



Hon Lily D'Ambrosio MP

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Dear Clare Savage

Thank you for the opportunity to respond to the AER's Draft Decision on a transmission determination for Basslink Pty Ltd (Basslink). The Victorian Government is appreciative of the work done by the AER to assess Basslink's regulatory proposal.

The Victorian Government wishes to raise its concerns with the following:

- APA Group's proposed interjurisdictional cost allocation for the recovery of costs from customers in Victoria and Tasmania.
- The AER's assertion that it is not empowered to approve an interjurisdictional cost allocation.

Proposed interjurisdictional cost allocation

The Victorian Government believes that the method APA Group used to determine its proposed interjurisdictional cost allocation for Basslink¹ is not consistent with the requirements of the National Electricity Rules (NER).

APA's proposed method should not be accepted, having regards to the requirements of the NER, when considering clause 6A.29.1A². Specifically, clause 6A.29.1A of the NER requires that a Transmission Network Service Provider (TNSP) must determine its Aggregate Annual Revenue Requirement (AARR):

- a. for the provision of prescribed transmission services within a region
- b. based on the revenue requirements attributable to its own assets that are used to provide these services
- c. **based only on assets that are located in the same region.**

The Victorian Government contends that the correct application of clause 6A.29.1A to Basslink's transmission determination would result in an interjurisdictional cost allocation based on a geographic approach. Without such an interpretation, the NER gives no guidance as to how an interconnector should split its total AARR between the two regions. This is because it is typically the case, for an interconnector, that all of the TNSP's assets, in both regions, are used to provide its prescribed transmission services. In the absence of a geographic interpretation of 6A.29.1A, there are no provisions in the NER to explicitly

¹ [Basslink - Overview of the updated Revenue Proposal - 29 August 2025.pdf](#)

² This section of the NER was recently restructured and renumbered. The former section 6A.29.1 is now 6A.29.1A. The former clause 6A.29.1(b) is now 6A.29.1A(a). The former clause 6A.29.1(e) is now 6A.29.1A(c). Clause 6A.29.1A(a) requires that a TNSP "must determine the AARR for its own transmission system assets which are used to provide prescribed transmission services *within each region*" (emphasis added). Further, 6A.29.1A(c) requires that "a TNSP must provide its AARR *for that region* to the Co-ordinating Network Service Provider (CNSP) for that region to enable the CNSP to undertake its functions under Part J of Chapter 6A of the NER."

prevent double counting of the AARR – that is, the TNSP for an interconnector could submit portions of its AARR twice, once to each of the regions it connects to.

Further, the geographic approach to cost allocation is supported by the 2013 rule change that introduced Modified Load Export Charges (MLECs)³. This rule change was based on a recognition that electricity customers in any given region only pay for the cost of transmission infrastructure located in their own region.

It is also worth noting the Australian Energy Market Commission's (AEMC's) 2009 Review of Energy Market Frameworks in the Light of Climate Change Policies⁴ that preceded this rule change. In particular, section 4.2.3 of the AEMC's report which stated that:

"customers do not currently contribute to the costs of transmission assets in other regions that support electricity flows to and from their region, even if they benefit from those flows."

The above extract indicates that the AEMC was of the view that customers, in a given region, only assume a specific portion of the cost of an interconnector. That is, specifically, the portion attributable to the interconnector's transmission assets that are located in their own region. This is further supported by the AEMC's final determination on this rule change, which stated:

*"Under the existing rules, however, the transmission system charges in the importing region are based on the capital and operational costs associated with infrastructure located within the importing region only. The transmission charges consumers pay currently do not reflect the costs of utilising the assets of the exporting region's network to import electricity"*⁵

Although the MLEC rule change was implemented to address this shortcoming, its implementation did not seek to change the way interconnector revenue determinations are treated or to alter Clause 6A.29.1A of the NER.

The Victorian Government would also note that it is the AER's understanding that interjurisdictional cost sharing arrangements for both Murraylink and Direct Link were based on a geographic approach.⁶ The precedent set by these interconnectors supports a geographic approach. This precedent is clearly not consistent with APA's currently proposed method for interjurisdictional cost sharing, and the resultant split between jurisdictions.

Quantifying a Geographic Allocation

In quantifying a geographic allocation of the AARR, there are existing allocation processes in the NER that already use asset value as a way to allocate revenue requirements. These are:

1. the Attributable Cost Share⁶
2. the Attributable Connection Point Cost Share⁷
3. the Cost Reflective Network Pricing (CRNP) Methodology and the Modified CRNP Methodology⁸
4. the MLEC CRNP Methodology⁹

The above methods all make allocations of revenue based on the following:

- The ratio of the value of specific assets to some form of total relevant asset value.
- Asset value is measured by the optimised replacement cost or *"an accepted equivalent that is referable to values contained in the accounts of the relevant Transmission Network Service Provider"*.

These methods provide a clear precedent for how a geographic approach to an interjurisdictional cost allocation should be implemented.

³ Rule Determination National Electricity Amendment (Inter-regional transmission charging) Rule 2013, AEMC, 28 February 2013

⁴ Review of Energy market Frameworks in the Light of Climate Change Policies - Final Report, AEMC, 8 October 2009

⁵ See page 2 of the rule determination

⁶ NER, 6A.22.3

⁷ NER, 6A.22.4

⁸ NER, 6A.23.2(c) & S6A3

⁹ NER, 6A.29A.2(a)&(b), Glossary: MLEC CRNP Methodology

Regional Boundary

In order to apply the geographic approach to an interjurisdictional cost allocation, it is necessary for any assets currently sitting outside of both regions to be allocated to one of the 2 regions. In the case of Basslink, a new contiguous boundary between the 2 regions would need to be defined, in order to remove any ambiguity regarding the span of cable sitting in Commonwealth waters. Rather than APA Group or the AER nominating this boundary, it may be necessary for the AEMC to define it in accordance with Chapter 2A of the NER. This would presumably be via a Region Change Application¹⁰.

A regional boundary at the mid-point of Bass Strait might be a logical choice – noting that there are multiple ways to determine such a mid-point. However, Victoria already has an historic maritime border with Tasmania running along 39 degrees 12 minutes south (passing immediately south of Wilson's Promontory).

We also note it appears that a Region Change Application can only be made in response to a transmission congestion issue¹¹. This is not applicable to the regulation of Basslink, hence a rule change might be required.

Noting the complexity of this process, which would likely take more time than is available, Victoria would be comfortable with accepting a cost allocation which is in line with APA Group's original assessment of a geographic approach¹². This would have an outcome in the order of a 50 to 55 percent share of costs allocated to Victoria.

Role of the AER

In addition to the above, the Victorian Government does not agree with the AER's assessment that it cannot approve a cost allocation. It appears from the NER and the AER's Pricing Methodology Guidelines¹³ (the Guidelines), that the AER is empowered to reject and amend an interjurisdictional cost allocation that is not based on a geographic approach, as set out below.

An interjurisdictional cost allocation is part of a TNSP's Pricing Methodology:

- Clause 6A.10.1(e)(2) of the NER requires a TNSP's Pricing Methodology to comply with the Guidelines.
- Clause 2.1(c) of the Guidelines¹⁴ requires a TNSP's proposed Pricing Methodology to include *"Details of how the TNSP's aggregate annual revenue requirement (AARR) will be derived"*. Therefore, the derivation of the AARR is part of a TNSP's Pricing Methodology.
- Consequently, any steps in the process downstream of determining the AARR are also part of a Pricing Methodology. For an interconnector, determining the interjurisdictional cost allocation is the next step in the process.

The AER is empowered to approve or amend a Pricing Methodology as part of its Final Decision:

- Clause 6A.14.1(8) provides that the AER is empowered to approve or refuse a proposed Pricing Methodology. Noting the limitation of clause 6A.14.3(g)(2), which states that the AER must approve a proposed Pricing Methodology if it complies with the requirements of the Guidelines.
- Clause 1.4(a) of the Guidelines states that a TNSP's Pricing Methodology must be developed in accordance with the Guidelines *and the NER*.¹⁵
- Consequently, an interjurisdictional cost allocation must be developed in accordance with all relevant provisions of the NER, in particular, Clause 6A.29.1A which is the clause that implies a geographic approach for making an interjurisdictional cost allocation (as discussed above).

¹⁰ See clause 2A.1.2(b) of the NER

¹¹ See clauses 2A.2.1(c)1 & 2A.2.2 of the NER

¹² Basslink Transmission Revenue Proposal, APA, 15 September 2023, Attachment 4: Revenue and Pricing Methodology, Table 4.1, p114

¹³ Electricity Transmission Network Service Providers Pricing Methodology Guidelines, Version 4, AER, 3 July 2025

¹⁴ See page 6 of the Guidelines

¹⁵ See page 4 of the Guidelines

- Clause 6A.13.2(d) of the NER requires that, in the event that the AER rejects a TNSP's Pricing Methodology as part of its Final Decision, it must amend the Pricing Methodology, as necessary for it to comply with the NER.

Therefore, the AER is empowered to amend Basslink's proposed interjurisdictional cost allocation, as necessary, so that it is based on the geographic approach.

Role of a CNSP

The Victorian Government believes that a Coordinating Network Service Provider (CNSP) is empowered to reject the AARR allocated to it by a TNSP. It would be empowered to do so if the AARR calculated by the TNSP for its region were to meet the following criteria:

1. It has been derived in a way that does not comply with the NER.
2. It prevents the CNSP from properly performing its functions under Part J, Chapter 6A of the NER.¹⁶

Application of the geographic approach to the interjurisdictional cost allocation would mean that a CNSP for a region could only recover transmission costs from its customers, if those costs were attributable to assets located in the same region.

The Victorian Government notes that the relevant CNSPs, at the time Basslink is scheduled to commence operation as a TNSP, will be:

- VicGrid in Victoria
- TasNetworks in Tasmania.

Victoria will consider the AER's Final Decision within this context.

Conclusion

The Victorian Government urges the AER to amend Basslink's proposed interjurisdictional cost allocation as necessary, so that it is consistent with the NER. The AER should adopt an interjurisdictional cost allocation that is based on a geographic approach.

If you would like to discuss these matters further, please contact Ben Ferguson, Executive Director, Energy Transition and Strategy Division from the Department of Energy, Environment and Climate Action at [REDACTED]

Yours sincerely

[REDACTED]

Hon Lily D'Ambrosio MP
Minister for Climate Action
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¹⁶ See clause 6A.29.1A(c) of the NER