Australian Energy Regulator
Basslink Conversion Application
Draft Determination

Comments from

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December 2025

Background

As a member of the Basslink Regulatory Review Group (RRG) I seek to make the following submission in relation to the draft determination 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 pleasing to see that, after 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, a longer period of consultation was available in respect to its draft determination.

I would request, on behalf of all volunteer consumers who seek to have involvement in AER processes, that the AER continue to provide sufficient time for draft reports to be considered when seeking comment upon issues which have the potential to impact on consumer energy prices. I would also suggest that the AER consider some kind of assistance be provided to volunteers, such as myself, who have not only been involved in regulatory processes such as the BassLink determination process, but who also seek to provide comment on the process and draft documents.

While we may receive support from organisations, such as APA, for our attendance at meetings, the task of preparing comments involves considerable input for which we as volunteers receive no support. Many others commenting upon these processes are doing so as part of their paid employment. The lack of support for volunteer consumer representatives significantly weakens the ability of consumers to comment from the consumer perspective in respect to these important decisions of the AER.

These comments should be considered in addition to my earlier comments on the AER consultation paper on the conversion of Basslink and its draft report from December 2024. I again emphasis that these comments are 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 determination states that "*consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia as it transitions to net zero emissions*". This statement by the AER goes to the heart of my comments in respect of the draft determination.

I do not wish to go over ground I have previously commented upon and I am generally supportive of the AER's draft determination. I note both the comments of the AER in respect of APA's submission on the revenue needs of BassLink and also the response of APA to that draft determination.

I will not make comment on these aspects of the draft as both the AER and APA have the resources to negotiate a final outcome somewhere in the ballpark of the alternative estimates which are in line with expectations which have been developed over the RRG process. Where the AER and APA finally land in this respect has limited material impact on the consumer impacts, I discuss below.

I fully recognise the key elements of this determination and the potential consumer impacts. Firstly there is the reasonably certain impact of the revenue determination itself. Secondly, I acknowledge that the consumer impact of the regulation of BassLink will be affected by the estimated proceeds of Settlement Residual Auctions (SRAs). And thirdly, consumers will be impacted by the, as yet unknown, costs associated with the Frequency Control System Protection Scheme (FCSPS). It is my understanding, based upon questioning APA during the consultative process, and also from making independent enquires, that this cost is material in respect to the determination.

I am going to restrict my comments on the draft determination to the proposed cost sharing arrangements and how these proposed arrangements comply with the statement made by the AER in its opening paragraph of its draft determination.

Should the AER adopt the proposal I present below it will also offset the inherent risks associated with the FCSPS and how the current proposed cost sharing arrangements impact differently on consumers in Victoria and Tasmania.

Revenue Sharing

Despite the Victorian retail electricity market being around 10 times the size of the Tasmanian market, the decision appears to have been made to impose 25% of the revenue determination on Tasmanian electricity consumers.

This is clearly neither fair or equitable.

It is clear there is no consistent base by which revenue sharing of interconnection is assessed. While BassLink is proposed to be shared 75/25 between Victoria and Tasmania, Marinus Link, which will also provide for electricity to be shared between the two jurisdictions has had applied a 72.4/27.6 revenue sharing arrangement.

Furthermore, in relation to Marinus Link, a project which involves both an undersea cable and a linkage into the respective grids at both ends, Tasmanian consumers are also paying for 100% of the North West Transmission Development (NWTD) being undertaken by TasNetworks. Marinus Link requires NWTD and NWTD to effectively link into the Tasmanian grid and it will not proceed in the absence of Marinus Link. So in effect Tasmanian consumers are contribution around 40% of the revenue needs of that project.

It is clear there is no objective basis for these proposed decisions on revenue allocation.

There has been discussion that the revenue sharing reflects the benefits flowing to each connected jurisdiction. I would seriously question this discussion. In the case of BassLink the direction of flow appears to have been adopted as a basis for assessing benefit. This is clearly an inappropriate basis, given the considerable year to year variation in net flows of Basslink, and the access interconnectors such as BassLink does, and Marinus Link will, provide to Tasmania's renewable energy resource.

It is impossible to say that a southward flow benefits Tasmania and a northward flow benefits Victoria or vice versa. All energy flows across BassLink benefit the NEM.

The work undertaken by EY for both BassLink and Marinus Link clearly demonstrate that benefits flow beyond the two connected jurisdictions. This outcome is confirmed by the work undertaken by FTI Consulting for Marinus Link. Both EY and FTI clearly indicate that, in regard to Marinus Link, only around 40% of the benefit is captured within the two interconnected jurisdictions.

The remaining 60% of benefit is captured elsewhere in the NEM. This clearly demonstrates that benefits cannot be directly associated with the direction of energy flows across the link.

When the uncertainty associated with SRAs and the FCSPS is considered, it becomes even clearer that the current approach to revenue sharing associated with interconnection is highly inappropriate and does not deliver a fair and equitable outcome for consumers in either jurisdiction. I will comment further on this below.

I therefore propose that ad hoc or negotiated determination of revenue sharing NOT be a part of the determination process.

The AER when making a revenue determination in respect of transmission within a jurisdiction does not seek to allocate revenue to particular parts of that jurisdiction. This is despite the fact that different elements of the transmission network serve differing markets within a jurisdiction and clearly deliver varying benefits to the TNSP, usually a monopolist provider. The transmission network is considered a single element and its costs, and revenue needs are shared across all users within the jurisdiction and the relevant AER determinations are expressed accordingly.

The AER does not make a determination which favours any one party within a jurisdiction, or indeed any particular transmission asset.

Yet when it comes to interconnection this basic tenant has not been not adopted by the AER.

I therefore suggest that when considering interconnection that the AER consider the two jurisdictions as a single jurisdiction. The adoption of such an approach would see the revenue needs associated with that interconnection being addressed no differently than were a similar investment made fully within a jurisdiction.

The only change required would be that instead of the revenue needs being, firstly divided in accordance with some predetermined revenue allocation agreement, and then allocated within each jurisdiction, the demand in each jurisdiction would be summed first and then the unit revenue requirement applied equally to each jurisdiction based upon their share of the total demand.

The SRAs and FCSPS revenues would also be similarly applied. Such an approach to revenue sharing would be fairer and more equitable.

The proposed approach would also share risk and uncertainty more equitably across the two connected jurisdictions. It removes the need for an ad hoc or negotiated determination in regard to cost sharing and would bring interconnection into the same framework as applied to transmission developments within a jurisdiction.

Estimated Bill Impacts

In its response to the draft determination, APA has provided the following estimate of the consumer impacts of BassLink's regulation within each jurisdiction. In my comments below I will restrict my specific comments to the impact on residential customers, while noting that small business customers are similarly affected.

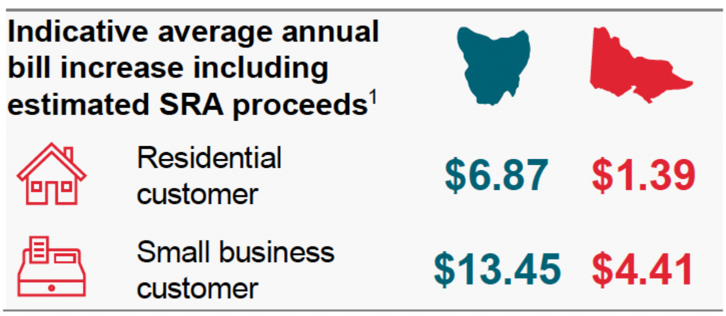
Estimated average annual bill increase excluding SRA proceeds [1]		
Residential customer	$18.67	$8.77
Small business customer	$36.53	$27.83

There is nothing fair and equitable in relation to these estimates. Tasmanian residential customers are not only paying a paying a higher per unit charge in relation to the presence of BassLink, they are also paying a penalty due to their higher annual electricity consumption.

If the AER is to proceed with a determination which represents a 75/25 split then I consider it is incumbent upon the AER to clearly demonstrate why a residential customer in Tasmania should be charged a higher amount for the presence of exactly the same asset. On a per kWh basis the cost imposed on a Tasmanian residential customer is 31% higher.

Applying differential per unit charges in different jurisdictions for precisely the same asset surely breaches the AER's mandate to ensure consumers across the NEM are provided with affordable energy. In this draft determination the AER are clearly supporting less affordable energy for Tasmanian residential customers and more affordable energy for Victorian customers.

When consideration is given to the potential impact of SRAs, as estimated by ACIL Allen, the situation for Tasmanian consumers worsens considerably should the AER proceed with its support of a 75/25 revenue share.



Once SRAs are considered, the impact on Tasmanian residential customers, who are already suffering significant cost of living pressures, from the revenue sharing arrangement is a 5 fold higher cost, which represents a 3 fold higher impact on a consumer's bill.

Adopting the revenue sharing arrangement I propose will deliver a more equitable outcome for consumers on both sides of Bass Strait. With the inclusion of SRAs at the level estimated by ACIL Allen the proposed 75/25 revenue split results in a per kWh impact of regulation for Tasmanian residential customers which is 3 times higher than the impact on Victorian customers.

Adoption of the proposal I have outlined above will deliver to customers in both Victoria and Tasmania the exact same per kWh impact. Furthermore, instead of Tasmanian residential customers experiencing a 3 fold impact on their bill relative to Victorian residential customers, the bill impact in each jurisdiction is virtually identical.

These two outcomes deliver in accordance with the AERs objective to deliver affordable energy as we transition to net zero. The proposed 75/25 split does not deliver this outcome as Tasmanian residential consumers suffer considerably more proportionately than Victorian residential customers.

In terms of the final bill impact, Tasmanian residential consumers still pay a higher amount than Victorian customers at $3.19 compared to $1.97. However, this outcome is reflective of the greater household use in Tasmania.

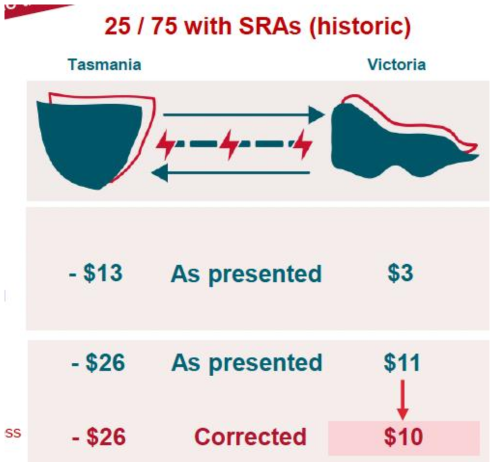
It is also clear from these figures that a fairer and more equitable position on cost sharing, and one which is not based on an ad hoc or negotiated position has very limited impact on residential consumers in Victoria, while providing a fairer and more equitable outcome for Tasmanian residential consumers.

A similar outcome will result for small business customers across the two jurisdictions, but I will leave that to be assessed in detail by the AER.

Risk Sharing

The above analysis does not include the costs which may be associated with the FCSPS. However, irrespective of those costs, the proposed method for revenue sharing will ensure that Tasmanian consumers are not further disadvantaged relative to Victorian consumers due to an ad hoc negotiated cost sharing agreement.

To illustrate the impact of uncertain outcomes, APA provided the RRG with an estimate of the impacts of regulation based on the historic outcomes of SRAs. This is shown below.



This graphic shows the considerable uncertainty imposed on Tasmanian consumers flowing from SRAs may be allocated under the AERs draft determination. These estimates show Tasmanian residential consumers face a 6 times greater bill risk than Victorians, while Tasmanian small business consumers face a risk which is more than 3 times greater.

Again, this outcome from the proposed revenue sharing arrangements is clearly inequitable and unfair.

Any SRA revenue is a result of what is happening jointly across the two jurisdictions, and perhaps more broadly across the NEM. It cannot be ascribed to one jurisdiction or the other. It is a result of the interconnection. As such, and as discussed above, these revenues should be shared on a per unit basis across the two jurisdictions.

Such an approach would also more appropriately share risks and lead to a more secure outcome for consumers in both jurisdictions.

Concluding Comments

I have demonstrated above that the proposed 75/25 revenue sharing arrangement for BassLink is incompatible with the AERs goals.

This arrangement needlessly disadvantages one jurisdiction relative to the other. And this disadvantage can apply either way, once risk and uncertainty around the SRAs is taken into account.

It is surely the role of the AER to ensure that revenue sharing for interconnection is undertaken on a prescribed basis which is able to be replicated as further interconnections are made between jurisdictions. The current ad hoc and/or negotiated approach provides no certainty to consumers across the NEM and will result in vastly inequitable outcomes for consumers.

The AER can avoid future issues, as I have highlighted will occur in relation to Marinus Link, by acting now to adopt a clear, simple and consistent process for allocating the costs associated with interconnection. The approach I propose is also highly consistent with the approach adopted by the AER in respect of intra-jurisdictional transmission developments.