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PROJECT MARINUS: PROJECT SPECIFICATION CONSULTATION REPORT JULY 2018

Dear Mr Clark,

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments Energy Council in 2015, we promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.

We appreciate the opportunity to respond to the TasNetworks consultation on its Project Specification Consultation Report (PSCR) for Project Marinus.

In this submission we comment on the costs and benefits of the Project Marinus proposal for consumers. We also discuss how the project fits within the new Integrated System Plan (ISP) framework, and the related work being undertaken by the Energy Security Board and the Australian Energy Market Commission (AEMC) to convert it into an actionable plan.

Our comments also reflect Energy Consumers Australia's strategic framework for the transformation of the energy system and market:

1. *Affordability* must be constraint on investment and decisions about energy – an explicit criterion in decision making up and down the supply chain.
2. Energy services must be built around *individuals* to reflect their own unique circumstances, enabling people to easily manage their own use and costs – whether that is consumers who are innovating and engaged; the majority of consumers who are focused on affordability and costs; and consumers with vulnerabilities.
3. Investment in the power system – networks, generation and retail – must be *optimised* based on consumers' demands that not a dollar more is spent than is necessary and not one day earlier than needed

Summary

Project Marinus is a major national infrastructure project, with estimated costs of \$1.4-2.7 billion. This is an investment that is large, long-lived and irreversible at a highly uncertain time in the market – a time when flexibility is a virtue. This means consumers need a high level of assurance that the costs and benefits stack up, that it is in their long-term interests, for the project to proceed on a regulated, consumer-funded basis.



The proposal as it is currently outlined, does not appear to be capable of acceptance by consumers, with further work needing to be done to define the need, and structure the solution. We seek further assurance on three key aspects of the Project Marinus proposal:

1. The identified consumer need is unclear. There may be other stakeholder needs being addressed but as consumers will pay for the project, there must be a clear link to identified consumer needs.
2. Affordability and consumer risk. If approved, TasNetworks will be making the approximately 300,000 households and small business consumers in Tasmania (which may be shared with Victoria) pay \$1.4 billion to \$2.7 billion for Project Marinus.
3. Uncertain benefits to consumers. The ISP contemplates several new interconnectors and projects to boost existing interconnection. In calculating the costs and benefits of Project Marinus, there is a timing risk that the impact of new interconnectors in the National Electricity Market (NEM) may not be considered.

We would encourage TasNetworks to consider how the planning and delivery of the project could be modularized and sequenced to better align the costs and benefits for consumers over time. We would also encourage TasNetworks to consider alternative funding models that reflect the important strategic drivers for this project.

Like ElectraNet's 'RiverLink', Project Marinus is also an early test-case for the structure and implementation of the ISP framework. Energy Consumers Australia supports integrated system planning to guide investment and help manage risk. Integrated approaches can deliver more optimised outcomes by taking a holistic view of the energy system and adopting new, more sophisticated planning techniques. But we cannot lose sight of affordability in the process.

An overemphasis on reliability and investment at the expense of affordability over the last ten years pushed electricity prices in some parts of the NEM to unsustainable levels – a problem that will take many years to address. It is critical that we reflect on this experience as we embark on the next round of investment in the NEM.

It is important to note in this context, that the Finkel Panel was cognizant that while an integrated planning approach could improve our ability to respond to the complex challenges we face in a transforming system, it was not a silver bullet – that there may remain a need for governments to directly invest in strategic interconnection and transmission capacity.

The Panel considers that there may be a future role for governments in facilitating considered and targeted investments in network infrastructure to enable the efficient development of renewable energy resources. This would become necessary if it becomes clear that it is not possible to resolve the coordination problem between generators and TNSPs under the current regulatory framework.¹

Contemporary engagement approaches

We welcome TasNetworks undertaking early engagement on a project that, if approved, is estimated in the PSCR to take six to seven years to complete. We expect significant changes in consumer needs

¹ See page 127, *Independent Review into the Future Security of the National Electricity Market (Finkel Review)*, <https://www.energy.gov.au/sites/g/files/net3411/f/independent-review-future-nem-blueprint-for-the-future-2017.pdf>



and preferences, technology, the market and the regulatory framework during this time that need to be considered.

We are conscious that regulatory processes like the Regulatory Investment Test for Transmission (RIT-T) can tend to narrow the engagement between the project proponent and stakeholders on complex matters that in the current uncertain environment require dialogue and iteration to move forward. This more contemporary mode of engagement is proving to be effective in TransGrid's *Powering Sydney's Future* Project. Early, direct engagement between consumers, stakeholders and network businesses is also increasingly becoming the norm for network revenue resets, with the [NewReg](#) initiative and related Ausnet Services trial a notable example.

We would therefore appreciate the opportunity to discuss the best way to continue to work with you and other stakeholders on the Project Marinus proposal.

What are Tasmanian consumers telling us?

The AEMC's [2018 Retail Energy Competition Review](#) reports that Tasmania's electricity market is the second smallest in the NEM with 275,739 household and small business consumers as of December 2017. The size of the Tasmanian market, and the unique circumstances of Tasmanian households and small businesses, provide critical context for Project Marinus.

According to the Tasmanian Council of Social Service, electricity affordability is a major issue for Tasmanian households, with around one third of all households receiving an energy concession. A combination of climate, a reliance on electricity for heating and the relatively poor energy efficiency performance of Tasmanian homes means Tasmanians use, on a per household basis, more electricity than those in other states. These issues around disadvantage and housing quality were key matters raised with the Energy Consumers Australia Board at a [stakeholder forum](#) in Hobart on 15 October 2018.

This is also reflected in what Tasmanian consumers are telling us in the [Energy Consumer Sentiment Survey](#), with only 35 per cent of households indicating that they are satisfied with the value for money of their electricity services. They are however, reasonably satisfied with electricity reliability, with 67 per cent providing a positive response.

The identified need is unclear

We are not convinced that the identified need at section three of the [PSCR](#) supports the long-term interests of consumers as reflected in the [National Electricity Objective \(NEO\)](#).

Nor are we convinced that the identified need adequately addresses the particular needs of Tasmanian consumers. The identified need indicates that TasNetworks intends to capitalise on the demand differences between Tasmanian consumers and consumers on the mainland. While this may appear to be a good commercial opportunity for TasNetworks, it does not adequately demonstrate why this project should be funded by Tasmanian consumers.

The identified need presented by TasNetworks is unclear and does not identify what problem it is trying to solve. When read in conjunction with the market benefits proposed to be achieved by a new interconnector, it appears that the identified need is about providing commercial opportunities for generators – some of which do not yet exist.

Affordability and consumer risk

Transmission network businesses are required to undertake a RIT-T process before making major investments in their networks. This is to ensure that the investment addresses an identified need and



satisfies a cost benefit test. The importance for consumers is that if a RIT-T project is approved, consumers will foot the bill.

Section 7.3 of the PSCR indicates that TasNetworks is considering two credible options:

1. 600 MW HVDC plus AC network upgrades, with an indicative cost range of \$1.4-\$1.9 billion.
2. 1,200 MW HVDC plus AC network upgrades, with an indicative cost range of \$1.9-\$2.7 billion.

In addition to this, TasNetworks estimates operational and maintenance costs of approximately \$18 million per annum.

At the public forum in Melbourne in September 2018, TasNetworks indicated that there may need to be other network augmentation projects in both Victoria and Tasmania to support the project. This increases the costs that would need to be recovered from consumers.

The Tasmanian Government has previously indicated that the cost of a second Bass Strait interconnector would need to be spread across the NEM for it to proceed².

We are also pleased to see that TasNetworks is considering alternative funding models. However, it is unclear how this would fit into the RIT-T process, given section 1.3 of the [PSCR](#) indicates that decisions about funding are outside the scope of the report.

If Project Marinus was to go ahead, we would advocate for innovative solutions to the funding problem to be discussed as an explicit component of the RIT-T. Options could include, a significant contribution from governments or TasNetworks partnering with another business via a competitive tender process to minimise the costs to consumers.

Uncertain benefits to consumers

We are concerned about the timing risk that accompanies Project Marinus. Section 7.3 of the [PSCR](#) indicates that the entire project would take six to seven years to complete. Upwards of half of this time would be manufacture, transport, construction, testing and commissioning.

The estimated length of time to complete this project could potentially see several other ISP projects initiated and completed in that time. The difficulty for TasNetworks is how it addresses these real risks in its RIT-T assessment. The impact of not adequately assessing this risk could be that consumers are left paying for an expensive, large piece of infrastructure that is significantly under-utilised.

We recognise that the cost-benefit analysis for Project Marinus is challenging. The Tasmanian Energy Security Taskforce's [2017 Final Report Executive Summary](#) highlighted market benefits that compete with consumer benefits. Examples from page 14 of the Executive Summary indicate that:

- *Interconnection with the NEM is a significant strategic issue facing Tasmania over the medium to long term. Greater interconnection could create more revenue opportunities for Tasmania from a higher priced NEM but could increase prices and load risk in Tasmania.*
- *A second Bass Strait electricity interconnector would enhance Tasmania's energy security and provide wider benefits. However, its development is not required to ensure Tasmania's long-*

² See Tasmanian House of Assembly Hansard 8 March 2016, 6:49pm Ministerial Statement from then Minister for Energy Matthew Groom, paragraph 30.



term energy security if the Energy Security Risk Response Framework is adopted and new on-island generation is supported.

Conclusion

At this early stage, we are not yet assured that Project Marinus would deliver benefits to consumers. We do recognise the important benefits to the local economy and employment that Project Marinus could deliver, however we are concerned about the costs for consumers as it is currently structured. Sequencing and alternative funding models should be considered as part of the next phase of work.

If you would like to discuss this submission further, please contact Shelley Ashe, Associate Director Advocacy and Communications on (02) 9220 5514 or by email at shelley.ashe@energyconsumersaustralia.com.au.

Yours sincerely,

Rosemary Sinclair AM
CEO
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