

20 September 2024

Australian Energy Regulatory
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Canberra, ACT, 2601
By email: ResetCoord@aer.gov.au

Basslink conversion application

The Justice and Equity Centre (JEC, formerly known as PIAC) welcomes the opportunity to respond to the Australian Energy Regulator's (AERs) consultation paper on Basslink's conversion application (the consultation paper).

The JEC does not support the conversion of Basslink from a market network service provider (MNSP) to a prescribed transmission network service provider (TNSP).

We do not consider that it has been established that the consumer benefits of conversion, outweigh the significant costs and risks to consumers.

The evidentiary demands for a conversion

Making determinations in the long-term interest of consumers must include ensuring that risks associated with transmission investment are appropriately managed by those best placed to do so, and that unreasonable costs and risks are not transferred to consumers.

The exact reason for APA no longer believing it is in its interests for Basslink to remain a merchant asset are not clear. However, the implication of the analysis in the consultation paper is that the Marinus project produces a risk of Basslink becoming, in a partial sense, a stranded asset. This is particularly the case if both proposed Marinus cables eventuate.

This is a reasonable risk for a merchant asset and was foreseeable both at the time of construction and purchase of the asset. It is not appropriate for energy consumers to assume this risk of asset stranding.

We also note the performance record of Basslink indicates substantial additional risk; there may be issues with its performance in the future. We consider this a crucial qualifier in assessing any assumed market future market benefits that conversion may enable.

Given the very substantial uncertainty surrounding the impacts of conversion, and the informational disadvantage consumers (and the AER) suffer, relative to APA, the bar for establishing that the move is likely to be in consumers' interest should be high.

Selecting counterfactuals

We agree with the position of the Victorian government concerning the use of counterfactuals where Basslink does not sign a new agreement with Hydro Tasmania after the current agreement expires on 30 June 2025.

As they note that for the duration of the life of the asset an agreement has been in place, and there are particular reasons for the short periods of exception to this. There is no reason to believe the forces leading both parties to have an interest in an agreement will not continue into the future.

We add to this that given that the use of these counterfactual scenarios is not appropriate, it follows that the inclusion of them in the analysis of the price modelling effects is also inappropriate.

In the consultation paper, it is noted that “[a]n equal weighted average of all eight modelled states of the world results in price effects of conversion approximately on par with the cost of conversion.”¹ The counterfactuals, in which Basslink operates as a pure merchant asset and derives income solely from arbitrage between the Victorian and Tasmanian markets, as opposed to earning income in the way it actually has as a quasi-prescribed asset, should be removed. This would have the effect of lowering the price impacts of conversion, possibly substantially.

We would welcome the opportunity to meet with the AER and other stakeholders to discuss these issues in more depth. Please contact me at mlynch@piac.asn.au regarding any further follow up.

Yours sincerely,

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¹ AER, August 2024, Basslink Conversion Application consultation paper, 21.