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Australian Energy Regulator (AER)
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15 December 2025

VicGrid submission to the AER's draft decision on the 2026-30 transmission determination for Basslink Pty Ltd

Dear Dr Funston

We thank the AER for the constructive collaboration with VicGrid to date and we welcome the opportunity to respond to the AER's draft decision on the transmission determination for Basslink's 2026-30 regulatory control period (the Draft Decision).

VicGrid believes that the AER has the authority to assess, amend and approve the method for allocating interconnector costs between jurisdictions (where no interjurisdictional ministerial agreement exists), and our view is that such an allocation should be based on a geographic approach, consistent with the positions articulated in the Victorian Government's submission to the Draft Decision.

VicGrid also considers that the methodology adopted by APA Group for allocating Basslink interjurisdictional costs on a 25%-75% allocation basis between Tasmania and Victoria is subjective, arbitrary and does not reflect an appropriate evidence-based approach that is consistent with the National Electricity Rules (NER). Our reasoning for this position is as outlined below:

The weighted average methodology applied to determine the 25% - 75% cost allocation is arbitrary

Clause 6A.29.1A(a) of the NER outlines that *"Each Transmission Network Service Provider must determine the AARR [Aggregate Annual Revenue Requirement] for its own transmission system assets which are used to provide prescribed transmission services within each region"*.

As outlined in APA Group's original revenue proposal for Basslink, APA Group's considered three main options as *"measures (or proxies for) the relative use or benefit obtained from Basslink¹"* for allocating costs between Tasmania and Victoria, including:

- a **geographic method**, resulting in a 45% - 55% cost allocation;
- an **energy flows method**, resulting in a 50% - 50% cost allocation; and,
- a **market size method**, resulting in a 10% - 90% cost allocation.

Following its stakeholder engagement process and feedback on its revenue proposal, APA Group has settled on a 25% - 75% cost allocation by applying a two-step methodology involving:

¹See p. 112, 'Attachment 4: Revenue and Pricing Methodology – September 2023', available at <https://www.aer.gov.au/industry/registers/determinations/basslink-determination-2025-30/proposal>

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- shortlisting the two methods most preferred by participants in its engagement process, namely the **market size method** and **energy flows method**; and
- deriving the proposed cost allocation through a weighted average of the two preferred methods, calculated according to the proportion of participants in the engagement process who expressed a preference for each approach.

This two-step methodology is, in our view, too subjective as it is highly influenced by the very limited sample size and the specific composition of participants engaged. Further, APA Group's justification for including the **market size method** as an input is not appropriate, as this method does not provide a valid approximation of 'use' as intended under clause 6A.29.1A(a) of the NER. Furthermore, the 90% cost imposition on Victorians under the **market size method** cannot be demonstrated as commensurate with any benefit associated with the Basslink interconnector for Victorians.

Ensuring consistency with principles and guidance available in the NER.

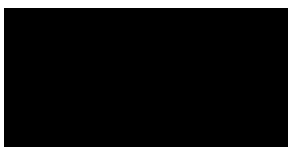
In accordance with the NER (and in the absence of an interjurisdictional ministerial agreement providing clear and robust justification for any ad-hoc cost allocation), VicGrid considers that the interjurisdictional cost allocation for Basslink should be based on a geographic approach. This reflects established regulatory guidance and is consistent with historical precedence².

For all the above reasons, VicGrid considers that APA Group's **geographic method** is the most appropriate of the three methods originally proposed, and we would expect that a geographic approach to cost allocation would result in approximately 50% of costs being allocated to Victoria.

Accordingly, VicGrid encourages the AER to amend Basslink's proposed interjurisdictional cost allocation in favour of a geographic approach, to ensure alignment with the principles and guidance of the NER, and with established precedent in the historical treatment of interjurisdictional assets.

Should the AER have any questions regarding this submission, VicGrid welcomes any further clarification or engagement the AER may require.

Yours sincerely



Alistair Parker
CEO VicGrid

² We note that it is the APA Group's understanding that, for the conversion of both Murraylink and Directlink, the interjurisdictional cost allocation was based on a geographic approach. See p. 15, 'Basslink Transmission – Overview of the updated revenue proposal', August 2025, available at <https://www.aer.gov.au/industry/registers/determinations/basslink-determination-2025-30/revenue-proposal-updates>

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