6 April 2020

Mr Stephen Clark
Technical and Economics Lead
Project Marinus
Tasmanian Networks Pty Ltd.
P.O. Box 606
Moonah, Tasmania 7009

Submitted by email to: team@marinuslink.com.au

Dear Mr Clark,

Project Marinus RIT-T Project Assessment Draft Report

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to comment on the Project Marinus RIT-T Project Assessment Draft Report.

ENGIE appreciates the importance of the RIT-T in assessing the potential benefits of proposed transmission investment and that part of that process includes drawing on detailed modelling as well as representations made by consumers and industry.

In that regard, ENGIE commends Tasmanian Networks for its open and engaging consultation processes and public information sharing.

Nonetheless, ENGIE is concerned that the scenarios used to quantify project benefits aren't sufficiently stretching and are not sufficient to correctly assess proposed benefits. Specifically, in this time of uncertainty and pandemic a scenario capturing the potential impacts of the COVID-19 on the economy and the energy sector must be developed and used to properly assess the benefits of the Marinus link.

Selection of scenarios for the analysis

Background

ENGIE has consistently contributed to the AEMO planning processes and forums over many years. One of the key themes ENGIE raised, was that current scenario development process doesn't capture the full range of uncertainty and provides a narrow view of the future. The process can be best described as a "central view" with some sensitivities. As a direct consequence, important uncertainties that cannot be predicted and therefore should not be discounted are missed in the process and as such risk is underestimated.

Consistent feedback was also provided in a recent response to the Australian Energy Regulator ISP guidelines (refer to an extract from this submission in Appendix A).

ENGIE also proposed that the ultimate measure of success for the scenario planning process, is a look "back from the future" to see if the actual future was bound within the range of the "stretching but believable" futures developed by the process.

If the actual future was within the range of contemplated uncertainties, then the process was a success;, if it lay outside of this range, then the process failed in capturing a plausible range of uncertainties.

In relation to the COVID-19 pandemic impacts, like the step change in demand growth in the past, the scenario planning process failed (there isn't a scenario that captures it and this must be addressed as part of the RIT-T). The point here is not capturing the pandemic event specifically but having a scenario where major economic challenges eventuate.

<u>The issue for the RIT-T</u>

The key benefits attributed to Project Marinus stem mainly from reduced expenditure in the following categories:

- fuel savings (changes to dispatch patterns);
- fixed operating costs;
- variable operating and maintenance costs;
- capital expenditure; and
- reduction in unserved energy.

Clearly, the magnitude of these benefits is driven by the choice of scenarios, specific input and market behaviours (e.g. retirements and new investments).

However, what has now turned out to be the "most likely" scenario which includes the impacts of the COVID-19 is missing from the analysis. Given the recent media coverage of commentary on the impacts on the economy, employment, manufacturing, and business and commerce in general, the impacts on the electricity sector are likely to be profound. This applies to retirements and new investments (as well as the type of investments).

<u>Suggested way forward</u>

It is essential that a downside scenario, with economic consequences commensurate with the likely COVID-19 pandemic impacts be also modelled to assess the project benefits. It would be inappropriate to discount the impacts of COVID-19 in the long-term.

Some suggested questions to address when building such a scenario are as follows:

- Will economic activity experience a decline for less than or greater than five years?
- How has the appetite of investors been affected by the change in economic conditions and the global consequences of significant financial market declines?
- What will happen to the population numbers and demographics including employment?
- How many will businesses cease to exist, and how many others will restart in a different form and at a much-reduced activity?
    - Will some sectors will shrink, and others grow?
    - How will this impact the economy and energy demand?
- Will the oil price drop be sustained and how will it impact the economics of renewable technologies?
- What will be the impact on unemployment and disposable income?
- What will be impact on real estate and particularly housing starts?
    - How does this contrast with previous assumptions and what is the impact on energy demand?
- Will the focus of climate change and willingness to fund CO_2 reductions endure, or will they take a back seat to getting the economy started again and clearing personal and government debt?
- How will the collection of these factors influence funding and timing of new renewable projects?
- What will be the benefit of Marinus in such a scenario?

The "Global Slowdown" scenario used in the modelling assumes early retirements of coal and gas. Once the above questions are answered, it could well eventuate that in such a scenario, investment in new technology stalls and fossil plant retirements are delayed. This is likely to result in reduced and delayed benefits of the Marinus project.

Outcomes sought: ENGIE recommends that the RIT-T process must be repeated and include the potential impacts of a COVID-19 pandemic like scenario. Whilst such a scenario a could be developed by Tasmanian Networks, it is preferable that the RIT-T process be delayed until AEMO update their reference scenarios and include industry input. Given that the potential benefits don't occur until the 2030s, there appears to be little downside of delaying the assessment.

Discussion paper – Beneficiaries pay pricing arrangements for new interconnectors

The interface between regulated assets in transmission and market exposed assets is not new and doesn't have a clear answer in further regulatory reform of transmission, short of exposing transmission investments to market risks.

Benefits claimed in the RIT-T process may never be delivered yet customers pay for such projects irrespective of the actual benefits.

ENGIE has previously proposed an alternative where a proponent funds the transmission if it results in net benefits to the proponent. The fact that there maybe also be benefits to some other parties should not make them automatically liable for underwriting a portion of the costs.

Unfortunately, the specific methodology and details of the benefit analysis were not provided as part of this RIT-T and hence couldn't be reviewed. However, it appears sensible that Tasmanian generators (both existing and prospective) would benefit by having access to mainland demand and prices. Tasmanian customers would benefit by having a higher reliability supply in the event of an undersea cable failure.

It seems very sensible that Project Marinus should be funded by the main beneficiaries, Tasmanian generators and customers were they to elect to do so. These entities should bear the risk of the interconnector benefits instead of smearing the hypothetical benefits across mainland transmission users.

Conclusion

In conclusion, ENGIE seeks the following:

- the expansion of the scenarios for quantifying the benefits to include a stretching downside scenario;
- the benefits are risky and occur way into the future, so the project should be delayed until an acceptable risk profile is obtained (or is funded by Tasmanian generators and customers without a need for a RIT-T assessment).

ENGIE trusts that the comments provided in that this response are of assistance to the Tasmanian Networks consultation process. Should you wish to discuss any aspects of this submission, please do not hesitate to contact me on, telephone, 0417 343 537.

Yours sincerely,

David Hoch
Regulatory Strategy and Planning Manager

Appendix A

Extract from an ENGIE submission to the AER "Guidelines to make the ISP actionable"

The scenarios/futures used in the ISP and RIT-T are fundamental in assessing risks and economic performance and need to be uniform across the processes. A methodology for developing scenarios/futures needs to be prescribed, rather than left to AEMO and RIT-T applicants. The scenarios/futures used in the ISP/RIT-T need to be:

- Relevant to the electricity sector
- Stretching yet believable (explore the full range of uncertainty)
- Cover the range of uncertainties (driving forces)
- Common to all ISP/RIT-T assessments

Specifically, scenarios should not be developed by the individual TNSPs on an ad-hoc basis to suit specific augmentations.

The AEMO process of developing scenarios has changed several times over the last decade. Whilst it has recently improved, it tends to be somewhat "blinkered", quite limited in scope and mainly reflects current policies and government ambitions. It is not particularly effective in capturing the key uncertainties and driving forces affecting the electricity sector and doesn't capture more "stretching" scenarios.

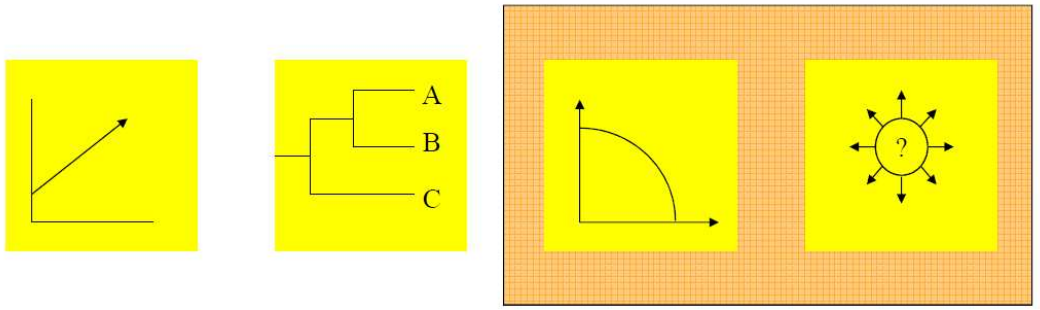
The resultant scenarios/futures can be best described as a single scenario/future, with a cluster of sensitivities as distinct from a range of truly stretching scenarios.

An additional problem is that the assumptions are not necessarily internally consistent within a sensitivity/scenario as different sources of detailed data are used in the process.

To deal with higher levels of uncertainty, a different approach is needed. Scenario planning, as pioneered by Shell, is considered more appropriate. The scenario planning process is a planning technique that produces a set of scenarios with a special set of properties. Whilst the technique provides a holistic approach to assessing strategic options, its scenario development attribute is advocated here.

The technique uses a rigorous process to identify key uncertainties and provides a framework for building them into an internally consistent scenario cut set.

The following diagram shows shaded areas where scenario planning is useful and appropriate when there is a large uncertainty, such as a range of scenarios/futures or true ambiguity (ie uncertainty levels 3 and 4). Uncertainty in the electricity sector maybe best described as level 3 or 4.



1 Clear Enough Future | **2 Alternate futures** | **3 A range of futures** | **4 True ambiguity**

(Ref 20/20 Foresight, Hugh Courtney, McKinsey & Co)

There is a need to explore at least four "stretching" scenarios/futures to capture the full range of uncertainties. Each of these describes what a particular scenario/future would look like at the end of the planning horizon (typically 20-50years). As part of a specific scenario/future, there needs to be a "story line" to explain how the scenario/future develops over time to get to the end state. Such scenarios can then be used to "wind tunnel" test projects and strategies.

In addition to the "stretching" scenarios/futures, there needs to be a view of a "most likely / betting future" which forms the base case.

The ISP/RIT-T assessment can then be conducted using the base case and tested for robustness in the stretching scenarios/futures.

The AER should prescribe such a process and task AEMO with facilitating such a scenario planning process as part of the ISP. Participants must also be engaged in this process.

The application of these scenarios to the IPS and RIT-T must be mandated to ensure consistency and robustness of any resultant analysis.