



## Hon Lily D'Ambrosio MP

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

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MBR-250102054

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

Dear Clare Savage

### **Re: Draft Decision - Basslink Conversion Application - AER reference: 23007165**

Thank you for the opportunity to provide input to the Australian Energy Regulator's (AER) draft decision on the application from APA Group to convert Basslink Pty Ltd (Basslink) from a Market Network Service Provider (MNSP) to a Transmission Network Service Provider (TNSP).

The Victorian Government is appreciative of the work done to date by the AER in its assessment as to whether conversion is likely to support the National Electricity Objective, and we welcome the AER's position in the Draft Decision that Basslink should remain a MNSP.

The Victorian Government supports this position as it will deliver the greatest benefit to Victorian consumers and to the National Electricity Market (NEM).

As outlined in our prior submissions, the optimal scenario for Basslink is one in which the following occurs:

- Hydro Tasmania is exposed to the Victorian Regional Reference Price (RRP). This gives it the incentive to operate its assets in a way that will maximise revenue from energy flows over the link and consequently minimise peak prices in Victoria. This will also be optimal for the rest of the NEM.
- Hydro Tasmania absorbs the cost of counterprice flows. This gives it the incentive to operate its assets in a way that minimises the cost of counterprice flows.

Under the TNSP scenario, the following will occur:

- Hydro Tasmania will only be exposed to the Victorian RRP if it buys the rights to Inter Regional Settlement Residues at auction. This may often not be the case, as other parties (e.g. speculators) are likely to compete at these auctions.
- The cost of counterprice flows will be passed on to end-use customers.

Conversely, under the MNSP scenario (the counterfactual), Hydro Tasmania will likely continue to be exposed to the Victorian RRP through an agreement similar to the current Network Services Agreement. There is an overwhelming financial incentive for APA Group and Hydro Tasmania to sign such an agreement. This is because revenue derived from energy flows over the link will only be maximised when Hydro Tasmania profits from arbitrage across the link.

Given that the case for conversion is maximised by downplaying the likelihood of arriving at such an agreement, I believe that limited weight should be given to comments from APA Group to the effect that an agreement is unlikely.

In addition, were Hydro Tasmania to lose access to the Victorian RRP, it would have a complex challenge in managing its electricity portfolio and optimising its bidding into the NEM. Anticipating and modelling this

bidding behaviour is extremely complicated. It is also difficult to model the impact of counterprice flows in a scenario in which Hydro Tasmania has lost the incentive to minimise them.

It is for these reasons that the Victorian Government supports the AER's decision to disallow the conversion of Basslink. For a detailed analysis of our reasoning, please see enclosed our earlier submission to the AER's August 2024 Consultation Paper, which remains relevant.

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

Yours sincerely



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07 / 02 / 2025

Encl.