially affect reliability or other non-price aspects of the quality of electricity services.*”

Clearly, and as AER have identified in their draft decision, there will be materially different operating arrangements around a converted asset as opposed to those where the asset is not converted. And these materially different arrangements will affect both the energy costs faced by consumers and the investment climate for renewables in Tasmania.

### **Concluding Comments**

When all the evidence is assessed I consider that the AER have placed too much emphasis on:

- a) the continuation of the agreement between Basslink and Hydro Tasmania; and
- b) the uncertainty around the benefits flowing from conversion compared to the known costs of conversion

in reaching their draft decision.

I am unsure as to what commitment the AER is seeking from APA in respect of their long and publicly stated position on the continuation of the agreement with Hydro Tasmania and why the AER have down played the clear benefit to APA, as evidenced by the ACIL Allen analysis, of not continuing this agreement.

In relation to the benefit uncertainty relative to the cost certainty, the comments made in the Draft Decision with respect to Basslink could be made equally strongly with respect to any assessment being undertaken by the AER. The only difference would, however, be that in most AER decision processes there is significant uncertainty around **both** costs and benefits.

In most instances the AER accepts benefits, which are largely determined in a consistent manner across all proposals, coming before it.

As an example both Basslink and Marinus Link have largely adopted the same assessment framework in preparing their case for the AER’s consideration. To dismiss one as being too risky, while accepting the other as having an acceptable level of risk would appear to be inconsistent. The holding of such a view by the AER is compounded when it is acknowledged that there is considerable certainty around the cost structure of Basslink when compared to the cost structure of alternative interconnectors such as Marinus Link.

I also consider that in failing to fully apply the principles of competitive neutrality to their decision making process the AER has heightened the risk that Basslink will become a stranded asset and have not fully addressed the impact of such a scenario on:

- 1) the reliability and security of transmitting electricity across Bass Strait;
- 2) the investment climate within Tasmania for developing renewable resources; and
- 3) the cost impacts upon consumers.

In conclusion I therefore consider that the AER should reverse its draft decision and provide a more certain climate for consumers, in respect of energy costs, and investors in renewable energy projects in Tasmania.