



APA submission

Joint Select Committee on Energy Matters in Tasmania

February 2024



Hon. Ruth Forrest MLC
Joint Select Committee on Energy Matters in Tasmania
Parliament of Tasmania
Parliament House
HOBART TAS 7000

Lodged by email: energymatters@parliament.tas.gov.au

2 February 2024

RE: APA Submission to Joint Select Committee on Energy Matters in Tasmania

Dear Ms Forrest,

Thank you for the opportunity to provide a submission to the Joint Select Committee on Energy Matters in Tasmania (the Committee).

APA is an ASX listed owner, operator, and developer of energy infrastructure assets across Australia. As well as an extensive network of natural gas pipelines, we own or have interests in gas storage and generation facilities, electricity transmission networks, and over 692 MW of renewable generation infrastructure and battery storage.

We support the transition to a lower carbon future. In August 2022, we published our inaugural Climate Transition Plan which outlines our commitments to support Australia's energy transition and pathway to net zero operations emissions by 2050.

Since October 2022 we have been the proud owners of the Basslink electricity interconnector connecting Tasmania to the mainland. In October 2023, APA made a submission to the Tasmanian Inquiry into Residential Energy Prices. Our submission recognised the world class hydro-electric resources that are proudly Tasmanian and that those resources alone have historically not been sufficient to ensure Tasmania's energy security. We have also applied to the Australian Energy Regulator to have Basslink regulated, providing price stability and equity for customers.

Affordability should be a key focus in ensuring Tasmania's energy security. Basslink plays an essential role in delivering energy security for Tasmania, at a lower cost than the alternatives. Reaffirming our position on Tasmanian energy prices, we have attached our October 2023 submission to this document to inform the Committee's investigation. As noted in our submission, modelling shows that in the absence of Basslink, Tasmania would need to spend an additional \$1.63 billion on new generation to achieve energy security for the State. Converting Basslink to a regulated asset is an essential step in safeguarding a sustainable and reliable future for this critical asset and delivers the lowest cost form of energy security for Tasmanian customers.

Our demonstrated commitment to Australia's energy transition is driven by our purpose to strengthen communities through responsible energy, allows us to deliver energy infrastructure solutions. We have the energy expertise and project delivery skills to work with all governments to develop and deliver projects that advance Australia towards net zero.

Extending the interconnection capacity between Tasmania and the mainland to allow variable electricity to move between jurisdictions is a critical part of creating a net zero future. Basslink has demonstrated the practical benefits of interconnection for providing affordable energy security and sharing of renewable generation and firming resources for the benefit of customers. As outlined in section 2.4 of our October submission below, relative to the alternatives, Basslink is the lowest cost option to ensure the state's energy security.

Looking ahead, we encourage governments to investigate all options to deliver increased interconnection between Tasmania and the mainland. One option that could be investigated is augmenting Basslink to increase its current 500 MW capacity as a cost-effective means of increasing the supply of electricity between Tasmania and the mainland.

We have worked with our technical experts to understand this option and believe it could deliver a viable solution to expanding Tasmania's connection to the National Electricity Market.

If you wish to discuss our submission in further detail, please contact [REDACTED]

Regards,

[REDACTED]
Tanya Barni

**General Manager
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APA submission

Inquiry into Energy Prices in Tasmania

October 2023



1 Executive Summary

Key Points

- Tasmania has a world class hydro-electric scheme. However, additional supply is needed to guarantee energy security for the Tasmanian economy.
- Basslink provides energy security for Tasmania and is critical to helping Tasmania realise its renewable energy targets. Basslink does this for a lower cost than the alternatives.
- APA has applied to convert Basslink to a regulated asset. This will provide a sustainable funding model for this asset with costs shared equitably by Tasmanian and Victorian customers and allow energy consumers to have a greater say in the operation of the asset. We expect Basslink to be regulated by July 2025.

Tasmanians are rightly proud of their state and its many successes. Tasmania's world class hydro-electric system has delivered clean, green energy to Tasmanians for many decades.

As Tasmania and the rest of Australia moves to a low carbon economy, transitioning our energy systems will be a key challenge. Over the last 100 years in Tasmania, despite the availability of hydro-electric energy, there has been a consistent demand for additional power generation. This necessity will only increase over the next 100 years.

Basslink is an important piece of energy infrastructure asset in this context. It allows Tasmanians to support other jurisdictions when it has excess energy and also supports the Tasmanian economy when local supply is not sufficient.

Economic modelling demonstrates that without Basslink and Renewable Energy Targets, almost \$2 billion would be required in new generation investment to meet Tasmania's energy needs to 2050.

APA has shown its commitment to providing reliable electricity by applying to Basslink's conversion to a regulated entity. If successful this will provide responsible, regulated pricing for Tasmanians into the future. Based on APA's proposal to the Australian Energy Regulator (AER), we estimate a bill impact of \$8 per year for Tasmanian residential consumers and \$11 per year for Victorian residential consumers.

A fact sheet outlining the highlights of our 2025-30 Revenue Proposal to the AER can be found at Attachment A.

2 Submission

2.1 About APA

APA is a leading Australian Securities Exchange (ASX) listed energy infrastructure business. Consistent with our purpose to strengthen communities through responsible energy, our diverse portfolio of energy infrastructure delivers energy to customers in every state and territory in Australia.

Following our acquisition of Basslink in October 2022, we have proudly extended our footprint in Victoria and Tasmania. While we are new to Tasmania, we aren't new to energy infrastructure. For decades we have owned, operated and maintained some of Australia's most important energy infrastructure.

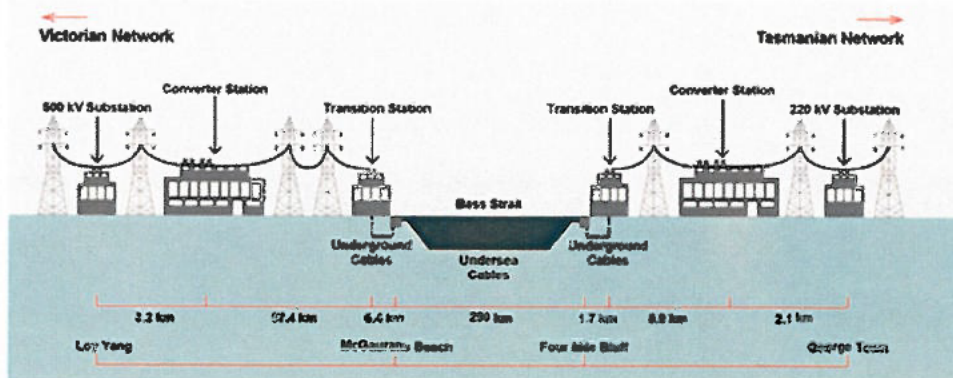
APA is a major owner and operator of solar farms and wind farms and a number of Australia's most critical electricity transmission interconnectors. We also own and operate some of the nation's most efficient gas-fired power generators and more than 15,000 kilometres of gas pipelines which deliver energy to families and businesses across every corner of Australia.

As a result of this experience, we know the importance of energy infrastructure and we know the importance of Basslink to Victoria, Tasmania and the National Electricity Market (NEM).

2.2 About Basslink – the asset

Basslink is a 370 km long High Voltage Direct Current (HVDC) electricity interconnector between Victoria and Tasmania. Basslink starts at the Loy Yang switchyard in Gippsland (South East Victoria) and travels by a 61 km high-voltage overhead transmission line until it is submerged. From there it travels for 290 km under Bass Strait at around 1.5 metres below the sea floor. It resurfaces again near George Town in Tasmania and travels another 11 km via a high-voltage overhead transmission line to the George Town substation.

Figure 2 – Assets that make up Basslink



Basslink is currently the sole electricity interconnector between Tasmania and Victoria and plays a critical role in enhancing security of supply on both sides of Bass Strait.

Basslink has been operating since April 2006 and has a design life of 40 years.

2.3 Basslink and the Tasmanian energy landscape

Tasmanians are rightly proud of the world class hydro-electric system that has been developed in the State. The vision, engineering ingenuity and pure grit that delivered this world class renewable energy resource continues to provide Tasmania with a competitive advantage on the global stage.

During the last 100 years, electricity supply and demand in Tasmania has often been finely balanced and necessitated the installation of additional power generation capacity beyond the hydro-electric scheme. Some examples include:

- In 1967, Hydro Tasmania advised its nine bulk customers that they would need to reduce consumption by 25% and special legislation was passed by the Parliament to facilitate this. Tasmania purchased a ferry, the Hinemoa, and converted it into a floating power plant;
- Between 1971 and 1974, the Bell Bay oil fired power station was commissioned;
- In 2009, the Tamar Valley gas fired power station was commissioned.

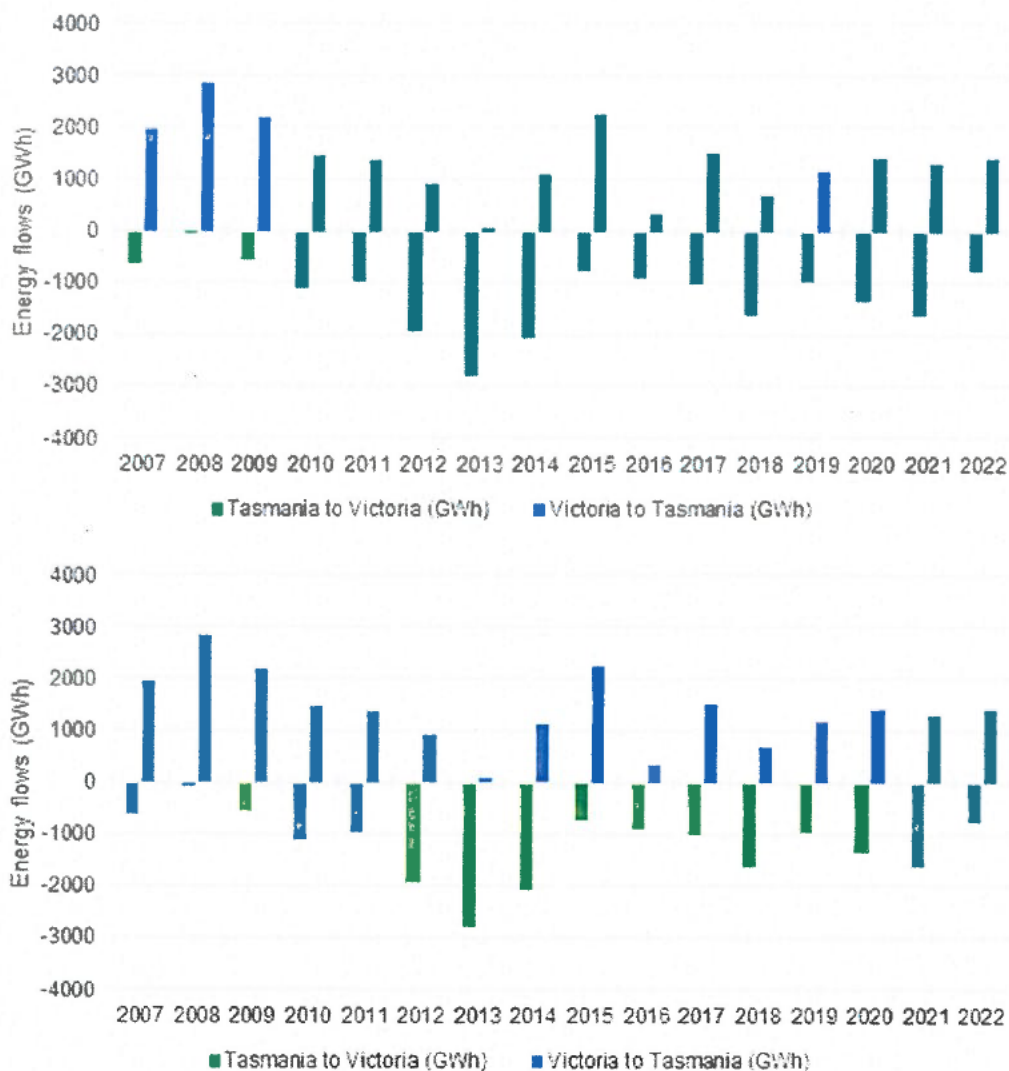
The Tasmanian Energy Security Taskforce summarised the reason for considering the development of an electricity interconnector with the mainland in its 2016 Interim Report:

The end of large-scale hydro-electric development in Tasmania, the need to secure the next electricity supply option for the State, improving hydrological risk management options and the development of the NEM, led to expressions of interest being sought through a competitive process for a private sector party to develop Basslink.

National Grid was appointed as the developer of Basslink and the interconnector was commissioned in April 2006.

Basslink remains the single largest alternative energy source for Tasmania after hydro-electric inflows and storages and is critical to meeting the State's energy security requirements. Basslink's historical flows are depicted below:

Figure 1 – Annual energy flows across Basslink



2.4 Basslink's contribution to energy security and keeping costs down

Relative to alternatives, Basslink is the lowest cost way to ensure the State's energy security.

In 2012, the Electricity Supply Industry Expert Panel modelled the Tasmanian energy supply costs that were avoided by Basslink, with two scenarios:

1. Energy needs met with thermal (gas fired) generation. This scenario estimated a saving of \$205 million over the period 2007 to 2011. Since that time, we note that gas prices have increased significantly on the east coast of Australia;
2. Energy needs met with wind generation. This scenario estimated a saving of \$351m over the same period.

Basslink, in combination with prudent management of Tasmania's water storages, protects Tasmania's energy security. Without Basslink, additional power generation would need to be developed in Tasmania to ensure Tasmania's energy security.

According to recent modelling by HoustonKemp, if there was no Basslink and Tasmania abandoned its renewable energy targets, then Tasmania would require an additional \$1.63 billion of new generation investment to meet its power needs over the period to 2050. This is also likely to drive up Tasmanian emissions because of the increased reliance on gas for firming renewables.

2.5 Ensuring secure and affordable energy supply for Tasmania

APA is committed to delivering reliable and affordable energy for Tasmanian consumers and considers that the ongoing reliable operation of Basslink is critical to achieving this goal. As such, APA has applied to the AER to convert Basslink from a Market Network Service Provider (MNSP) to the Transmission Network Service Provider (TNSP).

Put another way, APA is seeking to convert Basslink from being a merchant interconnector to a regulated interconnector. There are four key reasons for this decision, as set out below.



Better alignment of customer and business interests

- MNSPs earn revenue based on price differences between different regions in the NEM.
- These price differences may be more pronounced if MNSPs are capacity constrained.
- If Basslink is converted to a TNSP, any incentive for the interconnector to be constrained will be removed, ensuring that Basslink is available to transport as much renewable energy between Tasmania and Victoria as possible.
- This better aligns the interests of Basslink and its customers.



Reliability of supply

- The 2016 Tasmanian Energy Crisis demonstrated the importance of Basslink to energy security in Tasmania.
- Having the AER approve Basslink expenditure and maintenance plans, with input from customers, will provide stakeholders with confidence that the asset is being operated in a manner that best promotes security of supply.



Certainty of costs and revenues for Basslink and customers

- As an MNSP, revenues are unregulated and dependent on energy flows between regions. In contrast, revenues for TNSPs are approved by the AER in five yearly cycles, with greater visibility over TNSP spending plans.
- Converting Basslink to a TNSP will provide stakeholders with the opportunity to comment on Basslink's five year spending plans as part of the AER revenue determination process, as well as providing much greater certainty over costs and revenues.



Benefits of conversion outweigh the costs

- We have considered the costs and benefits of converting Basslink to a TNSP.
- We have also sought expert advice on the market benefits associated with Basslink.
- Despite the additional costs imposed by regulation, in this instance the benefits of converting Basslink to a TNSP have been shown to outweigh the costs.

During the course of preparing our 2025-30 revenue proposal, we consulted widely with Tasmanians about reliability and affordability matters. This consultation included:

- working closely with four Tasmania representatives (representing large energy users, small business and residential consumers) and on our Regulatory Reference Group which guided APA's approach to public consultation;
- an online focus group with 8 Tasmanian-based participants;
- A 4-hour workshop in Launceston with 48 participants; and

- An online survey of 598 energy consumers from across Tasmania.

Further details on what we heard from Tasmanian energy consumers and how their feedback shaped our proposal, together with more details about the benefits of converting Basslink to a regulated asset are available in APA's proposal, published on the AER's website here: <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/basslink-determination-2025%E2%80%939330/proposal>.

A fact sheet outlining the highlights of our revenue proposal (also submitted to the AER) can be found below.

At a glance Basslink revenue proposal 2025-30



Basslink Pty Ltd has prepared its 2025-30 revenue proposal for Basslink which also includes an application to the Australian Energy Regulator (AER) to convert Basslink to a regulated transmission asset. If the conversion is approved, Basslink will earn revenues regulated by the AER instead of through market mechanisms. We undertook engagement with consumers and stakeholders to understand their views and ensure their preferences were reflected in our revenue proposal. We have focussed our stakeholder engagement on **five priority issues**.

Priority 1

Affordability



\$8

Per year bill impact
for Tasmanian
residential consumers

\$11

Per year bill impact
for Victorian
residential consumers

\$831M

proposed opening regulatory asset base,
significantly below alternative estimates.
This helps lower the cost of Basslink to
consumers over the long term

About Basslink

The Basslink Interconnector (Basslink) is a 370km cable which is mainly undersea and is currently the only electricity transmission link between Tasmania and the rest of Australia. Basslink stretches from George Town in northeast Tasmania across the Bass Strait and then connects to the Victorian transmission network near Traralgon. Basslink essentially operates like a two-way highway for electricity to be sent between Tasmania and Victoria.



Priority 2

Reliability

84%

Of surveyed consumers rated
having greater reliability for
the future as something they
strongly support



At a glance

Basslink revenue proposal 2025-30



Priority 3

Insurance

 **Higher**
level of premium

 **Lower**
level of risk
to consumers

A higher premium, with lower risks to consumers, is proposed to avoid potential bill shocks to consumers in the future if damage occurs



Priority 4

Capital expenditure

~70%

Of consumers support the \$44M replacement of the control and protection system in 2025-2030 to avoid the potential negative impacts of increased unreliability



Priority 5

Cost sharing

Consumers expressed a consistent preference for an approach to sharing the costs of Basslink based on the size of the market - mainly due to it being considered the fairest approach. This results in the most comparable bill impacts for Victorian and Tasmanian consumers.



Benefits of the revenue proposal



Reliability and security of energy supply



Supports the transition to a renewable energy future



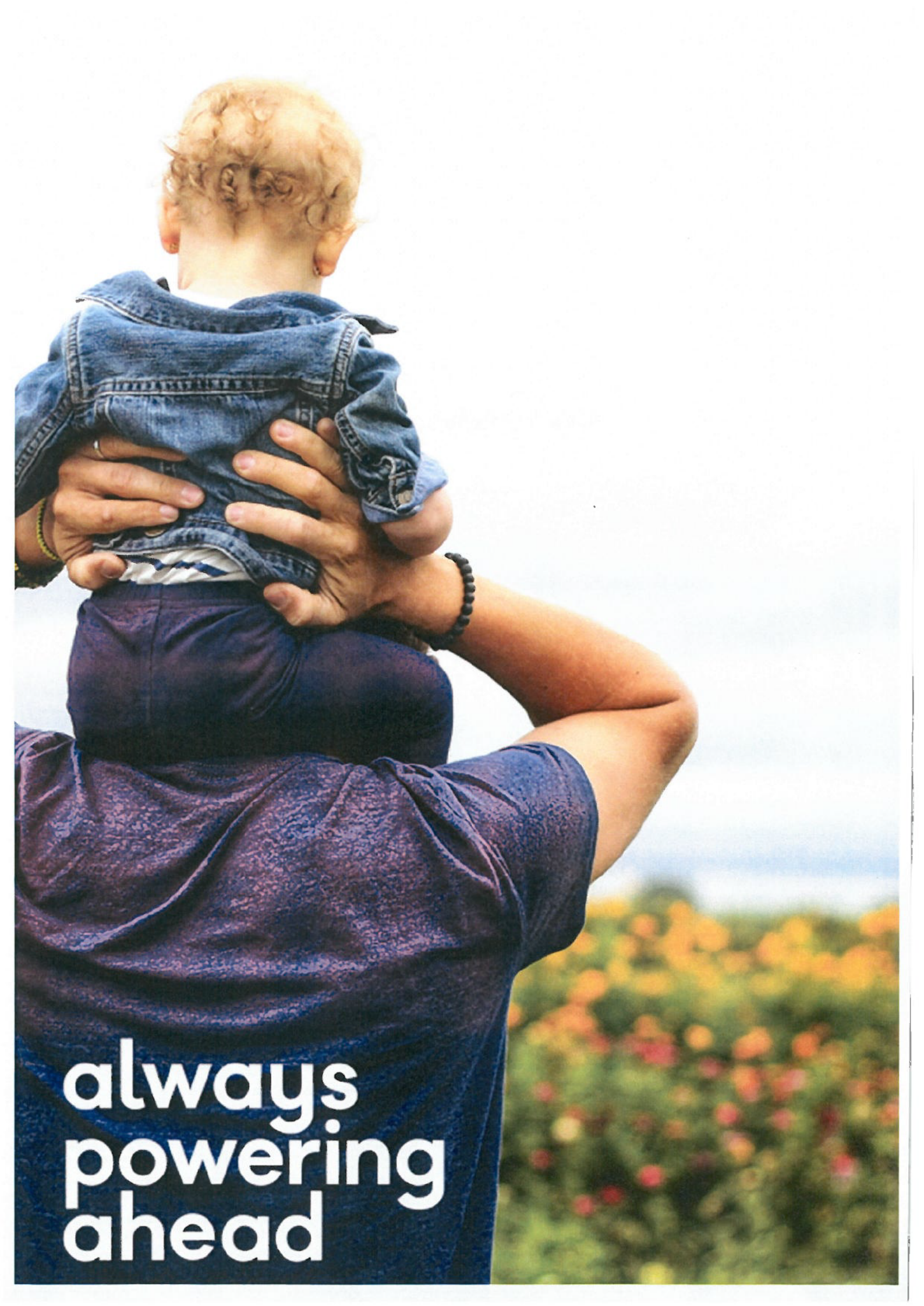
Certainty of costs and revenues and how they impact consumer bills



Better alignment of consumer and business interests



Regulatory conversion benefits outweigh costs



**always
powering
ahead**