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4 June 2026

Ms Clare Savage
Australian Energy Regulator
Level 17, 2 Lonsdale Street
MELBOURNE VIC 3000

[redacted]

Dear Clare

Frequency Control System Protection Scheme (FCSPS) - APA's SSNS application and clarification of the regulatory framework for ongoing FCSPS availability at Basslink

This letter sets out Hydro Tasmania's support of APA's recently lodged System Security Network Support (SSNS) Payment application in respect of FCSPS tripping services at Basslink. The continued availability of those tripping services is critical to Basslink operating at its full transfer capability and, therefore, to delivering the consumer benefits that underpin the AER's recent regulatory decisions.

The FCSPS tripping arrangements that support full operation of the link have proved effective since commissioning. We consider they remain a prudent and efficient way to ensure compliance with the Tasmanian Frequency Operating Standard.

The AER's decision to approve conversion was informed by modelling which assumed Basslink would be operating at full capacity. Similarly, the AER's approval of a revenue allowance of $459.5 million for Basslink assumed the interconnector would be fully available to the market.

Consistent with this, the AER's final decision in relation to Basslink's transmission determination of 27 February 2026 noted that FCSPS hardware costs were assessed as "necessary to maintain the quality, reliability and security of supply of prescribed transmission services." It would be inconsistent to treat the hardware cost as necessary while not also making an allowance for the cost of the services that enable the hardware to fulfil its function.

More broadly, the same logic applies to the whole of the Basslink investment. The revenue the AER has approved recovers the full physical infrastructure - converter stations, transformers and cable - that has been sized and built to transfer power up to Basslink's full capability, well above 144 MW. Without a fully armed FCSPS, Basslink is constrained to 144 MW under the Tasmanian Frequency Operating Standard. APA's application aligns the treatment of the enabling service with the infrastructure it enables, and in doing so preserves the efficiency and value of the underlying investment.

Application Term

We note APA's application relates to a contract with a term of two years. AEMO runs Settlement Residue Auctions for regulated interconnectors three years ahead. There is a risk that Market Participants may value Basslink units in year three of the AEMO auction horizon with an assumed maximum flow of 144MW if there is no certainty that FCSPS tripping services will be in place in that year, resulting in lower auction clearing prices. This would impact customers by reducing the amount of revenue available to the Co-ordinating Transmission Network Service Providers for Victoria and Tasmania to offset network service charges.

Hydro Tasmania asks the AER to create as much certainty as possible before the Settlement Residue Auction on 15 June which will include Basslink for the first time. For example, the AER could:

1. Expedite its assessment of APA's SSNS application so that it can provide the market certainty that FCSPS tripping arrangements are in place for at least the first two years of the three-year SRA auction horizon;
2. Confirm whether it would be willing to also approve a contract on the same terms for the full regulatory control period to give APA comfort to enter a longer-term agreement and to give the market an increased understanding of the likelihood of this; and
3. Otherwise take any other actions it identifies within its control to provide Market Participants with additional certainty about what arrangements are likely to be in place for the balance of APA's first regulatory control period.

The proposed FCSPS tripping contract

Hydro Tasmania has offered APA a contract with a term of four years, and this remains our preference as it provides certainty that the FCSPS will be in place for the third and fourth years of Basslink's first regulatory control period. However, we understand that APA would prefer a two-year term and has submitted its application on this basis.

APA's application also notes:

- "The SSNS Contract detailed in this application is the result of this process and represents the only practical approach for procuring FCSPS services in the short-term"[1];
- that "no alternatives available in the short-term"[2]; and
- "In the medium term, Basslink believes that battery energy storage systems (BESS) that are able to provide fast frequency response services will provide an alternative to the load and generator tripping services of the FCSPS."[3]

Under the contract offered to APA by Hydro Tasmania, APA may notify Hydro Tasmania that it has arranged to procure alternative generator tripping or load tripping services from another provider. The parties must then negotiate to agree proportionate adjustments to the relevant terms of the agreement or terminate the agreement if APA has replaced all of the services with services from another provider.[4]

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[1] Page 4 of APA's April 2026 application for approval of an FCSPS related SSNS contract

[2] Page 13 of APA's April 2026 application for approval of an FCSPS related SSNS contract

[3] Page 16 of APA's April 2026 application for approval of an FCSPS related SSNS contract

[4] The FCSPS was considered the least cost way to ensure that Basslink can operate at full flows whilst ensuring the system remains within the Frequency Operating Standard for Tasmania when it was designed and implemented at the time of Basslink commissioning. It is our understanding there are unlikely to be cheaper viable alternatives which

A four-year agreement with such a provision could create market certainty for the full regulatory control period without reducing APA's ability to explore and implement other options should it consider them viable during that period. Consideration could then separately be given to how to create certainty in the next regulatory control period ahead of that coming into the AEMO auction horizon.

Hydro Tasmania welcomes the opportunity for continued engagement with the AER. If you wish to discuss any aspect of this letter, please contact [redacted]

Yours sincerely

[redacted]

Rachel Watson
Chief Executive Officer
Hydro Tasmania

could be implemented during the Regulatory Control Period however this provision will mean APA is not restrained from exploring these in conjunction with TasNetworks should they wish to do so.