

From: [REDACTED]
To: [Energy Matters](#)
Subject: my submission to the AER on Marinus
Date: Friday, 18 April 2025 3:54:40 PM
Attachments: [REDACTED]

Michael

As foreshadowed in our conversation on 10 April, attached is a submission I have just made to the AER.

I am not sure if you are able to treat this as a second supplementary submission to the Joint Committee.

If not, I am happy for you to share it with either just the Chair or the whole committee.

Regards

Jack

=====

Jack Gilding

Director, Backroad Connections Pty Ltd

m: [REDACTED]

e: [REDACTED]

w: www.backroad.com.au

follow: [REDACTED]



Virus-free. www.avg.com

**A personal submission in response to the AER’s Issues Paper
Marinus Link Stage 1 Part B (Construction Costs) - March 2025**

Jack Gilding, 18 April 2025

Contact:

[Redacted]
[Redacted]

Table of Contents

Summary 2

Share of costs borne by Tasmanian consumers 3

Allocation of risk to consumers 3

Assumptions in the Integrated System Plan 3

Assumptions on net benefit to electricity consumers 4

Implications of the draft Basslink determination..... 4

Alternatives to greater interconnection 5

Responses to specific questions in the AER Issues Paper 5

References..... 7

Summary

We welcome the opportunity to comment on the AER's Issues Paper (AER 2025) on Marinus Link Pty Ltd (MLPL) Stage 1, Part B (Construction Costs) revenue proposal. Our comments are informed also by information provided at the AER's online public forum on 3 April 2025.

While the AER runs a very comprehensive consultation process we are concerned that MLPL has indicated that it intends to make a Final Investment Decision (FID) in May 2025 prior to completion of the AER process and when many costs are uncertain. Much of the risks in this approach are carried by electricity consumers, and disproportionately by Tasmanian electricity consumers.

In summary the FID will be made (and presumably contracts entered into) before the following are finalised:

- Market testing of the Balance of Works costs for Marinus Link which make up around 50% of the estimated costs.
- An AER response to the full costings for Stage 1 (expected in December 2025 or February 2026) (Issues Paper, p.2)
- Preparation by TasNetworks of a Regulatory Investment Test for Transmission (RIT-T) which demonstrates overall benefit for consumers from the North West Transmission Development (NWTd) projects.
- Finalisation of AER consideration of the NWTd projects proposed by TasNetworks which are integral part of the overall Marinus project.
- A decision on a second cable.

Our concerns about the desirability of the Marinus project are exacerbated by:

- The disproportionate share of costs to be borne by Tasmanian consumers (see next section).
- The assumption used by AEMO in their Integrated System Plan (ISP) to determine that the Marinus project is part of the optimal development path for the National Energy Market (NEM).
- The contentious assumptions behind the FTI report used by MLPL to argue that Marinus Link provides net benefit to electricity consumers.
- The fact that the AER could not determine that Basslink (at a known cost well below the costs of Marinus) would provide a net benefit to consumers.
- The imbalance between costs (which are estimated and most likely to increase) and assumed benefits (which are based largely on anticipated, but uncertain, decreases in wholesale energy prices) as a result of the Marinus interconnection.

Although the economic benefits of the Marinus project are highly contentious, there might still be a case that the project is a desirable part of the decarbonisation of the NEM and a protection against both expected closure, and possibly unanticipated early failure, of dispatchable coal fired power stations. However even if this case is accepted, it is a concern that the costs would be disproportionately borne by Tasmanian consumers and has not been tested against possible alternatives.

Share of costs borne by Tasmanian consumers

MLPL proposes that costs will be recovered 27.6% from Tasmanian customers and 72.4% from Victorian customers. (MLPL 2024a, p.80). This is already disproportionately in favour of Victoria which has 92% of the combined population of the two states¹.

This disparity is further exacerbated by the fact that the whole cost of the NWTG (much of which is necessitated by Marinus Link) will be added to the TasNetworks regulated asset base and paid for by Tasmanian consumers.

Allocation of risk to consumers

The FID by MLPL will take place in an environment in which it is assumed that much of the project risk is borne by electricity consumers. There are two components of this:

- **Pass through costs:** Many of the project risks are treated as “Pass throughs” for any regulated interconnector. In addition, MLPL has proposed four further categories of events in which un-anticipated costs (or savings) are passed through to consumers. (Issues Paper, p.24).
- **Allocation of risks through the Capital Expenditure Sharing Scheme:** The usual situation with cost over and underruns is that 70% of the costs/benefits are passed to the customer. MLPL has argued that in the case of Marinus Link this should increase to 95% being passed to the customer.

The result of uncertain costs, greater risks being borne by consumer and deferment of revenue recovery until 2030 is that the Board of MLPL intends to make a decision in May 2025 but the cost impact on consumers will not be known or felt until 2030.

Assumptions in the Integrated System Plan

The ISP assumes that additional generation will be built to meet the legislated TRET target of 200% renewable electricity generation. This is despite the fact that no new wind farms or other large scale renewable energy project have been commissioned in the over four years since the legislation came into effect.

FTI states that *“In our analysis, we assume that the costs of the additional Tasmanian generation and pumped hydro capacity facilitated by Project Marinus would be recovered through wholesale prices without any need for further subsidies or other funding mechanisms to be implemented.”* (FTI 2024 p.15, note 5)

This is a heroic assumption. All previous projects have been underwritten by grants or agreements with Government Business Enterprises (GBEs). Hydro Tasmania was *“directed to enter a power purchase agreement with Westcoast Wind to facilitate the construction of the Granville Harbour Wind Farm.”* (Hydro Tasmania 2019 Annual Report p.101)² and Aurora signed a long term power

¹ Source: <https://www.abs.gov.au/statistics/people/population/national-state-and-territory-population/latest-release> as at 18/4/2025

² The Hydro Tasmania 2024 Annual Report (p.64) reports a total of \$102.9m in provisions for onerous contracts. Individual contracts are not itemised but the note says *“Onerous contracts include gas contracts and Large Generation Certificates valuation. There is judgement required in estimating the costs and timing of the future cashflows relating to the Large Generation Certificates.”*

purchase agreement which facilitated the development of the Cattle Hill wind farm³. The 288 MW Midlands Solar Farm will commence construction in 2026 following an agreement for Hydro Tasmania to purchase the output at an undisclosed price (Parkinson 2024).

In all these cases intervention by GBEs (presumably with approval of, or under instruction from, the owner, the state government) made the projects possible. Because these arrangements are treated as commercial in confidence decisions by GBEs the cost (if any) to the consumer or the foregone revenue to the state government can not be assessed.

Assumptions on net benefit to electricity consumers

The FTI report states that (with Marinus in operation) *“In 2035, the Tasmanian renewable generation helps displace nearly 2.5 TWh of gas generation”* (FTI 2024 p.17). The assumption that Marinus Link displaces expensive gas-fired generation on the mainland is at odds with the both the decreasing cost of wind and solar and the rapid proliferation of grid-scale battery storage.

The FTI report reproduces AEMO’s 2023 IASR Step Change Scenario that Tasmania will see a large increase in electricity demand from 2030 onwards due to hydrogen production. This demand may not materialise. Increased demand is one of the assumptions driving both the need for Marinus and the anticipated increase in wholesale prices if Marinus is not built.

The structure and costs of Tasmania’s electricity system without Marinus are naturally open to debate and conjecture. Marinus Link’s section on the ‘World Without Marinus Link’ (MLPL 2024c p.8) make a number of contentious assumptions:

- It assumes a doubling of load growth by 2032. It says this is based on TasNetworks’ ‘consumer connection enquiries’. A doubling of the population and/or business energy use in this period seems implausible. Perhaps they include generator connection enquiries. In any case not all enquiries lead to actual connections.
- It assumes that all the network upgrades will be required ‘regardless of whether Marinus Link is commissioned or not’.
- It implies that increased electricity demand will be met by Basslink imports and greater use of the gas-fired Tamar Valley Power Station rather than new wind or solar generation, despite the fact that the latter are routinely described as the ‘least cost new generation’.

The assumption that all TasNetworks on-island transmission upgrades will proceed irrespective of Marinus (and therefore should not be considered as part of the cost of the wider Marinus Project) is not consistent with the latest TasNetworks Annual Planning Report (TasNetworks 2024).

The APR (p.21) lists six contingent projects. While only one of these projects (Palmerston to Sheffield Network Upgrade) is explicitly contingent on Marinus Link, all six totalling \$955m are contingent on new load or generation projects. Most of these are in turn assumed to be viable only if Marinus Link proceeds.

Implications of the draft Basslink determination

In December 2024 the AER released its draft decision on the conversion of Basslink to a regulated service (AER 2024). The AER decided **not** to classify Basslink as a regulated service, a decision it describes as ‘finely balanced’. APA’s revenue proposal (APA 2023) proposes conversion to a regulated interconnector using a Regulated Asset Base of \$831m as at 1 July 2025 for the existing 500 MW link.

³ This was listed as an ‘onerous contract’ in earlier Annual Reports by Aurora Energy, but in the 2024 Annual Report (p.60) was assessed as “no longer onerous”.

MLPL applied to the AER requesting that the AER commence a process for making a transmission determination relating to the proposed Marinus Link interconnector. This assumes that Marinus Link will operate as a regulated service.

Given that the AER decided that treating Basslink as a regulated service could not reliably deliver market benefits at a Regulated Asset Base of \$831m for the existing 500 MW link, it is hard to see how a proposed 750 MW link with a cost of at least \$3.86 bn could provide clear market benefit, even allowing for some capital investment from owners and concessional finance for the CEFC.

Alternatives to greater interconnection

It appears that no one accepts responsibility for comparing a decentralised alternative to an increasing reliance of centralised generation and transmission. Tasmania has a number of [energy policy initiatives](#) but does not have an overall energy plan that considers the best way to reduce energy costs for residential, business and major industrial customers while meeting emissions reduction goals.

To the extent that Tasmania needs additional electricity generation, this could be cost effectively provided by distributed energy resources (DER) (solar PV, domestic batteries and grid connected electric vehicles (EVs) with vehicle to grid (V2G) capacity). This potential is a result of:

- The rapidly reducing cost of solar PV and other distributed energy resources.
- The firming capacity provided by Tasmania's hydroelectric generation.
- The potential for EVs in Tasmania due to relatively short travel distances compared to mainland Australia.
- The fact that DER, provided it is actively supported by relevant policies, has the potential for rapid installation with the cost carried mainly by consumers for their own benefit.

This case is effectively documented in (Climate Tasmania 2023), in section 7 of Professor Mountain's submission to the Tasmanian Joint Parliamentary Committee on Energy Matters (Mountain 2024) and its appended report, and in (CEPU 2020). It does not need to be spelt out in detail here.

It is notable however that no one seems to accept responsibility for comparing this decentralised alternative to an increasing reliance of centralised generation and transmission. The Chair of MLPL specifically states (Hansard 2024 p.57) that *"We are focused on the delivery of Marinus Link. That's our job as a company, so we haven't looked at how that money might otherwise be invested."*

Responses to specific questions in the AER Issues Paper

Q1) What level of cost certainty is appropriate before updated RIT-T assessments are finalised?

Balance of Works costs should be market tested.

A revised RIT-T should be completed to inform consumers but it would be too late if the Marinus board has made a FID and signed contracts before it was completed. The AER should request that MLPL delay a FID until the revised RIT-T is completed.

Q2) If there are residual cost uncertainties at the time MLPL revisits the RIT-T analysis, how should the analysis account for the uncertainties? For example, should MLPL undertake additional sensitivity analysis?

Rigorous sensitivity analysis should be included on all uncertainties that have significant financial consequences, even if they are unlikely (eg contractor insolvency).

Q6) What key themes would you like to see MLPL engage on?

Updated modelling is required on anticipated cost impacts on consumers, separately for Tasmanian and Victorian consumers. Assumptions underlying predicted reductions in wholesale energy costs should be spelt out (ie what are the assumptions behind the 'world without Marinus' scenario).

Q9) What are your views on the 5/95 cost sharing ratio proposed by MLPL? Will it provide sufficient incentives for MLPL to effectively manage cost increases associated with the contract or contract variations?

The project costs have risen considerably in the past and are far more likely to increase than decrease in future. The proposal that 95% of this risk be borne by consumers does not provide sufficient incentive for MLPL to take a balanced approach to whether the project is worth the risks.

References

- AER 2025, *AER - Issues Paper - Marinus Link Stage 1 Part B (Construction Costs) - March 2025*, Mar 2025
<https://www.aer.gov.au/system/files/2025-03/AER%20-%20Issues%20Paper%20-%20Marinus%20Link%20Stage%201%20Part%20B%20-%20Construction%20Costs%29%20-%20March%202025.pdf>
- AER 2024, *Draft decision: Application for Basslink's network service to be classified as a prescribed transmission service*, Australian Energy Regulator, Dec 2024
<https://www.aer.gov.au/documents/draft-decision-basslink-conversion-0>
- APA 2023, *Basslink - Conversion and transmission determination – overview*, APA Group, 15 Sep 2023
<https://www.aer.gov.au/industry/registers/determinations/basslink-determination-2025-30/proposal>
- CEPU 2020, *CEPU Tasmania Renewable Energy Action Plan 2020*, Communications, Electrical and Plumbing Union Tasmania (branch of national Electrical Trades Union (ETU)), 18 Sep 2020
Submission in response to the draft Tasmanian Renewable Energy Action Plan 2020
[https://recfit.tas.gov.au/_data/assets/pdf_file/0009/489744/SUBMISSION - CEPU Tasmania.pdf](https://recfit.tas.gov.au/_data/assets/pdf_file/0009/489744/SUBMISSION_-_CEPU_Tasmania.pdf)
- Climate Tasmania 2023, *Submission to Legislative Council Energy Price Inquiry*, Climate Tasmania, 13 Oct 2023
https://www.parliament.tas.gov.au/_data/assets/pdf_file/0026/75653/24-Climate-Tasmania.pdf
- FTI 2024, *Project Marinus: analysis of NEM consumer benefits*, FTI Consulting, Nov 2024
“Report originally issued December 2023. Updated for revised Project Marinus cost estimates, November 2024”
<https://www.marinuslink.com.au/wp-content/uploads/2024/12/FTI-Consulting-Nov-24-Project-Marinus-analysis-of-NEM-consumer-benefits.pdf>
- Hansard 2024, *Proceedings of the Joint Select Committee on Energy Matters*, Tasmanian Parliament, 28 Oct 2024
https://www.parliament.tas.gov.au/_data/assets/pdf_file/0022/87232/Transcript-Hearing-28-October-2024-JSC-on-Energy-Matters.pdf
- MLPL 2024a, *Revenue Proposal Stage 1 – Part B (Construction costs)*, Marinus Link, Nov 2024
<https://www.aer.gov.au/system/files/2024-12/Marinus%20Link%20-%20ML-B-002%20MLPL%20Revenue%20Proposal%20Stage%201%20-%20Part%20B%20-%20Construction%29%20-%20December%202024.pdf>
- MLPL 2024b, *Marinus Link milestone sequencing update*, Marinus Link Pty Ltd, 5 Aug 2024
“Marinus Link's Stage 1 FID is now planned for May 2025.”
<https://www.marinuslink.com.au/2024/08/marinus-link-milestone-sequencing-update/>
- MLPL 2024c, *Submission to Joint Select Committee on Energy Matters in Tasmania*, Marinus Link Pty Ltd, Aug 2024
https://www.parliament.tas.gov.au/_data/assets/pdf_file/0023/85442/23.-Marinus-Link_Redacted.pdf
- Mountain 2024, *Submission to the Joint Select Committee on Energy Matters*, Professor Bruce Mountain, 27 Nov 2024
The submission includes an appended copy of the Victoria Energy Policy Centre document “Massively expanding behind-the-meter battery-backed photovoltaics (PV) on business properties”.
https://www.parliament.tas.gov.au/_data/assets/pdf_file/0026/88631/48.-Prof-Bruce-Mountain-attaching-Rooftop-Solar-on-Factory-Roofs-Report.pdf
- Parkinson 2024, *Tasmania's first large scale solar project to be built after landing contract with state owned utility*, Giles Parkinson, 2 Dec 2024
<https://reneweconomy.com.au/hydro-tasmania-signs-off-take-deal-for-500-million-solar-project-the-first-in-island-state/>
- TasNetworks 2024, *TasNetworks Annual Report 2024*, 28 Oct 2024
<https://www.tasnetworks.com.au/Documents/Manual-documents/Planning-and-upgrades/APR/TasNetworks-Annual-Planning-Report-2024>