



**Tasmanian Small
Business Council**

Uniting Small Business

TSBC Response to the AER Draft Decision on the conversion of Basslink to a regulated TNSP

January 2025

Background

The Tasmanian Small Business Council (TSBC) was established in 1973 and incorporated in 2000. As Tasmania's peak body exclusively representing the interests of small businesses, TSBC has a strong history of advocacy on a range of issues, including taxation, workplace relations, competition law, retail tenancy, and energy policy.

Our primary objectives are to:

- Promote and support the growth and development of small businesses in Tasmania.
- Advocate for policy changes and regulatory reforms that advance the interests of small businesses.
- Increase awareness and understanding of the small business sector among government officials, public servants, regulators, large businesses, the media, and the broader community (www.tsbc.au).

Small businesses often lack the time, resources, and expertise required to navigate complex legislative and regulatory changes that impact their operations. TSBC plays a crucial role in providing accurate and timely input into decision-making processes that affect the sector.

However, TSBC itself operates within resource constraints, limiting the scope of our response to certain policy matters. We urge the Australian Energy Regulator (AER) to advocate for better support of organisations like TSBC, enabling a more comprehensive small business engagement with these critical issues.

TSBC Position on Basslink Regulation

TSBC has consistently supported, and continues to support, the conversion of the Basslink interconnector to a regulated Transmission Network Service Provider (TNSP), rather than its continuation as a Market Network Service Provider (MNSP).

Energy Security

Market fluctuations in the energy transmission sector have demonstrated a significant risk of catastrophic failure, as evidenced by the 2015 event. The AER's assertion that the

conversion of Basslink is unlikely to materially impact reliability or other non-price aspects of electricity services¹

is, in our view, an unreasonable assumption. Tasmania cannot afford a recurrence of such an event.

We believe that regulatory certainty would provide stability for the operator and enhance Tasmania's energy security. The AER's claim that

the Basslink investment has already been made and will likely continue regardless of conversion²

is speculative. While it is unlikely that Basslink's owners would cease operations solely due to non-conversion, the uncertainty surrounding charges imposed on consumers and small businesses in the lead-up to the potential completion of Marinus Link 1 is untenable.

The Tasmanian Government's September 2024 submission stated:

"If, alternatively, Basslink was to continue as an MNSP, flows of electricity between the two states would be at the control of Basslink, and would be driven by profit maximisation incentives, rather than by the interactions of the two spot markets with Basslink playing an equalisation function."³

This aligns with our position that a future unregulated Basslink presents a significant risk to Tasmania, and that consumer costs may not always be in their best interests.

Speculative Assumptions and Proving a Negative

The Victorian Government's February 2024 submission, and its subsequent endorsement by the AER, suggested that:

"The appropriate counterfactual against which to assess the proposal for Basslink regulation is one in which Basslink Pty Ltd signs a contract with Hydro Tasmania, equivalent to the previous BSA or current NSA."⁴

¹ Draft decision – Application for Basslink's network service to be classified as a prescribed transmission service P2

² Draft decision – Application for Basslink's network service to be classified as a prescribed transmission service P1

³ Department of State Growth RENEWABLES CLIMATE AND FUTURE INDUSTRIES TASMANIA Sept 24 P1

⁴ Victorian Government Department of Energy, Environment and Climate Action (DEECA), Submission in response to AER Issues Paper – Basslink Conversion Application and Revenue Determination, p. 3

This assumption is both speculative and misleading. A decision not to regulate should not be based on an unverified assumption that a new contractual agreement will be reached. Furthermore, the AER has not provided a clear framework for how APA could demonstrate that

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 delayed⁵

Expecting proof of a negative is an unreasonable expectation, and the AER should clarify how this standard could be met.

Support for the Tasmanian Government's Position

TSBC supports the Tasmanian Government's position where it says, in part;

the regulatory path provides superior outcomes for Tasmania and Tasmanian electricity customers because:

- it ensures that there will be open flows of electricity between Tasmania and Victoria (retaining the outcome that has to date been delivered through commercial agreements between BPL and Hydro Tasmania but cannot be assured in the future), which is particularly relevant for hydrological risk management;*
- it provides a stable revenue stream and a more financially secure commercial model for the ongoing operation of the link, and the benefits it brings to Tasmania, relative to the MNSP arrangements;*
- it ensures a transparent process for scrutinising operating and capital expenditure for the link consistent with maintaining reliability over Basslink's useful life;*
- it provides a customer-centric process for Tasmanian electricity customers (and those in Victoria) to express preferences on material issues that drive Basslink's performance and costs (such as the trade-off between reliability and costs, insurance, and risk appetite, as demonstrated in the regulatory proposal); ⁶*

⁵ Draft decision – Application for Basslink's network service to be classified as a prescribed transmission service P2

⁶ Basslink Conversion Application and Electricity Transmission Determination Tasmanian Government Submission Feb 2024 P3

Value for Money

The AER's draft decision lacks a comparative analysis of consumer costs between Basslink and Marinus Link. The Regulated Asset Base for Marinus is projected to be approximately five times that of Basslink.

Basslink's capacity is 500MW, while Marinus 1 will provide 750MW. However, the additional 250MW of transported energy comes at a significantly higher cost, which the draft decision does not adequately address.

Competitive Neutrality

We note with concern that the draft decision fails to address the issue of competitive neutrality.

Competitive neutrality (in part)

requires that government business activities should not enjoy net competitive advantages over their private sector competitors simply by virtue of public sector ownership. The implementation of competitive neutrality policy arrangements is intended to remove resource allocation distortions arising out of public ownership of significant business activities and to improve competitive processes⁷

Given that Marinus Link will traverse the same waterway as Basslink, denying Basslink's application for regulation raises serious concerns about compliance with the Commonwealth's competitive neutrality principles. The AER must justify how this situation differs from other regulatory decisions.

Conclusion

TSBC remains firmly convinced that APA's application to convert Basslink to a regulated asset is in the long-term interest of Tasmanian small businesses and consumers.

The viability of Basslink as a competitive entity once (or if) the publicly owned Marinus Link becomes operational is highly uncertain, posing an unacceptable risk to Tasmania's energy market.

⁷ COMMONWEALTH COMPETITIVE NEUTRALITY POLICY STATEMENT 2 June 1996 P4

We urge the AER to reconsider its draft determination and approve Basslink's conversion to a regulated asset.



ROBERT MALLETT

CEO

TASMANIAN SMALL BUSINESS COUNCIL

