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### **APA Group's revised revenue proposal for Basslink's 2026-30 regulatory control period**

I am writing to provide a submission on APA Group's revised revenue proposal on behalf of the Tasmanian Government.

There are two principal issues that I would like to highlight, namely:

- the revenue allocation methodology between Tasmania and Victoria that is proposed for Basslink; and
- the treatment of the system protection scheme costs that are required for Basslink's operation.

#### *Revenue Allocation*

Tasmania's arguments about the most appropriate revenue allocation methodology were set out in my February 2024 submission. To summarise:

- the National Electricity Rules (NER) do not provide any explicit guidance in ruling in or out any revenue allocation methodology;
- specifically, clause 6A.29.1(b) provides no useful clarity on revenue allocation methodologies<sup>1</sup>;
- in the absence of clear rules, the principle of equity should be given strong weight, such that customers of a similar class across Victoria and Tasmania should face similar costs arising from Basslink.

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<sup>1</sup> This rule deals with the situation where there are multiple TNSPs within a single region, which will be the case in Tasmania should Basslink become a TNSP. Clause 6A.29.1(b) requires that where there are multiple TNSPs in Tasmania, that each TNSP must determine the AARR for its own (ie no other TNSP) assets that are used to provide prescribed transmission services within Tasmania. The reference to 'within each region' in the clause pertains to the services provided, not the assets that are used to provide those services. This implies that the clause does not direct the revenue allocation to be geographically based. In the case of Basslink, all Basslink's network assets are required to provide transmission services in Victoria (including the assets located in Tasmania), and similarly, all its assets are required to provide transmission services in Tasmania (including those located in Victoria).

The Government argues that the purpose and effect of clause 6A.29.1(b) is to indicate that:

- BPL can't include the costs of assets for MurrayLink or DirectLink in relation to Basslink's allowable revenues, because they are not used to provide those services into Tasmania; and
- BPL is precluded from recovering revenue for assets that it may own but are not used to provide transmission services in either Victoria or Tasmania.

The vast disparity between the market-size of Victoria and Tasmania is a well-recognised issue in relation to fairly recouping the costs of interconnection between the two regions. On this basis, the Tasmanian Government has consistently argued that the market-size methodology originally proposed by Basslink Pty Ltd (Basslink) should be applied. This was consistent with the results of its customer consultation, spanning both Victorian and Tasmanian stakeholders.

The Tasmanian Government was disappointed that Basslink opted to revise its proposed revenue allocation methodology, by giving weight to the Energy Flow methodology, which resulted in a more-than-doubling of the allocation proposed for Tasmania – from 9 per cent of the assessed annual revenue to 25 per cent.

It is noted that the AER is now of the view that the determination of the methodology for interregional revenue allocation is matter is outside its remit. Nonetheless, the Tasmanian Government argues that the principle of equity calls for a revisiting of the revenue allocation approach back to the market size methodology, particularly given the asset has been in operation since 2006, meeting the energy needs of Victoria and Tasmania alike. In the context of the conversion of an existing asset, and the absence of clear approach set out in the NER, the highest weighting should be given to the principle of equity.

### *System Protection Scheme Costs*

The system protection schemes that were put in place to enable Basslink's full operation to its physical capacity limits (the Frequency Control System Protection Scheme (FCSPS) and Network Control System Protection Scheme (NCSPS)) have been central to Basslink's operations since they commenced in 2006. Of particular relevance to Basslink's regulation is the treatment of the FCSPS, given that the NCSPS will be replaced by TasNetwork's whole-of-State network control system as approved by the AER.

The Tasmanian Government considers that the costs of operating tripping services that support the operation of the FCSPS (both Tasmanian load tripping to support Basslink's southward flows and the generator tripping services require to support northward flows) are as central to the effective operation of Basslink as the physical assets required for its operations (such as transformers, converter stations and control systems) and the other operating costs for the asset.

In this context, it could be argued that the FCSPS tripping services should be treated as core operating expenditure and recovered directly through the AER's assessed maximum revenue allowances. This would be consistent with the proposed treatment of the capital costs of the SPS system, for which Basslink is seeking to recover the FCSPS hardware costs as operating expenditure.

By contrast, Basslink has proposed that the costs of the tripping services to support the operation of the FCSPS be recovered through the network system control ancillary service cost pass through mechanism. While the Tasmanian Government does not oppose this approach, it is essential that those costs are apportioned on the same basis as all of the other operating and asset-related costs required to provide its prescribed transmission services, at the finalised interregional revenue allocation rates. Any treatment that results in a different apportionment of those costs between Tasmania and Victoria would be unacceptable, and the Tasmanian Government would argue those tripping costs be treated as operating expenditure and recovered directly under the maximum allowance revenue framework.

### *Other matters*

Ensuring Basslink's reliability is a key priority for the Tasmanian Government, and is a principal reason the State has long-supported the interconnector's conversion to regulated status. In this context, the Tasmanian Government supports Basslink's proposals in its Revised Revenue Proposal in relation to the replacement of the control and protection scheme, spare subsea cable and in relation to changes to the marine repair vessel.

In relation to costs incurred by Basslink in pursuing regulation (from its current market network service status), the Tasmanian Government considers that this is business decision by the interconnector owner, and these costs should be borne by equity owners, rather than electricity customers. These costs should form neither part of the regulated asset base of the interconnector, or recoverable operating costs.

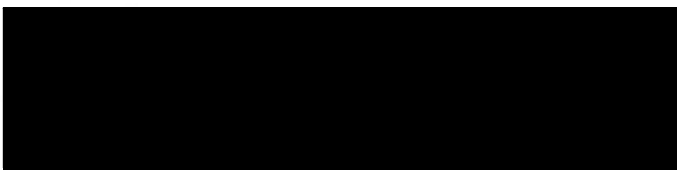
### *Conclusion*

In closing, the Tasmanian Government remains strongly supportive of Basslink's conversion to become a regulated interconnector, like all others in the National Electricity Market. The experience of Basslink's operations since it became an unhedged market networks service provider actively bidding its capacity in July 2025 has reinforced the importance to both Tasmania and Victoria of the link operating with open flows.

A regulated Basslink will

- ensure that there will be open flows of electricity between Tasmania and Victoria which is particularly relevant for hydrological risk management in Tasmania, and for Victoria in meeting testing market conditions (both minimum demand issues and peak capacity);
- provide a stable revenue stream and a more financially secure commercial model for the ongoing operation of the link, and the benefits it brings to both Tasmania and Victoria, relative to the market network service provider arrangements;
- ensure a transparent process for scrutinising operating and capital expenditure for the link consistent with maintaining reliability over Basslink's useful life;
- provide a customer-centric process for Tasmanian and Victorian electricity customers to express preferences on material issues that drive Basslink's performance and costs (such as the tradeoffs between reliability and costs, insurance, and risk appetite, as demonstrated in the regulatory proposal); and
- provide the path to a more appropriate allocation of the cost burden of Basslink, which until recently fully sat with Tasmania.

Yours sincerely



Hon Nick Duigan MLC  
**Minister for Energy and Renewables**