Determination

Basslink and Hydro Tasmania system security network support payments and payment methodologies

June 2026

AUSTRALIAN ENERGY REGULATOR

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Contents

Summary of our assessment....4
1 Introduction....6
1.1 The AER's role....6
1.2 Our process for this application....7
1.3 Basslink's actions and the role of this determination....8
2 The regulatory framework....10
2.1 Determination requirements....10
3 Assessment of the application....12
3.1 Our determination....12
3.2 Eligibility of the application....13
3.3 Prudency and efficiency of the payment terms....14
Appendix A: Summary of stakeholder submissions....24
Glossary....26

Summary of our assessment

The *Improving Security Frameworks for the Energy Transition* rule change (the ISF Rule),[1] published on 28 May 2024, changed the way transmission network service providers (TNSPs) recover the costs of system security network support (SSNS) payments made for the system security services they are required to provide to meet network planning standards specified in Schedule 5.1 of the National Electricity Rules (NER). System security services include system strength, inertia, and network support and control ancillary services (NCAS), typically provided by synchronous generators, batteries or large energy users, to ensure the power system is secure as we transition to more renewable generation.

Instead of forecasting and including SSNS costs in the five-year revenue determination process, the ISF Rule allows TNSPs to forecast and recover this type of expenditure through the annual transmission pricing process,[2] and revises the existing ex-post network support pass through process.[3] Further, it allows, but does not require, TNSPs to seek a determination from the AER that expenditure for a proposed SSNS payment, or a methodology for such a payment, as set out in a draft contract between the TNSP and SSNS provider will likely be prudent and efficient. That is, the expenditure for a proposed SSNS expenditure will likely be consistent with the operating expenditure (opex) objectives, criteria and factors, and the factors in clause 6A.7.2(i) relevant to a SSNS payment.[4]

On 1 May 2026, APA Group as owner of Basslink Pty Ltd (Basslink) submitted an application to the AER seeking a determination that the payments and payment methodologies (payment terms) in its draft contract with Tasmania's Hydro Electric Corporation (Hydro Tasmania) are likely to be prudent and efficient. The draft contract is for Basslink to procure NSCAS related load shedding and generation tripping services from Hydro Tasmania for a two year term from 1 July 2026. These services are consistent with the existing Tasmanian Frequency Control System Protection Scheme (FCSPS). The FCSPS has been operated by TasNetworks since 2006 using rapid generator tripping and load interruption services under contract to Hydro Tasmania to meet the Frequency Operating Standard (FOS), enabling Basslink to safely operate above the 144MW limit set by the FOS. As Basslink will become a regulated transmission network from 1 July 2026, and consistent with the ISF rule change, Basslink is required to contract the FCSPS services directly to enable it to continue operating at full capacity from this date.

Basslink's application sets out the payment terms under which it proposes to procure the FCSPS services from Hydro Tasmania from 1 July 2026 to 30 June 2028. The application outlines the information and evidence supporting Basslink's submission that the draft

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1 AEMC, *Rule determination, National Electricity Amendment (Improving security frameworks for the energy transition) Rule 2024*, 28 March 2024.

2 NER, cl 6A.23.3(h)(2). This rule change does not require a change to the AER's existing *Transmission Pricing Methodology guidelines*.

3 NER, cl 6A.7.2(i)(3a). The AER Guideline *Procedural guideline for preparing a transmission network support pass through application June 2011* outlines the existing (pre-ISF Rule) process for undertaking annual network support payment pass throughs.

4 NER, cl 6A.6.6A.

contract is eligible for an AER determination under clause 6A.6.6A(a) of the NER, meets the materiality threshold, and that the SSNS payment terms are likely prudent and efficient under the relevant NER criteria.

We assessed Basslink's application as eligible, published it on our website on 19 May 2026, and invited stakeholders to provide submissions on the application by 4 June 2026. We received 7 submissions from Aurora Energy, Australian Financial Markets Association (AFMA), Centre for Smart Power and Energy Research (Deakin University), Hydro Tasmania, Marinus Link, the Tasmanian Government and TasNetworks. All submissions supported Basslink's application and the need for Basslink to continue to operate at full capacity after 1 July 2026. AFMA, Aurora Energy and Hydro Tasmania raised concerns on the timing of the AER's determination, noting uncertainty about the outcome of the determination could negatively impact outcomes in the Basslink settlements residue auction run by AEMO from 1 to 15 June 2026. Submissions took different positions on the proposed 2 year term of the draft contract, with AFMA, Aurora Energy and Hydro Tasmania supporting a longer term to provide greater market certainty, while TasNetworks and Marinus Link supported the proposed 2 year term. Submissions also emphasised the need for consistency with earlier AER decisions, noting that the AER had recently approved Basslink's conversion to a regulated asset and made its 2026–30 revenue allowance based on Basslink's unrestricted operation, which is contingent on Basslink accessing the FSCPS services in its proposed draft contact. Submissions are summarised in section 1.2 with more detail provided in Appendix B.

We undertook targeted consultation on the application, including with APA Group and Hydro Tasmania to understand the operation of the FCSPS and the basis of the draft contract payment terms, and with AEMO to understand the potential interactions between our determination process and AEMO's auction of Basslink settlement residues.

We considered the information provided in Basslink's application, along with the views provided through public consultation and direct engagement, to consider whether the payment terms in the draft contract are consistent with the NER requirements. In making this determination, we had regard to the criteria under clause 6A.6.6A of the NER, the AER's *System security network support payment Guideline*,[5] and the factors and information outlined in Sections 2 and 3 below.

Our determination is that the payments and payment methodologies set out in the draft contract between Basslink and Hydro Tasmania are likely to result in expenditure that is prudent and efficient, i.e. expenditure that is consistent with the opex objectives, criteria and factors, and relevant network support payment pass through factors set out in the NER.[6] Section 3 below outlines the information we have had regard to, and our reasons for the decision in more detail.

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[5] The *SSNSP Guideline* sets out our processes, eligibility criteria and thresholds, timing, and consultation processes for assessing an application, as well as the information we may have regard to when assessing the prudency and efficiency of proposed payments or payment methodologies in draft SSNS payment contracts.

[6] NER, cl 6A.6.6A (a)(3)-(6). Consistent with the AER's *SSNSP Guideline*, we interpret the factors under clause 6A.6.6A(a)(3)-(6) of the NER together as meaning that the AER makes a determination on whether a SSNS payment, or a methodology for such a payment, as described in a draft contract provided by the TNSP, is likely to result in future expenditure which can be reasonably considered to be prudent and efficient.

1 Introduction

We received an application from Basslink seeking an AER determination that the payments and payment methodology (payment terms) set out in a draft SSNS payment contract between Basslink and Hydro Tasmania are likely to be prudent and efficient under clause 6A.6.6A of the NER. The draft contract sets out the payment terms under which Hydro Tasmania will provide a prescribed level of NCAS-related load shedding and generation tripping services to Basslink for the period 1 July 2026 to 30 June 2028.

This section sets out the AER's role in assessing the application under clause 6A.6.6A of the NER and the actions Basslink took to negotiate the draft contract. Section 2 sets out the NER requirements for making this determination. Section 3 provides an overview of Basslink's payment terms, the basis of our determination on the prudency and efficiency of those terms against the relevant NER criteria[7], and the factors and information we may have regard to, as set out in our *System security network support payment (SSNSP) guideline*.[8]

1.1 The AER's role

The AER exists to ensure all Australian energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable and affordable energy future for Australia. We are the economic regulator for electricity distribution and transmission services in the National Electricity Market (NEM). Our electricity-related powers and functions are set out in the National Electricity Law (NEL) and NER. As the independent regulator, the national energy objectives guide the AER's work in the long-term interests of consumers.

Under the NER, the AER regulates Basslink's revenues through transmission revenue determinations.[9] Basslink's first revenue determination for the 2026–30 regulatory control period runs from 1 July 2026 to 30 June 2030.[10] Consistent with the ISF Rule, SSNS payment expenditures were not included in Basslink's revenue determination, and instead are recovered through the annual process for forecasting and recovering system security costs for non-network solutions.[11]

The ISF Rule allows, but does not require, regulated TNSPs to seek an ex-ante AER determination on whether proposed expenditure for a SSNS payment, or a methodology for such a payment, as set out in a draft contract between the TNSP and SSNS provider (e.g. a generator, battery, or large energy user) meets criteria indicating efficient and prudent expenditure (i.e. consistent with the operating expenditure objectives, criteria and factors, and amended network support payment pass through factors). Once any costs have been

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7 NER, cl 6A.6.6A(a)(3)-(6).

8 AER, *System Security Network Support Payment Guideline*, November 2024, pp. 11-14.

9 On 26 June 2025, the AER determined to convert the Basslink interconnector from a market network service to a prescribed transmission service. Our reasons for this decision can be found in our Final Decision.

10 https://www.aer.gov.au/industry/registers/determinations/basslink-determination-2026-30/final-decision-revenue-determination

11 NER, cl 6A.23.3(h)(2) and NER, cl 6A.7.2(i)(3a).

incurred, the AER continues to review the actual expenditure to ensure that only efficient costs are passed through to customers.[12]

1.2 Our process for this application

Our assessment of the application included:

- **Pre-lodgement engagement**: Basslink and the AER undertook early engagement on its application and draft contract, including meeting together with Hydro Tasmania to understand existing arrangements for the operation of the FCSPS. Basslink provided the AER with a draft of its application and Hydro Tasmania's letter of offer proposing Hydro Tasmania make FCSPS load and generation tripping services available to Basslink. This pre-lodgement process enabled us to provide feedback on information gaps in Basslink's draft application, and confirm the scope of any confidentiality claims before Basslink submitted its final application for consideration.
- **Application:** Basslink lodged an eligible application on 1 May 2026.
- **Consultation on the application**: The AER published a redacted version of the application on 19 May 2026, and invited energy consumers and other interested parties to make submissions by 4 June 2026. Specifically, we sought stakeholder views on the process Basslink followed to achieve the lowest possible cost outcome in the circumstances, and the proposed payment terms.
- **Submissions**: We received 7 submissions from Aurora Energy, Australian Financial Markets Association (AFMA), Centre for Smart Power and Energy Research (Deakin University), Hydro Tasmania, Marinus Link, Tasmanian Government and TasNetworks. The submissions are summarised in Appendix B, with common issues raised including:
    - All submissions essentially supported Basslink's application and the need for Basslink to continue to operate to its full capacity after 1 July 2026.
    - AFMA, Aurora Energy and Hydro Tasmania raised concerns regarding timing of the AER's determination, noting uncertainty about the outcome of the decision may affect bidding behaviour, reduce market confidence and place downward pressure on auction outcomes in the Basslink settlements residue auction run by AEMO from 1 to 15 June 2026.
    - Submissions took different positions on the proposed 2 year contract term. AFMA, Aurora Energy and Hydro Tasmania supported a longer term to provide greater market certainty. Marinus Link and TasNetworks supported the proposed term on the basis that a shorter term would be more flexible and avoid locking in arrangements while the Tasmanian power system and FCSPS design evolve.
    - Several submissions emphasised consistency with earlier AER decisions, noting that the AER had recently approved Basslink's conversion to a regulated asset and made its 2026-30 revenue allowance based on Basslink's unrestricted operation, which is contingent on Basslink accessing the FSCPS services in the draft contact.

[12] NER, cl 6A.6.6A.

- **Targeted consultation:** We undertook targeted consultation with APA Group and Hydro Tasmania to understand the basis of the draft contract payment terms, and the methodology used to derive costs, including the fixed availability fee. We also consulted with AEMO to understand the potential interactions between this determination process and AEMO's auction of Basslink's settlements residue.
- **Publication of this determination**: We made and published notification of our headline decision on 12 June 2026. We considered this necessary to minimise the risk that uncertainty about the outcome of this determination could negatively impact outcomes in the Basslink settlements residue auction run by AEMO from 1 to 15 June 2026. This decision document, with our full reasoning, was published shortly after.
- **Timeframe for this determination**: We are required to make our determination within 40 business days of the date we receive an application that meets the eligibility criteria and materiality threshold set out in the SSNSP Guideline, or from the date we receive additional information sought in information requests. Basslink lodged an eligible application with us on 1 May 2026, which means that the AER was required to make a determination by 26 June 2026. This determination was made on 12 June within the 40-business day timeframe set out in the SSNSP Guideline. The AER has discretion to extend this timeframe by up to 60 days.
- **Confidentiality:** Basslink's application and this determination include confidential information that has been redacted in accordance with the AER's obligations regarding confidentiality, and the disclosure of information provided to it, under the Competition and Consumer Act (2010), National Electricity Law (NEL) and the NER. The redacted information relates to specific commercial terms in Basslink's draft contract and contract negotiations between Basslink and Hydro Tasmania. Basslink submitted to the AER that publishing this information would negatively influence its ability to obtain competitive prices in future tender processes it may undertake to meet future system security needs. Following engagement with Basslink, we accepted Basslink's proposed redactions on the basis that the information relates to market sensitive cost inputs. We have redacted the same information from the public version of this decision document.

1.3 Basslink's actions and the role of this determination

Basslink, commissioned in 2006, was engineered to facilitate a continuous trans-Tasman power transfer capacity of approximately 500 MW (478 MW receiving end), and can increase this export up to 630 MW (594 MW receiving end) for northward flows for discrete periods within thermal constraints. However, the FOS imposes a 144MW single-event limit on both import and export directions to ensure the Tasmanian electricity system operates within a range of acceptable frequency levels and maintains reliability and stability of the power supply.[13] Since 2006 the existing FCSPS, operated by TasNetworks under contract to Hydro Tasmania, has provided the rapid generator tripping and load interruption services required to allow Basslink to safely operate above the 144MW limit while meeting the FOS. As Basslink will become a regulated transmission network from 1 July 2026, and consistent with

[13] AEMC Reliability Panel, *Frequency operating standard – Effective 9 October 2023*, April 2023.

the ISF rule change, it is now required to contract these FCSPS services directly to enable it to continue operating at full capacity.

To meet this requirement, in December 2024 Basslink conducted a competitive 'request for tender' seeking bids to supply the required FCSPS services. Basslink submitted that the tender process did not identify suitable service providers because the majority of significant industrial loads in Tasmania were already contracted with Hydro Tasmania as part of the existing FCSPS. Basslink further noted that Hydro Tasmania, as the only viable source of generator tripping, did not make a complying bid and instead sought to negotiate directly after the tender was closed.[14]

Basslink submitted that as the tender process was unsuccessful, it commenced direct negotiation with Hydro Tasmania as the only supplier of the required generation tripping services, and the holder of existing, long-term supply contracts with the majority of potential suppliers of load shedding services in Tasmania.[15]

On 1 May 2026, Basslink applied to the AER seeking a determination on the likely prudency and efficiency of the payment terms in a draft contract negotiated with Hydro Tasmania.

Enabling TNSPs to seek the AER's view on the prudency and efficiency of financially significant SSNS draft contracts provides additional comfort to TNSPs, before signing a contract, about the AER's expectations and approaches to making our ex-post assessment of the expenditures incurred under the executed contract (i.e. as part of the AER's subsequent network support payment pass-through determinations). This should improve TNSPs' confidence when entering into a contract that they will be able to recover efficient operational costs. It should also improve the efficiency and ability of TNSPs to contract for SSNS services, and help level the playing field between network and non-network expenditures needed to meet the NEM's system security needs.[16]

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[14] Basslink, *Application for the AER to make a determination on the methodology for a system security network support service*, 1 May 2026, pp. 13-14 and 25.

[15] Basslink, *Application for the AER to make a determination on the methodology for a system security network support service*, 1 May 2026, pp. 13-14 and 25.

[16] AEMC, *Rule determination, National Electricity Amendment (Improving security frameworks for the energy transition) Rule 2024*, 28 March 2024, pp. 51-52.

2 The regulatory framework

This section outlines the regulatory framework for the AER's determinations on draft SSNS payment contracts.

2.1 Determination requirements

The purpose of clause 6A.6.6A of the NER is to enable TNSPs to seek a determination from the AER that an expenditure for a proposed payment or payment methodology in a draft SSNS payment contract are consistent with the relevant opex objectives, criteria and factors, and network support payment criteria, which we collectively refer to as 'prudency and efficiency'.

Box 1 lists the requirements under clause 6A.6.6A, including the criteria we must have regard to in determining prudency and efficiency, as well as requirements related to the process we follow, and under which we made and published our SSNSP Guideline.

A determination by the AER must be consistent with the SSNSP Guideline, which sets out in further detail how we implement clause 6A.6.6A, including:

- the processes and timeframes for the AER to make a determination
- the eligibility criteria and threshold the AER will apply to determine that a draft contract is eligible for a review
- the NER criteria and information we may have regard to in making a determination on the prudency and efficiency of a proposed payment or payment methodology in a draft contract.

Box 1: NER clause 6A.6.6A AER power to make advance determination with regard to future operating expenditure

(a) The AER may, on application by a Transmission Network Service Provider, make a determination that expenditure for a proposed system security network support payment, or a methodology for such payment, specified in the determination, will be consistent with:

(1) the operating expenditure objectives[17];

(2) the operating expenditure criteria[18];

(3) the operating expenditure factors[19]; and

(4) the factors in clause 6A.7.2(i) relevant to a system security network support payment[20].

(b) An application submitted by a Transmission Network Service Provider under paragraph (a) must comply with any relevant requirements in the system security network support payment guidelines.

(c) The AER may (but is not required to) consult in a manner it considers appropriate on the application submitted under paragraph (a) before making a determination.

(d) A determination made by the AER under paragraph (a) must be consistent with the system security network support payment guidelines.

(e) The AER must make and publish, and may amend, guidelines (system security network support payment guidelines) that set out:

(1) the information to be included in an application submitted under paragraph (a);

(2) any eligibility criteria or thresholds that will apply for system security network support payments before the AER will accept an application for under paragraph (a);

(3) the process and timeframes for the AER to make its determination under paragraph (a); and

(4) the relevant factors the AER must consider in making its determination under paragraph (a)[21]

(5) any other matters the AER considers relevant.

Clauses 6A.6.6(e)(13a) and 6A.7.2A(i)(3a)(iii) also require the AER to take into account an ex-ante determination made on a draft contract in any future related network support payment pass through determination for costs incurred under the same contract.

[17] The opex objectives are contained in cl 6A.6.6(a).

[18] The opex criteria are contained in cl 6A.6.6(c)(1)-(3).

[19] The opex factors are contained in cl 6A.6.6(e)(1)-(14).

[20] The factors relevant to a SSNS payment in cl 6A.7.2(i) refer to the network support pass through requirements.

[21] At the time the SSNSP Guideline was made and published, cl 6A.6.6A did not require the AER to set out the relevant factors the AER must consider in making its determination under cl 6A.6.6A(a). The SSNSP Guideline sets out the factors that the AER may consider in making its determination.

3 Assessment of the application

This section set out our determination, the information we have had regard to, and our reasons against the requirements under clause 6A.6.6A of the NER.

3.1 Our determination

Based on our consideration of all the matters set out in this decision, we make a determination under rule 6A.6.6A(a) that the SSNS payments and payment methodologies (payment terms) set out in the draft contract between Basslink and Hydro Tasmania will likely result in expenditure that is prudent and efficient (i.e. consistent with the opex objectives, criteria and factors, and relevant network support pass through factors).[22]

We consider Basslink's application is eligible for a determination because we are satisfied that all relevant regulatory processes have been completed, that the services in the draft contract are required to meet the FOS, and that engaging these services to enable Basslink to continue operating above the 144MW limit generates net benefits, and is in the long term interest of electricity consumers. We further consider Basslink's application includes all the relevant information required for us to make this determination,[23] and meets the materiality threshold, meaning the expected average annual payment under the draft contract exceeds 1% of Basslink's approved unsmoothed revenues in a regulatory year for the regulatory control period. Our assessment against the eligibility and threshold requirements to accept an application under clause 6A.6.6A(a) is outlined in more detail in Section 3.2 (Table 1).

We consider the payment terms are prudent because they relate to SSNS services that are required to meet AEMO's network standards as defined in the NER, and that procuring these services (and enabling Basslink to continue to operate at full capacity from 1 July 2026) will provide net benefits and be in the long-term interests of consumers. Further, we consider that the draft contract does not include unnecessary cost components, unnecessarily large cost components, or triggers for cost components that could be considered unnecessary, or overly ambiguous and likely to result in unnecessary costs being incurred.

We consider the payment terms are efficient because the draft contract likely represents the least cost Basslink could reasonably achieve in the circumstances through a negotiated process with Hydro Tasmania. Further, we consider that the payment terms are not unreasonable having regard to Hydro Tasmania's cost of supplying the services, payments or payment methodologies for similar services in similar circumstances, and the costs of realistic alternatives for obtaining the same service. Consistent with the prudency finding, we further consider that the cost components, mix of cost components, and triggers are not

[22] NER cl 6A.6.6A(a)(3)-(6). Consistent with the AER's *SSNSP Guideline*, we interpret the factors under clause 6A.6.6A(a)(3)-(6) of the NER together as meaning that the AER makes a determination on whether a SSNS payment, or a methodology for such a payment, as described in a draft contract provided by the TNSP, is likely to result in future expenditure which can be reasonably considered to be prudent and efficient.

[23] Chapter 4 of the *SSNSP Guideline* sets out the relevant information an application must include.

unreasonable. Our assessment against the prudency and efficiency requirements[24] is summarised in more detail in Section 3.3 (**Table 2**).

3.2 Eligibility of the application

The eligibility criteria and materiality threshold set out in the SSNSP Guideline aim to ensure that the AER has all relevant information needed to undertake a timely assessment of an application, and that these reviews target only financially significant SSNS payment contracts as intended by the ISF Rule.

Table 1 below sets out the eligibility criteria and materiality threshold we must apply, and the reasons we are satisfied that Basslink's application is eligible for assessment.

Table 1: Requirements for determining eligibility of a SSNS Payment application[25]

Requirement of SSNSP Guideline	Assessment
Has the application been made after completion of all relevant regulatory processes (including completion of RIT-T disputes and AER determinations on 'material changes in circumstances'), and before a contract is executed?	Yes. We consider that the application has been made after completion of all relevant regulatory processes, and before a contract is executed. Basslink was not required to undertake a RIT-T process in relation to the need to procure the proposed FCSPS services. The equivalent requirement in this case is that as a regulated TNSP from 1 July 2026, Basslink is required to directly contract the FCSPS services it requires to enable operation above the 144MW limit set by the FOS. The draft contract Basslink submitted is for the NSCAS-related FCSPS services required to comply with this requirement. Basslink has not yet executed the contract.
Are all services in the draft contract 'preferred options' under a completed RIT-T, or a 'secondary option' approved by the AER following a 'material change in circumstances'?	Yes. We consider there are net benefits from Basslink procuring the FCSPS services required to allow it to continue to operate at full capacity, and that incurring efficient costs for these services is in the long-term interests of consumers. As noted above, Basslink was not required to complete a RIT-T process to procure the FCSPS services. The equivalent requirement in this case is that Basslink can demonstrate that incurring the costs to contract the FCSPS services required to meet the FOS and enable it to continue operating above the 144MW limit, generates net benefits and is in the long term interest of electricity consumers.

[24] Part 3.5 of the *SSNSP Guideline* describes the information the AER may have regard to when determining prudency and efficiency.

[25] AER, *System Security Network Support Payment Guideline*, November 2024, pp. 10-11.

Requirement of SSNSP Guideline	Assessment
	Modelling demonstrating these benefits includes: - Basslink commissioned modelling provided to the AER as part of its recent 2026-2030 revenue proposal, which indicated market benefits of between $1.5 billion and $2.6 billion over the life of Basslink (assuming operation at full capacity). - Hydro Tasmania modelling, which estimated the combined Tasmanian and Victorian regional value of contracting the FCSPS services and Basslink operating at full capacity at $129 million per annum over the FY26–FY30 period.
Does the application include the relevant information outlined in Chapter 4 of the AER's *SSNSP Guideline*?	Yes. Basslink's application includes all relevant information listed in Chapter 4 of the AER's *SSNSP Guideline* that is required to determine eligibility of the application, and the prudency and efficiency of the payment terms.
Does the expected average annual payment under the draft contract exceed 1% of Basslink's AER approved unsmoothed revenues in a regulatory year for the current regulatory control period?	Yes. The expected average annual payment under the draft contract exceeds the materiality threshold of 1% of AER approved annual unsmoothed revenues. Average annual contract cost of $[redacted] Basslink's 2026-27 unsmoothed revenues of $112.2 million.[26]

3.3 Prudency and efficiency of the payment terms

This section summarises the SSNS services being procured, the payment terms included in Basslink's application, and our reasons for determining the terms to be prudent and efficient.

3.3.1 SSNS services and payment terms

Load shedding portfolio

The draft SSNS contract includes the provision of load shedding services shown in Box 2. This represents a portfolio of the load-shedding blocks Hydro Tasmania proposes to contract on to Basslink from 1 July 2026, backed by the existing supply agreements it maintains with large industrial electricity users in Tasmania to supply the existing FCSPS scheme. The total load to be contracted under the portfolio is approximately 630 MW, which provides for an import-side single-event requirement of 478 MW for the Basslink interconnector consistent with the FOS. Basslink submitted that this volume includes redundancy above its import capacity to provide TasNetworks the necessary flexibility to adjust the specific loads armed

[26] Basslink, *Application for the AER to make a determination on the methodology for a system security network support service*, 1 May 2026, p. 21.

for FCSPS tripping depending on the type of outage, and site-specific requirements of the industrial loads.[27]

Basslink submitted that the load shedding portfolio in Box 2 is consistent with the current FCSPS arrangements supporting Basslink's full import-side transfer capability, and that the configuration may evolve over time as participant arrangements are renewed or substituted. The draft contract includes clauses through which Hydro Tasmania warrants that it must use all reasonable endeavours to maintain and procure any additional contractual commitments from large electricity users in Tasmania, as may be necessary, to provide the aggregate load shedding capability supporting the 478 MW Basslink import requirement.[28]

Box 2: Load shedding portfolio[29]

Site	Number of blocks	Block sizes (MW)	Site capability (MW)	Block characteristics
A	3	98 /101 /119	318	Three integrated process units. Tripping of one, two or three blocks within a single event count as one trip event.
B	4	23 /23 /35 /38	119	Four parallel process units, separately armable.
C	4 (drawn from portfolio of 6)	20 /20 /20 /25 /30 /30	60–120 (configuration-dependent) + small reserve	Each block armed individually by TasNetworks; FCSPS algorithm selects which combination to trip in real time. The range reflects available-block selection and underlying plant operating state.
D	3	17 /21 /32	up to 68.5	Three plant units, each armed individually by TasNetworks. The 68.5 MW is a contracted cap on aggregate armed load, below the sum of individual block maxima.
Total	**14 + reserve**		**570.5 – 630.5**	**Aggregate capability provides redundancy above the 478 MW Basslink import requirement.**

Generator tripping portfolio

The draft SSNS contract includes the provision of generation tripping services shown in Box 3. Basslink submitted that these rapid generator-tripping rights over the Hydro Tasmania generation portfolio are sufficient to meet the export-side single-event requirement of 630 MW, consistent with the FOS. Basslink submits that, as with the load-tripping portfolio, the

[27] Basslink, *Application for the AER to make a determination on the methodology for a system security network support service*, 1 May 2026, p. 7.

[28] Basslink, *Application for the AER to make a determination on the methodology for a system security network support service*, 1 May 2026, p. 6, Basslink FCSPS Agreement 2026, section 4.2 Load Tripping.

[29] Basslink, *Application for the AER to make a determination on the methodology for a system security network support service*, 1 May 2026, p. 7.

contracted level of generation tripping of 1,455 MW provides a required level of redundancy to support full flows on the interconnector.[30]

Box 3: Generator tripping portfolio[31]

Power Stations	Number of Units	Participant Generator Type	Threshold for Performance per unit (MW)	Maximum Output per unit (MW)
Bastyan	1	SPS SGU	8.8	81
Catagunya	2	SPS AGU	2.5	25
Cethana	1	SPS SGU	10.0	100
Devils Gate	1	SPS SGU	6.5	65
Gordon	2	SPS AGU	15.0	150
John Butters	1	SPS SGU	14.4	144
Mackintosh	1	SPS SGU	8.9	89
Poatina	5	SPS AGU	6.2	62
Reece	2	SPS SGU	11.9	119
Tribute	1	SPS SGU	9.2	92
	17			**1,455**

Payment terms

The SSNS draft contract has a 2 year term commencing 1 July 2026 and ending 30 June 2028, with payment terms that include:[32]

- a fixed ***service availability fee*** of $[redacted] per year for Hydro Tasmania making available, on demand, the prescribed portfolio of load shedding and generation tripping services. There are no variable or event specific fees.
- a ***service availability amount*** that can be subtracted from the service availability fee where Hydro Tasmania fails to meet its required Average Service Availability Factor for a contract period.
- an ***adjustment by CPI*** calculated on 1 July 2027.

[30] Basslink, *Application for the AER to make a determination on the methodology for a system security network support service*, 1 May 2026, p. 7.

[31] Basslink, *Application for the AER to make a determination on the methodology for a system security network support service*, 1 May 2026, p. 7.

[32] Basslink, *Application for the AER to make a determination on the methodology for a system security network support service*, 1 May 2026, pages 7-8.

- a ***cost pass through provision***, allowing Hydro Tasmania to pass through to Basslink, any costs it or its commercial load shedding partners incur, for maintenance or upgrades to their components of the FCSPS operating system that TasNetworks deems necessary, as the operator of the FCSPS.

Basis for the service availability fee

Hydro Tasmania submitted to the AER that the $[redacted] service availability fee represents a structural cost pass through of the estimated cost it incurs in providing the bundled FCSPS service to the existing scheme, drawing on its existing supply arrangements with large electricity users in Tasmania and its own generation assets, with no margin retained by Hydro Tasmania.[33]

Hydro Tasmania further noted that the supply terms for these load shedding services were negotiated with a group of large Tasmanian electricity users in the run up to Basslink's commissioning in 2006, and that these agreements are renewed periodically as supply agreements expire. Hydro Tasmania submitted that it had (and continues to have) a strong incentive to acquire the load shedding services at least cost under the existing FCSPS as it absorbs these costs. To this end, Hydro Tasmania stated that it has made best endeavours to negotiate its existing agreements with a group of large users it considered were willing and able to provide the best mix of sheddable load at least cost. Hydro Tasmania noted that it, and TasNetworks, have reevaluated the existing FCSPS load shedding arrangements against alternatives over time, and have not yet identified a more cost-effective option for enabling Basslink to operate at its full transfer capability.[34]

Hydro Tasmania further explained that the existing load shedding agreements it has negotiated do not include explicit payments or payment methodologies for the load shedding services. The agreements require the commercial loads to be available whenever called on by TasNetworks, and in exchange, the loads have been given preferential supply arrangements in lieu of a direct payment. Hydro Tasmania stated that the level of cost it has been willing to incur (or preferential supply terms it has been willing to offer) are based on its estimate of the regional benefit to Tasmania of enabling Basslink's full import capacity, pro-rated proportionally for size of the load a commercial user could shed. The regional benefits were defined as the incremental quantity of electricity imported to Tasmania by a fully enabled Basslink times the lower Victorian market price.[35]

Hydro Tasmania submitted to the AER that this value based methodology, which was used to derive the proposed $[redacted] annual service availability fee:

- recognises the fact that larger participants contribute more load to the scheme and are therefore more valuable when it comes to scheme participation

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[33] Hydro Tasmania, *Email to the AER*, 8 June 2026; Basslink, *Application for the AER to make a determination on the methodology for a system security network support service*, 1 May 2026, pp. 13-14.

[34] Hydro Tasmania, *Email to the AER*, 8 June 2026; Basslink, *Application for the AER to make a determination on the methodology for a system security network support service*, 1 May 2026, pp. 15-16.

[35] Hydro Tasmania, *Email to the AER*, 8 June 2026; Basslink, *Application for the AER to make a determination on the methodology for a system security network support service*, 1 May 2026, pp. 13-14.

- is based on the value of the actual incremental imports enabled by the load shedding portfolio above the 144MW FOS limit, and does not include the cost associated with maintaining load shedding redundancy
- represents a structural pass-through of the cost of compensating the participating industrial customers for keeping their load armed and available for shedding under the existing FCSPS, with no margin retained by Hydro Tasmania.[36]

Box 4 shows how the service availability amount is calculated.

Box 4: Service availability amount formula[37]

The Service Availability Amount for a Contract Period is calculated in accordance with the following formula:

SAA	= SSFCP * (0.95 - ASAFCP)
where:	
SSFCP	= sum of the Service Fees for the Contract Perio,
ASAFCP	= the average Service Availability Factor for the Contract Period, and
SAF	= Service Availability Factor
	= Available FCSPS Capacity / Minimum Import Capacity

Box 5 shows how the CPI adjustment is calculated.

Box 5: CPI adjustment formula[38]

The SSNS Contract prices are subject to an Adjustment by CPI calculated on 1 July 2027 and for each anniversary of that date thereafter during the Term (the Escalation Date) in accordance with the following formula:

A = $1,775,000 x CPI Multiplier

where:

CPI Multiplier	= (CPI-Q /CPI-Base),
CPI-Q	= CPI for the quarter most recently ended prior to Execution date, and
CPI-Base	= CPI for the quarter ended 31 Mar 2026.

Cost pass through for the FCSPS operating systems

The draft contract includes a pass-through clause that allows Hydro Tasmania to pass through to Basslink, any costs it or its commercial load shedding partners incur, for

[36] Hydro Tasmania, *email correspondence with the AER*, 8 June 2026; Basslink, *Application for the AER to make a determination on the methodology for a system security network support service*, 1 May 2026, pp. 7-8.

[37] Basslink, *Application for the AER to make a determination on the methodology for a system security network support service*, 1 May 2026, p. 8.

[38] Basslink, *Application for the AER to make a determination on the methodology for a system security network support service*, 1 May 2026, p. 8.

maintenance or upgrades to their components of the FCSPS operating system that TasNetworks deems necessary, as the operator of the FCSPS. Basslink submits that categories of costs may include new protection relay hardware, software upgrades, or communications system changes. Costs arising under this clause are passed through from the service provider to Basslink on an as-incurred basis and are outside the scope of the fixed monthly fee.[39]

3.3.2 Prudency and efficiency

Consistent with our *SSNSP Guideline*, we interpret the factors set out under clause 6A.6.6A(a)(3)-(6)[40] together as meaning that the AER makes a determination on whether a SSNS payment or payment methodology described in a draft contract is likely to result in future expenditure which can be reasonably considered to be prudent and efficient (i.e. consistent with the opex objectives, criteria and factors, and relevant network support payment pass through factors).[41]

We note that we do not approve a specific forecast amount of expenditure as part of this determination, rather we assess if the proposed payment terms in the draft contract are likely to result in a prudent and efficient expenditure if the contract terms are followed. We are also not required to provide a view on other terms in the proposed draft contract, or on the efficiency of AEMO's operational enablement of the contract, once executed, to meet real-time system security needs. However, the AER may, at its discretion, comment on any component of the draft contact that it considers is relevant to its overall assessment of prudency and efficiency.[42]

Table 2 below sets out the type of information we could have regard to determine prudency and efficiency under clause 6A.6.6A(a)(3)-(6),[43] along with the rationale for why we find Basslink's payment terms are likely to be prudent and efficient. The specific information the AER considers in any assessment will vary on a case-by-case basis depending on the nature and circumstances of the draft contract being reviewed, and the available information and evidence.

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[39] Basslink, *Application for the AER to make a determination on the methodology for a system security network support service*, 1 May 2026, p. 8.

[40] A rule change was made on 13 March 2025 after the making and publication of the *SSNSP Guideline*. As a result of the rule change, the relevant opex objectives, criteria and factors formerly contained in subclauses 6A.6.6A(a)(1)-(4) and referred to in the *SSNSP Guideline* are now contained in subclauses 6A.6.6A(a)(3)-(6) of the NER.

[41] AER, *System Security Network Support Payment Guideline*, November 2024, p. 7.

[42] AER, *System Security Network Support Payment Guideline*, November 2024, p. 8.

[43] AER, *System Security Network Support Payment Guideline*, November 2024, pp. 11-13. The specific information the AER considers in any assessment will vary on a case-by-case basis depending on the nature and circumstances of the draft contract being reviewed and the available information and evidence.

Table 2: Information we could have regard to determine prudency and efficiency under clause 6A.6.6A(a)(3)-(6)[44]

Information we may have regard to	Assessment
Prudency is based on providing sufficient evidence and information to enable the AER to establish that there is a reasonable need to contract for the services that are subject to the proposed SSNS payment or payment methodology in the draft contract.	
Are the payments and payment methodologies for SSNS services that have been identified by the TNSP as being required to meet a network standard as defined in the NER, or other binding AEMO declaration?	Yes. The portfolio of services being contracted are consistent with the existing FCSPS services provided by Hydro Tasmania since Basslink's commissioning in 2006, to meet the FOS and enable Basslink to operate above the 144MW limit.
Are the payments / payment methodologies for SSNS services that have been identified by the TNSP as a 'preferred option' through the RIT-T process, or an amendment to the process, or is a 'secondary option' approved by the AER following a material change in circumstances?	Yes. As noted in Table 1, Basslink was not required to undertake a RIT-T process to procure the FCSPS services. The equivalent requirement in this case is that: Basslink can demonstrate that incurring the costs to contract the FCSPS services required to meet the FOS and enable it to continue operating above the 144MW limit, generates net benefits and is in the long term interest of electricity consumers. Basslink provided modelling (see Table 1), which demonstrates net benefits from Basslink procuring the proposed FCSPS services, and that incurring efficient cost for these services is in the long-term interests of consumers.
Does the draft contract include unnecessary cost components, unnecessarily large cost components, or triggers for cost components that could be considered unnecessary, or overly ambiguous and likely to result in unnecessary costs being incurred?	No. We consider a **2 year contract term** appropriately balances Basslink's need to have the FCSPS services available from 1 July 2026, with the risk that a longer term contract could lock in costs that may become excessive as technology, markets and rules evolve allowing lower cost supply options to emerge. We do not consider it necessary for the contract term to align with regulatory control periods or settlement residue auction horizons. We consider **the level of redundancy** built into the proposed portfolio of services is prudent in the circumstances because: - it is consistent with the level of redundancy built into the existing Tasmanian FCSPS - it allows for the required flexibility in the combination of blocks of load needed for tripping

[44] AER, *System Security Network Support Payment Guideline*, November 2024, pp. 11-13.

Information we may have regard to	Assessment
	- it ensures the portfolio retains flexibility if a specific load is temporarily unavailable - the draft contract pricing methodology does not charge for the cost of the redundancy, only for the load enabled. We consider the **fixed nature of the annual availability fee** for on-call supply of the prescribed services to be prudent, in the circumstances, because a fixed fee: - reasonably reflects the nature of the costs incurred to supply this type of service (i.e. the costs incurred to maintain availability are predominantly fixed and do not vary materially with the number or prescribed duration of potential events). - avoids administrative costs from inclusion of a potentially complex event-based pricing. We consider the **service availability component** is prudent as it places performance risk on the service provider, and provides an ongoing incentive for the provider to maintain its minimum availability requirements. We consider the **cost pass through provision** to be prudent in the circumstances because: - from 1 July 2026, the costs of operating the FCSPS will be borne by Basslink as a regulated TNSP - our Basslink 2026-30 revenue determination included a step change of $6.6 million in opex for TasNetwork charges to Basslink for operating the FCSPS. Requiring Basslink to also pay the cost of maintaining and upgrading components of the operating system owned by other parties is consistent with that decision.
Efficiency is based on providing sufficient evidence and information to enable the AER to establish that the payment or payment methodology in a draft contract is reasonably likely to reflect efficient costs, or the least cost that the TNSP could reasonably achieve in the circumstances.	
To what extent is the payment or payment methodology for the service:	
…the outcome of a competitive approach to market, or where a competitive process is not available, reflect the least cost the TNSP could reasonably achieve in the circumstances through a direct	We consider the payment terms reflect the least cost Basslink could reasonably achieve in the circumstances. Basslink entered direct negotiations with Hydro Tasmania only after an unsuccessful competitive tender process. Load shedding offers were limited as the majority of potential large industrial loads in Tasmania were already contracted with

Information we may have regard to	Assessment
/ negotiated approach to a SSNS service provider?	Hydro Tasmania as the provider of these services under the existing FCSPS scheme. Hydro Tasmania, as the primary source of generator tripping services in Tasmania, offered to enter into direct negotiations with Basslink to supply the full portfolio of generation tripping services from its hydro generation assets, and to 'on sell' at cost the load shedding services it had under contract through its agreements with large users in Tasmania to supply the existing FCSPS services.
…not unreasonable, having regard to the economic cost and / or other relevant cost information, such as that used in the RIT-T process, including any early or indicative quotes from SSNS service suppliers?	Not unreasonable. Other relevant information that supports the draft contract payment terms not being unreasonable, and representing the least cost achievable in the circumstances include: - Hydro Tasmania is offering to provide its generation and existing portfolio of load shedding services at cost (i.e. consistent with the costs it has incurred to contract these services to supply the existing FCSPS scheme) - The proposed $[redacted] annual availability fee for the whole portfolio of FCSPS services, therefore, reflects Hydro Tasmania's cost of supply. - Hydro Tasmania as the bearer of these costs since 2006 has had an incentive to procure the load shedding services at least cost, and has over time, with TasNetworks, tested if lower cost supply arrangements were available. - The cost associated with maintaining the required level of load shedding redundancy is not included in the availability fee. - The draft contract is for a 2 year period allowing terms to be renegotiated in the near future, when lower cost alternatives may be available. - The draft contract allows for renegotiation or termination where Basslink arranges to procure all or part of the services from another party.
…not unreasonable, having regard to the costs of realistic alternatives for obtaining the same service, including the direction compensation that the SSNS service supplier (e.g. generator, battery or large electricity user) would	Not unreasonable. We consider that the payment terms for the service are not unreasonable having regard to the costs of realistic alternatives for obtaining the same service. Basslink submitted that published, benchmarked costs for grid-scale battery storage with a sufficient power rating and response

Information we may have regard to	Assessment
otherwise receive in similar circumstances?	capability to meet the FOS single-event requirements were higher cost than the proposed contract cost.[45] Basslink noted that while there is no grid-scale battery storage of the required scale and location in Tasmania at present, the relatively short 2 year contract term would allow examination of emerging, lower cost options if they become available in the near term.
…not unreasonable, having regard to the level of compensation needed to recover all reasonable costs incurred, net of alternative revenue sources, in providing the SSNS service?	Not unreasonable. As noted above, Hydro Tasmania is offering to provide its generation and existing portfolio of load shedding services at cost (i.e. consistent with the costs it has incurred to contract these services to supply the existing FCSPS scheme).
…not unreasonable, having regard to payments or payment methodologies for similar services in similar circumstances, including in other draft SSNS payment contracts reviewed by the AER or other publicly available information?	Not unreasonable. Basslink provided analysis supporting its submission that the proposed fixed service availability fee of $XXX per year was reasonably consistent with the prices that market and regulated processes have established for other network support services, such as the Victorian Big Battery System Integrity Protection Scheme, and the Waratah Super Battery System Integrity Protection Scheme.[46] While not like for like comparisons, we consider that these rough benchmarks provide supplementary support for the conclusion that Basslink's payment terms are not unreasonable.
…is not unreasonable, having regard to costs, cost components, mix of cost components, or triggers (i.e. there is no evidence of unnecessary costs or an unreasonable risk that triggers of cost components will lead to unnecessary costs)?	Not unreasonable. For reasons noted in the prudency section, we consider the costs, cost components, and mix of components within the overall payment methodology to represent the least cost achievable in the circumstances.

[45] Basslink, *Application for the AER to make a determination on the methodology for a system security network support service*, 1 May 2026, pp. 15-16.

[46] Basslink, *Application for the AER to make a determination on the methodology for a system security network support service*, 1 May 2026, pp. 15-16.

Appendix A: Summary of stakeholder submissions

Aurora Energy

Aurora Energy supports approval of the application on the basis that Basslink is a critical Tasmanian asset and that continued operation at full capacity is important for system security, wholesale market efficiency and consumer outcomes. Aurora Energy also submits that the application should be determined in sufficient time to provide certainty ahead of the first Basslink settlements residue auction, and that the term of the SSNS contract should align with the period over which Basslink is permitted to operate as a regulated interconnector.

Australian Financial Markets Association (AFMA)

AFMA's submission focuses on the implications of the application for settlements residue auctions and trading certainty. AFMA submits that the current decision timetable may leave market participants uncertain as to sustainable Basslink capacity at the time of the initial auction, which may in turn reduce the ability of participants to manage inter-regional positions efficiently. AFMA therefore supports greater certainty before the auction and submits that a five-year approval period would be preferable, given the auction horizon extends to 2029.

Centre for Smart Power and Energy Research (Deakin University)

The Centre for Smart Power and Energy Research does not oppose approval of the application or the continued use of the FCSPS under current conditions. Its submission instead focuses on the governance of long-duration system security arrangements in an evolving, increasingly inverter-dominated power system. It submits that prudency and efficiency should not be treated as static over the life of the contract, particularly where procurement options are constrained and payment structures are availability-based. On that basis, it argues that the AER should place greater emphasis on lifecycle observability, including transparency of technical assumptions, reporting on service availability and actual performance, reviewability of material changes, and visibility of consumer risk over the contract term. More broadly, the submission characterises the review as an opportunity to support adaptive governance for future system security service arrangements as operating conditions, technologies and system requirements continue to change.

Hydro Tasmania

Hydro Tasmania supports APA's application and submits that it would be inconsistent for the AER to recognise the prudency and efficiency of FCSPS hardware and full-capability Basslink infrastructure, but not the services required to enable those assets to operate at full transfer levels. Hydro Tasmania also emphasises the desirability of certainty before the first settlements residue auction and supports a longer contract term, noting that it offered APA Group a four-year agreement. In Hydro Tasmania's view, a longer term could nevertheless preserve flexibility because the proposed contract would allow APA Group to replace some or all services if alternative arrangements become viable, including potential future battery-based solutions.

Marinus Link

Marinus Link Pty Ltd (Marinus Link) strongly supports APA's application. Marinus Link submits that it considers APA Group acted prudently and efficiently in conducting a competitive tender process for the FCSPS, and that the contract terms resulting from direct negotiations with Hydro Tasmania (the only possible supplier of the services) are reasonable in the circumstances. Marinus Link further supports the 2-year contract term noting it provides a degree of flexibility for APA, and that the benefits of contracting Hydro Tasmania for the FCSPS substantially outweigh the associated costs.

Tasmanian Government

The Tasmanian Government strongly supports the application and characterises the FCSPS as essential to Basslink's effective operation above the single-event limit. It submits that the cost of tripping services should be treated consistently with the associated physical infrastructure and recovered using the same 75:25 allocation between Victoria and Tasmania referred to in earlier submissions. The Tasmanian Government also submits that full Basslink capability underpins reliability, efficient dispatch, investment outcomes and future interconnector arrangements, including Marinus Link, and seeks a priority decision before the new regulatory period commences on 1 July 2026.

TasNetworks

TasNetworks supports approval of the application but takes a different position on contract duration. It submits that FCSPS services are fundamentally necessary to avoid constraining Basslink to around 144MW and that approval of the contract is operationally necessary. However, TasNetworks supports the proposed 24-month term on the basis that the transition from the historical single-counterparty model to a more open regulated framework is occurring under tight time constraints, and in the context of a rapidly changing Tasmanian power system. In TasNetworks' view, a shorter initial term would allow time to redesign future arrangements to reflect new generators, storage, changing load profiles and upgrades to system protection schemes.

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AFMA	Australian Financial Markets Association
CPI	Consumer price index
FCSPS	Frequency control system protection scheme
FOS	Frequency operating standard
ISF Rule	AEMO's *Improving Security Frameworks for the Energy Transition* rule change, published 28 May 2024
MW	Megawatt
NEL	National Electricity Law
NER	National Electricity Rules
NSCAS	Network support and control ancillary services
RIT-T	Regulatory investment test for Transmission
SSNS	System security network support
SSNSP guideline	System security network support payment guideline
TNSP	Transmission network service provider