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Parliament of Tasmania
Joint Select Committee on Energy Matters in Tasmania
Tony Beach submission 29th Jan 2024

Introduction

My submission is written with the following objectives:

- a) High-lighting evidence of a lack of understanding of energy related economic fundamentals among the wider Tasmanian community (and perhaps amongst many of our elected Parliamentarians);
 - b) High-lighting the need for a fully transparent business case to support the currently proposed energy future for Tasmania and written from purely a Tasmanian perspective, NOT a National perspective as is currently the case.
- If in reading this submission, you are able to gain new insights into the reality of the energy future we are embarking on then this in itself is confirmation of the need for the Tasmanian government to address the above objectives.

1. The complexity of the proposed Tas energy pathway

There appears to be a lack of understanding of how interrelated and interdependent the following components are:

Marinus Link (ML), North West Transmission (NWT), Wind Farms (WF) and Battery of the Nation (BotN).

The full picture of opportunities and risks to Tasmania can only be assessed by the development of the Integrated Tasmania Energy (ITE) business case addressing all components.

For example, there can be no Business case to justify ML if the significant expansion of Wind Farms and BotN cannot be funded or implemented effectively. In a letter to me from the Minister for Energy dated 6th March 2023, I was assured the government recognized the need for such an integrated business case (correspondence attached as Attachment 1).

2. Hard \$ Costs versus Soft \$ Benefits

In time we can assume that all the hard \$ costs to implement ML, NWT, WFs and BotN will be understood, but the very nature of the soft \$ benefits that flow to Tasmania will continue to be ill defined.

For example, downward pressure on wholesale energy prices. This can only be addressed by applying risk factor discounting of the theoretical benefits.

3. Capital Cost versus Recoverable Costs

The capital cost of ML often features in public statements by politicians whereby the currently proposed equity split of Feds 49%, Vic 33.3% and Tas 17.7% are stated to be a good deal for Tasmania, however this is very misleading given that the real on-going financial impact will be the recovery of AER allowable costs from the electricity customer base in both Vic and Tas.

For example, Tasmanians cannot assume that they will contribute just 17.7% of the allowable revenue to service the debt, equity and operational costs of ML. But the political spin implies that to be the case.

The % split between Vic and Tas for the allowable ML revenue to be recovered from electricity customers will be a decision made independently by the Australian Energy Regulator (AER).

Even if the Tas equity stake is ultimately sold to the Feds, the reality of who pays for the recovery of the AER allowable costs will not change. Tasmanian electricity customers will pay via an increase in their electricity bills.

4. AER regulated assets – What are the rules?

APA the new owners of BassLink are applying to convert BL to a regulated asset and if approved will involve the AER assessing how cost recovery may be split between Vic and Tas. This precedent is likely to set the rules for how they may also assess ML.

Cost recovery split between Vic and Tas may be assessed on a market size basis, energy flows basis, customer bill impacts or a combination of such factors.

At this stage the costs to be recovered from Tasmanian electricity customers are very ill defined, and only time will tell how this impacts the overall business case for Tas energy future pathway.

An extract from the APA BassLink submission to the AER is included in Attachment 2 to this document.

In summary, the currently proposed ML 17.5% equity contribution from Tasmania, will have no influence on the decision by the AER for the most appropriate split of recoverable costs for ML. In earlier ML history the recoverable costs split between the two states were often quoted as if an agreement had already been made in that regard. This was never the case.

An early ML business case assigned just 6% of total benefits to Tasmania; by the time of initial agreement with the Feds and Vic, the Tas share of recoverable costs was increased to 15% reflecting an updated view on the benefits split and now the latest agreement appears to be silent on this matter, indicating the reality of it being an AER decision not one to be made by the ML proponents has now been realized and accepted.

5. Who pays for ML and who benefits?

ML will create a significant cross-subsidy in favour of private sector WF developers and the HydroTas BotN. This is because the costs of Marinus will be recovered from Tasmanian and Victorian electricity customers, yet the WFs and HydroTas will use ML at zero direct cost to them. This is the nature of how the AER regulated asset process works and none of it is to the advantage of Tasmanian electricity customers.

6. Optional future energy paths for Tasmania (Catch 22)

The political situation whereby both major parties appear supportive of the current Tas energy future pathway, is a significant risk in its own right. How can we be assured that optional pathways have been assessed?

On reflection and somewhat akin to the latter period of the Hydro development days, a new case of paradigm paralysis appears to have overtaken the political stakeholders and the energy industry Boards and Management in the Tas government owned businesses.

The singular focus on the currently proposed energy future appears to have created a Catch 22 situation with no progress on any new initiatives to increase on-island generation capacity for example, and a lack of preparedness and flexibility to consider other options. Industrial expansion and employment opportunities are very limited as a consequence.

For example, an optional pathway could include the following:

- HydroTas (not private sector) development of on-island windfarms;
- Smaller BotN projects exporting via BassLink;
- Upgrade of BassLink capacity if justified;
- No Marinus cable;
- Use of existing Transmission corridors.

7. The Integrated Tasmanian Energy (ITE) Business Case

As emphasised in this submission, the interrelated and interdependent nature of the current set of proposed energy initiatives requires the development of an over-arching Tasmania perspective business case.

Given the disaggregated nature of the Tas energy industry structure, there appears to be no single point of accountability for undertaking this work.

Tas Treasury and Dept of State Growth may be appropriate for taking on this accountability but is there the political support and resources and skills to undertake this vitally important body of work?

In summary, who is accountable?

8. The ultimate decision making process

The Tas government has consistently stated that the ultimate Final Investment Decision (FID) on ML will be made by the end of 2024. The following questions arise from that very tight timeline:

- If it is accepted that ML is not a decision to be taken in isolation from the other interrelated elements of the proposed energy future pathway, where does the Integrated Tasmanian Energy business case fit within that timeline?
- If the publication of the Integrated Tasmanian Energy (ITE) business case will be the first opportunity for Tasmanian stakeholders to see the full picture of what is proposed, what stakeholder engagement process will be utilised to communicate and receive feedback?
- Does the currently proposed timeline for ML FID allow for these additional and vital steps related to the ITE business case?

Conclusion

I hope my submission may highlight some of the vital considerations yet to be transparently addressed in relation to the Tasmania future energy pathway. It is vital that these matters be addressed over the next period in order that the financial and economic well-being for present and future generations of Tasmanians can be assured in appropriately detailed and considered decision making.

Tony Beach

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[Redacted contact information block]

Attachment 1: see Page 5 - 8

Attachment 2: see Page 9 - 10

Attachment 1

Minister for State Development, Construction and Housing
Minister for Energy and Renewables
Minister for Veterans' Affairs

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6 March 2023

Mr Tony Beach

Email: [REDACTED]

Dear Mr Beach

Thank you for your letter to the Treasurer dated 24 November 2022 regarding the need for a Project Marinus and Battery of the Nation Tasmanian integrated business case. The Treasurer has referred your correspondence to me to respond to as the relevant portfolio minister.

You raise many good points in your letter, and I agree that we need to develop a holistic, state-based assessment of these major energy projects. Collectively, these projects will be among the largest infrastructure investments made in the state's history, and the investment decisions need to be carefully considered and tested. Ultimately, the final business cases for these projects will need to 'stack up' and be in the interests of Tasmanians for them to proceed to construction.

To assist decision making, the Tasmanian Government is preparing a whole of state assessment of the various business cases and this work will progress over 2023 and 2024. As you would appreciate given your experience in the sector, this work will need to be multi-phased given that key project information, such as tender price responses, will not be known until closer towards Final Investment Decisions for the projects which are planned for 2024. The Tasmanian Government will make investment decisions on these projects with the interests of Tasmania and Tasmanians front and center.

Yours sincerely

A handwritten signature in black ink, appearing to read "Guy Barnett".

Hon Guy Barnett MP
Minister for Energy and Renewables

CC Hon Michael Ferguson MP, Treasurer

24th November 2022

Michael Ferguson,
Deputy Premier & Treasurer,
Tasmanian Government.

Dear Sir,

Marinus/BoTN : Tasmania Integrated Business Case

I am writing to you as a proud expatriate Tasmanian now living in Melbourne, Vic.

My career background can be reviewed in detail in the following link:

Given my energy industry career background and my pride and love for Tasmania, I have been researching the publically available information for the Marinus/BoTN projects over recent months and now feel compelled to share my insights (which may or may not fully reflect your own understanding) as follows:

- 1) The key documents relevant to proving the current business case for Marinus Link are the AEMO-ISP, Marinus RIT-T submission to AER and the Marinus Business Case Assessment Report, and **all three documents view the business case from a National energy market perspective**. That Marinus has the potential to make a significant contribution to enabling the transition to 100% renewables at a National level is not in dispute, but none of these documents address the detailed business case from a Tasmanian perspective.
- 2) **Given that all the components of Marinus/BoTN (Marinus Link, NW Transmission, BoTN, private sector Wind Farms) are fundamentally interdependent, reinforces the need for the fully integrated business case from a Tasmanian whole of state perspective.**
- 3) The fully integrated Tasmania business case would need to assess detailed risks and opportunities and forecast the following (best case, worst case and most likely case):
 - i) Incremental debt (both Energy sector and Tas Govt) arising;
 - ii) Incremental changes in electricity customer charges to the Tasmanian community;
 - iii) NPV and Cashflow analysis and associated benefits/costs;
 - iv) Any cross-subsidies implicit in Marinus revenue being derived from all TasNetworks transmission customers, yet the major beneficiaries include Wind Farm developers and HydroTas for BoTN exports.

Other relevant observations arising from my review include:

- 4) The Marinus RIT-T submission to the AER estimated the national level beneficiaries of Project Marinus to be Tas 6%, NSW 38%, Qld 20%, SA 8% and Vic 28%. The recent agreement between the Federal, Vic and Tas governments whereby the beneficiaries are now agreed to be Tasmania 15% and Victoria 85 % requires the following to be addressed in the Tasmania level business case:
 - a) The very significant increase for the Victoria government (28% to 85%) implies a risk for that support to prevail in the lead up to the ultimate business case decision in late 2024;
 - b) The Tas contingency plan B if Vic support is not there.
- 5) The decision for Tas to be a one third equal shareholder in the new Marinus business entity (Feds, Vic, Tas each contributing 1/3rd of 20% equity ~ \$200M each), and Marinus Pty Ltd being accountable for the repayment of the 80% debt ~ \$2400M, may imply an ultimate debt obligation for Tasmania (on default of Marinus) in that agreement and if so should be addressed in the Tasmania level business case.
- 6) The AER approval for Marinus Link to be a regulated asset for the purposes of allowable cost recovery and for that asset to be joined with the current Tas and Vic regulated electricity transmission assets (15% Tas, 85% Vic) for that purpose requires the following to be addressed in the Tasmania level business case:
 - a) The forecast increase in annual average Tas customer charges for the operation of Marinus;
 - b) Given the \$800M NW Transmission land based link is to be fully owned by TasNetworks, the forecast increase in Tas customer charges arising from that AER regulated asset.
- 7) Given the intent of encouraging the private sector to develop an additional 2000MW of wind farms for potential export via Marinus Link, requires the following to be addressed in the Tasmania level business case:
 - a) The extent and implications of Power Purchase Agreements with HydroTas/Aurora/Momentum being required to underpin the viability those investments.
- 8) Given the BoTN intent to develop/redevelop HydroTas assets to enable export of firming energy via Marinus, requires the following to be addressed in the Tasmania level business case:
 - a) The estimated MW capacity, capital cost and timeline for this program of work;
 - b) The associated level and source of new borrowings to finance that program;
 - c) The forecast revenue arising from the provision of firming energy to the mainland via Marinus;
 - d) NPV and Cashflow analysis and associated benefits/costs;
 - e) The risk of mainland based firming energy projects displacing BoTN over time.

In conclusion, there is an urgent need to develop the Tasmania integrated business case for Marinus/BoTN and in doing so more transparently communicate the key findings to the Tasmanian community to justify and gain wide stakeholder support for the path ahead.

I hope you take my contribution to the debate regarding Marinus/BoTN in the spirit in which I have tabled it with you – a passion for ensuring the inherent risks associated with such a massive investment by the State of Tasmania are fully assessed leading up to the final decision in late 2024.

I have not sent this communication to any other recipients on the basis that you are the most appropriate person in Government given your role as Treasurer in safeguarding the Tasmania finances and minimise risks for current and future generations in that regard.

Kind regards,



Tony Beach

Attachment 2

Extracts from APT BassLink submission to AER

Cost Sharing

Once the AER determines the revenue Basslink Pty Ltd can recover, it must determine Basslink's Pricing Methodology. This means that the AER will determine the recipient and amount of Basslink's invoices for its transmission services and in what proportion.

As part of its Proposal, Basslink Pty Ltd is required to propose a pricing methodology setting out how the revenue is to be recovered for the AER's consideration. No methodology will alter the total amount of revenue that Basslink is allowed to collect.

Therefore, Basslink Pty Ltd does not have a commercial preference for any particular method for recovering the revenue. Our requirements for the method we put forward is that it be consistent with the Rules (and therefore capable of acceptance by the AER) and it can demonstrate customer support.

National Electricity Rules

The Rules sets out some restrictions for the AER on its decision on the Pricing Methodology.

- The Rules are very restrictive on who Basslink can invoice. As an interconnector with no directly connected customers there are only two potential recipients of Basslink's invoices. They are the Co-ordinating Network Service Providers for Victoria and Tasmania – i.e. AEMO and TasNetworks.
- The Co-ordinating Network Service Providers will then recover the cost of Basslink from their customers consistent with their AER approved pricing methodology.
- Given the recovery is from the Co-ordinating Network Service Provider in each state the pricing methodology will determine the split of Basslink costs between customers in Victoria and Tasmania.

Allocation based on 'use'

The other main restriction imposed by the Rules goes to the nature of the methodology that the AER must set. The methodology has to satisfy the requirement that the allocation is based on 'use'.

There is no requirement for a specific methodology to be used in allocating Basslink's revenue. While the definition of use is broad it does rule out certain approaches - revenue can't be arbitrary or unrelated to consumption of electricity. However, the requirement is not so narrow as to only permit an allocation based on KWh electricity flows.

Recognising this, Basslink Pty Ltd has considered a range of different measures (or proxies for) the relative use or benefit obtained from Basslink in each of Victoria and Tasmania.

The AEMC's comments cited above accurately reflect the characteristics of a regulated Basslink in so far as it provides broader 'uses' than purely the transfer of electricity – providing services that improve reliability and reserve sharing between regions, lowering congestion (in turn leading to reduced trading risks between regions) and enhanced competition. In addition, Basslink will be used to control voltage and frequency of electricity transfers to provide network support to the transmission networks of Victoria and Tasmania. We are of the view that this means that the term 'use' should not be restrictively interpreted to mean that the revenue must be allocated on the basis of electricity flows between Tasmania and Victoria.

The AER has interpreted the definition of 'use' more broadly in the past. The AER's approved pricing methodologies for Directlink and Murraylink have revenue allocations based on the physical location of the assets.:

- Notwithstanding that Directlink acts as an interconnector between New South Wales and Queensland, due to the geographic location of the asset (all the network for Directlink is located in New South Wales) the full cost of Directlink is charged to Transgrid.
- Murraylink is physically located in both Victoria and South Australia. The revenue split between South Australia and Victoria is based on the portion of assets located in each state based on asset value.

It is worth noting that for Basslink, Directlink and Murraylink all assets are used in the transfer of power regardless of their physical location.