INTRODUCTION

The Energy Users Association of Australia (EUAA) is the peak body representing Australian energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing and materials processing industries. Combined they employ over 1 million Australians, pay billions in energy bills every year and are desperate to see all parts of the energy supply chain making their contribution to the National Electricity Objective.

Our members are highly exposed to movements in both gas and electricity prices and have been under increasing stress due to escalating energy costs. These increased costs are either absorbed by the business, making it more difficult to maintain existing levels of employment or passed through to consumers in the form of increases in the prices paid for many everyday items.

Of great concern to energy users has been the significant increases in network costs over the past decade. We recognise this so called “gold plating” of the network was largely (but not entirely) driven by increases in reliability standards and in some cases an overlapping set of standards between state and federal jurisdictions. Understandably this has created an environment where consumers are wary of increasing investment in networks, including interconnectors. While the need for strategic investment in new transmission has been identified as part of the Integrated System Plan (ISP) and is likely to be required in the future, we are not convinced that the existing methods of cost recovery are fit for purpose or fair on consumers.

Therefore, we welcome the opportunity to make a submission to the Project Marinus Initial Feasibility Report (IFR) and commend TasNetworks on their approach to stakeholder engagement to date. We also commend TasNetworks on the pragmatic approach taken in the IFR that clearly identifies the risks and challenges of the project and recognises that consumers alone should not necessarily bear the entire cost.

There is broad agreement that we will continue to see significant changes in the structure of energy markets, the nature of its participants and the risks and costs that will need to be absorbed. To date this transition of our energy system has not been well managed, for a variety of reasons, which has resulted in a chaotic period for the energy industry, increased risk for investors and higher prices for consumers.

New investments in energy infrastructure will clearly be required over the coming decades. Many of these Investments, such as Project Marinus, will be designed to link different, sometimes remote generation resources to the market and is likely to involve many new participants. In this regard, we can certainly see the potential for Project Marinus to deliver long-term, NEM wide benefits.

However, we caution that during this time of significant change, it will be vital to maintain important consumer safeguards such as a robust Regulatory Investment Test for Transmission (RIT-T), rational reliability standards and strong, independent oversight by economic regulators. None of these safeguards should be ignored or weakened in the pursuit of loosely defined “strategic” assets where lasting and material financial benefits to consumers are likely to be at risk.
Therefore, we are pleased that the IFR also identifies these issues and does not seek or suggest that Project Marinus avoid robust assessment and independent oversight.

One of the key issues emerging from the ISP, CoGaTI and a number of recent RIT-T assessments is that while it is obvious there will be multiple beneficiaries of new transmission infrastructure that is being proposed, such as state and federal governments and owners/investors in energy generation, it appears that consumers will be expected to pay the entire bill and in many cases carry all the volume risk of these assets. This is unacceptable for energy consumers who are looking for the adoption of a more equitable sharing of cost and risk.

Rather than commenting on the technical feasibility of Project Marinus, of which we have limited capability, the balance of this submission looks for ways to re-set the cost and risk allocation of Project Marinus and is consistent with recent submissions made by the EUAA to the AEMC CoGaTI and the Electranet Energy Connect project.

**RISK ALLOCATION NEEDS RE-SETTING**

The IFR identifies numerous beneficiaries of Project Marinus, including consumers. The EUAA acknowledges that interconnection between states can provide greater flexibility for market participants and the system operator and could foster more competitive markets. We also recognise the growing need for more flexible generation that Hydro Tasmania’s “Battery of the Nation” would deliver to the National Energy Market (NEM) and that significant additional investment in wind energy assets could be realised if Project Marinus were to proceed.

In our submission to the Project Marinus PSCR, the EUAA identified the following parties who would benefit from Project Marinus. We note that a number of these beneficiaries, including the Tasmanian and Victorian Governments and Tasmanian based renewable energy proponents have been identified in section 6.4.1 the IFR.

<table>
<thead>
<tr>
<th>Party</th>
<th>Main Benefit</th>
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<tbody>
<tr>
<td>Hydro Tasmania</td>
<td>Would allow “Battery of the Nation” to be built, facilitating greater access to the NEM with significant financial benefit. The ability to sell “firm capacity” into the NEM will become both increasingly important and profitable. It is our view that Hydro Tasmania would be a significant financial beneficiary of Project Marinus.</td>
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<tr>
<td>TasNetworks</td>
<td>Significant increase in Regulated Asset Base (RAB) of both Project Marinus and additional state-based infrastructure such as new transmission assets required to connect new wind energy developments.</td>
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<tr>
<td>Tasmanian Wind Developers</td>
<td>Would allow up to 700MW of identified wind farms to be built, facilitating access to the NEM with significant financial benefit to investors/owners/operators. It is our view that Tasmanian Wind Developers and their investors, would be significant financial beneficiaries of Project Marinus.</td>
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<tr>
<td>Tasmanian Government</td>
<td>Significant state development opportunity (construction jobs, state taxes etc) and substantial increases in annual dividend from state owned energy assets such as Hydro Tasmania and TasNetworks. Additionally, there may be improved energy security benefits, especially as a “back-up” to the current Basslink. However, we note that reviews into Tasmanian energy security have not found justification for additional</td>
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interconnection to be built to achieve this goal. Therefore, it would be more about managing a political risk rather than a technical risk.

**Victorian Government**

Victoria is faced with an issue of increasing renewable energy and reducing dispatchable capacity, highlighted by the recent closure of Hazelwood and future closure of Yallourn power station. Project Marinus would provide an additional “firming” option beyond batteries, demand response (market based on RERT), expensive gas power generation or relying on a shrinking national pool of dispatchable resources.

**Federal Government**

While the current federal government have already committed to Snowy 2.0 and have recently announced a new incentive package for new generation (via a Contracts for Difference approach), it could be beneficial to ensure additional dispatchable capacity is progressively made available from multiple sources, including from the proposed “Battery of the Nation” proposal.

Access to additional “zero emissions” energy would also assist in meeting current and future emissions abatement obligations.

**Energy Consumers**

As with all new assets, consumers would expect that a robust RIT-T process is followed to ensure they receive a lasting, material financial benefit. At this early stage, TasNetworks have not provided such evidence for consumers to have confidence that this will be the case. However, with such fundamental change occurring in energy markets it is becoming increasingly difficult to reliably quantify such benefits and to have confidence that these benefits will be both material and lasting.

The EUAA contend that due to the level of risk that is increasingly inherent in energy markets and with so many non-consumer beneficiaries of Project Marinus that it is both unreasonable and unfair to expect that energy consumers carry the entire cost and volume risk of the project.

We would point to the risks associated with the rapidly changing energy market and the impacts on the feasibility of the Energy Connect project (the proposed interconnector between South Australia and New South Wales).

There are two fundamental assumptions underpinning the consumer benefits of this project being:

- That the NSW region will continue to be in a state of “oversupply”, especially with the type of asset required to provide “firming” of variable generation and,
- Fuel savings that come about when 800 MW of gas fired generation retires in SA (2024) and a further 63 MW of generation fired by liquid fuels retires in 2027.

Yet according to the AEMO ISP, two NSW based coal fired assets in Liddell (in 2022) and Vales Point (2028) are assumed to retire removing some 3,320 MW of the type of dispatchable generation that is required in both NSW and SA. The assumption that you can continue to “borrow” dispatchable power from your neighbour will be progressively undermined by this paradigm shift in the energy market.

Perhaps more importantly that this is that while replacing expensive gas with cheaper resources imported from NSW is a key value driver for the Energy Connect project, we note that AGL are currently constructing the 210MW gas fired Barker Inlet Power Station2 and the Federal Government have announced that Alinta’s 300MW gas fired Reeves Point Power Station is on the short list for their Underwriting New Generation Investment initiative3.

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So as old gas fired power stations are being closed they are being replaced by new gas fired power stations that while being more efficient still rely on an expensive primary fuel source. In addition to this, several South Australian based pumped hydro power stations have also been announced as potential beneficiaries under this program.

It is clear from the Energy Connect project that significant changes in market composition materially alter the potential for consumer benefits to materialise. In this case it is unreasonable to expect consumers to carry the entire cost burden.

We note that a number of similar risks associated with changes in market dynamics are drawn out in section 6.3.2 of the IFR and are laid out in the following table.

As we have seen, these risks are not unique to Project Marinus as all new interconnectors and deep connection assets will face similar market change and consumer risk issues.

The EUAA made a substantial submission to the AEMC CoGaTi process in October 2018 where we argued that a significant beneficiary of new Renewable Energy Zones (or in this case Project Marinus) will be project proponents and their investors.

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Consumers have no control over the financial viability or operation of these assets but will carry the cost while the project developers connecting into a REZ would gain significant financial benefit from doing so given their “free access” to the NEM this would provide.

In the case of Project Marinus, state governments also stand to gain substantially as we have identified above. For example, given policy announcements made by the Victorian Government to significantly increase the penetration of renewable energy, the likely closure of the 1,450 MW Yallourn power station within the next decade and the dwindling supply of Victorian gas, Project Marinus could play a significant role in balancing the Victorian electricity system. We note that in the last two years alone, Victorian energy users have paid in excess of $90 million in Reliability and Emergency Reserve Trader (RERT) costs as AEMO seek to manage reliability. This is likely to increase if the situation is not attended to.

Given this complexity and uncertainty the EUAA are of the view that the risk and significant portion of the capital costs associated with the construction and operation of assets like Project Marinus should reside with the primary beneficiaries of it. While consumers may receive some benefit from the operation of projects like Project Marinus, given the fluctuating nature of the energy market these benefits may be fleeting at best. In any case, the principle of only paying for that benefit that is reliably received should guide future cost and risk allocation in this area.

In particular, it does seem that much of additional network investment is largely driven by a need of generators to gain access to the National Electricity Market, from which they will gain significant financial benefit. We firmly believe these commercial entities should make a reasonable co-contribution to the cost and maintenance of these assets.

We recognise that moving to generator co-contribution could result in slightly higher contract prices (i.e. PPA’s) as project proponents seek to recover these additional costs. So yes, while the customer will always pay we should not continue to be asked to absorb aspects of project risks and costs that we have no control over or be faced with paying “full weight” for underutilised assets.

Further, we contend that that exposing more network costs to open markets and competition will drive better outcomes for consumers compared to a regulated environment that, despite good intentions to deliver a result that replicates a competitive market outcome, has not always proven to be so.

Recovery of these costs from generators could be managed in a number of ways including:

- Capital cost recovery from generators as they connect based on the total installed capacity of the asset (expressed either in MW or % of line capacity). The assessed capital contribution could then be deducted from the RAB of the participating TNSP’s in a form of “reverse contingent project” process. There already exists a contingent project process for adding capital to a RAB in the middle of a regulatory period so a precedent exists for mid period adjustments.

- Several options for providing generators with firm access in exchange for co-contribution to deep augmentation costs are:
  - Optional firm access: This would allow generators to purchase a partially firm financial access right to the regional reference node, at a regulated price in order to manage the financial impacts of network congestion. Generators would be entitled to compensation if constrained below their level of firm access. This would change the way in which transmission and generation investment decisions are made, and would mean generators would bear more of the risk associated with some transmission investment. In effect this would introduce firm transmission rights, while providing locational (nodal) pricing signals to generators.
  - Locational marginal pricing, with deep connection charges: This would establish sub-regional pricing, and generators would have access to their locational marginal price, but would also be able to purchase optional
fully firm financial access to defined trading hubs. In order for generators to be able to acquire access rights beyond those available through the existing system, they would have the option of paying deep connection charges, for which they would also receive optional fully firm access. In essence, this option would provide generators with fixed financial access, compared to optional firm access where only firm financial access would be provided (i.e., there would be times under an optional firm access model where there would be operating conditions under which the capacity of the transmission network would be reduced and so access for firm generators might also correspondingly be reduced. The deep connection charge would not reflect locational differences in costs.

- Government equity participation that would have the effect of reducing the capital expenditure by participating TNSP’s, reducing the amount of project cost that would be incorporated into the RAB.

- Access to more favourable debt via the Clean Energy Finance Corporation or Future Fund contribution, having the effect of lowering overall capital costs of the project.

We recognise that some of these co-contribution options may require changes to the current open access rules but we felt it necessary to raise these issues in this submission to highlight the need for a revised approach.

Regardless of the method of co-contribution, the aim must be to reduce the amount of capital expenditure of the project that accrues to the participating TNSP’s RAB and allocate risks appropriately such that those who have the most to gain and who are in the best position to manage volume risk are making a fair and equitable contribution to the project.

**CONCLUDING COMMENTS**

We acknowledge there are reasons to support greater interconnection between jurisdictions, as Project Marinus will facilitate, as it allows market participants to move energy when and to where it is needed. We also acknowledge that interconnection between states can provide greater flexibility for market participants and the system operator and could foster more competitive markets. We trust that a robust RIT-T process will ensure that only those assets that are in the long-term benefit for consumers are built.

However, we are concerned that the rapid rate of change in technology, fundamental changes in end user behaviour and significant political and regulatory uncertainty make the benefits from future investments such as Project Marinus difficult to assess from a consumer perspective. The EUAA are of the view that where there are multiple beneficiaries of new energy assets like Project Marinus then the costs and risks should be equitably shared.

Once again, the EUAA welcomes this opportunity to make a contribution to the Project Marinus IFR and again commends TasNetworks on their approach to stakeholder engagement and commitment to transparency. We look forward to further dialogue with TasNetworks and would be pleased to facilitate deeper engagement with our members should it be desired.

Andrew Richards  
CEO  
5 APRIL, 2019