



**EnergyAustralia**

LIGHT THE WAY

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Dear Mr Clark,

### **TasNetworks – Project Specification Consultation Report, additional interconnection between Victoria and Tasmania**

EnergyAustralia is one of Australia's largest energy companies with over 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

We welcome the opportunity to comment on TasNetworks Project Specification Consultation Report (PSCR) on additional interconnection between Victoria and Tasmania.

EnergyAustralia recognises that the NEM generation mix is rapidly changing as older traditional generation is retired and replaced more commonly by variable renewable generation. TasNetworks has identified that an additional interconnector from Tasmania to Victoria is likely, over the long term to provide market benefits and assist the energy transition. The significant costs of building additional interconnection<sup>1</sup> would be recovered from electricity consumers across the lifetime of the asset (likely greater than 20 years). Therefore, we encourage TasNetworks to ensure that the process and modelling of identifying the net benefits of an additional interconnector is as transparent and accurate as possible. Consumers should not be burdened with the risks that benefits promised by large transmission development projects do not eventuate.

#### **1. Funding arrangements**

In the PSCR, TasNetworks highlight that it will also explore other funding models if the project does not pass the Regulatory Investment Test for Transmission (RIT-T). For example, government funded, merchant or hybrid models. We recognise that there are other models that could be used to fund such a project, however it is important to ensure that the benefits to the consumer (and/or taxpayer) still warrant the project being developed. The PSCR identifies that there may be other benefits created from the

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<sup>1</sup> TasNetworks estimates the cost of additional interconnection could be between \$1.4 - \$2.7b, Page 44, <https://www.tasnetworks.com.au/TasNetworks/media/pdf/our-network/Project-Marinus-Project-Specification-Consultation-Report.pdf>

project that are not captured under the RIT-T frameworks, for example benefits to regional economies. While this may be the case we urge TasNetworks to ensure any of these additional benefits can be sufficiently demonstrated.

## **2. Non-network option**

The identified need should not exclude a non-network solution. As highlighted in the PSCR, TasNetworks intends to assess whether non-network alternatives are more cost effective than further interconnection. We welcome this approach and we encourage TasNetworks to also explore the timing of the 'identified need' and when the major benefits to consumers arise from the project. For example, if additional interconnection is developed by the mid 2020's but the market benefits are minimal until many years later, then there is a risk that these benefits don't eventuate.

## **3. Market benefits**

TasNetworks states in their PSCR *'The key assumption underpinning the identified need, however, is that the costs, efficiency and profile of generation in Victoria will be sufficiently different from Tasmania to deliver benefits from increased interconnection between the two regions. This assumption is reasonable given Tasmania's comparative strength in renewable generation and hydro storage and the natural diversity in wind generation across the regions.'*<sup>2</sup> Simply stating the above is not adequate. It will be important for TasNetworks to provide sufficient robust, transparent and realistic modelling of market benefits capturing all potential sensitivities and future scenarios. This will ensure that any additional interconnection delivers the promised benefits to consumers.

### **3.1. Fuel cost savings**

From the high-level description of benefits, it appears that most of the net market benefits will likely be driven by fuel savings. This occurs as lower priced Short Run Marginal Cost generation such as hydro generation and additional renewable generation in Tasmania displaces traditional thermal generation. Modelling should consider any physical dispatch constraint such as minimum on-off times, it should also clearly articulate any assumptions around generation expansion in Tasmanian and the remainder of the NEM.

### **3.2. Water storage levels**

TasNetworks has identified that market benefits are likely to arise from the relaxation of current water storage levels that ensure Tasmanian energy security is not impacted by another prolonged Basslink outage. The market benefits of additional flexibility in utilising the water storage will likely be captured under fuel savings market benefit category. There are no additional security benefits as this is already addressed in the base case through the current water level restrictions. The Project Assessment Draft Report (PADR) modelling should clearly address assumptions and methodology around how the lifting of water level restrictions is modelled. Further, it is important that the weighting of any high impact low probability (HILP) events, for example an extended Basslink outage longer than the current water level

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<sup>2</sup>Page 31, <https://www.tasnetworks.com.au/TasNetworks/media/pdf/our-network/Project-Marinus-Project-Specification-Consultation-Report.pdf>

requirements, do not skew the market benefits unrealistically. Any benefits from HILP events should be clearly presented separately from other benefit classes.

### **3.3. Increasing energy security**

The PSCR discusses that another benefit of additional interconnection may be increasing energy security for Victoria as there would be a reduction in off market reserve requirements (the Reliability and Reserve Trader). New interconnection to Victoria would likely (depending on intra-regional constraints) provide additional capacity at times of high demand but we question if a project of this magnitude is the best way to address this requirement. Further, participants make long term investment decisions on the understanding that large transmission network investment decisions only go ahead if a clear net benefit to consumers can be shown under the RIT-T framework. If additional interconnection was to be funded outside this framework we would be concerned that this may have a negative distortionary impact on the market.

### **3.4. Reduction in ancillary service costs**

While there could be some reduction in ancillary service costs with new interconnection we see that it is unlikely to be material to the total market benefit case.

## **4. Consideration of network losses**

The PACR discusses energy arbitrage activities where Tasmania can act as a sink for excess energy on the mainland (e.g. through Tasmanian pumped hydro storage) releasing this stored energy to the market when required. When modelling the potential market benefits of this it will be important to also consider the likely significant round trip network losses and the round-trip efficiency of storage technologies.

## **5. Generation developments in Tasmania**

TasNetworks has indicated that given Tasmania's natural advantages that it is expected to experience further growth in wind generation. The PSCR states that TasNetworks is currently processing a large number of connection application for over 700MW of new capacity which is not dependant on new interconnection, and additional applications for projects that are dependent on new interconnection.<sup>3</sup> While we support the continued development of renewable generation we are concerned that potentially speculative (e.g. build it and they will come) significant capital investment decisions should not be made on behalf of consumers with the intent that new generation will connect in the 'future'. We urge TasNetworks to provide clear and transparent information around any assumptions of new build in generation capacity.

## **6. Shared network investment**

TasNetworks initial costing of the proposed additional interconnection has the project costs including additional network upgrades on both the Tasmanian and Victorian side of the interconnector between \$1.4-\$2.7 billion, depending on the size of the

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<sup>3</sup> Page 26, <https://www.tasnetworks.com.au/TasNetworks/media/pdf/our-network/Project-Marinus-Project-Specification-Consultation-Report.pdf>

interconnector. What is not clear is the expected split of regulated asset base (if the interconnector is developed under the normal RIT-T framework) between the Tasmanian and Victorian TNSP's and in what region most of the market benefits are likely to be realised. The PADR should clearly outline any expected capital costs across regions and the likely impact and/or benefit to consumers in each region.

## **7. Other Comments on market modelling approach**

With the limited detail provided in the PSCR it is hard to comment with any certainty on how TasNetworks will progress the market modelling. To ensure stakeholders can independently verify results any assumptions should be clearly presented especially if deviating from assumptions used in the ISP. All results of the modelling should be made available to participants in spreadsheet format and not simply presented in high level charts.

## **8. Conclusion**

EnergyAustralia looks forward to reviewing TasNetworks further work on the case for additional interconnection between Tasmania and Victoria. Any large investment decision made on behalf of consumers must be based on transparent and robust modelling ensuring that all realistic sensitivities and scenarios are considered. Consumers pay for network investments and TNSP's should not make speculative investments on behalf of customers. Any market benefits outside of the RIT-T identified by TasNetworks should be sufficiently demonstrated.

If you would like to discuss this submission, please contact me on 03 8628 1630 or [Andrew.Godfrey@energyaustralia.com.au](mailto:Andrew.Godfrey@energyaustralia.com.au).

Regards

**Andrew Godfrey**

Industry Regulation Lead