

# SUBMISSION

## PROJECT MARINUS PROJECT SPECIFICATION CONSULTATION REPORT | 26 OCTOBER 2018



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### 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.

We welcome the opportunity to make a submission to the Project Marinus Project Specification Consultation Report (PSCR) as it comes at an important time for energy markets. At a whole of energy market level, the AEMO Integrated System Plan (ISP) and the AEMC Coordination of Generation and Transmission Investment (CoGaTI), represent something of a fork in the road for energy consumers where costs could escalate dramatically if the wrong path is taken.

This is the context in which we have reviewed the PSCR and sought to find a more equitable pathway forward that allows large, long lived assets like Project Marinus to be constructed while allocating risks and costs more equitably.

### ENERGY MARKETS IN TRANSITION

Energy markets have been in transition for almost twenty years commencing with the privatisation of the Victorian energy system (followed by other jurisdictions) that not only fundamentally changed the ownership structure of our energy market but saw the introduction of an entirely new set of objectives and obligations of a different type of owner. On top of this, the political chaos of the last decade combined with a paradigm shift in the very nature of our energy system has created new risks and challenges for all market participants.

All of this means we will continue to see significant changes in the structure of energy markets and the nature of its participants. 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.

Consumers themselves have been reacting to government incentives, significant increases in network costs, a volatile wholesale market and perceived poor service from retail participants to install behind the meter technologies such as solar PV in record numbers. Many EUAA members have also sought out non-traditional suppliers of energy through corporate power purchase agreements with renewable energy suppliers and are looking to invest in energy efficiency, on-site generation and demand response capability. This growing “non-network” solutions sector is rapidly evolving driven by improving technology, reducing costs and a desire to reduce exposure to the traditional players whom they believe have not served their long-term interests. If this is any indication then the key objective of the NER, that the market should serve the long-term interests of consumers, is not being met, at least in the eyes of many energy users.

New investments in energy infrastructure will clearly be required over the coming decades, many of which will be designed to link different, sometimes remote resources to the market and involve many new participants. 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 that do not deliver lasting and material financial benefits to consumers.

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 required 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.

## RISK ALLOCATION NEEDS RE-SETTING

The PSCR identifies numerous benefits of Project Marinus that would accrue to a range of market participants, 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.

On reading the PSCR, the EUAA have identified the following parties who would benefit from Project Marinus:

Party	Main Benefit
Hydro Tasmania	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.
TasNetworks	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.
Tasmanian Wind Developers	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.
Tasmanian Government	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 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 with the level of risk that is increasingly inherent in energy markets and with so many non-consumer beneficiaries of Project Marinus that it is unreasonable and unfair to expect that energy consumers carry the entire cost and volume risk of the project. This is not a situation unique to Project Marinus as all new interconnectors and deep connection assets designed to connect Renewable Energy Zones (REZ’s) identified in the ISP, all face similar consumer risk issues.

In their April 2018 Discussion Paper, Coordination of Generation and Transmission Investment, the AEMC have stated that one of the key aspects of transmission framework within the NEM is efficient risk allocation:

*“A key consideration that should be taken into account when determining arrangements for REZ’s is who is best placed to manage risk...The Commission does not necessarily think it is appropriate for consumers to bear the costs associated with centralised resources (e.g. large-scale generation and transmission). This risk is likely to be better placed with the generation and transmission businesses themselves.”<sup>1</sup>*

We would contend that a significant beneficiary of new Renewable Energy Zones and assets such as Project Marinus will be the project proponents and their investors. Critically, consumers have no control over the financial viability or operation of these assets but will carry the cost while the project developers will gain significant financial benefit from doing so given their “free access” to the NEM this would provide.

The EUAA are of the view that the risk and significant portion of the capital costs associated with the connection and operation of these assets should rightfully reside with the project owner/operator given they are the primary beneficiaries and are in the best position to manage both costs and risks. While consumers may receive some marginal price benefit from the operation of projects located in these zones, or indeed from the development of a new interconnector such as Project Marinus, given the fluctuating nature of the energy market these benefits may be fleeting at best.

In the case of REZ’s, the ISP and Project Marinus, much of the additional investment in new connection assets is largely driven by a need of generators (new entrant and Battery of the Nation) to gain access to the National Electricity Market, from which they will gain significant financial benefit. In some cases, these additional investments (including interconnectors) will help to

<sup>1</sup> AEMC Discussion Paper, Coordination of Generation and Transmission Investment: Page 64  
PROJECT MARINUS PSCR | 26 OCTOBER 2018

support state and federal government policies such as the continued roll out of renewable energy and the regional economic benefits that flow

Therefore, the EUAA are of the view that we must move away from the consumer pays approach to a co-contribution model where those who stand to benefit from assets such as Project Marinus, pay a fair and reasonable amount of the cost.

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 at some point 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 would 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 would 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.

## RIT-T ASSESSMENT VITAL

We expect that Project Marinus will be subject to a full RIT-T process to identify the lasting, material financial benefits to consumers in both Tasmania and Victoria. We note that the PSCR identifies a range of other benefits that may not necessarily be included as part of a RIT-T process such as increased energy security and facilitating additional investment. While these benefits may be material to the parties concerned, their pursuit should not result in a devaluation of the RIT-T process or rigorous oversight of the AER. We are pleased to see that the PSCR does not propose such a devaluation and we hope this continues to be so.

However, the EUAA are concerned there is a growing perception that there is a fundamental problem with the RIT-T process – that it is a barrier to the range of network investment that AEMO considers is required as part of the ISP. We do not share this view.

The COAG review summed up the RIT-T process well<sup>2</sup>:

“Simply put, the RIT-T plays the role of gate-keeper—ensuring that consumers only pay for investments that are economically efficient and optimal overall for the NEM. It aims to ensure that all credible options for addressing an identified need are considered, and that the relative merits of network and non-network options are considered on an equal footing.

The COGTI options paper pointed that some stakeholders see a lengthy RIT-T timetable as a problem<sup>3</sup>. We see this as an indication of a thorough process. Faster is not always better. A lengthy process may mean that a project does not proceed or that it proceeds with a delay or design alteration – all of which can be consistent with the NEO. The COAG RIT-T review concluded<sup>4</sup>:

“The review considered, but found no evidence to warrant, options to streamline the test by shortening consultation and/or lessening requirements around the cost-benefit analysis in certain circumstances. The underlying issues which have led to protracted processes, in some cases, appear to stem from contention between project proponents, interested stakeholders and proponents of competing options rather than the design of the test or its governance. Any paring back of current timeframes would compromise the ability of the test to effectively identify and assess all credible options.”

The recent AER review of RIT-T guidelines found strong support for the process. Consumers welcome the opportunity to be involved and provide robust critiques at each stage.

As for improvements to the current process. The AER's current role of:

- set the guidelines under which the RIT-T process is undertaken
- at the end of the process assess whether the guidelines have been followed and,
- in the next regulatory period, assess how much should be put into the RAB.

should be expanded to include:

<sup>2</sup> COAG Energy Council “Review of the Regulatory Investment Test for Transmission RIT-T Review” 6 February 2017 p.10

<sup>3</sup> Pp 66-67

<sup>4</sup> COAG Energy Council “Review of the Regulatory Investment Test for Transmission RIT-T Review” 6 February 2017

- greater oversight through the process
- greater consideration of options values, and
- a review process, perhaps at 3-year intervals after commissioning of the project, on whether the benefits assessed in the original RiT-T analysis have been, and are likely to be, realised

We also see the benefits from improving the efficiency and timeliness of the initial information gathering and options stages analysis through a more mature and well-developed ISP process that involves deeper consumer participation.

To be clear. Energy users are prepared to pay a reasonable price for a service delivered efficiently. In the current context, two key building blocks to getting some confidence on this efficiency are the 0.002% USE reliability standard and the RiT-T process. Consumers have actively engaged over many years on developing the reliability standard and are comfortable with it being an appropriate trade-off between reliability and cost. As the COAG review noted, consumers look to the RiT-T process as the “gate-keeper”.

The EUAA is happy to accept the COAG Energy Council changing either of these building blocks – as long as consumers do not have to directly bear the costs in their TUOs charges. If Ministers wish to provide directions, such as on a different reliability standard or a specific scenario that is outside these parameters, then the role of the RiT-T analysis is to highlight the additional costs that result and the network to seek funding for that additional cost from outside of the regulated revenues.

## CONCLUDING COMMENTS

We acknowledge there are reasons to support greater interconnection between jurisdictions as it allows market participants to move energy when and to where it is needed, potentially obviating the need for investment in certain types of generation in one region where there is an overcapacity in another region. 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 PSCR, would welcome further dialogue with TasNetworks and would be pleased to facilitate deeper engagement with our members should it be desired.



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