



2 March 2020

Stephen Clark  
Technical and Economic Leader, Project Marinus  
TasNetworks

Submitted via email: team@marinuslink.com.au

Dear Mr Clark,

## **MARINUSLINK – PROJECT ASSESSMENT DRAFT REPORT**

Origin Energy Limited (Origin) welcomes the opportunity to comment on TasNetworks' Project Assessment Draft Report (PADR) which examines additional interconnection options between Victoria and Tasmania.

Our comments are aimed at promoting confidence that the test and its outcomes are in the long-term interest of consumers. Specifically, we suggest that TasNetworks should:

- **Delay the RIT-T until the outcomes of the 2022 Integrated System Plan (ISP) are known:** We consider that it is inappropriate to finalise the RIT-T now for a project that is not required until at least 2028. AEMO's draft 2020 ISP flagged that a decision on MarinusLink was not needed until 2023-24, following further assessment in the 2022 ISP. The RIT-T should be delayed until at least 2022.
- **Update the modelling using inputs and assumptions from the 2020 ISP** (including inertia requirements and generator retirement assumptions): Assuming the RIT-T is not delayed, TasNetworks should at a minimum update its inputs and assumptions to reflect the 2020 ISP and consider re-issuing the PADR if the outcomes are materially different.
- **Undertake the following additional sensitivity tests:** Assigning a weight of 0% to the accelerated transition scenario to stress test the outcomes, including underwriting new generation investments (UNGI) projects and smelter closures.

### ***Timing of the RIT-T***

In our view, for the RIT-T to be robust to potential futures, it is best carried out as close as possible to when the project is likely to be required. Carrying out a RIT-T too early runs the risk of assumptions being used that are not as accurate as they would have been if undertaken closer to the build date. We are therefore concerned that this RIT-T is expected to be finalised by mid-2020, as noted in the PADR.

In the draft 2020 ISP, MarinusLink was not an "actionable ISP project". AEMO noted that there would be time for further assessment of the link before the 2022 ISP. Our understanding is that AEMO would re-assess network needs in 2022 as planned and if MarinusLink is actionable at that point, there would still be enough time to undertake a RIT-T and to proceed with building the link.

We consider that it is inappropriate to finalise a RIT-T for a project that does not require completion until at least 2028. We therefore suggest that TasNetworks should delay the RIT-T until closer to when the augmentation is needed. At the very least, the RIT-T should be delayed until the results of the 2022 ISP are known. This would still allow enough time for the link to be completed by the required deadline if identified as an actionable ISP project in 2022.

### ***Consistency with the 2020 ISP***

We are concerned about the inconsistency between the outcomes of the draft 2020 ISP and the MarinusLink PADR.

Our understanding of the draft 2020 ISP is that MarinusLink is not an actionable ISP project and does not yet form part of the optimal development path. The ISP results show that early completion of MarinusLink (i.e. stage 1 by 2027 and stage 2 from 2030) is required only if the step change scenario occurs, while in other scenarios, the first stage is not needed until at least 2035 and the second stage is not needed at all during the ISP timeframe.<sup>1</sup> By contrast, the PADR finds net benefits across all scenarios for commissioning timeframes that are similar to AEMO's step change scenario outcome (i.e. early completion of the link).

The sensitivity analysis undertaken in the PADR shows that net benefits reduce by 62% (or about \$710 million) in the central scenario when using partial 2020 ISP inputs and assumptions. If we combine this with the high capital cost sensitivity (a likely outcome given the trend for infrastructure projects to go over-budget), the net benefits are reduced by more than 90% (i.e. there are very little net benefits). Similarly, we are concerned by the large decline in net benefits (64% or \$735 million) that occurs when using a discount rate that better reflects commercial investment realities.

While we appreciate that it is not practical to continually update forecasts to reflect the latest available information, in this instance, we consider that it would be prudent to do so given the susceptibility of the net benefits to several modelled sensitivities and given that MarinusLink was not an actionable ISP project in the draft ISP with a decision not needing to be made until later in the 2020s.

As noted in the previous section, our preference is for the RIT-T to be delayed. However, if TasNetworks proceeds with the process, then we consider it should re-run the model using the 2020 ISP inputs and assumptions. This would not delay construction of the project, given the timing associated with it.

We consider that re-running the model to reflect the latest ISP would be consistent with the intent of the draft ISP rules, which aim to optimise and streamline transmission investment tests and projects. We would expect that future RIT-Ts are consistent with the inputs and assumptions used in the latest ISP. Our preference is therefore for TasNetworks to re-run the model with updated modelling, and re-issue the PADR if the outcomes are materially different.

### ***South Australian assumptions***

We understand that the PADR partly used assumptions from ElectraNet's SA-NSW interconnector project assessment conclusion report (PACR) for some South Australian gas-fired generation retirements and system security requirements.

In reviewing ElectraNet's assumptions, the AER requested additional modelling including using different assumptions for inertia requirements to align with AEMO's latest advice and not assuming which gas generator closes as a result of the interconnector being built. TasNetworks should therefore reconsider its SA-related assumptions in light of the AER's findings, to the extent that they are relevant. As noted above, inputs and assumptions should be consistent with the 2020 ISP.

### ***Sensitivity analysis***

In order to improve robustness, we suggest the following additional sensitivity analyses:

- **Assigning a weight of 0% to the accelerated transition scenario to stress test the outcomes:** given that the benefits of early commissioning of MarinusLink are driven by the step change scenario in the ISP, and given that the accelerated transition scenario has double

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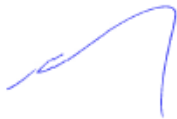
<sup>1</sup> See AEMO's spreadsheet, Draft 2020 ISP Transmission outlook summary: Tasmania – Projected transmission network requirements & AEMO's draft 2020 ISP, pp. 52, 55-56 both available at <https://aemo.com.au/en/energy-systems/major-publications/integrated-system-plan-isp/2020-integrated-system-plan-isp>

the benefits of the next closest scenario, we consider that TasNetworks should provide a sensitivity/commentary on the impact on net benefits and timing of giving a 0% weighting to this scenario and adjusting the weights of other scenarios accordingly to stress test the outcomes.

- **Including UNGI projects:** Our understanding is that the sensitivity analysis only includes one of the UNGI projects, 600 MW of pumped storage hydro in Tasmania. It is worth including a sensitivity for other UNGI projects, particularly the two projects (in Victoria and Queensland) that the government has agreed to underwrite.
- **Smelter closures in NSW and Vic:** Smelter closures would lead to a demand shock which should be modelled given the recent discussions around their long-term viability.

Should you have any questions or wish to discuss this submission further, please contact Sarah-Jane Derby at Sarah-Jane.Derby@originenergy.com.au or by phone, on (02) 8345 5101.

Yours sincerely



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