



Consumer Advisory Panel (CAP)

Workshop #6 summary report

18 May 2023



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Responsibilities

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1 Introduction

1.1 Engagement purpose

The Consumer Advisory Panel (CAP) provides the key forum for engaging National Electricity Market (NEM) customers on the Marinus Link Revenue Proposal. The CAP aims to be broadly representative of NEM customers. Its purpose is to:

- Provide consumer representatives with a real opportunity to participate in the Marinus Link Revenue Proposal, especially on elements where consumer feedback can have the greatest impact.
- Provide a forum for members to raise questions and concerns on behalf of the consumers they represent.
- Help Marinus Link to ensure that consumers' views and preferences are reflected in the revenue proposal.

The CAP members are:

- Gavin Dufty, Manager Policy and Research, St Vincent de Paul Society
- John Pauley, Chair, Tasmanian Policy Council, COTA Tasmania
- Professor Richard Eccleston, Director, Tasmanian Policy Exchange, University of Tasmania
- Anne Nalder, Founder & CEO, Small Business Association of Australia
- Elizabeth Skirving, Deputy Chair, Council of Small Business Organisations of Australia.
- Leigh Darcy, Tasmanian Minerals, Manufacturing and Energy Council representative
- Andrew Richards, CEO, Energy Users Association of Australia
- Stephen Durney, Senior Policy Officer, Tasmanian Council of Social Services.

1.2 Workshop objectives

The objectives of the workshop were to:

- Provide the CAP with a detailed overview of the Draft Revenue Proposal Part A,
- Test whether the CAP determines the early works expenditure is prudent and efficient, and
- Assess overall CAP support for the Draft Revenue Proposal Part A.

Workshop #6 was attended by two proxy participants, Belinda Wilson (proxy for Anne Nalder) and Rob Mallett (proxy for Elizabeth Skirving). Gavin Dufty and Andrew Richards were apologies for the workshop but were provided with a copy of the draft revenue proposal and will have an opportunity to be involved in the evaluation process.

1.3 Preparation

A roundtable session was held on Tuesday 9 May to introduce the revenue proposal and the application process. CAP members were provided with a copy of the Draft Revenue Proposal Part A before the workshop.

2 Engagement methodology

CAP members were invited to participate in a full-day hybrid workshop on Thursday 18 May 2023, with most CAP members joining in person at the Marinus Link offices in Hobart, Tasmania and one CAP member and several Subject Matter Experts (SMEs) participating online via Microsoft Teams.

The workshop consisted of four parts:

- Introduction – early works

As part of the workshop introduction, Ben Wagner, Marinus Link, and Isaac Katz, Harding Katz, provided the CAP with a description of early works and summarised the benefit of early works to consumers. The CAP was asked to comment on whether it is comfortable with the concept of early works.

- Overview of expenditure categories

During this session, SMEs presented to the CAP on seven expenditure categories for early works, and answered questions from the CAP. After this session, the CAP was asked whether it was reasonable for Marinus Link Proprietary Limited (MLPL) to invest in each of the categories presented at this time.

- Summary of additional regulatory components

The afternoon session began with a summary and Q&A on Regulatory Asset Base (RAB), incentive schemes, and pass-through events, and the CAP was asked whether the approach proposed by MLPL is reasonable.

- Evaluation of the Draft Revenue Proposal Part A

In the final session of the day, the CAP was asked to decide whether it would like to formally respond to the Draft Revenue Proposal Part A via an additional mechanism to the evaluation survey to be provided by Marinus Link. The CAP also discussed what additional feedback mechanisms could be used.

3 Engagement outcomes

This section summarises what we heard.

3.1 Introduction – early works

Isaac Katz, Harding Katz, and Ben Wagner, Head of Customer Projects for Marinus Link, provided the CAP with a description of early works, an update on the milestones and timeline, and summarised the benefit of early works to consumers. The key takeaways included:

- MLPL submitted the Application for Revenue Determination on 31 March 2023. The Australian Energy Regulator (AER) is expected to publish a Commencement and Process Paper on 31 May, and MLPL aims to submit its Revenue Proposal Part A (Early Works) in July.
- The proposed date for a Final Investment Decision for MLPL is 31 December 2024. MLPL is proposing that its commencement date for early works expenditure be considered 1 July 2021, which follows the completion of the RIT-T.
- Grant funding received by MLPL will reduce the cost that needs to be recovered from consumers.

3.1.1 What we heard

Feedback included:

- CAP members noted that project costs will not be recovered from customers until Marinus Link is in operation and asked who would pay for early works should the project not proceed.
 - Isaac described that the Australian Energy Market Commission (AEMC) has determined that in ordinary circumstances, when a Transmission Network Service Provider (TNSP) embarks on early works and a decision is made not to proceed, the TNSP can recover the costs of early works from consumers. Isaac added that the rationale for this position by the AEMC is that early works provide protection for consumers by requiring the project to pause and decide whether the project should proceed before much larger costs are spent on an unsuccessful project.
 - He said MLPL is complex because it is not a TNSP until project operation, and a decision is yet to be made on what process will be followed should the project not proceed.
- A CAP member noted that MLPL has access to concessional finance and asked whether this is reflected in the current draft of the Revenue Proposal. The CAP member also asked where the funding for early works is coming from and raised the issue of adoption of return on capital, noting they had seen both the

numbers \$109m and \$120m included in the Revenue Proposal and were unclear on what each represented.

- Isaac confirmed that the cost of early works would ultimately be borne by customers. He added that concessional finance would be applied and reduce the cost worn by customers, with the Weighted Average Cost of Capital (WACC) being reduced.
- Isaac clarified that \$109m represents the total early works spend (after grant funding), and \$120m represents the rate of return at a later point in time when the Regulatory Asset Base (RAB) is rolled forward for the WACC.
- A CAP member asked whether compound interest would be applied, and whether that meant the rate of return at the time of operation would be closer to \$150m.
 - Isaac said the revenue being earned by MLPL would be established in 2028, but explained that the final number would be equivalent, adjusted for the point in time. He also noted that the RAB in 2028 would be substantially higher, as it would also include construction costs.
- CAP members urged MLPL to keep consumers front of mind when making decisions about capital cost, highlighting that many consumers are on fixed incomes that are not keeping up with inflation. CAP members also noted that many transmission infrastructure projects are being explored or undertaken in Australia, adding to cumulative costs for consumers.
 - The Marinus Link representatives agreed that consumers need to be at the centre of decision-making and agreed that the overall end goal of the project is to deliver savings in energy costs that result in consumers being better off.
- A CAP member raised concerns about potential conflicts in the ownership structure of MLPL, noting that the AER, which will assess the revenue proposal, is a Federal Government agency. He noted the “moral hazard” of there being little concern about the quantum of costs passed onto consumers as a result of the large investment in transmission across Australia.
- CAP members raised MLPL's proposal that early works spending be considered to have begun on 1 July 2021 and noted that TasNetworks was receiving Federal and State funding for the project after that date, and that costs were being recovered from customers as part of the TasNetworks Revenue Reset. The CAP asked whether consumers would be paying the same charge twice.
 - Ben said there was a gap of \$10.9m that TasNetworks has agreed not to recover from customers, meaning it is not included in the costs for early works. Ben added that from 1 July 2021 onwards, all project costs are carried by MLPL.

The CAP agreed that it was comfortable with the concept of early works and willing to move forward with the workshop.

3.2 Overview of expenditure categories

SMEs presented to the CAP on seven expenditure categories, which were:

- Landowner and community engagement, Traditional Owners and stakeholder relations
(Mark Lindsay, Engagement Manager)
- Land and easement acquisition
(Padraig Clifford, Package Manager Cables & Victorian operations)
- Environmental impact assessments
(Kate Guard, Head of Environment & Planning)
- Technical designs and specifications
(Roger Riley, Package Manager Converters & Tasmanian Operations)
- Procurement strategy, tender specifications, management and procurement
(Jason Good, Head of Procurement)
- Program and project management
(Craig Moody, Executive Manager Program Management Office), and
- Corporate costs and support
(Prajit Parameswar, Chief Commercial Officer).

For each category, the SMEs described the objectives, activities and outputs, expenditure, and the imperative for completing the activities as part of early works. Following each presentation, the CAP was encouraged to ask the SME questions for clarification.

Table 1 outlines the indicative expenditure for each category, from 1 July 2021 (start of early works) to 31 December 2024 (Final Investment Decision). It was highlighted by MLPL that the numbers in Table 1 are indicative because they will go through a process of reallocation to ensure activity costs fall under the correct categories in the final Revenue Proposal Part A.

Table 1: Indicative expenditure

Expenditure category	Indicative expenditure 1 July 2021 to 31 December 2024	
Landowner and community engagement programs, including Traditional Owners, and stakeholder relations	\$23.9m	
Land and easement acquisition	\$9.2m	
Environmental impact assessments	\$15.4m	
Technical designs and specifications	\$47.5m	
Procurement strategy, tender specifications, management and procurement	\$12.6m	
Program and project management	\$20.8m	
Corporate costs and support	\$48.2m	
Total expenditure	\$177.5m	
Less Grant funding	-\$67.6m	
Net expenditure	\$109.9m	

3.2.1 What we heard

The CAP indicated its support for the activities being undertaken for early works, describing them as "essential"; however, the CAP would like to see the costs broken down to a more granular level per category and benchmarked against similar projects.

CAP questions, discussion and feedback on expenditure is described in more detail below.

Landowner and community engagement, Traditional Owners and stakeholder relations

- A CAP member enquired about who MLPL had been engaging with on the Bass Strait, particularly given it sits within Commonwealth waters.
 - Mark responded that MLPL has been engaging in two ways on the Bass Strait:
 - MLPL is currently bringing together Traditional Owners in both Tasmania and Victoria to discuss its Underwater Cultural Heritage Assessment, as part of its EES/EIS approvals process.
 - MLPL has been engaging with industry operators on the Bass Strait to ensure the interests of the operators are considered and protected, as well as the Marinus Link asset. MLPL is also working with offshore wind proponents to avoid over-consultation and cumulative impacts on impacted shoreline communities.
 - The CAP congratulated MLPL on its approach to cultural heritage work on the Bass Strait and encouraged MLPL to share the outcomes of the work so that other projects can learn from it.
- A CAP member enquired about whether MLPL had engaged with the business community along the cable alignment to avoid major disruptions to local business centres, and was interested in compensation regimes for disrupted businesses.
 - Mark outlined that businesses along the alignment include a diverse range of farming practices, and the landowner engagement team is working closely with those business owners to avoid, minimise or mitigate disruptions to their operations.
 - Mark also noted that MLPL is engaging directly with Burnie City Council, Latrobe City Council and South Gippsland Shire Council across a range of matters around potential community impacts and benefits. Discussions will continue with each local government, as key stakeholders, throughout the design and approvals phase of the project.
- The CAP provided the feedback that while the activities and progress to date are looking good, they would like to see a disaggregated outline of the cost of activities and a comparison of costs with other large projects.
- The CAP also agreed that it would like to see a breakdown of engagement activities completed.
 - It was noted that six-month engagement summaries are available on the Marinus Link website, and agreed to share this link with the CAP.

Land and easement acquisition

- A CAP member asked about current landowner sentiment towards the project.
 - Padraig summarised that many landowners in the region support renewable energy generation and that MLPL has secured survey access on approximately 50 per cent of the alignment. Padraig said that the landowners who had not granted survey access were primarily concerned about losing autonomy over land use.
- A CAP member asked whether the \$9.2m spend included the cost of purchasing the converter station sites and the Mardan Farm, or whether it was just the cost of facilitating land access.
 - Padraig suggested that land purchase was included but agreed to confirm this for the CAP.
- The CAP enquired whether landowners will receive compensation for survey access regardless of whether the project proceeds.
 - Padraig confirmed that compensation is not refundable back to MLPL and that the current figure was based on an estimate of how much access would be granted.
- Padraig confirmed that there are native title claims underway, but said a lot of the project was in the road reserve, which was not impacted. Costs for native title have not been incorporated.

Environmental impact assessment

- A CAP member asked whether the Commonwealth Government can overrule a State Government approval.
 - Kate responded that the Commonwealth and State Governments are assessing different matters, and the Commonwealth Government will provide its decision after the State Government to align in timing with bilateral agreements already signed between the two governments. This means the Commonwealth is unable to overturn a State Government decision.
- A CAP member asked who the fibre optic cable is owned by and whether they influence expenditure.
 - Ben responded that the fibre optic cable is part of the Marinus Link cable (as opposed to a separate piece of infrastructure). It will have spare capacity to be used as a telecommunication cable, so MLPL will be able to commercialise that capacity in the future.
- A CAP member asked whether there was a risk of political groups intervening in the project negatively via legislation, and whether MLPL is prepared with mitigations.
 - Kate confirmed that while this is not a risk in the Federal or Victorian contexts, it is a concern in Tasmania. MLPL is managing this risk closely through communications and engagement, information sharing and working with regulators to set clear assessment roles and responsibilities.

Technical designs and specifications

- A CAP member noted that the total costs are \$47m, with \$37m already spent, and asked whether the final \$10m is enough to cover the remaining work.
 - Roger confirmed that there is enough budget, due to most of the survey and outsourced work being complete.

Procurement strategy, tender specifications, management and procurement

- CAP members raised the issue of paying for cables ahead of time to secure supply, and asked whether this cost is included in the Draft Revenue Proposal Part A.
 - Jason confirmed that the potential need is flagged in the Revenue Proposal, but a numerical figure has not yet been assigned.
 - Jason described that TransGrid followed similar models for accessing long lead items for HumeLink and Energy Connect, and that MLPL is in discussion with the Federal Government around managing risks and cost to consumers in a "very hot" market.
 - Jason noted that market supply pressures include Europe's increased energy demands resulting from the war in Ukraine, more regular use of HVDC across Europe, and an increase in wind farm operators innovating with HVDC cables and converter science.
 - Jason also confirmed that tenderers have been securing significant stocks of computer chips and other necessary technology, so that parts can be replaced over Marinus Link's 40-year lifespan.
- A member of the CAP asked whether MLPL is confident in tenderers' ability to deliver Marinus Link, given its unique characteristics.
 - Jason confirmed that pre-qualification criteria for tenderers included demonstrating that they had successfully delivered a project of Marinus Link's size, configuration and complexity.

Program and project management

- A CAP member enquired whether MLPL would deliver a data model so MLPL can review its physical and virtual operations.
 - Craig described a suite of project controls and asset management tools that are being progressively specified, sourced and implemented (on a priority basis) for this purpose and confirmed that MLPL had already secured the necessary scheduling and integrated project controls systems. Craig noted that contractors would be asked to provide their inputs in the right formats to fit into those systems.

Corporate costs and support

- The CAP noted that expenditure for corporate costs and support appeared high, as the most expensive category.
- The CAP enquired how costs for the MLPL board and CEO are divided between MLPL and TasNetworks, and how these costs are distributed after the 1 July 2021 early works start date.

- Ben noted that consumers would not be paying for two CEOs or two boards, and that MLPL is committed to separating its systems and office location from TasNetworks.
- The CAP agreed that it would like to see the costs for this category de-aggregated and compared with other, similar projects.
 - Isaac agreed that MLPL needs to take three further steps for all expenditure categories: (1) better and more detailed description of costs, (2) reallocation of costs across the categories and (3) seek an external review of the material and advice on whether the packaging of costs is efficient.
- A CAP member described seeking a document provided to him early within the CAP process and finding that the link to the document was no longer active. He provided the feedback that MLPL should ensure all links and documents provided to the CAP remain open and accessible.
 - MLPL accepted the feedback, committed to providing the document to the CAP member and agreed to review all material previously provided to ensure it is still available.
- A CAP member raised concern about the lack of benchmarking of costs, and concern that the regulator will not assess costs through the perspective of consumers, as the regulator is owned by one of the project owners.

Discussion question: is it reasonable for MLPL to be investing in these activities?

In review of all expenditure categories, the CAP agreed that undertaking these activities is essential for delivering Marinus Link. However, before it could comment directly on costs, the CAP said it would like to see the costs presented over more granular line items. The CAP additionally requested a breakdown of where grant funding has been supplied from.

The CAP encouraged MLPL to engage with large projects that have run within or under budget, to seek advice.

3.3 Summary of additional regulatory components

During this session, Isaac Katz provided the CAP with a summary of the proposed approach to the Regulatory Asset Base (RAB), incentive schemes, and pass-through events.

Key takeaways included:

- The AER will determine the opening RAB, as at 1 July 2025.
- MLPL suggests that the AER should adopt TasNetworks' rate of return.
- Concessional finance may reduce costs.
- The only potentially applicable incentive scheme for Marinus Link relates to capital expenditure. An ex-post prudency review must apply, while a Capital Expenditure Sharing Scheme (CESS) may apply.
- Pass-through events are more likely to apply for construction costs than early works costs.

3.3.1 What we heard

Regulatory Asset Base (RAB)

- A CAP member enquired whether MLPL's calculations allowed for asset depreciation and how this would affect the price profile compared to, say, TasNetworks' business.
 - Isaac explained that the value of the asset would decline over time, assuming that there is no significant capital expenditure after commissioning. He explained that comparisons with TasNetworks were complex because it had assets of different vintages that would affect its revenue profile as those assets were replaced and new projects added.
- A CAP member asked how MLPL is managing the equity aspect of the Weighted Average Cost of Capital (WACC).
 - Isaac said the regulator would provide an allowance covering both cost of debt and equity finance.
- A CAP member asked whether operational expenditure (e.g., legal advice) is regarded as an asset in the same way that physical expenditure (e.g., easement, or set of designs) is.
 - Isaac confirmed that all expenditure is regarded as capital expenditure.
 - A CAP member expressed the view that a "more honest" breakdown of expenditure would have it broken into operational expenditure, capital expenditure and depreciation, due to some items not holding their value during the construction period. The CAP member noted that breaking it down in this way would be more suitable for explaining the approach to consumers.
 - Isaac explained that MLPL would not be recovering depreciation from consumers until services commence.
 - A CAP member noted that breaking the RAB down further was important for transparency.

Incentive schemes

- The CAP expressed the view that the CESS should apply, to incentivise cost control; however, the CAP was uncomfortable with consumers paying more if the project is delivered efficiently.
- A CAP member noted their assumption that capital allowance for Part B will be based on MLPL's best estimates, and enquired about whether the RAB or allowance will be increased if budget overrun is beyond the control of MLPL.
 - Isaac highlighted that MLPL is making an effort to ensure that the allowance is made on the best possible information. He confirmed two mechanisms for managing this risk:
 - 1) During the ex-post review, if the company has been inefficient and the regulator can demonstrate that, then all of the overrun is removed and not allowed in the RAB, meaning the company can never recover the cost.
 - 2) If the company has demonstrated that it is efficient, the CESS would expose the company to a 30% loss.

Pass through events

The CAP agreed to hold discussion about pass-through events for Part B of the project, as they are more likely to apply to construction costs.

3.4 Evaluation of the Draft Revenue Proposal Part A

The CAP was asked to discuss and decide how it would like to respond to the Draft Revenue Proposal Part A.

3.4.1 What we heard

Discussion included:

- A CAP member described their experience of following a similar process for the TasNetworks Revenue Reset and APA Group. They noted that in addition to a questionnaire, the CAP produced its own report independently, with one CAP member taking a lead role to organise the report.
- A CAP member described that they believe it is important for the AER to receive a document that outlines the perspective of consumers.

The CAP decided:

- The CAP will draft a submission in addition to the survey.
- The CAP is comfortable to begin drafting its submission now, and will update the submission when extra documentation (e.g., benchmarking) is provided.
- The CAP submission will be led by John Pauley, with support from Richard Eccleston.
- The CAP will submit its report to the AER.

3.4.2 How Marinius Link will respond

- MLPL will provide the CAP with a deadline for submission.
- MLPL will organise an extra online session with the CAP (one hour) by early July, to update the CAP on benchmarking and other required information.
- The CAP agreed it would seek funding support from Energy Consumers Australia (ECA) for the CAP to prepare its submission. MLPL offered to provide support if ECA funding is not available.

4 Engagement evaluation

Workshop participants were invited to complete an evaluation at the end of the workshop to provide feedback about their experience of the workshop.

4.1 What we heard

Three survey responses were received from other CAP members. Respondents rated the workshop as high quality, with all providing a 5/5 rating. Respondents agreed that the workshop materials and support provided was of high quality (overall 4/5 rating), and two respondents agreed that the objectives of the session were clear while one respondent felt the objectives could have been stated more clearly (overall 4/5 rating). Respondents felt that they were informed enough to participate in the workshop meaningfully (overall 4.5/5 rating).

Respondents provided additional feedback via the survey:

- Was another great engaging session. Facilitation ensured everyone's view were important and invited. Structure of SMEs presenting was excellent, brought everything together.
- The openness and apparent transparency during the presentations and discussion was a breath of fresh air and the presenters were accessible, so it had real value.

At the conclusion of the workshop a CAP member provided the following verbal feedback: "Since I have been involved in this project, I think the process has improved on what it was before the CAP was created. Thank you...for the quality of the information provided to us, it is clear that our feedback has been listened to."

5 How Marinus Link will respond

The table below summarises what was heard during the workshop and how it will be considered. This will guide Marinus Link's response to the CAP during the development of the final Revenue Proposal Part A.

What was heard	How this will be considered
<p>CAP members urged MLPL to keep consumers front of mind when making decisions, highlighting that many consumers are on fixed incomes that are not keeping up with inflation.</p>	<p>The Marinus Link representatives agreed that consumers need to be at the centre of decision-making, and agreed that the overall end goal of the project is to deliver savings in energy costs that result in consumers being better off.</p>
<p>CAP members are concerned about the volume of transmission infrastructure projects being planned Australia, and the cumulative impact of costs for consumers.</p>	<p>This feedback will be noted in the MLPL revenue proposal.</p>
<p>The CAP supports the activities being undertaken for early works, but would like to see the costs broken down to a more granular level per category and benchmarked against similar projects, especially corporate costs.</p>	<p>At the workshop it was agreed that MLPL needs to take three further steps for all expenditure categories: (1) better and more detailed description of costs, (2) reallocation of costs across the categories and (3) seek an external review of the material and advice on whether the packaging of costs is efficient.</p> <p>Updated costs will be presented before the submission of the final draft.</p>
<p>Clarification is required as to whether the land acquisition spend currently includes the purchase price of the converter station sites and Mardan Farm.</p>	<p>MLPL will clarify this when presenting the final draft.</p>
<p>The CAP sought a breakdown of grant funding for the project.</p>	<p>MLPL to provide a summary of grant funding.</p>
<p>The CAP encouraged MLPL to engage with large projects that have run within or under budget, to seek advice (ie. Adelaide Oval).</p>	<p>The MLPL representatives agreed to pass this feedback on to the project team. MLPL notes that the project team has taken and will continue to make opportunities to learn from the successful delivery of other 'mega' projects.</p>
<p>A CAP member asked for more detailed information about engagement activities.</p>	<p>MLPL to provide the CAP with available engagement summaries.</p>
<p>One CAP member referred to a broken link on the Marinus Link website to a document on the RIT-T process and expressed concern about</p>	<p>MLPL has provided a softcopy of the missing document, and is investigating ways to reduce the likelihood of broken links in the future.</p>

the impact this had on perceived transparency. The CAP member will provide information about the document sought offline.

A CAP member asked that the RAB be further broken down to reflect opex, capex and depreciation.

This feedback will be further considered.

The CAP considers that the CESS should apply to incentivise cost control, whereas the draft Revenue Proposal argues that the CESS should not apply.

This feedback will be further considered.